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THE DISTRIBUTION OF DEVELOPMENT RESOURCES IN COSTA RICA: THE EFFECTS OF THE POLITICAL PROCESS

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ABSTRACT

In Costa Rica, the two major political coalitions have been consistently committed to a growth with equity development strategy. When in power, both parties have sought to implement this strategy by distributing resources so as to achieve both economic growth and a broader distribution of development benefits across socio-economic sectors.

Because development assistance capital is designed to facilitate the growth of a modern industrial sector, Costa Rica's decision-makers have made industrialization central to economic expansion. However, the highly participatory nature of that country's political system has forced decision-makers to reconcile industrial demands for resources with demands from other sectors in order to maintain political stability. Thus this study examines how Costa Rica's industrial interests have fared in the battle for resources.

A comparison of the make-up of Costa Rica's major political coalitions and the policy initiatives of the parties when in power reveals the existence of a definite pattern of resource distribution. The distribution of resources seems to have been most influenced by the pattern of variation in decision-makers' responses to different types of demand. The consistency of decision-makers' responses seems to indicate that the nature of the resources distributed to any interest group is particularly determined by the means of political access which has been used to press the demand.

This study concludes that because of the existence of this pattern of distributive policy-making, no single interest group has been able to dominate the distribution of resources in Costa Rica.

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INTRODUCTION

The country of Costa Rica has long been considered a model of development. Since the beginning of economic and political modernization in the1940s, Costa Rica has provided an instructive example of the influence which a participatory political system can exert on the processes of economic development. Throughout the development period, Costa Rica's political system has been dominated by two major political coalitions. Despite their ideological differences over how government can best effect economic growth, both the social democratic Party of National Liberation (PLN) and the more traditional opposition coalition are basically committed to a growth with equity approach to development. When in power, both have consistently attempted to distribute resources in a way that enables the accomplishment of these twin development goals. However, given the narrow resource base of its agri-export oriented economy, domestic revenues have continually proved to be incapable of financing both the expansion of the productive sector and the universal provision of basic social services. External capital has been needed.

Accordingly, at Costa Rica's initiative, development assistance donors have played a major role in financing and directing development. Between 1945 and 1980, more than $1.8 billion in aid was funneled into this Central American nation by the U.S. government, the World Bank and the Inter-American Development Bank (Seligson 1984, p.466). Much of this external capital has been designed to facilitate the development of a modern industrial sector. Over the years Costa Rica's allocation of its economic resources has seemed to indicate a thorough acceptance of donor development goals. However, a closer look at the country's economic policy-making and distribution of development resources suggests that, in fact, the acceptance of donor goals has been highly qualified. Because of the increasingly participatory nature of the political system, Costa Rican decision-makers have proved to be more concerned with maintaining political stability than with attaining economic objectives. As Costa Rica has developed, the demands for resources have continuously mounted. Rather than having unsatisfied demand-makers seek a share of decision-making power, decision-makers have used the distribution of development resources to meet demand in a way that has strengthened their own hold on the reins of decision-making. As a result, economic goals have often been disregarded in the making of development policy or greatly modified by the manner of policy implementation.

Therefore, it has been because of the complexity of making economic policy in a highly participatory political system that development assistance donors seeking to influence the pattern of resource distribution have been subject to the same political constraints as domestic interests groups. With this in mind, this paper will attempt to establish why certain groups are able to exert more influence on distributive policy than others and why no single group is able to completely dominate the distributive policy-making process.

Since industrial development has been central to Costa Rica's approach to generating economic growth, this study will particularly focus on the distribution of resources to the industrial sector. Its objective is two-fold: 1) to ascertain how the advocates of industrialization have fared in the battle for development resources and 2) to establish why Costa Rican policy-makers have taken the approach that they have to distributing development resources.

Research Guidelines

This study will not attempt to prove that political processes have had certain measurable effects on economic processes. Instead it simply will endeavor to illustrate the role that political decision-making has played in Costa Rica's implementation of its economic goals.

In line with the arguments of British development theorist P. T. Bauer (l976), it is assumed that economic processes can not be explained by only looking at economic transactions. In today's world the apparatus for making economic decisions plays too great a role in economic processes. This is especially true where the state exercises effective control over the allocation of resources. Thus to analyze a country's effectiveness in meeting its economic goals, the impact of its decision-making system must be considered.

In Costa Rica, as in most developing countries, state control of resources has resulted in what Bauer calls "the politicalization of economic life" (1979, p.76). In order to get economic resources, i.e. government development funds, development project contracts, or development-related tax exemptions, economic producers must attempt to influence economic decision-making. They must get involved in politics.

The Readings on Costa Rica

The research on Costa Rica is in agreement on four points. First, Costa Rica is characterized by high levels of political participation. Second, political participants in Costa Rica typically utilize formal institutional channels, informal personal contacts or anomic (or extralegal) mass political expressions. Third, decision-makers have traditionally responded to demand by attempting to coopt demand-makers into the political system. Fourth, development policy-making provides the occasion for reconciling competing claims on resources, and as such, functions as a mechanism for national integration or consensus-building. The generalizations about Costa Rica's political processes which are used in this study will be based on these four assumptions.

Assumption One

John Booth's study of political participation in Costa Rica led him to conclude that the level of political participation in Costa Rica was comparable to that of the Western democracies. Not only did Costa Ricans generally vote in greater numbers than their Latin American counterparts, but they actively campaigned for the candidate of their choice, participated in political pressure groups and community activist organizations and frequently contacted public officials (Ropp and Morris 1984, p. 165). Charles Anderson attributed the unusual high level of Costa Rican political involvement to the widespread tendency to use the political system as an instrument of personal gain (Ameringer 1982, p. 77).

The readings on Costa Rica generally corroborate Booth's evidence. Ameringer called pressure groups "a way of life in Costa Rica" (p. 68). The Biesanzs described the ins and outs of using personal contacts to circumvent the formal system or of "getting things done *a la tica*" (I982, p. 192). Herrick and Hudson outlined the processes through which communities organize themselves to apply pressure on decision-makers (1981, p. 128).

Despite the high level of participation, a I968 study by Duff and McCamant ranked Costa Rica as the most stable country in Latin America. Based on the level of social welfare expenditures, they concluded that the stability of the Costa

Rican political system was primarily based on the ability of the government to satisfactorily meet demand (l968, p. 252).

Assumption Two

In discussing how demand is met, Charles Denton concluded that there were three principal methods for converting demand into decisions: 1) face to face contact, 2) the interaction of formal political organizations and 3) demonstrations (l971, p. 92). Defining politics as "a process involving the authoritative allocation of resources" (p. 80), Denton devoted much of his attention to the varying roles which the formal decision-making structures play in responding to demands for resources. The different functions of the executive and legislative branches, the semi-autonomous public agencies, the dominant political party and the vast array of interest groups were outlined. A study from the same period by Gary Wynia particularly focused on the way informal means of decision-making are superimposed on these formal structures (1972).

Though mention was made of the role of anomic forms of political expression in earlier works (McCamant 1968, p. 127; Denton 1971, p. 11), it has been the more recent works which express concern at the increasing incidences of anomic forms of political demand-making. Donald Schulz called attention to the rise in "elite-challenging behavior by...the newly politicized" (1984, p. 12). With the bureaucratic middle class now constituting the country's largest pressure group (Biesanz et al 1982, p. 198), analysts increasingly have decried the strength of the middle class defense of the status quo (Ameringer 1982, p. 93). As a result of the upsurge of public employee obstruction of presidential policy initiatives during the l978-1982 Carazo Administration, Marc Edelman questioned whether the real political system in the country was not, in fact, anomic (1983, p. 178). Finally, in describing President Monge's difficulties in instituting economic austerity, Booth suggested that public sector strikes may result in "the Chileanization of Costa Rica " with the upper and middle classes effectively monopolizing the benefits of development (1984, p. 183).

Assumption Three

The literature all seems to consider the coopting of emerging demand-makers to have been the favored mode of response to demand of Costa Rican decision-makers. By attempting to meet all demand to some degree, Booth contended that the Costa Ricans have largely succeeded in incorporating "the disgruntled into the system" (l984, p. 167). However, it is agreed that the measures taken to achieve cooptation were largely symbolic. The Biesanzs noted the tendency to substitute the passage of laws and the creation of institutions for the actual implementation of problem solving strategies (p. 192). Denton considered this symbolic output to be a "tension management mechanism" (p. 6). Herrick and Hudson found symbolic cooptation to be characteristic of most of Costa Rica's development initiatives (p. 145).

Assumption Four

In his study of Central American development policy-making, Gary Wynia particularly examined the way Costa Rican policy-makers routinely used bargaining as a means of making development policy. Not only did this bargaining process give all parties comparable access to decision-making, but more importantly, it provided a mechanism for reconciling their competing demands and for building a consensus in support of the final policy outcome. Wynia also pointed out that because the chief executive personally oversees the bargaining process, it has provided him with an invaluable means of both reguating and reaping political benefits from the political activity during his term.

Because of the fundamental openness of Costa Rica's political system, more groups have achieved access to the decision-making system. Moreover, due to the effective coalition-building of the two major political groups, power has been fairly equally divided. As a result, when in power both groups have had to accommodate the other in order to actually enact policy.

Charles Anderson's work offered an explanation of why the newly empowered PLN has been so willing to compromise with the conservative opposition. He noted that traditionally it has been axiomatic in Latin American politics that new power holders do not surplant previous elites, but simply add themselves to the political equation (1966, p. 301). This has certainly been true of the PLN's approach to exercising power. As new power holders the middle sector social democrats have used development policy as an instrument for reconciling competing economic development ideologies of the decision-making elite (p. 256). Royce Shaw contended that the PLN adopted the conventional approach to economic development to avoid antagonizing the traditional agri-export oriented elite (l978, p. 51). By focusing on modernizing the private industrial sector, Costa Rica's post-war social democratic leaders were able to achieve some measure of economic progress without directly challenging the agrarian oligarchy. Wynia labeled the PLN's approach a "neo-orthodox" strategy of development because it applied traditional development methods to the modern sector (1972, p. 42). Primary export production, development of infrastructure and the creation of a favorable investment climate were preferred because of their political acceptability (p. 38).

Other readings have provided a more fundamental reason why Costa

Rican policy-makers typically strive for consensus in development policy-making. The Biesanzs particularly emphasized the importance of a deep-seated Costa Rican predilection to *"quedar bien"* or as they translate it "to get along" (p. 11). Booth maintained that it is because of this cultural trait that Costa Ricans prefer to resolve conflict through compromise and the seeking of mutually acceptable solutions (l984, p. 167). Ultimately this preference produced something for everyone policies which have strained Costa Rica's resources and kept the economy perennially overextended.

Implications for Industrial Development

A recent AID study pointed out the impact that the above political factors have had on Costa Rica's industrial development (Pratt 1983). It concludes that the growth of the private sector have been substantially constrained by Costa Rica's incoherent fiscal, trade and monetary policies. More to the point, it contended that the state's strict control over the allocation of resources have kept industry from being able to more readily adapt to changes in market conditions (p. 31).

Douglas Graham reached a similar conclusion about the impact of public policies on economic growth (Schulz and Graham 1984). He argued that four policies are most responsible for the stagflation which gripped the Costa Rican economy in the early 1980s: 1) the rapid growth of the public sector, 2) the sharp rise in government expenditures, 3) deficit spending to finance public sector consumption and 4) the state's dominance of domestic credit (p. 167). Because of these policies, the state's role in allocating resources has worked against the creation of a competitive industrial sector. Claudio Gonzales-Vega concurred. Yet, as a Costa Rican, he considered it unlikely that either the manufacturing sector or the bureaucracy would ascent to the reductions in imports which would begin rectifying the country's negative trade and balance of payments position (1984, p. 356). Consequently, he foresaw more industrial manhours being devoted to lobbying in behalf of industrial interests---a problem he already considered to be at the root of the non-competitiveness of Costa Rica's industry in the world market (p. 357).

The Pattern of Decision-making in Costa Rica

The purpose of this paper is to show that Costa Rica's ability to attain long-term industrial development goals has been significantly limited by the common tendency of decision-makers to use development policy as a means of responding to short-term political demands. Because of the emphasis which is placed on the political dimension of policy, Costa Rica's political system can basically be categorized as a transitional system in which political factors are still more determinative to policy outcomes than economic factors. This paper proposes to explore the ramifications which Costa Rica's particular pattern of distributive decision-making has had on the country's pattern of industrial development.

It will be argued that three characteristics of the policy-making process have been most determinative to the way development goals have been implemented.

1. In reaction to the high level of competition for resources among different sectors, public resources have been allocated as broadly as possible across socio-economic groups in order to produce the most universal political support for the administration's development programs.

2. In response to the large number of uncontested political demands for goods and services, budgeted resources have been distributed more readily to those who have gained the greatest access to the system and less frequently to those who have been formally targeted as recipients by prescribed program guidelines.
3. In concession to conflicting political pressures from organized interest groups, marginal policy changes have been routinely preferred over more meaningful reforms.

It is widely assumed that a basic discrepancy between policy formulation and policy implementation plays a major part in a country's failure to achieve goals. Certainly, Costa Rica's attainment of its development goals has been impeded by administrators' lack of compliance with the distributive guidelines established by policy-makers. The bulk of development benefits has gone to the middle class. However, the "trickling-up" of development benefits that occurred during the implementation of development programs (Herrick and Hudson 1981, p. 113) has been only one dimension of a larger pattern of response to demand which characterized the decision-making associated with the government's distribution of development resources. Ultimately those interest groups utilizing the most effective forms of political access have derived the greatest benefit from the distributive policy-making system.

Statement of Purpose

With this in mind, the questions addressed by this study are intended to explain the impact which the pattern of distributive decision-making has had upon the accomplishment of economic objectives. Numerous studies of Costa

Rica have attributed much of that country's disappointing economic performance to the problems created by the cooptative appraoch to demand-meeting. This study will attempt to explain why a cooptative approach was taken to meeting demands and to show what effect this mode of distributive demand-meeting has had on Costa Rica's pattern of industrial development.

To gain an understanding of the broad changes that have taken place in both the economic and political systems since World War II, an essentially historical approach will be taken. Few analysts, however, are privy to the actual interaction which accompanies the meeting of a demand. Once the demand is articulated, we frequently have only the outcome from which to deduce what has transpired between demand-makers and demand-meeters. Thus to analyze the impact which varying demand-meeting procedures have had on the distribution of development resources, we will attempt to draw conclusions about actual demand-meeting procedures first by looking at the effect which economic policy-making has had on the development of the industrial sector and secondly, by clarifying the role that political coalition-building has played in the allocation of resources.

By comparing the patterns of economic and political change from 1940 to date, we hope to show not only that in Costa Rica the two are inextricably linked, but to demonstrate the implications of Martin Needler's contention that in a highly participatory political system such as Costa Rica's, "political development...is [essentially] commensurate with economic development" (1971, p. 228).

With these objectives in mind, Chapter 1 will attempt to clarify three points: 1) the pattern of economic growth and the role of industrial performance in that growth, 2) the impact of government economic policies on over-all economic performance and on industrial development in particular, and 3) the effect of external assistance on the pattern of industrial development. Ultimately this chapter should provide a synopsis of the major shifts in the government's approach to industrialization.

Chapter 2 will attempt to show how and why changes in the political make-up of the coalition controlling the presidency have led to changes in the way development resources have been distributed. Chapter 3 will endeavor to ascertain how the distribution of resources to the industrial sector has been affected by the over-all pattern of resource distribution. Finally, Chapter 4 will try to make a case for the existence of a consistent pattern of distributive policy-making.

CHAPTER 1

THE PATTERN OF ECONOMIC DEVELOPMENT

The objectives of this chapter are to descibe how variations in the performance of Costa Rica's economy have led to subsequent shifts in the government's strategy for economic development and to analyze the impact which these shifts in policy have had on the pattern of industrial development. Since the government's response to drops in revenue has consistently been to seek outside sources of capital, this analysis will attempt to determine the effect which the use of foreign development assistance capital has had on industrial development policy.

The purpose of this analysis is to clarify the influence which economic factors have had on distributive policy choices. By establishing the economic context in which decisions about resource distribution are made, greater understanding can be gained of the role that government has played in development and of the function that foreign aid has performed and the effect which it has had on the pattern of industrialization.

To show how economic factors have led to major policy shifts, this analysis will attempt to show the relationship between four patterns: 1) the pattern of economic growth, 2) the pattern of external aid inflows, 3) the pattern of government expenditures and 4) the pattern of industrial development.

The Pattern of Economic Development

Costa Rica's economy has historically been characterized by a boom/bust pattern of growth. The amount of growth of the GDP and the size of government revenues have been largely dependent upon the prices of primary commodity exports on the world market. Each time the price of coffee or bananas has fallen, the government has been faced with either cutting expenditures or finding outside sources of revenue. Costa Rica has always preferred to seek new sources of external capital rather than to cut expenditures. However, each time external funds have been accepted it has been necessary to reevaluate government spending in order to reconcile donor funding objectives with domestic spending preferences.

Because of fluctuations in revenue, the government's funding of development projects has historically had a feast or famine quality. During times of prosperity, new projects are enthusiastically launched. But when the well runs dry, existing projects get first priority on financing and no new projects are begun until the next boom period.

To offset the impact of each drop in commodity prices, Costa Rica's government has traditionally sought to tap each new source of foreign investment capital. Frequently this aid has been provided through some major new donor development initiative. In the 1950s there was the ECLA sponored plan for Central American economic integration. In the 1960s the U.S.-initiated Alliance for Progress made massive U.S. aid available. In the l970s petrodollars pushed by the international commercial banks temporarily reduced the leverage of development assistance donors. However, in the l980s the IMF and the U.S. Caribbean Basin Initiative became the main sources of external aid.

Each time Costa Rica shifted to a new source of outside funds a change in the pattern of government expenditures on development followed. Since Costa Rica's industrial sector has been consistently reliant on using outside capital to finance expansion, each change in donor funding patterns directly affected the pattern of industrial growth. Because of this dependence on external credit, the modern industrial sector has been just as subject to economic cycles and external influences as the traditional agri-export economy.

Costa Rican economic development can be broken down into six periods: 1) the 1945-1955 post-war period, 2) the 1955-1963 unilateral development period, 3) the 1963-1968 period of unprecedented growth from the creation of a regional market, 4) the 1969-1979 period of erratic growth and expansionary public investment, 5) the l980-1982 period of acute stagflation and economic contraction, and 6) the 1983 to date period of resumed growth and government austerity.

The Costa Rican Economy: 1945-1955

Because of the impact of a major rise in coffee prices after World War II, the first post-war decade was "a period of almost unparalleled prosperity for most Central American countries" (Castillo 1966, p. 48). Between l947 and l954, on the basis of the three-fold increase in the price of coffee, Costa Rica's tax revenues increased by 150% and public expenditures expanded by 96% (Wynia 1972, pp. 52-55). Consequently, throughout this period Costa Rica was able to finance economic development largely with the revenues created by the post-war coffee boom.

Costa Rica's industrial sector during this period was primarily composed of four types of industries: 1) food processing, 2) textiles, apparel and shoes, 3) printing and publishing and 4) lumber and wood products (May1952, p. 131).

Most of these industries had been established during World War II when the volume and regularity of consumer imports became erratic and unreliable (Castillo, p. 47). By 1950 Costa Rica's gross manufacturing output was $78.6 million. Collectively these industries employed about 11.1% of the labor force (Herrick and Hudson 1981, p. 25) and produced primarily for domestic consumption. Therefore, extra-regional manufacturing exports for 1953 amounted to only $.2 million out of $80.2 million (Nugent 1974, p. 12).

Despite the newness of Costa Rica's industrial establishment, in 1949 the industrial sector produced 17% of the GNP, while the agricultural sector accounted for 33% (p. 36). According to a U.S. study by the Twentieth Century Fund, this industrial output was produced by over 1,000 small establishments with a minimal capital investment and an average of 2.2 employees per employers (May 1952, p. 30).

Until the recession of the mid-l950s external aid to Costa Rica was largely limited to financing the foreign exchange costs of infrastructure development. The construction of the Inter-American Highway by the U.S. during World War II had convinced the Costa Ricans of the universal value of infrastructure (p. 127). Accordingly, after the war Costa Rica's government was highly receptive to the World Bank's offers in the early fifties of aid for highway construction. Most other development capital was raised by means of minimal increases in the taxes on coffee and banana exports and on consumer imports. To facilitate the growth of the the new industrial sector, a high tariff wall was erected to encourage the growth of domestic industries (Denton 1971, p. 31); an investment guarantee agreement was signed with the U.S. to encourage direct private foreign investment (Bodenheimer 1970, p. 73); and bi-lateral treaties with El Salvador and Guatemala were signed to provide Costa Rica's consumer goods industries with access to those Central American markets (Shaw 1978, p. 52). In this way traditional development measures were used to facilitate the expansion of the non-traditional productive sector (Wynia 1972, p. 51).

Thus during this first development period Costa Rica's development expenditures were allocated according to its traditional export-oriented model for generating economic growth. Though in the past this outward-looking model of economic growth had been directed toward increasing commodity exports, after World War II it was also used as a means of expanding industrial output. By this model, the imposition of taxes on the trade sector was considered the most acceptable means of raising revenue; and the development of infrastructure, the creation of a favorable investment climate, and the growth of primary industries were considered the best means for accomplishing economic growth (p. 51).

The Costa Rican Economy: 1955-1963

In 1955 the coffee boom ended. The following year the growth of Costa Rica's GDP dropped by 14.5% (SALA 1983, p. 280). This economic blow was followed by the world-wide recession of 1958 which caused the GDP to fall another 8.7%(p. 280). Out of necessity government expenditures as a percent of the GDP fell 2.6% in 1959 (SALA 1975, p. 118). From 1940 to 1958 government expenditures had risen from 44 million colones to 341.5 million colones (p. 118). To continue funding the government's greatly expanded budget commitments, new sources of revenue had to be found. The ECLA plan for the economic integration of Central America provided Costa Rica with just the potential economic payoffs it needed.

The U.N. Economic Commission for Latin America had been actively pushing economic integration in Central America since l951. According to ECLA Secretary-General Raul Prebisch's 1950 plan for Latin American economic development, two processes were essential for Latin American development: 1) central planning and 2) import substitution oriented industrialization through integration (Wynia 1972, p. 42). In l951, at the ECLA's urging, the five nations' Ministers of Economy at the opening meeting of the Central American Commission for Economic Cooperation (CEC) agreed on three objectives: 1) coordination of national development programs, 2) the creation of a regional market, and 3) the establishment of a group of integrated industries with the region. To work, import-substitution based industrialization required that a free trade zone be created within the region and that a high external tariff barrier be erected to protect regional producers.

Carlos Castillo, a Costa Rican and Secretary-General of SEICA from 1956-1966, informs us that until 1958 Costa Rica drug its feet on economic integration (l966, p. 86). Until then, unilateral tariffs and bilateral trade agreements were the preferred methods of influencing the nature of the market for Costa Rican products. In fact, at this time Costa Rica was not convinced that regional free trade would be to its advantage. Because of its progressive labor policies and high protective tariffs, the country's production costs were the highest in Central America (Shaw, p. 53).

The 1955-1958 period marked a turning point in Costa Rica's attitude toward the use of outside development assistance. Between 1955 and 1958 government expenditures increased at an annual average rate of 11.9%, while revenues only grew at an average annual rate of 3.7% (Denton 1971, p. 16). In order to maintain the level of public investment in the economy, external capital was needed.

It was during this period that the Costa Rican government began an active search for external aid. Up to l954, total external public aid had only amounted to $7.6 million (McCamant, p. 43). As a result of Costa Rica's efforts, from 1955 to 1958 aid inflows increased to a total of $43.3 million and in 1957 for the first time in its history Costa Rica experienced a net inflow of capital funds (p. 50).

In addition to this concerted attempt to secure external government to government aid, after 1958 Costa Rica intensified its efforts to attract private investment money. This change in development strategies was the direct result of the election of a conservative president in 1958 who favored an enhanced role for the private sector. Accordingly, in 1959 a new Industrial Protection and Development Law was pushed through the legislature (IDB 1966, p. 167). This act outlined a broad package of tax exemption as incentives to new industry. Most notably, it provided for duty-free imports of all raw materials and intermediate and capital goods. Until the conservatives were voted out of office in 1962, this unilateral strategy for attracting the private investment dollar was seen as the best way of capitalizing industrial growth.

