

# CEPAL

## Review

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## Review

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## The State and poverty in Costa Rica

*Marvin Taylor-Dormond\**

The free market philosophy is having a strong influence on policy design and economic strategies in the Latin American countries, and this can lead to erosion of State action in favour of marginated groups as a result of mistakenly entrusting the task of redistribution to the "invisible hand" of the market.

The idea of economic efficiency does not include concern for distribution, however, so that it may be synonymous with extreme inequality and injustice, thereby calling for State action in this matter. In the progress towards more generalized use of the market, the function of the State in the reallocation of the product is vital, since the market is incapable of looking after the needs of marginated groups, for the simple reason that these groups do not have the necessary voice for taking part in the mercantile auction of benefits.

This article seeks to contribute to the store of knowledge on the role of the State with regard to transfers and attention to the interests of the poor in Costa Rica. An analysis is made of the direct effect of public subsidies — provided through the health, education, housing, food, social security, and water and sanitation programmes — on the incidence and intensity of poverty in Costa Rica. The results of the research show that the action of the Costa Rican State in this field has a significant impact. The effect of public social subsidies is to reduce total poverty from 26% to 10% and to narrow the global poverty gap by more than two-thirds. On the basis of this evidence, it may be maintained that the State provision of basic services to the population has not only made it possible to combat poverty in the country but is also a fundamental element in the social stability and exercise of democracy in Costa Rica.

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## Introduction

The extent to which the free market philosophy is influencing economic policy design in the Latin American countries can lead to the erosion of State action in favour of marginated groups by mistakenly entrusting the task of redistribution to the "invisible hand" of the market rather than the visible hand of the State.

In this respect, a recent World Bank report not only maintains that poverty continues to be the greatest challenge to development policy but also argues that appropriate fiscal policies are essential for tackling poverty and that well-designed public spending can not only improve the access of the poor to services which are of basic importance for their existence but can also promote the development of human resources (World Bank, 1989, p. vi). Moreover, in its latest *World Development Report* the Bank reasserts this position and enlarges on it (World Bank, 1990, p. 3). This Report, which is devoted to the subject of poverty, indicates that in order to combat poverty successfully it must be attacked on two fronts which mutually strengthen each other: through initiatives which promote the productive use of the labour of the poor, and through the provision of this marginated section of the population with basic services, especially in the fields of education, health and nutrition. The Bank also maintains that a global approach to the problem of poverty calls for a well-designed programme for the transfer of income and for social security systems which complement the action taken on the two fronts mentioned above. Thus, far from condoning the abandonment of State efforts to satisfy the needs of marginated groups, it recognizes that this is a field where the public sector must play a dynamic role.

Furthermore, from the conceptual point of view, the inalienable responsibility of the State in the redistribution of the product is something which has been clearly established in the theory of public economics. A cornerstone in this respect is the classic work of Musgrave, who justified the redistributive function of the State by pointing out that unless the distribution pattern is accepted as being just (which is far from being the case in Latin America), the effective demand reflected in the market cannot be accepted as a guide for efficient resource use (Musgrave, 1968, p. 18). In the same respect, Prebisch pointed out that regardless of the economic efficiency of the

market, its deficiencies stem from the fact that demand is generated in a certain given income distribution, linked with a particular social structure which is highly inequitable and excludes a considerable part of the population from the benefits of development. It may be concluded from the foregoing that although the market laws may lead to rational solutions, the benefits of those solutions are restricted to a small privileged group and can hardly claim to be rational for the community at large (Prebisch, 1981, p. 16).

In short, while it is absurd to deny the virtues of the market as regards efficiency in resource assignment, the notion of economic efficiency is amoral and rules out considerations of distribution, so that it can easily be synonymous with extreme inequality and social injustice. Consequently, within the trend towards more generalized use of the market, the State has a vital role to play in the reassignment of the product, since the market is incapable of looking after the needs of the marginated groups, for the simple reason that these groups do not possess the necessary voice for participating in the mercantile auction of benefits.

In the light of this controversy, this article seeks to contribute to the store of knowledge on the role of the State in the transfer of resources and attention to the needs of the poor in Costa Rica. On the basis of the methodological framework used in studies on this topic carried out in developing countries (Selowsky, 1979; Meerman, 1979), the article analyses the effects of the public subsidies granted through social programmes on the incidence and intensity of poverty in Costa Rica.

The topics dealt with in the article have been divided into four sections. Section I sets forth the methodological basis for the study, while section II examines the magnitude and intensity of poverty in the absence of the benefits of the social programmes. Section III analyses the magnitude and composition of the public subsidy given to social programmes and its distribution between the poor and the non-poor, while section IV gives estimates of the magnitude of poverty after taking into account the effects of the subsidy. Finally, the last section summarizes the conclusions of the study.

## I

### The methodological framework

#### 1. *The concept of income and poverty lines*

In this article, a profile of absolute poverty in 1983 is established, using as a reference the income received by families. For this purpose — using the information compiled in a sample survey carried out in 1984 by the Economic Research Institute of the University of Costa Rica— two categories of income were defined: a) income excluding the benefits derived from public expenditure and b) income including those benefits.

The first category comprises monthly wages, profits (balance of personal activities), capital income (interest, dividends, and property rents, including the estimated income corresponding to the fact of living in one's own house), value of income corresponding to production used for

home consumption, contributory pensions,<sup>1</sup> sickness benefits (benefits paid during temporary absence from work on account of sickness), sporadic transfers (lottery prizes, presents, payments under insurance policies, inheritances), and income from other sources (financial help from relatives, for example). Through this definition, it is sought to cover all income produced by the collective effort of family members, excluding all aid provided by the State.

<sup>1</sup> This is a regular pension scheme in which workers make systematic contributions in order to receive a pension when they retire. Older persons who are not covered by this scheme can apply for a pension under the non-contributory system, which is financed by the State. Because of this latter fact, the pensions under this system are included as part of State assistance programmes.

The second category of income includes the value of benefits derived from public spending in the social areas. Obviously, the income received under this second category gives a total income greater than (or at least equal to) that received under the first category.

