This paper uses a case study of Costa Rica to identify the reasons why democracy is conducive for development. By the mid-twentieth century, Costa Rica had begun to depart from the all-too-common mixture of political instability and economic stagnation characteristic of much of the developing world. This paper claims that this country has benefited from better-than-average public policies, a conclusion based upon an original assessment of policy effectiveness and a major comparative ranking of state policies. It largely rejects the interpretation that uncommon development performance stems from institutions created during the colonial period and instead emphasizes how unending political stalemates gradually made the struggle for power more democratic. A central conclusion of this paper is that political competition—as well as steady economic growth rates and development, more generally—interact with and reinforce each other so that the exercise of power foments rather than retards economic growth.

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Political Competition, Policy Making, and the Quality of Public Policies in Costa Rica

Fabrice Lehoucq
About the Series

The Commission on Growth and Development led by Nobel Laureate Mike Spence was established in April 2006 as a response to two insights. First, poverty cannot be reduced in isolation from economic growth—an observation that has been overlooked in the thinking and strategies of many practitioners. Second, there is growing awareness that knowledge about economic growth is much less definitive than commonly thought. Consequently, the Commission’s mandate is to “take stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and next generation of policy makers.”

To help explore the state of knowledge, the Commission invited leading academics and policy makers from developing and industrialized countries to explore and discuss economic issues it thought relevant for growth and development, including controversial ideas. Thematic papers assessed knowledge in areas such as monetary and fiscal policies, climate change, and equity and growth and highlighted ongoing debates. Additionally, 25 country case studies were commissioned to explore the dynamics of growth and change in the context of specific countries.

Working papers in this series were presented and reviewed at Commission workshops, which were held in 2007–08 in Washington, D.C., New York City, and New Haven, Connecticut. Each paper benefited from comments by workshop participants, including academics, policy makers, development practitioners, representatives of bilateral and multilateral institutions, and Commission members.

The working papers, and all thematic papers and case studies written as contributions to the work of the Commission, were made possible by support from the Australian Agency for International Development (AusAID), the Dutch Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency (SIDA), the U.K. Department of International Development (DFID), the William and Flora Hewlett Foundation, and the World Bank Group.

The working paper series was produced under the general guidance of Mike Spence and Danny Leipziger, Chair and Vice Chair of the Commission, and the Commission’s Secretariat, which is based in the Poverty Reduction and Economic Management Network of the World Bank. Papers in this series represent the independent view of the authors.
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Abstract

This paper uses a case study of Costa Rica to identify the reasons why democracy is conducive for development. By the mid-twentieth century, Costa Rica had begun to depart from the all-too-common mixture of political instability and economic stagnation characteristic of much of the developing world. This paper claims that this country has benefited from better-than-average public policies, a conclusion based upon an original assessment of policy effectiveness and a major comparative ranking of state policies. It largely rejects the interpretation that uncommon development performance stems from institutions created during the colonial period and instead emphasizes how unending political stalemates gradually made the struggle for power more democratic. A central conclusion of this paper is that political competition—as well as steady economic growth rates and development, more generally—interact with and reinforce each other so that the exercise of power foments rather than retards economic growth.
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Political Competition, Policy Making, and the Quality of Public Policies in Costa Rica

Fabrice Lehoucq

Introduction

Though there is no longer much debate that societies with well-functioning democratic regimes tend to have healthy economies (Przeworski, et al., 2000), much more controversy exists about the question of whether good political systems precede or follow the existence of vibrant economies. Numerous recent papers, mostly written by economists, struggle to model the relationship between a host of economic, social, and political variables. Some argue that basic institutional endowments determine the long-term economic performance of countries (Acemoglu, Johnson, and Robinson, 2001). Others suggest that the economic or social facts of development shape a country’s growth prospects. Yet, how political change, institutional arrangements, and policy making facilitate development and affect institutional improvements are topics about which much remains to be known (Keefer, 2004).

This paper will examine the impact of these and related factors on development through a case study of Costa Rica. Analysis of this case provides three advantages in the study of central questions of political economy. First, it is a case of relative development success. Between 1950 and 2000, the share of the population living in poverty fell from 50 to 20 percent. And, by the 1970s, the United Nations Development Program’s Human Development Index placed Costa Rica into the category of an upper-middle income country (PEDN, 2003: 398). Since 1950, Costa Rica has tripled its GDP per capita (Maddison, 2003). Its GDP per capita went from US$1,963 to US$6,174 in 2000 (1990 international US$ in PPP). In a region that, on average, barely doubled its GDP per capita in 50 years, Costa Rica’s performance is notable, even if not exceptional from a global perspective. Indeed, that the country’s growth rates (an average of 2.4 percent a year) have slightly surpassed the world mean (an average of 2.15 percent a year) not only raises the question of why it has achieved this result, but why the 11 smallest economies of Latin America have grown at an average of 1.34 percent a year.

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Second, Costa Rica is a case of political success. After the United States, Costa Rica has had the longest continuous period of democratic stability with a presidential form of government. Standoffs between the executive and the legislature have never been the backdrop for a presidential assault on the political system. Since the late nineteenth century, Costa Ricans have participated in competitive elections that, by mid-twentieth century, had become devoid of fraud and violence (Lehoucq, 1996). Since the late nineteenth century, suffrage rights have been universal for adult males, despite a vaguely worded property requirement in the 1871 constitution. The 1949 constitution made franchise rights universal for women as well.

Third, the study of a “deviant” case, one that departed from the all-too-common cycle of political instability and economic stagnation, sheds light on which factors make a difference for development. An analysis of a single case, even one placed in comparative perspective, will not, of course, permit isolating real from spurious factors. Case studies of positive cases nevertheless help to identify plausible causes of development. Most important, the analysis of a case permits identifying the mechanisms that causally link the variables presumed to be associated with each other in cross-national, statistical studies.

This paper focuses on the role that public policy plays in shaping the relationship between political competition and economic development. By public policy, I mean efforts by public authorities to change behavior, whether they are economic, political, or social in orientation. By political competition, I refer to the struggle for state power that can, at extremes, be either violent or peaceful. And institutional arrangements consist of the constitutional and legal rules that assign the functions of government among the parts of government. Much of this paper will in fact reflect upon the presumed positive relationship between democracy and development. To this end, I use the pioneering framework developed by Pablo Spiller, Ernesto Stein, and Mariano Tommasi (2003) to measure the effectiveness of public policies, to compare them cross-nationally, and thus to understand why state action makes a difference for development. The analysis of Costa Rica, a positive case of development, thus permits explaining how the struggle for power interacts with institutional arrangements and public policy and when politics can help promote development.2

Costa Rica, I argue, has indeed benefited from better-than-average public policies, which helps to explain impressive improvements in a host of development indicators during the twentieth century. That, for most of the post–World War II period, a relatively small number of partisan and policy players developed intertemporal agreements—ones that transcended individual governments—helps to explain why public policies have been welfare-enhancing. This is a hypothesis that has recently received a fair amount of attention (Spiller and Tommasi, 2007: 42-6), and for which Costa Rica provides some compelling

2 This paper draws and expands upon some of the arguments first made in Lehoucq (2007).
evidence. Though oligopolies can stabilize political as well as economic markets, they can also reach collusive agreements to exploit consumers or, as the case may be, citizens. Thankfully, Costa Rican politics was sufficiently competitive to keep politicians focused on placating the median voter, even while partisan familiarity spawned collusive agreements by the 1970s. Political competitiveness, I argue, is an enduring feature of political systems that foment development. It has been a central trait of Costa Rican politics for more than a century.

An innovative constitutional design has also contributed to effective public policies because it simultaneously reduces the stakes of political conflict and promotes consensual styles of policy making. The 1949 Constitution entrusts the central and decentralized sectors of government with different functions of government, a principle of constitutional design that embodies what Bruce Ackerman (2000) calls the new separation of powers. Health care, old age pensions, monetary policy, and electoral governance are among the policy areas whose budgets the executive does not propose and the legislature does not approve. An independent judiciary, especially since the establishment of the Constitutional Chamber in 1989, has become an aggressive defender of individual rights and an assertive interpreter of the powers of, and boundaries between, the branches of government. The new separation of powers in fact helps to explain why standoffs between the executive and legislative branches of government have never been the backdrop for a presidential assault on the political system.

