Structural Adjustment in Central America:

THE CASE OF

COSTA RICA

by

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INTRODUCTION

In September 1992, viewers of the CBS News program "60 Minutes" were shocked to learn that their tax dollars had been used to subsidize the export of U.S. jobs to Central America. The program revealed that since 1980 the **U.S. Agency for International Development (USAID)** had provided over US$1 billion to establish export-processing zones in the region.[1] Not coincidentally, over this same period U.S. companies were relocating their operations to Central America to take advantage of workers toiling in these zones for as little as 33 cents an hour, often under terrible conditions. The public outrage generated by this news led the U.S. Congress to amend the 1992 foreign aid bill to prohibit such financing by the Agency in the future.

Far from being an isolated example of a few overzealous USAID officials overstepping their mission to promote economic growth, this program of support for U.S. processing industries seeking the lowest possible wage-labor was consistent with and, in fact, central to U.S. foreign economic policy under the Reagan and Bush Administrations. Both administrations used their influence in the **International Monetary Fund (IMF)** and the **World Bank** to push structural adjustment programs (SAPs) across the Third World, further opening Southern economies and making it easier for foreign companies to utilize them as cheap production platforms from which to export back to Northern countries. Much like the trickle-down economics applied in the United States over the past dozen years, these policies have emphasized privatization, deregulation and cuts in government spending, as well as export promotion, at the expense of workers' incomes and living conditions and the satisfaction of local needs generally. In so doing, SAPs have generated some limited economic growth, but poverty -- and political repression -- have increased in almost every Central American country that has implemented them.

With their economies dependent on the export of agricultural commodities and having borrowed heavily on the international capital markets in the 1970s, the countries of Central America were hit especially hard by the world recession of the early 1980s, which drove commodity prices down and interest rates up. As export earnings fell and commercial credit dried up, many governments found themselves in a situation of crisis.

It was clear that changes responding to the new economic realities and the limitations of the previous model of development, which included an emphasis on import substitution, were necessary. However, the **stabilization** and **structural adjustment** measures imposed by the IMF and the World Bank and adopted by the region's governments in exchange for desperately needed funds have led these countries down a dead-end path. These programs have failed to solve many of the original problems of unstable economic growth, large debt burdens and high inflation and have created new ones, as the costs of these reforms are borne disproportionately by workers, the poor and local environments.

IMF-promoted stabilization measures are short-term actions designed to bring down inflation and to help countries improve their balance-of-payments situation. They often involve deep cuts in the money supply (e.g., through restricting credit) and a large devaluation of the local currency. Stabilization is usually followed by longer-term policy changes that together constitute 'structural adjustment'. SAPs, principally the domain of the World Bank but also applied by the IMF and other multilateral development banks and often supported by the U.S. bilateral

aid program, generally entail privatizing state-owned enterprises, reducing government expenditures and liberalizing trade regimes. They are intended to open the economy to increased foreign investment and encourage other private-sector activity, including the expanded production of goods for export.

Costa Rica was the first country in the region to implement an adjustment program, signing its first Structural Adjustment Loan (SAL) with the World Bank in 1985. Since that time, every other Central American country has been compelled to enter such a program or risk losing access to international financing from both official and commercial sources. The results have been remarkably similar.

Appalling poverty and an extreme concentration of income and wealth are major causes of **Guatemala**'s decades-long civil war. Yet, when the government began to implement stabilization and adjustment measures in 1986, the focus, as elsewhere, was on improving macroeconomic performance; the prospective impact on the poor was ignored. While inflation has been lowered and a measure of economic growth achieved, the percentage of Guatemalans living in poverty increased from 63 percent of the population in the early 1980s to 84 percent at the end of the decade.[2]

One of the primary goals of Guatemala's economic restructuring has been to increase the country's exports. The Bank, along with USAID and the Inter-American Development Bank (IDB), has stressed the need to generate foreign exchange through the sale of non-traditional goods. This export push has included production in factories within export-processing zones, known as "maquilas". The number of maquilas in Guatemala has increased from five to over 200 in the past five years. They now employ over 40,000 people (over 80 percent of whom are women) often under extremely poor working conditions. Wages range from US$1 to $2 per day for workdays that last as long as 16 hours. There have been reports of workers in these plants being forced to work until midnight and then locked in the factory overnight to begin work again the next morning. Efforts to organize unions have been suppressed both by employers and the Guatemalan government, which is anxious to attract foreign investment.[3]

In **Honduras**, too, stabilization and adjustment measures have deepened social divisions. Although some measures were applied during the late 1980s, the country was able to delay full implementation of an adjustment program until 1990 because of the large aid flows coming from the United States during the Contra War in Nicaragua. As the 1980s and the war drew to a close, however, Honduras developed severe foreign-exchange shortages and stopped payments on much of its debt, including that to the Fund. It was thus declared ineligible for IMF and Bank financing and, as a result, was cut off from most commercial loans, as well.

Honduran President Azcona had been unwilling to implement the drastic adjustment measures required by the Bank and the Fund, stating that the conditions were "...a carbon copy of those recently applied in Venezuela with the tragic result of 300 dead and 1,200 injured" in riots in 1989 in protest against adjustment measures.[4] The Callejas Administration that followed, however, entered into negotiations with the IMF within two weeks of assuming office and signed an agreement in March 1990. This agreement included commitments to reduce public spending, cut the dollar value of the local currency in half, increase taxes and privatize state-owned enterprises.[5] It was followed by a structural adjustment loan from the World Bank with many of the same conditions.

In its efforts to comply with these conditions, the Honduran government has sought to squelch local opposition either by co-opting the leadership of unions and popular movements or, when that is not possible, by replacing them with leaders selected by the government. For example, in November 1991, members of the National Electrical Company Union (STENEE) struck in protest against plans to privatize parts of the company, increase electrical rates to the general population and lay off hundreds of electrical-company workers in response to the Bank's demands for restructuring. The government refused to negotiate and sent in troops to occupy the electrical facilities and block the access road to the work camps where STENEE members' families lived. The union's board of directors was replaced by a board named under government pressure, and 500 workers, including 127 STENEE leaders and activists, lost their jobs.[6] Soon after these actions were taken, the Bank, the Fund and the IDB resumed funding to the Honduran government for the energy sector.

A report issued in January 1992 by the Honduran College of Economists indicated that the only beneficiaries of the adjustment program have been powerful groups within the government, exporters and financial entities. It listed wage earners and the general population as the biggest losers under the SAP. The report also expressed skepticism about government statistics that showed improvements in many macroeconomic indicators.[7] Even these suspect government figures, however, show poverty increasing in Honduras from 68 to 74 percent of the population between 1989 and 1991.[8]

Elsewhere in the region, people's relief over the termination of military conflicts has been replaced by apprehension about the new economic policies imposed on them as a condition attached to loans for reconstruction. In **Nicaragua**, agreements reached through a process of national *concertación* (coming together) among many economic sectors have been overridden by the requirements of stabilization programs. While inflation in that country has fallen dramatically since these measures were implemented, unemployment and underemployment have increased to a combined rate of 58 percent. Before the stabilization measures were implemented in March 1991, average wages covered 92 percent of the cost of the basic market basket; a year later they covered just 72 percent of that cost.[9]

Farmers have been especially hard hit by the adjustment measures. Net credit (i.e., new loans minus repayments) from the Nicaraguan state banking system to the agricultural sector fell 568 percent between 1990 and 1991, leading to a net resource flow out of agriculture. The impact of these cuts in credit was exacerbated by massive food imports used to lower inflation.[10] Critics charge that most of the reconstruction funds have not been used to increase production, but rather to import cheap consumer goods, further undermining local producers.

