

# CEPAL

## REVIEW



UNITED NATIONS

38

# CEPAL

## Review

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#### Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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## Social policies in Costa Rica

*Ana Sojo\**

Costa Rica's significant achievements in social development have been closely linked to the democratic government and its economic and social policies based on effective consensus. Until the late 1970s, these policies notably included wage increases and, despite the increasingly regressive tax structure, social spending with a redistributive effect.

In this article, the author discusses the social implications of the crisis and economic policy, especially changes made in the Welfare State, and suggests possible social development options for the coming years.

Although social inequalities have become more marked, the State has tried to find some solutions to the crisis that would benefit the majority; meanwhile, the earlier dynamics of social development provided a cushion for the most serious effects of the crisis. Despite the deterioration of social policy, there was no overall dismantling of Welfare State institutions, and their redistributive effect persisted. The financial stability recommended in order to cover the deficit in welfare and social security institutions was achieved mainly by rationalizing spending, with preference being given to administrative reform, revenue enhancement and the restructuring of services. These measures, together with the partial recovery of wages, reflect the policy's consensus-based orientation, which contributed to economic stabilization.

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## Introduction\*

The significant social achievements in Costa Rica since the 1950s have been closely linked to the democratic government and some of the basic orientations of its economic and social policies. The State, acting as an underpinning of private accumulation, has proven to be an effective promoter of compromises among different and often opposing interest groups, such as entrepreneurs and low-income sectors.

The considerable expansion of the domestic market has been consistent with a policy of increased wages. From the 1950s to 1972, real wages rose, and in the 1970s as a whole, although wages declined in the years of greatest inflation, there was an overall rise.

Also of major importance, in view of the increasingly regressive tax structure, has been the redistributive effect of social spending through social welfare institutions. Some of these, which provided social benefits, arose out of the turbulence of the 1940s; they later expanded considerably and diversified, even in the 1970s when problems of economic growth were already beginning to arise.

The recent crisis and economic policy have had an impact on employment and on the level and distribution of income, and have brought about some changes in the Welfare State, certain aspects of which will be discussed further on. Some possible social development options for the coming years will also be suggested. The conclusion reached is that, although there has been a deterioration in social policy, there has been no overall dismantling of Welfare State institutions, whose considerable redistributive effect persists. Financial stabilization, which has been advocated to help close the gap in social welfare institutions, has been achieved basically by rationalizing spending, giving preference to administrative reform, revenue enhancement and the restructuring of services (Rivera and Gendell, 1988a, pp. 18 and 19).

\*Article based on an advisory report prepared by ECLAC and presented at the Seminar on Social Development Options for the 1990s, organized by ECLAC, FLACSO and ILPES in commemoration of the 40th anniversary of ECLAC, and held in San José, Costa Rica, in November 1988.

These developments show the consensus-based orientation of policy, one of the important collateral effects of which was its contribution to economic stability during President Monge's term of office. Future prospects will depend, *inter alia*, on the positive or negative results of

structural adjustment and the renegotiated terms of payment of the external debt. These factors, and the implementation of other economic and social policy options instead of the current ones, will determine the possible scenarios for the coming decades.

## I

### Standard of living and economic policy

Economic and social policies are part and parcel of development, and their mutual integration in the promotion of investment, employment, and distribution is the cornerstone of democracy (ECLAC, 1986, p. 6). Thus, social policy is not the only policy responsible for equity, which is achieved not through social services alone but through all areas of economic and social policy and includes both short-term and long-term perspectives. Social problems and their solutions can neither be isolated from nor subordinated to the goal of economic growth (ECLAC, 1987, p. 7).

There is a relationship in Costa Rica between the behaviour of macroeconomic variables and that of income; however, changes in the magnitude of poverty do not automatically correspond to changes in macroeconomic indicators. Taking into account income, consumption, employment and infant mortality in discussing the standard of living of the past two decades, we can clearly distinguish three periods (Trejos and others, 1988, pp. 54-61), as follows:

a) *Rise in the standard of living (1970-1979)*: improvement in income indicators, especially wages. The upper-income levels appear to have benefited the most, but some indicators, such as infant mortality, fell considerably indicating an improvement in the living conditions of low-income groups. There was a slight drop or stagnation in 1974 and especially in 1975, related to the oil crisis.

According to comprehensive estimates, 25% of families and 30% of individuals were living in poverty. The phenomenon of poverty is mainly rural; and it has increased in intensity, as

can be seen in the resurgence of extreme poverty and the greater amount of resources needed to eradicate it. As for extreme poverty, there is disagreement about whether it has been overestimated.

b) *Marked reduction in standard of living (1980-1983)*: within three or four years, the standard of living indicators retrogressed by at least a decade. Wage-based income fell more rapidly than family income, and the latter dropped faster than consumption. The impact of the change, with individual variations, was felt throughout the population. At first, open unemployment rose more than underemployment, but later the two evened out. The systematic reduction of the infant mortality rate came to a halt, stagnating at around 20%.

During this period, the proliferation of poor groups mostly represented a rise in basic poverty, while extreme poverty showed a slight drop. Generally speaking, the increase in poverty appears to be concentrated in groups situated slightly above the poverty threshold, primarily in urban areas; this is why these groups are highly vulnerable in critical periods. In 1983, 40% of poor families and 38% of poor individuals lived in urban areas.

