How did Costa Rica achieve social and market incorporation?

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Abstract

In 1980, just before the debt crisis and in contrast with the experience of the rest of Latin America, almost all Costa Ricans had formal jobs and high-quality social services. To explain this double social and market incorporation, the present article calls into question the role of land distribution, high-quality public institutions and democracy. Instead of these, it focuses on the State-building process whereby a small emerging elite of business owners and urban professionals, drawing on and adapting international ideas, used public policy to deal with social conflict and expand their own economic opportunities. Looking beyond Costa Rica, this analysis is particularly germane at a time of growing emphasis on the political economy of public policy and the still inadequate attention paid to the elites involved in designing it.

Keywords

Economic conditions, social conditions, social welfare, employment, social security, social policy, Costa Rica

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I. Introduction[1]

People's welfare depends simultaneously on proper participation in the labour market and protection against the great volatility of that market. In the first place, they need to be able to rely on a stable income so that they can increase their consumption and meet the needs of their households. As Banerjee and Duflo (2011, p. 227) stress in their latest book, *Poor Economics: A Radical Rethink of the Way to Fight Poverty*, everywhere they asked they found that the most common dream of the poor was that their children become civil servants, which suggests a desire for stability; this shows the importance of high-quality jobs. In the second place, people also want to receive certain services independently of the market as part of their citizen rights and as a way of securing themselves against external volatility and crises.

To explore this twofold goal of public policy, whose urgency has been emphasized by institutions such as the United Nations Research Institute for Social Development (see UNRISD, 2010), we have proposed the concepts of market incorporation and social incorporation (Martínez Franzoni and Sánchez-Ancochea, 2012).[2] By incorporation we mean people's participation over a long historical period in two key resource-allocating institutions: formal labour markets and public social services. Market incorporation means stable access to monetary commerce, which in turn requires the creation of a sufficient number of well-paid formal jobs in the private and public sectors. Social incorporation takes place when people are able to secure their well-being independently of the cash nexus.[3] The notion of double incorporation in this article is thus a normative one: it does not mean just any participation in labour markets and social services, as necessarily entailed by urbanization, but the attainment of a "floor" of cash, labour and social protection and services for most.

Unfortunately, few countries in the South have achieved social and market incorporation simultaneously. In Latin America, for example, market incorporation was incomplete and social incorporation segmented for most of the twentieth century. In the period after the Second World War, low agricultural productivity resulted in rapid migration to urban areas, where the new capital-intensive industries could not create enough jobs. Levels of informality and unemployment remained high (albeit less so in Argentina, Chile and Uruguay than in Brazil or the Andean countries), and in 1980 two fifths of Latin American jobs were informal (Tokman, 2001). Social incorporation reflected occupational segmentation under contributory systems organized by formal employment type, which excluded the poor population (Seekings, 2008). In the early 1970s, for example, Chilean social security had 160 different programmes with asymmetrical benefits for different occupational groups (Mesa-Lago, 1978). Civil servants, professionals and other formal urban workers were the first to be incorporated into social security and enjoyed greater benefits than self-employed and informal workers (Filgueira, 2005). In Argentina, social security programmes for "less influential and organized groups, particularly rural and domestic workers, were largely ineffective in enrolling affiliates and the benefits they offered were usually minimal" (Lewis and Lloyd-Sherlock, 2009, p. 116).

Costa Rica was an exception, however, not only in the region but in the whole developing world: between 1950 and 1980, unemployment and underemployment were low, the formal sector

1 This article is based on the argument presented in the book *Good Jobs and Social Services: How Costa Rica Achieved the Elusive Double Incorporation* (Martínez Franzoni and Sánchez-Ancochea, 2013a), which had only appeared in Spanish until this issue of the CEPAL Review.

2 In using the idea of incorporation, we are preceded by a fruitful tradition of social research. In their now classic work, Collier and Collier (1991) explain how incorporation (into the political arena in this case) replaced the repression of the working class as a political actor.

3 Reygadas and Filgueira (2010) argue that Latin America currently faces a second social incorporation crisis. Instead of the formal working class that was at the forefront of the previous incorporation crisis, those badly in need of incorporation are now the millions of informal workers lacking minimum services. The wave of left-wing and centre-left parties in government partly reflects this population's demand for incorporation.

grew steadily and a set of universal social programmes expanded.[4] By the early 1980s, most Costa Ricans had access to relatively well-paid jobs and to high-quality health care, education and pensions (Sandbrook and others, 2007). Costa Rica actually performed better in some ways than the countries of East Asia. Although these experienced employment and economic "miracles," they had low social spending and underdeveloped public social security networks (Goodman and Peg, 1996), while social protection was mainly organized around firms and left out a large proportion of the population (ILO, 2007).