It was not until mid-1959 that Costa Rica's attitude toward outside development assistance began to substantially change. In fact, this increased Costa Rican receptivity to external development programs can be dated from the announcement by the U.S. that it was prepared to substantially increase its aid to Central American if and when a regional free trade zone was created (Castillo, p. 86). Costa Rica still had its reservations about the benefits to be derived from regional integration, but after this point the country became a much more active participant in donor-sponsored development schemes. As a result of Costa Rica's pursuit of Alliance for Progress funds, aid inflows into Costa Rica between l959-1962 reached $73 million (McCamant, p. 43). In fact, as of 1962, the country was receiving $108 of aid per capita making it the fourth highest recipient of aid dollars in the world after Britain, China and Vietnam (p. 28).

The economic statistics for the 1963-1964 period attest to the effect which CACM membership and regional integration aid had on Costa Rica's financial position. Despite the fact that the GNP dropped by -.9% in 1964 due to the effect of the eruption of the Izaru volcano (SALA 1974, p. 395), for 1963-66 average annual aid inflows increased to $25.6 million a year (McCamant, p. 43). This external capital enabled total government expenditures to not only recover from a 1963 drop but to reach a new high of 27.3% of the 1964 GDP (SALA 1974, p. 393).

Industrial Development: 1955-1963

By the end of the 1955-1963 period Costa Rica's industrial capacity had increased 75% over 1950 levels. Much of this growth was the direct result of the increased availability of external industrial development dollars. Between 1957-1961 the World Bank invested $7 million in industrial credit alone. As a result imports of industrial machinery rose 73% (McCamant, p. 259). In addition, in 1961, the newly formed Inter-American Development Bank began funnelling development capital into Costa Rica. In response industrial output increased 13.0% in 1960 and 14.4% in 1962 (SALA 1974, p. 121) and manufacturing exports for 1961 reached $1.7 million (Nugent 1974, p. 12).

Despite these impressive statistics, Castillo contends that after 1955 much of Costa Rica's existing industrial capacity was idle. At the same time low consumer prices began causing increased industrial layoffs. Thus by 1958 Costa Rica industrial producers were badly in need of an expanded market for industrial goods. Industrial output did increase somewhat after 1958 due to the expanded markets made available by the 1958 Multi-lateral Free Trade Treaty and four bilateral trade agreements of 1962. This increase in output, however, was not enough to cover industry's rising import costs.

By 1961, over 50% of Costa Rica's imports were manaufacturing inputs (Lockley, p. 67). Because of this increased volume of imports, Costa Rica experienced a negative trade deficit of $2.3 million for 1961 despite record coffee production and high coffee prices (BIC 1969, p. 18). Thus, the costs of the heavy donor-funded capitalization of Costa Rica's industry were already becoming apparent before the country even entered the Central American Common Market.

The Costa Rican Economy 1963-1968

The years between 1963 and 1968 represented a boom period for Costa Rica's economy. This was a time of rapid economic expansion. Even allowing for negative growth in 1964 as a result of the economic losses from the eruption of Irazu, the GNP grew at an average annual rate of over 6%. For 1965, GNP growth topped 9% (SALA 1974, p. 393). On a per capita basis the GNP rose from $398 in 1962 to $497 in 1968 making these six years a time of the most uninterrupted growth in Costa Rica's history (p. 397).

Much of this growth was fueled by the increased output of the industrial sector as Costa Rican producers took advantage of the protected regional market created by Costa Rica's ratification of the General Treaty of Economic Integration. Over this period the country's intra-regional exports grew at an average annual rate of 30% (Pratt and Adamczyk 1983, p. F-3) and manufacturing output increased at an average annual rate of over 9% (SALA 1974, p. 121). By 1968 manufactured exports had reached $32.7 million (Nugent, p. 12) and manufacturing was accounting for a substantially increased 18.3% of the GDP (AID 1968, p. 10).

The pattern of public investment over this period suggests an increased government commitment to industrial development. In addition to heightened Central Government allocations to industry, the availablity of external industrial development capital increased markedly during this period. For the years 1963-1966 total outside development aid ran $25.6 million a year and made up 28% of Costa Rica's gross investment capital (McCamant, p. 45). By 1967 on a per capital basis Costa Rica was receiving more foreign aid than any country in the world except Vietnam (p. 42). Considering that Costa Rica had disbanded its army in 1948, the bulk of this outside aid went directly into development.

According to Peter DeWitt's analysis of aid allocations, more than 50% of the development assistance projects initiated in this period were devoted to energy production or infrastructure development which indirectly contributed to the growth of the industrial sector. In addition, a sizeable 15% of the development assistance capital generated by the Alliance for Progress went directly into industrial loans (DeWitt 1977, p. 74). Most of this industrial credit was specifically earmarked for loans to the small and medium size producers.

The Inter-American Development Bank was the largest supplier of industrial credit during this period. Through its Fund for Special Operations, the IDB provided a series of global industrial development loans to the Bank of Costa Rica (BCR) to be relent at concessionary rates to those industrial producers using at least 50% domestic materials (DeWitt 1977, p. 111). In addition, the IDB stipulated that 60% of this industrial credit was to go to the consumer goods industries and 40% to intermediate and capital goods production (p. 112).

In addition to IDB aid inflows, the Agency for International Development also became particularly active in Costa Rica during these years. In line with its emphasis on strenghtening private sector credit, the AID in 1963 put up $5 million in seed money to establish the Costa Rican Industrial Finance Corporation (Pratt and Adamczyk 1983, p. 21). At the time COFISA was the only private financial institution serving the industrial sector. Until 1969 it primarily dealt in long-term low interest loans to small and medium size producers.

The increased availability of industrial credit in the 1960s had an immediate impact on Costa Rica's import/export picture. Between 1963 and 1965 imports increased an an average annual rate of 14% while exports only grew 7.6% a year (IBD 1966, pp. 167). For 1965, 58% of Costa Rica's $178 million in imports was made up of raw materials and capital goods inputs for industry (p. 168). With exports for the year only totalling $112 million, Costa Rica was faced with a negative trade balance of $66 million (BIC 1984, p. 18).

Despite this growing trade deficit, government expenditures for the period continued to climb. By 1965 total government expenditures had risen to 29.7% of the GDP from 25.8% in 1963 (SALA 1974, p. 118). Consequently, the government deficit grew steadily throughout the period. By 1965 it amounted to a full 4% of the GDP (Gonzales-Vega 1984, p. 383). To cover this shortfall, the Orlich administration took out a series of short and medium term loans, so that by 1965 the public debt had risen to a sizeable $148 million from a base of $28 million in 1960 (ECLA 1981, p. 275). In response to the government's deteriorating financial position, the AID sharply curtailed its lending to Costa Rica after 1965 and urged the country to either impose an austerity budget or undertake major tax reform to bring expenditures more in line with revenues (Wynia 1972, p. 103).

At the time of the 1966 presidential election, Costa Rica's debt service costs were taking up 15.4% of the annual budget (IDB 1966, p. 177). Government revenues were virtually stagnant due to the tax exempt status of 28% of Costa Rica's imports (p. 176). In addition an overvalued colon and a 4% annual birth rate was holding down per capita income growth despite the consistent expansion of the GDP (Election Factbook 1966, p. 21). In response to these problems, the new conservative president presented an austerity budget/tax reform package to the legislature (Shaw 1978, p. 86).

In the interim Costa Rica turned once again to the International Monetary Fund. The standby agreement for $10 million signed in August I966 was the fourth such arrangement with the IMF since the trade deficit began to grow in 1961 (IDB 1966, p. 169).

The President's austerity package met such fierce resistance from the PLN-dominated Assembly that in January, 1967, Trejos launched his austerity measures by decree, introducing a dual exchange rate to curb luxury imports and tightening up on the availability of credit. In addition, Costa Rica's industrial incentives were revised to completely eliminate all tax on raw materials and intermediate goods while boosting the tariff level for finished products. Despite these policy changes Costa Rican imports still rose a hefty 10.2% in 1967, while exports only increased by 1.1% (p. 88).

In the face of this relentless balance of payments problem, Costa Rica proposed a major change in CACM tariffs. The San Jose Protocol, negotiated in 1968, permitted the Central American states to impose a 30% surcharge on all non-regional imports. This measure, however, was never ratified by Costa Rica. The PLN deputies considered the Protocol taxes to be too regressive (Wynia 1972, p. 109).

By the end of 1968 the limitations of regional economic integration were becoming increasingly clear to Costa Rica. The cost of imported inputs required for import-substitution oriented industries was proving to be greater than the proceeds. The elimination of regional import revenues was wreaking havoc on the government's financial position. As a result the public sector began taking an increasingly higher proportion of domestic credit leaving less capital available for the private sector.

Industrial Development 1963-1968

In 1962, according to an IDB analysis, Costa Rica's industrial sector as a whole was functioning at 72% of capacity. The IDB report attributed much of this idleness to the seasonal scarcity of domestic raw materials (IBD 1966, p. 167). Because of the unreliability of domestic supplies, after 1963 industrialists became increasingly receptive to production schemes which relied on external sources of supply.

Consequently, much of the new industry established during the 1963-1968 period with external industrial development credit was of the assembly type --- using local labor and imported inputs. Much of this industry was non-traditional in character and at least partially foreign owned. Firestone and Sylvania were attracted to Costa Rica by the benefits offered through the new CACM Integrated industries Scheme (BIC 1969, p. 29). Many of the new assembly plants set up during this period came to take advantage of the Orlich administrations liberal interpretation of the Industrial Protection and Development Law (Shaw 1978, p. 85).

This expanded productive capacity and greater market access had an immediate positive impact on Costa Rica's overall export figures. Much of this export growth was due to the fact that between 1963 and 1968 Costa Rica's manufacturing trade with the CACM grew at the phenomenal rate of 39% a year (Pratt and Adamczyk 1983, F-8). By 1965 its traditional industrial sector was operating much closer to capacity as production was expanded to supply the Central American market (Castillo 1966, p. 100). Most of this growth was concentrated in the metal products, chemicals and food products industries.

However, regional competition increasingly began to take its toll. After 1966, the demand for import substitution type goods began to slacken as the Central American market for regionally produced goods became saturated. Saddled with high overhead costs from new equipment, high foreign exchange costs for imported materials and high payroll costs to comply with the national labor code, Costa Rica's industry needed to penetrate significant new export markets in order to continue prospering.

One can only conclude that much of the industrial growth undertaken during the 1963-1868 period was hastily conceived, yielding a low portion of value added in comparison to the capital investment. Expensive new technologies proved to be costly to operate and maintain. With little vertical integration between suppliers, producers and buyers, the industrial sector was particularly vulnerable to regional economic slumps and to changes in domestic monetary conditions. Moreover, the new import substitution oriented industries tended to be highly oligopolistic with a few large firms dominating the market in each industry (Edelman 1983, p. 173). Set up to take advatage of the highly protected regional market, many of these industries proved to be very non-competitive in a non-regulated market.

The Costa Rican Economy 1969-1979

The period from 1969 to 1979 was one of sharp fluctuations in economic growth due to a series of major external changes in Costa Rica's trade situation. First, the 1969 Soccer War closed the lucrative Honduran market to Costa Rican producers and began the gradual deterioration of the CACM. Then the 1973-1974 rise in oil prices dealt a crippling blow to Costa Rica's balance of payments sending import costs skyrocketing. Even a brief coffee boom in 1976 and 1977 was insufficient to allow Costa Rica's economic performance to recover before the second major oil price rise in 1978 and 1979.

For a country in which foreign trade accounts for over 60% of the GDP, these external shocks had a major impact on domestic economic conditions. Figure 1 plots the rise and fall of Costa Rica's trade deficit shows the effect which these factors had on the country's economy between 1969 and 1979.

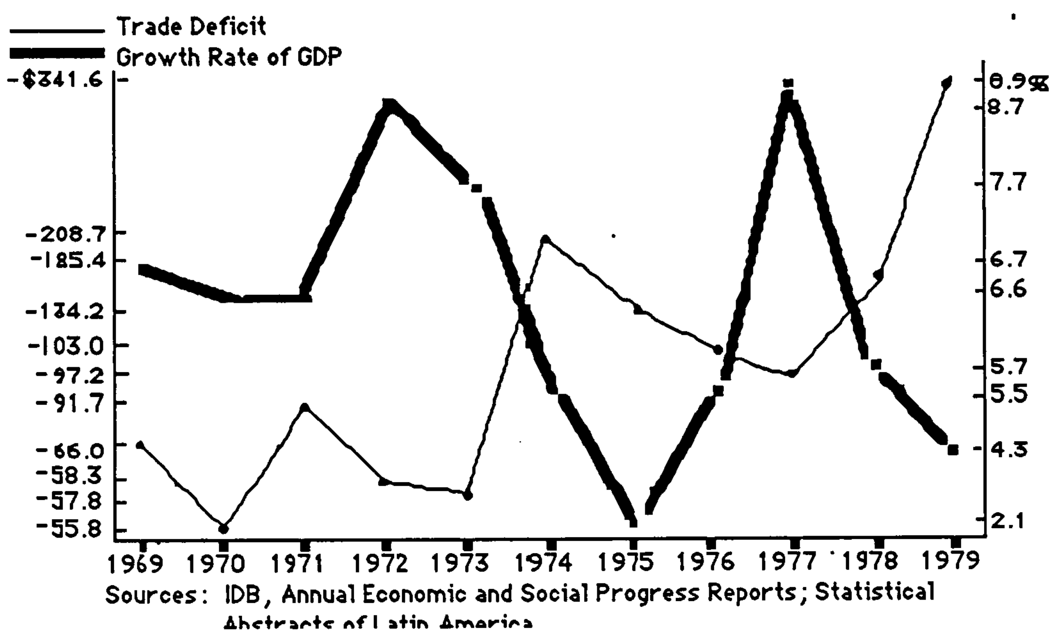

Figure 1. Relative Fluctuations in Costa Rica's Trade Deficit and Growth Rate of the GDP

As indicated, the performance of Costa Rica's GDP displays a similar pattern to that of the trade sector. Growth fell in 1969, stabilized between 1970 and 1971, accelerated notably in 1972 and 1973, dropped precipitously in 1974 and 1975, recovered in 1976, reached a peak in 1977, and then began an extended decline in 1978 and 1979 (SALA 1983, p. 280).

During this period gross domestic investment increased from 20.5% of the GDP in 1970 to 24.5% in 1979, while gross national savings fell (IDB 1974, pp. 88-89; IDB 1980-81, p. 65). By 1979 savings only accounted for 39.4% of investment (p. 65). Accordingly, over these ten years, Costa Rica became even more dependent on foreign capital to maintain its investment programs.

As a result of a decade of borrowing to cover growing government deficits, Costa Rica's public debt grew from $227 million in 1970 to $1,869 million in 1979 (p. 438). By 1979, debt serving costs were consuming 23.4% of Costa Rica's export earnings (p. 443). Much of this increased cost was due to the fact that over this period aid from bilateral and multilateral public institutions steadily dropped to 29.6% of total external financing while loans from private commercial sources rose to 70.4% in 1979 (p. 439). Moreover, much of this new debt was of a short and medium term variety with higher interest rates.

In addition to this stepped up government borrowing, private borrowing also accelerated after 1973. Between 1974 and 1976 private inflows of credit averaged $75.6 million a year or approximately $30 million a year higher than public credit inflows. Then in 1978 private borrowing jumped 290% over the previous year's level to $181.9 million for the year. That same year public credit inflows amounted to $171.9 million (IDB 1980-81, pp. 433-434). Thus by 1979 Costa Rica was borrowed to the hilt and private financial institutions began trying to substantially reduce their exposure there.

Over-all the 1969-1979 period was a time of increased public intervention as the government attempted to fuel economic growth by pumping increasing amounts of public investment capital into the productive sector. All four of the presidential administrations of this era applied different variations of this same theme. Though each used different types of state intervention to stimulate economic growth, all relied on some form of external capital to finance the expansion of the industrial sector. It was Figueres, however, who revolutionized government's support to industry by shifting from indirect forms of resource distribution to direct public investment in industrial enterprises. Direct public investment was expanded upon under Oduber and maintained at existing levels during the conservative presidency of Carazo.

However, this pattern of direct intervention in the industrial sector did not begin until after the conservative Trejos left office. Instead, in 1969 the government tried to counteract the effect of the dissolution of the Central American Common Market with a concerted campaign to bolster exports. A Center for Export and Investment Promotion was established with AID funds to assist private exporters in penetrating non-regional markets (Pratt and Adamczyk, p. 43). To make more capital available to industrial exporters, the AID also made a second $5 million loan to COFISA (p. 31).

The 1970-1974 Figueres administration considered increased public investment to be the key to lowering unemployment and increasing productivity (Bodenheimer 1972, p. 88). The expansion of the public sector was regarded as a necessary part of increasing government's control over the allocation of resources. The best means of extending government's control had long been thought to be via the semi-autonomous public institution. During the Figueres administration Costa Rica's autonomous agencies grew 13.3% a year (Herrick and Hudson 1977, p. 148). By 1973 over 50% of all public employees worked for parastatal enterprises (p. 80).

The most notable autonomous institution created by Figueres was the Costa Rican Development Corporation. Founded in 1973 with 67% state capital (BIC 1985, p. 3), CODESA was designed to be a development bank which specialized in launching export diversification projects and turning them over to the private sector (Pratt and Adamczyk 1983, p. 13). The advent of CODESA marked the beginning of a steady rise in direct public investment in industry. By 1974, over 25% of total government expenditures was going to economic services (SALA 1978, p. 265); and by 1976, government was providing a full 35% of industrial investment capital (Pratt and Adamczyk 1983, p. 6).

With the government's shift during this period to commercial sources of external credit, as the period progressed official donors had less and less leverage over the actual use of aid money. Repeatedly donor loans designed to finance export diversification ended up being lent as short-term capital to import substitution oriented firms. Despite this record of loose compliance, in 1978 the World Bank made a $15 million global loan to the Central Bank to finance loans designed to increase the efficiency and production for export of industries with unmet employment potential. Costa Rica's first step upon receipt of the loan was to create FODEIN, a new branch of the Central Bank to distribute and administer the IBRD funds (Pratt and Adamczyk 1983, pp. 33-35).

Over the short-term, stepped-up public investment did have a noticeable impact on Costa Rica's economic performance. After four years of watching imports grow at an incomparably faster rate than exports, between 1970 and 1973 this situation was reversed. In addition, this spending did result in a drop in the unemployment rate as the annual growth rate of employment jumped from an average of 4.4% before 1973 to an annual average increase of 8.8% between 1973 and 1976 (Herrick and Hudson 1981, p. 47). This was followed in 1976-1978 by a 10% a year burst in public sector employment (Gonzales-Vega 1984, p. 376). By 1978, Costa Rica's unemployment rate had stabilized at 4.6% (Schutz 1984, p. 16), but public sector employment had risen to 18.7% of the labor force (Gonzales-Vega, p. 377).

Douglas Graham has concluded that over the long-term the high cost of the parastatal enterprises played an undermining role in Costa Rica's over-all economic performance (Graham 1984, p. 178). During the 1970s transfers and subsidies to autonomous public agencies became a major cause of the growing deficit spending which characterized government during these years.

This pattern of deficit spending accelerated under the 1974-1978 Oduber administration and peaked during the 1978-1982 Carazo administration. Under Oduber, a notable shift in the pattern of investment took place. As a result of skyrocketing costs of manufacturing imports, the government shifted its emphasis away from the promotion of non-traditional industrial exports toward investment in agri-exports and primary industries (Edelman 1983, p. 170).

Despite Costa Rica's precarious economic position, government spending actually increased under the conservative Carazo administration. Thus between 1974 and 1978 total government expenditures increased from 2.329 million colones to 5.796 million colones (del Aguila 1983, p. 36) and the annual deficit tripled (Pratt and Adamczyk 1983, p. 3). However, during both the Oduber and Carazo administration much less of this increased spending went into investment. As a result, domestic consumption of luxury goods expanded 13.6% in 1977 after averaging 3.8% growth for the three previous years (Gonzales-Vega 1984, p. 374). Moreover, this trend toward excessive consumer spending persisted until the colon was finally devalued in 1982 (Seligson 1983, p. 402).

Industrialization 1969-1979

For the industrial sector, the years between 1969 and 1979 were a time of expansion, diversification and heightened competition. Between 1969 and 1973 industrial credit for diversification and export promotion became increasinly easy to come by. Moreover, in 1974 loans to industry increased 52.3% making it the second highest recipient of commercial credit (IDB 1974, p. 253).

In response to this greater availaility of credit, industry production for export grew 10% in 1971, 15.5% in 1972, and 39% in l973. Even after the 1974 rise in energy costs, manufacturing exports increased 33.5% (p. 248). Accordingly, in 1975 manufacturing value added passed agricultural value added for the first time. In fact, from that point on manufacturing has consistently outproduced agricultural on a value added basis.

Much of the industrial growth generated during this period was in the non-traditional sector. Under the auspices of CODESA, gasohol, chocolate, processed fruit and shrimp production was begun (Pratt, p. 13). In addition, CODESA made major investments in aluminum processing after a mining concession granted to ALCOA was returned in the mid-1970s. All these ventures were undertaken as part of a push toward export diversification which followed the 1969 decline in the rate of growth of CACM markets.

Throughout this period CACM manufacturing trade was still increasing at an average annual rate of 16% (Pratt and Adamczyk 1983, p. F-8). Since this represented less than half its 1963-1968 rate of growth, Costa Rican manufacturers needed to find additional export outlets. In 1969, Costa Rica's manufacturing exports to CACM totalled approximately $22.5 million (IDB 1974, p. 128), while non-CACM or third country exports only amounted to $2.5 million (Pratt, p. F-13). However, by 1975 Costa Rica's non-CACM manufacturing exports came to $22.3 million and growth of third country exports continued to average 34% a year for the rest of the period.

By 1979 Costa Rican producers were exporting $176 million worth of goods to CACM countries, while exporting another $60 million's worth of manufactured goods to third country markets (IDB 1980-81, p. 115). On a value added basis manufacturing contributed $734.1 million to Costa Rica's 1979 GDP while agriculture contributed $607.5 million (p. 404-405).

The Costa Rican Economy: 1980-1982

In 1980 the bottom fell out of Costa Rica's overextended economy. Gross domestic investment for the year dropped 5.3% (IDB 1980-81, p. 218). Annual GDP growth plummetted to .8% (Gonzales-Vega 1984, p. 373). With exports down and import costs up, Costa Rica's trade deficit for 1980 rose to $373 million (IBD 1983, p. 370).

Even during this period of severe economic contraction, public expenditures increased to 21.8% of the GDP in 1980 as compared to 20.6% in 1979. Accordingly, the government's fiscal position deteriorated even further during the last two years of Carazo's term. The government deficit hit an all time high in 1980 of 12.7% of the GDP (p. 217). The public debt more than doubled between 1979 and 1981 to $2,743 million (Gonzales-Vega 1984, P. 382). By 1982 debt service cost was absorbing 29.8% of Costa Rica's export earnings (SALA 1984, p. 24).

In March 1980 the Carazo administration finally concluded negotiations with the IMF for $65 million in standby credit (IDB 1980-81, p. 217). To receive IMF aid, Costa Rica agreed to cut government expenditures, restrict public indebtedness and limit the expansion of domestic credit. Though public consumption did decrease 1.2% in 1980, the government's refusal to reduce subsidies on social services or to devalue the colon caused private consumption to actually increase 2.4% (p. 218). Despite the IMF strictures, domestic credit still expanded 24% in 1980 with the public sector receiving two-thirds of the increase (p. 221). Moreover, 44.3% of available domestic credit went to the public sector (Gonzales-Vega 1984, p. 383).

By mid-1980 Costa Rica's banking system had exhausted its international reserves. In order to meet overdue payments on its private sector external loans, the Central Bank covertly contracted $1.2 billion in short-term commercial loans (Seligson 1984, p. 460). Despite this huge increase in the inflow of private capital in 1980, capital flight in anticipation of devaluation accelerated to such a degree that the country's net capital position was only a small fraction of gross inflows.

Thus by the end of 1980, private and public enterprises were fiercely competing over the division of available credit. Much of Costa Rica's hard to come by foreign exchange was being siphoned off into luxury imports. Both official and commercial foreign credits were actively trying to reduce their exposure in Costa Rica and the IMF had suspended its standby credit because of Costa Rica's blatant inability to live up to the terms of the contract.