Income concentration, according to the Gini coefficient, was approximately 0.47 in 1983, as against 0.44 in 1971, a moderate degree of concentration when compared to other Latin American countries. The poorest 10% of families received less than 2% of total income, while the richest 10% of families received 37%. Over half of total family income was concentrated in 20% of the highest-income families, and approximately 70% of families

were located below the medium family income, which rose to 14 066 colones per month (Trejos and Elizalde, 1986, p. 90).

According to a tentative general comparison of income distribution between 1971 and 1983 (*ibid.*, pp. 100-101), in both years the concentration was higher in the urban areas, a phenomenon which became more marked in 1983. It declined in the poorest sectors (the lowest 20%) and medium-income sectors (the middle 60%), while it rose in the highest 20%, especially in the Metropolitan Area. Within the highest income bracket, a separation or differentiation occurred between the ninth and tenth decile in favour of the latter, especially in the cities. Thus, the increase of approximately 18% in income recorded at the national level, especially in rural areas, did not signify any progress in income redistribution (*ibid.*, pp. 102-103).

c) *Recovery of the standard of living 1984-1986* (without full restoration of pre-crisis levels). Except for infant mortality, which remained steady, the trend towards a deterioration in the various indicators was reversed, although most of them did not reach 1977 levels. Income recovered to a greater extent than consumption.

During this period there was a reduction in the absolute magnitude, incidence and intensity of poverty, both by strata and by areas. The greatest decrease occurred in basic urban poverty. The 50% reduction of intensity was sharper than that of incidence, which fell by only 26%. It should be noted that the coefficients of poverty in 1986 were more favourable than in 1971, 1973 and 1977.

In 1987 and 1988, with worsening inflation and setbacks in the recovery of income, the standard of living again declined, thus delineating a fourth period, although one that has not yet been systematized.

The behaviour of these indicators is partly related to the social implications of economic policy. In this relationship, three phases can be distinguished. The first corresponds to the government of President Carazo, whose policies, aimed at contracting demand, failed to take into account how they would affect the structure of relative prices and incomes. This orthodox approach, together with the liberalization of

interest rates and the exchange market, led to stagflation and a distributive clash which in turn exacerbated the destabilization and social uncertainty (Rivera, 1987). The second phase, that of the government of President Monge, marked the success of a heterodox stabilization policy, whose social effects were conditioned by such elements as compensatory measures in the most vulnerable social sectors, gradual transformation of the economic structure and enormous increases in the cost of public services. The wage policy was very restrictive at first. A basic basket was defined, composed of 16 commodities and subject to price control. Wage increases were determined every six months, solely in accordance with the price rises for this basket. The real minimum wage fell by 10% in 1981, and by 5% in 1982 (Castillo, 1986, p. 2000). The real wages of the lower-income strata were readjusted disproportionately, and their purchasing power was thus protected. This was in contrast to the behaviour of the lowest predominant real wages in Latin America, which fell more than the average (Tokman and others, 1988). After 1984 there was a general recovery of wages.

In the third phase, during the government of President Arias, attention has been focused on structural adjustment. In this context, the fundamental social conflict centres on the problem of the peasantry and the so-called "new agriculture". Changes are expected to take place in employment, related to tariff modifications and industrial reconversion. With regard to the external debt, despite a strong flow of resources from AID and other sources since the term of office of President Monge and their effects on adjustment (Rosenthal, 1986), the impossibility of compliance has led the government to pay the service in accordance with the country's capacity to pay. A growing discrepancy can be seen between contractual and effective payments: according to data provided by the Central Bank, only 35% of the interest was paid in the first half of 1988 as compared to 95% in 1985.

Naturally, this adjustment strategy attenuated the effects on the economy and well-being of the population since it was oriented towards growth.

It is important to consider the State's role in terms of employment. No mass lay-offs were

decreed with the aim of rationalizing government institutions. During the 1980s, Costa Rica's open unemployment rates have stayed relatively low (table 1). However, the labour market has continued to discriminate against women, as can be seen in their lack of access to jobs and in the employment and income rates, even where women have educational advantages. A look at average wages by sex indicates that, in 1980, female wages were 90%

of male wages; in 1982 they were only 84%, and in 1985, 87%. This behaviour was characteristic of the private sector (Moritz, 1986, p. 90) and shows a wage bias which has accentuated sex discrimination.

Fiscal policy has become increasingly regressive over the decade, in the framework of an indiscriminate promotion of exports to third markets.

Table 1  
COSTA RICA: UNEMPLOYMENT RATES, PUBLIC AND PRIVATE SECTORS, 1980-1986

	1980	1981	1982	1983	1984	1985	1986
Country							
Private sector	5.2	8.5	8.3	8.0	6.8	6.2	5.8
Public sector	2.2	2.8	4.3	3.2	2.9	3.0	2.5
Central government	2.5	3.1	5.2	3.5	3.4	3.1	2.6
Autonomous inst.	2.0	2.6	3.5	2.9	2.4	2.8	2.2
Non-metropolitan Central Valley							
Private sector	5.9	8.7	9.1	8.9	6.7	5.8	5.5
Public sector	2.7	2.5	3.5	2.8	3.5	2.4	2.3
Central government	2.7	2.3	4.0	3.2	4.8	3.9	2.5
Autonomous inst.	2.7	2.7	2.6	2.3	2.1	1.3	2.2
Metropolitan Area							
Private sector	5.0	8.1	10.7	7.3	7.4	7.0	6.2
Public sector	1.7	3.4	5.7	3.1	2.3	3.2	1.6
Central government	2.4	4.5	6.7	3.9	2.3	2.9	2.2
Autonomous inst.	1.3	2.7	5.0	2.4	2.4	3.4	1.2
Rest of country							
Private sector	4.6	8.7	5.3	7.7	6.5	5.9	5.7
Public sector	2.5	2.5	3.4	3.7	2.5	3.4	3.8
Central government	2.2	2.6	4.1	3.4	2.2	2.8	3.8
Autonomous inst.	2.7	2.3	2.8	3.9	2.8	3.9	3.8

Source: Argüello and Labell (1988).