Many people in **El Salvador** look at the Nicaraguan experience with concern. Both the government and the Faribundo Martí National Liberation Front (FMLN) advocate political and economic reforms intended to promote reconciliation and increase production and employment. Nevertheless, the government has included adherence to structural adjustment as a major element of those reforms, even though experience elsewhere in the region shows that adjustment measures and economic polarization have tended to go hand in hand.

The Cristiani Administration initiated stabilization and adjustment programs shortly after taking office in mid-1989, eliminating price controls, increasing water, electricity and transportation fees, and restructuring the tax system. The government received its first loan from the IMF in over ten years to finance these reforms. Since then, the country's trade and budget deficits have increased and inflation has risen. Real minimum wages in industry, commerce and services fell 16 percent between May 1989 and December 1992; in agriculture, they dropped 27 percent. According to government figures, an average-sized family living in the country's capital, San Salvador, would need to have almost five members working full-time at the minimum wage in order to meet its minimum food, housing and other basic needs. The situation is even worse in rural areas.[11]

Panama was the last country in the region to receive structural adjustment loans, obtaining credits from the Bank and the Fund in February 1992. The government, however, had already implemented a series of adjustment measures -- and repaid debt arrears totalling US$645 million -- in response to demands by the international financial institutions long before funding was approved. These policies have included the privatization of state-owned enterprises, cuts in public expenditures for social programs, and the restriction of public investment to reconstruction of physical infrastructure. These measures have incited a series of public demonstrations, many of which were forcefully suppressed by the police.[12]

Costa Rica's relatively long experience with SAPs deserves special scrutiny, because it provides an example of what the rest of the region can expect in the future. Although it has been cited by the Bank and the Fund as one of their adjustment successes due to improvements in some economic indicators, the structural adjustment measures implemented in Costa Rica have increased environmental degradation and deepened income inequality to a point where these problems now represent a threat to the country's democratic tradition and political stability. The case of Costa Rica, as detailed in this report, demonstrates the urgency of the need to re-examine these policies and the institutions that have promoted them and to search for democratic alternatives that will lead to equitable and sustainable development.

COSTA RICA TAKES THE PLUNGE

Having entered the 1980s with an economy in crisis, Costa Rica became the first country in Central America to undergo a process of structural adjustment under the guidance of the IMF and the World Bank. Today, after over a decade of economic stabilization (designed to lower inflation and cut government deficits) and of adjustment (geared towards increasing exports, liberalizing the economy and restoring growth), it is often cited as an economic success story by the Fund, the Bank and Western donors. As proof, they point to the resumption of economic growth, a decrease in unemployment and a reduction in the national debt-service burden.

Other measures of the country's well-being, however, paint a more troubling picture. Under its adjustment program, Costa Rica's trade deficit has increased to extremely high levels despite aggressive export-promotion programs. The fiscal deficit and inflation, two main targets of stabilization and adjustment programs, also continue at historically high levels. Income distribution has worsened significantly, particularly in the rural areas, where many small and medium-scale farmers have seen support for domestic food production cut at the same time that they are being shut out of new government programs that emphasize exports. Environmental degradation has accelerated as the amount of land under cultivation increases and farmers adopt chemical-dependent forms of production.

Proponents of the adjustment model designed and promoted by the World Bank and IMF argue that these negative effects are temporary and that Costa Rica would be in even worse shape if it had not implemented a structural adjustment program (SAP). Yet, after 12 years, one must wonder when these so-called "transitional" costs will end and the benefits for the Costa Rican people begin. Not only have Bank and IMF programs wreaked havoc on the country's economy and natural environment, they are rapidly reorienting the economy in such a way that Costa Rica's future independence and the basis of its democratic tradition are being directly threatened.

In contrast to the rest of the region, where civil wars and military coups have dominated the political landscape, Costa Rica has maintained a firm commitment to electoral democracy since 1949. The rights of free speech and association, guaranteed by the constitution, have allowed labor unions, agricultural cooperatives and other representative non-governmental organizations (NGOs) to flourish. The country's post-World War II development model --

Table 1 **IMF LOANS TO COSTA RICA, 1980-1992**

APPROVED	AMOUNT (in US$)	STATUS OF LOAN
3/80	78.74 million	Canceled in 1981, US$53.33 undrawn
6/81	326.33 million	Canceled in 1982, US$271.79 undrawn
6/81	35.37 million	Disbursed
12/82	98.62 million	Disbursed
3/85	54.83 million	Disbursed
10/87	51.72 million	Disbursed
5/89	53.83 million	Disbursed
4/91	45.03 million	Disbursed

Sources: Congressional Research Service and 1992 IMF Annual Report.

which emphasized food self-sufficiency, agricultural exports and import-substitution industries -- led to a steady rise in the Gross Domestic Product (GDP), allowing the government to invest in its people by providing free education and health care.[13] In 1980, Costa Rica had the lowest infant-mortality rate and highest average life expectancy (72.6 years) in all of Central America.

By the late 1970s, however, cracks were beginning to appear in the country's economic structure. As a result of a sharp decline in the world price of coffee, Costa Rica's main source of foreign exchange, government revenues, which were highly dependent on taxes on coffee exports, also fell significantly. At the same time, imports were rising, due in part to increased demand for foreign consumer goods by the increasingly prosperous middle and upper classes. In addition, the light assembly plants that came to dominate the manufacturing sector were heavily import dependent: by the early 1970s, every US$100 of manufactured goods required US$80 of imported machinery and materials.[14] These factors, combined with high levels of public spending on social services, led to a large and growing balance-of-payments deficit.

The government's response to this emerging problem was to try to borrow its way out of its difficulties. Between 1975 and 1982, the government borrowed some US$2.7 billion, mostly from foreign commercial banks. As a result, Costa Rica came to have one of the world's highest levels of debt per capita, with debt-service payments amounting to 60 percent of export earnings by the early 1980s. In late 1981, with the crisis upon it, the government suspended debt payments to virtually all of its creditors.

Desperate for foreign exchange, both to meet its debt-service obligations and to fund its social-service system, and cut off from new commercial bank loans, the Costa Rican government turned to the World Bank and IMF for assistance. Rising inflation and debt, a stagnating GDP and a rising demand for imports put the government in a vulnerable position, which the international financial institutions and Western donors were quick to exploit.

Enter the IMF and the World Bank

Costa Rica's relationship with the IMF and World Bank has not been a particularly smooth one. A 1980 austerity plan, which called for a devaluation of the colón (Costa Rica's currency) and cuts in government expenditures in return for a two-year, US$78 million loan from the Fund, was canceled by the IMF in 1981 because of government noncompliance. Another loan granted in June 1981 was also suspended by the IMF just two months later as a result of the government's reluctance (due to upcoming elections) to cut spending, limit domestic credit and reduce foreign borrowing.[15]

Throughout 1982, the country's economic situation continued to deteriorate, with inflation rising to 109 percent and real GDP falling by seven percent. President Luis Monge signed a new loan agreement with the IMF in December of that year. In 1985, in addition to signing another Standby Arrangement with the Fund, the government received its first Structural Adjustment Loan (SAL I) from the World Bank to support longer-term changes in the economy.