The first two sections of the paper identify the central characteristics of economic, social, and political development, especially during the second half of the twentieth century. The paper then assesses the quality of public policies, a discussion that permits ranking their effectiveness alongside the 18 countries of Latin America. The paper next examines several explanations for why some countries develop and others do not. It reviews “deep roots” arguments, ones that trace twentieth-century developments to colonial-era institutional arrangements. It suggests that political competitiveness, one where no political or social force could become hegemonic, explains why political parties created a state where policy makers have the autonomy to solve economic or social problems. I identify a number of policy implications of constitutional design in the penultimate section of the paper. The conclusion summarizes my arguments and discusses several implications of the Costa Rican case useful for development debates.

Economic and Social Developments: A Balance Sheet

It was not clear in the mid-twentieth century that Costa Rica would become an economic performer. Figure 1 shows that its GDP per capita—at US$1,963—was only slightly above the average for the 11 smallest economies in Latin America in
1950—US$1,711. Fifty years later, Costa Rica’s GDP per capita was nearly twice as high as that of its small-economy counterparts (Bolivia, Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Paraguay). It ended the twentieth century with a GDP per capita of US$6,174, whereas the 11 smallest economies finished this century with a GDP per capita of US$3,359. Costa Rica, in other words, tripled its income in 50 years while most of its small economy regional neighbors fell short of doubling it.

Another way to make sense of Costa Rica’s economic trajectory is to place it alongside that of the biggest eight economies of Latin America. While Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela had an average GDP per capita of US$3,659 in 1950, they generated a GDP per capita of US$6,424 by 2000. So, while Costa Rica’s GDP per capita was substantially lower than the Latin American Big 8 at mid-century, its steady rate of economic growth placed it just short of the Big 8 average by 2000. While its GDP per capita was below the Latin American average in 1950—which was US$2,531—it surpassed the regional average by the early 1980s. This small, Central American country therefore managed to change subregional categories during the second half of the twentieth century.

Even a less than optimistic reading of economic growth in Latin America underscores Costa Rica’s uncommon development trajectory. While its GDP per capita grew at the same rate as that of the world’s average between 1950 and 2000, the region, as a whole, did not. Again, by the 1980s, economic growth in Latin America fell behind that of the world average. So, Costa Rica’s ability to avoid falling behind the world average economic growth rate is exceptional in regional perspective.
Other indicators also underscore the transformation of the economy during the second half of the twentieth century. Costa Rica went from being an exporter of coffee and bananas—which accounted for three-fourths of exports in 1960—to one exporting a wide variety of nontraditional agricultural products, light manufactures, and even sophisticated computer goods. By 1993, these two products accounted for only a third of all exports (Mesa-Lago, 2000: 515) as a transnational coalition of exporters, state officials, and USAID officials promoted the development of nontraditional exports (Clark, 1995, 1997). Costa Rica is also now a major tourist destination; foreign exchange from tourism equaled roughly a fifth of total export earnings by 2000 (PEDN, 2004: 412). Between 1960 and 1994, the economy opened up: exports and imports averaged 66.4 percent of GDP. Even during the heyday of Import-Substitution Industrialization between 1965 and 1982, exports to the Central American Common Market (CACM), which erected trade barriers with the rest of the world, constituted less than 18.57 percent of Costa Rica’s international trade (both figures are based upon data in Mesa-Lago, 2000: 518).

Economic transformation also led to important social structural transformations. In 1950, three-fourths of the population of 800,000 lived in rural areas. Fifty years later, only slightly more than half of the population of nearly four million resided in rural areas. In 1950, 63 percent of the economically active population (EAP) labored in agriculture. In 2000, just 20 percent of the EAP worked as agriculturalists (PEDN, 2003: 398).

Important social indicators also showed dramatic improvements between 1950 and 2000. The share of the population in poverty fell from 50 to 21 percent. Infant mortality rates fell from 90 to 10 per 1,000 live births. Life expectancy increased from 55.6 to 77.7 years. The literacy rate increased from 79, already high by regional standards in 1950 (Molina and Palmer, 2004), to 95 percent of the population 12 years or older. In summary, the country’s Human Development Index—a composite measure including GDP per capita, life expectancy, and educational attainment—went from 0.55 in 1960 to 0.79 in 2000 (all data are from PEDN, 2003: 398).

The Political Trajectory

Costa Rica has had a competitive political system for more than 100 years, though one not always free of violence and fraud. Along with Chile and Uruguay, it has one of the oldest democracies in the western hemisphere and in the world more generally. Peter H. Smith’s (2004) classification of political systems in Latin America indicates that Costa Rica has been a competitive political system for 98 years in the twentieth century (1900–2000). It has spent 48 of these years as a full democracy. It was a competitive oligarchy—a political
system where parties field candidates for elected office in fair, but not free, elections and where the franchise is restricted—for another 45 years.

Smith’s figures are arguably the most valid regime classification for Latin America during the twentieth century. They are certainly more accurate than the Polity IV or other regime classifications, as several of us show for Central America (Bowman, Lehoucq, and Mahoney, 2006). We too date full democracy—that is, a political system where virtually all political forces can compete for elected offices and where the entire adult population is entitled to vote—from the late 1950s, when the losers of the 1948 civil war returned from exile and began to compete for elected offices once again. The one exception was the ban on antidemocratic parties that kept the Popular Vanguard Party (PVP), the Costa Rican Communist Party, out of politics until 1975, when the Supreme Court declared this ban unconstitutional. Since 1958, when the incumbent Party of National Liberation (PLN) reluctantly conceded defeat in the presidential elections of this year (Bowman, 2003), executives and legislators have come to power in concurrent and quadrennially scheduled elections renowned for their openness and fairness.

Smith’s figures nevertheless understate the extent of democracy in twentieth-century Costa Rica. If, for Smith, a competitive oligarchy is a political system with fair, but not free, elections and restricted to less than half of the population, then, for a good many years, Costa Rica should have been considered a democracy and not a competitive oligarchy. Since the late nineteenth century, virtually all elections have been free and most have been fair, even if not fraud-free. Most important, suffrage rights were extensive, especially

Figure 2: The Quality of Public Policies in Select Latin American Countries

![Figure 2: The Quality of Public Policies in Select Latin American Countries](image)

for an early twentieth-century society. Though the 1871 constitution did create a gender as well as a property restriction on the franchise, all adult males have been registered to vote since the late nineteenth century (Lehoucq and Molina, 2002). Women got the right to vote in 1949. Since 1901, turnout has been 71 percent of the eligible adult population (Molina, 2005; Bowman, Lehoucq, and Mahoney, 2006).

The Quality of Public Policies

A ranking of the quality of public policies in Latin America (roughly since the 1980s), based upon international indexes and a survey of more than 150 regional experts gives Costa Rica good marks on most policy dimensions (Stein, et al., 2005). This assessment, based upon a transaction-cost framework (Spiller, Stein, and Tommasi, 2003), measures the ability of the policy-making process (PMP) to provide a predictable yet flexible set of rules, procedures, and norms conducive for public-regarding policies and useful for confronting unexpected developments and even exogenous shocks. In this section, I use this innovative assessment to show that the impressive development performance discussed in the previous section correlates with policy success. I also draw upon other policy studies of Costa Rica to characterize public policies in the post-World War II period.

The principal conclusion of figure 2 reveals that Costa Rica does better—and occasionally much better—than the average of 18 Latin American countries. The ranking by the Inter-American Development Bank (IADB), in fact, confirms what specialists on Costa Rica had suspected, but had been hard pressed to demonstrate. The last set of columns in figure 2, which provide an average of the performance on four core features of public policies, ties public policies in Costa Rica with those in Brazil as the second best in the region. The IADB ranking suggests that Brazil, Chile, and Uruguay rank alongside Costa Rica as the countries with the best-quality public policies in the region. Public policies, however, are best in Chile. Latin America’s most successful economy benefits from public policies whose qualities rank favorably with the top countries in a sample of 76 countries. The overall quality of policies in Costa Rica is lower, at the global median (Stein and Tommasi, 2005). So, comparative evidence suggests that public policies are better than the Latin American average, but they are not spectacular in world perspective.