## II

### Social policy in a context of economic crisis

#### 1. Redistributive effect of State social policy

Studies on public subsidies of social programmes (Trejos and others, 1988, pp. 175-196) estimate the total subsidy at 19 512 million colones for 1983, or 16% of the gross domestic product for that year. Of this subsidy, 39% was devoted to education, 38% to health, 9% to water supply

services and water purification, 7% to housing, 5% to food and nutrition and 2% to social security. One third of the subsidy benefited poor families; of these, 53% were at the basic poverty level and 47% at the extreme poverty level (*ibid.*, p. 180).

Poor families received more than one fourth of the education funds. However, access to education clearly varies according to social

stratum: those who received a secondary education are concentrated in the middle-income sectors; 42% of those who receive higher education come from the two highest-income deciles of families, and for primary education the situation is the reverse (*ibid.*).

In health, 37% of spending went to poor families. Within this population, the average health subsidy per poor family was 50% greater than that of non-poor families (*ibid.*).

In food and nutrition, as well as social security, subsidies were given mainly to low-income families; two thirds of this spending benefited poor families (*ibid.*). On the contrary, in housing, water, and water purification, the non-poor sectors were the primary beneficiaries. Poor families received only 11% of the housing subsidy and 20% of the water and water purification subsidy. For families living in extreme poverty, there was no housing subsidy, and they received only 9% of the water subsidy (*ibid.*, p. 182).

The redistributive effect of these programmes is noteworthy. In both relative and absolute terms, the poor were the most favoured group. Taking into account the entire country, the subsidy raised total monthly family income by more than one fourth. The family income of the poor rose by 4 187 colones, representing 86% of their family income, and 18% of the income of non-poor families (*ibid.*, p. 184). In the case of extreme poverty, income more than doubled. Regionally, the monthly subsidy to urban families (an average of 4 166 colones) was higher than that of rural families (2 993 colones), although the poor received greater benefits than the non-poor in rural areas. Thus it may be concluded that "if the subsidy is included in the calculation, the overall proportion of poor families dropped from 26% to only 10%. The sharpest reduction, to only 3%, took place in the extreme poverty sector. As a result, the composition of overall poverty changed, in that 70% of it represented basic poverty (compared to 53% prior to the subsidy) and the rest represented extreme poverty" (*ibid.*, p. 188).

Taking into account the subsidy, total national income and total urban income increased by one fourth, and rural income by 30%. Except for urban families living in basic poverty, the subsidy resulted in higher median

levels for all (*ibid.*, p. 190). As a result of the subsidy, the total poverty gap per family declined from 3 332 colones to 2 732 colones and, as a per capita figure, from 498 to 382 colones; the total gap was reduced from 439 to 137 million colones, representing a drop of almost two thirds (*ibid.*, p. 192).

These data are based on a household survey conducted in 1983. In describing the situation from then on, the effect of a certain amount of real contraction in public spending for these subsidies must be taken into account, as will be seen below.

## 2. Real reduction in social-sector spending

The fiscal situation in the 1980s—characterized by high debt service, dependence on external financing from institutions which have recommended ways of improving public finances and precariousness of economic growth—limited the resources available to the institutions responsible for social welfare.

During the period 1975-1985, there was a significant real decrease in public spending for social policies, especially beginning in 1981. The 1980 levels were exceeded only in the labour and social security sectors in 1985 (tables 2 and 3).

The various sectors were affected in different ways. From 1975 to 1981, the proportion of resources allocated to all the social sectors remained relatively stable, but beginning in 1981 there was a sharp reduction. The sector most affected was health, which received only 17% in 1985 compared with 26.4% in 1979. The housing sector was severely hurt in 1982, with its share of total public spending dropping to a mere 1.5%; it later recovered and rose above the 1975 percentage in 1985, with 2.4% of total available resources (MIDEPLAN, 1987a, p. 31).

In relationship to the total population of Costa Rica—not to direct beneficiaries alone—spending showed a considerable decrease in the social sectors, mainly those of education and health. All sectors showed a real reduction in 1985 compared to their 1975 level, except housing, which recorded a rise of 9.5%. The health sector was affected the most, declining 29% over the 10-year period (*ibid.*, p. 34).

However, taking total spending as a proportion of GDP, the reduction is less marked:

the share of total spending actually rose to 42.1% in 1985 compared to 41% in 1978 and 35.6% in 1975 (*ibid.*, p. 35) (table 4). As measured by productive capacity and the real decrease in social spending, there appears to have been no overall dismantling of the Welfare State, even with severe fiscal constraints. On the other hand, the efforts to reduce spending and rationalize employment in the public sector, together with the effects of the wage policy, in particular have been clearly evident: central

government spending for salaries and wages in the social services was reduced from 29.7% in 1975 to 14.3% in 1985 (*ibid.*, p. 53).