Table 2 WORLD BANK STRUCTURAL ADJUSTMENT LOANS TO COSTA RICA

SAL I: US$80 million, approved April 1985; accompanied by a US$3.5 million technical-assistance loan.

Objectives:
- Increase non-traditional exports
- Stimulate private investment
  - -loosen government regulation
  - -reduce income taxes
- Reduce the size of the public sector
  - -decrease government spending
  - -sell state-owned enterprises
  - -reduce public-sector employment
  - -reduce losses of agricultural marketing agency (CNP)
- Rationalize trade regime
  - -reduce tariff rates
  - -eliminate tariff exemptions on imports
- Devalue currency

SAL II: US$200 million (US$100 million from World Bank, US$100 million from Japan), approved November 1989.

Objectives:
- Lower budget deficit
  - -decrease government spending
  - -target social spending to vulnerable groups
  - -increase sales tax
- Decrease inflation
- Increase non-traditional exports
- Reorient agricultural production
  - -lift restrictions on grain imports
  - -cut credit for domestic grain and bean production
  - -restructure CNP
  - -provide incentives for non-traditional goods, such as melons, cut flowers, strawberries and yuca
- Industrial "reconversion"
  - -provide incentives for production in maquiladoras and free-trade zones (see Box 6)
- Devalue currency

SAL III: US$180 million (US$100 million from the World Bank, US$80 million from IDB), approved by the Bank and IDB April 1993; pending approval by Costa Rican legislature.

SAL III will be accompanied by a US$170 million multi-sector investment loan from the IDB in support of investment reforms and "conversion" of industry and agriculture.

Objectives:
- Reform public sector
  - -fire 25,000 public-sector employees
  - -reduce public-sector fixed assets
  - -reform tax and budget systems
  - -restructure social-security system
- Reform financial sector

Sources include: Maureen Taft-Morales, "The Effect of Structural Adjustment on the Poor in Costa Rica" in CRS Report for Congress: World Bank/IMF Adjustment Loans and the Poor in Developing Countries (Washington: Congressional Research Service, 1991); Helio Fallas V., "El Programa de Ajuste Estructural y la Agricultura en Costa Rica," in Los Campesinos Frente a la Nueve Decada, ed. by William Reuben Soto, (San José, Costa Rica: Editorial Porvenir/CECADE, 1990); and "Pleasing the Lenders," Central America Report, 11 December 1992.

A second adjustment loan (SAL II) of US$100 million was approved in November 1989 along with a matching loan from the government of Japan. After releasing a tranche under SAL II, however, the Bank suspended further disbursements in early 1990 when both the inflation rate and the government budget deficit exceeded the specified targets. The signing of a new agreement with the IMF in April 1991 freed further SAL disbursements while committing the government to reduce drastically both inflation and the budget deficit. It also required the government to increase the sales tax by a staggering 30 percent, which has hurt the poor disproportionately (see Box 1).

The ink was not yet dry on the 1991 IMF agreement when an earthquake hit the country, killing 62 people and causing massive damage to the port city of Limón. Although there was an urgent need to provide emergency relief and to repair damaged roads, bridges and port facilities, the IMF insisted that the government reduce overall spending. Massive cuts soon followed in the housing, higher-education and transportation sectors.[16]

Box 1 REGRESSIVE TAXATION

Sales taxes are among the most regressive types of taxation, hitting the poor and middle classes especially hard. They were temporarily increased in Costa Rica in 1990. Income taxes, a more progressive form of taxation, were actually reduced as a condition of SAL II in order to provide a greater incentive to investors. Labor leader Isidro Zamora stated at the time, "What we don't want is for the government to support new taxes that will affect the poorest Costa Ricans, while continually failing to punish tax evasion by business owners."

Sources: Author's interview with Ottón Solis, 16 April 1991; Jose Melendez, "Public Employees' Strike Only Partially Successful," Excelsior, 6 October 1990.

USAID Joins In

Although the IMF, the World Bank and the Costa Rican government have been the main architects of the country's structural adjustment program, USAID has also played its part. Concerned historically with project financing, the Agency came to play a major role in the 1980s in promoting policy reforms.

The bulk of USAID funding to Costa Rica in the past decade supported the development of non-traditional agricultural exports, subsidized imports of basic grains under the Food-for-Peace (P.L. 480) program, and the privatization of state-owned marketing boards. USAID money has also been used to leverage compliance with Bank and IMF conditions, with disbursements often held up until these conditions were fulfilled. The development-assistance agreement signed in June 1991 between Costa Rica and USAID, for example, specified that the government must begin negotiations with the Bank on a new structural adjustment loan, completely privatize the Costa Rican Development Corporation (CODESA), and prohibit the Central Bank from financing any government operations except through Treasury bonds.[17]

Between 1948 and 1980, U.S. economic assistance to Costa Rica totalled only US$282 million. This figure skyrocketed to US$1.33 billion over the next decade, with annual expenditures jumping over 16-fold as the United States opened up a southern front in the Contra War against Nicaragua, using Costa Rican territory to supply the rebels. Massive amounts of U.S. economic

assistance to Costa Rica have led to the creation of what many observers have called a "parallel state". As budgets are cut and government agencies privatized to reach macroeconomic performance targets set under the adjustment program, USAID has funded private agencies operating outside of state control to perform some of the same functions. For example, the Coalición Costarricense de Iniciativas para el Desarrollo (Costa Rican Coalition for Development Initiatives, CINDE), founded and funded by USAID, today has the same role as the government's Centro de Promoción de Exportación e Inversiones (Center for Promotion of Exports and Investments, CENPRO), except that CINDE has much greater funding and is accountable to USAID rather than to the Costa Rican government or public.[18]

Box 2 **JAPAN'S CRITIQUE OF SAPS**

The Japanese government, which lent US$100 million to Costa Rica for SAL II, withdrew its pledge of US$100 million for SAL III in July 1992. In a paper presented by its Overseas Economic Development Fund, the Japanese government questioned the World Bank's overwhelming reliance on market mechanisms and its preoccupation with efficiency over all other concerns. The authors explain that the lesson of the Japanese experience, as well as those of other East Asian countries often cited as economic success stories, is that targeted government investment and incentives, in addition to protection from imports for infant industries, are necessary components of development programs. Regarding the Bank's insistence on privatization programs, the government questions whether "...privatization is always the solution for improving public sector efficiency. The diverse conditions of individual countries must be carefully considered. Unfortunately, the World Bank's focus seems to be the same for every country."

Source: "Temas Relacionados con el Enfoque del Banco Mundial Sobre Ajuste Estructural -- Propuesta de un socio mayoritario (Japon) -- Fondo de Cooperación Economica de Ultramar, Octubre de 1991." Translated into Spanish by the Secretaría Técnica de la Comisión para la Reforma del Estado Costarricense (COREC), July 1992.