Policy Flexibility

The IADB assessment ranks the flexibility of public policies in Costa Rica as the second most adaptable in the region, tying Brazil and Uruguay for this slot. Public policies have proven capable of accommodating to changing circumstances, a feature particularly useful for the continuous redesign
characteristic of development policies. During the heyday of Import Substitution Industrialization (ISI), a largely fixed exchange rate—that was an average of 7.1 colones to the U.S. dollar between 1960 and 1980 (Mesa-Lago, 2000: 508)—worked well enough because an independent Central Bank controlled the money supply and the ratio of public debt to GDP was an average of 23.6 percent between 1961 and 1980 (Mesa-Lago, 2000: 520). During three decades of continuous growth (1950s–1970s), the Finance Ministry and the Central Bank maintained the right mix of policies that preserved macroeconomic stability, despite the fact that the central government ran an average annual fiscal deficit of –2.9 percent between 1966 and 1992 (Mesa-Lago, 2000: 508). That most decentralized sector agencies—like the Costa Rican Social Security Fund (Caja Costarricense de Seguro Social—CCSS) and the Water Commission—charge for their services lessens the impact of continuous fiscal deficits.

Policy making, however, proved incapable of adapting to changing economic conditions and thus failed spectacularly by the early 1980s. In 1979 and 1980, the current accounts deficit shot up to –10.51 percent of GDP from an average of –6.67 percent in the previous 18 years (see Mesa-Lago, 2000: 513–4). Inflows of private capital fell to US$57 million in 1979 from an average of US$134 million in the previous five years, because official capital inflows could make up for the difference (González Vega, 1984: 382). Yet United Coalition (CU) President Rodrigo Carazo (1978–82), who faced a hostile Assembly during his term in office, refused to adjust macroeconomic policy. Despite repeated warnings to the contrary from domestic and foreign economists since the late 1970s (for several of the dire forecasts, see Lizano, 1999: 15–8), embattled President Rodrigo Carazo refused to unfix the exchange rate. Government declarations to defend the national currency only fueled the conversion of colones into U.S. dollars and led to a rapid decline in foreign exchange reserves. Rigid adherence to an outdated, fixed exchange rate policy led to haphazard and ultimately ineffectual foreign exchange experiments that, in the context of trade and fiscal deficits, led to a dramatic increase in government indebtedness. The public debt went from 56.2 percent to 125.2 percent of GDP between 1980 and 1981 (Mesa-Lago, 2000: 520). In 1982, the government defaulted on its international debt.

The inability to raise taxes or to cut expenditures discloses long-term economic policy-making rigidities. Central state revenues remained an average of 12 percent of GDP between 1991 and 2003. Expenditures, however, averaged 15 percent of GDP during this period. This has led to a chronic fiscal deficit that was an average of 3.7 between 1984 and 2003 (Lizano, 2005: 106). That the nonfinancial decentralized sector retained a small budgetary surplus during these years helps to reduce the overall size of the public sector deficit (PEDN, 2003: 195, 412]). Instead of floating bonds abroad, the central state sells bonds domestically, including to autonomous institutions like the CCSS and the Costa Rican Institute for Electricity (ICE). As a share of GDP, an average of 28.77
percent of all public debt was domestic between 1984 and 2005. Though the public debt fell from close to 100 percent in the mid-1980s to 55 percent by 2003, the cost of not raising taxes or rationalizing expenditures was high. An average of 32.53 percent of central state expenditures went to pay the interest on the public debt between 1984 and 2003 (Gutiérrez, 2003). Since 1984, inflation has averaged 15 percent a year (Lizano, 2005: 106).

Exchange rate policy making has become more flexible since 1982. After the debt crisis forced the government to let the colón float, the Central Bank developed a crawling peg system in 1985 as a compromise between a fixed and a floating exchange rate. This system worked well enough because it made monetary action predictable, but it encouraged economic agents to increase prices and thus fueled inflation because the crawling peg system meant that the prices of tradable goods would be increasing continuously. In newspapers, policy think tanks, and at seminars and private meetings of the Central Bank between 2004 and 2006, economists considered alternative proposals, including a free float, and opted to establish a foreign exchange rate band regime, one that lets the colón float with upper and lower limits (see, for example, Lizano and López, 2006). Since October 2006, the system has worked well enough and the colón has tended to gravitate toward the floor price set by the Central Bank.

**Policy Coherence**

The IADB study concluded that Costa Rican policies were the third most coherent in the region. Between the 1950s and 1982, ISI policies led to the creation of tariff walls to protect domestic industrialists, protection that was extended to the CACM starting in 1963. Based upon a Law of Industry enacted in 1959, the Costa Rican state also began to subsidize credit and foreign exchange for domestic industrialists (González and Céspedes, 1993). In 1972, a PLN government created a privately held corporation (whose board consisted of the president and his ministers or the Council of Government) known as the Costa Rican Development Corporation (CODESA) to create a state-directed industrial sector. During this period, both social policy and industrial policy were part of a broader economic development strategy that gradually turned the domestic terms of trade against export agriculture.

Since 1982, policy coherence has declined and its orientation has changed. Many public policies are now geared to promoting export-led development. After the collapse of the CACM in the mid-1980s (as a result of civil conflict in much of Central America), extended negotiations with domestic industrialists and exporters led to the gradual elimination of tariffs on most products during the 1990s (Clark, 2001: 65–8). On the trade component of Eduardo Lora’s Structural Reform Index, Costa Rica went from a score of 0.355 in 1985 to 0.902 in 1999. In a rare example of rapid change for Costa Rica, the trade subindex shot up to 0.752 by 1986. Average tariffs dropped from 53 percent 1985 to 3.3 percent by 1999. Neoliberal governments sold off the inefficient firms in CODESA during the
1980s. By 1994, reform-oriented government also eliminated the price supports for basic grains belonging to the National Production Council (CNP), despite political protest from small and medium-size corn and bean growers (Edelman, 1999). Though the state continues to own three commercial banks—the Bank of Costa Rica, the National Bank of Costa Rica, and the Agricultural Credit Bank of Cartago (the fourth, the Anglo-Costa Rican Bank was closed in 1994)—financial reforms of the 1980s allowed private banks to accept foreign loans (Wilson, 1994). An open economy became even more globalized with the development of tourism in the 1990s. When added together, exports, imports, and tourism-generated foreign exchange went from 56.9 percent of GDP between 1983–86 to 96.7 percent between 1995–98 (Lizano and Zúñiga, 1999: 16).

Nevertheless, an open economy with a vibrant export sector sits uncomfortably with state control of several of the commanding heights of the economy. Between 1985 and 1999, there was virtually no change on the privatization component of Lora’s Reform Index, despite the privatization of CODESA and the arrival of private banks (the financial component of Lora’s index registered an increase from 0.210 in 1985 to 0.727 in 1999). Costa Rica’s scores on the privatization index moved from 0.0 to 0.02 by 1999, substantially below the regional mean of 0.259 by the end of the 1990s. The National Insurance Institute (INS), which has a monopoly on insurance policies in the country, remains part of the public sector. Telecommunications and electricity remain in the hands of another such institute, ICE. Although ICE was responsible for providing electricity for every household and for providing every community with telephone service by the late 1970s, lack of investment funds (itself a product of chronic fiscal shortfalls analyzed in the next section) meant that, according to a 1997 household survey, 70 percent of rural and 30 percent of urban households did not have phone service, much less cell phone service (Monge, 2000: 281).