Naturally the spending cut had an impact on the provision of services. In the education and human resources sector, a government study recently noted the considerable cut in budgetary resources and its adverse effects on the hiring of staff, the efficiency of services and the meeting of infrastructure needs (Executive Office, 1987).

Table 2  
COSTA RICA: PUBLIC SPENDING IN CERTAIN SOCIAL SECTORS, 1975-1985

(Thousands of colones at current prices)

Year	Total	Education	Health	Labour and Soc. Sec.	Housing	Other <sup>a</sup>
1975	6 028 291.2	932 475.4	1 476 327.3	608 142.9	126 328.7	2 908 598.6
1976	7 667 182.3	1 243 005.3	1 701 257.9	690 422.1	188 678.4	3 843 818.6
1977	10 348 253.1	1 550 052.4	2 095 511.8	774 165.7	234 403.7	5 694 119.5
1978	12 407 851.6	1 916 476.7	2 901 224.2	1 054 479.6	264 413.3	6 261 257.8
1979	14 870 749.4	2 307 532.5	3 930 052.0	1 455 936.1	359 948.9	6 817 279.9
1980	18 662 560.6	2 876 174.5	4 673 548.5	1 483 347.2	637 475.0	8 992 015.4
1981	22 137 024.1	3 443 934.0	4 533 741.8	1 473 480.7	408 882.0	12 278 985.6
1982	34 876 762.0	4 826 198.9	6 146 936.1	2 487 934.1	513 834.4	20 901 858.5
1983	53 606 103.9	6 709 286.9	9 154 956.7	3 287 932.1	1 230 641.8	33 223 286.4
1984	68 680 246.8	8 551 652.3	11 591 452.3	5 279 275.8	1 654 086.0	39 583 780.4
1985	78 459 058.8	10 209 509.7	13 402 978.6	6 994 025.4	1 766 145.2	46 086 399.9

Source: Prepared by MIDEPLAN on the basis of official data.

<sup>a</sup>Includes other social and non-social sectors.

Table 3  
COSTA RICA: PUBLIC SPENDING IN COLONES AT CONSTANT PRICES<sup>a</sup>  
IN CERTAIN SOCIAL SECTORS, 1975-1985

Year	Total	Education	Health	Labour and Soc. Sec.	Housing	Other <sup>b</sup>
1975	2 273 430.9	350 291.3	554 593.3	228 453.4	47 456.3	1 092 636.6
1976	2 401 999.5	389 412.7	532 975.5	216 297.7	59 109.8	1 204 203.8
1977	2 770 616.5	415 007.3	561 047.3	207 273.3	62 758.7	1 524 529.9
1978	2 854 951.4	441 584.5	668 484.3	241 271.8	60 924.7	1 442 686.1
1979	2 996 926.5	465 040.8	792 029.8	293 417.2	72 541.1	1 373 897.6
1980	3 157 276.3	486 580.0	790 652.8	250 963.8	107 845.5	1 521 234.2
1981	2 967 827.4	461 715.2	607 821.7	197 544.1	54 549.1	1 646 197.3
1982	2 885 477.0	399 288.4	508 557.6	205 835.5	42 511.3	1 729 284.2
1983	3 128 456.6	391 554.5	534 284.0	191 884.0	71 820.4	1 938 913.7
1984	3 151 039.8	404 237.9	547 929.7	249 552.1	78 188.9	1 971 131.2
1985	3 011 054.3	391 814.5	514 371.5	268 411.8	67 780.1	1 768 676.4

Source: Prepared by MIDEPLAN on the basis of official data.

<sup>a</sup>Deflated by the implicit price index of final general government consumption spending; taken from *Cuentas Nacionales de Costa Rica*.

<sup>b</sup>Includes other social and non-social sectors.

Table 4  
COSTA RICA: PUBLIC SPENDING IN CERTAIN SOCIAL SECTORS,  
AS A PROPORTION OF GROSS DOMESTIC PRODUCT, 1975-1985

(Colones at current prices)

Year	Total	Education	Health	Labour and Soc. Sec.	Housing	Other
1975	35.6	5.5	8.7	3.4	0.7	17.3
1976	37.0	6.0	8.2	3.3	0.9	18.6
1977	39.1	5.8	7.9	2.9	0.9	21.6
1978	41.0	6.3	9.6	3.5	0.9	20.7
1979	48.0	6.6	11.4	4.2	1.1	19.7
1980	45.1	6.9	11.3	3.6	1.6	21.7
1981	38.7	6.0	7.9	2.6	0.7	21.5
1982	35.8	4.9	6.3	2.6	0.5	21.5
1983	41.2	5.1	7.0	2.5	1.0	25.6
1984	42.0	5.4	7.3	3.3	1.0	25.0
1985	42.1	5.4	7.2	3.8	0.9	24.8

Source: Prepared by MIDEPLAN on the basis of official data and figures provided by the Central Bank of Costa Rica in *Cuentas Nacionales de Costa Rica*.

### 3. Rationalization of social policy and State centralization

The sizeable social spending cuts required by the unavoidable need to change the social policy did not break up the Welfare State, largely because of the inertia of institutions, the government's political will to continue promoting a redistributive material base through the State as a form of social integration and co-operation, and the institutionalized presence of low-income sectors in the State and society at large (Sojo, 1986, p. 43). This is why the State was effective in "confiscating" social conflicts, which was not easy in a era of transition to a new economic model and redefinition of the State.