ECONOMIC INDICATORS OF FAILURE

After more than a decade of stabilization and structural adjustment, huge amounts of foreign aid and significant sacrifices by the population, Costa Rica's economy appears to be in the process of further decline rather than gradual improvement. Even in strictly macroeconomic terms -- that is, on the very narrow basis upon which the Bank and Fund want SAPs to be judged -- the economic program has failed. While GDP growth has resumed after a sharp fall during the economic crisis of 1981-82, average growth throughout the period has been just slightly higher than that for Latin America and the Caribbean as a whole. GDP per capita still had not reached pre-crisis levels in 1990 (see Table 3). Furthermore, inflation has not been brought under control over the past few years. While it fell in 1992 to approximately 17 percent, the country was coming off a 1991 rate of 25 percent, the highest level since 1982.

Other signs of economic instability abound. In spite of the massive amounts of money and technical assistance that have been poured into export-promotion programs, the country's trade deficit increased over 400 percent in six years, from US$134.9 million in 1984 to US$568.7 million in 1990. Exports, especially of non-traditional products, have increased considerably, but imports have grown even more rapidly as trade barriers have been lowered.

Table 3 **MACROECONOMIC INDICATORS, 1980-1990**

	GDP per Capita (millions of US$)	Foreign Debt (millions of US$)	Debt Service as % of Exports
1980	1,960	2,739	29.0
1981	1,530	3,300	NA
1982	1,150	3,641	NA
1983	1,060	4,177	59.5
1984	1,250	3,988	32.3
1985	1,400	4,399	41.4
1986	1,550	4,575	34.7
1987	1,650	4,720	22.4
1988	1,680	4,544	24.2
1989	1,760	4,603	17.7
1990	1,900	3,772	24.5

	Trade Balance (millions of US$)	Govt. Budget Balance (millions of colones)	Consumer Price Index(1987=100)
1980	-565	-3,060	17.2
1981	-264	-1,640	23.6
1982	-68	-860	44.8
1983	-138	-2,600	59.4
1984	-135	-1,200	66.5
1985	-157	-2,470	76.5
1986	-55	-11,040	85.6
1987	-263	-8,290	100.0
1988	-164	+10	120.8
1989	-303	-9,060	140.8
1990	-569	-16,410	167.6

Sources: World Bank, 1992 World Tables and 1992 World Debt Tables.

Despite claims that adjustment programs help countries ease their external debt, Costa Rica's burden actually increased during the adjustment period, from US$2.7 billion in 1980 to US$3.8 billion in 1990. This rise occurred despite the country's participation in the U.S. "Brady Plan" debt-relief scheme under which Costa Rica was able to "buy back" much of its outstanding commercial debt at a discount. Although this lowered the country's total outstanding debt, it has essentially legitimized the actual level of debt payments that Costa Rica had been making for the previous four years, i.e., approximately one-third of its obligations.[19] Therefore, while proponents argue that participation in the Brady Plan reduced the country's debt burden, in fact little in the way of new resources was freed up. Also, the debt reduction has been conditioned on continued implementation of adjustment measures and adherence to an economic model that increases the country's dependence on foreign markets, imports and loans.

Just as disturbing, particularly for the democratic future of the country, Costa Rica's adjustment program has led to increasing economic polarization. Ottón Solís, Minister of Planning under President Oscar Arias, points out that the period since 1985 is the first time in the country's history that GDP has grown while wages have decreased, indicating that the benefits of that growth are not being distributed evenly. The neoliberal economic model promoted by the Bank and the IMF, Solís believes, has created a vicious cycle that will continue to widen the gap between rich and poor.

It has also benefitted narrow commercial interests at the expense of much needed government revenues. Under the SAP, import duties have been reduced and tax concessions and other subsidies granted to export companies, measures that have drained resources from the government while rapidly increasing imports. As a result, inflation and the trade and fiscal deficits have grown to unacceptable levels, leading to further devaluations and, since domestic substitutes for imports have not been stimulated, yet more inflation. Solís claims that SAPs, rather than increasing efficiency and productivity, only serve to decrease wages, employment and long-term economic growth.[20]

While the government did manage to lower inflation and to cut the fiscal deficit in 1992 to meet the IMF requirements, it did so mainly through desperate stop-gap measures that are clearly unsustainable. Public expenditures were reduced by decreasing debt payments by state-owned enterprises and confiscating those enterprises' profits, as well as by delaying public-sector investment projects. In addition, import duties, which constitute half of the government's tax revenues, increased with a surge in imports resulting from the implementation of trade-liberalization measures. According to local economist Denis Meléndez, the reduction in the fiscal deficit represents a one-time "publicity boom" more than any true improvement in the local economy.[21]

THE "AGRICULTURE OF CHANGE"

Costa Rica's dependence on unstable agricultural export markets was a major factor in the country's economic decline of the 1970s and early '80s. Nevertheless, the adjustment programs promoted by the Bank and the IMF during the second half of the decade had export promotion as their major focus. Under SAL II, the government introduced its new agricultural policy, known as the "Agriculture of Change", which was designed to reorient agricultural production even more towards exports. Credit and guaranteed prices for domestic grain and bean production for the local market were slashed and restrictions on grain imports, which compete with this production, were lifted. The Consejo Nacional de Producción (CNP), the state marketing board, was restructured and its capacity to stabilize domestic grain prices was diminished.[22] Meanwhile the colón was devalued in order to make the country's agricultural exports more competitive -- i.e., cheaper -- in world markets.

Incentives to exporters under the "Agriculture of Change" have included the removal of export taxes, the dropping of import duties on farm inputs, exemption from income taxes on production for export, preferential interest rates, special access to foreign exchange, and export-incentive bonds called Certificados de Abono Tributario (CAT). These bonds, which are available to exporters of agricultural and industrial products, are worth up to 12 percent of the value of the non-traditional export sold and can be used by recipients to reduce their income taxes or they can be sold openly for cash. CATs benefit the final exporter, not the producer.

Jorge Hernandez of the Unión Nacional de Pequeños y Medianos Productores Agropecuarios (UPANacional), Costa Rica's largest farmers' union, estimates that between 80 and 90 percent of the benefits generated by the CATs have been taken by five transnational corporations, with nearly one-fourth of total CAT benefits going to a local subsidiary of Del Monte.[23] This subsidy to corporate exporters has increased the country's budget deficit. Over a period of five years, the value of the CATs increased some 1,900 percent, so that by 1990 they constituted eight percent of total government expenditures. In 1991 they were equivalent to 43 percent of the fiscal deficit at a time when expenditures for education, health services and support of food production were being cut.[24]

Impact on Small Producers

Few small producers are willing or even able to participate in the non-traditional export scheme. The production of non-traditional crops is much riskier than the basic-grain production to which most farmers are accustomed. These crops require new techniques and information about product-quality requirements, pricing and markets. The government has provided very little technical assistance in these areas, so many farmers have chosen not to take the risk of producing new crops. They continue to grow products more familiar to them, even though price supports, credit and protection from foreign imports for these goods have been slashed.