After two years of equivocation and political haggling with the Assembly, the Carazo administration finally attempted to address the fiscal crisis in December, 1980. A freeze was placed on public sector hiring; and the Central Bank withdrew from the foreign exchange market (IDB 1980-81, p. 210). In 1981, Carazo resumed negotiations with the IMF for the second standby credit agreement which was signed in June for $265 million (IDB 1983, p. 198). Then in July, the government suspended debt payments, restricted currency exports and submitted a devaluation proposal to the legislature resetting the exchange rate at 21.76:1 (p. 197).

The effect was immediate. Within a single year Costa Rica's GNP per capita fell from $1,730 in 1980 (Graham 19845, p. 162) to $1,430 in mid-1981 (IBRD 1983, p. 44). Due to the lack of foreign exchange Costa Rica and the reduced growth of internal credit, Costa Rica's imports dropped from $1375 million in 1980 to $1,090 million in 1981 and to $819 in 1982 (SALA 1984, p. 24). Despite an improved import/export balance, the GDP growth rate continued to contract, going from .8% in 1980 to -2.3% in 1981 to -9.1% in 1982 (SALA 1984, p. 16). Gross investment in fixed assets plus inventory was similarly affected falling 37.7% in 1981 and 48.1 in 1982 (Gonzales-Vega 1984, p. 374). In addition, the reduced supply of manufacturing inputs on top of a government freeze on hiring caused unemployment to jump to 7.4% in 1981 and to 9.3% in 1982 (del Aguilar 1983, p. 358; U.S. Dept. of Commerce 1984, p.2).

Feinberg contends that it was primarily due to the government's lack of an adequate investment program that the 1981 IMF agreement was never fulfilled (1984, p. 110). With the entire country on the brink of bankruptcy, official donors largely suspended aid activity in Costa Rica pending the imposition of IMF austerity measures. The only aid project of note launched during the 1980-1982 period was the creation of BANEX in 1980 with a $10 million contribution from the AID. BANEX was a private bank specializing in export financing. Its objective was to make more money available to the non-traditional export sector (Pratt and Adamczyk 1983, p. 44).

It was not until the new Monge administration completed negotiations with the IMF for a new standby agreement that Costa Rica's economic plight began to improve. The IMF agreement stipulated that 1) the public sector deficit be reduced to 4.5% of the GDP, 2) short-term and mid-term borrowing be restricted, 3) public access to domestic credit be cut, 4) the public debt be rescheduled, 5) the exchange rate be kept at market levels and 6) new export incentives be formulated (U.S. Dept. of Commerce 1984, p. 4).

Within the year the Monge administration had pushed the entire austerity package through a PLN-dominated legislature. Income and sales tax surcharges were passed (U.S. Dept. of Commerce 1985, p. 10). A freeze was again placed on government hiring. A unitified public sector budget was instituted. Four of the largest autonomous agencies were targeted in a program to eliminate government waste. Sudsidies on basic goods and services were substantially reduced. The exchange rate was set at 38:1. The government share of new credit was set at the same level as that of the private sector and the industrial sector was given preferred access to operating capital (Seligson 1984, p. 461).

Though the effect of these measures did not become apparent until the following year, economic recovery can be dated from the imposition of austerity in mid-1982. A major factor in Costa Rica's turn-around was the resumption of unprecedented inflows of U.S. aid which followed the signing of the IMF accord (p. 468). By year's end, Costa Rica had received over $500 million in official external aid. Over $220 million of this came directly from the U.S.---$140 million through established AID channels and $80 million via the new Caribbean Basin Initiative (p. 469).

Industrialization: 1980-1982

The recession of 1980-1982 was a tumultuous time for the industrial sector. For industry as a whole these were years of contraction, stagnation and retrenchment. Access to credit declined sharply, particularly for traditional industries producing for the domestic market. Conversely, non-traditional export oriented industries like the chemical, non-metallic products and container industries were strapped by a lack of foreign exchange with which to import manufactured inputs.

In 1980 industrial credit dropped precipitously after a decade of uninterrupted growth and commercial interest rates doubled (IDB 1980-81, p. 219). Industrial investment fell and purchases of manufacturing equipment were abruptly reduced. Accordingly, industrial growth all but halted. Output in 1980 only grew by .8%, then plummetted to -.5% in 1981 and to -14.9% in 1982 (Gonzales-Vega 1984, p. 373).

In 1981 in the face of a contraction of domestic, regional and world demand, over 100 industrial enterprises stopped production and manufacturing value added registered -3.8% (IDB 1980-1981, p. 219). The only encouraging sign came from the assembly industry. Because of the greater reliability of external sources of supply, the performance of this sub-sector was a major reason why non-CACM exports jumped 38% in 1981 (p. F-13).

In 1982 manufacturing value added decreased another 6.5% and traditional industries were thrust into a state of major retrenchment. Both the food processing and apparel industries, which together accounted for over 50% of all manufacturing jobs, were particularly hard hit (Pratt and Adamczyk 1983, p. 46). Both were operating at around 40% of capacity (p. 48). Unable to secure working capital, both were forced to make major cuts in manpower.

Monge's 1982 recovery program came just in time for the hard-pressed industrial sector. Existing loans were refinanced and 3.458 billion colones worth of operating capital was made available to manufacturers (IDB 1983, p. 198).

Thus as recovery began, Costa Rica's manufacturing sector was considerably leaner and thus somewhat more competitive. In addition, the government had shifted its policies away from the highly protected capital-intensive integration industries toward the more labor intensive agro-industries and light assembly industries which used a higher proportion of domestic supplies and generated more foreign exchange for the country as a whole.

The Costa Rican Economy: 1983 to date

The period since 1983 has been a time of across the board economic recovery in Costa Rica. Economic growth for 1983 measured .8%, representing a significant reversal of two years of negative growth (U.S. Dept. of Commerce 1984, p. 5). Then in 1984 the GDP rallied another 3% and by 1985 growth was a respectable 5% (BIC 1985, p. 1).

Recent economic analyses agree that two factors have contributed most to Costa Rica's improving economic situation: 1) the Monge administration's determination to stand behind its agreement with the IMF and 2) the huge increases in donor assistance that continue to flow into the country. Between 1983 and 1985 the U.S. funnelled almost $600 million in economic aid into Costa Rica (Newfarmer 1985, p. 85). For 1986, total donor aid is expected to hit almost $640 million making Costa Rica the second highest per capita recipient in the world after Israel (The Christian Science Monitor 4 March 1986, p. 12). These inflows, however, have pushed Costa Rica's external public debt to $4.6 billion (The Monitor 2 February l986, p. 10).

In 1983 the Monge administration continued its program of economic stabilization. Negotiations were concluded rescheduling the public debt and the exchange rate was revised to a unitified 43:1. Furthermore, the government clamped down on CODESA which in the first eight months of 1983 lost 4.2 million colones a day. CODESA was subsequently directed to privatize its holdings. Until this could be accomplished, the government continued to funnel over 50% of public sector credit into CODESA's nineteen enterprises (BIC 1985, p. 4).

This continued funding of CODESA seems representative of Monge's approach to recovery. On a percentage basis government expenditures for 1983 increased substantially. Current expenditures were up 55% due to the addition of over 5,000 persons to the public payroll. Capital expenditures followed suit rising 60% (U.S. Dept. of Commerce 1984, p. 10). The government was able to finance these increases with the added revenue generated by the recent tax surcharges. When a 79% higher transfer from RECOPE was added in, over-all government revenue for 1983 increased 64%.

However, in the 1985 IMF agreement Costa Rica was strongly encouraged to halt the growth of government expenditures. New public credit for 1986 was to be limited and public spending was to be significantly reduced (BIC 1985, p. 2). The Monge administration responded to IMF demands by introducing two bills in the National Assembly. The Law for Economic Stabilization proposed new taxes and increased transfers into Central Government coffers from the autonomous agencies. The other bill proposed specific cuts in the 1986 budget (U.S. Dept. of Commerce 1985, p. 5). Though figures for 1984-1986 are not yet available, it would seem that the trend toward increasing revenues has continued to be at the center of the government's approach to deficit reduction since the President of the Central Bank recently announced that the 1986 government deficit had been pared to 1.5% of the GDP without any drastic cuts in spending (The Monitor 4 March l986, p. 12).

Another major element in the Monge administration's economic recovery program has been to generate more non-traditional exports. Early in Monge's term a Ministry of Exports (MINEX) was established to coordinate government activity in this area (U.S. Dept. of Commerce 1985, p. 19). Under its auspices a one-stop shop for potential investors was to be created. To facilitate greater direct foreign investment, Costa Rica began negotiations with the U.S. on a bilateral investment treaty. As of 1985 only four other nations including Panama and Haiti had signed such agreements with the U.S. (Newfarmer 1985, p. 85). Furthermore, additional export incentives were introduced which provided more complete tax and duty exemptions for non-traditional exporters.

From the start the Monge administration attempted to bail out the ailing industrial sector. In 1983 a full 66% of all new credit went to the private sector. In addition private lenders that year awarded a substantial 55% of their financial resources to industry (BIC 1985, p. 2). Much of this new capital went to finance resumed imports of manufacturing inputs. As a result, imports for 1983 rose 11% pushing Costa Rica's trade deficit back up to $142.8 million (U.S. Dept. of Commerce 1985, p. 9).

Though industrial output registered -1.8% growth in 1983, this figure actually represents a major upturm in industrial production. Much of the increased production was in response to the greater demand for manufactured goods created by domestic wage increases and falling inflation (p. 6). Since 1983, the climate has continued to improve for the industrial sector. For 1985 industrial production expanded by a healthy 10% with the textile and paper industries leading the upsurge (BIC 1985, P.1). However, the intermediate goods industries have not fared as well bringing into question the long-term viability of the import substitution approach to industrial growth. Moreover, the tendency toward an increasingly oligopolistic ownership structure does not bode well for the competitiveness of Costa Rican products on the international market.

Conclusion

Thus despite three decades of industrial development, Costa Rica's economy is still predominantly reliant on basic commodity exports. Today, however, the built-in import requirements of the new industrial sector keep the country's trade balance negative and its dependence on foreign exchange unbroken.

In some sense the government's current approach to industrial development seems to have come full cycle since the birth of the industrial sector in the 1940s. Until 1953, the goverment primarily attempted to expand the traditional industrial sector by investing in infrastructure. After 1953 the Figueres government retained this strategy but enlarged its scope in order to also facilitate the growth of non-traditional manufacturing. In addition, a concentrated effort at market expansion was begun. After 1958, when the supply of domestic capital dropped, Echandi attempted to attract greater quantities of direct private investment as well as seeking more public aid for infrastructure development and continuing to facilitate market expansion.

The most notable shift in the government's industrial development strategy came in 1963. In order to qualify for large quantities of donor assistance, the Orlich administration adopted the donor-backed strategy of accelerating industrial expansion through the development of import substitution oriented enterprises. By the 1970s the growth potential of this new sector had played itself out and the high import requirements of IS industries had profoundly affected Costa Rica's trade balance. Accordingly, during the 1970s the government began to shift its support back to primary industries. However, its use of direct public investment to launch these new large-scale industries represented a major departure from the traditional mechanisms for facilitating industrial development. Existing private sector producers were forced to turn to the international commerical banks for capital. Therefore, after 1974, the Oduber administration launched a parallel industrial development program designed to funnel more capital into smaller-scale private primary industries. The Carazo government of 1978-1982 concentrated its efforts on procuring adequate operating capital to meet the total demand of Costa Rica's existing industrial sector. Finally, in addition to its commitment to meeting industry's need for capital and infrastructure support, the Monge administration stepped up its effort to promote industrial exports by using government to expand the market for Costa Rican manufactured goods. Since export promotion was a major emphasis of the Caribbean Basin Initiative, this incremental shift in government industrial policy placed Costa Rica in a better position to take advantage of this new source of industrial development capital. Thus it would seem that Costa Rica's current strategies for achieving export diversification were essentially the same as those used at the outset of the development period when greater effort was made to capitalize on the comparative advantage of Costa Rica's primary industries.

CHAPTER 2

THE RELATIONSHIP OF POLITICAL COALITION-BUILDING AND DISTRIBUTIVE POLICY-MAKING

This chapter will attempt to demonstrate the relationship between the coalition-building of Costa Rica's political parties and the distributive policy choices of conservative and PLN governments. In the process of examining the politics of resource distribution which characterizes this relationship, it will seek to establish how the interests of the industrial sector have been affected by the distributive concessions made to other groups.

To accomplish these objectives, this chapter will focus on the connection between Costa Rica's presidential elections and the subsequent policy changes initiated by each administration. In order to demonstrate how policy changes by the party in power reflect changes in the pattern of its electoral support, a summary will be presented of each party's basic orientation toward economic development at the beginning of the modern period and of the interest groups which are attracted by this orientation.

The subsequent analysis will emphasize the following points:

1) The particular orientation toward development of the elected President and the make-up of the winning and losing party coalitions as indicated by analyses of election returns;
2) the major policy initiatives of the following administration;
3) the political realignment that results from the way resources were distributed by the party in power and the issues emphasized by contending presidential candidates in their effort to construct a winning coalition during the subsequent election campaign.

The Original Orientation of Costa Rica's Main Political Groupings

Two main political alliances have dominated Costa Rica's modern political life. The first of these groups to form was the conservative agri-business oriented coalition of traditional elites which has been closely aligned with the Calderon family since 1940. The ideological roots of the National Republican Party were based on the linkage between traditional oligarchical elements and a group of reform-minded lay Catholics. The PRN's political ideology reflects its attempt to appeal to traditional as well as established reformist elements. In deference to its agricultural and commercial component, the PRN advanced an outward-based model of development which emphasized export production, the expansion of the tax base and the use of external funds to provide the foreign exchange for major development projects. Coupled with this strategy for achieving economic growth was a comparable emphasis on greater distribution of the benefits of development to the lowest socio-economic group, the laboring class.

During the 1940s this conservative coalition maintained its hold on power by aligning itself with the urban working class. However, after the Revolution of 1948, the Calderonists only managed to gain power by joining forces with the big-business-oriented National Unitification Party or PUN founded by newspaper publisher Otilio Ulate. The PUN ideology stressed the creation of a stable fiscal environment in order attract greater quantities of direct foreign investment capital. Because of their basic differences over whether development was best accomplished through the support of domestic or foreign interests, these two political factions only managed to maintain a coalition for brief periods.

Consequently, the PRN/PUN factions have primarily played the role of the conservative opposition.

The party that has more consistently dominated Costa Rican politics has been the Party of National Liberation or the PLN. The origins of the PLN also go back to the 1940s when middle class social democratic elements challenged the traditional oligarchy's control of the political system. As a result of the Revolution of 1948, the political system was expanded to include these middle sector groups who favored economic modernization.

The original Social Democratic Party was formed by those groups who were essentially the socio-economic product of modernization. Led by the charismatic entrepreneur Jose Figueres, this configuration of new industrialists and middle class professional and urban intelligentsia provided the spearhead for the 1948 challenge of the established interests. After their incorporation into the decision-making structure, this predominantly urban group expanded its power base by advancing an approach to development that appealed to the small agricultural producer.

Like the conservative ideologies, the PLN's development philosophy is also reflective of the make-up of its original sources of political support. Accordingly, increased industrialization was at the center of the PLN's strategy for development. Rapid industrial growth was to be facilitated by the PLN 's ideological axiom: greater government control over the distribution of resources. The extension of government control was to be achieved by the creation of semi-autonomous government agencies which would administer Costa Rica's basic system of public services. Because it was the newest element in the decision-making establishment, when in power the PLN basically employed the traditionally accepted mechanisms for accomplishing its economic goals. Accordingly, marginal revenue changes, market expansion, external financing of the foreign exchange costs of development projects and the top-down distribution of benefits to the lowest socio-economic sectors were consistently utilized by PLN administrations.

Because of the complexity of implementing development goals in a decision-making environment in which power was fairly equally divided between the two major political coalitions, both parties have engaged a continuous battle to broaden its electoral majority. For both the task of simply maintaining their original coalition has proved to be formidable. Accordingly, when in power, both PLN and conservative policy-makers have consistently used their control of the distribution of development benefits to attempt to consolidate and expand their basis of support.

With this in mind, the objective of the following analyses is to demonstrate the connection between party coalition-building and government policy-making by tracing the pattern of expectation, demand satisfaction and reaction that has accompanied Costa Rica's distribution of resources throughout the modern era.

Much of the data on the processes of political realignment is closed to the non-Spanish-speaking reader. Because of this, short-term shifts in political affiliation can only be deduced by a comparison of aggregate election data and subsequent policy initiatives by the winning coalition. Therefore, this analysis of the connection between political coalition-building and distributive policy-making will utilize a basically narrative style in order for the undocumented switches of political swing votes to be detected from the sequence of events themselves. In order for the key points to still stand out, Figure 2 has been provided.

The Election of 1940

	Winning	Losing
Candidate:	Rafael Angel Calderon	Ricardo Jimenez
Party:	PRN	Democratic Alliance
Coalition:	Progressive Catholics Financial Sector Urban Intelligentsia Small Business	Coffee Growers Commercial Sector Urban Working Class
Key Issues:	Increased economic and social modernization	

Key Policy Initiatives of the Calderon Administration

Constitutional Social Guarantees
Land Title Act
Social Security System
New Industries Act
Labor Law
Establishment of the University of Costa Rica
Housing Construction Program
Wage and Price Controls
Pan American Highway Development

Election of 1944

	Winning	Losing
Candidate:	Teodoro Picado	Leon Cortes
Party:	PRN	Democratic Party
Coalition:	Progressive Catholics Financial Sector Bureaucracy Communists Laboring Class	Coffee Growers Commercial Sector Anti-Communist Working Class New Industrialists
Key Issues:	Rising Influence of the Communists Extent of State Intervention in Private Sector	

Key Policy Initiative of the Picado Administration

Establishment of direct income and property taxes

Figure 2. Synopsis of Elections and Government Policy Initiative

Election of 1948

	Winning	Losing
Candidate:	Otilio Ulate	Rafael Angel Calderon
Party:	PUN	PRN
Coalition:	Urban Middle Class Coffee Growers Commercial Sector New Industrialists	Financial Sector Laboring Class Communists Bureaucracy
Key Issues:	Government corruption and political nepotism	Continuation of reform

Key Policy Initiatives of Junta

Constitution of 1949
Nationalization of banks
Tax surcharges
Renegotiations of United Fruit contract
Reimbursement of revolutionary leaders

Key Policy Initiatives of Ulate Administration

Balanced budget
Reduction of the national debt
Establishment of the Central Bank
Construction of San Jose Airport

Election of 1953

	Winning	Losing
Candidate:	Jose Figueres	Fernando Castro
Party:	PLN	PUN
% of Vote:	64.7%	35.7%
Coalition:	Industrialists Urban White Collar Workers Professionals Small Business Small Landowners	Coffee Growers Big Business
Key Issues:	Need for social reforms	Fiscal stability

Figure 2. (continued)

Key Policy Initiatives of Figueres Administration

Renegotiation of United Fruit contract
Hydroelectric development
Income tax increases
Minimum wage increases
Establishment of Civil Service
School construction
Housing development

Election of 1958

	Winning	Losing	
Candidate:	Mario Echandi	Francisco Orlich	Jorge Rossi
Party:	PUN/PR	PLN	Independent Party
% of Vote:	46.4%	42.8%	10.8%
Coalition:	Coffee Growers Commercial Sector Urban Blue Collar Workers	Industrialists Small Landowners Urban White Collar Workers	Small Business Professionals
Key Issues:	Growth of public sector	Improved standard of living	Fiscal responsibility

Key Policy Initiatives of Echandi Administration

Extension of the social security system
Industrial Protection and Development Act
Multilateral Development Loan Agreements

Figure 2. (continued)

The Election of 1962

	Winning	Losing	
Candidate:	Francisco Orlich	Calderon	Ulate
Party:	PLN	PR	PUN
% of vote:	50.3%	35.3%	13.3%
Coalition:	Small Industry Small Business Urban White Collar Workers Professionals Small Landowners	Coffee Growers Urban Blue Collar Workers	Large Industry Commercial Sector
Key Issues:	Reduced economic growth	Urban middle sector dominance	Budget deficit

Key Policy Initiatives of Orlich Administration

Severance of relations with Cuba
Ratification of the Treaty of Economic Integration
Establishment of OFIPLAN
Bilateral development assistance agreements
Agrarian Reform Bill
Land expropriations
Contracts with Firestone, Sylvania etc.

Election of 1966

	Winning	Losing
Candidate:	Jose Trejos	Daniel Oduber
Party:	PUN/PR	PLN
% of Vote:	50.5%	49.5%
Coalition:	Coffee Growers Commercial Sector Small Landowners	Industry Urban White Collar Workers Professionals
Key Issues:	Failure to deal with eruption of Irazu PLN dominance	Economic expansion

Figure 2. (continued)

Key Policy Initiatives of Trejos Administration

Tax reform
Foreign exchange surcharges
Dual exchange rate
San Jose Protocol
Birth control program
Restrictions on budgetary authority of autonomous agencies
Mining concession to ALCOA
Bill to reestablish private banking

Election of 1970

	Winning	Losing	
Candidate:	Jose Figueres	Sanchez Calvo	Mario Echandi
Party:	PLN	Third Front	PUN
% of vote:	54.7%	2.3%	43%
Coalition:	Non-trad. Industry Bureaucracy Small Business Urban Blue Collar Small Landowner	"PR New Guard"	Coffee Growers Commercial Sector
Key Issues:	Unemployment Gov't Decentralization	Tax Reform	Fiscal stability

Key Policy Initiatives of Figueres Administration

Elimination of social security salary ceilings
Establishment of National Autonomous University
Imports surcharges
Export Promotion Law
Excise tax increase
Creation of CODESA

Figure 2. (continued)

Election of 1974

	Winning	Losing		
Candidate:	Daniel Oduber	Fernando Trejos	Jorge Gonzales	Rodrigo Carazo
Party:	PLN	PUN	PNI	PRD
% of Vote:	42%	30.3%	10.9%	9.2%
Coalition:	Domestic Industry Bureaucracy Urban Blue Collar	Coffee Growers Commercial MNC's	Extreme Right	Profess'ls
Key Issues:	Increased employment	Gov't intervention	Inflation	Gov't corruption

Key Policy Initiatives of Oduber Administration

Integration of national planning system
Sales and payroll taxes
Community development
Nationalization of petroleum distribution and creation of RECOPE
Hydroelectric construction
Rural Industries Act

Election of 1978

	Winning	Losing
Candidate:	Rodrigo Carazo	Luis Alberto Monge
Party:	Unidad	PLN
% of Vote:	49%	42%
Coalition:	Coffee Growers Commercial Sector Large Scale Industry Professionals	Bureaucracy Small Landowner Small Scale Industry Urban Blue Collar
Key Issues:	Corruption Growth of Public Sector Deficit Spending	Non-involvement in C.A. conflicts Material Prosperity

Figure 2. (continued)

Key Policy Initiatives of Carazo Administration

Tax reform
IMF Standby Agreements
Commercial borrowing
Floating exchange rate
Freeze of public sector hiring
Devaluation

Election of 1982

	Winning	Losing	
Candidate:	Luis Alberto Monge	Mario Echandi	Rafael Angel Calderon Fournier
Party:	PLN	National Movement	Unidad
% of Vote:	58%	4%	33.5%
Coalition:	Domestic Industry Bureaucracy Professionals Small Landowners Urban Blue Collar Workers	Rightists	Coffee Growers Commerc'l Sector MNCs
Key Issues:	Growth of Poverty Inflation		Stagflation National debt

Key Policy Initiatives of Monge Administration

IMF Austerity Agreements
Income tax increases
Corporate tax surcharge
Abolition of public consumer subsidies
Institution of a unitified budget
Freeze on public sector hiring
Social Security tax increase
Creation of Ministry of Exports

Figure 2. (continued)

Election of 1986

	Winning	Losing
Candidate:	Oscar Arias	Calderon Fournier
Party:	PLN	Social Christian Unity Party
% of Vote:	53.3%	44.8%
Coalition:	Domestic Industry Bureaucracy Small Landowners Professionals Urban Blue Collar Workers	Coffee Growers Commercial Sector MNCs
Key Issues:	Neutrality in C.A. conflicts	Open hostility to Sandistas

Figure 2. (continued)

The Election of 1940

Costa Rica's modern political history can be dated from the election of 1940 when Rafael Angel Calderon Guardia was elected president. The election of Calderon inaugurated a major period of social reform in Costa Rica during which the progressive leaders of the traditional elite granted major new political and economic benefits to the least advantaged socio-economic groups in Costa Rican society. Supported by a newly formed coalition of progressive Catholics, the financial sector and the small-scale agri-business interests, the Calderon administration advanced a comprehensive program of social paternalism and export diversification.

