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**STRUCTURAL ADJUSTMENT IN COSTA RICA:
IMPACTS ON THE WORKING CLASS WITH REFERENCE TO GENDER
AND RACE**

SUBMITTED BY: RONALD G CARVAJAL COTO



Costa Rica: Basic Data

Land Area	51,100 sq km; central highland plateau with lowlands along Pacific and Atlantic Coast	
Population	3.32 million (mid-1994 estimate); 2 percent African, 1 percent indigenous	
Main Towns	San José	310,000
	Puntarenas	97,000
	Limón	72,000
	Alajuela	66,000
Climate	Tropical in lowlands, warm temperate on plateau	
Official Language	Spanish	
Currency	<u>colón</u>	

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ABSTRACT

This thesis entitled **Structural Adjustment in Costa Rica: Impacts on the Working Class with Reference to Gender and Race** explores the impacts of structural adjustment programs in Costa Rica during the 1980s. The analysis focuses on the socio-economic effects of these programs on the quality of life of the working class with references to gender and race. This study examines the impacts of structural adjustment on salaries, wages, labour market composition, health care and education.

The study begins with a review of different currents of thought in regard to structural adjustment. Also, an historical background is provided in order to understand the unique characteristics of Costa Rica's socio-economic structure. Finally, these sections are followed by the analysis and conclusions of the data available.

Ronald Carvajal Coto
January, 1996

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To Aldara and Gustavo
Mis eternos amores

To papá and mamá
Gracias por darme amor y apoyo

To my sister and brother
Les llevo en mi corazón

Quinientos Años

Hoy he enjuaguado mi alma
con el sudor de la diversidad universal.
Olor a pasto y peregrinación.
Caminos perdidos de polvo rojo y fino;
persecución irrevocable hacia la emancipación.

Corazón Azur

Dos chispas infinitas tasajan mi corazón;
una al sur otra al norte.
Dolor perdido con causa y bandera;
fluido tibio que me transporta a mis amores.

(Carvajal, R, Sueños de Papel /1995)

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ACHRONISMS

ANFE	Asociación Nacional de Fomento Económico
CAT	Certificado de Abono Tributario
CBI	Caribbean Basin Initiative
CCSS	Caja Costarricense del Seguro Social
CCCR	Cámara de Comercio de Costa Rica
CICR	Cámara de Industrias de Costa Rica
CINDE	Coalición de Iniciativas para el Desarrollo
CONACOO	Consejo Nacional de Cooperativas
CODESA	Corporación de Desarrollo
EAP	Economically Active Population
ECLA	UN Economic Commission for Latin America
FENASOL	Federación Nacional de Asociaciones Solidaristas
GATT	General Agreement on Tariffs and Trade
ICE	Instituto Costarricense de Electricidad
IDA	Inter-American Development Agency
IDB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
INFOCOOP	Instituto de Fomento y Cooperación
ISI	Import Substitution Industrialization
MERCOMUN	Mercado Común Centroamericano
PLN	Partido Liberación Nacional
PRD	Partido Renovación Democrática
PUSC	Partido Unidad Social Cristiana
SAP	Structural Adjustment Program
SAF	Structural Adjustment Facility
SAL	Structural Adjustment Loan
SELA	Sistema de Economía Laboral
UPANACIONAL	Unión de Productores Agrícolas Nacionales

Chapter I

Introduction

This thesis explores the socio-economic impacts of structural adjustment programs (SAPs) in Costa Rica. The complexity of this theme makes it necessary to review the ideological dimensions and content of the theoretical and of the policy options that promise economic growth and social peace. This study is followed by an analysis of the effects of SAPs on the quality of life¹ enjoyed by Costa Ricans until the 1990s.

First of all, theoretical constructions are based on assumptions that lead to predictions of socio-economic changes under specified conditions. On this basis, theories justifying or criticizing the implementation of SAPs in developing countries respond to two² different philosophical currents of thought. The dominant current asserts that changes in the status quo follows an "evolutionary" pattern, therefore, social order, consensus, and solidarity will prevail in society. This view of society has been shared by neo-liberal social theory and by the economic rationality³ implicit in SAPs.

The alternative approach, justifies radical change in society as the only way to improve individual status quo. From this perspective, reality contradicts social ideals, and socio-economic structures must be analyzed and transformed. Traditionally, this view of society has dominated radical social theories that focus on class, gender and race issues.

From these perspectives I can argue that SAPs correspond to the dominant paradigm. SAPs contain economic policies whose primary goal is to diminish state intervention in the socio-economic sphere. The economic initiatives of individuals are taken as the "engine" for sustained economic growth. In this context, concepts such as "efficiency", "harmony", "solidarity" and "social order" are key concepts in contemporary neo-liberal gospel. Within this tradition, it is assumed that when material growth is achieved and maintained economic benefits will "trickle down" to the population in general.

Structural adjustment is seen by neo-classical economists as a way of improving stagnating agricultural and industrial sectors. They argue that state imposed prices may improve income distribution and food intake in the short-run, but such

interventions distort prices that negatively affect the efficient allocation of resources and in the long-run undermine the food supply system and economy.

Currently, many nations worldwide have had or are undergoing structural adjustment. The reasons for changing the nature of the economic relationships within their societies are political and economic. Put in another way: "economies have to be more free-market oriented and acting upon the premise that less government intervention is better." More specifically, structural adjustment assumes that an economy will be most efficient, healthier and productive in the long-run if market forces operate freely, and products and services are not protected, subsidized, heavily regulated or produced by the government.

Economic rationalism, however, has been criticized for its detrimental impact on minority groups and in particular because it embraces patriarchal and social Darwinist biases. Likewise, the hidden biases of SAPs justify and maintain privileges and social positions in society. From the same perspective it is noted and argued that state-led development has helped to improve the lives of many people in developing countries. Unfortunately, state-led development in poor countries

has been most adversely affected by the worldwide economic crisis of the 1970s and the 80s⁴.

II Thesis Statement

Under the conditions of an externally dependent and exhausted economic model the effects of SAPs have been detrimental on workers, women and ethnic minorities in Costa Rica. The local class structure is being transformed, subjugated to the influence of orthodox economic policies and accompanied by an unequal distribution of income and a drop in real wages. Increasing social inequalities resulting from economic reforms are threatening the delicate political balance among the different classes of individuals in this society.

III Conceptual Framework

The concept of class is central to the analysis of the impacts of SAPs. Accordingly, it is important to provide the criteria for an appropriate definition of social class in Costa Rica. My intention here is not to argue about the validity of the criteria utilized for describing class structures in Latin America and especially in Costa Rica. Rather, I provide a

definition of social class recognized by the academic community that I take to be valid for the Costa Rican case, and that will allow a description and analysis of conditions and forces generated by policies of structural adjustment.

Defining the concept of social class in the context of Central American countries has been a difficult task due to the diversity of human socio-economic interactions and conditions experienced by different groups of individuals. Generally, analysis of class structure has been based on the classic work of Karl Marx (1960). Marx conceptualized societies from the perspective of a social bipolarity between those who own the means of production and those who are compelled to sell their labour-power. However, others studies of social class extend the classic Marxist analysis by adding criteria (Ira Katznelson, 1986). These criteria can be summarized along three dimensions or levels of analysis (Coronado & Pérez, 1987:34).

On the structural dimension social class is conceived as a category that is determined by the mode of production. The mode of production here is defined as the way in which people produce and share the economic surplus. In other words, it determines and

thus defines the relationship of individuals to the means of production in the case of Latin America.

In a structural analysis, based on Marxist theory, the capitalist class exercises its dominance on the basis of a complex of capitalist enterprises organized to "maximize profits," and with the support of the state, a complex of institutions designed to establish the role of capital. Moreover, a social class is determined by the economic resources concentrated in the hands of people and generated in their productive relations. Finally, from a structural perspective social classes play an important role in the development of history as an agent of social change.

A second dimension of class relates to the subjective conditions of people within a specific class. Along this dimension "class" can be further defined in terms of categories such as income, occupation, culture and politics. These generate conditions that individuals share with others in their position and shape the way people experience their social relations as consumers as well as producers.

Finally, there is an historical dimension which

refers to collective actions in relation to the impact of historical events, the conditions of which are both structural and conjunctural. Along this dimension it is asserted that collective action is a necessary step toward social change under conditions of crisis within the economic system. Both the social and historical dimensions of class relate to subjective conditions which fall into the field of the psychology of class.