Public Regardedness of Policies

The IADB regional assessment suggests that Costa Rica has the second most public-regarding policies of the region. By 2003, 77 percent of the population had access to public health care services and 60 percent of the economically active population was part of a public pension system (Martínez Franzoni, 2004). By the 1970s, almost every household had access to electrical service and all communities had at least one public telephone, even if declining levels of investment impaired the quality of telecommunications services. Both the CCSS and ICE have administrative and technical capacities that are reflective of broader strengths held by central and decentralized public agencies. The autonomous agency responsible for water and sanitation provides these services to virtually the entire population. The Central Bank is another autonomous agency with a reputation for high-quality economic advice and for more than 50
years of intelligent handling of monetary and exchange rate policies, despite constraints imposed chronic public sector deficits (Delgado, 2000).

ISI and nontraditional export policies were not always public regarding because they produced rents for politically connected industrialists and exporters. Though the state did not ignore rural areas or overtly discriminate against producers between 1950 and 1982, it did turn the domestic terms of trade against agriculture by the 1970s (González Vega and Céspedes, 1983). Monge González and González Vega (1995) estimated the size of rents in 1986–1990 (even after trade liberalization was well underway) and they were not paltry. Subsidies for nontraditional exporters known as CATs (Certificados de Abono Tributario) furnish tax credits up to 20 percent of a firm’s nontraditional exports (and that are negotiable on the national stock exchange). Estimates suggest that, at their peak, CATs cost the government 8 percent of central government tax income or 6 percent of central government expenditures (Clark, 2001: 127). Lobbying by export firms kept these subsidies alive until 1996, though some of these tax credits survived until 1999 (Clark, 2001: 127).

Respectable levels of public investment between the 1950s and 1970s also promoted the public regardedness of public policy. By the 1970s, public investment reached more than 5 percent of GDP (and private sector investments reached more than 10 percent by the same period), a factor that sophisticated econometric models show was causally related to annual increases in GDP per capita of 4.3 percent between 1963 and 1973 (Rodríguez Clare, Saénz, and Trejos, 2004). As expenditures—especially the costs of servicing a growing public debt—have increased faster than revenues in the post-1982 period, public investments have fallen short of pre-1982 levels. “In real terms,” to cite Rodríguez Clare, Saénz, and Trejos (2004: 12), “public and state investments barely recovered its pre-crisis levels by 2000, despite the fact that the economy and population are now much larger.” One result was a modest annual increase in per capita growth rates of 2.1 percent between 1984 and 2000 (and –1.8 between 1980–84). Another is that the state has, as a share of annual GDP, half as much investment funding it had before 1982 (Rodríguez Clare, Saénz, and Trejos, 2004: 12).

Several other indicators reveal the deterioration of the public regardedness of public policy. ICE’s inability to supply enough telecommunication services to businesses and households, which I have already discussed, hampers productivity. Perhaps the biggest casualty of the fall in public investment since 1982 is the country’s once impressive road network. Though the density of roads is 71.7 km per 100 km² (or 10 km of roads per 100 inhabitants), only 17 percent of the national road network (and 10 percent of urban streets) in 1997 was in good condition. Costa Rica’s ranking on the quality of its transportation network was 47th out of 58 countries in the World Economic Forum’s 1997 study of global competitiveness (all infrastructure figures are from Echandi, 1998). Though, as a share of GDP, social spending fell in the early 1980s, it shot up to an average of 20.43 percent of GDP between 1987 and 1996, slightly less than its pre-1982 high
Nevertheless, social spending has not been able to lower the percentage of households in poverty below 20 percent, which seems to be in part a product of the fact that too many agencies handling too many programs, few of which have been subject to periodic and rigorous review (Céspedes, 1998: 217).

Policy Stability

Only the stability of Costa Rica’s policies, according to the IADB, is below the regional average. Changes in government are somewhat more likely to drive policy choices than the average country in Latin America. According to the IADB, public policies are only the tenth most stable in the region, a characterization that I believe is inaccurate. The basic policy framework has been largely invariant to political changes, despite wholesale change in incumbents every four years because of the ban on consecutive reelection for the president and deputies. In the first place, more liberal governments did (or could) not roll back the growth of the public sector, even when left-of-center governments headed by the PLN started to expand the role of the state in the economy in the 1950s. The consolidated public sector (both the central and decentralized sectors) went from spending 17.9 percent of GDP in 1950 (Wilkie, 1974) to 54 percent in 1994 (Vargas Madrigal, 1995). Second, none of the 73 constitutional amendments enacted between 1949 and August 2000, for example, radically changed the letter or the spirit of the 1949 charter (count based upon Arias Ramírez, 2000). Institutional stability is both testimony to a robust intertemporal agreement among key partisan and policy players and a safeguard against precipitous changes in policy.

Colonial Roots and Political Competition

Concluding that good policies have contributed to development success itself requires explaining why political parties and their leaders have reached the intertemporal agreements behind welfare-enhancing policies. One argument traces uncommon development performance to institutions created during the colonial period. Another emphasizes how unending political stalemates gradually made the struggle for power more democratic. A central conclusion of this paper is that these political struggles and related factors—as well as steady economic growth rates and development performance, more generally—interact with and reinforce each other so that the exercise of power foments rather than retards economic growth.

Colonial Roots

The first argument about Costa Rican development emphasizes a history of colonial poverty and sparse settlement. Recent comparative political economy (Acemoglu, Johnson, and Robinson, 2001; Mahoney, 2003) suggests that Costa Rican exceptionalism is a product of these deep roots. Like Chile and Uruguay,
Costa Rica was on the margins of the Spanish empire and contained a small indigenous population. This is very much the story that Costa Ricans tell about themselves (for a critical overview, see Gudmundson, 1986). It is a story that emphasizes the equalizing effects of poverty on social and political development. Settlement patterns of the distant past, according to this view, explain why a rural egalitarian society developed in Costa Rica and therefore why the country has had an enviable political economic trajectory.

There is more than a grain of truth to this portrait of Costa Rican social development. The scarcity of labor, along with the abundance of land, fuelled the growth of a large class of small and medium-sized property-holders who both cultivated coffee for export and participated in the emerging rural wage economy. Class struggle took the form of a series of conflicts between what is often labeled a “rural middle class” and the owners of coffee-exporting firms over the price paid at harvest time. The magnitude and frequency of rural protest began a long-term decline by the early 1930s, when small and medium-sized coffee growers settled their differences with coffee-exporting firms through the creation of a government agency to regulate the price of coffee. Though the number of landless peasants has steadily increased since the late nineteenth century, neither they nor urban-based artisans and workers ever became the basis of counter-hegemonic social movements (Acuña Ortega and Molina Jiménez, 1991).

Other cleavages also have not destabilized the political system. The secularization of political authority in the nineteenth century did not trigger a long-lasting conflict between opponents and proponents of an important role for the Roman Catholic Church in public affairs. Despite the presence of an Afro-Caribbean population in the Caribbean Province of Limón, the racial homogeneity of most Costa Ricans of the four central provinces has prevented the development of ethnic polarization. So, social consensus dating from European settlement fueled the democratization and development of Costa Rican society.

This approach, however, remains an incomplete account of democratization and development. First, deep roots may explain the presence or absence of broad-scale consequences, but such factors cannot explain why agents took advantage of limited economic resources (as in Costa Rica) or despoiled them (as in Argentina). Moreover, sparsely settled countries with small, indigenous populations like Honduras and Nicaragua had political economic trajectories that began to diverge sharply from Costa Rica’s by the second half of the twentieth century. Figure 1 shows that Costa Rica’s GDP per capita was only slightly above the average for the smallest 11 countries of Latin America and somewhat below that of the Latin American average. Other factors of a less deterministic sort played pivotal roles in promoting development.

Second, this approach cannot explain why political competition became less violent by the end of the nineteenth century. Until the twentieth century, most chief executives were selected in essentially noncompetitive (and indirect)
elected or assumed office as legal designates for brief periods of time. Seven chief executives in Costa Rica came to power through the force of arms, one of which constructed a dictatorship that lasted nearly a dozen years. Two presidents had the misfortune of being summarily executed after having become the victims of coups. Only one chief executive was chosen in a competitive election while all others assumed power as legal designates for brief periods of time or were selected in essentially noncompetitive elections.