Although the income per adult-equivalent is probably the most efficient reference indicator for measuring poverty (Trejos, 1983, pp. 61-62), the limitations of this variable, to which Mohan so rightly drew attention, make it desirable to adopt instead the per capita family income (Mohan, 1984, p. 5). Thus, by matching this per capita average with a poverty line likewise expressed in per capita terms, the families were classified into poor and non-poor.

In order to establish the absolute poverty line, the study by Mata and Murillo on the basic food shopping basket in Costa Rica was used, in which this basket is defined as "the amount of food consumed by an adult Costa Rican male (over 25, weighing 65 kgs and engaged in an average level of activity), which amounts to 2 900 calories per day" (Mata and Murillo, 1980).

The cost of the basic basket was calculated using the food prices determined by the Department of Statistics and Censuses of Costa Rica for the establishment of the consumer price index. This led to the estimation of two poverty lines: the first of these is the "extreme poverty line", defined as the per capita value of the basic family basket; the second estimated line is the "basic poverty line", which is somewhat higher than the first line because it takes account also of some non-food items.

In accordance with these two definitions, families were classified as a) *extremely poor*, if their per capita income is less than the monthly per capita cost of the basic family basket (families below the extreme poverty line (EPL)); b) *basically poor*, if their per capita income is equal to or greater than the EPL but less than the per capita cost of the "basic needs basket" (families below the basic poverty line (BPL)); and c) *non-poor*, if their income is equal to or greater than the BPL.

Absolute poverty lines were estimated for the urban and rural areas of Costa Rica. For the urban areas, the estimates gave a basic poverty line of 1 518 colones and an extreme poverty line of 964 colones, while for the rural areas the respective values were 1 260 and 800 colones.

Finally, various indexes have been designed for measuring the intensity of poverty.<sup>2</sup> The index adopted in this article is that of the poverty gap, defined as the difference between the income of the family unit in question and the income needed to bring that unit up to a given poverty line (Beckerman, 1985, p. 7). An advantage of estimates based on the poverty gap is that they take account both of the number of poor families and the intensity of their poverty.

## 2. The redistributive effects of public spending

In this article, the notion of subsidy defined by Selowsky is used. According to this author, the provision of a good or service involves a subsidy whenever the cost of the product is greater than the direct expenditure made by the population receiving it (Selowsky, 1979, pp. 10-12). Use is also made here of the results and methodological procedures of a study on social public spending in Costa Rica carried out by the author in the Economic Research Institute of the University of Costa Rica together with other colleagues.<sup>3</sup>

The public sector can generate subsidies in three ways: a) through public spending, b) through public enterprises and c) through price controls. Most of the cases analysed in this study correspond to services subsidized through public spending. This kind of subsidy is provided through the Government budget, and its redistributive effect can be analysed in the light of three alternative approaches (ECLAC, 1981, p. 2). The first of these is based on the evaluation of the income generated by the factors of production of the goods and services provided by the Government. The second approach analyses the effect of public sector activity on the structure of production and resource allocation and, subsequently, the impact of the changes thus produced on the income received by the factors of

<sup>2</sup> For an account of various alternative forms of measurement, see Kakwani, 1980, chapter 15.

<sup>3</sup> This study was part of a research project on the redistributive effect of social public spending in five Latin American countries, carried out with financing from IDB and co-ordinated by the Programme of Joint Studies on Latin American Economic Integration (ECLA). The Economic Research Institute has produced several working documents on the subject.

production. The third approach is centered on the direct benefits provided to those receiving public goods and services. Thus, in order to evaluate the redistributive effect of the benefits, their value in terms of income must be quantified.

With regard to this latter approach, one way of estimating the benefits is by using the valuation of them given by the family unit itself. This "benefits received" method involves difficult problems of measurement, however, so that the method suggested by the "cost incurred in favour of" approach is often used (Gillespie, 1980, p. 68).

This article deals with the direct redistributive effects of public spending, so that the direct benefit approach is used and it is quantified via the budget, that is to say, using the "cost incurred in favour of" approach. Within this approach, public spending was divided into the categories of consumption, capital expenditure and transfers. The treatment given to these categories for distributive purposes is in line with conventional theory and practice in the area of public finances.<sup>4</sup>

### *3. Selection of public programmes and estimation of the subsidy*

The public programmes analysed here are those in the fields of education, health, social security, nutrition, housing and water supply and sanitation.

The education programmes cover preparatory, primary, secondary and higher education. Adult education, special education (for the mentally or physically hindered), technical training and post-secondary education are also taken into account. With regard to the subsidy corresponding to these programmes, it is considered that since in the case of education the beneficiaries are not obliged to make any direct payment in order to gain access to this service, the amount of the subsidy is equal to the spending of the State on the education of its citizens.

This subsidy was quantified on the basis of the budgets of the various national institutions connected with education, supplemented with es-

timates of capital expenditure (which covers the depreciation of assets), and of the profits that could be earned on such an investment under the best possible circumstances.

In order to estimate the subsidy on health, the programme was divided into two classes: a) curative medicine and b) preventive medicine. Curative medicine, in turn, comprises hospitalization and outpatient services, while preventive medicine includes direct prevention and preventive medicine in general.

The method of estimation used in this case is basically the same as for education. Here, too, there is no direct payment for the service, so that the subsidy is equal to the total spending by the State on these programmes.

The data for estimating the subsidy were obtained from the budget of the Costa Rican Social Security Fund and the final clearance of the budget of the Ministry of Health. Once again, the subsidy deriving from the use of assets was calculated by estimating the opportunity cost of the investment.

With regard to the social security programmes, for analytical purposes these were divided into three groups: a) pension systems, including both contributory schemes and those which do not operate on this basis, b) cash benefits, unemployment payments, and other similar transfers, and c) social welfare, including both infant welfare programmes and programmes for handicapped persons and the aged. In estimating the subsidy in these three fields, only the amount of transfers was taken into account. The capital items were not taken into account since they formed only an insignificant percentage of the overall subsidy.

