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Abstract:
Costa Rica is catalogued as a middle income country. With a territory of 51,100 km² and a population of about 4.5 million, its impressive social development indexes shed light on the fact that in many aspects, the nation statistically resembles a high income country. These figures are the result of public policies and governmental decisions, which this paper reviews, while seeking to explain the successful development case of this Central American nation.

Key Words:
Costa Rica, human development, public policies, human capital, Autonomous Institutions, CINDE, EOI, Political Economy.

Resumen:
Costa Rica es una nación catalogada de renta media. Sin embargo, con una superficie de 51.100 Km² y poco más de cuatro millones, quinientos mil habitantes, resaltan a la vista sus índices de desarrollo social y se destaca que en muchos rubros mantiene números de país desarrollado. Esto por supuesto es obra de un conjunto de políticas y medidas estatales, las cuales este ensayo pretende revisar, y así entender algunas claves del exitoso caso de esta nación centroamericana.

Palabras clave:
Costa Rica, desarrollo humano, políticas públicas, capital humano, Instituciones Autónomas, CINDE, IOE, Economía Política.

1. Introduction

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In announcing the instatement of free and obligatory education in 1871, the visionary President Jesús Jiménez Zamora mentioned “the nation with most and best schools will be the best of nations.” (Umaña J. U., 2014, p. 7) Later on, his son Ricardo, while also holding the Presidency of the Republic, said “other nations are happy as they enjoy peace and bread. However, our nation has enjoyed bread, peace and liberties; not many nations account for such a promising balance” (Umaña J., 2012). Finally, the creator of the Second Republic, José Figueres once reflected “why would we want tractors if we do not have violins?” ( Cuevas, 1999) The sentiments expressed in these quotes present a whisper of Costa Rica’s development path during the 20th century.

Interested in exploring the developmental progression of Costa Rica (CR), this paper will assess the internal and external factors leading to the high development experienced by Costa Rica from 1950 to 2000. Ultimately, this paper will investigate the causes of Costa Rica’s high level of development. In this fashion, it will argue the overarching, manner in which Costa Rica has accomplished high development is twofold: at first as a consequence of Costa Rica’s education policy and the creation of autonomous policy-making institutions in 1949; and the second from an international perspective, a consequence of the geopolitical relations between Costa Rica and United States (US) during the 1970s and 1980s in light of the regional conflicts in Central America.

In order to fully comprehend the country’s development, this paper will first examine Costa Rica’s high development in terms of economic growth and human capital. Within this section, it will explore the role of Costa Rica’s education policy on the country’s high human development. In addition, the role of autonomous policy-making institutions created in 1949 will be assessed in this section.

The second part will examine the international context of the time frame at hand; more specifically the US-CR relationship. The US-CR geopolitical relationship and its impact in terms of Costa Rica’s high development will be assessed. This section will then analyze the role of the abolition of the army. Subsequently, it will assess the impact of the economic crises of the 70s and 80s, and afterwards the transition from an Import Subsidy Industrialization to an
Export Oriented Industrialization. This analysis emphasizes the creation of the autonomous policymaking institution by the name of CINDE, and its role on the high human capital of Costa Rica. The paper will conclude by adjoining the aforementioned aspects and reflecting on the findings.

2. Economic Growth and Human Capital in Costa Rica

The latter half of the 20th century witnessed an unprecedented wave of development in newly established sovereign-states that were once colonies. Generally speaking, implemented measures were geared towards economic growth, while social aspects were of lower priority. However, in its 1996 report the United Nations Development Program shed light on the significance of social aspects. The report concluded that while economic growth is a means to development, it is human development that acts as a prerequisite to a healthy country (Soubbotina, 2004, p. 7).

The aforementioned report found that previous United Nations documents emphasized human development as a combined measurement of life expectancy, adult literacy, access to all three levels of education, average income, and all aspects of individual well-being: encompassing health status, economic and political freedom within a country (Soubbotina, 2004, p. 8). In short, while economic growth provides access to development, allocating such funds created by economic growth on improving human development is what drives development in a nation. Furthermore, the report found that:

Economic growth must be constantly nourished by the fruits of human development, such as higher qualified workers capable of technological and managerial innovations along with opportunities for their efficient use: more and better jobs, better conditions for new businesses to grow, and greater democracy at all levels of decision-making (Soubbotina, 2004, p. 8).