Even as Costa Rican presidents increasingly became selected in fair and competitive elections, the struggle to hold or to maintain control of the executive branch of government has not always remained peaceful. Since 1882, outgoing presidents have imposed their successors on at least six different occasions. During the same period, opposition movements also have launched 26 rebellions against central state authorities—3 of which succeeded in installing a new incumbent on the presidency. Disputes regarding the results of the 1948 presidential elections became so intense that a faction of the opposition started a civil war that led to the death of between 1,000 and 1,300 individuals. The use of violence and fraud to capture state power only declined in the aftermath of the 1948 civil war (Lehoucq, 1996).

**Democratizing the Struggle for Power**

A second approach points out that economic and political trajectories are the product of a large number of temporally linked choices, whether they are the decisions to invest for economic or political profit. Another more fruitful area for inquiry therefore requires understanding why the struggle for power became more democratic by the late nineteenth century. This section identifies how the inability of any single political force to dominate the political system fueled democratization, a trend that correlates nicely with an above-average development performance.

The 1871 constitution, the immediate predecessor of the 1949 charter, gave the executive the upper hand in election administration and therefore facilitated his domination of national politics. Though Congress was constitutionally empowered to certify election results, it was the president who was responsible for assembling the electoral registry, for organizing and naming most officials at polling stations, and for the tally of the vote. Far from balancing the executive and legislative branches of government, the classical theory of electoral governance encouraged the president to pack the legislature with his supporters to minimize its ability to check his arbitrary use of state powers (Lehoucq, 2002).

These attributes transformed the race for the presidency into a contest whose rules were continually violated. If he was willing to risk attempts on his life, the president could manipulate electoral laws for partisan advantage and then ignore the handful of his opponents who managed to obtain seats in Congress. Indeed, as the number of opposition legislators declined, the probability that the incumbent would become the target of coup attempts increased. Between 1882
and 1955, three incumbents managed to impose their successors on the presidency. During this period, opposition movements also launched 26 rebellions against central state authorities, 3 of which succeeded in installing a new incumbent on the presidency (Lehoucq, 1996).

Political dynamics during the 1940s, the decade in which parties forged so many of the institutions of contemporary Costa Rica, were part of this long-term pattern. Political competition began to polarize once President Rafael Angel Calderón Guardia (1940–44) of the National Republican Party (PRN) deployed the powers of the presidency to exclude his opponents from the political system. The election of Teodoro Picado to the presidency in 1944 was widely perceived as a product of his predecessor’s machinations, even if analysis reveals that officially sponsored fraud was not the reason why the opposition lost these elections (Lehoucq and Molina, 2002: 190). Equally destabilizing was the marginalization of the opposition in Congress: between 1940 and 1944, the PRN and the PVP held approximately three-fourths of all legislative seats. By upsetting the delicate balance of power responsible for maintaining political stability, President Calderón Guardia provoked the formation of groups dedicated to the use of force to capture state power.

Two hardliners, who would play pivotal roles in redesigning the state in subsequent years, outdid each other in lambasting the efforts of pro- and anti-government moderates to stabilize political competition. José Figueres, who would later seize power in a brief civil war and help found the PLN in 1951, spent much of the 1940s plotting against a government that had exiled him briefly in the early 1940s. Otilio Ulate of the National Union Party, a famed journalist, who would later break with Figueres and the PLN, became the opposition’s 1948 presidential candidate. Both succeeded in polarizing electoral competition, despite the fact that pro- and anti-government moderates had enacted an Electoral Code in 1946 and that opposition parties elected 40 percent of the deputies in the midterm elections early that year. Once former President Calderón Guardia announced, in late 1946, his intention to run in the 1948 presidential elections, opposition moderates joined opposition hardliners in the nastiest and most violent election of Costa Rican history.

Preliminary results indicated that the opposition had won the 1948 elections. Once the semi-autonomous National Electoral Tribunal declared Ulate the winner, the PRN-dominated Congress used its constitutional right to annul the election on March 1. The pro-government majority argued that the opposition-controlled Electoral Registry had deprived thousands of its followers of electoral identification cards and thus the right to vote. In the weeks that followed, efforts to negotiate a pact between government and opposition became irrelevant as a ragtag army led by Figueres won the two-month civil war.

Political stalemate continued as the military and political wings of the opposition split in the post–civil war period. In control of the only armed force left in the country, Figueres and the insurgents formed a junta that forced the
PUN to wait 18 months (until December 1949) before Ulate could become president. In the interim, the junta lost the elections for a National Constituent Assembly it held on December 8, 1948. The PUN-dominated Constituent Assembly quickly moved to strip the junta of its legislative powers and to restrict its ability to issue emergency decrees. The pro-junta delegates also failed to gain approval for the junta’s draft constitution calling for a dramatic expansion of the role of the state in public affairs. In the end, the pro-junta minority got many of the junta’s proposals incorporated in the revised version of the 1871 constitution that Assembly delegates ultimately approved (Gardner, 1971).

The post–civil war period saw the gradual reconstruction of a competitive political system. Until PRN leaders were allowed to return from exile in the 1950s, political competition remained shaky. When the PLN split and lost the 1958 election, important PLN factions debated whether to relinquish the presidency to the opposition. The threat of igniting another armed conflict, along with expectation that elections would continue, persuaded the incumbents to step down (four years later, the PLN won the presidential elections).

Some Comparative Evidence
Data in figure 3 and table 1 provide support for my claim that competitive politics is associated with superior development outcomes. Figure 3 shows that there is a statistically significant correlation \( r = -0.584 \) between the number of years a country, according to Smith’s classification scheme, has been democratic during the twentieth century and its GDP per capita at the end of the twentieth century.
Table 1: Regimes Types and Trajectories

<table>
<thead>
<tr>
<th>Regime types, by years¹</th>
<th>Costa Rica</th>
<th>Democratic averages</th>
<th>Unstable averages</th>
<th>Autocracy averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic (4)</td>
<td>48</td>
<td>53.75</td>
<td>22.57</td>
<td>15</td>
</tr>
<tr>
<td>Semi-democratic (3)</td>
<td>5</td>
<td>4.5</td>
<td>13.86</td>
<td>8.85</td>
</tr>
<tr>
<td>Comp. oligarchy (2)</td>
<td>45</td>
<td>28</td>
<td>26.71</td>
<td>5.25</td>
</tr>
<tr>
<td>Autocratic (1)</td>
<td>3</td>
<td>14.75</td>
<td>37.86</td>
<td>71.87</td>
</tr>
</tbody>
</table>

| Average regime score   | 2.97       | 2.96                | 2.21             | 1.67              |
| Number of regime changes| 4         | 5.5                 | 12               | 5                 |

Source: Calculations based upon Smith (2004).

The countries with the longest democratic trajectories—Chile, Costa Rica, Colombia, and Uruguay—are also the countries with the highest per capita incomes.³ The correlation coefficient would no doubt be higher if Argentina, Brazil, and Mexico—three economic giants of the region—were excluded from my calculation. That they are outliers in this graph makes the point that regime type is not the only driver of per capita incomes. This finding also raises a provocative counterfactual: their GDP per capita incomes—as well as other development indicators—might have been higher in these countries if their political trajectories had been more competitive.

Political succession indicators in table 1 also make related points about the development-conducive effects of democracy as well as of stability. The countries in the most democratic category have been, on average, democratic for 53.75 percent of the twentieth century. The average number of regime changes—shifts in Smith’s regime classification—is 5.5, with Chile and Costa Rica experiencing 4 each and Colombia experiencing 8. These figures contrast with those for the 7 mixed or unstable cases, that is, countries with frequent regime changes. Countries like Argentina, Ecuador, and Honduras have only been, on average, democratic for 22.57 years. The average number of regime changes among mixed cases has been 12, with Brazil having the least at (7) and Honduras having the most (17). Finally, the 8 countries with long-term dictatorships have only had, on average, 15 years of democracy and 5 changes in regime during the twentieth century. In very different ways, Haiti and Venezuela have had the least number of regime changes, at 2 and 3, respectively. Guatemala (10) has the authoritarian system with the most changes.