The strong pressures from international financial institutions to rationalize public spending have naturally had an impact on social policies. One example was the law concerning the financial stability of the public sector, whose terms were negotiated with the World Bank's Structural Adjustment Facility (SAF) II. At the same time, deficiencies in government institutions have resulted in wide-ranging proposals for reorganizing and redirecting them; thus the rationalization process is not being viewed from one side only, nor are

institutions being seen as subject to external controls.

Gradualism in the transformation of the economic structure is also reflected in social policy. During the past two governments, the financial stabilization which had been recommended in order to deal with the deficit of welfare and social security institutions, was achieved basically through the rationalization of spending. This was focused on administrative reform, revenue enhancement and the restructuring of services (Rivera and Gendell, 1988, pp. 18 and 19).

The trend towards modifying the Welfare State has been reflected in the growing participation of the Executive Power in decision-making, and a relative weakening of the influence of the Legislative Assembly (*ibid.*, p. 21). By direct intervention in institutions, the Executive has promoted administrative reforms in the production and provision of public services. These institutions have included the People's Bank, the Administrative Board for the Development of the Atlantic Slope (JAPDEVA), the Costa Rican Water Supply and Sanitation Institute (ICAA), the National Housing and Urbanism Institute (INVU), the Agrarian Development Institute (IDA), Costa Rican

Railways, S.A. (FECOSA) and Costa Rican Publishing, some of which were directly involved in very disparate social policies, ranging from credit to water supply, housing and agrarian development.

Unlike the Costa Rican Social Security Fund, which autonomously adopted a strategy for restructuring, as we will see, these institutions were unable to do so. Common intervention procedures included the establishment of commissions of "experts", appointed on an *ad hoc* basis by the Executive; a review of the strategies, methods and procedures used by the institutions; the development of an administrative restructuring plan; the creation of administrative mechanisms and controls, and technical bodies to implement the new guidelines (*ibid.*, para. 3.2.1). The reasons given for intervention include deficiencies in the provision of services; user discontent; alleged administrative irregularities; financial deficiencies; need for restructuring organizational procedures; and charges of corruption (*ibid.*).

The centralization of decision-making in the State is not a new process. Decentralization, which began in 1948 with the rise of autonomous and quasi-autonomous institutions, lasted through the 1960s, but the situation took a different turn in the following decade (Sojo, 1984). In the 1980s, centralization has basically meant that decision-making concerning public spending primarily lies with the budgetary authorities, through the use of a single tax fund. In special cases, the Executive has proposed budgetary changes which have been approved by the Legislative Assembly, such as the creation of the Housing Subsidy Fund through Act No. 7052, which earmarked 33% of social development funds and family allowances for this purpose. For institutions related to social sector spending, this centralization changed the way the interests of the low-income sectors were represented, and the way their demands were channelled (Sojo, *ibid.*, p. 157).

#### 4. New relations with the user and privatization

Up to the beginning of this decade, social sector spending was carried out almost monopolistically through public institutions.

Recently, changes in the provision of services have made participation by the community and people's organizations, such as co-operatives and joint associations, more important (Rivera and Gendell, para. 3.2.1).

In this framework, it has been proposed to transfer some services to small enterprises, a suggestion that has until now had only a minimal effect (e.g., telephone services). Some studies reveal skepticism about the potential economic benefit and service resulting from privatization, especially if the private entrepreneurial capacity is uncertain, and they bring out a crucial point which deserves further thought: if the potential entrepreneurs do not have the required capacity, the privatization policy may lead to a crisis in services (Sanguinetti, p. 205).

In the case of housing, the members of the groups that have been formed to demand better housing have been encouraged to participate, and a political agreement has been reached with them based on new housing programmes. It is estimated that more than 300 organized groups are currently participating in housing projects. Of the total loans granted by the Home Mortgage Bank (BANHVI), the leading institution in the sector, nearly 40% were channelled through co-operatives (Ministry of Housing, 1988). There has also been an effort to promote the establishment of health co-operatives, which would be subcontracted by the Costa Rican Social Security Fund (CCSS) to administer clinics and hospitals (Rivera and Gendell, *op. cit.*).

Another proposal has been to encourage community self-management, for example in administering school lunchrooms (*ibid.*). This proposal, in order to be efficient, would require an estimate of community entrepreneurial capacity.

#### 5. Focusing of efforts and the tendency towards social conflict

In the 1970s, a universalistic concept of social policy prevailed, and several initiatives aimed mainly at low-income sectors were undertaken, such as the Joint Social Assistance Institute. Following the outbreak of the crisis, the government of President Monge created the Social Compensation Plan, which included some

aspects of employment, housing and nutrition, and strengthened the regular activities of the public institutions which had dealt with these sectors previously.

Some studies show the need to direct the public policy subsidy to the poorest sectors. It has recently been estimated that it would be feasible to eradicate poverty by transferring 3% of total family income. This implies that income redistribution, not the availability of resources, is the key to the problem (Trejos and others, 1988, p. 198). It is recommended that social programmes be redefined to improve their overall redistributive efficiency; that assistance and emergency programmes be created; and that a more efficient use be made of the available resources (*ibid.*, p. 211). The direct distributive efficiency of social programmes is estimated at around one-third, and in the rural areas at 45%. In all areas, two-fifths of this amount are considered to be an excessive subsidy; it would be enough to redistribute two-thirds of this excess to eliminate poverty totally (*ibid.*, p. 209). If the emphasis is placed on absolute poverty, efforts should be directed towards target groups in the rural areas; if it is placed on relative poverty, the emphasis should be equal in both rural and urban areas, or even greater in the cities, specially in the Metropolitan Area (*ibid.*, p. 40).