Policy Initiatives of the Calderon Administration

Under Calderon the Costa Rican Constitution was amended to add sixteen major "Social Guarantees" or uniform rights to all Costa Rican citizens (p. 31). A new Land Law permitted the landless to acquire the title to land by cultivating it. A nation-wide Social Security System was instituted to provide all citizens with health insurance (Biesanz et el1982, p 3). A new Labor Code was passed providing for an eight hour day, the right of workers to organize, a minimum wage and mandatory collective bargaining (Ameringer 1982, p. 28). To meet the pent-up demand for housing, a law authorizing the creation of low-cost housing cooperatives as well as legislation freezing rents and regulating evictions. To provide for greater diversification of the economy, a New Industries Law granted incentives to industrial development. Finally, at Calderon's direction, the University of Costa Rica was established to make higher education available within Costa Rica (Bell 1971, p. 27).

In addition to his comprehensive program of social reforms, the economic disruption created by World War II caused Calderon to take steps to protect the Costa Rican consumer and the worker displaced by the interruption of world trade. Prices were frozen; public works projects initiated and at the insistence of the U.S., major investments were made in the construction of the Pan American Highway (p. 19). Such sweeping government intervention in Costa Rican life was unprecedented.

The Resulting Process of Political Realignment

The reaction against Calderon was immediate. Urban middle class elements saw the benefits of long-awaited reform largely passing over them and going to poorer groups. Middle sector opposition to Calderon led to the founding of the Center for the Study of National Problems (commonly called the Centro). Originally a group of Costa Rican law student, the Centro rapidly expanded to include urban professionals, university students and white-collar workers. Then, in 1942, after Germany's sinking of a United Fruit ship sparked communist-led riots, a group of progressives established the Democratic Action faction (AD) under the leadership of a prominent agricultural and industrial enterpreneur Jose Figueres Ferrer and his second lieutenant Franciso Jose Orlich. During this same period the passage of Costa Rica's new labor code succeeded in alienating Calderon's remaining support in the business community.

The Election of Teodoro Picado

With the society increasingly polarized, the 1944 election constituted a major referendum on Calderon's program of reform. With the PRN candidate advocating a continuation of Calderon's social reforms, most of the mid-size private sector producers shifted their support to the opposition candidate. Therefore, in 1944, the remaining elements in the PRN were forced to align themselves with the communists who were the chief advocates of the working class beneficiaries of Calderon's distributive reforms.

Given the ideological emotionalism of the campaign, the election of the Calderonist candidate Teodoro Picado truly mobilized the opposition. Thus Picado's term was to be a time of major political realignment with the administration's ability to govern largely stymied by the obstructionism of the political opposition.

The Process of Political Realignment

Jose Figueres took the initiative in consolidating middle sector opposition to the Calderonists. Under his leadership the AD faction of the Democratic party was merged with the increasingly vocal Centro to form the Social Democratic Party or PSD (Bell 1971, p. 36). The party's founding constitutional statutes articulated what was to become the governing principles of the dominant political movement in the post-war era. Foremost among these twelve points was a commitment to a constitutionally elected framework, "honorable administration through the scientific reorganization of public finances, the establishment of a civil service and the autonomy of technical bodies," "planned stimulation of small rural property and small industry," and an explicit commitment to furthering the public wealth through education, public health and public works (Alexander 1973, p. 219).

Policy Initiatives and their Political Repercussions

One of Picado's first acts as president was to introduce a highly controversial tax reform package. Faced with diminished government revenue from the drop in receipts from taxes on trade and the need to deliver expensive new social services, Picado submitted a bill establishing direct income and property taxes for the first time in Costa Rica's history (Bell 1971, p. 74). The eventual passage of the tax reform bill with the backing of the Communists caused the last remaining capitalistic elements in the PRN to break with the Calderonists and shift their support to Otilio Ulate who founded the National Unitification Party or PUN to support his presidential candidacy (p. 57). With Calderon himself running on the PRN ticket in 1948, the middle class based PSD swung their support behind the conservative Ulate.

This alliance of political expediency between the middle class social democrats and the traditional elite opposing Calderon provided the foundation for the Revolution of 1948 which resulted in a major expansion of the political system to include the previously voiceless middle class (Bell 1971, p. 40; Bodenheimer 1970, p. 61; Booth 1984, p. 178).

The Election of 1948 and Establishment of a Revolutionary Junta

When the votes were counted on February 8, I948, the Election Tribunal declared Ulate the winner. However, the PRN-dominated legislature was hastily convened and on March 1st voted to nullify the election and declare Calderon president (Election Factbook 1966, p. 8). The Civil War of 1948 lasted until April 24 when Figueres and his Army of National Liberation entered San Jose (Bell

1971, p. 156). On May 1, l948 Figueres signed a pact with Ulate setting up a revolutionary Junta and on May 8th, Figueres was inaugurated as President of the Founding Junta of the Second Republic (p. 154).

Policy Initiatives

During its eighteen month tenure the Junta oversaw the election of a Constitutional Congress and the drafting of a new Constitution which abolished the army, outlawed the Communist party and placed explicit checks on the power of the executive. At the direction of the Junta Costa Rica's banks were nationalized. A 10% surcharge was exacted on all accounts over 50,000 colones (Biesanz et al1982, p. 27) In addition, as noted in Chapter 1, the government's contract with United Fruit was renegotiated requiring the company to pay a 15% tax on profits for the first time (Bodenheimer 1970, p. 73). With the proceeds of increased post-war trade revenues and the new income from United Fruit, the Junta voted to reimburse the revolutionary leaders for the cost of financing national liberation (SALA 1974, p. 119). Finally, the Junta transferred power to Otilio Ulate, who was inaugurated as the first president of the Second Republic on November 8, l949.

Political Implications

The willingness of the social democrats to work with the members of the establishment during the days of the Junta is thoroughly in keeping with Charles Anderson's generalizations about the methods of the newly empowered members of a Latin American political system (Anderson 1971, pp. 298-300). Anderson sees Costa Rica's middle class social democrats as a political outgroup which used the political crisis of 1948 to gain access to political power. Their readiness to join with members of the historical elite both during the Revolution and the subsequent Junta period shows that the national liberationists, unlike communist revolutionaries, were willing to work with the existing rules of the game to achieve their particular objectives. Suzanne Bodenheimer reaches a similar conclusion. Despite the prevalence of the well-preserved myth that the Revolution of 1948 constituted a major social revolution undertaken to establish a western style democracy in Costa Rica, she suggests that instead the political confrontation of 1948 "was a battle over the functioning of political institutions and, even more important, over who should control the political apparatus" (1970, p. 61). So viewed, the Revolution should be seen not as a movement of national liberation, but more realistically "as a crisis of political access" (p. 61).

The Ulate Administration: 1949-1953

Political developments during the Ulate administration revealed the fragility of the rightist-social democrat coalition. Ulate, like most of his class, was essentially a classical liberal who favored the use of market mechanisms to achieve economic development. As social democrats, the Figueres faction advocated greater government intervention. It was over this issue that the two groups parted company.

Policy Initiatives

In his inaugural address, Ulate identified what he considered to be the six most important tasks of his administration: 1) balance the budget, 2) control inflation, 3) reduce internal debt, 4) secure greater compliance with the lax laws, 5) create a central bank and 5) enact a banking law (May 1952, p. 26).

This program of government action was entirely compatible with the traditional elites' conception of the appropriate tasks of government and represented an an attempt to get Costa Rica's economic house in order after the chaos of the forties. To raise short-term revenue, an ad-valorem tax was placed on coffee. As Gary Wynia notes this manipulation of revenue structures was a generally accepted means of expanding government coffers (1972, p. 51). To reduce the national debt, the government had to apply a substantial portion of its revenues to this task (Castillo 1966, p. 51). Another sizeable block of capital was applied to the costs of setting up a central bank. What revenue remained was pumped into export diversification in order to generate more foreign exchange and create new jobs (p. 57) All of these expenditures were made within the confines of a balanced budget. Since a full 49% of central government expenditures went into establishing the central banking system and refunding the debt (Wilkie 1974, p. 119), this substantially reduced the capital available to spur economic expansion. Though Ulate was finally able to begin construction of a new airport at San Jose in 1951 (Nelson 1983, p. 53), the government's over-all commitment to development was far below the expectations created by the Revolution of 1948. Thus the Ulate administration only succeeded in accomplishing half of the public's economic agenda . Some of Costa Rica's pressing economic problems were addressed. However, this economic stablization program basically precluded making much headway in the area of economic growth.

Political Realignment

As a result of the expectations created by the Revolution of 1948, by 1950 there was "considerable public demand for more rapid economic development" particularly among the urban middle sector (Election Factbook 1966, p. 22). Ulate's lack of action on this front provided just the impetus the social democrats needed to pull out of their coalition with the conservatives and form their own party (Alexander 1973, p. 224). To lay the foundation for Figueres's campaign to succeed Ulate, the PSD leaders saw the need for a new development oriented political party (Bodenheimer 1970, p. 54). Alexander sums up the political objectives of the PLN founders.

> The avowed objective of the new party was to change the pattern of Costa Rican politics, which previously had generally been dominated by personalist parties organized by presidential candidates or encumbent presidents for the support of their leaders' political ambitions. It was the hope of the founders of Liberacion Nacional to establish an ideological party, which would take advantage of the popularity of Jose Figueres in order to build up party support but would not be in any sense a purely Figuerista party"(1973, p. 224).

In 1951, the party published its "Carta Fundamental" outlining its political principles and ideology. The document essentially placed the social democratic tenets of the now defunct Social Democratic Party within a new nationalistic framework which provided for the establishment of a universal, multi-class political party serving the interests of all Costa Ricans. However, Suzanne Bodenheimer points out in her excellent analysis of PLN ideology that much of the universalistic rhetoric of the Carta Fundamental which alludes to the restoration in 1948 of Costa Rica's strong tradition of egalitarian democracy is essentially the self-serving propagation of a legitimizing myth (1970, p. 58). In essence the Carta Fundamental articulated "a special interpretation of Costa Rican history and social development, within the context of which the Revolution was justified and necessary"(p. 58). Moreover, the document reinterprets the objectives of the middle class national liberationists. Rather than strictly representing the aspirations of an expanding, politically articulate middle class, the Carta Fundamental recloaks the PSD doctrine in the mantel of universalism. In this way the PLN ideology was able to appeal to both the middle and working classes. Bodenheimer suggests that it was only in the initial stages of Costa Rica's political democratization that the PLN ideology, which explicitly articulated the objectives of an emerging middle class, was also capable of generally encompassing the interests of the sizeable lower class.

The Election of 1953

After the publication of the Carta Fundamental the new PLN leadership spent the balance of Ulate's term building a grass-roots organization throughout all of Costa Rica's sixty-six cantons. At the first national party assembly Jose Figueres was overwhelmingly elected president of the party. It was Figueres' tireless campaigning throughout the country in this early fifties campaign that was to consolidate middle sector support firmly behind the PLN. This serves to illustrate that despite its extensive party organization, the fortunes of the PLN have been inextricably linked to the charismatic appeal of Figueres himself. Because of this Nelson suggests that despite its democratic flavor "the PLN retained many of the characteristics of a personalist organization, with Don Pepe --- as Figueres was popularly known --- remaining its leading figure in and out of office" (1983, p. 54).

As early as 1952, according to Harry Kantor, it became apparent that Figueres would probably be elected president in the next election (1969, p. 199). This growing PLN tide of support impelled the anti-PLN groups to join forces. The PUN had already chosen Mario Echandi, a member of Ulate's cabinet, as their presidential candidate. However, rather than split the conservative vote, Echandi withdrew in favor of Fernando Castro, a successful businessman running on the old PD ticket (Nelson 1983, p. 54). When the votes were counted, it became appearent that the PLN's effort to win the previously untapped peasant vote paid off. Figueres won by a 2 to 1 majority polling 123,444 or 64.7% to Castro's 67,324 votes or 35.5% (Martz 1967, p. 896). Nation-wide, the PLN ran just as strong in the outlying areas winning 63.2% of the vote as on the more urbanized central plateau where it won by 65.5% (p. 905). PLN candidates also took 30 seats out ofthe 45 seat National Assembly (Election Factbook 1966, p. 40).

At this point a look at the PLN's basis of support in the 1953 election is particularly informative since these groups were to form the core of the PLN constitutency throughout the next three decades. In 1953, small and medium size landowners, urban white collar workers and small business owners voted for Figueres in overwhelming numbers. In addition, new professionals and non-traditional as well as traditional industrial producers also went solidly for the PLN (Bodenheimer 1970, p. 80). By contrast, conservative support was derived from the large landowners and commercial interests as well as by organized labor (Denton 1971, p. 78).

The Figueres Administration: 1953-1958

Having been handed a mandate for change, the Figueres administration introduced a series of development policy initiatives which were to transform the role of government in national life. James Wilkie contends that Figueres began the conversion of the Costa Rican government into a comprehensive "socio-administrative" instrument of social change (SALA 1974, p. 119). From this point on the state was to become an active participant in the economy, administering the critical banking, energy, transportation, communication and health sectors, and playing a major role in the housing and agricultural sectors.

The favored means of establishing government control over these public services was through the creation of semi-autonomous public institutions. This led Figueres' critics to charge that the new president "appeared to have mistaken rapid growth of the public sector for real economic growth" (Nelson 1983, p. 55). However, the creation of these large-scale public corporations permitted Figueres to accomplish two political objectives at the same time. Through these he was able to provide employment for the educated middle class, while systematically funnelling benefits to the more numeropus working class (Wesson 1984, p. 220). With these major changes in the pattern of resource distribution, the strength of the PLN's majority coalition was considerably enhanced.

Policy Initiatives

As noted in Chaper One, the United Fruit contract was again renegotiated raising its tax rate to 30% and requiring the company to turn over its schools and hospitals to government hands (Alexander 1973, p. 227). With the increased United Fruit receipts, major new hydroelectric projects were launched which soon doubled the amount of electricity generated (Kantor 1969, p. 200). The minimum wage was increased (Nelson 1983, p. 55). Tax rates on top income brackets were doubled (Bodenheimer 1970, p. 70). To improve the effectiveness of the bureaucracy, the merit system was extended (Kantor 1969, P. 200), a Comptroller General's office was created to control central government expenditures (SALA 1974, p. 119), and an Office of Organization and Methods was set up to oversee bureaucratic performance (McCamant 1968, p. 74). To stimulate industrial growth, a high protective tariff of 52.9% on industrial goods and 69.5% on consumer goods was instituted (Cline and Delgado 1978, p 80), restrictions were placed on luxury imports, and major tax incentives were offered to attract new investment (Bodenheimer 1970, p. 70). To boost productivity, increased credit was made available both to the manufacturing and the agrarian sectors. Moreover, a network of branch banks was specifically created to give the small agricultural producer easier access to credit (Alexander 1973, p. 227).

In the area of increased social services, the Figueres administration concentrated its efforts in two areas. In the area of education, teachers salaries were raised and a major new program of school construction was launched which by 1956 had added close to 800 new classrooms to the school system. In the area of housing, a new housing agency was set up under the direction of former labor leader Benjamin Nunez with the goal of providing more low cost urban housing.

Political Repercussions

Opponents of this transformation were incensed. Upper class elements were particularly concerned by the extent of growing state intervention in economic life. Even more significantly, much of the PLN's pervasive middle class support was forfeited by Figueres's success at raising taxes (Nelson 1983, p. 56). In response Ulate began an unremitting diatribe against Figueres in his newspaper and Calderon actually launched an invasion of Costa Rica in January, 1955, led by former President Picado's son (Kantor 1969, p. 200). After the invasion attempt was foiled, both Ulate and Calderon began to focus on preparation for the 1958 election. Given the growing tide of opposition to the changes wrought by Figueres, Ulate and Calderon wisely buried their personal animosity in order to present a united front in the election (Martz 1967, p. 891).

The Election of 1958

Ultimately the truce between Ulate and Calderon was to prove less damaging to Figueres than the defection from the PLN in late 1956 of his finance minister, Jorge Rossi Chavarria. Incensed at what be considered to be Figueres's fiscal irresponsibility, Rossi left the PLN and formed his own Independent Party (Nelson 1983, p. 58). Much of Rossi's support came from a group of business leaders who were opposed to further reform (Kantor 1969, p. 201). Minus a sizeable bloc of their moderate supporters, the PLN readily chose Figueres's close friend Francisco Orlich as their presidential candidate. Lacking Figueres's charismatic appeal, Orlich basically stood on the PLN's record . Accordingly, Echandi campaigned against Figueres rather than the actual PLN candidate.

The defection of Rossi proved to be determinative. Echandi pulled in 46.4% of the 1958 presidential vote, while Orlich won 42.8%. Rossi's 10.8% essentially cost the PLN the election (Martz 1967, p. 891). When the Orlich/Rossi vote is combined, the national PLN vote constituted a respectable majority of 53.6%. However, as John Martz points out, this majority was decidedly below the 64.7% polled by Figueres in 1953. Most of the fall in PLN strength was due to the significant shrinkage of urban PLN support. In 1958 only 44.9% of the urban electorate voted for the PLN ticket. Even more notable was the fact that PLN support in San Jose fell from 57.7% to only 42.6% (Martz, 1967, p. 901).

It was the legislative results that proved to be of greater consequence to the prospects of the Echandi administration. There the PLN won twenty seats; the PUN ten with the Echandi faction controlling five of these. The Calderonists, reformed into the Republican Party or PR, took eleven seats including one for Calderon himself; Rossi's Independents took three seats and a smallist leftist party won one (Nelson 1983, p. 58).

The Echandi Administration of 1958-1962

Upon assuming power, Echandi was faced with a legislature in which no party held a clear majority. Initially, the balance of power was held by the Rossi faction. But once Rossi patched up his differences with the Figuerista faction, the PLN for a while held a 23 out of 45 seat majority until the defection of radical leftist deputies undermined PLN dominance. By March, 1961,in his determination to prevent further government intervention in Costa Rican life, Echandi had vetoed 65 bills passed by the well-disciplined PLN majority (Kantor 1969, p. 202).

Policy Initiatives

Echandi had pledged to reduce the role of government and stimulate private enterprise. With the fall in coffee prices, the new president failed to substantially reduce government spending. In fact, when a crisis developed over the continued funding of the social security system, the administration forces and the opposition actually tried to outdo one another in guaranteeing future government support for this popular program. As a result the social security was actually universalized during Echandi's conservative administration (Rosenberg 1984, p. 124).

Echandi proved to be more successful in his commitment to private enterprise. Early in his administration the landmark Industrial Protection and Development Act of 1959 was passed granting equal concessions to domestic and foreign producers and providing for duty-free imports of industrial equipment and raw materials (IDB 1966, p. 167). Moreover, though over-all government spending during the Echandi administration remained at approximately the same level as during the Figueres administration, public spending on economic functions did drop dramatically from 23.4% of over-all expenditures to 17.9% (SALA 1974, p. 120). Much of this decrease was caused by the sharp decrease in the spending of the autonomous agencies on economic functions which fell from 74.8% in 1958 to 41.1% in 1959 (p. 118).

Furthermore, late in Echandi's term a leftist pro-Castro splinter group split with the PLN, undermining their legislative majority (Alexander 1973, p. 229). Echandi's position in the legislature improved and he was finally able to exert his influence over the pro-Figueres bureaucracy by making his own appointments to the governing boards of the autonomous agencies (Nelson 1983, p. 59).

Throughout this period Echandi was also successful in preventing ratification of the Treaty of Economic Integration of 1960. With Costa Rica's business and commercial interests seeing little benefit to be gained from regional economic integration neither party felt strongly about entering the CACM (Shaw 1978, p. 30). With economic conditions deteriorating due to a drop in trade revenues, regional free trade had little appeal to the Echandi government which had made little progress in reducing the sizeable debt built up by Figueres's expansionary budgets. In fact, voter disenchantment with the conservatives' inability to reduce the budget deficit proved to be the deciding factor in the 1962 presidential elections (Nelson 1983, p. 59).

The Election of 1962

It was only after a hard fought contest for the PLN nomination between the younger leader of the leftist faction Daniel Oduber and the ardent Figuerista Francisco Orlich that the PLN selected the more moderate Orlich as their party candidate (p. 60). With Calderon himself eager to head the rightist PR ticket, the more centrist PUN put forth Ulate as their nominee. With the two former presidents dividing the conservative vote, Orlich won with a comfortable 50.3% of the vote. Calderon came in second with a sizeable 35.3% and Ulate ran a weak third with 13.3% (Martz 1967, p. 891). Moreover, the PLN won an additional nine seats in the Assembly. With the conservatives taking twenty-eight positions, the PLN still had a bare majority of one seat (Kantor 1969, p. 202). According to Martz's analysis, the 1962 PLN victory was secured despite the continuing erosion of PLN urban support. In San Jose, the PLN only polled 40.6% in addition to losing two of the other three central plateau cities (1967, pp. 901-906).

The Orlich Administation of 1962-1966

The Orlich presidency is most remembered for two things: its active foreign policy and its apparent inability to effectively deal with the eruption of the Irazu volcano in 1963 (Creedman 1977, p. 142). As a wealthy businessman and long-time leader of the conservative faction in the PLN (Bodenheimer 1970, p. 66), Orlich was staunchly pro-American. Upon assuming office, he immediately severed Costa Rica's diplomatic relations with Cuba and eagerly joined in the U.S.-led Alliance for Progress (Nelson 1983, p. 1960). When ratification of the Treaty of Economic Integration was made a requirement for receiving U.S.-supplied CABEI loans, Orlich used his influence in the Assembly to secure Costa Rica's entrance into the CACM (Shaw 1978, p. 29). Legislative opposition to Costa Rica's membership was simultaneously diminished by the destruction caused by the eruption of Irazu from March, 1963 to January, 1964. Legislators of both parties hoped that access to new Central American markets would boost industrial growth enough to offset the agricultural losses incurred from Irazu (Ameringer 1982, p. 88).

Upon entering the CACM, Costa Rica was urged to join the Central American nations in establishing central planning offices. Costa Rica was the first member to comply with this request setting up the Office of Planning and Economic Policy or OFIPLAN in 1963 (Herrick and Hudson 1977, p. 147). Attached to the office of the president, the office issued a hastily drafted Economic and Social Development Plan in 1964 which set ambitious public investment targets with almost two-thirds of public fixed investment to go into infrastructure and over a third into social investments (IDB 1966, p. 1974).

As noted in Chapter 1, it was during the early years of Orlich's administration that Costa Rica reaped an impressive return for her compliance with donor directives. Total donor assistance jumped from an average of $18.3 million a year between l959-1962 to $25.6 million a year between l963 and 1966 (McCamant 1968, p. 43). However, in 1965, the Orlich administration was only able to disburse about 63% of these aid inflows and by 1966 the government had fallen 50% short of meeting its investment targets (IDB 1966, p. 175). Despite this, Orlich took out a series of short-term loans to offset the drop in trade revenues (Bodenheimer 1970, p. 70). With the government's fiscal position progressively deteriorating, the U.S. donor agencies urged Orlich to institue austerity measures. When he had failed to do so by 1965, Alliance officials began reducing their loan authorizations to Costa Rica (Wynia 1972, p. 103).

Despite these setbacks, in terms of Orlich's record in getting his program through the legislature, his administration was very successful. Part of Orlich's legislative success was due to the fact that during his administration the conservatives were badly divided. Immediately after the 1962 elections, Echandi split from the PUN to form his own Authentic Republican Union Party or PURA (Kantor 1966, p. 202). Capitalizing on the well-disciplined nature of the PLN vote, Orlich chalked up a continuous string of legislative victories.

Policy Initiatives

During his tenure the minimum wage was raised (Bodenheimer 1970, p. 72); a comprehensive agrarian reform bill was passed; a major slum clearance project was authorized (Alexander 1973, p. 229); and unused United Fruit plantations were expropriated (Nelson 1983, p. 60). As part of his liberal interpretation of the new Industrial Development Act, Orlich entered into negotiations with ALCOA to develop Costa Rica's recently discovered bauxite deposits at San Isidro (Shaw 1978, p. 82) and authorized construction of a new Firestone plant despite the fact that CACM officials refused to grant it integrated industry status because it was to be 75% foreign owned (Ramsett 1969, p. 51).

By the end of his term, however, Orlich's popularity had been substantially eroded by his administration's poor fiscal performance (Nelson 1983, p. 60). Moreover, there had developed "a widespread feeling, not only among the general public but also within the [PLN], that the party was no longer the advanced reform and developmentalist group it had been a decade earlier" (Alexander 1973, p. 230). The election of 1966 was to prove just how widespread this feeling of disenchantment had become.