The psychology of class focuses on human living conditions and defined by people's shared attitudes and needs regardless of the objective or structural basis of their attitudes and needs. For instance, attitudes determine the means for collective action in a particular group. In this context, attitudes are triggered by ideas, prejudices and beliefs based on people's phenotype, gender or cultural origins. Women, for example, are taught to assume productive and reproductive roles justified by patriarchal beliefs. Likewise, beliefs of physical and intellectual differences among human beings remains as an important element for discrimination.

Collective action also depends on people's shared needs. These needs are determined by the social position of individuals during a specific economic,

social and cultural stage. This stage defines resources available to individuals on the basis of their position. Another factor that defines people's needs is the process of socialization which determines individuals acquisition of a self-identity in society. In the earliest stage of human development individuals acquire psycho-social characteristics that are important for the family, the community and the society. This process helps to define needs that are common for individuals within a particular social class (Coronado & Perez, 1987: 33-52).

Class and Gender

Normally, an analysis of class and gender dynamics is based on relations and conditions of production and capital accumulation. Generally, international agencies have ignored such concepts and have viewed women as instruments for programs of population control, food production, and the provision of other basic needs. In reality, women in developing countries have been placed at the bottom of the structure of production and capital accumulation. Understanding the impact of this process on women requires an analysis of the interconnections between capital accumulation, class formation and gender relations (Beneria & Sen,

1982:161).

The following illustrate some of these connections:

- 1- as land and common sources of water, food and fuel are lost by poorer peasants and landless labourer, women's work load in searching for fuel, carrying water and processing food is intensified. This is exacerbated by changes in the sexual division of labour as men are forced into cash-earning activities and possible migration
- 2- with the entry of commercial capital, women as artisan producers, may lose control over economic resources, but may be integrated as temporary or seasonal labourers at the bottom of the labour hierarchy because of their primary responsibility for the reproductive tasks of childrearing and domestic work
- 3- while traditional patriarchal relations may be weakened as servile relations give way to capitalist relations of production based on wage labour, women may become dependent on male wage earners
- 4- new forms of capitalist patriarchy may emerge where young women are drawn in as migrant factory workers in the electronics and textile industries

The effects of these connections on women's lives denotes an unequal share of power and wealth. Women are placed in subordinate positions at different levels of interaction between class and gender. For instance, for the poorer women, the results are overwork, undernourishment and lack of political voice. Especially in the 1980s, women have turned to the informal sector as a way of sustaining the livelihood of their families. For other classes of women, the concentration on reproductive work generally means greater economic dependency on men (Beneria & Sen:162; Antrobus, 1992:54).

From this background I will argue that the living conditions of women in Costa Rica have worsened during the 1980s. The first theoretical consideration for presuming such an outcome is that class/gender contradictions generate relations of oppression and domination in the political and cultural spheres of women. Women's needs and situation in developing countries differ from those of women in the industrialized world.

Generally, workers in developing countries receive low wages due to the unequal terms of trade between rich and poor countries. Therefore, it is important to

define the mechanism that helps to sustain and to maintain workers' wages at the level of subsistence. In the context of political economy the value of work depend on the costs of reproducing the labour force. These costs include the expenses for maintaining workers during periods of unemployment or retirement and the livelihood and education of workers' children.

In the Latin American context, wages tend to be insufficient for covering these costs. Under these conditions the household emerges as an institution to ensure the reproduction of the labour force on the basis of informal economic activities by its members. In this way, domestic work cuts these costs and ensures the maintenance of the labour force.

Further, the rationality for assigning domestic work exclusively to women remains unclear. In fact, the entire process of capitalist production appears to be based to some extent on a gendered division of labour and inequality. At one level, capitalists appropriate the economic surplus while workers use their wages for the social production and reproduction of the labour force. At the household level, the inequality between men and women is based on the myth that it is

natural for women to perform domestic work. This is especially true for women from rural ethnic minority groups since primary health care and education cuts have tended to affect these groups more (Quirós et al, 1984:7-40).

Social Class as defined in this Thesis

For the purpose of this thesis, I define social class primarily in terms of individuals' property of the means of production. To facilitate my analysis I have adopted Portes' (1985) definition of social classes in Latin America. For Portes the two basic criteria for describing class formations in Latin America are based on the relationship of individuals to the means of production, a relation that defines two classes; those who own the means of production and those who own only their capacity to work. A second relevant criterion for this analysis is control over the labour power and mode of remuneration. These two dimensions are defined as "the ability to organize and command the process of commodity production, even in the informal sector."

Control over the labour is defined here as "the power to regulate everyday work activities, even in the

absence of control over the means of production." The mode of remuneration is defined as to "the distinct forms through which different social classes receive their means of consumption, ranging from profits and regular salaries to casual wages and direct subsistence production" (Portes, 1985:8).

The Latin American Class Structure

On the basis on these criteria, Portes identifies the following classes: a dominant class, a bureaucratic-technical, the formal proletariat, an informal petty bourgeoisie and the informal proletariat. Relations among these classes are shaped by conditions created by the dynamics of the economic system.

Within the dominant class, the national bourgeoisie has limited control of advanced production facilities. This is true since important sectors of the manufacturing industry, agro-industry and commerce are in the hands of foreign-owned or state enterprises. However, top executives of TNCs and state enterprises have as much control over the everyday production and distribution process as domestic owners of capital. These two factors Portes argues illustrate the

connection between the concepts of formal ownership and administrative authority. Owners of domestic capital, TNCs and managers of state enterprises share the "control over production processes and over the labour of a number of subordinates." Indeed, these three categories comprise a dominant class.

A second class is bureaucratic-technical. Basically, it is an intermediate class whose role is to create the required infrastructure for economic production and to maintain the stability of the social order. This class lacks effective control over the means of production but exercises direct control over the labour of others as subordinates in bureaucratic structures. The remuneration of this class does not take the form of profits and dividends depending on individual success as does occur in the dominant class. Rather, it takes the form of regular salaries and fees tied to specific tasks. In Latin America, this class is composed of middle-level managerial and technical personnel in foreign, domestic private and state enterprises; career functionaries of the state bureaucracies and independent professionals employed under contract by the state or private sectors.

The formal proletariat is defined by Portes in

relation to a lack of control over the means of production and labour. The formal proletariat depends on the remuneration of their work either by direct monetary wage or by various insurance and other programs prescribed by law. This class is urban in composition as is the dominant and bureaucratic-technical classes. Similarly, these three classes conform the formal sector of the economy in which contractual agreements define economic relations. In recent years, agro-business development has promoted the growth of a rural segment of the formal proletariat.

The fourth class is the informal petty-bourgeoisie. This class has control over the means of production and has authority over labour. This class owns small-scale enterprises that generate irregular income subject to constant fluctuations. The economic role of this group of individuals is essentially that of intermediary between the modern sector and the mass of unskilled labour.

Finally, there is the informal proletariat or semi-proletariat. This group participates simultaneously in capitalist production and in the subsistence economy. In addition, the rural segment of

this class is formed by small commercial farmers and by contractors (Barrera et al, 1991:11-33; Coronado & Perez: 1990:1-20; Portes, 1985:1-15).

IV Operational definition of the effects of SAPs

Three major social impact variables are analyzed in this thesis: class, gender and race. The study of the socio-economic impacts of SAPs on these variables is based on the premise that the contradictions of mode : capitalism have played a major role in the development of the present crisis. This study also assumes a causal relationship between conditions of economic dependency on core capitalist countries and the socio-economic structure of peripheral countries.

With the implementation of stabilization programs and market-oriented strategies social inequalities have increased. These inequalities have been enhanced by the ideological biases of SAPs and the consequent surplus-value extraction from developing countries. Cross-conditionality ensures the extraction of this surplus-value and reinforces the traditional alliance between the local export-oriented bourgeoisie and international capital. This process is accompanied by new forms of economic and political imperialism.