The crisis pointed up certain needs that were not being met. In the case of housing, as noted above, the State had not provided many benefits to the lower-income sectors, who did not have the required capacity to pay (Valverde, 1986). Towards the end of the 1970s, this situation led to the formation of groups demanding better housing. The government of President Oscar Arias has reached an agreement with them and set up a new housing programme, and these groups have stopped using land takeovers as a conventional form of struggle.

The government's main innovation in social policy has undoubtedly been to give priority to the problem of housing. According to official figures, the potential housing demand, classified according to capacity to pay, can be broken down as follows: 21% of families have no capacity to pay, 40% of families have the capacity to pay, if offered special arrangements for minimal dwellings, and 22% of families have the capacity to pay for public or low-cost housing. In other

words, financing is required in order to make housing available to 61% of the population (Ministry of Housing, 1988b). The emphasis placed on this type of solution shows the priority given to the problem of housing; this is the most outstanding innovative feature of the current social policy, whose special features will be discussed below.

#### 6. *Specific sectoral policies for coping with the fiscal crisis*

We have reviewed the general trends towards a reduction in spending, together with continued redistribution despite constraints. The various sectors and public institutions involved have dealt with this situation by using specific policies, two of which stand out especially: health policy, because this is the social sector which has received the most resources until recently; and housing policy, because it is the least developed sector and has a more restricted redistributive effect. The most radical reorganization process is currently taking place in this latter sector.

##### a) *Health policy*

The cut in health spending has been significant. In 1981 and 1982, per capita spending on health, in relation to GDP, declined respectively by 28.8% and 35.5%; although it then recovered slightly, it never reached its previous levels (Sanguinety, 1988, p. 53). Correlations of the indexes of annual variations of GDP and health spending show that the latter systematically fluctuated more widely than GDP; when the product increased, health spending increased at a greater rate, while in periods of contraction the reduction in health spending was also more pronounced.

The Costa Rican Social Security Fund (CCSS) faced a considerable operational deficit at the beginning of the decade in connection with the universalization of its services, under way since 1973; the transfer of hospitals and clinics, which had been administered by the Social Protection Board until 1979; and the debt contracted by the State in its capacity as employer, which continued to accumulate until it reached 2 027 million colones in 1983 (Gendell, 1988).

The impact of decreased spending on services has not been studied as a separate item, although the College of Physicians and Surgeons, has pointed out some of the deficiencies (*ibid.*). It notes that there is currently a "virtual deterioration in the quality of health services", which is very evident in respect of primary health care (rural and community health care, dental care, food and nutrition) and in the morbidity of the population, in view of the incidence of disease, which has been increasing considerably (MIDEPLAN, 1988, pp. 46-47).

It would be inadequate, however, to evaluate available services only on the basis of spending, whose contraction does not necessarily indicate an effective total reduction of available resources. CCSS, whose spending is concentrated primarily on the health sector, took strict measures in the midst of the crisis to increase its internal efficiency by reducing hospital and out patient costs. From 1980 to 1982 the real decline in CCSS spending was 50% while that of the Ministry of Health was 49%. In 1985, total CCSS spending was 24% less than its spending in 1979. Meanwhile, the recovery of expenditure which had been initiated by CCSS in 1983 was achieved by considerably increasing taxes; the share paid by employers rose from 6.75% to 9.25% of wages that year (Sanguinetti, p. 49); this is an indication of the consensus-based orientation of policy during a period of economic contraction.

A distinction should be drawn with regard to budgetary constraints in the health sector. The Ministry of Health and other institutions dependent on the State budget suffered sharp cuts. CCSS, owing to its autonomous financing, was able to consolidate its financial base. This explains why sickness and maternity insurance revenues showed a steady increase from 1983 on. From 1983 to 1986, annual growth rates were approximately 35%, 18%, 14% and 6%, respectively. The spending policy produced a surplus: of the 11 090 million colones collected in 1985, 9 206 million were spent on services; in 1986, revenues reached 12 840 million, and outlays, 10 955 million. As a result, CCSS made an increasing number of transfers to the Ministry of Health (*ibid.*, pp. 49 and 79). State debt has not yet been paid; it reached 4 100 million colones in 1986 (Gendell, 1988). Certain

measures set forth in the Act on Financial Stability which had tended to slow down employment were made more flexible after protests had resulted in the intervention of the Legislative Assembly (*ibid.*).

The current situation of CCSS is also related to the predominant political trends. During the government of President Carazo, an attempt by physicians to privatize health, through the free choice of physicians and hospitals, resulted in failure. From the government of President Monge onward, the prevailing mode was not favourable to indiscriminate privatization either, but to measures for rationalizing spending and the provision of services (*ibid.*), in conjunction with the transfer of services to co-operatives.

#### b) Innovations in housing policy

During the government of President Carazo, a proposal was made for restructuring the housing sector in order to give preference to providing minimal, basic dwellings for low-income sectors. This proposal was not put into practice because of disagreements within the government itself. Furthermore, in the midst of the fiscal crisis, a large amount of resources originally intended for the housing sector were used for other purposes (Valverde, 1986). Spending constraints had a huge effect on the provision of basic dwellings, which recorded the lowest indexes in the last 30 years. Thus, compared to the 1 989 minimal units completed by INVU in 1978, only 52 were completed in 1982. This latter figure is comparable only to the first year of INVU's operation; the number rose to 255 in 1983. All the public institutions which finance housing suffered a radical credit contraction from 1980 onward (*ibid.*, para. 2.3).