The Election of 1966

At the PLN's nominating convention in 1966 the tight control of the party's executive apparatus by business elements was explicitly challenged by Luis Alberto Monge and the youth wing of the party (Bodenheimer 1970, p. 66). Only after this issue was resolved did the PLN choose Daniel Oduber as its presidential candidate. Smelling a possible victory in the air, the three former conservative leaders once again buried the hatchet and chose a total political novice with no affiliation with any faction to lead a coalition anti-PLN ticket. Jose Joaque Trejos was an economic professor at the University of Costa Rica whose main political asset was his political neutrality (Alexander 1973, p. 230). At the beginning both candidates attempted to run a largely issue oriented campaign. Oduber stood on Orlich's record, but advocated greater government intervention to deal with Costa Rica's eroding economic position (Martz 1867, p. 892), while Trejos emphasized the issue of government corruption and promoted himself as a "clean hands" candidate who would restore integrity to public life (p. 893). Moreover, Trejos was an avowed neoliberal who promised to reduce government interference in economic life. Thus the election was widely seen an a referendum on the growing strength of the PLN (p. 895).

For the first time, the opposition coalition actively campaigned in rural areas. As a result of Trejos's effort, the PLN rural vote dropped to only 51.5%--- enough to lower its national tally to a second place 49.5% despite the fact that PLN urban support rose to 46.7% (p. 905). Trejos was elected by a less than 5,000 vote margin out of 579,000 votes cast (Kantor, 1969, pp. 206 and 212).

In the legislative race, the PLN faired better, retaining its 29 seats as against a tenous opposition legislative coalition (Election Factbook 1970, p. 72). Robert Alexander reports that at the time the PLN was thunderstruck by their unexpected defeat at the polls. So much so that the party organization virtually ceased to function for almost a year after this defeat. During this period all party administration was handled by what soon came to be known as the PLN "troika" of Figueres, Orlich and Oduber. The intervening year until the 1970 election were to be ones of major party reevaluation and reorganization (Alexander 1973, p. 230).

The Trejos Administration of 1966-1970

Having run on a staunch neo-liberal platform, Trejos entered the presidency determined to get Costa Rica's economic house in order. To balance the budget deficit left by Orlich, Trejos's first action was to submit a comprehensive austerity package to the Assembly including a major tax reform bill. However, the opposition to tax increases came from both sides of the political spectrum. Trejos's own coalition members were staunchly opposed to raising property taxes, whereas the PLN deputies were determined to use the issue to embarrass Trejos (Wynia 1972, p. 88). While the legislature drug its feet, Trejos resorted to using presidential decrees to put some some austerity measures into effect. Until the legislature authorized a foreign exchange surcharge, Trejos used his executive power to institute dual exchange rates to discourage non-essential imports (Shaw 1978, p. 86).

In July, 1967, enough PLN deputies finally swung their support behind the increased sales tax for the measure to be passed (p. 70). Though this first revision of the tax structure since 1948 did yield added revenue, it proved to be inadequate to resolve the government's fiscal crisis. Accordingly, Trejos threw his own personal prestige behind the amendment to the CACM treaty which he had introduced placing a 30% surcharge on all non-regional imports. The PLN bloc in the Assembly, however, proved to be adamant in its opposition to what it considered to be the regressive taxes of the San Jose Protocol. During the bargaining that ensued, the PLN did offer to ratify the Protocol in exchange for a reform of the income tax structure. Here the conservatives refused to budge. Accordingly, the ratification bill languished in the legislature while the deputies took up the more popular matter of election reform (Latin America (LA) 16 May 1969, p. 158).

The balance of the Trejos administration's record is equally mixed reflecting the difficulties of governing with a divided legislature. Only on those issues with universal appeal was Trejos able to muster the necessary votes in the

Assembly. Hence the administration's new birth control program was passed in 1967 with bi-partisan support (Election Factbook 1970, p. 21). Trejos was also successful in getting legislative confirmation of a constitutional amendment curbing the budget authority of the autonomous agencies (SALA 1974, p. 124). The passage of this amendment was made possible by a growing consensus among political leaders that government decentralization was becoming a major obstacle to the country's ability to curb public spending. In similar fashion, in the last days of the Trejos administration after Figueres had already been elected, the Assembly overwhelming voted to approve Costa Rica's 1969 contract granting a strip mining concession to ALCOA (Ameringer 1982, p. 74).

Trejos was much less successful in getting the legislature to establish a unitified exchange rate or reinstitute private banking. Over these issues, the deputies divided along straight party lines. Trejos finally attained a unitified exchange rate by reshuffling the Board of the Central Bank which then complied with the administration's wishes (LA 2 January 1970, p. 7). However, the private banking proposal proved to be much too controversial to win a legislative majority. In fact, the political animosity created by this hard-fought legislative battle generated a strong political backlash against the conservatives which was a major factor in the 1970 election (LA 13 February 1970, pp. 50 and 52).

The Election of 1970

Though Figueres was finally chosen to head the PLN ticket in 1970, his nomination was the culmination of much collective soul-searching and internal debate. At the party's first national assembly following their defeat in 1966, the leader of the younger dissident faction, Luis Alberto Monge, was elected

Secretary-General of the PLN. Monge's election was intended to counter the post-election defection of leftist members to form the Christian Democratic party (Alexander 1973, p. 230). Taking Monge's election as an indication of the party's receptivity to reform, the youth wing came to the 1968 national assembly armed with a Manifesto to be debated at the following year's PLN Ideological Congress (Bodenheimer 1970, p. 67). Drafted under the direction of Benjamin Nunez, the Manifesto submitted a list of explicit social reforms which were to be incorporated into the party's 1970 electoral platform. In true Costa Rican fashion, a compromise was worked out which left intact the PLN's drift toward greater conservatism. To preserve party unity and thereby improve the PLN's chances at the polls, Oduber withdrew his candidacy in favor of Figueres (p. 66) who subsequently won the nomination by a vote of 66% over the reformist candidate Rodrigo Carazo (LA 14 March 1969, p. 87). Figueres then placed himself firmly in the conservative social democratic mainstream by choosing Jorge Rossi as a running mate instead of Carazo.

Meanwhile, the PUN was engaging in its own nomination fight with former president Echandi eventually prevailing over one of Trejos's vice presidents, Sanchez Calvo (LA 28 March 1969, p. 104). Calvo and Carazo subsequently joined forces to create a new party with the support of both Calderon and Ulate. The Third Front selected Calvo as its presidential candidate. Running on a platform which advocated income tax increases and required profit-sharing by big business, the Third Front attracted the PR New Guard vote (LA 2 May 1967, pp. 141-142). By default, Echandi was seen as the candidate of big business and foreign multinationals.

Figueres ran a strong campaign which explicitly proposed greater government expansion to counter Costa Rica's rising unemployment (LA 20 September 1969, p. 309). Furthermore, he urged increased centralization in order to rationalize the government's approach to problem-solving (SALA 1974, p. 120). This was evidently just what the majority of the electorate wanted since Figueres was elected with 294,266 votes (or 54.8%) over Echandi's surprisingly strong 221,152. Newcomer Calvo only polled 9,514 votes (LA 13 February 1970).

The Figueres Administration of 1970-1974

Figueres's term in office marked an era of major government expansion and intervention in economic life. Figueres was determined to exert greater government control over the allocation of resources. Accordingly, his term was a time of recentralization of the government's resource distributing authority. By this means Figueres hoped to use public sector employment to reduce the country's rising unemployment. Ultimately this consolidation of the distributive policy-making apparatus was to have a major impact on the way resources were funneled into the industrial sector.

Policy Initiatives

In general, Nelson contends, the Figueres administration primarily devoted its attention to improving and expanding existing programs (1983, p. 62). One of the first programs to experience a systematic overhaul was the Social Security system. After expanding its coverage throughout the 1960s, by 1969 social security administrators were facing a funding crunch. At that time, PLN leaders in the Assembly took the lead in proposing that the former salary limit on social security coverage be abolished (Rosenberg 1984, p. 126). Endorsement of social security reform proved to be an excellent vehicle for Figueres to use to improve his support from the PLN reformist faction. Accordingly, in 1971, the labor ministry helped engineer a compromise by which salary ceilings would be gradually eliminated and the reform bill passed the legislature without further opposition.

Later in his administration, Figueres made another strong play to consolidate his position with the PLN reformists. In 1973 Figueres oversaw the establishment of the National Autonomous University which was designed to extend access to higher education to those outside the San Jose area. The long-time leader of the PLN labor faction, Benjamin Nunez, was tapped to serve as UNA's first rector (Biesanz et al 1982, p. 121).

To stimulate greater economic productivity, Figueres shifted substantial new amounts of credit into the private sector. Central Bank loans to the private sector increased from 163 million colones in 1969 to 290 million colones in 1970 and on to 350 million colones by mid-1971 (LA 21 January 1972, p. 20). Much of this new capital was made available to industrial producers as a part of the Industrial Incentives Act of 1970 which was enacted soon after Figueres took office (DeWitt 1977, p. 101). In addition to provide special incentives to non-regional exports, a new Export Promotion Law was enacted in December 1972 to boost foreign exchange generating production (Nelson 1983, p. 158).

At the diplomatic level the Figueres administration made a concerted effort to improve the competitive position of Costa Rican products within the Central American market. Since the 1969 Soccer War between El Salvador and Honduras, Costa Rica's lucrative trade with Honduras had been interrupted. To regain access to the Honduran market, Costa Rica took the lead in trying to negotiate a modus operandi between the members which would restore a five-nation trade zone (Shaw 1978, pp. 179-183). When the Costa Rican proposal was rejected, a four-way market was established with both Honduras and Costa Rica erecting tariff barriers against the other's goods (LA 15 January 1971, p. 24). However, Costa Rica's small producers soon found themselves at a major disadvantage in the face of products dumped onto the Costa Rican market by large-scale CACM manufacturers. Accordingly, in June 1971, Costa Rica retaliated against what she termed unfair competitive practices by imposing a dual exchange rate on regional imports and placing a customs bond on dumped goods. In the end the dumping issue was defused by permitting Costa Rica to apply the official exchange rate to all regional imports (p. 181).

Even with this government intervention Costa Rica's trade balance did not improve sufficiently to offset the growing public deficit being accumulated by the Figueres government. Accordingly, in early 1972 Figueres proposed major new excise taxes (LA 21 January 1972, p. 20). With Oduber serving as President of the Assembly, the tax proposal was successfully pushed through by mid-year (LA 11 August 1972, pp. 249-250).

In the long-run the most far-reaching action taken by Figueres in his attempt to exert greater government control over the allocation of resources was the creation of CODESA in 1973. By 1975 CODESA had become a major force in Costa Rica's economy, absorbing a full 25% of new domestic credit. Moreover, according to its charter CODESA was granted the right to control any enterprise in which it had an interest (Wesson 1984, p. 225). Its privileged access to Central Bank funds not only enabled it to invest in huge speculative development enterprises, but also provided it the opportunity to gain control of those businesses experiencing financial difficulties. Within ten years, CODESA was to have seriously undermined the efficiency of the non-traditional industries, primarily by consistently over-staffing them.

Figueres' ambitious plans for accelerating Costa Rica's economic development also led him to make one of the most personally damaging decisions of his career. In the hopes of establishing an international banking zone in Costa Rica, Figueres granted refuge to the fugitive U.S. financier Robert Vesco. Soon Vesco's investments in Costa Rican business and financial support of the PLN were to develop into a full-scale scandal appropriately dubbed "Watergate tico" by the Costa Rican press (LA 13 September 1974, p. 288).

Despite the controversy surrounding Figueres, he had essentially accomplished what he set out to do. His efforts to stimulate economic growth did have a strong positive effect on employment levels. By 1973, employment in the industrial sector was growing 8.8% a year (Herrick and Hudson 1977, p. 47). Likewise, employment by the autonomous public sector also jumped dramatically over this period averaging 8.6% a year for the last years of Figueres's term (p. 49). Though Costa Rica's economy was badly shaken by the 1973 oil crisis, Costa Rica's voters had enough confidence in the PLN to return it to office for an unprecedented second term in 1974.

The Election of 1974

After serving well as President of the Assembly, Daniel Oduber finally received the PLN's presidential nomination in 1974 even without the endorsement of Figueres, who considered him to be too liberal (LA 25 January

1974, p. 29). Ultimately, his victory in the 1974 election was primarily due to the fragmented nature of the anti-PLN forces. With a field of eight candidates running against him, Oduber was able to win with only 42% of the presidential vote (Nelson 1983, p. 64).

The PLN did not fare any better in the legislative election. The party only won 25 seats---four short of a majority in the 57 seat Assembly (Seligson 1984, p. 406). Moreover, the PUN won 30.3%; a new rightist party, the PNI, led by a Costa Rican millionaire politician Jorge Gonzales took 10.9%; and Rodrigo Carazo's PRD took 9.2 (LA 8 February 1974, p.48).

The Oduber Administration of 1974-1978

In his inaugural address, Oduber made four specific promises: 1) to redistribute more land, 2) to create more public sector jobs, 3) to increase taxes, and 4) to restore relations with Cuba. These were definitely the goals of an ardent social democrat who believed that big government was the way to best redistribute the benefits of economic growth.

Initially, however, Oduber's plan for expanded government was constrained by the economic crisis created by the 1973-1974 increase in oil prices. Unable to expand public expenditures as he had hoped, Oduber devoted his attention to furthering the process of government centralization begun by Trejos and Figueres. In May 1974 a law was passed which created an integrated national planning system. In the future all budget authority was to be concentrated in OFIPLAN (IDB 1974, p. 257). In addition to publishing its regular National Development Plan, henceforth OFIPLAN was to submit periodic operational plans outlining the specific steps to be taken to improve the budgeting system, the planning skills of upper-level personnel and the administrative performance of the bureaucracy.

To fulfil his other objectives, Oduber began the forced buy- out of Standard Fruit land in 1974 (Latin America 5 July 1974, p. 218) and the partial purchase of United Brands lands in 1975 (LA 5 September 1975, p. 280). With the support of a small leftist faction in the Assembly Oduber was also able to increase taxes. In 1974 a $1 a crate production tax was placed on bananas (LA 5 July 1974, p. 208) only to be followed by a 33% increase in the tax on banana exports in 1975 (DeWitt 1977, p. 129). In addition the sales tax was raised from 5% to 8% and the payroll tax from 2% to 5% (p. 129).

To deliver on his pledge to create more public sector jobs, the autonomous agencies were systematically expanded. In 1975, OFIPLAN began hiring more personnel (IDB 1974, p. 257). In that same year DINEDECO, another government coordinating agency, was established to promote and oversee the rapidly expanding network of local community development organizations that had proliferated since 1967 (Ameringer 1982, p. 105). Even more importantly, in September 1975, the government nationalized petroleum distribution and created RECOPE to administer public wholesaling of petroleum products (LA 12 September 1975, p. 288). Then in 1976, ICE, the public utilities agency, began construction of the Arenal Dam after receiving a $50.5 million loan for that purpose from the IDB (DeWitt 1977, p. 73). The end result of this concerted program of job creation was that by the close of Oduber's term autonomous agencies had actually doubled their staffs (Wesson 1984, p. 221).

Much of this government expansion was made possible by the coffee boom of 1975-1977. As a result of the increased liquidity produced by a four-fold jump in the price of coffee, Oduber embarked on a vastly expanded program of public investment (Edelman 1983, p. 70). Consequently, government expenditures after 1975 began jumping over one million colones a year so that over-all spending by the Oduber administration increased from 2.3 million colones in 1974 to 5.7 million in 1978 (del Aguilar 1982, p. 361).

The chief beneficiaries of this program were the agri-export sector and CODESA. Utilizing the new Rural Industries Act passed in1976, the administration redirected a sizeable bloc of credit into small-scale industries located in outlying areas (Herrick and Hudson 1977, p. 145). In addition, a full 35% of public investment capital was made available to CODESA to invest in food processing enterprises and primary resource development (Pratt 1983, p. 3). A substantial portion of CODESA's funds was applied to its investment in an aluminum processing plant to compensate for the project abandoned by ALCOA in 1975.

The sector that was noticeably passed over in this new public investment bonanza was import substitution oriented industry. This shift in investment emphasis represented a deliberate policy change by the PLN. Oduber shift of support to the agricultural sector at the expense of the industrial sector was first articulated in October, 1975 when he announced his plan to achieve national self-sufficiency in basic grain production by 1980 (Shaw 1978, p. 207). His disillusionment with import substitution was finally formally incorporated into OFIPLAN's National Development Plan for 1978-1982 which was published in 1977 (Herrick and Hudson 1977, p. 147). According to this document, this type of industrial development was to be specifically deemphasized since its built-in import requirements constituted a constant drain on the country's foreign exchange (Nelson 1983, p. 64). As Edelman points out, this change in public policy was to have a major impact on the 1978 election and more significantly in the long run on the make-up of the PLN's basis of support. As Edelman puts it,

> [b]y 1978, the PLN policy of favoring the countryside over the urban areas had cost it considerable political support and laid the groundwork for an eventual split between the agro-export and industrial faction of the bourgeoise (1983, p. 170)

<u>The Election of 1978</u>

This shift of PLN support toward the agricultural producer was an issue in the 1978 election, but not the only issue. Oduber's expansionary spending policies had significantly eroded the government's fiscal position. Between 1975 and 1978 the public deficit increased from $680 thousand to $1.734 million (del Aguilar 1982, p. 361). Over the same period the public debt had expanded from $730 thousand in 1975 to $1.616 million in 1978 (p. 360). Moreoever, the Vesco scandal had continued to simmer with Oduber himself publicly admitting that he had accepted campaign contributions from the financier (Latin America Political Report (LAPR) 13 May 1977, p. 144). Accordingly, the PLN entered the 1978 campaign in considerable disarray.

As early as 1976, Figueres had publicly split with Oduber (Nelson 1983, p. 65), and throughout 1977 Figueres began systematically charging the government with corruption in the awarding of development contracts (LAPR 3 June 1977, p. 164). In response, an influential group of PLN deputies including Jorge Rossi called on Oduber to resign.

In mid-l976 Oduber's Foreign Minister, Gonzalo Facio, and Agriculture Minister, Hernan Garron, resigned to seek the PLN presidential nomination. Figueres immediately came out in favor of Facio (LA 6 August 1976, p. 248). The fact that Facio did not even prove to be a factor in the election despite Figueres's backing suggests that the influence which the conservative faction had exercised over party decision-making was beginning to diminish. Certainly the conservatives had lost a powerful spokesman with the death of Orlich in 1969.

In 1977 presidential candidates were chosen for the first time through party primaries. In the PLN primary Monge won over Garron by a 3 to 1 margin and in the PUN/PRN election, Carazo beat out textiles manufacturer Miguel Barzuna to receive the Unidad nomination (LAPR 18 March 1977, p. 88). Having won the support of "almost the entire coffee, sugar, ranching, commercial and industrial oligarchy," Carazo ran a "brilliant election campaign " attacking government corruption, its softness on communism and promising to expel Vesco (LAPR 14 October 1977, p. 319).

Conversely, Monge ran a rather lackluster campaign using the slogans "Back to the land" and "Forward in peace and liberty." Handicapped by Figueres's refusal to support him, Monge only managed to retain the 42% of the presidential vote won by the PLN in the previous election. Carazo won with 49% (Nelson 1983, p. 65). Given the legacy of the Oduber administration and the PLN dismal showing in 1978, Marc Elelman concluded that the election of Carazo was an explicit reaction to eight years of PLN governments that had "alienated all sectors except those who immediately benefited from PLN policies" (1983, p. 170).

In the legislative race the PLN also only managed to hold onto its previous 25 seats, but having presented a consolidated opposition slate, Carazo's Unidad coalition won 27 seats. Two small leftist parties divided the remaining five seats. However, with the three Communist/Socialist deputies sure to align with the PLN, the social democrats had the capacity to muster 28 votes---one more than the governing coalition. It was generally acknowledged that the Cartago deputy's vote could be easily won by the party in power. This left the balance of power with the leader of the small leftist Popular Front party (LAPR 3 March 1978, p. 71).

The Carazo Administration of 1978-1982

Once again a conservative president was faced with a divided Assembly. Unfortunately, this political stand-off came at a time when government action was badly needed to deal with the severe stagflation which began to grip Costa Rica's economy during Carazo's term. In spite of the growing economic crisis, throughout Carazo's term the government increasingly appeared to be incapable of tackling the problems facing it. Most analysts have attributed this policy-making stalemate to Carazo's inability to enact his legislative program in the face of staunch PLN resistance to liberalizing the economy and the increasing frailty of his own legislative coalition (Edelman 1983, p. 171; Ameringer 1982, p. 113; Booth 1984, p. 178). Hence the legislative impasse that characterized the Carazo administration suggests that none of the political parties was willing to pay the political costs of unpopular policy changes.

From the offset the traditional PUN component of the conservative coalition urged Carazo to pursue a staunch program of economic stabilization, but the PRN faction was more concerned about the political impact that austerity would have on the lower classes. Both Edelman and Booth concluded that eventually Carazo was forced to govern by executive decree because of the

Assembly's indecision over what sectors should bear the costs of economic austerity.

Moreover, Seligson has suggested that much of Costa Rica's economic crisis could have been avoided if Carazo had acted promptly to redress the deteriorating economic situation immediately upon taking office (Seligson 1984, p. 403). However, Carazo's attention during his first year in office was consumed first by his effort to expel Robert Vesco, and secondly, by the Revolution against Somoza in neighboring Nicaragua. By the end of his first week in office Carazo had succeeded in barring Vesco from the country (LAPR 12 May 1978, p. 144). The next fourteen months were spent actively backing the anti-Somoza forces. By August, 1979, the Calderonists were threatening to pull out of the conservative coalition because of the extent of the executive branch's involvement in the Revolution and the PLN was loudly accusing Carazo of overemphasizing foreign policy to the detriment of economic issues (LAPR 3 August 1979, p. 238). The simmering domestic situation finally erupted in August and September of 1979 when first the dockworkers and the teachers and then the major public employees union went out on strike demanding wage and salary increases (LAPR 17 August 1979, p. 256).

Policy Initiatives

Having promised to raise salaries the following year, Carazo submitted a tax reform package to the Assembly. However, unwavering PLN opposition to new taxes forced Carazo to raise the tax rate by decree in late 1979 (IDB 1980-1981, p. 220). However, these new tax receipts proved insufficient to finance major public sector salary increases. Accordingly, Carazo reneged on his agreement with the public sector unions, precipitating another round of strikes in 1980 (Booth, 1984, p. 178).

Carazo's initial reaction was to turn to the IMF for assistance. Though a standby credit agreement was signed in March, 1980, Carazo proved unable to get the Assembly to act on the austerity measures required by the IMF. The only measure to receive legislative approval was a non-controversial bill establishing a debt ceiling (IDB 1980-81, p.2 221).

With the legislative stalemate still unbroken, after mid-1980 Carazo essentially resorted to governing by decree. In July, selective consumption taxes and new import duties were instituted by decree (p. 219). Soon thereafter, the Central Bank was covertly authorized to take out $1.2 billion in short-term private loans (Seligson 1984, p. 460). Then in December, Carazo abandoned the fixed exchange rate, raised the price of petroleum and placed a freeze on hiring (p. 218). On the basis of these policy changes, a second IMF accord was signed in June, 1981 (IDB 1983, p. 198). Unfortunately, this credit was mostly squandered on consumer imports and ended up further destabilizing Costa Rica's economic situation (Fienberg 1984, p. 110).

<u>The Election of 1982</u>

By election time 1982, a full 70.7% of Costa Rica's population had fallen below the poverty line, victims of the acute stagflation pervading the country's economy (Edelman and Hutchcroft 1984, p. 38). Well-aware of the impact which this decline in living standard would have on the presidential election, the four parties in the Unidad coalition turned to Calderon's son, Rafael Angel Calderon Fournier to head the coalition ticket. However, with Carazo almost universally unpopular, the conservative coalition soon began to fray. The old PUN faction, now called the National Movement, backed former President Echandi, who launched a Reagan-style campaign to reduce the national budget (Nelson 1983, p. 214). To counter this, Calderon's campaign emphasized government support of the traditional private sector.