What accounts for Costa Rica's success? Long-term market and social incorporation was not so much the result of a particular ideology as the consequence of the economic preferences of a new elite whose goal was to build the State. An emerging class of small and medium-sized business owners and urban professionals grouped around the National Liberation Party (PLN) came to the fore and used the State to deal with issues as concrete as obtaining credit to expand their economic opportunities. By adapting international ideas (a variable usually overlooked in economics debates), these actors also used public policy to reduce social conflict and weaken the opposition.

Thus, the analysis presented here is of relevance beyond the Costa Rican case, contributing to some of the most significant current debates in political economy. First, the work of Acemoglu, Robinson and their collaborators has brought growing attention in mainstream economics to the role played by the power of elites and their influence on the institutional fabric (Acemoglu and Robinson, 2012; Amsden, Di Caprio and Robinson, 2012). However, few of these studies properly address the issue of who the elites are and why they need the State. This article, on the other hand, highlights the importance of those leading the State-building process and of interactions between the elite, the bureaucracy and international ideas. Second, considering both the importance of these groups and their relationship with the State can yield a better understanding of the opportunities and best strategies for creating new compacts for equality and achieving double incorporation in Latin America, which is one of the key goals of recent work by ECLAC (2014).

The second section will discuss the explanations given hitherto for Costa Rica's success in achieving the twofold feat of social and market incorporation between 1950 and 1980, and their limitations. The third section will present an argument based on the State-building role played by the emerging elite. The fourth section will briefly analyse the validity of the two key variables presented here to explain why Costa Rica has been struggling to sustain this double incorporation since the 1980s. The fifth section concludes by drawing attention to the theoretical and political implications for the present.

II. The explanations so far given for Costa Rica's success

The explanations usually given for Costa Rica's success focus on the existence of relatively equitable patterns of land and income distribution creating conditions as early as colonial times for the subsequent consolidation of democracy and creation of State capacities. Despite its name, Costa Rica lacked natural resources or a large indigenous workforce, and was a long way from the centre of Spanish political authority in Guatemala. As a result, land distribution was less unequal and social divides narrower than in other Central American countries (Hall, 1982; Torres-Rivas, 1975). On this mainstream view, the relative weakness of the oligarchy and the strength of the rural middle class

4 Pribble's (2011) analysis identifies Costa Rica along with Argentina, Chile and Uruguay as countries with a strong performance in risk prevention and management. However, her analysis concentrates exclusively on the present and does not disaggregate the unequal incorporation of social groups within each country. Sandbrook and others (2007), on the other hand, stress how exceptional Costa Rica is and identify the country as the one example of social democracy in Latin America before the 1990s.

helped create a more active State and governments that were more sensitive to social demands from the very outset of the republican era (Rueschemeyer, Huber and Stephens, 1992). Echoing the literature on inequality in Latin America (World Bank, 2003; Engerman and Sokoloff, 1997) and the increasingly influential literature on institutions and growth (Acemoglu, Johnson and Robinson, 2005), these explanations look to the colonial period and subsequent institutional development for the key to Costa Rican success.[5]

While it is true that Costa Rica benefited from a less unequal economic structure than other countries in Latin America, the empirical data cast doubt on the validity of this historical explanation. Between 1935 and 1937, infant mortality was higher in Costa Rica, at 159 children per 1,000, than in Ecuador (145), El Salvador (137) or México (135) (Hytrek, 1999). Although income distribution may have been somewhat more equitable than in the neighbouring countries, inequality was nonetheless very high (Bowman and Baker, 2007). Given that 40 years later Costa Rica's mortality indices were among the lowest and its life expectancy among the highest in the world, the signs are that the second half of the twentieth century saw significant changes that can clearly not be explained by the colonial inheritance alone.

Alternative explanations for Costa Rican success emphasize the quality of State institutions. The evidence available for the superior performance of Costa Rica's civil service relative to those of its neighbours would seem to support the theory of bureaucratic capabilities: in the late 1990s, Costa Rica scored best in Latin America and tenth overall among the 35 countries considered by Evans and Rauch (1999) in their evaluation of the quality of bureaucracies. However, State capacity-building did not precede but coincided with the implementation of the policies which made the double incorporation possible. Thus, the constitutional reforms to the civil service of 1946 and 1949 and the Public Administration Act of 1953 were approved in parallel with the changes that were to strengthen employment and create a more highly developed social policy. Again, State capacity in itself cannot explain double incorporation in a comparative perspective: it is significant that in the likes of the Republic of Korea and Taiwan Province of China, sound institutions were not necessarily matched by high levels of social incorporation.