Notably, Costa Rica seemed to understand these dynamics even prior to the theorizing of these findings; from 1950 onwards, Costa Rica’s high development path has successfully combined economic growth with increments of human development. In terms of economic growth, the country’s Gross Domestic Product (GDP) per capita increased fourfold since 1950, going from $1900 to $6174 in 2000 (Lehoucq F., 2010, p. 53). Moreover, the population living in
poverty fell from 50 to 20 percent during this period. As a result, the 2003 Bertelsmann Management Index (BMI) ranked Costa Rica’s ability to solve social problems as third in Latin America and eighth of 116 developing countries (Lehoucq F. , 2005, p. 143). Furthermore, life expectancy has increased from 55 to 80 years, thanks to the country’s free universal healthcare (Lehoucq F. , 2010, p. 56). In short, the Human Development Index went from 0.55 in 1960 to 0.79 in 2000 (Lehoucq F. , 2010, p. 56). The same index ranked Costa Rica’s development as the highest in Latin America during the 1990s (Marois, 2005, p. 102). All of these figures demonstrate the increment of human development and economic growth of Costa Rica over the second part of the 20th century. Behind the success of this middle income country, as reflected by the aforementioned indexes and numbers, it is argued the pivotal factor triggering and expanding human development were a series of effective policies.

A. Education Policy

One important policy realm triggering high human development in Costa Rica is the country’s education policy, dating back to the 19th century when the grassroots were laid. In 1847 under the administration of President Castro Madriz, Costa Rica officially recognized women’s equal right to education. Moreover, in 1869 Jesús Jiménez Zamora founded the San Luis Gonzaga College, the first secondary education institution in the country (Umaña J. , 2012, p. 7). In addition, since 1871 primary education has been mandatory and free.

With regards to the second half of the 20th century, the constitution of 1949 legally bound the executive government to spend at least an 8% of the country’s total GDP on education, annually (Paus, 2005, p. 137). Furthermore, secondary education has been mandatory and free since that same year (Paus, 2005, p. 136).

In addition to the aforementioned, post-secondary education has been offered publicly since 1940 (Rodríguez-Clare, 2001, p. 313). It was then that Costa Rica created its first public university, and the country later followed with the creation of three more in the 1970s. The number of public universities had increased to six by the year 2000, four of which still today rank amongst the top
five of the approximately sixty universities countrywide (Rodríguez-Clare, 2001, p. 313). The creation of public technical high schools and public junior colleges were also significant measures contributing to the development of Costa Rica’s education system (Rodríguez-Clare, 2001, p. 323).

Another transcendental policy decision regarding education was the installation of computer laboratories in schools in 1980. The policy was recognized internationally due to two features: firstly, it concentrated on elementary schools, and was a measure seeking to make a deeper impact on students. Secondly, while students were taught computer skills, the focus was placed on using the computers as a tool to aid the learning process for knowledge acquisition in other subjects. Also, education of the English language was made mandatory in all schools since 1995, (Rodríguez-Clare, 2001, p. 315) which aided the population in their ability to speak or understand at least two languages.

In this case, the impacts on human development are clear: adult literacy rate today is close to 100%, and Costa Rica has the most engineers and scientists per capita in the continent (Paus, 2005, p. 158). Not only has the country’s education policy resulted in high human development, but also in considerable economic growth. The country’s focus on human development through education policy has resulted in the creation of a highly qualified labor force, the most important factor attracting high tech investment to Costa Rica (Paus, 2005, p. 158). The country’s human capital remains a vital aspect of Costa Rica’s economy in the 21st century. Human capital has been pivotal in the transition from an economy based on the production of coffee and bananas to an economy centered on services and high-tech manufacture. In understanding human development attainments in Costa Rica, there is a second transcendental policy that beckons further consideration here.