The set of neo-classical economics policies incorporated in SAPs can be divided between demand-side policies and supply-side policies. Demand-side policies focus on the level of demand for goods and services in the economy, while supply-side policies deal with the level of production of goods and services. Among the most commonly advocated demand-side policies are the reduction of government expenditures and restriction of the rate of growth of money supply. This is expected to control fiscal deficits and to help bring inflation down. On the other hand, supply-side policies may involve devaluations, trade liberalization, financial deregulation and privatization. Their goal is to improve resource allocation and economic growth. Supply-side policies, however, have produced complex effects in countries where they have been adopted. For example:

- 1- devaluations of local currency are expected to promote exports and discourage imports. However, because commodities from developing countries are already in excess supply, more exports will only bring prices down. Moreover, most developing countries have to reduce the amount of imports of goods used in manufacturing or agricultural

production limiting export growth

- 2- trade liberalization and tariff reduction are intended to promote efficiency. Often domestic products can not compete with cheap imports, therefore, rapid tariff reductions may lead to the loss of industries and jobs
- 3- financial deregulation involves freeing interest rates which is expected to lead to promote savings. However, in most developing countries people tend to save in tangible assets like land. If interest rates rise high enough to attract peoples savings, this would be too high for investors
- 4- privatization has been implemented as a way of improving the allocation of resources, however, critics argue that the IMF and the World Bank advocate privatization for ideological reasons (IDRC, 1990:23-24)

In this thesis, the socio-economic impacts of SAPs will be analyzed with reference to two classes: the formal proletariat and the informal proletariat. As devaluation, privatization and deregulation policies

are imposed by international agencies, changes in the labour market composition, income-distribution and social programs inevitably result. These changes force secondary-earners (mainly women) to participate in the labour market due to the sharp drop of the household real-income. Real-income is defined here as remuneration in the form of wages, profits, capital-income and income corresponding to production used for home consumption.

The drop of household real-income can be viewed as a result of the inflationary effects produced by devaluation policies in the price of the basic-food-basket. Generally, inflation narrows the gap between the minimum-wage and household real-income. In this context, the minimum-wage equals the minimum per-capita cost of the basic family basket. Those families whose per-capita income is equal or greater than the monthly per-capita cost of the basic family basket will be considered poor. Likewise, those families whose per-capita income is less than the monthly per-capita cost of the basic family basket will be considered as extremely poor. Indeed, the socio-economic effects of SAPs will be studied across the categories of male and female including their ethnic origin.

My goal here is not to predict a gloomy future for Costa Rican society. Rather, this analysis will address short-term socio-economic effects of SAPs in setting a positive and constructive framework for future studies.

V Methodology of the Study

Data collection is based on secondary sources mainly books, journals and Costa Rican' newspapers. The interpretation of data follows the ideological and theoretical premises stated in chapter two. Basically it involves a blend of different radical currents of thought. In order to maintain accuracy and reliability available data is cross-analyzed on the basis of indicated secondary sources. Data availability, however, are insufficient for providing a complete perspective on the effects of SAPs in terms of the three impact variables in Costa Rica. Interpretation of data will be placed within these limits.

VI The Structure of the Argument for the Thesis

This thesis central argument is that structural adjustment programs have neglected the quality of life of the rural and urban workers especially women and

ethnic minorities. The analysis is divided into five chapters.

Chapter one provides an introduction and defines the issues and the scope for the analysis of the social impact variables.

Chapter two delineates different views for approaching the current socio-economic crisis in developing countries. It provides a review of the literature on the social impact of structural adjustment. First, I reviews contemporary socio-economic theories that accept or reject the execution of SAPs in developing countries in order to stabilize and adjust countries into the global market.

The neo-liberal agenda proposes substantial reduction in the degree of intervention of the state in economic activities. Basically, nation-states have to adjust politically into more democratic forms of decision-making. This socio-economic project conceives individuals as the basic social unit. State intervention in response to the socio-economic demands of rural and urban workers, women and ethnic groups are conceived as "market distortions".

Sections two and four of this chapter contain the framework for the analysis of socio-economic impacts on class, gender and race. First of all, I conceive the neo-liberal project as a mechanism for reinforcing economic dependency. This is evident in the unequal terms of trade and continuous capital outflows as results of loans cross-conditionality from the International Monetary Fund (IMF), the World Bank and other agencies. In contrast, the staflationary effects of the crisis during the 1980s reflects the economic contradictions in core capitalist countries but transplanted to the Third World. Not only employment, output, salaries, investment and savings have being affected by SAP measures but also the welfare of workers, women and ethnic minorities. In short, the neo-liberal project have contradicted their principles both de jure and de facto.

The contribution of chapter three to the thesis is that describe the nature of the economic dependency of Costa Rica. This thesis introduces the concept of historical structural disadjustment. This concept points to the origin of economic and political dependency. Likewise, it explores the genesis of these externally dependent structures change as well as how social classes were transformed as the state took

an active role in the economic development of the country in 1948. The point of this analysis is to create a balance between the socio-economic experience during that period and present trends to be discussed in the conclusions.

Chapter four comprises the analysis of the impact variables. Reference is made to three SAPs and to the political "adjustment" before their implementation in the 1980s. The framework of the study presumes that political "consensus" has to be achieved and is followed by a transformation of the class structure. The study of this transformation utilizes basic macro-economic variables segregated by gender and race.

Chapter five contains a summary of analyses made in chapter four and discusses the conclusions in support of the thesis advanced in this study.

Chapter Two

Theoretical Framework

This chapter reviews different currents of thought in regard to the socio-economic impacts of SAPs in developing countries. Section two and four provide the theoretical background for the study of the socio-economic impacts of SAPs in Costa Rica

I The Neo-Liberal Project

Neo-liberal thought has inherited the moral, political and economic core of traditional liberalism. The moral core is an affirmation of basic values and "natural" rights of all human being, that is, the right of freedom, dignity and life. Similarly, it assumes that nature can be subordinated to the implementation of these rights. Moreover, knowledge and truth derives from individuals' judgment, which in turn is formed by associations his/her senses makes of the outside world.

Within this liberal framework, individual experience becomes the supreme value, and the joining

of many individual experiences in deliberation is the best possible way for a community to make decisions. This individualistic⁵ bias derives from the utilitarian assumption that the realization of interest is the major force that motivates individuals. Indeed, interest is related to the satisfaction of pleasure, in other words "men and women strive to maximize pleasure and to minimize pain"⁶ (Macridis, 1983:22).

The economic core of liberalism encompasses economic and property rights. It is referred to as "economic individualism," the "free enterprise system," or "capitalism," and pertains to the rights and freedoms of individuals to produce and consume, to enter into contractual⁷ relations, and to own their own property and labour without state⁸ controls and regulations. In theory, the essence of economic liberalism lay in the transition from status (fixed group relations) to contract (individual self-determination.) In the economic core, more emphasis is given to contractual freedoms than to freedom of speech. Indeed, the meeting point of various individuals wills, where contractual relations are made, becomes the market (Macridis:25).

In principle, the market favours the consumer

because prices cannot be fixed, the volume of production cannot be controlled and competition makes cartel or monopolies impossible. On the other hand, the advantages for the producer include freedom to hire or dismiss workers, setting wages to be paid, to setting prices of new products⁹.

Here the individual -the famous economic man- propelled by self-interest, buys and sells, hires labourers, borrows or loans money, invests on joint-stocks companies or maritime ventures, and find employment. The market reflects the supply and demand for goods, and this in turn determines their prices. Since the market does not sanction the incompetent and the inefficient, goods produced that do not meet a demand fall in price, until the producer is driven out of business, and replaced by a shrewder one (Macridis:26).

Finally, the political core of liberalism includes political rights, that is right to vote, to participate, to decide what kind of government to elect, and what kind of policies to follow. In essence, these are features of a representative democracy¹⁰ in where state intervention should be minimal¹¹.

Spontaneity, creativity, experimentation and the search for truth are within the domain of individuals and their social institutions. It is a best and at the most the function of the State to maintain order, to see that nobody in his relations with others uses force, to protect civil liberties and

personal freedom, and at the same time to maintain the economic freedom of the individual. In other words, the role of the state is to protect individuals (Macridis:35-36).

These are traditional discourses in old liberalism. State intervention in individual's socio-economic sphere still remains the central topic for most neo-liberal intellectuals in Latin America. For them state intervention can only benefit bureaucrats. In addition, economic policies fostered by governments¹² have inhibited economic growth and have affected the well-being of poor people. For most neo-liberals the influence of the state in socio-economic matters should be reduced considering its influence in the contemporary socio-economic world crisis¹³. Finally, neo-liberals view the present world crisis as a result of state intervention in the socio-economic sphere of individuals.

Similarly, the development of an informal sector is a result of government intervention and law manipulation. Law is used to benefit the few and to deprive many from fulfilling needs. Traditionally, political and economic powers have been the "gates" to access the formal economy; the sector of the economy in which "entrepreneurs pay taxes in exchange for

government protection". As a result, those individuals who are not able to pay tributes remain operating "illegally and unprotected". Likewise, the informal economy in developing countries is an effect of mercantilism¹⁴ and monopoly. According to neo-liberal thinkers, the only solution is replacing mercantilism with "pure capitalism" -private property and free-market-; this strategy in return will strengthen democratic political practices (Levine, 1992:29).