Sandbrook and others (2007) consider Costa Rica's success to have derived from the existence of a developmental State, a term coined to refer to States capable of disciplining the private sector and making it meet certain performance criteria (Amsden, 2001; Evans, 1995). This definition of the developmental State does not apply to the Costa Rican State: although it did succeed in expanding formal employment, it failed to create new and more dynamic comparative advantages or a competitive industrial sector. It was an expanding social State rather than a developmental State capable of directing the economy along a path of innovation and technological learning.

Of the explanations available, the most influential has been the one concerning the role of democracy in promoting human development. The most generally accepted idea is that, after the civil war of 1948, democratic institutions gave rise to the expansion of a social democratic party that strengthened the bureaucracy and expanded social policy (Huber, 2005; Garnier and Hidalgo, 1991; Itzigsohn, 2000). A second argument stresses the nature of political institutions (Gutierrez-Saxe and Straface, 2008; Lehoucq, 2010; Wilson, 1998). Specifically, the approval of new electoral rules meant that political actors could trust elections, which thus became the only route to power (Lehoucq, 1998; Wilson, 1998). The two-party system and the expectation of alternation in power permitted the consolidation of policies aimed at the median voter (Straface, 2008). In turn, the fact that much public policy was entrusted to independent bodies reduced the influence of electoral and party competition in key policy areas and ensured policy continuity (Lehoucq, 2010; Straface, 2008). The combination of institutional autonomy and alternation of parties in power strengthened public policy.

[5] This explanation predominated in the interviews we conducted in Costa Rica in July and August 2011. See also Bodenheimer (1970).

Institutional dynamics have unquestionably been important, particularly in explaining the historical legacies that have operated during the most recent neoliberal period, which is not studied in detail here but is examined in Martínez Franzoni and Sánchez-Ancochea (2013a). However, other countries, with enduring democracies, such as Chile and Uruguay before 1970 in Latin America and others in different parts of the world, have been less successful in securing the double incorporation. In the case of Costa Rica, the institutional explanation is not enough in itself to account for social and market incorporation since the 1950s. For one thing, the autonomous institutions were never strictly autonomous, as the political parties sought to influence them directly and indirectly. In the early 1950s, for example, social actors close to the PLN, such as the Rerum Novarum Workers' Confederation, participated actively in the appointment of the management boards of banks and the Costa Rican Electricity Institute (Brenes, 1990). For another, the PLN was the only party to put up candidates in all presidential elections, the only one always to have a parliamentary majority (Hernández, 2009; Rovira, 1987) and the real driving force behind the creation of most of the autonomous institutions. Thirdly, particularly between 1950 and 1980, the separation between political parties and the State bureaucracy was not at all clear-cut. Many of those appointed to top positions in the autonomous institutions were sympathizers of the PLN and supported its political project (Denton, 1969). In sum, the evidence points to the PLN and its membership being the key actor behind the expansion of the State in general and public institutions in particular.

Democracy undoubtedly opened up spaces for public debate and forced the political elite to respond at least in part to social demands. However, the direct role of formal democracy in the expansion of the State could be less important than is usually believed, and it was by no means a sufficient condition for success. For one thing, many of the most radical economic changes were made by the victors of the 1948 civil war in a de facto government with little democratic legitimacy *per se*.[6] For another, in 1951 (the year of its foundation), the PLN was a small electoral force that had just been defeated twice over in elections to the legislature and the Constitutional Assembly.[7] The PLN was surrounded at that time by a large array of opposition forces, from the coffee-growing oligarchy to the communists. In the 1953 elections, however, its presidential candidate, José "Pepe" Figueres, won 65% of the vote (Hernández, 2009). In a very short period, the brand-new PLN became the dominant political force by combining repression of opposition leaders, a ban on the pro-oligarchy military, specific policy measures during the Junta's period of government, and electoral promises.