In estimating the subsidy in the case of nutritional programmes, three types of "end product" were defined: a) meals services (mainly for schools), b) food aid, and c) other programmes.

Estimation of the current expenditure on nutritional programmes was based on the final clearance of the budget of the agencies executing these programmes. In order to evaluate the capital cost, a physical inventory of the assets of educational centres and other institutions participating in nutritional programmes was used.

In order to estimate the housing subsidy, a different method from that used in the above cases was adopted. In this case, the subsidies were

<sup>4</sup> For a more detailed discussion of these aspects, see Taylor, 1986, chapter I.

classified into two categories: a) direct subsidies, and b) subsidies implicit in the financial terms. Direct subsidies are those granted through the provision of free services, free housing or transfers of funds for housing purposes. These kinds of programmes are carried out by the Joint Social Aid Institute (IMAS) and the National Housing and Urban Development Institute.

Implicit subsidies consist of the granting of favourable financial terms on housing loans. The importance of this type of subsidy lies in the fact that the banking system of Costa Rica is nationalized, so that the economic influence of the public sector through the financial system is of vital importance.<sup>5</sup>

With regard to the method of estimation, the direct subsidy is equal to the cost incurred by the State in the provision of dwellings and the granting of transfers for this purpose, while the implicit subsidy is the result of multiplying the difference between the nominal interest rate charged to debtors and the effective cost of the funds by the total amount of the housing portfolio of the creditors.

The last group of programmes in question is that connected with water supply and sanitation.

Here, the method of estimating the subsidy followed the same principles as those described above. Thus, the figures for current and capital expenditure were estimated on the basis of information from the National Institute of Water Supply and Sanitation and the records of various municipalities responsible for providing these services to their communities.

Since, in the case of water supply and sanitation, the beneficiaries make direct payment for this service (in contrast with the other cases analysed here), the subsidy was estimated by deducting the amount of such payments from the current and capital expenditure.

#### 4. *Distribution of the subsidy*

The total subsidy received by a household when consuming a good or service is equivalent to the unit subsidy multiplied by the number of units consumed. Consequently, where appropriate, the unit of consumption was specified, together with the corresponding average subsidy for each programme.

Where a unit of consumption was specified, the allocation of the subsidy was calculated by multiplying the number of units consumed by each family by their respective unit cost. This was done in the case of education, health, pensions, some nutritional programmes, and water supply and sanitation. In other cases, *ad hoc* procedures were used, based on the particular characteristics of the programmes (Taylor, 1986, chapter II).

<sup>5</sup> This study concentrates on the housing portfolio of the national banking system. It also takes account of other public institutions which provide housing loans, however, including the People's Bank for Community Development, the Costa Rican Social Security Fund (CCSS) and the National Insurance Institute.

## II

## The magnitude and characteristics of poverty before the benefits of social programmes

### 1. The extent of absolute poverty

The proportion of Costa Rican families classified as poor in 1983 came to 26% (table 1). Generally speaking, the incidence of poverty is greater in rural areas, where 34% of the families are under the absolute poverty line, compared with 19% in urban areas.

Basic poverty is the form of poverty which is slightly more prevalent. Thus, 53% of the poor families have incomes above the extreme poverty line (the line corresponding to the cost of the basic food basket), but their income is not enough for them to fully satisfy their non-food needs. The incidence of basic poverty for the country as a whole is 14%, while the incidence of extreme poverty is estimated at 12%.

To put this in another way, 14% of the families in the country (or 53% of the poor families) are not capable of fully satisfying their basic needs with the income they receive, although they do at least have sufficient resources to satisfy their nutritional needs. On the other hand, 12% of the total number of families (or 47% of the

poor families) do not even have enough resources to purchase the basic food basket.

When the urban and rural areas are examined separately, basic poverty still shows a greater incidence than extreme poverty. Nevertheless, the incidence of both forms of poverty is systematically greater in rural areas than in the cities, which is confirmed by the distribution pattern of poor families: 60% of them are in rural areas and only 40% in the cities.

If we compare their income levels, poor families have a total average income of 4 850 colones per month (approximately US\$ 105), compared with 17 027 colones (approximately US\$ 370) for non-poor families (table 2). In other words, the income of non-poor families is on average over three times that of poor families. This disparity is somewhat greater in the cities (four to one) than in rural areas (less than three to one).

Generally speaking, incomes are higher in urban areas than in rural areas, except in the case of the total income of families in a situation of extreme poverty.

In terms of types of poverty, families in a

Table 1  
ESTIMATES OF ABSOLUTE POVERTY<sup>a</sup>  
BY LEVEL OF POVERTY AND REGION  
(Percentages)

Indicator	Whole country		Urban		Rural	
Proportion of poor families	25.7	(100.0%)	19.0	(100.0%)	33.5	(100.0%)
Basic poverty	13.7	53.3	10.6	55.8	17.5	52.2
Extreme poverty	12.0	46.7	8.4	44.2	16.0	47.8
Regional distribution of families						
All families	100.0		54.5		45.5	
All poor	100.0		40.2		59.8	
Basic poverty	100.0		42.1		57.9	
Extreme poverty	100.0		38.0		62.0	
Non-poor	100.0		59.5		40.5	

<sup>a</sup> Before granting of subsidies through social programmes.



Table 2  
COSTA RICA: TOTAL AND PER CAPITA MONTHLY FAMILY INCOME<sup>a</sup>  
BY LEVEL OF POVERTY AND REGION  
(Colones)

Income group	Whole country	Urban	Rural
Total monthly family income	14 029	17 623	9 724
All poor	4 850	5 165	4 639
Basic poverty	6 258	6 894	5 796
Extreme poverty	3 239	2 970	3 404
Non-poor	17 027	20 538	12 322
Per capita monthly family income	3 743	4 871	3 393
All poor	875	962	817
Basic poverty	1 147	1 272	1 056
Extreme poverty	565	569	562
Non-poor	4 736	5 785	3 198

<sup>a</sup> Before granting of subsidies through social programmes.

situation of basic poverty have an average monthly income of 6 258 colones (approximately US\$ 135), whereas those in a situation of extreme poverty only receive an average of 3 239 colones (approximately US\$ 70) per month.