³ Smith (2004) is too generous with Colombia. The twenty years Colombia was ruled by the National Front, a bipartisan monopoly between the Conservative and Liberal Parties, violates the condition of free elections.
Constitutional Innovations and the Policy-Making Process

The inability of any single political party to dominate society turns out to be crucial not only for the democratization of the political system, but also for the notable improvements in the development performance of Costa Rican society. Deadlock also led to the construction of a political system that assigns the more political and the more technical functions of government to different spheres of state activity. After delineating the core principles of the 1949 constitution, this section identifies several effects of institutional arrangements, ones that encourage elected officials and other high-level leaders to develop the above-average public policies for which Costa Rica is known.

Core Constitutional Principles

Unlike the checks and balances (or Madisonian) version of the separation of powers, the new separation of powers does not compel the different parts of government to share responsibility over all or even many governmental functions. The 1949 constitution instead promotes the isolation of key bureaucratic responsibilities from the vicissitudes of partisan politics. By fragmenting state power, the constitution promotes consensual styles of policy making that, in tandem with regularly held elections, keeps elected officials focused on the median voter.

That the elected branches of government are isolated from electoral administration and adjudication is the best example of the functional specialization of the Costa Rican constitutional tradition. Constituent Assembly delegates built upon the 1946 Electoral Code, one enacted by anti- and pro-regime moderates, and made a branch of government equal to the other three in 1975, the Tribunal Supremo de Elecciones (TSE). The TSE is solely responsible for calling elections, appointing members of all polling stations, and interpreting legal and constitutional provisions relating to electoral matters.

Creating the decentralized sector or the autonomous institutions was also part of the constitutional convention’s effort to remove as many functions of the modern state as possible from the purview of the elected branches of government. Autonomous institutions have programmatic and budgetary autonomy; they often have specific or protected revenue sources and their budgets do not require executive and legislative approval. Perhaps the most prominent of these is the Board of National Social Security (CCSS), founded in 1943. By the 1990s, this institution provided medical care for nearly 68 percent of the salaried and unsalaried EAP and their families (PEDN, 2004: 403). Other social welfare institutions include the Children’s Hospital (1964), the Mixed Institute of Social Assistance (1971), the National Institute of Housing and Urban Issues (1954), and the National Ward for the Blind (1957).
In the budget policy area—the central state’s core lawmaking responsibility—constitutional statutes and laws create “fast-track” procedures that deprive the elected branches of government of the ability to hold the annual approval of the budget hostage in interbranch conflicts. Based upon estimates of central government revenues from the Department of the Treasury (a semi-autonomous body that the president appoints for a six-year term), the president and his ministers (especially the Minister of Public Finance) prepare a budget that, according to the constitution, must be sent to the Assembly by September 1 every year (the budget year is the same as the calendar year). The legislature then has 90 days to amend and approve the budget, a proposal that the president must accept because the constitution explicitly denies him the right to veto the Ordinary Budget. Since 1949, the executive and legislature have issued a new budget in a timely fashion.

The Constituent Assembly also ratified another major institutional innovation pioneered by the revolutionary junta: no standing army. As a share of the national budget, the military budget had gone into a decline since the 1920s. The military then disintegrated as the government lost the 1948 civil war. Quickly thereafter, the junta banned the military to preserve its own military position. As the section on the public regardedness of public policy shows, the absence of a standing military liberated additional monies for human development, a factor that helps to explain the country’s high level of human development (Bowman, 2003).

Empowering the Median Voter
The 1949 constitution also created an electoral system that is inclusive. While the representativeness of the Legislative Assembly has declined since the 1990s, the use of proportional representation (PR) to elect its members ensures that a chamber consisting of 57 representatives elected in seven multimember districts reflects the views and diversity of tastes of society. The use of PR also produces a median deputy who more or less echoes the preferences of the median voter. During the post-war decades, this meant that deputies supported the growth of public investment in education, health, and physical infrastructure of concern to predominately rural and poor electorate. That deputies are not permitted to run for consecutive reelection undermined their interest in policing an increasingly larger bureaucracy. This was a structural flaw that, until the 1980s, rapid improvements in development indicators concealed.

The qualified plurality system for electing presidents has, in a society without major social cleavages, generated a bipolar party system (Fernández González, 1991), one that has been supportive of long-term intertemporal policy bargains. Dating from 1936, a qualified system of plurality rule requires the winner to obtain more votes than any rival and to win at least 40 percent of the valid vote. Between 1953 and 2006, the average effective number of legislative
parties has been 2.5, largely because the qualified majority rule system for electing the president swamps the multiparty dynamics of PR for the legislature (Shugart and Carey, 1992: 288–92). My calculations suggest that the winner in all but three of the fourteen presidential races held since 1953 has been the candidate who appealed most successfully to the median voter (Lehoucq, 2004).

Data in table 2 show that the left-of-center PLN, founded in 1951, succeeded in gaining the allegiance of at least 40 percent of the electorate between 1953 and 1998. This table also shows that the percentages of the popular vote controlled by other, typically anti-PLN parties remained somewhat erratic before they began forming electoral alliances in the 1960s. The PUN, for example, retained the support of anywhere between 13 and 43 percent of the electorate between 1953 and 1962.

### Table 2: Party Shares of the Legislative Valid Votes, 1953–2006

(numbers of legislative seats are in parenthesis)

<table>
<thead>
<tr>
<th>Year</th>
<th>PLN a</th>
<th>Offshoots b</th>
<th>UN-CU-PUSC c</th>
<th>PUN d</th>
<th>PRN-PRNI e</th>
<th>Other f</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>65%(30)</td>
<td>28%(12)</td>
<td>7%(3)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>42%(20)</td>
<td>21%(10)</td>
<td>22%(11)</td>
<td>4%(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>49%(29)</td>
<td>13%(9)</td>
<td>34%(18)</td>
<td>4%(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>49%(29)</td>
<td>43%(26)</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>51%(32)</td>
<td>36%(22)</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>41%(27)</td>
<td>25%(16)</td>
<td>5%(6)</td>
<td>22%(4)</td>
<td>7%(3)</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>39%(25)</td>
<td>44%(27)</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>57%(33)</td>
<td>32%(18)</td>
<td>2%(1)</td>
<td>9%(5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>48%(29)</td>
<td>41%(25)</td>
<td>11%(3)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>42%(25)</td>
<td>46%(29)</td>
<td>12%(3)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>45%(28)</td>
<td>40%(24)</td>
<td>15%(5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>35%(23)</td>
<td>41%(27)</td>
<td>25%(7)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>30%(17)</td>
<td>25%(14)</td>
<td>33%(19)</td>
<td>12%(7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>42%(25)</td>
<td>32%(17)</td>
<td>10%(4)</td>
<td>22%(11)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Supreme Tribunal of Elections. Shaded cells are the presidents’ party’s share of seats. Note: 1983 campaign finance reforms prevent opposition parties from defecting from anti-PLN coalitions. Until 1982, opposition splits were threatened, as the 1974 elections most clearly demonstrate. See text for a discussion of the brinkmanship surrounding pre-1982 negotiations.*

b. In 1958, the breakaway faction was called the Independent Party (PI). In 2002–06, it was called the Citizen Action Party (PAC).
c. Between 1966 and 1974, the coalition was called the National Unification Party (UN). In 1978, it was called the Unity Coalition (CU). Since 1982, it has been called the United Social Christian Party (PUSC).
d. National Union Party (PUN). In 1953, this table includes the PUN’s predecessor, the Democratic Party (PD)’s 11 seats.
e. In 1958, it was called the National Republican Party (PRN). In 1962, it was called the Independent National Republican Party (PRNI).
f. The parties in this column are breakaway factions of one of the main anti-PLN parties. In 1966, the Democratic Party refused to join the opposition coalition. In 1970, the Christian Democratic Party also did not join. In 1974, the Independent National Party (PNI), the Democratic Renovation Party (PRD), the PD, and the PDC refused to join the united opposition front.
The various progeny of the PRN attracted the support of between 22 and 34 percent of the popular vote between 1958 and 1962, after its leadership returned from its post-1948 civil war exile. Seeking to defeat the PLN, their common adversary, the PUN and the PRN—the historical antagonists in the 1948 civil war—created the Party of National Unification (UN), which captured between 25 and 43 percent of the vote in the 1966, 1970, and 1974 elections. After the disintegration of this coalition in 1974, many of its followers formed the United Coalition (UC) for the 1978 elections.