The idea that Costa Rica was fully democratic for most of this period is also questionable. During the 1950s, party leaders from the opposition and trade union activists were exiled or imprisoned. Between 1949 and 1975, the Costa Rican political system maintained anti-democratic exclusions. The second paragraph of article 98 of the Constitution established that the Legislative Assembly could ban political parties deemed undemocratic. Although the scope and severity of exclusion diminished towards the end of the period, it meant that a group of citizens did not have the same freedom of thought and organization or the same voting options as the rest of the population.[8]

Between 1950 and 1980, in short, democratic consolidation took place simultaneously with economic and social transformations (State of the Nation Program, 2001; Vargas-Cullell, Rosero-Bixby and Seligson, 2005). Broadly speaking, electoral competition simultaneously prompted and impeded changes in social policy, and went hand in hand with other factors such as bureaucratic initiative and the role of international organizations (McGuire, 2010).

[6] The fact that the PLN has presented itself as the champion of democracy since its creation does not change the fact that it was its most emblematic leaders who triggered the civil war, abrogated constitutional powers, governed under a Junta and took 18 months to hand over power to the president-elect.

[7] The social democrats had 4 of 45 representatives in the Constitutional Assembly of 1949 (Rovira, 1987). That same year they won 3 of 45 seats in the legislature in ordinary elections to renew half the Congress.

[8] Rovira (1990) dates democratic consolidation to 1958, when party alternation took place. In this article we date it to 1970, when the Communist Party was legalized.

III. The emerging elite and the double incorporation

We argue that the double incorporation rested on a rapid expansion of the State presence in the economy and social provision, which in turn was driven by the interests of an emerging elite formed of different segments of the middle class. Grouped around the PLN, this elite used the State for its own benefit, specifically to: (i) support economic activities in which it had interests; (ii) increase its base of social support by expanding public-sector employment, and (iii) manage and suppress conflict.

Again, many of the policies pursued by the PLN can only be understood in the context of ideas that were internationally available. Politicians, and techno-politicians in particular, selectively took up different ideas and adapted them to the country's conditions and their own political goals. Before the 1980s, these policies centred on the importance of import substitution, on universal social security and, later, on social assistance.

We shall now describe how this emerging elite came to power, how State-building in the interests of specific groups contributed to social and market incorporation, and how international ideas shaped policies.

1. The new elite and the expansion of the State between 1950 and 1970

The main goal of the PLN from its beginnings was to create economic opportunities for small and medium-sized proprietors and urban professionals (Bodenheimer, 1970). This required the party to become a dominant electoral force, something Figueres achieved with his crushing victory in 1953. Once in government, Figueres expanded public-sector employment (which rose from 6% to 10% of the active labour force between 1950 and 1958), introduced the thirteenth annual wage for public servants (as an explicit mechanism for distributing the budget surplus) and promoted pro-PLN unions.[9]

Because small and medium-sized proprietors like Figueres had great need of financing, the PLN also expanded credit and pursued agricultural sector modernization. In the late 1950s, over a third of all lending in the country was going to the agricultural sector, and the production of staple grains like beans, rice and maize was actively promoted by the National Production Council (Brenes, 1990). The increasing interventions directly benefited the group close to Figueres. A number of PLN leaders had growing interests in cattle ranching and received abundant cheap credit (Aguilar and Solís, 1988). Figueres himself and his brother owned one of the country's largest coffee estates, located in Turrialba (Winson, 1989). Although the traditional elite also benefited from State support for the modernization of coffee production, the State demanded more from it in return. In 1954, for example, came the introduction of a new tax whereby "the ninety largest companies in the country would see their taxes increase from five million colones a year to fourteen and a half million colones a year" (Bowman and Baker, 2007, p. 38).

With the passing of the Industrial Protection and Development Act in 1959 and the accession of Costa Rica to the Central American Common Market (CACM) in 1963, the centre of economic policy shifted from agriculture to industrial promotion. Both measures were promoted by the PLN elite, which

9 Between 1950 and 1980, the Costa Rican political system had two blocs, the PLN and conservative groups that sometimes managed to build successful anti-PLN coalitions. Between 1951 and 1978, the conservatives won two presidential elections but never obtained a majority in parliament. Before 1970, the PLN did not face an electoral threat from the left because the Communist Party was outlawed.

saw an opportunity to expand its economic base.[10] This economic strategy was fiercely opposed by the traditional agro-export oligarchy. These groups, which were in government in the early 1960s, refused to sign the agreement constituting the CACM, so that the accession of Costa Rica took place only after the PLN election victory of 1962.