The informal economy has been defined by the International Labour Organization (ILO) as composed of "small-scale enterprises." Actually, the informal sector is a "zone" in which individuals find shelter when cost of following the law exceed profits. Therefore, "informality" is pure civil disobedience in order to fulfil individual's economic freedom. Indeed, the informal sector is the result of an inadequate legal system that overlooks the needs of an emerging population.

Currently, legal systems in Latin America contain sets of rules that when implemented create legal constraints for individuals to exercise their economic freedom. These rules are defined as "cost of accessing the formal sector." A second constraint is produced by

the tax system as soon as the individual decides to produce goods or provide services. This second constraint is called "costs of permanency in the formal sector." The economic rationality asserts that "if costs within the formal sector surpass profits, then people will opt to bind themselves into the informal sector." Indeed, the "cost of permanence" is a mechanism that measures the amount of resources necessary to gain state protection (Gheri, 1992:445-447).

Also it is asserted within this view that institutional norms make it difficult for individuals to access the formal sector. Usually, law is used for wealth redistribution rather than wealth creation. As a result, the whole economic system is affected since countries are organized to compete in a "political market" rather than in a "free market." The development of an informal sector is "a sign of quick institutional reform in order to achieve steady economic growth and social peace." Finally, most governments and international financial institutions have focused on macroeconomic variables -costs of production, monetary policy, fiscal deficit, tariff and taxes and international trade- assuming that state institutions are the most appropriate for the country

(Gherzi:447-452).

The informal sector in poor countries reflects individuals' desire to overcome economic and social barriers. This attitude has been accompanied with a "spontaneous and natural" creation of a set of rules called "extra-legal norms." Extra-legal norms define more and less explicitly the economic objectives and goals of contractual relations. Basically, these rules prescribe patterns of land takeover in rural and urban areas. Similarly, the same rules allow the implementation of contractual regimes for organizing the division of labour and the distribution of profits. Nonetheless, extralegal norms are ineffective if one considers its lack of coercion¹⁵ and law support in order to provide individuals with legal protection against bribery or ensure credit and insurance programs (Gherzi:437-442).

For most neo-liberal thinkers the interventionist state has to give way to one that only interferes in matters concerning law administration and enforcement. Similarly, governments must focus on providing resources and legal facilities to individuals involved in the informal sector of the economy. Logically, "capitalism and a free-market system are the best

options for achieving socio-economic development."

Finally, "the informal sector is the best ground for encouraging and achieving economic growth."

The first step for achieving socio-economic development is replacing socialism and mercantilism with pure capitalism. On this specific issue neo-liberals in Latin America have been divided by those who have followed Max Weber's path and those whose discourse has acquired Adam Smith's opinions (Levine, 1992:11, Llosa, 1992:27.) For Weberians, modern capitalism is a historical institution and is empirically observable. This institution is the result of historical factors and its existence has been ensured by individual self-regarding activities. For those who share Adam Smith's view, modern capitalism is a "natural product" of the civilization. As a result, state intervention has inhibited the potential of capitalism to achieve economic benefits. This last current of thought can be summarized as follows: "free all human beings and they will become prosperous. The market will regulate human relations" (Levine:11).

The neo-liberal critique of the state is based on the world economic experience during this century. For instance, neo-liberals argue that socialism has proven

to be unfunctional because it operates under political mechanisms, rather than in a system where individuals can make decisions as in a market system. In addition, socialism has failed in rescuing masses from poverty. The Soviet experience was valid -according to some social scientists- because the Soviet political regime survived almost for seventy years¹⁶. Nevertheless, the decline of the Soviet Union shows that it took seventy years to probe the fragility of the regime.

To the contrary, neo-liberals sustain that capitalism is functional because where it has been implemented (Europe, North America and Asia) steady rates of economic growth have been maintained and large segments of the population have overcome poverty (Berger:43.) Likewise, capitalism has been the engine for economic growth in developing countries. The integration of developing countries into world capitalism have benefited them with new technology and better markets after World War II. Although, poor countries still face economic disadvantages they can use their own resources and experiences to overcome the current economic situation (Levine, 1992:53-57).

Although neo-liberal thinkers consider their socio-economic doctrine as the only option they still

contemplate questions regarding ethical and juridical issues. For example, how law should be redefined in order to secure individual freedom and rights to property. Similarly, this concern has to take into account the question of how to fulfil the needs of those individuals unable to operate in a capitalist free-market system. A third concern refers to effects of mercantilism and socialism in Latin American cultures and societies. Mercantilism has blocked the opportunity for countries to achieve economic growth via investment. Meanwhile, socialism has dominated the economic and political spheres in two Latin American countries. As a result, both free-market and private property have been rejected de facto. Either land has become collective or a monopoly of individuals or groups (Ayau & Mayorga, 1992:412-413).

Another neo-liberal concern entails the question of whether capitalism and a free-market system can be institutionalized under democratic or authoritarian political rule. Historically, most contemporary rich countries had been developed under authoritarian rule and eventually these became democratic regimes. Capitalism is functional if the state frees monopolies to private management. In turn, this policy will strengthen individual participation and democratic

practices. In this way, capitalism can ensure that large segments of the population will be able to fulfil more complex needs. Indeed, it can be asserted that "as countries achieve economic growth the possibility for the development of democracy is greater" (Berger:45).

Currently, democracy refers to who governs a country. Idealistically, democracy points to the right of a majority to make decisions. The question is: if the entire population has control over the political power, then it is contradictory to transfer this power to one person¹⁷. This is the case in the representative-democracy model. This paradox has been "partially solved"¹⁸ by two types of governments: "governments that can be displaced from power without recurring to violence and governments that can be overtaken via an armed revolution" (Rodriguez, 1992:384).

The first type is the "ideal" model. Periodic elections and a democratic culture¹⁹ are key factors to ensure a peaceful transfer of power. In this manner, democracy is viewed as a system of free and intelligent expression, in which a majority can achieve their goals. The general axiom of individual behaviour

is one in which every act is supported by reasonable options. Therefore, it is important that different opinions can be confronted and that new ideas are produced. Democracy is possible when independent criteria and freedom of expression are allowed. They are the requirements for the development of a democratic regime. Nonetheless, it is urgent to find frames in which individual actions can be accomplished and coordinated.

In this context, participation means that each individual or group is able to make decisions. It is not just electing representatives but it is both politicians and people interacting in a continuous dialogue. This interaction is known as the "principle of subsidiarity" and it refers to how decisions should be made. According to this principle, the solution of problems in a society must begin from the smallest human unit: the individual, the family, the district and finally the nation (Rodriguez:386).

Social relations among individuals in a democratic system and its economic organization are not necessarily compatible all the time. Nonetheless, neo-liberals argue that a market economy is tightly related to a democratic system. This affirmation is based on

the assumption that individuals make decisions in a market economy in a "responsible manner", whereas in a central planning economy just an elite makes decisions. In this manner, it is argued, socialism is dysfunctional with democracy.

In order to protect the democratic system a estado de derecho²⁰ has to be implemented. The balance between the state and the individual is such that individual rights are protected. It is impossible that a law system can contain punitive sanctions for every possible offense. Therefore, in a free society law must be flexible enough to allow certain discretion for assessing cases.

In regard to this point, neo-liberals in Latin America present some "recipes" in order to achieve socio-economic development:

- 1- economic development could be achieved if the labour law is oriented towards a market system
- 2- a well-balanced macroeconomic system, healthy monetary policies, an efficient tax system, clean reduction of the fiscal deficit and elimination of subsidies
- 3- encouraging savings and investments in order to avoid capital "flees"

- 4- acquiring better technology and helping to educate the labour force (Levine, 1992:11 & Berger, 1992:40-42)

Education is a tool for achieving a regime of equality between individuals. Therefore, governments must ensure the accessibility of everyone to basic education. Similarly, private property is important for the well being of the democratic system; governments should ensure the development of the private property. An option for achieving this goal is the privatization of public enterprises within a social criteria, that is, making employees shareholders of the enterprise. Indeed, reforms of land tenancy, education and judicial system has to be accompanied by a cultural "reform." In fact, Latin American countries have followed the model of representative democracy, however, people mentality still accepts populism and oligarchy (Levine:28-33).