**B. The Role of Autonomous Policy-Making Institutions**

The culminating factor of the nation’s effective governance tradition was the creation of autonomous policy-making institutions assuming key public sector responsibilities since 1949. As decreed by the Constitution of 1949,
sixteen autonomous institutions began operating in 1950 (Muñoz, 2014, p. 307). For instance, the Board of National Social Security (CCSS, as per the Spanish acronym) was created to tackle healthcare responsibilities, the National Institute of Insurances (INS, as per the Spanish acronym) for pensions, the Costa Rican Institute for Electricity (ICE, as per the Spanish acronym) for telecommunications, energy and electricity, Aqueducts & Sewers (AYA, as per the Spanish acronyms) was responsible for water provision and its sanitation, and the Central Bank for monetary policy. In addition, autonomous institutions were created for the following policy responsibilities: railroads, trains and other state transport organizations, the National Producers Council, the organizations in charge of regulating industries such as coffee and sugar cane, and institutions in charge of housing construction.

The creation of these autonomous agencies empowered the bureaucracy, enabling it to develop long-term policy solutions to development challenges (Lehoucq F., 2010, p. 69). Moreover, these autonomous institutions have been able to stay on track with their policy mandates as their budgets are not proposed by the executive nor approved by the legislature, thus remaining isolated from the vicissitudes of partisan politics (Lehoucq F., 2010, p. 54). In addition to the initial creation of such autonomous institutions in 1949, more followed suit in subsequent decades, thus arguably contributing to the empowerment of the bureaucracy.

Abolition of the national army freed up resources for investment in education, health and housing by successive governments (Paus, 2005, p. 137). It is evident that the 1949 government constituted a critical juncture in Costa Rica’s development both politically and economically through the re-structuring of public entity services and the consequent creation of autonomous policymaking institutions with the capability of effective policy-making and implementation.

Thanks to the ICE, almost every household had access to electrical services and all communities to at least one phone as early as 1970, and more than 60% of the working population was part of a public pension plan through the INS. In addition, by the year 2000, the CCSS granted virtually the entire population with access to public health care service. Finally, the AYA has
effectively been providing sanitized water to essentially the entire population (Lehoucq F., 2010, p. 61). In short, after more than fifty years of operation, the results accomplished by Costa Rica’s autonomous institutions arguably evidence their key role in contributing to the country’s human development. However, it is impossible to fully understand the level of attainment of these policies without referencing the international context taking place in the latter half of the 20th century, during which the United States was the hegemonic power.


It is worth noting that the United States has been politically supporting Costa Rica since the Figueures administration of 1949. Given the political tensions within the region, the United States developed strong political ties with Costa Rica during the Figures administration due to Washington perceiving Costa Rica as a “model for economic and social reform within a democratic framework and […] as an alternative to the communist reforms in Latin American countries.” (Muñoz, 2014, p. 308) As Kyle Langley mentions, Figheres was able to understand the dynamics of US politics and society based on his studies and work experiences in the latter country (Leonard, 1997). Moreover, benefitting from this understanding, the aforementioned Washington perception of Costa Rica, and the alignment of three subsequent factors enabled Costa Rica to pursue its independent policy. These three factors were as follows: first, problems in Asia and Europe which preoccupied Washington’s top policymakers; second, diplomats in the field and desk officers sympathetic to Costa Rica exerting greater influence on US policy decisions; and third, Figheres having the ability to work successfully with US liberal groups such as congressional leaders Paul Douglas, William Fulbright and Wayne Morse (Leonard, 1997, pp. 221-223). While the trend was established in 1949 during the first of José Figueres’ administrations, he was elected into office again from 1953-57 and a third and final time in 1970 until 1974. While his party ‘Liberación Nacional’ held power during more than half of the presidential terms since its establishment, the modus operandi of the relationship established by Figueres seemed to have remained constant regardless of the political party in power. This system proved effective when the country was faced with a
significant economic crisis. Arguably, one of the principal reasons for Costa Rica’s success regarding development was the abolition of the army in 1949.

A. Abolition of the Army

The process leading to the abolition of the Costa Rican Army began in 1940 in the context of the Second World War (WWII). With the intention of securing the Central American region, United States accounted for a significant quantity of military bases by 1940 which guaranteed the stability and control of the Central American region during WWII (Muñoz, 2014, p. 380).