### Centralized and Closed Styles of Policy Making

An inclusive electoral system that promotes a bipolar party system encouraged the centralization of the PMP during most of the post-war period. That an individual executive faces a unicameral legislature of 57 members keeps policy making in the hands of a party system with a small number of partisan players. Repeated interaction created an intertemporal consensus about policy goals in a society with an 80 percent voter turnout rate.

Even though the ban on consecutive reelection promoted turnover every four years, an average of 15 percent of deputy members of every legislature between 1958 and 1998 consisted of representatives with previous congressional experience (Carey, 1996: 76–79; Schultz, 2003: 432). Every legislature since 1958 had, on average, one out of six experienced members, a figure that increases to one out of five after 1970. Despite the ban on consecutive reelection, a small number of individuals became partisan and policy experts because their political careers involved stints as cabinet ministers, upper-level officials of decentralized institutions, as well as legislators. Electorally dominant policy and partisan players therefore kept policy making relatively centralized and fomented the intertemporal agreements that made public policies invariant to political succession.

Between the 1950s and 1982, PLN political dominance also contributed to the centralization of the PMP because it used its political hegemony to coordinate policy making. During this period, the PLN held the largest share of Assembly seats and, in alliance with small parties, dominated lawmaking. It also held the presidency during five of the eight four-year terms during this period. It named a disproportionate share of the heads of the autonomous institutes. Informal links between PLN members helped an ever-expanding public sector remain coordinated, especially in the aftermath of the constitutional changes of the late 1960s that reduced the autonomy of the institutions of the decentralized sector. The Supreme Court rarely ruled on the constitutionality of laws and decrees, which granted governments, especially ones with legislative majorities, a fair amount of autonomy (Wilson, Rodríguez Cordero, and Handberg, 2004).

The PMP has become less centralized since the late 1980s. First, the establishment of the Constitutional Chamber in 1989 brings a new veto player to politics. As we will see, the Fourth Chamber not only resolves constitutional
controversies, but also prevents bills from becoming laws while they work themselves through the legislative process. Second, the executive lost several powers that allowed it to coordinate a burgeoning state apparatus, one that, between 1990 and 2003, that saw congressional majorities create more than 106 new bureaucratic agencies in response to clientelistic demands (Vargas Cullell, 2006a). The Constitutional Chamber stripped the president of his ability to legislate by sticking “atypical norms” into the ordinary budget, that is, changes in laws unrelated to the budget as part of the budgetary logroll with the legislative majority (Vargas Cullell, 2006a). Third, divided government has become the norm in Costa Rica and the size of the pro-government party has declined since 1994. Fourth, even if in command of hefty numbers of representatives, the gradual increase in the number of independent voters (from virtually none in the early 1990s to around a third of all voters by 2006; Vargas Cullell, 2006b) means that both the executive and the legislature must continuously court an increasingly skeptical public opinion.

Nevertheless, many facets of policy making remain opaque (PEN, 2001b) and have contributed to a decline in governance (Lehoucq, 2007). Until the 1980s, party deliberations were little more than the subject of rumor and gossip in the press. Parties chose their presidential nominees behind closed doors until the 1980s. Presidential candidates and factional leaders filled closed-list PR lists for the Assembly without consulting much with the party rank and file until the 1990s and remain unwilling to reform their candidate selection procedures. While Assembly deliberations often have gotten front-page billing in newspapers, the virtual absence of roll-call votes also limits accountability and transparency. Committee hearings rarely get much media attention and budget committee hearings are required not to make their deliberations public. While the Comptroller General is constitutionally empowered to review the budgets of all public agencies, a concentration on narrow book balancing inhibits horizontal accountability. That the Comptroller’s principal, the Legislative Assembly, has not encouraged the Comptroller to oversee the behavior of the executive or of the decentralized sector impairs accountability and transparency. Appointments of board directors of autonomous institutions are partisan-controlled and remain shrouded in mystery.

Competitive elections have prevented politicians from completely hardwiring the entire system against the median voter. Since the late nineteenth century, a free and often combative press circulated information about politics and policy. Several media outlets, especially the principal daily, La Nación, were often vociferous critics of the shift from a liberal economic framework to one that witnessed the gradual increase in the size of the state during the post–World War II era.
The Public Bureaucracy

A comparatively well-regarded bureaucracy is perhaps the best single indicator of the overall quality of public policies in Costa Rica. Approximately 56 percent of public sector workers belong to one of Latin America’s oldest civil services established in 1954 (the remaining public sector labors under special guidelines in the legislature, judiciary, or autonomous institutions). The IADB Network on Public Policy Management and Transparency, in fact, gives the Costa Rican civil service 58 points out of a potential 100 points on its Bureaucratic Merit Index, the third-best ranking in the region after Brazil (88 points) and Chile (61 points) (Stein and others, 2005: 68).

So much of what the state does—so much of what is public regarding about public policies—is done outside of executive ministries. Decentralized agencies represent long-term grants of public authority for the purpose of pursuing far-reaching economic and social objectives. They are also the best example of the functional specialization that is at the core of national constitutionalism. In theory, they are isolated from the partisan politics of the central state and thus not subject to the large policy-making swings that less protected agencies would have to endure. That Costa Rica was able to improve performance on a host of economic and social indicators between the 1950s and 1970s while establishing autonomous institutions suggests that functional specialization was conducive with policy-making effectiveness.

There were more than 118 autonomous institutions by the mid-1990s (Lehoucq, 1996). They included state corporations (though not all state corporations were autonomous institutes) and a host of agencies entrusted with fulfilling the ambitious economic and social welfare objectives. According to Wilkie (1974), autonomous institutions controlled the equivalent of 7.3 of GDP in 1950. Two decades later, this figure increased to 17.4 percent of GDP, and by 1994, they controlled the equivalent of approximately 30 percent of GDP. In comparison, the central state—the three branches of government plus the Supreme Tribunal of Elections—spent 10.2 percent of GDP in 1950. By 1970, the autonomous sector used 15 percent of GDP, 6 percent less than the central government. In 1994, the autonomous sector controlled 30 percent of GDP or a sum equivalent to the central government (Vargas Madrigal, 1995).

Along with the fact that the consolidated public sector spent or otherwise controlled the equivalent of 60 percent of GDP in 1994, what makes this data fascinating reading is that the budgets of autonomous institutions are not part of the central state’s Ordinary Budget (even though the central state’s supplemental funding would be part of its annual budget request). Only the Comptroller General, an auxiliary institution (that is, a semi-autonomous agency) of the Assembly, audits their budgets. Indeed, Supreme Court interpretations have excluded the budgets of the decentralized sector from normal budgetary
processes that require the approval of both the president and the Legislative Assembly.

Unable to prevail over their more conservative rivals in the Constituent Assembly, the PLN and other left-leaning parties expanded the size and scope of the welfare state to consolidate programs not at the mercy of the elected branches of government. The PLN created 68 percent (or 51) of the 75 autonomous institutions established between 1948 and 1979 (excluding privately chartered state corporations and local governments). Put differently, the PLN erected approximately 2.2 decentralized agencies for each of the 18 years it has controlled the executive branch during this 32-year period. Its more conservative rivals, in contrast, established 32 percent of these agencies or roughly 1.7 per year during the 14 years they held the presidency (Lehoucq, 1996).

By the 1960s, calls were increasingly made to reform the statutory laws governing autonomous institutions. Public administration specialists like Jiménez Castro (1986) became disenchanted with the haphazard organization of the decentralized sector that undercut efforts to coordinate and plan for economic development. Politicians grew distraught at their inability to control approximately one half of the state. In 1968, deputies approved the reform of article 188 of the constitution that retained their autonomy in administrative matters but eliminated their ability to design their own policy and to exempt themselves from central state directives concerning the governance of the public sector as a whole. Only the system of higher education escaped from this effort toward centralizing public administration.