Once again, Monge received the PLN nomination. With both factions of the PLN firmly aligned behind his candidacy, the PLN pulled out all the stops in the 1982 campaign (del Aguilar 1982, p. 366). Calling for a return to the land and a streamlining of the public sector, Monge ended up winning 58% of the vote (Ameringer 1982, pp. 115 and 122). Calderon came in second with 33.5%; rightist Echandi took 4% and leftist Gutierrez 3.2% (del Aguilar 1982, p. 365).

Not only was the PLN handed a mandate for change, but even more significantly they were provided with the first majority in the Assembly since 1970. With 33 out of 57 seats, the PLN held a clear majority. Moreover, though the opposition began Monge's term voting as an 18 seat bloc, by late 1983 Carazo withdrew from the coalition to start his own Radical Democratic Party and Calderon reorganized the remaining opposition deputies into the Social Christian Unity Party (Nelson 1983, p. 216). Unfortunately for Monge, the controversial nature of his austerity measures began to accentuate the basic liberal/conservative cleavage in the PLN majority. Soon a block of 19 more leftist PLN deputies supportive of Oduber began to balk at actually eliminating projects from the budget. A loyal 14 deputies led by President of the Assembly Hernan Garron were forced to take the lead in implementing austerity (p. 225).

The Monge Administration of 1982-1986

Monge's term was a politically explosive period with one group after another taking to the streets to protest the effects of Monge's austerity measures. But as a technocrat and long-time party organizer with roots in organized labor, Monge seems to have had the necessary political expertise as well as the connections within the Assembly to get one austerity package after another through the legislature. As noted in Chapter 1, much of his success was due to the fact that Monge chose to emphasize improving government revenues and efficiency over cutting public services.

Policy Initiatives

Throughout his term the legislature repeatedly proved to be more willing to raise taxes than to actually eliminate programs. By late 1982, the Assembly had voted to raise the income tax rate and impose a one-year surcharge on corporate incomes though at the same time it completely eliminated the tax on non-regional exports of non-traditional goods (U.S. Dept. of Commerce, 1984, p. 10). To reduce government spending in compliance with the IMF agreement, subsidies on fuel, public utilities and public transportation were abolished, while basic market basket subsidies were to be gradually lowered. Furthermore, a freeze was placed on government hiring; and non-essential expenditures by the CCSS, ICE, RECOPE and CODESA were specifically proscribed (Seligson 1984, p. 461). In addition, a foreign exchange transaction tax was instituted and social security contributions were raised by 4% (IDB 1984, p. 271).

Political Repercussions

Ultimately, the political fall-out from these measures came not from the legislature, as had frequently been the case in the past, but from organized interest groups and, more importantly, from previously unorganized groups (Edelman and Hutchcroft 1984, p. 39). Though Monge had accompanied his imposition of austerity with a massive public relations campaign exhorting Costa Ricans to "tighten their belts to get the country back on its feet," this did not prevent one interest group after another from taking to the streets in defense of their particular interests. In most cases, strikes were called by public employees to protest the government's inability to deliver on wage increases.

Just as during the Figueres administration, the doctors were the first to go on strike and just as in 1971, the government gave in to their demands and in so doing precipitated more strikes (p. 39). However, when the banana workers struck in September against BANDECO, a private producer, the government used force immediately. Still the strike lasted 63 days and was eventually settled in favor of the union.

Next, in April, 1983, the teachers went on strike demanding that the pay raise promised four months earlier be paid. After ten days the government agreed to begin retroactive payments in three months, though when the time came the teachers accepted 50% of the original $22/month increase. In response the employees of virtually every major government agency walked out, demanding a comparable increase in pay. This time the government was less compliant. The Civil Guard occupied the RECOPE oil refineries and threatened force against continued strikers. Ultimately all were granted a $11/month increase (p. 39).

Despite the fact that public protests had become a regular feature of political life since the economic downturn began in 1980, most protests had been staged by organized interest groups. However, in May, 1983, it was the subscribers of the public utilities corporation ICE that blockaged 35 major arteries to protest the 300% rise in utility rates which was a the center of the IMF austerity package. Faced with this concerted pressure from a previously unorganized element, the government gave in without a fight and utility rates were lowered forthwith (Edelman and Hutchroft 1984, p. 40).

To deal with the impact of the virtually across-the-board wage concessions made by the government in 1982 and 1983, Monge went back to the Assembly with a second economy policy package. The Law of Financial Stability of 1984 imposed a 15% tax on corporate dividends, set up new exit taxes and restructured corporate tax brackets. It also instituted mandatory public sector retirement at 65, extended the hiring freeze and reduced the operating budgets of the decentralized agencies (U.S. Dept. of Commerce 1984, p. 17). In addition, Monge took a number of steps to encourage industrial exports including the creation of a new Ministry of Exports, the removal of obstacles to guarantee the unimpeded remission of profits, and the creation of a National Investment Council to oversee the administration of newly passed export incentives (p. 19).

The Election of 1986

It is difficult to determine from the 1986 election results how the pattern of party support was affected by the Monge administration's determination to abide by its austerity agreements with the IMF. The PLN candidate was Oscar Arias, originally a political scientist who had been Planning Minister under Figueres and Oduber and Secretary-General of the party under Monge. As planning minister Arias had been particularly critical of those interest groups who were uncompromising in their defense of their particularistic demands and had spoken out in favor of the trend toward participatory democracy as opposed to the more representative variety that he felt actually characterized the Costa Rican political system at that time (Rosenberg 1977). Opposing Arias was Calderon Fournier whose Social Christian Unity Party in 1986 seems to have had the backing of the majority of the conservative opposition groups, judging from the absence of other conservative candidates on the ballot.

The 1986 campaign revolved more around the issue of Costa Rica's relations with the Sandistas and the contras than around domestic economic issues. Calderon pledged to abandon Costa Rica's policy of neutrality for one of open opposition to the Sandistas, whereas Arias argued for the continuation of a non-confrontation stance toward Nicaragua (The Monitor 4 February 1986, p. 10). In the end, Arias received 53.3% of the vote and Calderon 44.8% (p. 21). In the Assembly the PLN won 29 seats and the Social Christians 25 (p. 10).

Evidently a majority of Costa Ricans do not want their country to abandon its historical posture as a preeminently peace-loving nation. At the same time the majority of the population seemingly still has faith in the ability of the PLN to achieve economic stability and restore a measure of prosperity. Given Arias's background within the PLN, perhaps the political rank and file are also confident that the PLN will at least attempt to maintain the level of social benefits which have gradually accrued since 1940.

Conclusion

This description of the performance of Costa Rica's political parties has been designed to show the connection between party coalition-building and government distributive policy-making. In order to build a dominant coalition, each political group has used the distribution of development resources as a primary means of generating and consolidating short-term political support.

To secure benefits for its constituents, the PLN has tended to adhere to the established policy-making processes of the traditional power holders. For this reason, the PLN adopted the traditional political approach to distributing development resources. Top-down reforms funnelled benefits to rank and file constituents, while modernization was confined to development projects that did not require resources to be shifted away from the traditional agri-export sector.

For the newly emplowered PLN, the best nethod of accomplishing both these tasks while still serving the interests of its predominantly middle class supporters was through the incremental creation of new government agencies. By enacting marginal domestic revenue producing measures and successfully attracting ever greater quantities of foreign capital, PLN governments were able to finance the establishment of one public development agency after another. Since the government bureaucracy had traditionally functioned chiefly as a mechanism for providing jobs to political supporters, the growth of the public sector at the hands of the PLN was compatible with traditional thinking. It was the unprecedented fragmentation of the resource distribution function which accentuated the degree of government intervention in economic life and sparked conservative private sector resistance to the proliferation of government structures. However, given the evenness with which political power was distributed, only when deficit spending by government actually began to curtail the capital available to the private sector were the conservatives able to forge a broad enough coalition to displace the PLN from office.

Over the years the effect of both parties' partisan manipulation of resource distribution has been to create a pattern of particularistic reaction against incumbent policy-makers. Repeatedly it has been the amount of resources either distributed to or deflected from the industrial sector that has been at the center of the political realignments which have characterized popular reaction to an administration's distributive policy.

Given the availability of external industrial development capital, most administrations were able to maintain a high level of support for industry through the provision of outside resources. However, pressure from other interest groups frequently caused government policy-makers to distribute domestic revenues in a way that constrained industry's ability to continue to expand. Usually it was policies which increased non-productive consumption which forced the industrial sector to become irreversibly dependent on expensive foreign capital.

Accordingly, this synopsis of Costa Rica's formal distribution of development resources suggests that the country's ability to attain its economic development goals has been significantly constricted by the political implication of distributive decisions. Though policy-makers intend for the distribution of resources to contribute to greater economic output, the manner in which public expenditures are allocated is often determined more by the political of the distributive policy-making situation than by the economic objective the resources are to serve. Thus it is the political relationships involved in the distributive policy-making process that are most determinative to who get what from whom.

The economic implications, which are the exclusive focus of development assistance donors, do not prove to be nearly as consequential to distributive decision-making as the political implications.

For the industrial sector, this has meant that the ability of the government to follow through on its commitments to industry have been repeatedly contravened by distributive policy concessions made to other sectors. Frequently, the government's something for everybody approach to resource distribution has so undermined Costa Rica's fiscal stability that the industrial sector's sources of external support are jeopardized. Over the years resource allocations made through formal decision-making processes have repeatedly caused the government to overextend itself. More recently, concessions made to anomic demand-makers, particularly to striking public employees, have time after time disrupted effort at economic stablization.

In response the larger industrial interests are increasingly aligning themselves with the agri-export sector in support of a more fiscally responsible approach to dispensing resources. Similarly, in order to keep the foreign aid pipeline open, these private sector interests seem more willing to bring Costa Rica's foreign policy into line with the U.S.'s policy dictates for Central America. Since the PLN has traditionally taken a consensus-building approach to formulating policy, these established private sector demands will have to be accommodated to some degree by the current PLN administration.

CHAPTER 3

THE EFFECT OF DISTRIBUTIVE DECISION-MAKING ON INDUSTRIAL INTERESTS

The objective of this chapter is to show the effect which distributive policy-making has had on the interests of the industrial sector. This will be done by 1) assessing the distinctions between the two parties' patterns of support for industrial sector, 2) identifying the way in which political leaders of each party have responded to different demands for development resources and 3) showing how the distribution of resources to the industrial sector has been affected by the process of reconciling competing demands for resources.

With these objectives in mind, this chapter will analyze the relationship between each party's support for industry and its need to integrate this support into the larger process of distributing resources across all sectors, Most particularly, it will examine how the domestic political processes of resource distribution have affected the government's implementation of donor-supported guidelines to achieve industrialization.

To show what factors are involved in the processes of deciding who receives development resources, this chapter will combine the economic material from Chapter 1 with the political data from Chapter 2. In this way it will show that the complexity of the processes of reconciling competing claims for resources has resulted in a pattern of resource distribution that has reduced Costa Rica's ability to implement economic development goals.

Since the majority of development assistance has been specifically designed to further the development of the industrial sector, both parties have adopted development strategies which emphasize industrialization. Because of the need for external capital to finance development, both PLN and conservative administrations have backed the development of a non-traditional industrial sector composed of large-scale, capital intensive import substitution oriented industries. However, because of their different attitudes toward the role of the state in economic life, PLN and conservatives governments have used different means of supporting industry. Accordingly, the pace and quality of industrial expansion has been noticeably affected by repeated changes in the government's pattern of support for industry as well as by its support for competing interest groups.

Government Response to Demand and its Impact on Industrial Interests

Despite their ideological differences, both PLN and conservative administrations have responded in much the same fashion to competing demands for resources. In general, the response of the policy-makers has varied depending on the means of political access employed by demand-makers. Thus political policy-makers of either political persuasion have responded most positively to those with informal access to decision-makers, most even-handedly to those with formal access and most variantly to those using anomic or extra-legal forms of political pressure.

As Chapter 2 showed, the processes of political coalition building have been fundamental to the processes of deciding who gets what from whom. In order to consolidate their hold of political power, both parties regularly attempted to satisfy the demands for resources made by the supporters of their political party. Through a system of informal connections, personal supporters were routinely given preferred access to capital or special tax concessions. In the formal decision-making setting, both parties when in power gave equal considerations to the material needs of the larger socio-economic sectors. Finally, when confronted by anomicly expressed demands, both parties responded in a hierarchical fashion according to the social status of the demand-makers.

Thus in the making of budget allocations, administrative decisions or policy changes, political considerations have led decision-makers to make those decisions which most strengthen the governing party's ruling coalition. Because of the influence of these political factors, economic development goals advanced by donors and agreed to by domestic decision-makers have often been contravened by policies that contribute more to short-term political stability than to long-term economic growth.

Though development assistance donors have managed to influence the original formulation of development policy, they have been much less successful in influencing the actual implementation of development goals. Certainly the industrial sector has benefitted from donor support for its interests. Government policy-makers armed with large quantities of foreign industrial development capital have attempted to distribute these resources in a way that would facilitate increased industrial productivity. However, much of the benefit which industry has derived from these expenditures has been counteracted by the government's distribution of domestic revenues.

From the evidence presented in Chapters 1 and 2, it would appear that the government's ability to follow through on its commitments to industry has frequently been constrained by the policy-making concessions made to other groups. This would seem to have been true in all three distributive policy-making arenas.

First, when budgeting, the something-for-everyone approach has frequently limited the amount of return accruing to industrial interests. Though it is generally acknowledged that industrial interests do exert a strong influence on the distribution of government expenditures, budget allocations to other sectors have on many occasions substantially reduced the amount of capital available to industry. For example, shifts in Costa Rica's public investment portfolio have often dried up the credit made available to industrial producers.

Secondly, in the actual distribution of budgeted funds, those with informal access to administrators have often received the greatest benefit. Much of the distribution of resources at the administrative level is governed by the need of the winning party to reward its political supporters. Regardless of the type of administration, this has most frequently worked in favor of the large-scale industrial producer whose single enterprise represented more jobs and greater output. By this system the large-scale industrial producers have frequently been given preferred access to industrial credit under both PLN and conservative administrations. Because of this, these industries have often taken such a large portion of available credit that the small and medium scale producers have been consistently penalized.

Thirdly, when making policy changes, the concessions which both parties have made under pressure to non-industrial interests have repeatedly contradicted or nullified earlier concessions made to industry. This has been true both in the case of formal or informal demands for policy change made within the established decsion-making apparatus as well as in the case of anomic political demands made by striking unions or other organized interests.

Frequently the concessions made by the government upset the carefully balanced program of economic stabilization needed for continued industrial growth. For this reason anomic forms of demand-making are increasingly proving to be a direct counterpoint to those industrial demand-makers using informal means of pressing their demands. This raises the possibility that in the face of the complexities of formal decision-making anomic political expression may carry greater leverage over final policy choices than personal pull, because ultimately considerations over political stability generally take precedence over considerations over economic performance.

Industrial Influence and the Formulation of Development Policies

In attempting to show how government distributive policies have affected the government's treatment of the industrial sector, it is important to remember that the industrial sector can not be viewed as a single unit acting as a cohesive whole. Actually as Chapter 1 pointed out, the industrial sector is composed of three major sub-sectors: the traditional industries which produce on a small to medium scale for domestic consumption; the non-traditional import substitution (ISI) industries which produce on a large-scale for regional consumption; and the large-scale foreign-owned industries which produce primarily for non-regional consumption. Both of the latter require large quantities of capital; however, the foreign-owned enterprises not only supply the majority of their investment capital but produce significant quantities of needed foreign exchange. Historically, the traditional and ISI producers aligned themselves primarily with the PLN which was considered to be the party favoring economic modernization through accelerated industrial growth. Originally, only the export oriented producer favored the conservative economic approach of the PUN/PRN alliance.

However, over the years the ISI element seem to have been particularly attracted by policies of economic stabilization and have backed whichever candidate seemed most committed to fiscal conservativism.

As the changes in industrial policy outlined in Chapter 1 show, both parties have gradually alterred their approaches to industrialization. Ultimately, this chapter will attempt to show that these changes in industrial policy have been the direct result of one of two factors: 1)the government's need for external development capital or 2) the political parties' attempts to hold onto the political support of the modern economic sector.

Since both PLN and conservative administrations have been comparably affected by the need for outside capital as well as by the need to reconcile industrial interests with those of other sectors in order to gain maximum political support, today the industrial policies of both parties are practically identical. Both parties still acknoweldge the need for large-scale industry supported by external capital. Both have consistently used formal as well as informal channels to support large-scale industry. At the same time, both have formally had to reconcile industrial interests with other interests; and under duress both have made economic concessions to anomic demand-makers. As a result of these concessions to other interests, the productivity or competitive position of Costa Rican industries has been lowered.

Accordingly, this chapter will focus on the impact which changes in distributive policy have had on industrial interests and attempt to show why a government which is seeking to foster economic development must make these concessions to political realities. To do this, this chapter will compare the way PLN and conservative administrations have addressed three issues: 1) budgetary support for industry, 2) distribution of loan benefits and 3) the government reaction to strikes and what effect its response has had on industrial interests. Essentially, it will seek to establish how the industrial sector has fared at the hands of both parties and how its treatment by the PLN has compared to that of conservative administrations.

The Pattern of Budgetary Support for Industry

A comparison of the budgetary allocations of PLN and conservative administrations reveals the existence of three major themes. First, a major distinction can be seen between the degree of state intervention in the private sector by PLN and conservative administrations. Increased state intervention by PLN administrations on behalf of industry has resulted in major new allocations of capital to industry, but the massive administrative apparatus that has been created to manage the distribution of this capital has over the long run certainly lowered the productivity of this industrial investment. Conversely, the attempt on the part of conservative administrations to reduce the role of government in the private sector has injected a feast or famine dimension into the availability of industrial credit.

Second, both types of administrations seem to have attempted to be basicially even-handed in their distribution of public funds. Most notably, both have designated comparable amounts of capital to the provision of basic social services in order to funnel benefits to the broadest possible cross-section of socio-economic groups. This bipartisan commitment to maintaining social expenditures has had positive as well as negative consequences for industry. On the one hand, the government's provision of social services has contributed to the continuous expansion of a potentially productive work force. The regularity with which pay has been increased and social security expanded has removed any incentive for industrial workers to organize. On the other hand, the financing of these social benefits has boosted the pay-roll costs of industry and lowered their competitiveness with other nations. Furthermore, this mandated rise in labor costs has ultimately so distorted Costa Rican factor prices that government subsidized credit has consistently been cheaper than labor. These bipartisan economic policies of cheap credit and high priced labor have definitely contributed to the capital-intensive nature of Costa Rican industry. Thus the variant budgetary support which both parties have given to industry has been regularly offset by the long-term social expenditures made by both parties.

The third theme that is present in the government's pattern of budgetary support for industry is the basic similarity between the parties' approaches to industrialization. A closer look at public expenditures by PLN and conservative governments shows that both parties share a common pattern of commitment to government investment in infrastructure, a comparable reliance on foreign investment and a similar acknowledgment of the importance of market expansion. Though the PLN has offered more direct support for the import-substitution industries, their enthusiasn for an ISI approach to industrial growth seems to have definitely waned since the mid-1970s. In fact, PLN support for the non-traditional sector seems to have largely been confined to the powerful Figuerista faction of the party. Not only have PLN administrations since 1974 been more even-handed in their support for all types of industry, these recent administration have displayed a marked preference for small and medium scale primary industries, especially those with non-regional export potential.

Distinctions in Government Budgetary Support for Industry

A comparison of government budgetary allocations show that the degree of state intervention in the productive sector constitutes the most notable distinction between the spending policies of the two types of administrations. A major increase in the degree of state intervention had taken place under the conservative reform-oriented presidencies of Calderon and Ulate. Under Calderon, the government became more actively involved in infrastructure development, wage and price regulation and the provision of social services. During the Ulate administration, the system of nationalized banking was inaugurated.

However, it was under Figueres that the semi-autonomous agency became the favored instrument for extending government control over what had previously been private sector functions. Whereas in 1952, expenditures by autonomous agencies only amounted to 6.6% of the GDP, by the end of Figueres's term in 1958 autonomous agency expenditures amounted to a full 12.1% of the GDP and were only slightly less than the amount spent by the Central Government (Wilkie 1974, p. 118). Even more significantly, a full 75% of these expenditures was devoted to economic functions, i.e. fixed investment in infrastructure and capital outlays to the productive sector.

It was the nature of this increased government intervention that incensed Costa Rica's conservative elements and led to the election of the staunch laissez-faire president, Mario Echandi. His determination to reduce the role of government in the private sector is reflected in the fact that over the course of the Echandi administration economic expenditures by autonomous agencies fell to closer to 40% of total spending. Instead of the government supporting industry through direct public investment, Echandi emphasized continued public support for infrastructure and an increased government commitment to attracting direct foreign investment. It was under his administration that the comprehensive Industrial Protection and Development Act was passed granting comparable status to foreign and domestic producers.

The conservative PLN president who followed in 1962 proved to be a master at mobilizing all forms of government support for industry. Not only did Orlich's loose interpretation of the new Development Act result in major new investments by ALCOA and Firestone, to name only the largest, but under his administration direct budgetary investment in industry rose by 15% and investments in infrastructure increased to a full two-thirds of the central budget. In addition, economic expenditures by autonomous agencies jumped to over 50% of their total spending (p. 118).

By its close, the Orlich administration had set a new record in terms of the degree of state intervention on all fronts in behalf of industry. However, as noted in Chapter 2, the extent of Orlich's support for the new import-substitution oriented industrialists created a backlash within the ranks of the PLN. Leftist elements led by Daniel Oduber became actively disenchanted with the type of economic modernization pursued by Orlich. Jose Trejos, the conservative coalition candidate, proved to be very effective at capitalizing on the rural voter disaffection with the PLN. Thus the conservative win in 1966 can be largely attributed to the degree of state intervention in support of ISI by Orlich.

As a fiscal conservative Trejos, like Echandi before him, also proved to be most successful at cutting the extent of state participation in the private sector. Under his administration, total economic expenditures fell 16.7% (Wilkie 1974, p. 120) and just as importantly, much of the potential for future expenditures was eliminated by a law which greatly curbed the unrestricted spending authority of autonomous agencies. Like the previous conservative administration, Trejos's conservative government preferred to primarily use its policy-making authority to assist the industrial sector rather than direct investment. Faced with a serious balance of payments problem largely created by the high import requirements and low foreign exchange producing capacity of import substitution industries, Trejos devoted most of his energies to trying to make the fiscal policy changes necessary to restore Costa Rica's balance of payments position. Dual exchanges rates, a shift toward more direct taxation and the San Jose Protocol attaching a surcharge to regional imports, were all measures designed to improve the domestic fiscal climate. None of these measures, however, involved increased state intervention in the industrial sector or produced any tangible benefits for any type of industrial producer. Instead, the most notable result of his austerity program was its effect on urban unemployment and its role in the election of Figueres by 54.8% of the vote in 1970.

Just as during his first term as President, the Figueres administration of 1970-1974 was most noted for the substantial amount of new state intervention undertaken in all areas of economic life. Not only did capital expenditures increase at an averge 4% a year, operating expenditures grew at triple that rate. Consequently, the amount of resources consumed by government itself rose to a new high. Much of these resources went into the expansion of the autonomous agencies which grew 13% a year between 1970 and 1973 (Herrick and Hudson 1977, p. 148). Moreover, much of this public sector expansion was accounted for by the creation of CODESA in 1973. This new industrial development agency expanded the role of the state in the industrial sector more than any other single act in Costa Rican history. Though most of CODESA's new investments were in large-scale capital-intensive enterprises, most of these were in the primary industrial sector. Though the establishment of CODESA did represent a major confirmation of the government's commitment to industry, the creation of this agency had an immediate negative consequence for existing industrial producers. From this point on government essentially became a direct competitor of private industry in the battle over resources. Given its greater informal access to the distribution of resources, CODESA succeeded in shifting a substantial portion of development resources into public corporations.

A major consequence of Figueres's heightened intervention in behalf of industry was that during these years the role of informal distribution seems to have become vastly more significant to the operation of the resource distribution system. Despite the absence of verifiable evidence, the attention given by the press to Robert Vesco between 1972 and 1978 makes it impossible to dissociate Figueres's major expansion of the public sector from the arrival of the fugitive financier and his millions. From 1972 on, references to government corruption in the awarding of development contracts became a regular feature of the media's coverage of the PLN governments. Given the tremendous growth of CODESA during this period, this agency seems to have been the focal point of much of the informal distribution of development resources that occurred during these years. The formal resource distribution system seems to have been the chief loser. Accordingly, the rise in importance of the anomic demand-making system can be dated from the second Figueres administration.