If the accumulation of the housing deficit is taken into account the social impact of this sectoral contraction is even more striking. According to official figures, this deficit affected 270 000 families in 1983, or 61.7% of the total population (*ibid.*, p. 98). This situation is closely related to the traditional profile of the nation's housing policy in respect of its scope and redistributive effect. In 1982, the total subsidy for the housing sector amounted to only 1.05% of GDP; of this percentage, 96.2% corresponded to credits and 3.8% to direct subsidies. The distribution of the latter was very progressive,

while that of credit was regressive; 10% of the poorest families in the country were completely excluded, and the subsidy was concentrated in the urban areas (Rodríguez, 1986, pp. 76-78).

Since the end of the 1970s, the housing deficit and the regressive nature of housing policies have resulted in a wide-scale social movement to demand housing. Reforms in this area introduced during the government of President Oscar Arias have made it possible to reach an agreement with these movements, and they demonstrate the government's growing sensitivity to a largely unmet demand. In view of the fiscal situation and the advancement of proposals at other levels to reduce subsidies and limit the role of the State, these measures are highly innovative and constitute a clear counter trend (Vargas, p. 2). In point of fact, the housing problem began to be perceived as a national problem of high priority, subject to "a political rationale" which forced the government to "achieve almost spectacular short-term results" (*ibid.*).

It was not simply a question of increasing resources for housing, but of designing and implementing a radical restructuring of the sector. At the end of 1986, the National Home Financing System was established, under the management of the Home Mortgage Bank (BANHVI). Two special funds were also created: the National Housing Fund (FONAVI) whose purpose was to generate continuing resources at the lowest possible cost, and the Housing Subsidy Fund (FOSUVI), for low-income families. The purpose of the latter was more complex: "... what is needed is to establish and operate an efficient system of housing subsidies, one that is capable of achieving the goal of gradually eliminating the serious housing problem, that will not distort the normal functioning of the home financing market, and that will provide adequate attention to truly needy groups" (*ibid.*, p. 3).

The financing established by law for FOSUVI represents a considerable reallocation of public funds, partly from the Social Development and Family Allowances Fund (which will earmark 33% of its annual resources to FOSUVI), plus 3% from the national budget of the Republic, extrabudgetary resources and donations. FOSUVI was conceived of not as an emergency or contingency fund, but as a permanent fund. The

family housing credit is an individual, long-term loan designed to enhance the family's creditworthiness. Families with incomes equal to or below an amount four times the minimum wage of a skilled construction worker are eligible for this credit (*ibid.*, p. 2).

The crux of the sectoral restructuring is a new national financial system to administer the resources, headed by a co-ordinating or centralizing body. At the same time, the State will no longer be involved in the construction sector (Rivera and Gendell, 1988, p. 23).

From May 1986 to September 1988, a total of 46 462 dwellings were built in Costa Rica (Ministry of Housing, 1988a). During the second half of 1987, construction, in terms of square metres, increased by 35.35% compared to 1986; the growth was 84% for construction of so-called "social interest", or minimal housing, units of less than 70 square metres (Ministry of Housing, 1988, p. 43). In May 1988, FOSUVI granted 4 935 family credits (*ibid.*, p. 16), from May 1986 to April 1988, BANHVI financed 21% of a total of 26 460 housing operations the medium income of the beneficiaries of these dwellings was 12 845 colones, which is an indication of the social nature of the programme (*ibid.*, pp. 17 and 18).

### 7. Private social policy

In contrast to the weakening of the trade union movement over the decade, the movement towards solidarity (in which workers' associations were strengthened by employer support) reached a peak; this was conceived of as an improvement upon the labour law relating to benefit funds. These associations provide very diverse services, such as wholesale purchasing, scholarships and individual and home loans. Through this movement of solidarity and their own private policy, entrepreneurs are promoting measures to consolidate an agreement with workers. In view of its potential repercussions, this may be compared to a wage agreement, in that the worker becomes involved in the system on the basis of his relationships within the enterprise itself. It thus differs from the agreements reached on the basis of social policies promoted by the State (Sojo, 1986, pp. 45 and 46).

### III

## Future options for economic and social development

Although social inequalities have become more marked in the past few years, the State has made some attempt to find solutions to the crisis that would also help the majority. The dynamics of social development prior to the outbreak of the crisis acted as a considerable cushion for the most serious effects of the crisis. It should also be recognized that the government's experience in designing and managing social programmes has made it possible to take some effective steps to deal with the worsening social situation (Pinto de la Piedra, p. 3).

Future socioeconomic options may include three potential areas of effort. Although there may be crucial economic constraints, such as the external debt problem, the direction of future development will also depend to a large extent on the efforts and political will that may operate in favour of one solution or another: a) on the one hand, through radical changes, a conservative end to the crisis may be brought about; b) the solutions tried thus far may stagnate or lead to even worse crises, if the vulnerable areas are not dealt with on the medium and long term; or c) economic development may be recovered with equity, if these problems are overcome and innovative proposals are made.

