

Good Jobs and Social Services

How Costa Rica Achieved the
Elusive Double Incorporation

Juliana Martínez Franzoni and Diego Sánchez-Ancochea



Good Jobs and Social Services

Developmental Pathways to Poverty Reduction Series

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How Costa Rica achieved the elusive double incorporation

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*To Silvia, Maite and Maya,
hoping but doubting that their world will be one of
dual incorporation for all*

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Contents

<i>List of Figures</i>	viii
<i>List of Tables</i>	x
<i>Acknowledgements</i>	xi
<i>List of Acronyms</i>	xiv
1 A Country That Tamed an Elusive Challenge	1
2 The Economic Policy Regime and the Two Phases of Market Incorporation	28
3 The Social Policy Regime: Creation, Expansion and Resilience	64
4 The State as the Central Actor: Elites, Ideas and Legacies	102
5 Conclusion: What Can We Learn from the Costa Rican Case?	133
<i>Notes</i>	145
<i>References</i>	154
<i>Index</i>	170

List of Figures

1.1	Evolution of the incidence of poverty, percentages, 1980–2005	15
1.2	Evolution of income inequality, Gini coefficients, 1980–2005	17
2.1	GDP per capita, US dollars and as a share of world and Latin American average, 1960–2008	30
2.2	Exports to Central America and non-primary exports, percentage of total exports, 1954–1985	35
2.3	Public investment, percentages of GDP and of total public spending, 1980–1995	40
2.4	Latin American exports per capita, US dollars, 2000 and 2008	49
2.5	Productivity in total manufacturing, FTZs and all other manufacturing activities, 1991–2005	52
2.6	Sectoral distribution of FTZs exports, share in the total, 1997–2008	53
2.7	Sectoral distribution of employment in the FTZs, 1997–2008	54
3.1	Total public spending in basic social services, millions of US\$ of 2000, 1950–2005	67
3.2	Public spending per capita in basic social services, US\$ of 2000, 1950–2005	67
3.3	Social expenditures: total, healthcare and pensions, millions of <i>colones</i> of 2000, 1950–2006	68
3.4	Healthcare coverage: insurance and social assistance, percentages, 1980–2006	69
3.5	Life expectancy at birth and infant mortality rate, mortality rate per thousand live births and life expectancy in years, 1950–2005	69
3.6	Social incorporation as reflected in infant mortality under 1 and under 5 years of age, mortality rate per 1000 live births, 1972–2006	70

3.7	Evolution of access to primary and secondary education, percentages, 1915–1999	74
3.8	Social expenditures: total, per capita and private, 1980–2008	84
3.9	Evolution of gross and net rates of enrollment in secondary schools, 1970–2006	85
3.10	Multilayer pension regime for old age, mortality and disability	90
3.11	Pensions coverage: insurance and social assistance, percentages, 1969–2006	91
3.12	Population served with piped water ranked by potability for income and region, 2004	92
3.13	Evolution of payroll tax rates for social policy, percentages, total and by sectors, 1942–2010	96
3.14	Average wages and contributions among the occupied labour force, <i>colones</i> of 2006, 1985–2008	99

List of Tables

1.1	Weight of informal employment in the total in various Latin American countries, 1950–1980	11
1.2	Income inequality before and after social income, 1988 and 2004	18
2.1	Gross domestic product, real <i>colones</i> of 1966, annual average rate of growth, 1950–2008	30
2.2	Distribution of nominal GDP by sector, 1950–1990	33
2.3	Total assets of public and public banks, millions of <i>colones</i> , 1986–2007	46
2.4	Costa Rica and Latin America (without Mexico), export structure by technological content, percentage of total exports, 1987–2008	49
2.5	Annual average rate of growth of GDP and GDP per capita, 2000 US dollars, 1990–2008	50
2.6	Value added, employment and labour productivity in Costa Rica, annual average of growth, 1987–2007	51
2.7	Monthly wages in real <i>colones</i> and annual average rate of growth, 1997–2008	56
2.8	Nominal value added, employment and productivity in the FTZs, annual average rate of growth, 1991–2007	56
2.9	Average monthly income, current <i>colones</i> , 2001–2008	58
2.10	Local purchases from the FTZs, percentage of total purchases, 1997–2008	60
3.1	Indicators of the nutritional conditions of children, 1966–1996	71
3.2	Comparison between Costa Rica and 94 other developing countries in terms of human development, 1960–1987	71
3.3	Structure of funding for social policy and basic social services, 1988–2004	97
3.4	Structure of funding for basic social services, 1988 and 2004	98

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Last but not least, by looking at how policies can succeed at being inclusive, we hope that this book contributes to efforts to make the world a better place for most.