Later in 1949, making use of its extensive knowledge of the political environment, the Second Republic led by José Figueres unprecedentedly proscribed the national army as a permanent institution. The army was proscribed with absence of security concerns given Costa Rica’s subscription to two Inter-American treaties: the Inter-American Treaty of Reciprocal Assistance and the Organization of American States. Both treaties adduce that amongst Inter-American states, a state without an army cannot be invaded (Muñoz, 2014, p. 382). Figueres himself stated that the army was no longer needed, and that such a move would empower the principle of the civil government (Pérez, 1986, p. 304). Not only was the Costa Rican military notoriously ineffective given the regional trends of Coup d’état in Latin America, the existence of a military force in Costa Rica could have threatened the political stability and economic development of the country (Pérez, 1986, p. 305). In this fashion, Figueres aimed to construct a society that privileged the investment on health, education and housing over the military (Muñoz, 2014, p. 383). Therefore, the freeing up of resources previously provided to the Costa Rican army was essential in rendering the autonomous policymaking institutions established in 1949 sustainable.

B. Economic Crisis and its Roots

The proscription of the army, however, was not enough to guarantee the absence of future economic crises. In 1949, Costa Rica’s economy was organized around agro-exports of coffee and banana, and a contradictory import-subsidy-industrialization (ISI) development model. The ISI model in Costa Rica aimed to
allow the national economy to transition from an agriculture-based to an industrial-manufactory-based economy that could provide for the internal market. The model established state controls for market prices and import tariffs in order to promote the expansion of national industries. The ISI model was supported by affiliations in the Economic Commission of Latin America and the Caribbean (ECLAC), which exercised a series of bilateral trade agreements within the region in order to minimize export dependency (Marois, 2005, p. 105). By 1959, 90% of Costa Rica’s exports were agricultural goods (Marois, 2005, p. 106). The implementation of the ISI model resulted in a decrease of the peasants’ purchasing power, and an increase on the import of raw materials necessary for the industry substitution. Consequently, prices increased and inflation followed suit.

Consistent with the ISI model, between the years of 1963 and 1973 Costa Rica saw the creation of over 100 industrial firms. Likewise, annual profits grew by 19% until 1973, however the economy remained highly dependent on agricultural exports. As industrialization remained a priority for the Figueres administration of 1970-74, the development strategy was oriented towards the creation of state-owned enterprises, a strategy also employed by the consequent Oduber administration 1974-78 (Marois, 2005, p. 107). However, in the wake of the world recession, the financing of state-owned enterprises became unmanageable.

In the context of the autonomous policymaking institutions, despite their vast successes, their existence was also threatened in the early 80s due to its high operational costs which equated to 18% of the country’s GDP. In total, 35% of Costa Rica’s GDP was spent on the public sector, which equated in relative terms to the average GDP of a member state of the Organization for Economic Cooperation and Development (Lehoucq F., 2010, p. 70). In part, the high expenditures became problematic as it was hard to sustain a system of first-class social programs on the basis of a third-world tax system (Lehoucq F., 2005, p. 150).

Furthermore, Costa Rica’s system of autonomous institutions became even more unsustainable due to the economic crises of 1974-75 and 1980-85 (Marois, 2005, p. 109). From 1950 to 1982, Costa Rica had a fixed exchange rate, and an Import Subsidy Industrialization (ISI) economy focusing on
exporting coffee and bananas (Lehoucq F., 2010, p. 55). Export revenue helped sustain these autonomous institutions until 1973, when the prices of both goods plummeted. Consequently, Costa Rica had to make use of international loans in order to continue funding the public sector (Paus, 2005, p. 137). Furthermore, given president Carazo’s refusal to unfix the outdated exchange rate, Costa Rica’s indebtedness grew from 56.2% in 1980 to 125.2% of GDP by 1981 (Lehoucq F., 2010). Consequently, the astronomical debt to foreign lenders led to the decision of defaulting the national debt in 1982 (Lehoucq F., 2005, p. 145). It is evident that Costa Rica’s development strategy based on ISI, state owned industries, and costly autonomous institutions was compromised by the economic crisis.