Both loan subsidies and protection for the domestic market generated large corporate rents, in the sense of opportunities to earn more than would be the case in a free market system (Akyuz and Gore, 1996). González-Vega (1990, p. 21), for example, estimates that in 1974 preferential access to cheap credit translated into "an implicit subsidy of 30% a year." That author also shows that in agriculture the implicit transfer from public-sector banks was equivalent to about a fifth of total value added. Although most of the data available on the level of protection are for the late 1970s and early 1980s, tariffs were already high during the 1960s. In 1980, the effective rate of protection for the industrial sector as a whole was 139%, with variance of from 45% to 388%, depending on the activity. Textile and leather products received particularly generous protection, as did furniture and wood products (Salazar, 1990). According to calculations by Monge González and González-Vega (1995, p. 134), transfers from consumers to producers were equivalent to 16% of gross domestic product (GDP) in 1996 and probably even more in previous decades.[11]

Of course, numerous governments set about creating rents that swelled corporate profits during this period (Amsden, 2001). Like many others, Costa Rica's was not very successful in seeing that these rents turned into new comparative advantages and systematic productivity growth in the manufacturing sector (Brenes, 1990; Lizano, 1999). What was special and successful in Costa Rica was the way these rents were distributed. Although much public investment went to a small part of the new elite, small and medium-sized producers throughout the country benefited as well. In 1952, for example, the National Bank of Costa Rica, acting through its rural councils for economic development, granted 20,000 loans whose recipients totalled a quarter of all agricultural producers, and in 1976 over 24,000 loans were made (González-Vega, 1990). Much lending also went to public institutions which thereupon expanded rapidly and created a large number of jobs throughout the country. Protectionism likewise led to the creation of new firms. In the late 1970s, indeed, 40% of industrial business owners were people whose parents had not owned their own firms (Garnier and Hidalgo, 1991). In short, the economic policies pursued by the PLN during this period helped to buttress the new elite and, in doing so, facilitated the market incorporation of a growing middle class composed of public-sector employees and owners of small businesses in all sectors of the economy (Rodríguez, 1997).

Where social policy is concerned, it must be recognized that this was less of a priority than economic modernization for the PLN during the 1950s and 1960s. Indeed, "much of the social welfare infrastructure had been established before the Revolution of 1948" and there were "no radical innovations" in this period (Bodenheimer, 1970, p. 71; see also Winson, 1989). Even so, social spending and service coverage gradually increased because of three different factors. First, the PLN used social programmes as a tool to expand its base of support. This is clear, for example, from the way the law universalizing social security was passed in 1961. According to the law's main sponsor, a deputy called Enrique Obregón Valverde, the PLN, then in opposition but with a majority in the legislature, supported it to take credit for the consolidation of social security, thus making up for the fact that the institution had been created by the Social Christians in the 1940s.[12] Second, the bureaucracy in charge of pension and health policies demanded that new financing mechanisms be created to ensure

[10] Thanks to these provisions and other protection measures, the Chamber of Industries, whose member firms depended on public subsidy, became a fervent supporter of the PLN. A survey conducted in the late 1970s showed that over two thirds of the Chamber's board members supported the PLN (Vega, 1982).

[11] Although the economic assumptions used to calculate these transfers are very questionable (see Ocampo and Taylor, 1998), they give an idea of the scale of the subsidies received by many producers.

[12] Interview with Obregón Valverde on 10 August 2011.

that social security could be sustained and expanded (Rosemberg, 1983). Third, the few new social initiatives promoted by the PLN during this period, although aimed at economic transformation, also contributed to social incorporation. This was true of housing programmes and, still more clearly, of the National Learning Institute (INA).

The creation of the INA in 1965 was meant to support industrialization by providing training for the working class. Law 3506 under which it was created was tabled by the Minister of Labour, Alfonso Carro Zúñiga, with advice from the International Labour Organization (ILO) and Israeli experts (Congreso Constitucional, 1965). The PLN wanted to increase the productive capabilities of the workforce, particularly in manufacturing, and expand job opportunities for the young and low-income population. At the same time, the INA was meant to boost corporate earnings and thence also increase the party's social base among the better-off sections of society. The law was supported enthusiastically by the Chamber of Industries, the media and Congress.