The big disparities existing in urban areas are reflected in the fact that the income of families in a situation of extreme poverty is only 2 970 colones (US\$ 64 per month), that is to say, less than 15% of the income of non-poor urban families.

Since poor families tend to be bigger than non-poor families, the differences in income between the poor and non-poor increase still further when per capita family income levels are compared. Thus, the average per capita income of poor families comes to 875 colones per month (approximately US\$ 19), whereas that of non-poor families amounts to \$ 4 736 colones (US\$ 103).

The inequality is also accentuated at both the urban and rural levels. The per capita income of non-poor urban families is six times that of poor families, while the per capita income of non-poor rural families is almost four times that of their poor counterparts.

In terms of poverty gaps, the difference in total monthly family income amounts to 3 332 colones (US\$ 72) (table 3). In urban areas the difference is greater than this average (3 944

colones), while in rural areas it comes to 2 921 colones. The same relationship is observed in the per capita estimates.

Hypothetically, in order to completely eliminate the poverty gap through income redistribution, non-poor families would have to transfer 7% of their income to poor families. If only the cities were taken into account, the necessary transfer would be 5%, while in the case of rural areas it would come to 12%.

The results reflected by the poverty gap bear out the observations based on the survey of families in a situation of extreme poverty. Not only is the incidence of poverty greater in rural areas, but also its intensity, as measured through the income deficit.

If we look at the gaps separately, according to the different types of poverty, we see how serious the situation of the extremely poor families is. For the country as a whole, the gap in the case of extremely poor families equals 4 908 colones, in contrast with the gap of 1 954 colones corresponding to families in a situation of basic poverty. In order to eliminate the gap in the case of the extremely poor families, a transfer from the non-poor equal to 5% of their income would be required, while in order to achieve the same goal with regard to the basic poverty gap the necessary transfer would be only 3%.

At this point, it is worth noting an important

Table 3  
COSTA RICA: POVERTY GAPS<sup>a</sup> BY TYPE OF GAP AND REGION  
(Current colones and percentages)

Type of gap	Whole country	Urban	Rural
Global monthly poverty gap			
Family average	3 332.0	3 944.0	2 921.0
Per capita average	498.0	556.0	443.0
Global (millions of colones) <sup>b</sup>	439.2	208.9	230.3
Global, as % of income of non-poor	6.7	4.5	12.1
Monthly basic poverty gap			
Family average	1 954.0	2 214.0	1 764.0
Per capita average	220.0	247.0	204.0
Global (millions of colones) <sup>b</sup>	137.4	65.6	71.8
Global, as % of income of non-poor	2.1	1.4	3.8
Monthly extreme poverty gap <sup>c</sup>			
Family average	4 908.0	6 138.0	4 156.0
Per capita average	800.0	949.0	698.0
Global (millions of colones) <sup>b</sup>	301.8	143.3	158.5
Global, as % of income of non-poor	4.6	3.1	8.3

<sup>a</sup> Before granting of subsidies through social programmes.

<sup>b</sup> Family average, multiplied by number of families in a poverty situation, by level.

<sup>c</sup> Estimated with respect to the basic poverty (line separating the poor from the non-poor).

aspect relating to poverty levels. It will be recalled that the family survey showed that most of the poor are in a situation of basic poverty. According to the poverty gap, however, the intensity of the poverty suffered by the extremely poor is more than double that experienced by persons in a situation of basic poverty. For social policy purposes, this information is of great impor-

tance. As will be gathered from the figures on the global poverty gap, reducing (or eliminating) extreme poverty is extremely costly in economic terms, but at the same time it is clear that the degree of poverty suffered by the extremely poor is so intense that neglecting this area could endanger the stability of the country.

### III

## Magnitude, composition and distribution of the public subsidy for social programmes

### 1. The magnitude and composition of the public subsidy

The overall subsidy in 1983 was calculated at 19 512 million colones: equivalent to 16% of the gross domestic product of the country in that year. More than two-thirds of this global figure corresponds to the subsidies for education (39%)

and health care (38%): two priority areas in Costa Rican social policy. In order of importance, these are followed by the subsidies for water supply and sanitation and for housing, while 5% corresponds to food and nutrition and only 2% to subsidies for social security programmes (table 4).

If we look at the regional distribution of the

Table 4  
COSTA RICA: PUBLIC SUBSIDY AND ITS COMPOSITION BY PROGRAMMES AND REGIONS, 1983  
(Millions of colones y percentages)

Type of programme	Millions of colones			Composition by programme			Composition by regions		
	Whole country	Urban	Rural	Whole country	Urban	Rural	Whole country	Urban	Rural
<i>Total</i>	19 512	11 493	8 019	100.0	100.0	100.0	100.0	58.9	41.1
Education	7 565	4 916	2 649	38.8	42.8	33.0	100.0	65.0	35.0
Health	7 386	3 421	3 965	37.9	29.8	49.5	100.0	46.3	53.7
Food and nutrition	1 039	384	655	5.3	3.3	8.2	100.0	37.0	63.0
Social security	463	243	220	2.4	2.1	2.7	100.0	52.5	47.5
Housing	1 262	1 133	129	6.4	9.9	1.6	100.0	89.8	10.2
Water supply and sanitation	1 797	1 396	401	9.2	12.1	5.0	100.0	77.7	22.1

Source: Economic Research Institute of the University of Costa Rica.

overall subsidy, we see that three-fifths goes to the cities and the rest to rural areas. Health and food and nutrition programmes, in particular, mainly benefit the rural areas. In contrast, housing and water supply and sanitation programmes are basically urban. In the case of education, two-thirds of the subsidy goes to urban areas, due mainly to the high proportion of resources assigned to higher education in those areas.