Culture is an important variable in the process of economic development. The debate about culture spins around to what cultural features are relevant for economic growth (Berger:48-50). Originally, social scientists view the development of societies in a evolutionary pattern: from a primitive beginning to a

complex end. This analysis overlooks cultural diversity and had a selective imaginary based on Euro-centric values. The socio-economic experience of developing countries has shown that development does not follow an evolutionist pattern; rather it depends on specific political, social and cultural characteristics. Therefore, from this background it is asserted by neo-liberals that development:

- 1- Can not be taken for granted in poor countries
- 2- There is not a totally modern society; societies maintain traditional and modern characteristics
- 3- It does not exist a pre-established order for societies to become modern and industrialized

Culturally, capitalism in Latin America has been confused by policy-makers with the kind of capitalism in semi-feudal oligarchies. As a result, private property is restricted to a few leaving latifundio evident in Latin America's rural area. As soon as local work ethic and the politics of land tenancy reaches a balance economic austerity will be the first step for being competitive in the world market. This is a requirement for achieving capital accumulation before capital investment can occur. At this point the question that remains to be answered is who is going to

lead the process of capital accumulation. On one hand, this can be done by imposing new cultural values, that is the implementation of a work ethic and laws. On the other hand, it can be done through politics, that is, bureaucratic or administrative support²¹ (Levine:59-62).

Since Latin American countries have lacked specific plans for achieving economic growth through a capitalist free-market system the implementation of liberal concepts is difficult. What is clear is that the passage from mercantilism to the free market is rather complex in Latin America. It is evident that the privatization of state enterprises under structural adjustment programs has been implemented because it promises high profits that guarantee government debt payments or because these enterprises have a high-cost operation profile. Therefore, much attention has been paid to how a shift into a capitalist free-market system can be accomplished (Ayau & Mayorga:415).

In order to implement a capitalist free-market, consensus must be attained with respect to the moral, ethical and juridical benefits inherited in a market economy. The departure point is a process of convincing people to support moral and judicial liberal

principles. A second aspect is non-state intervention in economic matters. Instead governments should ensure that property rights are respected. This goal can be achieved if the subsequent principles are followed:

- 1- people are responsible for their own acts;
no government has to exonerate people mentally capable of assuming responsibility for their acts.
Such is the case of government enterprise subsidies
- 2- principle of truth; governments have to justify their acts and potential effects on citizens lives
- 3- recognition of own limitations; is no government has the wisdom to organize the economic process
- 4- equal treatment principle; recognizing that there exists an "essential equality" between human beings and that at the same time there exist material inequalities. In a market economy it is recognized that essential equality between individuals does not acknowledge economic equality
- 5- social justice; recognizing that inequality is a main feature in modern societies. A mechanism called "wealth redistribution" has been implemented to ensure that poor people have access

to education, health care and retirement compensations. Nevertheless, social justice can be morally questionable from the point of view of governments taking other people's wealth and distributing it according to their own criteria. Moreover, it is questionable to currently believe that one's fortune is the cause of others' misfortune. Most important is the implementation of a judicial system that values everyone's effort and capacity

6- finally, Latin American countries can achieve a successful shift into a market economy if the law permits an adequate articulation of the spontaneous political order in society, that is if public administrative legislation -which has been used to maintain the status of few- do not interfere with individual freedoms (Ayau & Mayorga:423-427)

II The Neo-Liberal Anti-thesis

Ideologically, the neo-liberal project in Latin America seeks to reproduce a market system composed of small entrepreneurs similar to the one dreamed by economists during the nineteenth century in Europe. This is an ideological construction whose main goal is to create an environment of acceptance and openness to market strategies in developing countries. Similarly, the endorsement of market strategies for capital accumulation²² and further investment will benefit only transnational corporations worldwide.

The neo-liberal project encapsulates economic and political strategies that would help to transform developing countries economies' into "efficient and productive" industrial countries. As has been discussed in chapter 1, SAPs combine neo-classic economic policies implemented in two main stages: stabilization and adjustment. Stabilization normally means immediate devaluation and often drastic public expenditure cuts. On the other hand, adjustment seeks to transform economic structures and institutions through varying doses of deregulation, privatization, dismantling over-sized public bureaucracies, reducing subsidies and encouraging realistic prices as a

stimulus to greater productivity, especially for exports (Leftwich, 1994:365). From this background, is argued that stabilization measures have badly affected poor people composed mainly of women and ethnic minorities. Finally, it is sustained that adjustment benefits transnational corporations and dominant classes in countries where it has been implemented.

Traditionally, Marxist theory has related processes of capital accumulation to social class struggle²³ and transformation based upon the capitalist mode of production (Marx, 1962:862). For Karl Marx, capital accumulation is led by a process of primitive accumulation²⁴, and is followed by the extraction of a surplus-value²⁵ from the labour-power²⁶. Finally, this process is accompanied by monopolistic forms of capital accumulation²⁷ (Marx, 1963:351).

Capital accumulation is produced when the "the owners of money, means of production, means of subsistence, whom are eager to increase the sum of values they possess, by buying other people's labour-power; on the other, free labourers, the sellers of their own labour-power, and therefore the sellers of labour" (Marx:350).

The general law of capital accumulation focuses on the interaction within the free market system of concepts such as value, surplus-value and profit. This

interaction can be summarized as follows:

- 1- only labour creates value. Machines, land and all other factors of production create no new value as they depreciate
- 2- the entrepreneur pays the worker only a subsistence wage
- 3- the difference between what the capitalist pays the worker and what the worker produces is the surplus-value
- 4- in the market each capitalist tries to sell more even at lower prices
- 5- as firms modernize and mass-produce, more workers are laid off²⁸
- 6- firms who fail to modernize are gradually driven out of business. Only few highly modernized firms can produce goods efficiently and cheaply
- 7- at the end the legal forms of capitalism (private profit and private property) come into conflict with the property of the means of production. Monopoly stands against individual private property (Macridis:97-103).

Likewise, it is evident that structural changes produced by stabilization and adjustment programs in Latin America have been accompanied by capital outflows

that generally overpass capital inflows from rich countries²⁹. A complete genesis of capital outflows can be resumed in the conditions and outcomes of the debt crisis of the 1980s.

Each debt crisis, that of the 1980s and the two previous debt crisis in Latin America³⁰ unfolded two stages. During the first stage (1950-1967) indebtedness was associated with a long period of prosperity of international capitalism and the Latin American economies. This period began with a massive and speculative credit³¹ extension by private bankers and other financial institutions. During the process of debt accumulation locally controlled production of capital goods expanded rapidly and manufactured goods exports grew quickly (Guillen, 1989:23).

From the point of view of the capital exporting countries, the main factor governing capital export is the law of accumulation: that is, the innate tendency in the capitalist system to extend markets and maximize benefits without consideration of national or international limits. On the other hand, capital importers felt the need to promote the internal processes of capital accumulation by counteracting the shortage of internal savings and lack of hard currency

(Guillen:32).

The period between 1967 to 1981 marked the first phase of the long-term structural crisis of international capitalism³². This crisis has been defined as a crisis in the system of regulation of state monopoly capitalism. During this structural crisis, the growing masses of surplus-capital passed from the productive sphere to the financial sphere which promoted the growth of transnational banking unregulated by the state. Similarly, during this stage the external debt of the private sector grew rapidly and a larger portion of new credits were used to pay earlier debts. This period of rapid debt accumulation was followed by a period in which lending was detained as a result of the inability of Latin American countries to service the debt.

Eventually, Latin American governments realized that unlinking domestic levels of consumption and investment from external financing not only increased the cost of continuing regular debt servicing, but also had diminished the power of creditors to enforce repayment during this period. In fact, new loans provided a source of foreign exchange -besides export income- available for financing import purchases and

for servicing the debt. This combination of economic variables led economists to link loans positively with income, consumption and investment.

Whatever the uses to which new loans were put, they undeniably kept Latin America's incomes and growth rates above what they would have been in the absence of debt financing. Even when new money was used simply to service past debt...that helped to keep domestic incomes at a higher level than they would have been without such lending. In this sense that foreign borrowing and Latin American consumption and investment were essentially linked (Dietz, 1989:15-16).

The period from 1982 to the present has been one of the debt crisis as a result of a contraction for the Third World credit. Excessive debt accumulation led to the problem of debt overhang, that is, more obligations than could be managed with the current income sources. As a result, debt accumulation produced changes in the modes of interaction between Latin America (periphery) with the US (centre). The centre proposed that servicing the debt could only come as a deduction of domestic consumption or investments; a strategy that affected the interaction of social classes within Latin American countries (Guillen:32, Dietz:12).