Enacted under the tutelage of President Figueres Ferrer (1970–74) and Legislative Assembly President Daniel Oduber (who subsequently became president in 1974), Law 4646 of 1970 also altered the ideological balance of power on the board of directors of these agencies: the tenure of their members, whom the president used to appoint exclusively, decreased from seven to five years. Known as the “4/3 Law,” this measure allows a new president to name four board members from his party; the party that obtains the second-largest number of votes selects the three remaining board members. In 1974, a change was made to allow the president to name executive presidents for many decentralized agencies. All of these measures, along with planning laws enacted in 1974 and 1978, have undercut the autonomy of decentralized institutions as they increased the ability of the chief executive to coordinate a burgeoning state apparatus.

That macroeconomic indicators and levels of poverty returned to their pre-1982 crisis levels within a decade of the debt default of this year means that the Central Bank, the CCSS, and other agencies were able to innovate to adjust to a new policy-making environment. By the 1980s, however, there were good reasons to ask whether political competition had deactivated the institutional mechanisms to ensure that all autonomous institutions were fulfilling their mandates or performing as well as they should. First, the formation of a two-party system by the late 1970s meant that the same two partisan players began to
colonize autonomous institutions. The erosion of policy differences between the
two main parties since the 1980s meant that they had as many reasons to collude
as well as to compete in politics. Second, since appointments to decentralized
agency presidencies and boards went to a mix of mid- and upper-level
politicians (former deputies, ambassadors, mayors, and so forth), campaign
contributors, and members of the president’s coterie, presidents and boards often
went to individuals with no relevant experience, no interest in supervising
bureaucratically complex agencies, or, worse, real conflicts of interest.

Several examples illustrate the effects of flawed mechanisms of horizontal
accountability. Perhaps the best is what happened to the Anglo Costa Rican Bank
(BAC). In a highly revealing case study of the BAC, Ciska Raventós (2005)
showed how supervisory boards, by the 1980s, were more interested in shielding
themselves and the Bank Manager—whom they appointed—from outside
scrutiny. They repeatedly refused to comply with the General Auditor of
Financial Entities, another decentralized institution, when it requested that the
BAC open up its books, especially when the BAC took the unprecedented (and
illegal) decision to incorporate a portion of the bank in Panama, where it would
be beyond the reach of national authorities. The bank’s records reveal that it
made loans to influential members of the PLN and the PUSC and that it illegally
lent money to political campaigns. After discovering that the BAC had
purchased Venezuelan bonds of dubious value, public officials faced a bank
whose backlog of defaulted loans led to rumors that it was going to be closed
and whose depositors began a run on the bank. To prevent further loses, the
Figuere, Jr., administration (1994–98) obtained legislative approval to close what
was the country’s oldest bank in 1994. According to the Economic Commission of
Latin America, the financial cost of the foreclosure was responsible for a 14
percent expansion of the fiscal deficit or about 9 percent of central government
current expenditures.

The recent scandals of former presidents also involve the boards of two
important autonomous institutions. Former ICE president Lobo, a former deputy
(on two occasions) and executive minister, received a financial gift from a French
telecommunications firm because ICE holds a monopoly on telecommunications
and electricity contracts. Though there has been no criticism of the contract for
cell phones that Alcatl won (all of which the Comptroller must endorse),
observers and citizens wonder how many ICE contracts generated such gifts.
Similarly, the stink surrounding the Social Security Institute—which buys a huge
amount of pharmaceuticals and medical supplies—and the Calderón clan also
raises questions about institutional oversight. Though the Social Security
Institute is exempt from Law 4/3, its more independent board also did not stop it
from violating the public interest.
Conclusions and Implications

Comparative political economy analyzes the relationship between economic growth and democratization. Though it is clear that rich countries tend to have democratic political systems, existing research is less sure about the sequencing of economic and political changes that foment development. It is to such issues—and the search for which types of institutional reforms facilitate development—that this case study of Costa Rica is addressed.

The first conclusion of this study is that stable democracy unambiguously helps development. Comparisons between Latin American countries over the course of the twentieth century shows that competitive political systems are associated with higher levels of GDP per capita. Costa Rica, along with Chile and Uruguay, are countries with long democratic histories, and that do consistently well on a host of development indicators. Cross-national statistical work will determine the strength of this relationship, one that requires controlling for the social conditions that may complicate the simple bivariate relationships that I explore in this paper.

Second, there are two reasons why democracy may be associated with superior development performance. On the one hand, the inability of any one political force to dominate the political system encourages parties to design fair or neutral institutions. If parties expect control over the state to rotate between different parties over the long run, they will shift their attention to creating fair ways of counting votes and to establishing an inclusive electoral system. Democratization therefore creates a partisan interest in stability and the rule of law without which economic agents will not make productive investment over the long term. On the other hand, electoral competition rewards parties for listening to voters. Instead of just fighting for the spoils of office, parties struggle to placate voters. It is this virtuous circle—or accountability—that allows a democracy to persist, to furnish a large array of public services, and therefore to increase wealth in society.

The third conclusion of this chapter is that democratic forms make a difference because they create different types of accountability, both vertical (for example, between voters and elected officials) and horizontal (for example, between the parts of government). As political competition gradually became democratic in Costa Rica, politicians created institutions that congealed into a constitutional order by the late 1940s. The 1949 constitution separated the political from more technical functions of government, an arrangement that led politicians to create an independent bureaucracy capable of creating the physical and human capital improvements that fuel economic growth. The constitutional order also decentralized power among a variety of state agencies that require coordination and consensus. Finally, the 1949 constitution was based upon an electoral system that encouraged the political class to pay attention to the concerns of the median voter. In the aggregate, the post-war political system thus
encouraged public officials to create public policies that, as this paper points out, are superior by regional standards and impressive by global standards.

Fourth, this study indicates that economic growth rates and macroeconomic conditions, while impressive in regional terms, are not so exceptional at the global level. The Costa Rican economy grew slightly faster than the world mean of 2.1 percent a year between 1950 and 2003. The rest of the small economies of Latin America grew at only 60 percent of this rate during the same period. A slightly better-than-average rate is consistent with assessments of the quality of its public policies. While Costa Rica’s public policies score above the regional mean, they rank right at the middle of an international balance sheet (Tommasi, 2006). During this period, macroeconomic policy did lead to a major economic crisis in 1982. And, a persistent fiscal deficit has led to a high public debt (roughly 55 percent of GDP) and low but chronic inflation rates of around 15 percent since 1984 (Lizano, 2005).

Finally, institutional designs can become less effective with time because societies change. For much of the post–civil war period, a predominately rural, less educated, and poorer electorate was content to hand over policy making to a small number of parties. Forced to compete in regularly scheduled elections, these parties did develop an intertemporal agreement that created a PMP able to produce effective public policies. By the 1990s, however, criticism of a less than open PMP dovetailed with disenchantment with neoliberal economic policies and less than spectacular rates of economic growth. By the early 2000s, the electorate had abandoned the two-party system (Sánchez, 2007), in part because more urban and educated voters appear found them to be too much alike. The emergence of new veto players—especially of the Constitutional Chamber—and the fragmentation of the party system led to a political system decreasingly able to generate support for further economic reform. As a result, public policies have become increasingly rigid, less coherent, and less public regarding (Lehoucq, 2007).
References


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This paper uses a case study of Costa Rica to identify the reasons why democracy is conducive for development. By the mid-twentieth century, Costa Rica had begun to depart from the all-too-common mixture of political instability and economic stagnation characteristic of much of the developing world. This paper claims that this country has benefited from better-than-average public policies, a conclusion based upon an original assessment of policy effectiveness and a major comparative ranking of state policies. It largely rejects the interpretation that uncommon development performance stems from institutions created during the colonial period and instead emphasizes how unending political stalemates gradually made the struggle for power more democratic. A central conclusion of this paper is that political competition—as well as steady economic growth rates and development, more generally—interact with and reinforce each other so that the exercise of power fosters rather than retards economic growth.

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