With regard to the composition of public subsidies at the programme level (table 5), in the area of education almost 60% of the subsidy corresponds to primary and secondary education, while one-third is absorbed by higher education. Rural families are substantial beneficiaries of the subsidy for primary education (58%), but the subsidy for secondary and higher education mainly benefits urban families. It should be borne in mind in this respect that a high proportion of the secondary educational institutions and all the universities are located in cities. Secondary technical schools are an exception to this, however, since many of these (agricultural training colleges) are located in rural areas.

In the case of the subsidy for health programmes, 90% goes towards paying the cost of curative medicine, especially hospitalization. Over half this subsidy goes to rural families, so

that when it is considered that only 46% of the nation's families live in rural areas, the subsidy per family received by them tends to be greater than that of urban families.

The subsidy for food and nutrition programmes is provided mainly in the form of a meals services (72%), mainly for primary schools. It may be noted that nearly two-thirds of the resources spent in this field go to rural areas.

As already noted, the subsidy for social security programmes is the smallest of all. It goes mainly to the non-contributory pension scheme (60%) and the social security programmes (37%). The distribution of expenditure in the social security field slightly favours urban families, but most of the pensions under the non-contributory scheme are received by rural families. This tends to offset the smaller coverage of the contributory systems in rural areas than in the cities.

The subsidy for housing is predominantly financial and urban: 96% goes to finance the lower interest rates charged by the national banking system and other public institutions on housing loans, and 90% of this subsidy benefits urban families. This financial subsidy policy is possible, of course, because of the existence of a nationalized banking system. It is no surprise that this subsidy is concentrated in urban areas, since the

Table 5  
COSTA RICA: ANNUAL PUBLIC SUBSIDY, BY PROGRAMMES AND REGIONS  
(Millions of colones and percentages)

Type of programme	Whole country	%	Urban	%	Rural	%
<i>Total</i>	19 512	100.0	11 493	100.0	8 019	100.0
Education	7 565	100.0	4 916	100.0	2 649	100.0
Preschool	333	4.4	221	4.5	114	4.3
Primary and special	2 580	34.1	1 077	21.9	1 491	56.3
Secondary	1 853	24.5	1 209	24.6	644	24.3
Academic	1 263	16.7	949	19.3	315	11.9
Technical	590	7.8	260	5.3	329	12.4
Higher	2 534	33.5	2 301	46.8	244	9.2
Vocational	265	3.5	108	2.2	156	5.9
Health	7 387	100.0	3 421	100.0	3 965	100.0
Curative	6 588	89.2	3 072	89.8	3 517	88.7
Out-patient	2 231	30.2	1 067	31.2	1 166	29.4
Hospitalization	4 357	59.0	2 005	58.6	2 351	59.3
Preventive	798	10.8	349	10.2	448	11.3
Direct	606	8.2	281	8.2	325	8.2
General	192	2.6	68	2.0	123	3.1
Food and nutrition	1 039	100.0	243	100.0	220	100.0
Meals services	747	71.9	266	69.4	482	73.6
Food allocation	231	22.2	88	22.3	143	21.8
Other	61	5.9	30	7.8	30	4.6
Social security						
Contributory pensions	277	59.9				
Social security (children and old people)	172	37.2	128	52.7	44	20.0
Direct assistance	14	2.9	9	3.7	5	2.3
Housing	1 262	100.0	1 396	100.0	401	100.0
Implicit (financial) subsidy	1 215	96.3	1 099	97.0	117	90.7
Direct subsidy	47	3.7	34	3.0	12	9.3
Water supply and sanitation	1 797	100.0	1 396	100.0	401	100.0
Water supply	1 619	90.1	1 199	85.9	401	100.0
Sanitation	178	9.9	197	14.1	—	—

Source: Economic Research Institute of the University of Costa Rica.

needs imposed by the urbanization process and the bigger payment capacity of urban families tend to oblige the financial institutions to assign more resources to the cities.

## 2. Distribution of the subsidy by levels of poverty

One-third of the public subsidies for social programmes benefit poor families (table 6). Since poor families form 26% of the whole, the average subsidy received is higher than that of the non-poor. Thus, the subsidy raises the income of poor families by 4 187 colones per month, compared

with the 3 625 colones granted to the non-poor. The global average monthly subsidy is estimated at 3 633 colones, and is equal to over a quarter of the average family income in the country.

Among poor families, the subsidy is distributed very uniformly: 53% for families in a situation of basic poverty and 47% for those living in conditions of extreme poverty. These shares are equivalent to the overall proportions of basic and extreme poverty, so that the average subsidy per family in the two strata is practically the same.

Over a quarter of the subsidy for education

Table 6  
COSTA RICA: ALLOCATION OF ANNUAL PUBLIC SUBSIDY BETWEEN POOR AND  
NON-POOR, BY PROGRAMMES  
(Colones and percentages)

Programme and income group	Total subsidy (millions)	%	Average subsidy per beneficiary family
All programmes	13 512	100.0	43 596
All poor	6 253	32.0	—
Basic poverty	3 293	16.9	50 220
Extreme poverty	2 960	15.1	50 940
Non-poor	13 259	68.0	41 924
Education	7 565	100.0	26 832
All poor	2 100	27.8	—
Basic poverty	1 213	16.0	26 664
Extreme poverty	887	11.8	22 212
Non-poor	5 465	72.2	27 816
Health	7 386	100.0	16 404
All poor	2 764	37.4	—
Basic poverty	1 352	18.3	29 868
Extreme poverty	1 412	19.1	24 216
Non-poor	4 622	62.6	14 124
Food and nutrition	1 039	100.0	4 356
All poor	584	56.2	—
Basic poverty	266	25.6	6 756
Extreme poverty	318	30.6	4 956
Non-poor	455	43.8	3 288
Social security	463	100.0	...
All poor	305	65.9	...
Basic poverty	115	24.8	...
Extreme poverty	190	41.1	...
Non-poor	158	34.1	...
Housing	1 262	100.0	32 956
All poor	144	11.4	28 416
Basic poverty	144	11.4	28 416
Extreme poverty	—	—	—
Non-poor	1 118	88.6	32 832
Water supply and sanitation	1 797	100.0	5 256
All poor	356	19.8	—
Basic poverty	203	11.3	4 236
Extreme poverty	153	8.5	4 560
Non-poor	1 441	80.2	5 544

Source: Economic Research Institute of the University of Costa Rica.

is received by the poor, with those who are in a situation of basic poverty being somewhat more favoured. By levels of education, it has been estimated that 42% of those benefited in higher education come from the richest two deciles of families, whereas the opposite is observed in primary education. In secondary education the beneficiaries come mainly from the middle class groups (Trejos and Elizalde, 1985, p. 38).