The expansion of public-sector employment was another crucial instrument for increasing the PLN support base. Whereas in 1960 less than 10% of the economically active population was in public-sector employment, 20 years later the figure had risen to about 18%, with an absolute increase from 30,000 to 150,000 public-sector jobs (CLAD, 2007). Unfortunately, the PLN also used other, less democratic methods to reduce conflicts and minimize opposition to its modernization project, coopting and repressing unions in particular. Because there was no law protecting their leaders from being dismissed as an anti-union measure, private-sector unions were systematically repressed (Castro Méndez and Martínez Franzoni, 2010). By the mid-1970s, only 5% of private-sector employees were unionized. In the public sector, there was a mixture of repression and cooptation. In 1971, the Minister of Labour admitted that "union freedoms as such" did not exist (Aguilar, 1989, p. 174). When the right to strike was established, the bar was set so high (strikes had to be supported by 60% of the workers concerned, for instance) that its exercise was severely restricted in practice and virtually all strikes ended up being illegal (Castro Méndez and Martínez Franzoni, 2010). Of the 182 strikes recorded between 1972 and 1983 and the 159 called between 1990 and 1998, just 5 were deemed legal (Donato and Rojas Bolaños, 1987; State of the Nation Program, 2001). Somewhat later, in 1984, with the support of the business chambers, the government passed the Solidarity Associations Act, which created mutual saving and loan organizations with workers' membership and employer participation. Although formally these solidarity organizations complemented unions, in practice they became a powerful tool of anti-union policy, as repeated efforts were made to give them a role in representing workers' employment interests (Castro Méndez, 2014).

2. The renewal of State initiative in the 1970s

While in power between 1970 and 1978, the PLN tried to cope with the international economic crisis of the early 1970s and growing constraints on manufacturing by giving the public sector a new role. Expanding the economic function of the State became more important than promoting opportunities for private accumulation. The creation of the Costa Rican Development Corporation (CODESA) in 1972 was the first step in this new market incorporation strategy. CODESA was originally expected to promote investment in new sectors of the economy and stimulate public-private partnerships. Its board was made up of representatives of business associations, including the Chamber of Industries, and it did not initially compete with the private sector.[13] In 1975, though, CODESA expanded into a growing number of sectors, including sugar, cotton and cement, and also into the stock market. It also received ample loan support: in 1983, lending by the Central Bank of Costa Rica to CODESA represented half of all credit to the private sector and 18% of total domestic lending.

[13] August 2011 interview with the technical and political advisor assisting President Oduber.

With the creation of CODESA and an increased role for the State, the PLN was pursuing a twofold objective. First, it sought to create a “bourgeois bureaucracy” comprising party members who progressively increased their power and wealth (Sojo, 1984). Second, it succeeded in expanding public-sector employment at a particularly difficult time in the labour market. It should not be surprising, then, that the private sector opposed the expansion of CODESA almost from the start and became increasingly critical of the PLN (Vega, 1980).

In the case of social policy, during the 1970s the PLN elite sought to enhance the role of the State while at the same time altering its approach. Up until then, actions to increase social and market incorporation had focused on the Central Valley and mainly benefited the middle class. Between 1963 and 1973, for example, the income received by people in the middle of the social structure (deciles 4 to 8) rose from 30% to 40%. However, the income share of the lowest-income 20% of the population declined slightly, from 6.0% to 5.4% (OFIPLAN, 1982).[14] Efforts to redistribute land during the 1960s failed and landless campesinos living outside the Central Valley continued to be excluded from the modernization process (Seligson, 1980).[15]

The PLN faced a growing social conflict in the early 1970s: between 1971 and 1974, 2,240 families illegally occupied over 91,000 hectares of land (Cortés and León, 2008). Much of the protest was channelled by progressive movements with links to the still illegal Communist Party and other left-wing parties whose presence in rural areas increased considerably.[16] To cope with the conflict, the PLN introduced new social programmes oriented towards the poor, especially in rural areas. In 1970, Figueres created the Joint Institute for Social Aid (IMAS) to transfer subsidies to people living in extreme poverty. More significant still was the 1974 creation of the Fund for Social Development and Family Allowances (FODESAF) under Oduber’s government. In its first year of operation, FODESAF received 1.4% of GDP (Trejos, cited in Rovira, 1987). This fund was groundbreaking in Latin America, focused as it was on financing services for hitherto excluded people via existing public services and public institutions that catered to the non-poor population. FODESAF also created new programmes, including non-contributory pensions, primary health care and school meals, implemented by institutions with a universal character.[17]

3. The role of international ideas between 1950 and 1980

While the interests of the PLN elite help to explain the general thrust of public policy, they are not enough to account for its specific features. For this, it is necessary to consider the role and origin of ideas and analyse how these changed over time. Specifically, we argue that international actors and the ideas promoted by them were extremely important for public policymaking.

By way of example, the social and labour market reforms of the 1940s were implemented in a setting that was heavily influenced by the anti-communist reformism of the New Deal brought in by President Roosevelt in the United States (Acuña, 1995). The system of health insurance created in 1941 was likewise strongly influenced by international recommendations that occupation-stratified regimes should be avoided in favour of unified systems for all (Martínez Franzoni and Sánchez-Ancochea, 2012; Seekings, 2010).