The amount of money needed to grow non-traditional crops puts this option further out of the reach of most Costa Rican farmers. According to Central Bank figures, the start-up costs for one hectare of the non-traditional crops that qualify for special export incentives range from 170,000 to 85 million colones, despite the fact that 97 percent of the country's farmers

earn less than 180,000 colones a year. Borrowers also are often required to guarantee 80 percent of the value of the loan, a condition that most small farmers cannot meet.[25] Furthermore, these crops usually need heavy applications of imported fertilizers and pesticides and tend to require more mechanized machinery. With agricultural credit for small farmers having been cut in half between 1984 and 1988 as part of the SAP, even those farmers prepared to pay interest rates averaging 23 percent to make these purchases are often unable to obtain loans.[26] Not surprisingly, therefore, foreign investors dominate both the production and export of non-traditional crops. Forty percent of macadamia production, 52 percent of cut-flower production and 46 percent of pineapple cultivation is controlled by foreigners, who also take the lion's share of the incentives and benefits under the "Agriculture of Change".[27]

Some small producers have found a way to participate in the production of these crops, but often at a loss to their independence. They enter into long-term contracts with the larger corporate agribusinesses, such as Pindeco (a Dole subsidiary), Tico Fruit and Melones del Pacifico, which typically provide credit and technical assistance to the producer. In return, the farmer agrees to produce only the specified commodity, to sell it only to the contracting firm and not to sell, rent or mortgage his or her land for the duration of the contract. Although farmers retain legal title to their land, they effectively lose control over its use for periods ranging up to 17 years.[28]

This phenomenon indicates an even more fundamental and troubling problem emerging in Costa Rica. Reflecting the concerns of many others, both in and outside the country, farm leader Carlos Campos claims that there has been a "frightening concentration of land ownership" since the new policies went into effect in 1986 as more and more farmers are forced to sell their land and become workers on corporate plantations. The World Bank itself acknowledged this possibility in its 1988 Country Economic Memorandum on Costa Rica, stating that "...small holders unable to move into the new [non-traditional] activities might have to sell their land and become landless workers."[29]

While crop production has been diversified under the "Agriculture of Change", markets have not. Earnings from non-traditional agricultural exports increased from US$51 million in 1985 to US$153 million in 1990, but most of these goods went to the United States.[30] In 1987, Costa Rican cut-flower producers found themselves barred from the U.S. market when U.S. producers objected to the increased imports and pressured the Congress for import restrictions. While the market was eventually reopened, the incident highlighted the vulnerability of an export strategy which relies on a limited number of outlets.

Box 3 MARKET "IMPERFECTIONS"

In a 1991 survey of melon producers conducted by the Centro de Capacitación para el Desarrollo (CECADE), many farmers reported feeling frustrated at the portion of their crops that was rejected due to blemishes or other imperfections by the packing plants, the final purchasers. Many farmers feel demoralized about letting food rot in the fields, but, since there is only a small local market for the varieties of melons grown for export, they have no choice. While many of them said they would rather go back to producing food grains, credit was only available for non-traditional crops such as melons.

Source: Author's interview with CECADE Researcher Maria Tribelato, 11 April 1991.

For Costa Rica's small producers, the "Agriculture of Change" has been a disaster. Farmers' organizations have objected to the emphasis on production for export, and they cite the country's deepening dependence on imported food, much of it subsidized, which competes with local production. In July 1990, leaders of 32 farmers' organizations sent a letter to Representative Dante Fascell, Chair of the U.S. House of Representatives' Committee on Foreign Affairs, declaring that the structural adjustment measures imposed by the World Bank and the food aid administered by USAID in Costa Rica have led to "...the reduction of our earnings, hunger and suffering for our families, and the loss of our nation's food security."[31] Since the early 1980s, said the farmers, Costa Rica has gone from near self-sufficiency in food production to importing over half of all cereals consumed. In 1974-75, the United States sent 1,000 tons of food aid to Costa Rica; in 1987-1988 that figure had leaped to 235,000 tons.[32] Corn and beans imported under the P.L.480 program have undercut national production. Wheat imports, while not competing with local crops, have altered consumer tastes, resulting in greater dependency and debt.[33]

The Environmental Cost

Production of the new export crops in Costa Rica typically involves massive use of agrochemicals because many of the non-traditional crops are not native to the country and are highly susceptible to pests and diseases. In CECADE's study of melon producers using such agrochemicals as Tamaron, Paraquat and Lannate (Metomil), over 70 percent of them reported witnessing domestic or wild animals die after spraying, and 58 percent knew of water supplies poisoned by the agrochemicals. Three-quarters of the farmers reported having health problems that they attributed to the insecticides and fungicides. Symptoms included constant headaches, nausea, fainting and vomiting.[34]

At least 1,500 farmworkers now seek medical attention for pesticide poisoning each year, but government officials say that even that number seriously underestimates actual cases of poisoning. Thousands of banana-plantation workers exposed to 1,2-dibromo-3-chloro propane (DBCP) and other chemicals that have been banned in industrial countries for years report continuing health problems, including sterility.[35]

The push to export has also affected Costa Rica's forests. Illegal logging has been reported on Indian reservations, as well as in areas bordering national parks. In May 1985, 45 Boruca Indians were arrested for blocking roads used by logging trucks that were illegally removing trees cut on their reservation. While the Borucas were eventually granted ownership of those logs, they still have little recourse to stop the logging

Box 4 THE COST OF RESOURCE DEPLETION

In a joint study, the Tropical Science Center in Costa Rica and the Washington-based World Resources Institute have determined the high environmental cost of the overuse of the country's natural-resource base. Natural-resource depreciation has ranged from 5.3 percent of GDP in 1970, the first year studied, to a high of 10.2 percent in 1988, and the authors note that the depreciation rate accelerated during the 1980s. Even these figures reflect just a small portion of the total ecological damage, since the authors calculated depreciation only for forests, soils, and fisheries.

Source: World Resources Institute Publications Brief, "Accounts Overdue: Natural Resource Depreciation in Costa Rica," December 1991.

process. According to Luis Tenorio, a geographer at the National Commission on Indigenous Affairs, forests on the reservations continue to be cut in the face of weak government enforcement of conservation laws.[36]

Today, Costa Rica has one of the world's highest rates of deforestation. According to recent estimates by the World Bank, all unprotected forests in Costa Rica could disappear by the mid-1990s. Increasingly, the national parks are becoming small islands of conservation in a sea of deforestation and environmental degradation. With increasing poverty and a growing number of rural workers driven off their land by the new agricultural policies, these pristine parks have become the destination of an increasing number of landless people in the country.

Box 5 ENVIRONMENTAL HOTLINE

In January 1991, the Costa Rican Ministry of Natural Resources started the "Telefono Verde", a public hotline through which callers could report incidents of environmental crimes such as illegal dumping of toxic wastes, logging and poaching. By April of that year, the hotline had received 523 calls, including 323 concerning river contamination and 128 related to illegal logging. Unfortunately, because of budget limitations, the Ministry has insufficient personnel or funds with which to deal with even a fraction of these complaints.

Source: Karen Cheney, "'Eco-Hotline' Swamped with Calls," The Tico Times, 12 April 1991.

MAQUILADORAS AND FREE-TRADE ZONES

The expansion of non-traditional industrial exports has been another principal feature of Costa Rica's adjustment program. The country's "industrial reconversion" program began as part of the government's 1986-1990 National Development Plan. This program was deepened after it was included in the SAL II agreement in 1989.[37] Similar in intent to the "Agriculture of Change", the industrial reconversion policy has been directing production away from consumer goods for domestic consumption and toward increasing exports.