The debt crisis began as a consequence of a transposition of factors affecting both the centre and

the periphery of the capitalist world economy. The exact timing of the crisis stage was set by deteriorating terms of trade for Latin America's exports and by inflationary tendencies in industrialized countries that drove interest rates upward by 1981. However, the debt cycle is a concrete manifestation of the retrograde Latin America class structures. Usually, Latin America's elites used the state for loans to fuel internal capital accumulation and economic growth (Dietz:21).

External financial accumulation was motivated by the desire of a segment of the elite to use the state to accelerate growth and expand their relative economic and political power. Similarly, the lack of internal resources and low incomes for basing a process of capital accumulation upon was another determinant for external borrowing. As a result, the economic and military elites built up debt from the 1970s up to 1982 as a protective response to an external crisis of world capitalism brought on by the Organization of Petroleum Exporting Countries (OPEC) oil price shocks of 1973-1974 and 1979-1980. In the process, debt accumulated due to imports that reflected high wages in rich countries. Austerity was the economic policy that most governments used to respond to external lending

unlinking.

Governments began to reduce payments for interest and principal due to local social unrest. This last strategy brought them into conflict with the centre and its financial structures in 1988. Nonetheless, it was only through reduced debt servicing that export earnings could be released for the purchasing of the necessary capital goods to support the import-substitution model of industrialization (Guillen:33, Dietz:17).

During the period from 1978 to 1982, Latin America's debt servicing payments equalled 62.3 percent of the total 1982 debt; 1978-1985 debt servicing grew to 72.5 percent of 1985 external debt. These figures demonstrates that Latin American countries actually accelerated their debt servicing payments relative to new debt. Furthermore, the overall net resource transfer to the rest of the world over the same period amounted to a US \$96.1 billion outflow, compared to the net inflow of US \$110.7 billion recorded from 1970-1981; through 1987, the negative net resource outflow had reached US \$145.8 billion (Dietz:13).

The continuing failure of Latin American

governments to fulfil human basic needs was a direct result of the actions of multinationals banks based on the conditionality and austerity measures of the IMF. Industries characterized by low productivity, outdated technology and owned by mid-sized national capital have been destroyed or replaced by speculation and imports. The informal sector grows as full-employment diminishes and poverty increases. The informal sector is a escape valve in which private and familial solutions replace social ones. Since full employment is excluded from the neo-liberal model, "informality" is designed to compensate the steep rise in unemployment and to neutralize the efforts of the working class to resist, by pressuring the poor to seek out private survival solutions. This model preaches that informal workers stand at the base of a ladder of bourgeois accumulation. Therefore, they as individuals have to resolve their problems of health, education and social security (Sanchez-Otero, 1993:20).

The austerity measures implemented with SAPs have served as an ideological displacement of social protest; a mechanism that might have served to reform national structures of power and class which are the true motor forces of the current debt crisis. This was evident during the accumulation phase of the debt cycle

when larger countries like Brazil and Mexico were able to create new infrastructures and to pursue more ambitious projects of industrialization. This dynamic allowed the dominant class to augment its position within the ruling structure and to prosper during the period of restricted access to international credit. Finally, the crisis has had lesser impact upon elites because they have protected their interests and in some cases expand their wealth and power in the following way:

- 1- capital flight
- 2- adroit manouvers in the financial realm during bouts of hipherinflation
- 3- and the deployment of austerity programs that lower the income of peasants, workers and middle-class technocrats (Dietz:20-21, Cypher, 1989:60).

At the same time, when most Latin American countries were embracing austerity plans and market solutions designed to expand Latin America's export capacity the United States was protecting their industries from Latin American competitors. During this period, Latin American countries were heavily dependent on capital lending from official sources as the World Bank, regional banks such as the Inter-

American Development Bank, and official aid such as the US Agency for International Development (USAID) Figure 2.1 conveys the switch in Latin America's international credit from sizable capital inflows in the 1970s to even greater net outflows in the 1980s.

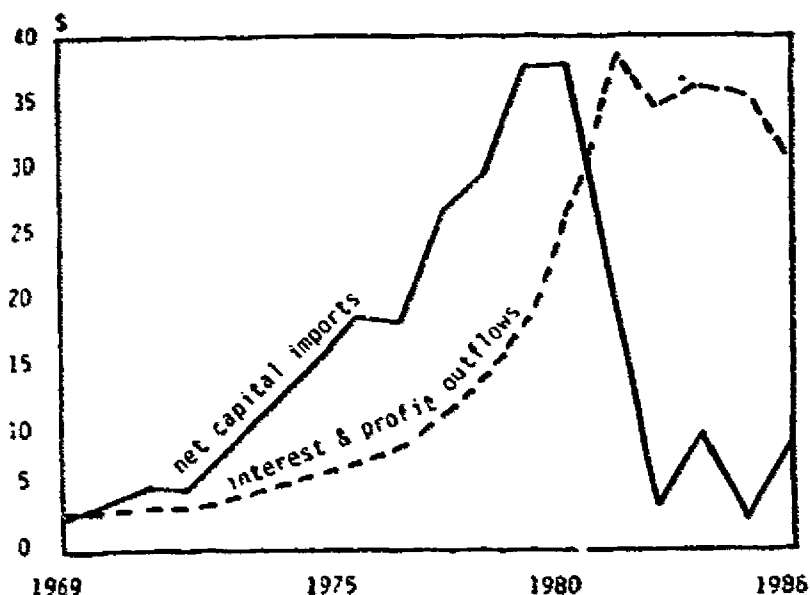


Figure 2.1 The concept of "net capital transfers" was developed by the United National Economic Commission for Latin America (ECLA or CEPAL), to describe: with the solid line all capital inflows (direct foreign investment, private investment and bilateral or multilateral loans and credits) and the broken line the outflows of all payments to capital (debt repayment, interest on debt, repatriated profits, foreign investment by Latin American corporations outside the region). (Source: Cypher, 1989:55)

The falling profit rate of industrial capital in the advanced nations starting roughly in 1970, and the fact, that the decline in the rate was not reversed as the 1970s advanced, influenced economic policies directed to structural adjustment by key lending institutions under the control of rich countries³³. For instance, the World Bank is one of the Bretton

Woods institutions that originally was concerned with project lending. In the 1980s the Bank introduced Structural Adjustment Loan (SAL) in order to fix balance of payments problems.

The economic policies recommended in SAL focuses on the disarticulation of state-owned enterprises under the influence of import-substitution policies. The objective was to open economies to transnational corporation operations by selling off state-owned enterprises. The argument made by the World Bank asserted that "by eliminating all subsidies, social programs, unions, development planning, tariffs and restraints on transnational capital will engender systematic development by way export-led growth". Nonetheless, the Bank export-promotion policies can be questioned because these are based on false assumptions. For instance:

- 1- structural changes recommended are based on the Asian economic experience. Such assumption ignores that Asia's export experience was a product of timing and spatial location
- 2- Latin American countries lack machine-building capabilities. Therefore, any export promotion program will need capital goods and technology

imports

- 3- Latin America's potential competitors in manufacturing exports (Japan, Germany, Korea and Taiwan) have had many decades to acquire their marketing and production skills. Similarly, export promotion policies will encourage developing countries to compete among each other
- 4- global over-production and economic stagnation has triggered a wave of informal protectionism in the advanced capitalist countries
- 5- Latin America's countries have followed social policies (welfarism) that disable them competitively, unless they get better technology
- 6- the elimination of tariffs will lead to an increase of imports. Small producers will not be able to adjust to the new competition due to a lack of capital
- 7- export promotion policies do not address the question of full employment (Cypher:63)

Another agency, the International Finance Corporation (IFC), promotes private sector development. The IFC developed the idea of swaps which basically direct the exchange of external debt for equity shares in Latin American corporations. Swaps have been employed in Costa Rica and in other countries in Latin

America. The IFC has received support from the Baker Plan (1985) whose economic objectives can be summarized as follows:

- 1- cut income taxes because these "destroy the incentives to produce"
- 2- liberalize foreign trade and accept free trade zones
- 3- end food subsidies
- 4- facilitate direct foreign investment
- 5- encourage privatization and discourage government intervention in the economy.

Similarly, USAID has applied to the economic policies suggested in the Baker Plan. USAID has focused on forty relatively poor countries to which it provides a special kind of aid known as "official transfers." Since a transfer has not to be repaid, those nations that receive transfers have to relinquish something in return. For instance, military basing rights or extraordinary concessions for investors. The Caribbean Basin Initiative (CBI) is an example of these policies.