[14] The data are based on nominal monthly household incomes and should be interpreted with caution, since the reliability of the surveys conducted at that time is unknown.

[15] By the mid-1970s, the new institution responsible for land distribution had transferred just 3% of arable land and benefited 1.7% of landless campesino families (Seligson, 1984).

[16] Social protests against foreign investment projects also intensified in urban areas, the most emblematic case being Alcoa.

[17] August 2011 interview with Kyra del Castillo, who was involved in the design and start-up of FODESAF.

Over the next three decades, regional and international paradigms moulded different economic and social policies. By contrast with the pioneering countries of South America, where the production structure changed prior to any explicit import substitution policies being applied (Thorp, 1998), protectionist and industrial policies in Central America were a response to international ideas whose goal was to transform the economic structure, not the other way round. Via CACM, ECLAC and the Government of the United States played a fundamental role in the implementation of import substitution. Something similar happened with social security, set up without the pressure from the working class that had been the driving force in the Southern Cone. Instead, the combination of other countries' experience (particularly that of Chile) and ILO policy prescriptions encouraged less advanced countries like Costa Rica to catch up with the models of social incorporation considered desirable at the time.

In the 1950s, ECLAC promoted industrialization under a system known as "limited integration with reciprocity" (Bulmer-Thomas, 1987). Specifically, it proposed that State-regulated regional monopolies should be set up to distribute new industries equitably between member countries. Underlying the Multilateral Treaty on Free Trade and Central American Economic Integration was the ECLAC model excluding numerous agricultural products such as staple grains, cotton, coffee and sugar from the free market. Central American economic integration also reflected the thinking of the Government of the United States. Specifically, the Eisenhower administration favoured free trade between all member countries and promoted the idea of planning regional monopolies. This thinking was behind the Tripartite Agreement of February 1960 that became the basis for the General Treaty on Central American Economic Integration, approved in December that year by El Salvador, Guatemala, Honduras and Nicaragua and joined three years later by Costa Rica.

International ideas about import substitution had markedly different practical repercussions in each of the Central American countries. Costa Rica was more successful than the rest for at least two reasons. First, industrial protection contributed to a gradual expansion of social policy based on payroll taxes. Most firms could take a relaxed view of the high labour costs that resulted because they were not competing internationally (Lizano, 1999). Agro-exporters were not so comfortably placed, but many of them (particularly those recruiting temporary workers, including coffee producers) were exempt from this tax. In contrast to East Asia, where labour-intensive manufacturing exports made governments and firms resistant to social security regimes that would raise labour costs (Haggard and Kaufman, 2008, p. 9), import substitution industrialization in Costa Rica facilitated the expansion of public spending. Second, industrialization policy benefited not only large companies but also small and medium-sized enterprises and cooperatives, which made the country an outlier in Latin America.

International ideas also played an important role in the formation of social assistance programmes in the mid-1970s. Following the example of France, Uruguay and other countries, together with what were by then well-established ILO policy recommendations, Figueres and his Minister of Labour, Jiménez Veiga, proposed the creation of family allowances, i.e., an income per child transferred to low-income formal workers. However, this programme came at a time of growing influence for the ideas of social transformation that followed the Cuban revolution of 1959. These ideas stressed the need to go further than cash transfers and include services as part of an integrated, multidimensional response to poverty. This vision was reflected in Kennedy's Alliance for Progress, in Johnson's War on Poverty, in the new interventions based on the basic needs approach promoted by the World Bank and in the thinking of ECLAC and the Socialist International. President Oduber (1974-1978) and his Vice-President Castillo were more attuned to these ideas than Figueres. Oduber had been Vice-President of the Socialist International and Castillo had worked for ECLAC and for the Central American Integration System. After winning the February 1974 elections, the two of them successfully sought to turn the original project into a social development fund.

IV. The ups and downs of double incorporation

Incorporation can diminish and exclusion increase if inappropriate policies are applied at times of crisis. Costa Rica has struggled in recent decades to maintain the double incorporation achieved previously. Partly because of the new open export-oriented model, the Costa Rican workforce has increasingly divided between people with well-paid formal jobs in dynamic sectors of the economy, such as tourism, finance and high-technology assembly, and those who only have access to unskilled, low-technology informal jobs in other areas, mainly serving the domestic market. The informal sector employed 35% of the working population in 2006, as against 20% in the early 1980s. Between 1984 and 2009, the average minimum wage rose at an average annual rate of just 0.7% in real terms and wage inequality increased considerably (State of the Nation Program, 2011). As regards social incorporation, near-universal health-care coverage and very high pension coverage have been maintained, as have high primary and secondary school enrolment rates, albeit with growing quality problems and huge pressure to privatize service provision (Martínez Franzoni and Sánchez-Ancochea, 2013b).