List of Acronyms

ANFE	National Association for Economic Promotion
CACM	Central American Common Market
CARICOM	Caribbean Community
CAT	Tax Break Certificates
CCSS	Costa Rican Social Insurance Board
CINDE	Costa Rican Investment Promotion Agency
CEN	Nutrition and Education Centers for Children's Comprehensive Care
CEN-CINAI	Child Care Centers
CINAI	Children's Comprehensive Care Centre
CODESA	Costa Rican Development Corporation
COMEX	Ministry of Foreign Trade
CTAMS	Technical Board of Medical Social Assistance
DR-CAFTA	Dominican Republic-Central America Free Trade Agreement
EAP	Economically Active Population
ECLAC	Economic Commission for Latin America and the Caribbean
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FODESAF	Family Allowances Program
FTZ	Free Trade Zones
GDP	Gross Domestic Product
GNP	Gross National Product
ICAA	Costa Rican Institute of Water Supply and Sewage
ICE	Costa Rican Institute of Electricity
IFI	International Financial Institution
ILO	International Labour Organization

IMAS	Mixed Institute of Social Assistance
IMF	International Monetary Fund
INA	National Learning Institute
INS	National Institute of Insurance
ITCO	Institute of Land and Colonization
MOH	Ministry of Health
MEP	Ministry of Public Education
NC	Nutrition Centres
NICs	New Industrialized Countries
OECD	Organisation for Economic Co-operation and Development
PLN	National Liberation Party
PROCOMER	Trade Promotion Corporation of Costa Rica
RNC	Social Assistance Pension Program
RTA	Régimen de Admisión Temporal
RIVM	Disability, Old-Age and Survival Regime
SAP	Structural Adjustment Program
SJMA	San Jose Metropolitan Area
SMEs	Small and Medium Enterprises
SNE	National Electricity Service
STAP	Technical Secretariat of the Budgetary Authority
TNC	Transnational Corporation
UCCAEP	Union of Private Business Chambers and Associations
UNCTD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
UNRISD	United Nations Institute for Social Development
USAID	United States Agency for International Development
WHO	World Health Organization

1

A Country That Tamed an Elusive Challenge

1.1 The elusive challenge of the double incorporation

In the path-breaking, 2010 flagship report, the United Nations Institute for Social Development (UNRISD) argues that countries “that have successfully reduced poverty in relatively short periods of time had purposeful growth-oriented and welfare-enhancing political systems” (UNRISD, 2010: 6). The report stresses the need to combine a rapid expansion of well-paid formal jobs with a more universal and generous social system. While this may indeed be desirable, it is unclear that many countries in the periphery have ever achieved both simultaneously. Under East Asia’s developmental success, for example, economic growth and structural change were impressive but the expansion of social programmes independent from market participation we address below, was not.

To systematically explore the double process of job creation and the expansion of social services, we draw on the concepts of market and social incorporation. Market incorporation refers to people’s participation in the cash nexus, which requires the creation of a sufficient number of formal, well-paid jobs (private and public). Social incorporation refers to people securing their well-being independently of the cash nexus. If governments want to increase the well-being of a majority of the population living in a country, they should promote this double incorporation simultaneously. However, market and social incorporation are analytically independent processes that need not take place hand in hand: countries may secure social incorporation by decoupling it from people’s participation in the labour market. By the same token, countries may seek to secure market incorporation as the primary means for people to individually cope with social risks.

2 *Good Jobs and Social Services*

Let us explain in more detail what we mean by incorporation. According to the 1913 edition of Webster's dictionary, incorporation refers to becoming a member of a larger body already in existence. In here, we refer to people's participation over a long period of time in two key institutions: formal labour markets and public social services. Notice that our notion of double incorporation is normative: we do not mean here just any participation in labour markets or any access to social services, as the process of urbanization and the creation of markets of social services such as healthcare and education bring along. Instead, we are interested in a specific kind of participation, one that succeeds in providing a "floor" of cash, labour and social protection and services for most.

In using the term incorporation, we are preceded by very fruitful research – in the social sciences in general and in the study of Latin America in particular. In their already classic work, Ruth and David Collier (1991) explain how incorporation, in their case into the political arena, replaced the repression of the working class as a political actor. As a result, across Latin America during the first half of the twentieth century, this emerging class entered politics. The specific pattern of incorporation (state or party-led, whether by traditional, populist or radical parties), accounted for regime change and had long-term repercussions, reaching the democratic breakdowns of the 1970s, when exclusion replaced incorporation.