For example, export-assembly plants, known as maquilas or maquiladoras, receive the same incentives as non-traditional agricultural production: CATs, exemption from income taxes, preferential interest rates, etc. Over 70 percent of these factories produce textiles, although investment has been growing in the electronic-goods sector. Under the incentive programs, the number of maquilas has increased dramatically. Between 1972 and 1980, a total of 32 maquiladoras were established; in contrast, 104 maquila plants were set up between 1985 and 1990. About two-thirds of the investment in maquilas is domestic rather than foreign, but those firms and the jobs they generate tend to be much more unstable than the better capitalized foreign-owned plants. The recent closures of many of the nationally owned factories has led to the growth of piecework, in which people assemble goods in their own homes, thus lowering overhead costs to their employers.[38]

Box 6 **EXPORT INCENTIVES**

The Costa Rican government provides special incentives to firms producing industrial goods for export. There are a variety of mechanisms through which these incentives are made available.

▸**Free Trade Zones (FTZs)**: Special industrial parks in which companies obtain tax holidays on profits, as well as full exemption from duties on imported inputs and exports of final products. These companies must export at least 51 percent of their products.

▸**Temporary Admission System (Maquiladoras)**: Factories that import partially manufactured goods for assembly and re-export. Maquiladora firms do not pay duties on imported supplies and they are permanently exempt from taxes on profits.

▸**Export Contracts**: Government contracts in which companies are exempted from import duties and receive tax credits (CATs) which increase according to the volume exported. Firms also receive unlimited access to locally generated foreign currency and guarantees of capital and profit repatriation. Maquiladora firms and those in free-trade zones can enter into export contracts.

▸**CINDE**: A USAID-funded organization that provides free assistance to foreign investors considering locating their operations in Costa Rica. CINDE has offices in California, Illinois, Florida, New York, The Netherlands and Hong Kong.

Sources: CINDE, Costa Rica: The Right Business Climate and World Bank, Costa Rica: Trade Policy Issues and Institutional Aspects, 1991.

Free-trade zones (FTZs) have also been part of the industrial-reconversion plan supported by the World Bank under SAL II. Plants operating in these zones and that export over half of their production are exempt from taxation for ten years and benefit from the priority given by government to the construction of the infrastructure that they require. While these zones have been advanced as a means of expanding employment in the poorest regions of the country, so far nearly all of them have been located in the San José metropolitan area.

Both the maquilas and the FTZs tend to employ many more women than men. Over 80 percent of the production workers in maquila plants are female. Surveys have showed that many maquila plant managers prefer to hire women over men, primarily because of the former's familiarity with textile production and their willingness to accept lower salaries than their male counterparts. Production workers in the free-trade zones receive an average of between US$80 and US$120 per month, considerably lower than the national monthly minimum wage of US$150. In FTZ firms, employers tend to employ women in unskilled jobs while hiring men for supervisory and high-skill positions paying two-to-four times the unskilled wage.[39]

While labor-rights abuses in the Costa Rican FTZs and maquiladoras have not been as harsh as in many other Central American countries, workers' ability to form independent unions to represent their interests has been undermined by the development of "solidarismo". Many FTZ and maquiladora firms have established "solidarist" associations for their employees. These associations are funded by monthly contributions from members and employers. The employers charge their contributions to the solidarist funds against monies which they are required to set aside for employee termination benefits. The associations usually have savings-and-loan plans and sell consumer goods, in addition to offering health services and access to housing, recreation, investment, small-enterprise-creation and pension programs.[40]

Box 7 WOMEN'S PARTICIPATION IN THE WORK FORCE

Although the participation of women in the Costa Rican work force has been gradually rising for years, that trend sharply accelerated in the 1980s with the general deterioration of the economy. Not only young women were entering the labor force; participation rates for women in all age groups increased dramatically. In 1987, over 70 percent were employed in the service sector, while other women found work in the maquilas. Today, over half of these salaried women receive less than the minimum wage. Unfortunately, there is little evidence that women's domestic duties have decreased as a result of their additional work outside the home.

The public sector has provided women with both greater opportunity and fairer wages. In 1990, 25 percent of registered female workers were employed in the sector, as compared to about 14 percent of economically active men. Unfortunately, due to the requirements of the country's adjustment program, thousands of government jobs are being cut, and the reductions have hurt women disproportionately. During the first few months of the government's "labor mobility" program in 1990-91, 85 percent of the fired public-sector workers were female.

Sources: Richard Tardanico, "Labor-Market Transitions: Costa Rica in Comparative Perspective," Latin American and Caribbean Contemporary Record, eds. James Malloy and Eduardo A. Gamarra (New York: Holmes and Meier, 1991) and Mary Aban Lopez of the Centro Nacional para el Desarrollo de la Mujer y la Familia, "Perfil Sobre la Situación de la Mujer en la Sociedad Costarricense," speech presented at national forum on Women and Education for Work, April 1991; Centro Nacional para el Desarrollo de la Mujer y la Familia, "Situación de la Mujer Costarricense y su Integración al Desarrollo Económico y Social del País," September 1991, pp. 17, 21.

In 1991, the Freedom of Association Committee of the International Labour Organization (ILO) investigated claims by Costa Rican unions that the solidarist associations were being used to undermine trade unions. The ILO committee "...received evidence from trade unions and from labour authorities that dismissals and other prejudicial acts based on trade union reasons had taken place and were continuing to take place." The committee heard numerous reports of employers informing new employees that they were expected to join the solidarist associations and warning them not to take part in union activities.[41] Furthermore, while these associations are not designed, or even legally permitted, to represent workers in collective bargaining or other grievance procedures with employers, the ILO found that companies had used direct settlements with such groups of workers to undermine unions and collective-bargaining agreements.[42]

Public-sector union representatives reported that the government also used the growth of solidarist associations, along with layoffs required under the structural adjustment program, to undermine the position of unions in public enterprises that were being cut or privatized. In one case, representatives of the Unitary Union of Agriculture and Plantation Workers presented evidence to the ILO that union leaders and members had been targeted for layoffs as part of the adjustment program while workers were being actively encouraged to form a solidarist association.[43]

Workers are left in a bind. Many need the extra incentives provided by the solidarist associations, but membership in them effectively blocks efforts to resolve collective problems, such as low wages and sexual harassment. Without independent unions to help balance employees' needs against those of plant owners, it seems highly unlikely that significantly improved labor standards and wages will be seen in the maquiladoras or FTZs.

ADJUSTMENT AND THE COSTA RICAN PEOPLE

Structural adjustment, besides failing to lead the Costa Rican economy out of crisis and into renewed development, has affected the most vulnerable members of its society disproportionately. Both middle-class and poor people have been hurt by the adjustment measures, while exporters and foreign investors have benefitted from special incentive programs. Many groups, such as farmers' organizations and public-sector unions, have challenged the policies, but, given their lack of progress and increasing economic polarization, many observers are concerned that the country's relatively egalitarian structure and democratic tradition are beginning to be seriously undermined.

The Unequal Burden of Adjustment

Until 1980, Costa Rica had a long history of constantly rising real wages, a factor which helped produce the nation's relatively high standard of living. Under the adjustment programs of the 1980s, however, wages actually declined, with average real wages 16.9 percent lower in 1991 than at the beginning of the previous decade.[44] In 1990, the real incomes of commercial, agricultural and professional workers decreased 5.1, 3.5 and 3.4 percent, respectively.[45] The following year, purchasing power fell another 10 percent.[46] These reductions have not occurred during a period of economic contraction. In fact, they appear to be accelerating long after the economy recovered from its period of crisis in the early 1980s.