C. Transition from ISI to EOI

It is in this context that, due to defaulting on foreign loans, the Costa Rican economy was restructured in 1983 to focusing on a floating exchange rate, an EOI strategy based on diversified exports, and full integration into the international economy based on the ideas of the Washington Consensus (Paus, 2005, p. 138). The Washington Consensus is described as the typical reform package promoted by International Financial Institutions and the United States for developing countries (Noy, 2015). The package recommended trade and financial liberalization of state enterprises while advocating for public expenditure: that is, spending on basic healthcare, education and infrastructure. It is worth noting that while the aforementioned autonomous institutions already addressed these targets, their futures were nonetheless threatened due to the economic crises. Consequently, the re-orientation of the industrialization strategy enabled their survival through diversification, funds granted by United States that helped in paying foreign debts owed, and the creation of institutions targeted with economic development in Costa Rica. These three factors will be examined subsequently.

Indeed, Costa Rica made a drastic shift from an ISI-based economy as tariff rates fell from 60% in 1985 to 11.7% in 1995 (Lehoucq F., 2005). While the International Monetary Fund (IMF) and the World Bank played a minor role in dealing with debt and foreign exchange crisis, the US Agency for International Development (USAID) arguably had the most decisive influence on rescuing Costa Rica’s development path from the economic crisis (Paus, 2005, p. 140).
USAID was established in 1961, and is an independent federal government agency that, through economic, developmental and humanitarian assistance, supports the United States’ foreign policy (Marois, 2005, p. 112). Arguably, USAID heavily funded Costa Rica due to the transcendental geopolitical relationship between the countries during the 70s and 80s. Specifically, the United States had serious concerns regarding Latin American countries falling into communism. Such fears were exacerbated in 1979, when the Sandinista communist party overthrew the Nicaraguan democratic government, and civil wars continued in other Central American countries such as Guatemala and El Salvador (Paus, 2005, p. 141). Given its strategic central location as a democratic country, Costa Rica became the US’ key strategic ally in Central America. As Marois mentions, the 1982 Monge administration “assured USA that Costa Rica would demonstrate that ‘democracy and liberty’ are possible in Central America despite the looming socialist threats.” (Marois, 2005, p. 110)

The US-CR alliance is demonstrated via USAID’s total donation of $1.34 billion from 1982 to 1990 (Paus, 2005, p. 143). Furthermore, these funds were directed to support the balance of payments and to support the system of autonomous institutions. USAID funded the operations of established autonomous institutions and directed funds to the creation of new ones (Paus, 2005, p. 142). In short, due to Costa Rica’s precarious economic condition by 1982, it is evident that USAID was vital in maintaining Costa Rica’s development path through the provision of the necessary funds for the continuation of the system of autonomous institutions. Moreover, Costa Rica demonstrated that this monetary aid was invested in an efficient and transparent manner.

D. 1983-2000: CINDE and Human Capital

Arguably, the most significant institution established with the USAID funds was the Coalition for Development Initiatives (CINDE). CINDE was created in 1983 under the model of autonomous institutions, and its policy mandate was to help the development of the economy; the attraction of Foreign Direct Investment (FDI) was its top priority (Rodríguez-Clare, 2001, p. 314; Paus, 2005, p. 143). Not only did the creation of CINDE aid in the diversification of the Costa Rica economy; it also provided social compensation
such as food aid, financial credits, job training, housing funding, and education programs to those most affected by the reorientation of the economy, namely campesinos (peasants) (Marois, 2005, p. 114).

Moreover, in 1990 CINDE began making use of the country’s competitive advantage in human capital by focusing on attracting FDI only in industrial sectors requiring high levels of education (Rodríguez-Clare, 2001). Consequently, the largest share of net FDI shifted to high skilled manufacture and information technology in the 90s (Paus, 2005, p. 143). In short, CINDE played a vital role in economic growth while also facilitating the transition from an ISI-based to an EOI-based economy; in other words, from the export of raw materials to high skilled manufactured goods (Paus, 2005, p. 158). Furthermore, USAID was vital in Costa Rica’s development path as it enabled the continuation of the autonomous institutions strategy, while causing significant economic growth through CINDE.