The conservative option is basically derived from an analysis of the economic crisis which advocates the reestablishment of the capacity for international competition on the basis of the comparative advantages that would result from the full liberalization of the economy in various areas (trade, exchange, finances and tariffs). This would occur in the framework of an essentially static model, in terms of both the allocation of resources within the domestic productive structure and of comparative advantages in international trade (Garnier and others, 1985; Herrero and Rodríguez, 1987a). Its impact on social policy is clear: adequate remuneration of the factors, which would eliminate subsidies and taxes on capital or labour; and the political forces would be perceived as possible sources of distortion of price formation.

The adoption of this conservative option would need to be accompanied by fundamental changes in the Costa Rican political system. It would mean a radical turnabout in the representation of the various social interests in the government and in the society at large, in favour of an entrepreneurial corporativism. Its viability would be linked to a substantial weakening in the political forces, which have thus far been characterized by a consensus-based treatment of economic and social issues.

At the same time, the focus of efforts until now presents certain aspects which make it vulnerable if changes are not introduced in order to lay the foundations for a form of economic development based on the productivity of national resources and on social equity.

#### 1. *Economic options*

At the economic level, the indiscriminate nature of export promotion needs to be pointed out. This is symptomatic of the absence of basic criteria that would enable the socioeconomic development strategy to overcome current stumbling blocks. These criteria should include the selection of the type of exports in accordance with their sectoral insertion, their vertical and horizontal links with other domestic activities and their potential ability to enhance productivity (Garnier, 1984). Moreover, the predominant mode has been one of excessive experimentation, which may entail high social and economic costs. Information is scattered, and there is a lack of knowledge in a great number of areas and a lack of experience in production and marketing, all of which portend problems of government policy and entrepreneurial capacity (Herrero and Salazar, 1987, p. 18).

Reference has already been made to the increasingly regressive nature of the tax structure; this feature has been considerably aggravated by the promotion of non-traditional exports, which entails a high fiscal cost. At the same time, no effort is being made to formulate a

deliberate policy of structural change aimed at integral development; such a policy would include the sustained reactivation of domestic demand combined with a selective expansion of import substitution and a rehabilitation of the productive apparatus for non-traditional exports (Garnier and others, 1985, p. 6).

There is also a need to take vigorous steps to strengthen the Central American Common Market, although the emphasis on exporting may be outside the area. There have been no proposals for "an adjustment that is not only compatible with integration but preferably one that would be facilitated by the encouragement of mutually beneficial interdependence" (Fuentes, 1988, p. 5).

The results of structural adjustment can scarcely be conjectured, and the present period can clearly be called a transition towards an opening to the international market. In order to improve the country's productivity and achieve social development with equity, a series of efforts are needed to deal with vulnerable aspects such as those mentioned. Failure to deal with them may aggravate the trade balance problems, bring on bankruptcies and a deterioration of the standard of living of small-scale producers, without there being any way for them to be reincorporated into the labour force, and may generally lead to unemployment unless there is a clear reorientation of resources. One option which would be detrimental to equity would be to base comparative advantages on the cheapening of labour.

## *2. Social policy options*

The challenges in the field of social policy are enormous. It is obvious that there are limits to how far social spending can be reduced in order to enhance economic stability. No short-term changes are foreseen in State revenue unless a radical turnabout occurs in the external debt, or there is a change in the increasingly regressive character of the fiscal structure. The restructuring of welfare institutions to promote an optimal yield of services is an urgent need, because it is impossible to reduce spending without affecting the offer of services, and because of the political difficulties that would arise from such fiscal modifications.

The transition to the new economic model and the opening of the market will inevitably bring about changes in employment, which will lead to severe short-term pressure on the State, if there exists a will to protect the weakest sectors in order to achieve equity during this transition process (for example, by providing emergency employment programmes). A cutback on spending (at the same time that services are expanding because of other events during the period) will result in additional tensions.

The transfer of services and their provision by non-governmental bodies may be appropriate and may even contribute to democratization, as long as the quality and costs of the service are in accordance with the goal of social equity. If these changes occur, the public sector will have to continue playing a role as regulator, supervisor, evaluator and provider of resources (Bustelo, p. 24).

There will continue to be tension between the universality of the social policy and attempts to focus it. If emphasis is placed on the latter aspect alone, a number of past social gains may be lost; grave political consequences may ensue, affecting social sectors such as the middle classes, whose standard of living has been adversely affected and whose resources have been considerably reduced.

In the face of financial constraints and at the same time a quest for equity, it is essential to give priority attention to the production and ownership of resources (Herrero and Salazar, 1987, p. 5), with the goal of economic democracy. The experience with co-operatives in Costa Rica (for example, in coffee production) has yielded positive results which should be more thoroughly studied and expanded. This will undoubtedly require a sizeable political effort, in view of certain reticences in Costa Rican society, which can be seen, for example, in the failure to promote the Labour Economy Sector. In this sense, the sale of the Costa Rican Development Corporation (CODESA), the Tempisque Sugar Plant, S.A. (CATSA) (a sale already in progress), Pacific Cements and Central American Fertilizers, S.A. (FERTICA) may signify some progress, in terms of helping to democratize ownership. The strategy of transforming the economy should contain

proposals for efficient associative schemes in order to strengthen economic democracy and fairly apportion the benefits of adjustment.

External indebtedness, the sword of Damocles in this case, requires an urgent

solution that will deal with all these challenges: more than ever, there is a need to use national resources for domestic consumption and investment, in this small country so vulnerable to reverses in foreign trade.

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