Beneficiary countries would have duty-free access to the US market for their exports, but they can not

act as export platforms; at least 35 per-cent of the value of all inputs must come from the original country. In addition, the recipient country has to be willing to engage in privatization and accept a restructuring of trade and labour policies. Moreover, one of the provisions is the acceptance of a bilateral investment treaty with the United States underlining that the recipient country has to agree to compensate US companies in the event of nationalization and the unrestricted repatriation of profits.

In a similar fashion, the International Monetary Fund -a short-term lender agency- has focused on structurally adjusting nations of the periphery toward a "global assembly line." The IMF implements conditionality as a requirement for a Structural Adjustment Facility (SAF). In December 1987, the IMF augmented this fund with the Enhanced Structural Adjustment Facility directed to nations willing to undertake strong three-year macroeconomic and structural programs. Under this facility structural adjustment means relinquishing nearly all policy-making in the area of foreign trade and investment to those who adopt adjustment programs either from the World Bank or the IMF.

Another agency, the Inter-American Development Bank (IDB) has been directed by the rule of an executive committee elected by the member-nations of the hemisphere. Likewise, the IDB voting base on the size of the contribution of participant nations giving to the US a greater political advantage over Latin American countries. During the Reagan administration promises the IDB would receive support if this agency would link its lending to structural adjustment policies. The political influence exerted by the US reflects a need to ensure its power against its rival advance capitalist countries (Cypher:72-73).

The economic influence exerted by these international agencies on developing countries has been accompanied by democratization initiatives, the improvement of human rights and the insistence on what has been called "good governance." (Leftwich, 1994:363). For neo-liberal thinkers, good governance involves a concern for "sound administration and an insistence on competitive democratic politics as well." Both good governance and democracy are pre-conditions for Western economic aid. The definition of "good governance" is wider than that of democracy, which conventionally refers to the institutional structure and location of authoritative decision-making in the

modern state. Actually, good governance refers to "a system of political and socio-economic capitalist relations presided by a minimal state which is part of the wider governance of the New World Order". Finally, from an administrative point of view, good governance means "an efficient, independent and open public service." This last definition can be subdivided in four parts: accountability, legal framework for development, information and transparency.

Accountability means holding officials responsible for their actions. A legal framework combines "a structure of rules and laws which are impartially applied to provide clarity and stability to the private sector." Information refers to making facts available to the public concerning economic conditions and budgets which are crucial for private sector calculations. Finally, transparency is a call for open government, to enhance accountability, limit corruption and stimulate consultative process between government and the private sector. Nonetheless, this definition of good governance fails to recognize that good governance is a function of state character and capacity. As history shows, the state has been the agent for sustained development in poor countries (Cypher:370-

371). Nonetheless, in most cases these concepts have been transcended by political considerations, especially, when the IMF and the World Bank have supported authoritarian regimes.

Four reasons have influenced governments interest in good governance and democracy: the experience of structural adjustment, the dominance of official neo-liberalism in the west, the collapse of official communist regimes and the rise of pro-democracy movements in the development world.

In the two stages of structural reform - stabilization and adjustment- resource utilization change as well as social relations. Often bureaucrats, public sector workers, party officials, farmers and manufacturers stand to be the losers. Similarly, the poor people experience sharp increases in basic food prices as well as cuts in educational and medical services. It is evident that effective socio-economic adjustment requires a strong and relatively autonomous state, whether democratic or not. Recent experiences with adjustment confronted international institutions and bilateral donors with incompetent corrupt governments in many developing countries. This was a major reason according to the World Bank for reducing

the scope and scale of state power in making decisions regarding poor people's welfare.

The second reason refers to neo-liberal theory, basically in its normative and functional sides. In normative terms neo-liberal theory celebrates individual economic and political freedoms. Similarly, neo-liberal doctrine is hostile to state limitation on the rights of individuals regardless of sex, race or creed. In functional terms, neo-liberal political theory asserts that democratic politics and a slim and efficient public bureaucracy are necessary for the development of a free-market. These reasons support the neo-liberal thesis that "an obese state apparatus is inefficient from an administrative point of view and incompatible with an independent civil society which is presumed to be the basis of effective democracy" (Cypher:366).

The third reason refers to the collapse of Eastern European communist regimes. Neo-liberals affirm that the fate of twentieth-century communism "served to confirm that bureaucratic and collectivist systems are economically inefficient." The last reason is related to democracy and the concept of free market. For neo-liberals a free-market system requires a

representative-democratic system to function properly. In other words, a state enjoys legitimacy and authority only when its power is derived from a democratic mandate and built on the traditional liberal notion of a clear separation of the legislative, judicial and executive powers.

In contrast to the neo-liberal animosity against state-led development stand the impressive socio-economic development experience of Latin American countries. During most of the postwar period, the majority of industrialized Latin American countries pursued a strategy of import-substitution industrialization (ISI). Industrialization rested on three principles: protectionism, state intervention and a net inflow of foreign capital. Industrial growth was promoted by an active state which established tariff barriers, subsidised industry and partially owned industries. This considerable degree of state intervention produced high rates of economic growth over a long period. Real per-capita income rose on average of 2.5 percent during the 1960s and of 3.3 percent during the 1970s (Roxborough, 1992:421).

From the 1940s to the 1970s the state played a central role in the development process; this was true

for governments of both right and left, civilian or military. The economic policies applied in Latin American countries reflected the nature of the local economy and the internal balance of power. While populist regimes re-distributed the national income and fostered a compromise between business, labour and the state, bureaucratic-authoritarian regimes favoured large business and high-level civilian and military bureaucrats at the expense of popular sectors. (Espinal, 1992:28).

By the 1980s state-led development suffered a major blow due to economic policies implemented by the IMF and the World Bank. Within a context of market forces and private enterprise, these changes transformed both the organization of most Latin American economies and the structure of opportunity for most segments of society. Politically, adjustment measures changed the pattern of state-class relations because governments were forced to manage a deep economic crisis with limited resources. As a result, governments of different ideological orientations found it increasingly difficult to deliver goods and services and moderate social conflicts. At the political level populist parties were influenced by technocrats in order to adopt a neo-liberal agenda.

After a slight economic recovery between 1983-4 Latin America adjustment programs did not work as expected by the international banking system. Interest rates remained high. Civilian governments were torn between the need to meet international pressures and the domestic demands for economic improvements. The association of neo-liberalism with highly unpopular IMF economic policy had a negative impact on the neo-liberal movement. While adjustment programs failed to bring about economic recovery, the development discourse introduced the notion that the market, not the state, is the source of wealth and welfare. This discourse was articulated this time not by bureaucrats and technocrats but by intellectuals and politicians (Espinal:37).

The Other Path (1989) by Hernando de Soto is an example of this attitude of some Latin American intellectuals. According to Soto, the state was inefficient not only for the rich but also for the poor. Poor people constantly defy the bureaucratic state by taking illegal possession of land and by failing to pay taxes or to register their businesses. In his opinion, an "inefficient state" was limiting the economic potential in hands of the "informal" or the self-employed poor.

One of the most evident effects of neo-liberal social theory has been the fast growth of the informal sector in poor countries. In 1972 the ILO introduced the term informal sector. This term is defined as a shift in the participation of the formal proletariat into economic activities considered marginal to the formal sector. The informal sector involves people performing casual wage labour, disguised wage labour, self-employment in petty production and trade, and a host of petty services.

In several Latin American countries, the informal sector holds more than 50 percent of the economically active population (EAP). Likewise, these enterprises are labour-intensive and require little capital investment, infrastructure and technology. They are the means of survival for the poor (Veltmeyer, 1983:201-217).

Economic relations in the informal sector are based on a combination of mechanisms of solidarity and exploitation. The mechanisms of solidarity are articulated by mutual assistance and collective risky credit. Solidarity is manifested by family and neighbours through relations of support and assistance networks. Often the concept of solidarity becomes

ambiguous because informal workers depend economically on the informal entrepreneur. Working relations are based on the exploitation of women, single mothers, children, refugees and handicaps since the informal entrepreneur sets wages and working rules. Indeed, the informal entrepreneur plays the role of pater familias in his/her business.

The informal sector is the only source of employment in most Latin American countries. The formal sector in Costa Rica began to show signs of economic stagnation in the 1970s. With the introduction of SAPs the state activities were reduced affecting in this manner the traditional source of jobs for the technical-bureaucratic class. These facts run parallel to the neo-liberal promise of sustained economic growth. However, this promise has been blurred by the incapacity of the formal sector to produce jobs. Moreover, under SAPs, poverty levels have increased especially with the incorporation of the nuevo pobre from the technical-bureaucratic and the formal proletariat classes. With the development of an informal sector a dualist or biclassist view of society has been introduced. The traditional political influence of labour unions has been neutralized or eradicated. Instead, informal workers become highly

dependent on the informal entrepreneur (Barrera et al, 1991:1-30).