Just as in 1966, the political repercussions of such aggressive government support for the big industrial producer were enormous. Once again it was Daniel Oduder who led a rebellion of the leftist faction against the established Figuerista leadership of the PLN. On the other side of the political spectrum, the fiscally conservative PLN members shifted their support to the conservative opposition. Only because a field of eight opposition candidates divided the conservative vote was Oduber able to win the presidency with 42% of the national vote.

The 1974-1978 Oduber administration marked a major turning point in the nature of the PLN's support for the industrial sector. This is not to say that direct government investment in large-scale enterprises was not tremendous. As noted previously, by 1975, CODESA was absorbing a hefty 25% of new internal credit and by 1980 that figure had risen to 62% (Wesson 1984, p. 225). Moreover, according to Wesson, much of CODESA's access both to credit and to investment opportunities came through its informal connection with the Central Bank. Because of this single factor, the bulk of development resources distributed to the industrial sector during Oduber's term seems to have been via informal mechanisms.

In contrast to this increased informal support of large-scale industry, in the formal resource distribution arena a major shift in industrial policy was taking place. With the passage of the Rural Industries Act in 1976, the government began a concerted effort to shift industrial resources into small-scale industrial enterprises which relied on locally produced materials. This new support for primary industry constituted a major endorsement of the traditional industrial sector. However, the government's means of support took the typical PLN form of maximum direct government participation and control of resource distribution (Herrick and Hudson 1981). As noted, over-all government spending under Oduber increased from 2.3 million colones in 1974 to 5.7 million in 1978 and on the basis of this expanded budget, the autonomous agencies were able to double their staffs during this four year period (del Aguilar 1982, p. 361).

Thus two issues were at the center of the 1978 election: 1) the extent of extended government control over resources coupled with 2) the Oduber administration's increased use of informal methods of resource distribution. This helps to explain Marc Edelman's assessment that the only sectors who supported the PLN in the 1978 election were "those who immediately benefitted from PLN policies" (1983, p. 170).

The salience of these issues in the campaign also helps to explain the absence during the conservative Carazo administration of a systematic program of public investment. Carazo was determined to reduce the role of direct government participation in the economy and like previous conservative presidents attempted to confine his intervention to the fiscal policy-making function. Unfortunately, his policy initiatives to head off Costa Rica's deteriorating economic situation were badly chosen and amounted to too little, too late.

The consequences to industry of Carazo's repeated manipulations of fiscal policy and lack of a direct investment program were extreme. Credit dried up. With the exchange level artificially maintained, imports of consumer goods soared and exports plummetted. Inflation took off and economic contraction set in.

After four years without a concerted program of economic stablization, Monge interpreted his 58% electoral majority in 1982 as a mandate to tackle Costa Rica's deepening economic crisis. Because of its determination to stick to its agreements with the IMF, the Monge administration was the first PLN government to adopt a non-expansionary approach to government intervention. Instead, Monge primarily used those fiscal policy instruments most preferred by the conservatives: marginal revenue-producing changes, monetary policy revisions and constraints on autonomous government spending.

Monge did take one step that probably only a PLN administration could have successfully taken. He cut back on the level of government subsidies of basic social services. Since these were just the signals the international donor community was waiting for, these measures qualified Costa Rica for a major new influx of development assistance capital which significantly improved the availability of capital to the industrial sector.

This is not to suggest that Monge had totally abandoned the PLN's Keynesian philosopy of government intervention in resource distribution. However, he did alter the quality of this intervention. His establishment of a cabinet level Ministry of Exports may have actually constitued a determined effort by Monge to exert more formal control over the government's provision of goods and services to the industrial sector. The simultaneous creation of a National Investment Council made up of both public and private sector representatives also suggests that Monge was attempting to formalize the system of informal contacts that had regularly played such an important part in securing benefits in the past.

Because of the way the industrial sector essentially managed to survive the government's institution of austerity without experiencing a notable drop in the level of support it received from government, Robert Nelson has concluded that the industrial sector still exerted undiminished influence over the distribution of development resources. He attributed this influence to industry's combined use of informal as well as formal channels of political access. Nelson writes...

> In 1983 it was generally acknowledged that the business community, organized into a variety of groups, had been most effective in communicating its goals and priorities to the government. Its pervasive lobbying efforts were said to be the reason that little legislation had been enacted containing provisions objectionable to industry and agriculture. The most influential interest group was the National Association for Economic Development (ANFE) which had a small but elite memberhip of business leaders, politicians, civil servants and educators. Its belief in the free operation of market

forces and minimal government interference in the economic was well to the right in the modern-day spectrum (1983, p. 218).

This assessment seems to indicate that despite Figueres's inablility to secure the presidential nomination for his candidate in 1978, the power of the PLN conservatives was still a factor to be reckoned with. Not only did the election of Monge with 58% of the vote suggest that the conservative interests saw the PLN as the party which was more capable of instituting austerity, the 1983 election of Figueres as the head of the PLN signified that the influence of the conservative faction on inner party policy-making was again ascendent.

However, it is difficult to determine at this point what the recent election of Oscar Arias implies about the balance of power between the leftist and more rightist factions within the PLN. On the basis of his having been Minister of Planning under both Figueres and Oduber and seved as Secretary-General under Monge, it would seem that Arias may represent a moderate center element. Since his margin of victory was a full 5% less than that of Monge in 1982, it is clear that some portion of the PLN's conservative support shifted to Calderon. Reports prior to the election suggested that big business as a bloc was actively backing Calderon and his more confrontational policy toward Nicaragua. This may mean that the non-traditional industrial sector has shifted its affiliation to the conservatives opposition. If this is true, then one might expect increased government intervention in behalf of Costa Rica's more traditional industrial sector. Accordingly, the pattern of state intervention under Arias may stress the decentralization of resource distribution mechanisms in order to give the small and medium producer greater formal access to public capital and support.

Thus the specific way that both parties have allocated budgetary expenditures in support of industry has been notably different. The conservatives have basically pursued a classical liberal form of budgetary support. Their financial support has primarily been confined to investments in infrastructure. Accordingly, they have relied more on policy intervention to expand the market for industrial goods and create a better investment climate.

Conversely, the PLN's budgetary support for industry has been characterized by the size of government's direct investment in industrial production. This direct support has been accompanied by an expanding administrative structure which is charged with overseeing the distribution of government capital. This is not to say that this Keynesian approach to distributing resources in industry has not also relied on policy intervention or that the PLN's commitment to the development of infrastructure has been any less than that of conservative administrations.

The Impact on Industry of Government Support for Social Services

The conservative reform administration of Dr. Calderon established the precedent of a strong government commitment to providing for the general welfare. The two measures from the Calderon years which had the greatest impact on the industrial sector were the creation of a social security system and the passage of a labor code. These measures were but the first incidences of a long tradition of top-down reform made by established government decision-makers to provide for the interests of those without direct access to the resource distribution system.

The social security system not only provided for retirement benefits, but also set up a nation-wide system of free health care. Originally, social security coverage was limited by a salary ceiling. Industrial employers were required to pay a portion of this coverage for their employees, but remained outside the system themselves.

At the time it was the Labor Law which evoked the greatest resistance from the industrial sector. Not only did it establish a minimum wage, it also required that employers provide specific wage supplements such as vacation pay and severance pay. As originally written, the Labor Law explicitly guaranteed the right to organize and set forth specific conditions under which collective bargaining was to be mandatory. In 1943, when this law was passed, it had little impact on the agricultural producer who employed seasonal labor. Instead it almost singly applied to the small and medium scale industrial producers located in urban areas. Thus it was this new labor code more than any other single piece of legislation that pushed the urban based industrial producer firmly into the social democratic camp.

It was this sector which made up the nucleus of Figueres's urban support when he ran in 1953. As has already been indicated, the industrialists were not disappointed by the degree of support given to their sector by the first Figueres administration. However, in addition to its support for industry, the Figueres government also substantially increased the level of public support for education and housing. Certainly Figueres's impressive record of school construction did contribute to the creation of the most literate labor force in Central America. Though, as the Biesanzes have pointed out, the generalized nature of education curriculum in Costa Rica has produced a predominantly white collar labor force more suited to the tasks of a bureaucracy than to the technical functions of industry (1982, p. 208).

Similarly, Figueres's major commitment to housing indirectly contributed to the labor potential of the work force, but just as importantly, it set up another sizeable government agency which over the long-term funnelled a great deal of capital into government salaries and overhead. Moreover, when the Figueres administration's over-all expenditures are categorized, the proportion devoted to economic services fell over 5% to 23% of the total, while expenditures on social services increased by the same amount to absorb over 30% of government spending (Wilkie 1974, p. 120). Furthermore, Figueres also established the precedent of raising the minimum wage at regular intervals. In this way PLN presidents applied the same strategy of using top-down reforms to satisfy the demands of those sectors with the least access to the decision-making arena.

The next conservative to hold the presidency came out of the PUN faction. However, he also adhered to the PRN philosoply of top-down provision of social benefits to the lowest socio-economic sectors. Accordingly, the Echandi administration actually expanded the social security system in order to cover rural workers. As a staunch laissez-faire capitalist, Echandi simultaneously attempted to reduce the government's direct investment in industry. Thus economic spending fell 5.5% during his administration, while social spending rose 6% (Wilkie 1974, p. 120).

Though Francisco Orlich was the most conservative and pro-big business of the PLN presidents, his administration displayed a firm commitment to the top-down extension of social benefits. At the same time that he was opening the industrial sector to major investments by foreign multi-nationals and making sizeable new investments in infrastructure, he was also raising the minimum wage, beginning a major program of land reform and initiating comprehensive slum clearance projects.

Much of the conservative presidency of Jose Trejos was spent trying to institute economic reform in the face of unremitting legislative obstruction.

Though Trejos submitted repeated austerity budgets to the legislature, most of his cuts were in the area of direct economic support for the productive sector. With economic conditions deteriorating throughout the region, Trejos was careful to leave the existing network of government supplied social service intact. Accordingly, throughout his administration economic spending fell a hefty 16.7%, while social spending actually rose 2.3% (Wilkie 1974, p. 120). The combined effect of maintaining social spending while cutting economic spending had a strong negative impact on the financial position of those industries which depended on borrowed capital to import materials.

Under the second Figueres administration, this traditional pattern of commitment of social expenditures once again accelerated. Two major initiatives by the PLN during these years vastly expanded the extent of the government's long-term obligations in the area of social services. The first was the expansion of the social security system to include the salaried work force and the second was the establishment of the National Autonomous University to provide higher education opportunities outside the San Jose area. Certainly the new university with its greater emphasis on technical training did provide indirect support to industry. However, the impact of increased social security costs when coupled with the addition of vast numbers of workers to the public payroll created a long-term commitment to expansionary social expenditures that was to significantly affect the amount of domestic capital available to private industry. As a result industry's need to borrow from foreign commercial banks was augmented.

As previously noted, the Oduber years represented the low point of PLN support for private industry. In the first place, social expenditures during Oduber's term constituted a full 60% of Central Government expenditures (SALA

1978, p. 265). This figure represents an all-time high. Moreover, a significant portion of the remaining 40% was absorbed by administrative expenses. Thus the battle for resources became particularly acute during the early years of the Oduber administration when the economy was struggling to adapt to the tremendous increase in the cost of energy.

With CODESA absorbing ever greater amounts of industrial development capital and the Oduber government actively seeking to expand the public sector and to redirect resources into the agricultural sector, existing private industrial producers derived very little direct benefit from the tremendous surge in government spending that characterized these years. With production costs vastly increased by the jump in oil prices, the private industrial sector was forced to rely on expensive foreign credit.

The conservative Carazo was elected in 1978 by a coalition of established interests including the large-scale industrial producers who were determined to see him liberalize the economy. However, Carazo proved to be repeatedly unwilling to do this given the political ramifications of eliminating government jobs during a period of economic stagnation and deregulating prices or reducing subsidies during a time of spiralling inflation. Instead Carazo resorted to marginal revenue reforms and monetary policy revisions to restore some measure of economic stablization. The chief beneficiary of his policies was the Costa Rican consumer who embarked on an unparalleled spending spree. In addition, Carazo explicitly intervened to transfer more social service benefits to the hard-hit rural areas. Suffering from a depression of coffee prices, rural employment opportunities had rapidly dropped. To counter this, Carazo boosted government support for the indigent and tripled the amount spent on rural housing (IDB 1980-81, p. 218). None of these measures provided any relief to the private industrial sector which was heavily indebted and therefore, unable to counter the double blow of acute stagflation.

Ultimately, it was the PLN administration of Luis Alberto Monge which finally liberalized Costa Rica's economy, bringing prices more in line with international market standards. In addition, Monge managed to exert some executive control over the government's consumption of resources. However, as pointed out previously, Monge attempted to achieve economic stablization without significantly diminishing any of the government role in the provision of social services. Thus at the same time that he removed the subsidies on basic goods, Monge launched a major emergency housing construction program (Seligson 1984, p. 461). Similarly, while he was formally committed to halting the expansion of government programs, during the first eighteen months of his administration, 5,000 new employees were added to the public payroll (U.S. Dept. of Commerce 1984, p. 10).

Monge's fundamental fiscal conservatism is evident from the figures in his National Development Plan of 1984. Out of public investments amounting to \$400 million, 55% were to go to infrastructure, 28% into agriculture and industry and only 17% to social services (IDB 1984, p. 273). These figures represent just the reverse of the allocations during the Oduber administration. Whether this drop in social spending signifies a softening of the PLN's commitment to government provision of basic needs or whether they are simply a short-term concession made in response to the emphases of the Caribbean Basin Initiative is impossible to tell until the final spending figures for the Monge administration are published.

Variations in the Government's Model for Industrial Development

The third theme to emerge from a comparison of the patterns of PLN and conservative budgetary support for industry is the presence of an unbroken government commitment to the development of infrastructure and the repeated incidences of government funding of market expansion programs. Equally notable is the degree to which both types of administations rely on external sources of capital to fund these industrial development related investments.

Though the actual capital designated to industrial development projects out of the Central Government budget has never been large, the investment in infrastructure has always been substantial. As noted in Chapter 1, the first conservative president of the modern period, Dr. Calderon, was the original president to make a major commitment to infrastructure development. The building of the Inter-American Highway constituted the initial leg of Costa Rica's modern highway system. The Ulate administration followed suit with its construction of a new airport at San Jose.

In just the same manner the first PLN administration of Jose Figueres simply expanded on this pattern of support for industry by launching Costa Rica's maiden hydroelectric project in the mid-fifties. In addition to major investments in infrastructure, Figueres used his executive policy-making authority to negotiate an investment guarantee agreement with the U.S. and to provide substantial tariff protection for Costa Rican based industry. His chief mechanism for expanding the country's industrial market was a series of bi-lateral treaties with his neighbors. By confining his development initiatives to an expansion of the existing modern sector, Figueres managed to facilitate industrial growth without abandoning the conventional approach to development advocated by the established agricultural and commercial interests.

Just as the conservative Echandi came to power in 1958, Costa Rica was hit by the first prolonged economic recession since the world-wide depression of the 1930s. No longer able to depend on domestic sources of revenue to maintain Costa Rica's investment in infrastructure, Echandi actively sought to attract outside assistance. However, as a laissez-faire capitalist primarily supported by established banking and commercial interests, Echandi was the first Costa Rican president of the modern period to rely almost entirely on the traditional outward looking model of development used earlier in the century. Just as during the pre-war period Echandi emphasized the attraction of direct foreign investment by fiscal measures designed to improve the investment climate. This formula was particularly successful in translating laissez-faire support for private enterprise into sizeable development assistance loans for intrastructure. During his term foreign aid levels to Costa Rica were almost double those of the Figueres administration.

Despite Echandi's impressive record in attracting development assistance, the conservative PLN leader who assumed the presidency in 1962 was even more adept at tapping the proliferating development assistance sources. Between 1962 and 1966 substantial amounts of CABEI regional development capital, IDB industrial development loans and U.S. Alliance for Progress aid were added to existing multi-lateral assistance. Consequently, throughout the Orlich years aid to Costa Rica rose to $25.6 million a year, surpassing the level of per capita assistance given to any country in the world except Vietnam (McCamant 1968, pp. 42 and 45).

Much of Oduber's ability to secure such unprecedented quantities of aid was derived from his social democratic acceptance of the use of central planning in the distribution of development resources. His willingness to set up a government planning agency in compliance with donor directives and to commit Costa Rica to membership in the CACM enabled the country to qualify for massive amounts of regional integration capital made available after 1960.

However, as Royce Shaw pointed out, even the controversial step of joining the CACM was completely compatible with the traditional approach to development because it still essentially confined development to the existing modern productive sector. Though the commerical interests opposed the move, the agricultural element accepted Orlich's involvement in the CACM because initially it seemed to provide a means of accelerating economic growth without necessitating any increased government interference in the agri-export sector. Moreover, regional integration was seen as a non-political method of accomplishing needed market expansion for those industries founded since 1940.

Though the influx of such vast quantities of foreign exchange was occasioned by Orlich's apparent reorganization of the formal structure for distributing development benefits, Costa Rica's new planning agency was just in its formative stages when much of the Alliance for Progress aid arrived in the country. Because of this, the majority of this aid was dispensed according to the traditional method of extended formal bargaining between the established interests. Trejos's widely repeated charges of growing government corruption during the 1966 election suggests that much of this aid was also distributed by the old fashioned method of informal contacts between administrators and recipients. Because of this, in 1966 the PLN was increasingly seen as the party of special interests and Trejos was able to be elected largely on the basis of his "clean hands" and lack of political connections.

The government of Jose Trejos represented another return to the traditional outward looking development model. During his term the President attempted to exert his influence on policies affecting the terms of trade and the expansion of the foreign exchange producing market. It was Trejos who negotiated the San Jose Protocol in an effort to salvage Costa Rica's link with the Common Market. It was Trejos who attempted to reduce Costa Rica's reliance on trade taxes by expanding the system of direct taxation. It was Trejos who signed Costa Rica's contract with ALCOA granting the U.S.-owned company a strip mining concession and committing the government to the infrastructure development required by the project.

This project was fully endorsed by Figueres who was a firm advocate of capital-intensive, large-scale industry. However, Figueres differed from the conservatives who believed that industrial development should be the exclusive function of the private sector. Thus the PLN president's establishment of a public industrial development corporation which was to actually own and operate new industrial ventures represented a real departure from the classical liberal development model of the conservatives. However, when much of CODESA's investment capital went into large-scale capital-intensive industry, existing private producers began to view government less as a support mechanism and more as a direct adversary. Dissatisfied with both the complete laissez-faire approach of Trejos and the excessive interventionist activities of Figueres, the industrialists were evidently uncertain what party to back for the presidency in 1974. Consequently, a field of eight candidates opposed Oduber.

As the long-time leader of the leftist faction of the PLN, Daniel Oduber pursued the most redistributive approach to development of any Costa Rican president. For this reason his presidency represented the greatest departure from the traditional development model. His administration was the heyday of the community development movement during which grassroots demand-makers were encouraged to set up small local self-help organizations through which the government could channel development resources (Herrick and Hudson, 1981).

Along with this move toward greater decentralization, Oduder attempted to shift a portion of industrial development resources away from large-scale ISI enterprises into small-scale, more labor-intensive industries. At the same time that Oduber introduced some real changes into the governments approach to industrial development assistance, his over-all approach to economic development fell well within the bounds of the traiditional development model. Certainly his increased support of the agricultural sector was welcomed by agricultural interests even though Oduber emphasized food production along with cash crop agriculture. Also his support for small-scale traditional industry was a process that neither party could openly oppose. Still it was the redistributive aspect of these programs that provided the incentive for all the established elements to table their differences and support the conservative coalition candidate Rodrigo Carazo in 1978.

As a former PLN member, Carazo was an avowed neo-liberal who preferred to use market mechanisms to encourage private sector growth, while still maintaining the state's active participation in the provision of social services. The period from 1978-1982 was a time when Costa Rica's economic performance was highly influenced by external factors, particularly the Nicaraguan Revolution and the major world-wide recession. Accordingly, Carazo's term was not a time of growth, but of retrenchment. Since the president's attention was almost exclusively consumed by the need to adapt to these extermal events, it is difficult to assess Carazo's "development philosophy." His term was not an occasion for development.

Still his extended refusal to devalue the colon suggests that he was sympathetic to keeping import costs low for those industries which depended on external sources of materials. Similarly, his willingness to take out $1.2 billion in short-term, high interest loans seems to indicate a commitment to using government intervention to ensure the availability of credit to Costa Rica's already overextended capital reliant industrial sector. In this way Carazo used both formal and informal distributive apparatus to protect the investments of large-scale producers regardless of the cost to government.

Seemingly, the 1982-1986 PLN administration shared this commitment to maintaining the viability of the existing modern sector, but as the institutor of austerity, Monge seemed to have been more willing to consider the costs of government's support for established interests. Accordingly, Monge advocated a return to a more traditional development approach. CODESA was instructed to privatize its holdings; new government investment was once again heavily concentrated in infrastructure and export promotion; and the necessary domestic policy adjustments have been made in order to qualify Costa Rica for major IMF and Caribbean Basin Initiative assistance. This combination of policies suggests that the Monge administration is taking the centrist path to development in order to avoid invoking the resistance of either the established private elements or the entrenched salaried middle class that depends upon the public payroll for its livelihood.

The social democratic party of the 1980s seems to be a party which is still very much in touch with its roots. Hence it is still relying on the development philosopy that brought it to power in the early 1950s. Its recently unexpected election to a second term suggests that the PLN's balanced approach to distributing benefits to a broad cross-section of socio-economic groups is still central to its political strength at the polls.

The Distribution of Loan Benefits

As noted throughout this study, informal access to development resources has been an ever-present reality in a political system in which party affiliations are largely determined by personal political connections. Since industrial producers frequently have personal ties to political leadership, the industrial sector has been particularly effective in securing development benefits from the political system. Because of the influence of personal relationships, development resources which have been formally designated for the small and medium size producer have frequently been channelled primarily to the large-scale producer. The impact of informal access has been particularly noted by development assistance donors who have been disappointed at the poor performance of their global industrial development investments.

Because of the paucity of concrete longitudinal data on loan performance, this section will simply supplement the previous references to the informal system of distribution by disclosing what U.S. AID evaluators have reported about the performance of their investment in the private Costa Rican Development Finance Corporation (Pratt and Adamczyk1983, p. 31). As noted in Chapter 1, AID participated in the establishment of COFISA as part of the Alliance for Progress activity in 1963. AID's intent was for its initial $5 million investment to be devoted to long-term loans to small and medium size producers. Instead AID reported that the Costa Rican personnel who operated COFISA put most of the funds into short-term loans to the developing ISI sector. Despite this record, in 1969 AID provided another $5 million which was to be distributed through short or medium term loans to industries with export potential. However, because of the import substitution sector's pressing need for capital, again COFISA funds were primarily channelled into the ISI enterprises. In retrospect, AID evaluators concluded that the Costa Rican administrators of the program were able to avoid complying with AID guidelines because until the late 1970s capital was so readily available from other external sources that the lender had little leverage over how the aid was actually spent. Because of the ease with which COFISA was able to secure lines of credit from international commerical banks after 1974, it shifted almost entirely to providing short-term loans to finance industrial imports.

Since the operation of COFISA extends from the Orlich administration to date, this misappropriation of AID industrial development capital has not been confined to either PLN or conservative administrations. Rather it constitutes an on-going example of how impervious the informal system of distributing resources is to formal changes in distributive policies. It also attests to the power which informal access was continuously exerted over resource distribution.

Government Response to Anomic Demand-Making

Anomic demand-making has traditionally constituted the chief way that groups with little direct access to decision-makers seek to influence policy. Frequently, the interests that resort to public protests or strikes are those which have no real opportunity to influence inner party policy-making and therefore, must bring their demands to government without the benefit of party support. Many of these groups are rank and file members of the PLN who have used political connections to secure a position on the public payroll. Most often, they represent middle sector white collar interests. Because of their numbers, these interests make up a significant portion of the PLN vote and therefore, have some leverage over PLN policy-makers.

Even within this group of public employees, certain sub-groups have been more successful in winning their demands than others. The social status of the demand-makers seems to be the chief determinant of the degree to which their demands are satisfied. Because of this, doctors and health care professional have regularly succeeded in winning their full demands. Given their traditional social status, teachers' demands have also been well received by government. However, the other white collar public employee unions have had more varying success, with the most organized transportation employees consistently receiving the most heavy-handed treatment. At the bottom of the hierarchy, blue collar dockworkers and banana laborers have had to engage in extended public confrontations before some part of their demands have been met.