According to Mario Lungo of Centro Superior Universitaria Centro Americana (CSUCA), "The 1980s generated a high proportion of jobs of inferior quality, of great instability and low income, which could explain the fact that employment levels have recuperated [to their 1980 levels] while incomes fell and poverty increased." The statistics bear him out. Sources within the Ministry of Labor recently leaked a confidential study that shows that poverty has increased dramatically since the implementation of the adjustment program. The report indicates that the number of Costa Ricans living in poverty -- defined as those who lack the minimum income needed to meet their basic needs -- increased from 415,853 in 1987 to 599,528 in 1991, i.e., from 21 to 28 percent of the population. The report concludes that the groups benefitting most from the adjustment measures have been exporters of non-traditional products, importers and those linked to the financial-services sector.[47]

BOX 8 A LIVING WAGE?

A 1991 report by MIDEPLAN, the government agency for Planning and Political Economy, states that 37 percent of Costa Rican wage workers in 1990 received less than the minimum wage. Yet, even those workers earning the minimum could not survive on it. MIDEPLAN estimates that an average-sized Costa Rican family spends 90 percent of the minimum wage just for food.

Source: "Government report criticizes economic plan," Central America Report, 14 June 1991, p. 171.

Decline in Social Services

As wages declined and poverty spread during the 1980s, the Costa Rican government was also cutting social-service expenditures in line with World Bank and IMF requirements to reduce the current-account deficit. A 1992 Bank report on adjustment lending shows

government budgets for health, nutrition and sanitation programs declining 35 percent in real terms between 1979 and 1988, while real expenditures per capita fell by 45 percent during the same period.[48] With demand for these services rising due to the increasing impoverishment of the population and with less funds at its disposal, the government has had to postpone new investments, such as the building of clinics and schools. Today, 90 percent of its health, education and welfare budgets is allocated to cover recurrent expenditures, particularly salaries.[49]

Primary and preventative health-care services have been particularly hard hit, with serious consequences for the population. For the first time in decades, infant mortality rates have begun to rise, and the incidence of infectious diseases, such as malaria, tuberculosis and measles, has increased dramatically; reported cases of malaria, for example, rose from 168 in 1981 to 3,247 in 1991.[50] Referring to the public-health system's inability to deal with these problems, José Sánchez of the Ministry of Health comments, "Those are the great achievements of SAL I and II. Thanks a lot."[51]

Popular Opposition to Adjustment

Popular opposition to adjustment policies has grown throughout the country. As rural poverty has increased, so have squatter invasions of empty lands and demonstrations against declining services and access to credit. An attack by private security forces on a group of 180 landless families squatting on a large farm in Chilamate de Sarapique in May 1991 raised serious questions about the alarming growth in the number of private paramilitary groups.[52] It also raised concerns about the danger that economic decline and polarization poses for social harmony, the protection of basic rights and the nation's democratic system.

At the same time, Costa Rican farmers have vigorously protested policies designed to shift production from basic food grains to non-traditional agricultural exports. In 1987, for example, over 10,000 farmers affiliated with UPANacional, the national farmers' union, marched in San José to protest the agricultural policies promoted under structural adjustment. In June 1988, farmers' organizations affiliated with the Unión de Pequeños Agricultores de la Región Atlántica (UPAGRA), a regional farmers' union, held demonstrations across the country, occupying government buildings and blocking highways.

In San José, plans to cut government services and public-sector employment have elicited a strong reaction from public-sector unions. Over 70,000 workers participated in an October 1990 national strike led by the Consejo Permanente de Trabajadores (CPT), a federation of public-sector workers, to protest the austerity measures. Work stoppages and demonstrations have occurred periodically since then, with workers demanding a halt to layoffs and salary increases to offset a 25-percent decline in the purchasing power of their wages over the last four years. Throughout the country, academic groups, popular movements and non-governmental organizations are demanding a process of national "concertación", or consensus building, that would include all social sectors, rather than just the powerful interest groups that have benefitted most from the adjustment program to date, in discussions of the country's future economic plans.[53]

EMERGING ALTERNATIVES

After over a decade of structural adjustment, under which poor and middle-class people and the environment have suffered, local proponents of change have begun to advance alternative development proposals. Plans have been proposed by farmers' unions, organized labor and environmentalists, as well as by academic institutions.

Agricultural groups have taken the lead in this area. UPANacional has presented a plan to the Costa Rican government that focuses on a fair return to producers, with a guaranteed price based on the cost of production. It and other national and regional farmers' organizations entered into a process of negotiation with the government on agricultural policies in 1986 and have achieved the latter's recognition of the vital need for self-sufficiency in basic grains and for consultation with farm groups in the formulation of agricultural policy. They have been unable, however, to persuade the government to change its policy of giving preference to producers of non-traditional exports in the extension of credit and technical and marketing assistance and to take concrete actions to ensure food security and a fair return to producers.[54]

The CPT has presented an alternative plan, the Programa Económico Costarricense I (PEC I), to the public and the government. This plan includes recommendations for: increasing the fairness of taxation; decentralizing government operations; reducing the public bureaucracy; and focussing spending on the poorest regions. It proposes industrial and agricultural policies that focus on ecologically sustainable production that integrates various sectors of the economy and meets the population's basic needs. According to the CPT, employment policies should be guided by the right of every human being to dignified and well-paid employment. In order to achieve these goals, the CPT proposes a restructuring of the state, beginning with boards of directors of all government institutions so that they include tripartite representation from the public and private sectors, as well as workers.[55]

Environmental groups have also met to design alternatives to adjustment policies. The resultant plan, the National Conservation Strategy for Sustainable Development (ECODES), emphasizes the importance of incorporating the concept of sustainability into national planning. It includes strategies for natural-resource conservation, as well as agricultural planning that would encourage an evaluation of the ecosystem's capacity to support new kinds of crops. It also gives priority to settlement schemes for small farmers. In addition, it recommends reforms in the legal system and the development of sanctions related to resource conservation, supporting the implementation of the proposal that "...those who degrade the environment should pay for its rehabilitation."[56]

These proposals vary in the degree of popular participation in their design. Furthermore, they are all influenced by the particular needs of the groups advocating for change. Still, they share as a goal a commitment to self-determination and broad-based, sustainable development. Their proponents start from the common assumption that the economic model on which structural adjustment is based has weakened Costa Rica's economy and society, not strengthened them, and that it is time to focus on meeting domestic needs rather than foreign obligations. They also share a recognition of the limitations of the previously implemented import-substitution model. They do not propose returning to the past, but rather working towards a future in which all citizens benefit from economic growth.

CONCLUSION

In many ways, Costa Rica should have been a "best case scenario" for the application of adjustment policies. The level of U.S. foreign assistance to Costa Rica was high throughout the 1980s, providing the funding for a relatively smooth transition to an export-led economy. Social tensions were low, both because of the high levels of external financing that prevented extreme cuts in social spending and because of the relatively high degree of income equality. In addition, unions and other organized popular movements have been able to pressure and negotiate with the government to mitigate the harshest aspects of the country's adjustment program and to change it somewhat to fit Costa Rican realities. While presidential administrations changed, all were willing to comply with IMF and World Bank requirements, leading to fairly consistent application of those policies.