The percentage of health expenditure assigned to the poor (37%) exceeds the estimated

proportion of poor families, so that the health subsidy per poor family benefited averages some 50% more than that of the non-poor.

The subsidies on food and nutrition and social security are mainly oriented towards low-income families. Approximately two-thirds of the expenditure on these items goes to poor families, where it acts as an income support programme. It should be borne in mind, however, that these programmes make up the smallest subsidy categories analysed here.

The subsidies for housing, water supply and sanitation are at the other extreme. These programmes were designed basically for the non-poor, and poor families obtain only 11% of the housing subsidy and 20% of the subsidy on water supply and sanitation. Still worse, those who are in a situation of extreme poverty receive abso-

lutely none of the first subsidy and only 9% of the second.

Of all the social programmes examined here, that for housing involves the biggest subsidy per beneficiary family, so the relatively small scale of this programme reflects the small number of beneficiaries.

## IV

### The magnitude and characteristics of poverty after the benefits of social programmes

#### 1. *The public subsidy and income*

In order to evaluate correctly the effect of the subsidy on income, the same control group must be used both before and after the benefit. In other words, it is necessary to determine the new levels of income (after incorporation of the subsidy) of the same groups defined in the situation before receipt of the benefit, so as to ensure that the income comparisons are made on compatible bases.

The estimates thus obtained are given in tables 7 and 8. For the country as a whole, the subsidy increases total monthly family income by more than a quarter (3 633 colones). In both ab-

solute and relative terms, the poor are by far the most favoured group: their total average family income increases by 4 187 colones, compared with the increase of 3 625 colones in the income of the non-poor. These resources represent 86% of the family income originally obtained by the poor and 18% of that of the non-poor. As might be expected, the biggest relative effect is in the case of the extremely poor, whose income is more than doubled.

In per capita terms, the relative effect of the subsidy is generally very similar to the effect on total income, but in the case of the poor it is more marked. Thus, whereas the overall per capita average increases by approximately a quarter

Table 7  
COSTA RICA: MONTHLY INCOME OF URBAN POOR BEFORE BENEFITS  
AND OF NON-POOR BEFORE AND AFTER THE PUBLIC SUBSIDY  
(Colones and percentages)

Income group	Average without subsidy	Income with subsidy	Absolute difference	Percentages
Total monthly family income	17 623	21 789	4 166	23.6
All poor	5 165	9 516	4 351	84.2
Basic poverty	6 894	11 299	4 405	63.9
Extreme poverty	2 970	7 253	4 283	144.2
Non-poor	20 538	24 661	4 123	20.1
Monthly per capita family income	4 871	5 092	1 031	21.2
All poor	962	1 865	903	93.9
Basic poverty	1 272	2 118	846	66.5
Extreme poverty	569	1 544	975	171.4
Non-poor	5 785	6 847	1 062	18.4

Table 8  
COSTA RICA: MONTHLY INCOME OF RURAL POOR BEFORE BENEFIT  
AND OF NON-POOR WITH AND WITHOUT PUBLIC SUBSIDY  
(Colones and percentages)

Income group	Average without subsidy	Income with subsidy	Absolute difference	Percentages
Total monthly family income	9 724	12 717	2 993	30.8
All poor	4 639	8 715	4 076	87.9
Basic poverty	5 796	9 899	4 103	70.8
Extreme poverty	3 404	7 451	4 047	118.9
Non-poor	12 322	14 761	2 439	19.8
Monthly per capita family income	2 393	3 049	656	27.4
All poor	817	1 630	813	99.5
Basic poverty	1 056	1 919	863	81.7
Extreme poverty	562	1 322	760	135.2
Non-poor	3 198	3 774	576	18.0

and that of the non-poor by 18%, the per capita income of the poor increases by a factor of more than one and a half. On the other hand, in absolute terms the per capita family subsidy for the poor is less than the average. This is due to the larger size of poor families compared with non-poor. At the regional level, the supplementary income received by urban families (4 166 colones) is much greater than that received by rural families (2 993 colones). The same contrast is observed when this income is measured in per capita terms. It is important to note that whereas this disparity in the additional income provided to rural and urban families is smaller among the poor, the non-poor display very large inequalities. It may be concluded from this that in the overall assignment of expenditure to social programmes, no appreciable regional distinction is made in the case of poor families, but such a distinction does exist in the case of the non-poor.

## 2. Poverty estimates

The effects of the subsidy policy described above on poverty are considerable (table 9A). After including the subsidy, all the families were reclassified according to the previously defined parameters of absolute poverty, and when the subsidy is considered as a whole, the proportion of poor families in the country goes down from 26% to only 10%.

The biggest reduction is in extreme poverty, the level of which goes down to 3%. As a result, the composition of global poverty also changes. Basic poverty, which accounted for 53% of the poor families, now rises to 70%, with the remainder corresponding to extreme poverty.

Regionally, the incidence of poverty goes down more in rural areas, where it is now estimated that only 12% of the families are poor. Once again, the relative magnitude of basic poverty is now higher than the national average in these areas.

In the cities, 8% of the families are now under the poverty line, compared with 19% if the subsidy is excluded. Almost two-thirds of these families are in a situation of basic poverty.

With regard to the regional distribution of the families, the proportion of urban poor increases slightly when the subsidy is included. This is due to the higher percentage of poor who live in conditions of extreme poverty in the cities. Thus, under the new circumstances, half the families suffering from extreme poverty live in cities, compared with the proportion of one-third registered before.