Over the years a predictable pattern of government response to strikes has emerged. In the few incidences of protests by previously unorganized elements, both parties have immediately attempted to satisfactority meet their demands. Policy-makers of both parties have also consistently granted concessions to striking professional and teachers. Both parties have uniformly buckled under protest to blue collar demands. It is in their response to the public employee unions that the parties have diverged. The conservatives have rarely bowed to pressure from these groups, whereas the PLN has eventually met some portion of their demands.

Because of the greater frequency with which it has given in to strikers, the PLN's response to anomic demand-makers has been significantly more detrimental to industrial interests. By the mid-1970s, one out of six white collar employees was organized, while only one out of twenty of industrial workers was a member of a labor organization (DeWitt 1977, p. 136). Because of this, concessions made to blue collar unions have had a much more limited impact than those made to the sizeable white collar unions. By boosting the amount of capital that goes into the government's operating budget, pay hikes to public employees made that much less capital available for domestic investment.

Incidences of Anomic Demand-Making and the Government's Response

After the social upheavals of the 1940s, Costa Rica experienced very few incidences of public protests or labor unrest until the 1970s. The virtual absence of anomic demand-making during the fifties and sixties suggests that the comprehensive social welfare programs initiated in the 1940s had largely succeeded in satisfying popular expectations for an improved standard of living. Those protests that did occur were the direct result of the economic dislocations created by development itself.

The first recorded incident of public disorder was in response to an increase in utility rates in the late fifties. In order to qualify for a World Bank loan to finance a hydroelectric project, ICE sharply raised utility rates for all subscribers. However, it was not the raise itself which sparked riots in Cartago, but the fact that rates for more remote areas were raised more than those in San Jose. In the face of this adamant protest, the Echandi administration changed its strategy and instituted a uniform rate throughout the country (McCamant 1968, p. 127).

Twenty-four years later when utility subscribers again organized mass protests in response to rate increases, President Monge responded in just the same fashion as the conservative president Echandi had. With men, women and children blockading the streets, the government granted immediate concession.

The second incidence of anomic demand-making prior to the 1970s was also essentially the product of development itself rather than a case of the particularistic competition over resources which occurred later. In 1969, the Northern Railroad, a private carrier, turned over the wharves at Limon to the government's port authority rather than pay new shipping duties. Dock workers struck first to demand that that the port authority negotiate a new contract with them and when that failed, demanded severance pay though no workers had actually lost their jobs. Ultimately, the Trejos government affirmed the workers' right to collect severance pay or their obligation to continue working under the current contract (LA 6 June 1969, p. 182). By this fence-straddling compromise, the conservative administration gave the appearance of being conciliatory while still refusing to acknowledge the right of public employees to strike.

It was not until the 1970s that incidences of strikes in defense of particularistic demands began to proliferate. As noted, it was the doctors employed by the national health system who were the first public employees to go out on strike, demanding a wage increase. By completely acceding to the doctors demands, the Figueres administration set the precedent which was to contribute to repeated public employee strikes in the future.

During Oduber's term it was the electrical workers employed by ICE who went out on strike to protest the suspension of a previously announced wage increase (LA 27 August 1976, p. 268). When the government proved intractible, declaring the strike illegal, the four other major public employee union stopped work in sympathy. Oduber ordered the police to occupy the ICE headquarters. In the process 100 strikers were arrested. However, in some sense Oduber prevailed, refusing to grant wage increases until the strikers returned to work. In this way Oduber, the foremost PLN proponent of big government, used Trejos's same technique of conceding to demands without wavering on the issue of the illegality of strikes by public employees.

The chief conservative president to have to deal with the issue of strikes was Rodrigo Carazo. During his administration, dockworkers, teachers and public employees all struck demanding wage hikes. Though Carazo negotiated readily with the teachers, the harshness of Carazo's response to the other striking public employees caused a major realignment of the public employee unions. The following year the sizeable National Association of Public Employees merged with the banana workers union to form the powerful 70,000 member United Workers Federation (CUT). Initially CUT attempted to collaborate with the teachers organization in negotiations with the government over price controls. However, when Carazo agreed to negotiate only with the teachers and then reneged on his agreement with them, CUT subsequently took a more unilateral approach to demand-making (Edelman and Hutchcroft 1984, p. 38).

Thus it was during the Carazo administration that the distinctions between the different echelons of government employees became central to the success of the different organizations in gaining concessions from the government. As the size of the economic pie ceased to grow, status differences began to play an ever greater role in the competition for resources. Those workers with greater social status seemed to be in a better position to bargain with government policy-makers. Conversely those larger unions with less status seem to be more ready to resort to confrontational tactics as the pace of government's regular wage increases slowed.

As indicated in Chapter 2, it was during the Monge administration that strikes became a regular feature of the distributive policy-maker process. The Monge administration responded in a predictable fashion to the particularistic demands of these groups conceding to the demands of the professionals and granting the most minimal concessions to the large public employees union. In response, those public employees who had over the years aligned themselves with the pro-PLN labor organization pulled out of this umbrella federation and formed their own National Confederation of Workers (CNT).

Therefore, it appears that the PLN's policy of top-down reforms has failed to prevent the increased organization of those with the least access to decision-making power. Moreover, recent experience would seem to have convinced these groups that anomic demand-making tactics such as strikes and protests can be a more effective way of gaining concessions than the formal demand-making technique of negotiations.

Thus until the anomic demand-makers are granted a more reliable point of access to decision-makers and thereby given a position within the formal bargaining system, their anomic leverage over the distribution of resources can be expected to grow. For this reason, it would seem to be increasingly in the interest of both the industrialists and the other established elements to expand the distributive policy-making system to give anomic demand-makers a direct voice in the allocation processes.

Conclusion

Juan del Aguilar has stated that historically the internal cohesion of Costa Rica's political system has been based on 1) the informal compact among strategic elites, 2) middle-class dominance and 3) social paternalism. Certainly these factors have played a major part in the distribution of development resources over the years. Until the economic crisis of1979, these three factors had provided a successful means of maintaining political stability as well as achieving economic growth. However, when the economic pie stopped growing, the traditional distributive system proved to be unable to stick to its goals of economic stabilization in the face of anomic demands by consumers. In the process the country's ability to maintain its level of support to the productive sector has been undermined. Moreover, its ability to distribute resources in a way that sufficiently fulfills its commitments to external lenders has become increasingly questionable.

Currently it would appear that a basic cleavage within the upper and lower strata of the middle class is threatening to disrupt the traditional cohesiveness of the distributive policy-making system and to seriously jeopardize the country's chances for sustained economic recovery. If Costa Rica is to achieve its current economic objectives, greater formal access to distributive policy-making needs to be granted to those anomic demand-makers who are exclusively motivated by particularistic interests.

A possible way of providing this access without jeopardizing the current influence of private sector interests is through the privatization of the semi-autonomous agencies. By this means, demand-makers who are not currently constrained by the realities of market conditions could be reincorporated into the same economic system that governs the productive sector. By taking such a step, the government could substantially reduce the extent of its direct investment in the economy and lower the degree of competiton over public revenues. In the process its fiscal position within the international community would certainly be improved.

CHAPTER 4

THE PATTERN OF DISTRIBUTIVE DECISION-MAKING

This chapter will make a case for the existence of a particular pattern of distributive decision-making which is followed by decision-makers of both parties. By looking at the political factors which enter into distributive decision-making, this chapter will show that concerns over political stability have repeatedly exerted a greater influence over distributive decision-making than concerns over economic performance. Though policy-makers intend for the distribution of resources to contribute to greater economic output, the manner in which public expenditures are allocated and spent is often determined more by the politics of the distributive policy-making situation than by the economic objective the resources are to serve. Thus it is the political relationships involved in the distributive policy-making process that are most determinative to who get what from whom. The economic implications of resource distribution do not prove to be nearly as consequential to distributive decision-making as the political implications.

This study of the distribution of development resources suggests that because of the difficulty of maintaining political stability in such a competitive demand-making environment, Costa Rican policy-makers have directed an inordinate amount of attention to incorporating new demand-makers into existing political coalitions. As development has proceeded, distributive decisions have been at the center of a continuous process of readjusting political alignments in the face of the changing quality and quantity of demands. Three aspects of distributive decision-making have been particularly affected by this phenomena.

First, the negotiations over resource allocation play a major role in establishing the balance of power between parties. Second, the actual distribution of goods and services at the bureaucratic level provides political leaders with tangible methods of paying political debts and forging new personal political alliances. Third, the processes of making distributive policy changes function as a forum for interest articulation and political coalition-building. Because of the salience accorded to political consideration during the budgeting, spending and policy revision processes, in each of these distributive situations the quality of decision-maker responses is more influenced by the nature and source of the political demands than by any other factors.

Generally, demands for development resources can either be of a competitive or non-competitive type and demand-makers can either use formal, informal or anomic forms of access to decision-making arenas. Thus in any distributive decision-making process, both the interaction between demand-makers and decision-makers and the outcome of that interaction are governed by two factors: 1) the nature of the demand and 2) the form of access used by the demand-maker.

Distinctions between the Three Stages of Distributive Decision-Making

The first stage of distributive policy-making is the budgeting processes. Policy-makers involved with Costa Rican resource allocation must reconcile competing demands from different socio-economic groups who have gained access to decision-making power. Participants are generally established members of existing political coalitions and thus have both formal and informal avenues of influence at their disposal. In light of the highly competitive nature of the budgeting process, policy-makers invariably use bargaining and compromise as the most expeditious way of reconciling the interests of the different sectors. The give and take of this mode of decision-making permits policy-makers to achieve a mutually acceptable solution to the problem of reconciling competing claims for resources. By taking this consensus-building approach to resource allocation, the political leadership is able to accomplish two tasks. First, demand-makers are formally coopted into the political system by incorporating them into a broad cross-sectoral consensus over the division of public capital. Secondly, the process of forging an interparty consensus establishes the relational framework for all subsequent debates over policy during that legislative period.

By contrast, at the policy implementation level, administrators charged with distributing resources are primarily confronted with uncontested demands for goods and services. In this case, the amount of goods distributed seems to depend on whether access to the distributive agency has been though formal institutional channels or through informal political connections. As a result of this formal/informal distinction, original distributive targets are rarely met and much of the formal cooptation agreed upon by upper level decision-makers never takes place. However, for party leaders the informal distribution of resources provides a significant means of expanding and consolidating party support and therefore has informal cooptative utility.

Ultimately policy-makers must face a third stage of policy-making: the policy revision process. Because demands for change can either be of the contested or uncontested variety, the processes of making policy changes can follow either the bargaining pattern used to reconcile competing demands or the strictly distributive pattern used to satisfy limited demands. In either case, it is the political status of the demand-maker that is most likely to determine whether or not his demands are met.

Demand-makers who are able to utilize informal one-on-one political connections to press their policy initiatives can customarily expect to elicit a cooptative response from decision-makers regardless of whether their demands are highly controversial or totally uncontested. For demand-makers who must rely on formal non-personal forms of political access, only when their demands are unopposed can they automatically expect to receive a cooptative reesponse from policy-makers. In competitive policy change situations, these demand-makers often resort to anomic forms of political pressure, such as strikes and demonstrations, to force policy-makers to give greater consideration to their demands. Because of the formal status of these demand-makers, policy-makers have traditionally felt impelled to accommodate their demands to some degree.

Demand-makers who use anomic forms of political expression to present an uncontested demand have frequently evoked a preemptive response from decision-makers. Frequently the specific demands of this group are met by laws that make the resource requested available to all Costa Ricans. By giving a generalized response to this group, decision-makers remove the incentive for this group to organize itself into an effective demand-making force. However, when these demand-makers use anomic forms of political persuasion to press a contested demand, they are unlikely to receive a cooptative response. Since this type of demand-making is considered to be a threat to political stability, these demand-makers are apt to receive a repressive reaction from decision-makers.

Keys to the Pattern

When the responses to these decision-making situations are collectively analyzed, a definite pattern of response can be illustrated by Figure 3 which correlated the type of demand with the three principal forms of access to decision-makers.

	Informal Access	Formal Access	Exclusively Anomic Access
Non-competitive Demands	Systematic Cooptation	Compliant Cooptation	Preemptive Cooptation
Competitive Demands	Selective Cooptation	Symbolic Cooptation	Repression

Figure 3. Matrix of Response to Demand

In each decision-making situation, variations in the mode of response to demand seem to be directly linked to variations in the relations of the actors involved. Thus the procedures for converting demand into a distributive decision are contingent upon the particular way that the demand-makers, competitors and decision-makers relate to one another. Furthermore, since keeping the peace is paramount, the distributive pay-off must function to regulate the political conflict between actors.

In response to these relational distinctions, decision-makers take a definitively different approach to each of the six forms of demand.

* The systematic approach utilizes political connection to insure that the system adequately satisfies demand.

* The compliant approach sticks strictly to formal organizational procedures.

* The preemptive approach meets demands before they are formally articulated so that the formation of an organized interest group is avoided.

* The selective approach uses personal interaction to determine the salience of the demand and calculate the payoff.

* The symbolic approach formally acknowledges the credibility of the demand and legally establishes a demand-meeting apparatus.

* The repressive approach constitutes an acknowledgment that the demand can not be met without fundamentally alterring the relations between all the actors. Since the demand can not be handled, it must be eliminated. If the demand-maker will not retract the demand, then the demand-maker must be quashed.

The repressive response attests to the distributive limits of the demand-meeting system. It is the exception that proves the rule, but its rarity would seem to indicate how effective the other cooptative appraches have been in handling demand.

It is certainly notable that in five out of the six policy-making categories, decision-makers are motivated to respond positively to political demands. The prevalence of the cooptative response at every level of decision-making suggests that a common set of political attitudes governs the political behavior of all types of decision-makers. In fact, most effort to explain the uniformity of response which characterizes Costa Rican policy-making begin with a reference to the distinctive homogeneity of Costa Rica's political culture.

Furthermore, it is widely argued that a fundamental dichotomy characterizes the political attitudes of all political participants. This dichotomy is associated with the traditional existence in Costa Rica of two standards for measuring political status. Costa Rica's historical reliance on small-scale farming produced a population in which all individuals were considered to be of comparable economic value. For this reason lineage became the chief criterion by which groups were differentiated (Booth 1984, p. 158). By economic standards, Costa Rica is an essentially egalitarian society in which every individual is entitled to a comparable quantity of basic resources. However, when social standards of assessment are applied, Costa Rica is also a basically bifurcated society in which lineaged and non-lineaged utilize qualitatively different resources to measure status.

Based on their acknowledgment of this dichotomy, the Biesanzs suggest that the coexistence of elitist and egalitarian sentiments in the value systems of politically conscious Costa Ricans is at the heart of the evolution of the two codes of political behavior that dictate decision-maker responses (1982, p. 191). A codified set of standards governs formal political behavior, while an unwritten attitudinal set governs informal interaction. Essentially egalitarian values determine the standards of behavior which are employed in the formal interaction of groups, whereas particularistic values determine the standards governing interchanges between individuals. Thus in Costa Rica egalitarian political participation is a political process which is prescribed by law, whereas the treatment accorded particular individuals in the political arena is a process which is determined by personal cultural attitudes. To some extent this formal/informal distinction characterizes the political activity of any participatory political system, yet because of the transitional nature of Costa Rica's system, political distinctions have more influence on policy than in decision-making systems where economic variables carry more weight.

Variations in the Pattern of Cooptation

In light of the widespread attention given to these contrasting sets of social and economic standards of behavior, it is deduced that the informal/formal/anomic distinction provides a major rationale behind the variations in response which characterize Costa Rica's pattern of cooptation. Therefore, in each decision-making situation, the amount of payoff depends first and foremost on the effectiveness of the variant forms of political access and secondly, on the amount of competition associated with the demand.

Non-competitive Decision-making

In non-competitive decision-making situations, political norms which calculate the salience of demand in terms of the status of the demand-maker encourage decision-makers to predicate the quality of their response upon the nature of the reciprocal gain to be derived from the process of demand-meeting. In these instances the use of pull is a carefully calculated act grounded on the expectation of a reciprocal payoff. In this way economic resources are used to construct a network of interlocking political relationships which form the nucleus of major party coalitions.

This predisposition of Costa Rican decision-makers to respond most positively to those who use informal access to press uncontested demands has had two effects on the distribution of development benefits. First, at the bureaucratic level, this preference on the part of administrators has caused the bulk of development resources to accrue to the middle income brackets. Second, at the legislative level, Costa Rican policy-makers have produced an inordinate amount of special interest legislation passes to accommodate the particularistic demands of well-placed political participants.

For less well-placed demand-makers who must use media influence or legal channels to convey an uncontested demand, egalitarian standards require that all such demand-makers be treated equally. Accordingly, the payoffs to this group are usually strictly prescribed by formal statutes and are therefore kept to the minimum amount allowable.

For those without either informal or formal access, the anomic articulations of uncontested demands has provided the occasion for a definitive expansion of the national distributive system. By meeting these demands with legislation designed to improve the general welfare, Costa Rican decision-makers have succeeded in coopting anomic demand-makers into the formal political system.

Accordingly, non-competitive demand-meeting should be viewed first, as a major component of the processes of political aggregation, second, as a significant factor in the creation of expectations of demand-meeting, and third, as a central force behind the proliferation of distributive decision-making structures. Ultimately, it functions to accentuate the degree of competition for resources and to compound the complexity of resolving competing claims. Because most of the cooptation of non-competitive demand-makers is within the context of party coalition building, these forms of demand-meeting are more essential to the political processes of channeling political participants into existing political structures than they are to the economic processes of distributing resources in order to achieve economic growth.

Competitive Decision-making

In highly competitive policy-making situations, political norms which stress the value of consensus building act as an incentive for conciliation and compromise. Because of the universal emphasis placed on the equitable resolution of conflict, this type of policy-making becomes first and foremost a process of conflict management. Accordingly, decisions involving a high degree of conflict seem to be primarily made on the basis on their utility for resolving political confrontations. The greater the degree of conflict, the greater the tendency to sacrifice the economic import of a decision to considerations of its acceptability. Ultimately the value placed on equitable compromise translates into a something for everyone response which converts original political competitors into subsequent confederates in a vast cooptative scheme of demand-meeting.

Decision-maker responses to competing demand-makers can also be categorized along informal, formal and anomic lines. Those with informal access generally evoke a conciliatory response though the amount of the payoff can vary dramatically depending on the scope of the conflict engendered by the demand. For the demand-maker who must compete for influence using formal means, cooptation is accomplished by the simple acknowledgment of the legitimacy of their demand. In these cases payoffs are often confined to the mostly ceremonial enactment of laws and creation of instituions. For the recipient this type of demand-meeting frequently proves to be largely superficial.

The only demand-makers whose demands are not acknowledged as legitimate are those using anomic means to gain initial access to competitive decision-making arenas. For them no payoff is forthcoming because the demand is beyond the capacity of the system.

It should be noted that in the competitive decision-making situation the widespread use of the formal response has resulted in a substantial broadening of the scope of distribution of development benefits. With more groups successfully extracting a share of economic resources from the political system, political power has not only been greatly extended, but has become highly fractionated. Moreover, resources have been so stretched that the system has become less and less capable of responding to new demand-makers. Not only are anomic demand-makers increasingly seen as jeopardizing the balance of power between existing political actors, but the disproportionate demands of existent political participants are now considered to pose a significant threat to the very continuation of the cooptative system which has functioned so satisfactorily for decades. Are the days of cooptative demand-meeting numbered? Is a major alteration of Costa Rica's traditional approach to the distribution of development benefits in the offing? To assess the likelihood of such a reorientiation of development implementation processes, a better understanding of Costa Rican distributive decision-making is necessary. It is hoped that this study has contributed in some small way to our understanding of Costa Rican development policy-making.

Ramifications for the Attainment of Development Goals

To summarize, three political processes seem to have been most obstructive to Cost Rica's attainment of economic development goals. First, because of the pervasive influence of Costa Rica's distinctive political norms, all levels of decision-making by a tradition of cooptative demand-meeting. Second, the amount of political participation has been substantially increased by the pattern of demand-meeting. The more the political system demonstrates its usefulness as a means of obtaining economic goods, the more Costa Ricans are motivated to use the political process as an instrument of personal gain. As the number of demand-makers increases, the intensity of competition heightens.

Finally, because of the difficulty of reaching a consensus in such a competitive political environment, much of the economic utility of development policies is lost during the negotiations over policy content.

The interrelation of these three political processes suggests that Costa Rica can be said to have a policy culture which places concerns with political stability above concerns with economic development. If the measure of a policy culture is determined by the nature of its attitudes about who should control the decision-making apparatus, who should receive its benefits and what the nature of the controls over access to decision-making power should be (Smith 1985, p 4), then Costa Rica's displays an over-riding emphasis on who controls decision-making, takes a dichotomous approach to identifying the proper recipients of development benefits and exhibits a pronounced tendency to control demand by variantly coopting demand-makers.

Thus because of a preoccupation with short-term political payoffs, development policy in Costa Rica apprears to be more the product of political expediency than of any rational process of goal maximalization. Since what is politically expedient depends on the identity of the demand-maker and the nature of the demand, little consideration is given to whether policies are consistent with one another. For this reason concessions made to one interest group often contravene those made to another group. In the case of industrial development policy, the distribution of resource to other sectors has significantly reduced the economic impact of the resources distributing to industry.

Theoretical Implications

In explaining the impact of Costa Rica's distributive decision-making on industrial development, it can be argued that standards of political expediency have inadvertantly created contradictions between distributive policy outputs and that these contradictions have constituted a substantial impediment to the attainment of donor-advocated economic goals. If this politically caused pattern of policy contradictions has been convincingly demonstrated, then Costa Rica's demand-meeting approach to maintaining political stability will have been shown to have imposed a significant limitation on that nation's achievement of its growth with equity development objective.

If this has been the case, then Costa Rica's approach to economic development would seem to conform to the pattern of development policy-making described by political stability theory. According to this explanation of Latin American development, government decision-makers generally conceive of development as a means of satisfying the material expectations of new groups of political demand-makers. As a leading proponent of this view, Charles Anderson points out that economic growth has primarily had an instrumental value to political leaders because it enables them to use the proceeds from development to meet new demands without having to resort to redistributive strategies that might alienate the traditional upper-income groups (1966, p. 545).

Royce Shaw concludes that Costa Rican policy-makers accepted the import-substitution strategy of industrialization advocated by donors because it offered a way to satisfy the demands of a growing modern sector without having to shift resources from the traditionally ascendent agro-export sector. In Shaw's view regional integration was ascented to because it provided the government with a neans of generating the benefits with which to coopt the emerging industrialist in the same way that the system has previously coopted the 19th century agrarian capitalists and the mid-20th century educated middle class when they mounted similar challenges to the established order (1978, p. 222).

Thus Costa Rica's adoption of this donor-advocated development strategy is interpreted by Shaw as primarily a political act and only secondarily as a program of economic development (p. 51).

According to this explanation, both Costa Rica's fundamental acceptance of donor development strategies and its subsequent modifications of those strategies can be best understood by placing them in the context of a decision-making system which calculates the utility of economic decisions in terms of their immediate contribution to political stability. If this is true, then Costa Rica's donors need to give greater consideration to the effects which national norms for dealing with political demands have on the distribution of development resources.

In addition to a prescriptive value for Costa Rican development, the conclusions from this study have potential applicability to a growing cross-section of Latin American development settings. Until the 1980s Costa Rica's participatory political system and lack of a military force made in an anomaly among the Latin American nations. However, in the last five years, there has been a major shift toward elected civilian governments in Latin America. Like Costa Rica, these Latin American states have traditionally relied on a steady flow of external capital to finance economic growth. In addition, many of these states have also depended on cooptative methods of demand-meeting. Now these countries are all facing the same dilemma: how to satisfy the rising demand of emerging groups of political participants in the face of inadequate economic growth, the monopolization of capital by an overgrown public sector and debt servicing costs that consume an excessive part of the annual Gross National Product.

In response to the threat to global financial stability posed by Latin

American's unabated inability to manage its $360 billion debt, the United States has recently called on the multi-lateral development banks not only to increase their lending by 50%, but to place greater emphasis on their structural loans designed to specifically benefit targeted sectors of the developing economies (The Monitor 9 October 1985, p. 1). Therefore, as international decision-makers ponder how to use new infusions of development capital to best effect, it is important that the over-all policy context of the recipient state be given greater consideration. Thus this study of the conflicting aspects of Costa Rica's implementation of economic development goals has potential value for those development policy-makers concerned with improving the economic performance of those Latin American states with newly expanded political systems.

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