Despite these favorable conditions, most of which do not exist in the rest of Central America, stabilization and adjustment policies have not led Costa Rica out of economic crisis and toward stable, equitable development. Rather, they have led the country into a series of new economic crises marked by growing disparities in wealth and income and extensive environmental damage. While there has been improvement in some macroeconomic indicators over the past dozen years, the quality of life has worsened for much of Costa Rican society. Farmers' groups and environmentalists fight against the push given agricultural exports that has denigrated the country's natural environment and undermined its food security without even benefitting its trade balance. Urban workers question the drive to expand the maquiladora sector and reduce public-sector employment and services in the absence of clear benefits to the society as a whole. In both the agricultural and industrial sectors, there is a troubling tendency towards control of the economy by elite groups, especially foreign investors.

In a series of interviews with Costa Rican academics and NGO and popular-movement leaders, the single most common, indeed consistent, concern expressed was that the social and economic decline in Costa Rica over the past decade is jeopardizing the country's democratic tradition. In the past, rising real wages both in the urban and rural sectors lifted standards of living throughout the country and brought a relative degree of social harmony. While popular groups expressed opposition to particular policies, most people felt that they had a common interest in the country's economic and social well-being. Today, with worsening economic conditions, there is a growing sense of unease and distrust that could threaten this peace.

Despite the accumulated evidence of a failed economic policy in Costa Rica, the current Calderón Administration has intensified the implementation of the country's adjustment program. In fact, SAL III, which is scheduled to begin in mid-1993, will be by far the largest and most ambitious adjustment program to date in Costa Rica. It is the first adjustment loan specifically oriented to reducing the size and role of the State through cuts in public employment and spending and to decreasing the functions of the national development banks.

Rather than learning from Costa Rica's experience, the promoters and financiers of the program -- the World Bank, the IMF and USAID -- continue to insist on government compliance with SAPs across Central America. In a region emerging from years of civil war, with fragile democracies and pervasive poverty, this is a foolish and short-sighted policy, not only for the countries themselves, but also for the United States, given its stake in long-term peace and stability in the region.

Notes

1. The "60 Minutes" program, as well a subsequent segment of the ABC program "Nightline", was based on the investigative work of the National Labor Committee in Support of Worker and Human Rights in Central America and U.S. Congressman George Brown.

2. "Central America in Dire Economic Straits," Third World Network Features, No. 791, 1991.

3. "Maquiladoras in Guatemala," Central America Report, 20 December 1991, p. 3.

4. "Blacklisted by the World Bank," Central America Report, 7 April 1989, p. 103.

5. American Friends Service Committee, "Honduras into the 1990s," 1 April 1990.

6. "Undermining Opposition to Structural Adjustment," Envío, July 1992, p. 39-40.

7. Hondunet News Bulletin, 28 January 1992.

8. Rob Eberhart, "1992: More Adjustment, More Poverty," Mesoamerica, December 1992.

9. "The Economic Plan's Feet of Clay," Envío, March 1992, p. 25.

10. Ibid., p. 30.

11. "Economy: New Wage Hikes," Proceso, 2 February 1993.

12. Central American Human Rights Commission (CODEHUCA), "The Miners of Cerro Patacon," 2 April 1992.

13. Between 1965 and 1973, for example, the country's Gross Domestic Product (GDP) grew at an average rate of seven percent.

14. Claudio Gonzalez-Vega, "Fear of Adjusting: The Social Costs of Economic Policies in Costa Rica in the 1970s," in Revolution and Counterrevolution in Central America and the Caribbean, eds. Donald E. Schultz and Douglas H. Graham (Boulder: Westview, 1984), p. 356.

15. Maureen Taft-Morales, "The Effect of Structural Adjustment on the Poor in Costa Rica," in CRS Report for Congress: World Bank/IMF Adjustment Loans and the Poor in Developing Countries (Washington: Congressional Research Service, 1991), p. 71-73.

16. Central America Update, 7 August 1991.

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18. Bradford Barham, Mary Clark, Elizabeth Katz and Rachel Schurman, "Nontraditional Agricultural Exports in Latin America," Latin American Research Review vol. 27, no.2, 1992, p. 70.

19. Sylvia Saborio, "The Costa Rican Debt Accord: Lessons and Implications," in The Caribbean Basin: Economic and Security Issues (Washington: Joint Economic Committee of the U.S. Congress, 1993).

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21. Isis Campos, "¿Quién respondera por la falsa reducción?" Esta Semana, 5 October 1992.

22. Rodrigo Roldan, "Economía abandona fijación de precios en sector agrario," La República, 20 November 1992. In November 1992, the Costa Rican Ministry of Economy announced plans to eliminate the CNP's role in stabilizing prices for rice, beans and corn in early 1993.

23. Author's interview with Jorge Hernandez, 22 April 1991. Information on Del Monte subsidiary from Centro de Estudios para la Acción Social, Ajuste Estructural y Desajuste Social (San José: CEPAS, 1990), p. 19.

24. Reported by the Facultad Latinoamericano de Ciencias Sociales (FLACSO) in Central America Update, 11 August 1992.

25. Peter M. Rosset, "Sustainability, Economies of Scale and Social Instability: Achilles Heel of Non-Traditional Export Agriculture?" Agriculture and Human Values, Summer 1991.

26. Cyrus Reed, "'Agriculture of Change' Costly, Complicated," The Tico Times, 22 June 1990.

27. Riné Vermeer, "La Política Agraria de la Administración Arias en el Marco del Ajuste Estructural," in Los Campesinos Frente a la Nueve Decada, ed. William Reuben Soto (San José: Editorial Porvenir/CECADE, 1990), p. 57.

28. Rolando Rivera and Isabel Román, "Ajuste Estructural y Alternativas Productivas para los Pequeños Productores (Algunas consideraciones para el debate)," in Los Campesinos Frente a la Nueva Decada, ed. William Reuben Soto (San José: Editorial Porvenir/CECADE, 1990), p. 154.

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32. Cyrus Reed, "'Agriculture of Change' Squeezes Farmers," The Tico Times, 1 June 1990, and World Bank statistics.

33. Op. cit., International Development Networker, p. 2.

34. Author's interview with Maria Tribelato of CECADE, 19 April 1991, and Rivas Villatoro, p. 45.

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36. David Dudenhoefer, "New Group May Help Indians Save Forests," The Tico Times, 25 May 1990, p. 8.

37. Mario Lungo, Las Transformaciones en la Economía del AMSJ (San José: Confederación Universitaria Centroamericana, 1990), p. 37.

38. Ibid., p. 43.

39. Ibid., p. 49-54.

40. International Labour Office, "Report of the Committee on Freedom of Association (278th Report) Case No. 1483: Complaint Against the Government of Costa Rica Presented by the International Federation of Free Trade Unions," International Labour Office Official Bulletin, Vol. LXXIV, 1991, p. 63.

41. Ibid., pp. 75, 81.

42. Ibid., p. 80.

43. Ibid., p. 77.

44. Economic Commission for Latin America and the Caribbean (ECLAC), Balance Preliminar de la Economía de América Latina y el Caribe 1992, (Santiago: ECLAC, 1992), p. 46.

45. "Structural Adjustment III: The Squeeze Continues," Central America Report, 20 September 1991, p. 280.

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49. Carlos Castro Valverde and Mauricio González Oviedo, eds., Costa Rica en el Umbral de los Años 90: Deterioro y Auge de lo Social en el Marco del Ajuste (San José: Centro de Estudios para la Acción Social, 1992), p. 61.

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