Many of the problems have arisen precisely because the contribution to market and social incorporation of the two independent variables presented here (the composition and interests of the elite and international ideas) has weakened. In the first place, the Costa Rican elite responsible for the earlier success has fragmented, and much of it depends less and less on an expanding domestic market. The divisions within the PLN caused by disagreements about the optimum development model were already there in the second half of the 1970s, but intensified in the early 1980s (Lizano, 1999). New leaders such as Oscar Arias (the country's President in 1986-1990 and 2006-2010), Eduardo Lizano (chairman of the Central Bank of Costa Rica on several occasions) and others worked for a quantitative and qualitative change in the State's involvement in economic affairs. The strains arose in relation to the advisability or otherwise of having State-owned enterprises directly involved in production and maintaining an exclusively public banking system. These leaders largely represented the interests of business groups allied with the PLN that had been growing and collaborating with transnational enterprises during the 1970s and no longer had an interest in supporting the traditional Costa Rican economic model.

The divisions within the elites have been deepening ever since, and the power of groups interested in promoting exports and finance has grown steadily. The PLN agenda, which has been moving closer and closer to that of the Social Christian opposition (Rovira, 2004), has increasingly centred on creating better conditions for foreign investors, expanding the linkages between these and Costa Rican firms and using social policy to compensate those left behind. Outside the PLN, emerging business groups are more interested in strengthening their ties to foreign firms and expanding in the regional market than in trying to increase the consumption capacity of the Costa Rican population (Bull and Kasahara, 2013; Sánchez-Ancochea, 2003; Segovia, 2005).

In the second place, shifts in international thinking also help to explain the direction of policy in Costa Rica. The Washington Consensus called traditional social democratic ideas into question globally and provided a theoretical justification for trade liberalization and financial deregulation. Simultaneously, countries such as Ireland and Singapore turned into powerful examples of how to attract foreign firms and provide incentives to particular sectors of the economy to the detriment of others (Mortimore and Vergara, 2004; Sánchez-Ancochea, 2009). Following these experiences, the PLN committed decisively to promoting foreign high-technology investment, a policy that increased competitiveness but did relatively little for market incorporation in the aggregate.

V. Implications

Despite the changes of recent decades, the Costa Rican case furnishes important lessons, both theoretically and for policy purposes. Theoretically, it shows the need to pay serious attention to the composition of the elite and its incentives when taking up the task of State-building. The analysis presented here shows that the problem for incorporation is not that the elite seeks to control the State for its own benefit: it may happen that these groups do seek their own benefit and yet still help to bring about positive results in terms of double incorporation, something that authors such as Acemoglu and Robinson (2012) do not seem to consider. For example, the promotion of public-sector employment, small and medium-sized firms and cooperatives before the 1980s in Costa Rica reflects precisely the ability of various segments of the middle class to build a State that suits their own interests.

Likewise, the study presented here shows that the incentives for the elite to pursue labour market transformation and social incorporation are not necessarily aligned: there is no reason to expect a State focused on structural change to arise out of the same process that produces universal social policies, or vice versa. What makes the Costa Rican case particularly interesting is the convergence between a productive transformation that has created good jobs and an expanding social policy.

The main public policy implications of this study are the importance of understanding who the elites are and what they want (particularly from the State) and of considering innovations within an international public policy context. Placing the stress on elites provides a grasp of the structural possibilities and limitations that exist for the double incorporation (on this subject, see Schneider, 2012). Meanwhile, international ideas have a crucial role in legitimizing reforms and mapping out the range of possible options at different times, and considerably influence the specific characteristics of the programmes shaping the State.

If the analysis in this article is correct, then the emphasis placed on both industrial policy (UNRISD, 2010) and universal social policies (Mkandawire, 2006; Filgueira and others, 2006) in the region since the 2000s represents a valuable opportunity for countries with a history of limited social and market incorporation to pursue public policy changes. Again, if countries are to place the State at the service of the double incorporation, these ideas need actors who believe in them and can adapt them and give them substance in public policy decisions. It is necessary, then, to know whether and how far countries have emerging elites willing to embark on this new development path.

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