Luis Reygadas and Fernando Filgueira (2010) borrow the term and follow the earlier discussion to review recent events. They argue that Latin America currently faces a second social incorporation crisis and that new policy efforts are attempting to address it. Both are equivalent to the first incorporation crisis addressed by Collier and Collier. In the present day, however, those badly in need of incorporation are not the working class but the informal and the self-employed. It is precisely those millions of Latin Americans lacking market and social incorporation who demand better jobs and minimum services. The wave of left and left-of-centre political parties replacing right and right-of-centre governments is, they argue, an indication of unattended demands for social incorporation.

This book discusses Costa Rica's experience as one of the most successful in securing the double incorporation over the last six decades among developing countries. Unemployment and underemployment in Costa Rica were low, the formal sector grew steadily, and universal social programmes expanded between the 1950s and the early 1980s. By the early 1980s, most Costa Ricans had access to relatively well-paid jobs and to high quality healthcare, education and pensions (Sandbrook et al., 2007).

Costa Rica's case is also relevant because since the 1980s it has experimented growing tensions and struggles to maintain the double incorporation. During the last three decades, Costa Rica's economic policy regime has experienced contradictory transformations, particularly in its economic landscape. On the one hand, the country has built more dynamic comparative advantages. On the other hand, the number of informal, poorly paid jobs (that is, inappropriate market incorporation) has expanded rapidly. The social policy regime has remained more stable in terms of guiding principles and formal design, but the quality of services has diminished and the presence of private services has increased. Costa Rica's *overall* performance is still more satisfactory than that of many other developing countries – including those that embraced neoliberalism more enthusiastically – but sustaining the country's past record is proving harder than ever.

How has Costa Rica achieved its unique success in accomplishing the double incorporation? Why has the social policy regime been more resilient than the economic regime in recent times? What lessons can other small developing countries learn from Costa Rica? This book addresses these questions by looking at the policy regimes adopted between 1950 and 1980, during Costa Rica's period of expanding incorporation (which Solís (1992) and Rovira (2001) addressed as the "Golden Age"), and examining the changes the country has undergone during the more recent period we refer to as stagnant incorporation. We first describe policies from both periods and then explore the underlying factors that determined those policies.

The economic policy regime involves a set of policies and institutions that are relatively stable, influencing the characteristics of the economic structure and thus the process of market incorporation. An economic policy regime may be driven by various primary goals (like growth or distribution) and rely on various funding sources. By social policy regime we refer to the set of policies and institutions that shape social incorporation through transfers and services and are relatively autonomous from people's participation in the economy. These may rely on various guiding principles to allocate resources (such as needs or citizenship); types of programmes (based on transfers or services); means for services delivery (whether public, private or mixed); levels of benefits (more or less generous) among others. Policies and institutions interact in complex ways that may change over time.

In explaining why the Costa Rican state adopted these policies, we acknowledge the importance of long-term, historical factors and also the role of democracy. Yet we consider and attach more importance to

three central conditions. Without these, neither long-term factors nor a democratic political regime would have resulted in double incorporation. These factors are: (a) the nature of Costa Rica's emerging elite and its changes over time: from a group with a highly unified set of interests around state expansion to one with growing fragmentation, moving away from being closely intertwined with the public bureaucracy to experiencing a growing split; (b) the ideas internationally available from which domestic elites drew their own agendas; and (c) the role of policy legacies the period of stagnant incorporation inherited from the previous period. Below, this introductory chapter fleshes out these ideas. We start by defining the notions of market and social incorporation and their contribution to reduced poverty and inequality. In section 1.3 we argue that most developing countries (even successful countries like South Korea, Taiwan and Singapore in East Asia) have never fully achieved the double incorporation and in section 1.4 we outline why we consider Costa Rica an exceptional case. Section 1.5 briefly reviews the literature on the role of the state in market and social incorporation, arguing that few studies consider both processes simultaneously and offer our own explanation of Costa Rica's trajectory. The chapter concludes with a brief summary of the rest of the book and a discussion of its main contributions.

1.2 Income inequality, poverty and the challenge of the double incorporation

Since the 1980s and until very recently, much of the mainstream literature on poverty and inequality focused on the need to improve social conditions through community-based projects and redistribution policies and did not pay sufficient attention to the labour market. The Millennium Development Goals, for example, had employment as a target but not as a primary goal and the literature on multidimensional poverty has tended to downplay the role of income generation. This is unfortunate because in any market economy, good jobs do represent the fastest and most stable way out of poverty. As Alice Amsden puts it in a provocative 2010 article "A job is a ticket out of misery and into the middle class... [For example] [i]n all of India's manufacturing industries except one ('machine repair'), the 'formal' sector, where paid employment predominates, is almost three times more productive than the 'informal' sector, where most anti-poverty money goes" (Amsden, 2010: 58). Yet many developing countries have failed to promote employment-creating growth paths. In many parts of the world the