The creation of CINDE demonstrably resulted in the diversification of Costa Rica’s exports and a significant growth in FDI inflows. This is evidenced via the growth of non-traditional exports from $390 million in the 1980s to $1.14 billion in the 1990. Furthermore, in terms of exports share, non-traditional exports grew from 41% to 59% (Paus, 2005, p. 143). Finally, the shift from ISI to EOI, caused primarily by the autonomous institution CINDE, witnessed exports growing from $281 million in 1980 to $7.45 billion in 2000 (Marois, 2005, p. 123). In short, the case of Costa Rica, through the works of CINDE, demonstrates that, as argued by Soubbotina in the UN Development Agency Report of 1995 that while economic growth in itself does not provide for sustainable growth, but the amalgamation of human development and economic growth do (Soubbotina, 2004, p. 8). As Ferreira and Harrison conclude, “expansion and diversification of exports per se may not be sufficient to promote economic growth, unless they lead to the creation of new productive capabilities in other sectors of the economy via knowledge externalities.” (Ferreira & Harrison, 2012, p. 529) In short, while Pre-Washington Consensus Costa Rica already targeted aspects embedded in the consensus such as health investment, education and infrastructure, USAID funds helped in preserving the autonomous policymaking institutions by alleviating significant portions of their deficits. Moreover, the creation of CINDE enabled both economic growth and the
4. Final Remarks

This paper demonstrates that Costa Rica’s high level of human development has been a result of a tradition of effective governance, the latter having partly been a consequence of successful education policy aimed at improving human development and also attributable to the creation of autonomous policymaking institutions in 1949.

Firstly, it is important to note that this work was not absent of limitations. Public universities in Costa Rica played an important role in the human development of Costa Rica. However, to adequately explain their transcendental role requires a study of its own. Second, this paper is limited to the latter half of the 20th century and the key events causing national development beginning in 1949, as these years were transcendental in shaping the Costa Rica of today. A study of Costa Rica in the early 21st century requires further analysis that could expanded upon in future papers.

As argued above, Costa Rica has successfully balanced economic growth with human development. This is demonstrated as its education policy and corresponding public investment have empowered human development through public access to all three levels of education and an adult literacy rate approaching 100%. Furthermore, the autonomous policymaking institutions have complemented the education policy with the provision of key aspects of human development such as universal healthcare, drinkable water, countrywide access to electricity and telephones, and economic stability. However, it is not possible to perform a complete assessment of Costa Rica’s development path without making reference to the international context. In this respect, the economic crises of the 70s and 80s were defining points as they were key factors resulting in the transition from an Import Oriented Industrialization to an Export Oriented Industrialization based economy. Such a transition was supported by the injection of development funds by the USAID. These development funds were vital, as they funded the creation of CINDE, the agency commanding the aforementioned transition.
Given the economic crisis of 1979-1983, the US-CR geopolitical relationship was essential to the continuation of the autonomous institutions system, combined with economic growth resulting from a restructuring of the economy into an Export Oriented Industrialization. Therefore, the external factor causing high development in Costa Rica was the US-CR alliance in light of the geopolitical conflicts in Central America during the decade of the 1980s.

While a country is shaped by its frontiers, what defines a country is its nation (people, polis). Costa Rica understood the importance of investing not only in economic growth within its borders, but also on the single most defining factor of its greatness; that is, human capital, and furthermore on a system that enabled the latter’s development. No other country in the Latin American region has come closer to John Rawls’ ideals of equality of opportunity (Rawls, 1999, p. 63). The reality is that Costa Rica provides its citizens with public health services, drinkable water, education, communication and electricity.

In 1949, the juxtaposition of education, army abolition and resulting autonomous policymaking institutions generated sustainable development. Then, in the face of the economic crises, education, in addition to USAID funding, rescued and catapulted sustainable development. It is in our opinion that Costa Rica’s development path from 1950-2000 was notorious thanks to both external and internal policies, moreover we think that this elements could nourish discussions for other nations in the world.

Bibliography