The appreciable reduction in *extreme poverty* (table 9A) must be interpreted with caution. It will be recalled that the poverty line is equal to the cost of the basic shopping basket, which means that families below this line do not have sufficient income to satisfy their nutritional

Table 9 A  
COSTA RICA: ESTIMATES OF ABSOLUTE POVERTY BEFORE AND AFTER PUBLIC SUBSIDY,  
BY LEVEL OF POVERTY AND REGION  
(Percentages)

	Whole country		Urban		Rural	
	Before	After	Before	After	Before	After
Proportion of poor families	25.7	9.8	19.0	7.7	33.4	12.3
Basic poverty	13.7	6.9	10.6	5.0	17.5	9.0
Extreme poverty	12.0	2.9	8.4	2.7	16.0	3.3
Regional distribution of families						
All families	100.0	100.0	54.4	54.5	45.5	45.5
All poor	100.0	100.0	40.2	42.9	59.8	57.1
Basic poverty	100.0	100.0	42.1	40.2	57.9	59.8
Extreme poverty	100.0	100.0	38.0	49.3	62.0	50.7
Non-poor	100.0	100.0	59.5	55.8	40.5	44.2

needs. What they need, therefore, is more food or more money to buy it. Most of the social programmes analysed here, however, provide income in kind: education, health, water supply or housing, for example. Only two types of programmes—social security and food and nutrition—provide money or food for the families, and yet these are the smallest programmes. Moreover, if we look at these categories in detail, only the meals service, food allocations and non-contributory pensions are items that directly serve the purpose of immediately improving the food consumption of families in a state of extreme poverty. Consequently, even though the inclusion of the global subsidy raises the income of a large number of families above the extreme poverty line, if these families cannot turn the benefits received from the State into money or food it may be considered that in many cases the condition which originally led to them being classified as belonging to the extreme poverty group is still valid: that is to say, they are still not capable of acquiring the basic food basket.

In order to clarify this point further, on the one hand an estimate was made of the family income of the extremely poor group, taking account only of transfers in the form of cash and food, and on the other hand the income of those in the basic poverty group was estimated (including those previously in the extreme poverty group who had managed to emerge from this

condition through transfers in cash and food), taking into account the subsidy as a whole. The incidence of poverty after making this adjustment was then calculated (table 9B).

If we restrict ourselves to the items in question, total poverty still goes down by the same proportions as before, that is to say, for the country as a whole it drops to 10%, in the urban area to 8%, and in the rural areas to 12%. The composition of this poverty undergoes a radical change, however, for now extreme poverty at the national level goes down to 9% instead of the 3% registered when taking account of the entire subsidy, while in urban and rural areas it goes down to 6% and 12% respectively, instead of the 3% registered in both areas when taking account of the global subsidy. In other words, six percentage points of the reduction in extreme poverty at the national level registered when taking account of the global subsidy are due to items which do not involve transfers of cash or food and which are not necessarily capable of being traded in the market.

On the other hand, it is now basic poverty which shows a sharp drop. In the country as a whole it goes down to 0.7%, while it disappears completely in the rural areas and drops to 1% in the cities. This result is perfectly natural, since by restricting the criteria for overcoming extreme poverty, many of the families which in the previous calculations were above the extreme



Table 9 B<sup>a</sup>  
COSTA RICA: ESTIMATES OF ABSOLUTE POVERTY BEFORE AND AFTER PUBLIC SUBSIDY,  
BY LEVEL OF POVERTY AND REGION  
(Percentages)

	Whole country		Urban		Rural	
	Before	After	Before	After	Before	After
Proportion of poor families	25.7	9.8	19.0	7.7	33.4	12.3
Basic poor	13.7	0.7	10.6	1.3	17.5	-
Extreme poverty	12.0	9.1	8.4	6.4	16.0	12.3
Regional distribution of families						
All families	100.0	100.0	54.4	54.5	45.5	45.5
All poor	100.0	100.0	40.2	42.7	59.8	57.3
Basic poverty	100.0	100.0	42.1	96.8	57.9	3.2
Extreme poverty	100.0	100.0	38.0	38.4	62.0	61.6
Non-poor	100.0	100.0	59.5	55.8	40.5	44.2

<sup>a</sup> In this case, in estimating the effects of the subsidy on the income of extremely poor families only transfers of cash and food were considered; in the case of families in a situation of basic poverty (including those formerly in the extreme poverty group who have managed to overcome this situation through transfers of cash and food) the total subsidy was taken into account.

poverty line but not above that of basic poverty are now relegated to extreme poverty, so that basic poverty becomes less widespread.

In conclusion, the main result of the exercise—that is to say, the drastic reduction in the magnitude of global poverty through the State supply of basic services to the Costa Rican population—is still maintained, even when the criterion for overcoming a situation of extreme poverty is that of access to transfers of cash and food. The point that must be emphasized in the second estimate is that combatting extreme poverty calls for transfers and social security programmes with very well defined objectives: that is to say, they must be precisely aimed. It must be recognized that overcoming the conditions which maintain families in extreme poverty is an essential requirement for enabling them to make effective use of the rest of the services provided by the State.

Table 10 shows the estimated average income after reordering the families according to their new status and assigning the global subsidy to all of them.<sup>6</sup> Broadly, the subsidy raises the average income levels of all the families except urban families living in a situation of basic poverty. This improvement indicates that not only

has the incidence of poverty been reduced, but also its intensity, and this will become even more evident when we analyse the poverty gap.

The difference in income between the poor and non-poor does not register significant changes when the subsidy is introduced. The difference between those living in situations of extreme poverty and those suffering from basic poverty does decline somewhat, however, mainly because of the increase in income of the former.

If we look at the intensity of poverty, we see that when the subsidy is included, the family poverty gap goes down from 3 332 colones to 2 732 colones, while in per capita terms it goes down from 489 colones to 382 colones (table 11). The reduction in the family and per capita gaps may not be very impressive, but the amount by which the global gap goes down is considerable, since it falls from 439 million colones without the subsidy to 137 million with the subsidy: that is to say by more than two-thirds.

The global poverty gap is sensitive to changes in both the average income of the poor and in the number of poor families, so that the fact that the relative reduction in the estimated global gaps is greater than the drop in the respective family or per capita gaps indicates that the reduction in the number of poor families is the most important factor in the narrowing of the global poverty gaps. Furthermore, if we repeat

<sup>6</sup> All the following estimates take account of the whole of the subsidy, regardless of the degree of poverty.

Table 10  
COSTA RICA: TOTAL MONTHLY FAMILY AND PER CAPITA INCOME BEFORE AND  
AFTER PUBLIC SUBSIDY, BY LEVELS OF POVERTY AND REGIONS  
(Colones)

	Whole country		Urban		Rural	
	Before	After	Before	After	Before	After
Total monthly family income	14 029	17 662	17 623	21 789	9 724	12 717
All poor	4 850	5 497	5 165	5 440	4 639	5 540
Basic poverty	6 258	6 263	6 894	6 598	5 796	6 037
Extreme poverty	3 239	3 720	2 970	3 248	3 404	4 179
Non-poor	17 027	18 982	20 538	23 157	12 232	13 722
Per capita monthly income	3 743	4 604	4 871	5 902	2 393	3 049
All poor	875	982	962	1 030	817	945
Basic poverty	1 147	1 137	1 272	1 245	1 056	1 062
Extreme poverty	565	624	569	622	562	626
Non-poor	4 736	4 997	4 785	6 309	3 198	3 344

Table 11  
COSTA RICA: POVERTY GAPS BEFORE AND AFTER PUBLIC SUBSIDY, BY TYPE OF  
GAP AND REGION  
(Current colones and percentages)

	Whole country		Urban		Rural	
	Before	After	Before	After	Before	After
Monthly global poverty gap						
Average per family	3 332	2 732	3 944	3 678	2 921	2 020
Average per capita	489	382	556	488	443	315
Global (millions of colones) <sup>a</sup>	439.2	137.2	208.9	79.3	230.3	57.9
Global/income of non-poor (%)	6.7	1.6	4.5	1.3	12.1	2.1
Monthly basic poverty gap						
Average per family	1 954	1 920	2 214	2 510	1 764	1 523
Average per capita	220	234	247	272	204	298
Global (millions of colones) <sup>a</sup>	137.4	67.4	65.6	35.4	71.8	32.0
Global/income of non-poor (%)	2.1	0.8	1.4	0.6	3.8	1.2
Monthly extreme poverty gap						
Average per family	4 908	4 603	6 138	5 860	4 156	3 381
Average per capita	800	763	949	896	693	634
Global (millions of colones) <sup>a</sup>	301.8	69.8	143.3	43.9	158.5	25.9
Global/income of non-poor (%)	4.6	0.8	3.1	0.7	8.3	0.9

<sup>a</sup> Average per family, multiplied by number of poor families in each level.

the previous exercise of seeking to eliminate the national poverty gap through transfers from the non-poor, the latter would have to contribute 2% of their income, and the resulting amount would have to be divided into equal parts to eliminate the extreme poverty and basic poverty gaps. Similarly, if it were assumed that the regional poverty gaps were to be eliminated through intraregional

transfers from the non-poor, it is estimated that achieving this objective would need 1% of the income of the non-poor in urban areas and 2% in rural areas. In the latter areas, most of these resources would be needed to cover the basic poverty deficit, whereas in the cities they would be needed mainly to cover the needs of the extremely poor.

## Conclusions

On the basis of the results obtained in this study, it may be asserted that the Costa Rican public sector has played a crucial role in caring for the needs of groups living in a situation of poverty, through the social programmes it operates. Implicitly or explicitly, there has been great concern in Costa Rican society for the margined sector of the population. The resources assigned by the State to this group help to satisfy their basic needs, improve their income-generation capacity, introduce a notion of social justice, and reduce social pressures.

Many social science studies have been made with the aim of explaining the conformation and stability of Costa Rican society, which is based on principles of coexistence more advanced than those of other societies in the same region. These studies have shown that the efforts made by Costa Rican society to ensure that its citizens receive an adequate level of education, health care, food, water supply and other basic services are concrete positive elements which, together with the practice of democracy in that country, form an essential part of its material foundations.

In spite of the foregoing, however, the results of the present study also reveal some unsatisfied goals in a number of areas. The existence of families living in a situation of extreme poverty is one of these. The statistics show a reduction in the incidence of extreme poverty, thanks to the action of the State, but behind the figures is the reality of thousands of Costa Ricans who cannot fully satisfy their food requirements.

Likewise, the concentration of expenditure on higher education facilities for high-income families, the concentration of the housing subsidy among the non-poor in contrast with the

existence of a big housing deficit, and the big difference in income between the poor and the non-poor are other aspects calling for special attention. Fortunately, the patience which Costa Ricans displayed during the serious economic crisis that began in the mid-1980s, together with their enthusiastic response in the three national elections subsequent to that crisis, have shown their confidence that these problems can be dealt with inside the existing political, social and economic system of the country.

In recent years, as part of the free-market philosophy, an aggressive campaign has been unleashed against the public sector. This position, which has been adopted in the name of efficiency, can lead to an extreme outcome which runs counter to the principles of coexistence that have given Costa Rican society an outstanding place in the developing world. In addition to this, however, it must not be forgotten — as the cases examined by the World Bank in its *World Development Report 1990* show — that investment and public expenditure in the fields analysed in the present study are indispensable in order to bring about an increase in efficiency through improvement of the productivity of labour.

There is no doubt that the role of the Costa Rican State must be redefined in the search for economic efficiency. In view of the circumstances marked by a change in social thinking through which we are passing, however, mature reflection and prudence are advisable in considering changes in the economic and social structure. We trust that the continued accumulation of proofs such as have been presented in this paper will help to ensure a sensible approach to the future responsibilities of the State in Costa Rica.

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