Initially, neo-liberal policies were imposed from the top down with little regard for popular needs and aspirations. This new ideological notion of neo-liberalism was directed to create the image that people working in the informal sector is a fertile ground for the development of a petit bourgeoisie. On the other hand, since the business community is interested in maintaining political stability in many instances democracy was overlooked. This is evident with the arrogation of extra-power to the president (Bonapartism) in order to neutralize sources of potential political instability such as popular complaints, radical populist parties (Petras & Vieux, 1992: 25-47, Petras, 1990:102-113, Roxborough, 1992:422).

Apart from ideological fallacies, chances for reproducing a ideal free market are nil since transnational corporations (TNC) with their centralized planned management and regulation of prices and profits now dominate the world economy. This domination along with the ongoing technical-scientific revolution has changed the character of competition in the global

market place. Neo-liberalism has persistently emphasized the need for total freedom of movement of capital, goods and services. Labour, in contrast, is the only "commodity" which is not considered free in the market, therefore, the state has "to intervene to reduce costs of production." To attenuate the negative social consequences of the model, neo-liberals have designed certain instruments such as the negotiation of conflicts, the functionality of the informal economy, and programs of social assistance.

The reconstruction of the world economy according to the new interest and needs of the capital is explained as "a natural outcome of historical evolution." This is the logic used for the denationalization of states in developing countries in order to join the "New World Order". For instance, interdependence among nations sets the limits of national sovereignty. Development is conceived as a goal which all countries can achieve if they join in the neo-liberal process. Finally, social justice becomes a function of the opportunities created by individual effort, while democracy is a universal value with no class or political qualifications (Sanchez-Otero:19).

III From Structuralism to Neo-Structuralism

Structuralist thought views structural characteristics as the basic determinants of a society's evolution. These structural characteristics include the distribution of wealth and income, land tenure regimes, type and degree of foreign trade specialization, control of the means of production, function of financial mechanisms, penetration of technological innovation and socio-political factors. Economic policies are thought to affect the behaviour of social actors who tend to join together and generate pressure groups. Similarly, the notion of surplus generation and appropriation is associated with trade imbalances between peripheral countries and a rich centre. This particular view arises from the notion that the market in typical developing countries tend to be more imperfect -and hence less socially efficient in allocating goods and services- than in more industrialised societies. Therefore, governments have to intervene in order to close socio-economic gaps in society. Indeed, structuralist economists have applied to neo-classic economics selectively according to the specific characteristics and needs of a country (Lustig, 1991:28, Colclough, 1991:1)

Within the structuralist paradigm development was defined not as just rising output but as a steady incorporation of the labour force into lines of production in which the most advanced technologies are applied. Similarly, there was general belief that the rational sequence for industrial development ran from light-industry through to intermediate goods and to capital goods. The focus of attention was whether exports can in turn generate a source of internal accumulation for further growth. Likewise, this source of internal accumulation depends on the amount of labour available, average real wage, amount of tax paid by enterprises in the modern sector, the demand for locally-manufactured producers goods and the extent to which profits and salaries are spent within the developing country.

Classic structuralist economists (1949-mid 1960s) considered external factors as important as internal factors in determining the growth prospects of underdeveloped economies. These external factors are the long-run terms of trade and the causes of balance of payments disequilibrium. This concern arises from the view that the characteristics of the peripheral productive structure, far from disappearing as capitalism advances in the centre, tends to perpetuate

and reinforce themselves. This economic gap was determinate by technological change since the industrial sector has greater importance compare it to the primary or agricultural sector. Under conditions of terms of trade, the former leads to an increase in the productivity but at the same time it leads to an income gap between the centre and the periphery. Finally, in the periphery, productivity increases are not translated into lower prices owing to the structural labour surplus (Lustig:30).

Because of trade imbalances the economic development of the periphery was pursued via import-substitution industrialisation (ISI). The concept of ISI asserts that industrialisation would lead peripheral economies to a more independent, democratic and egalitarian growth path than growth based on primary goods exports. Unfortunately, with the implementation of ISI's economic policies -such as overvaluation of the exchange rate- exports decreased while the dependency on capital goods imports was evident.

The relative failure of ISI became evident in the 1960s when the agricultural sector became less dynamic and the use of capital-intensive techniques in industry

led to unemployment. For Celso Furtado (1966) ISI generated a high concentration of income, which in turn oriented the demand structure toward durable goods. This orientation induced the productive structure to lean toward sector with great capital density.

In the 1970s the structuralist concern for economic growth shifted towards questions of poverty alleviation and income distribution. The goal was to achieve economic growth with full employment. Similarly, structuralist economists conceptualized inflation as a result of structural imbalances and monetary and fiscal policies. This interpretation of inflation led its proponents to reject the policy of combatting inflation through demand and/or budget cuts. Basically, the opposite stands as the cause of inflation for monetarists³⁴. For monetarists the origin of inflation lies in excessive rates of monetary expansion, generally attributed to a fiscal deficit (Velasco, 1991:50, Lustig:38).

The debt crisis in Latin America that erupted in 1982 increased the net transfers abroad carried out by Latin American countries. At the same time, inflation increased in many countries in the region. From a monetarist point of view, the rise of world interest

rates was equivalent to an expansion of the fiscal deficit given that a large portion of the debt was public. From a structuralist point of view, the fall of real disposable income exacerbated the distributive struggle that is often associated with inflation.

The debt crisis changed the structuralist view of long-term economic strategies into a short-term pattern. Neo-structuralist analyses has focused on designing economic policy packages that might generate stability while minimizing social costs and damage to the productive apparatus (Lustig:38).

The neo-structural school studies the economic crisis of the eighties from the premise that economic recovery of Latin America has been delayed by the inadequacy of the development model. This model has placed countries in a mode of "passive integration" into the global economy. Most countries have depended on exports of raw materials which rely on structural changes of world markets. Similarly, diversification of non-traditional agro-exports is difficult since countries fall into an imitative competition and a spiral of falling prices. Finally, "protectionism" of agricultural and industrial products in develop countries have made more difficult the export of

commodities (Esser, 1992:41-42).

Traditionally, consumerism in Latin American countries has produced negative socio-economic outcomes. Since it had been difficult to ship products overseas, the structural model emphasized an "import intensive style of development." When this model reached its peak level in 1980, approximately 15 percent of imports were irrelevant from the point of view of industrialization based on import-substitution. Similarly, it was assumed that financing this model with low interest rate money from international banks would ensure the payment of the external debt (Esser:43).

Compared to East Asia economic experience, direct foreign investment and sub-contracted production in Latin America were not used as a learning-by-doing process. In Latin America, transnational corporations have contributed little to increase local exports of manufactures, as has occurred in East Asia, because of restrictive national policies and their interest on world markets. As a result, the neo-structuralist school proposes a "pragmatic development strategy" based on industrialization, national technological competence and an active integration into the world

economy. A greater role should be given to the development of new information and communication technologies. On the other hand, structural changes such as agrarian reforms and decentralization of political power must be implemented in the short run. The question is not whether the state should be a decisive agent in the process of industrialization but to what degree it must become actively involved in setting up and maintaining such processes (Esser:53).

IV SAPs and their impacts on Gender and Race

The theoretical approaches discussed in previous sections discriminate against life experiences of women and ethnic minorities. These approaches are useful for studying a small portion of a more complex interaction of factors that include women and ethnic minorities. Therefore, one has to consider that a class analysis of the impact/s of SAPs per se ignores the gender and racial impacts of SAPs. It is important to incorporate gender and race into an analysis of class. An analysis across gender and race will close the gap.

The impact of SAPs on women and ethnic groups can be illustrated by looking at the basic assumptions supporting economic rationalism:

- 1- neoclassical economics is value neutral and views society apart from the economy
- 2- the individual is the relevant unit of analysis.
- 3- society consists of producers and consumers, considering all equal
- 4- differences between people in terms of economic status, incomes and jobs reflect differences in their personal choices
- 5- there is a given, finite amount of resources in

the world

- 6- when people act in their best self-interest, this results in the most efficient use of resources for the economy as a whole (Sparr, 1994:14).

Neo-classical economics considers human beings as a non-produced factor of production or natural resources; and as such as costless and transferable to different activities. The theory is ahistorical because it is grounded in the experience of a few industrialized economies at a certain point in time. One consequence of this ahistorical bias is that the theory assumes a fully monetized and market oriented society. However, not all nations have fully monetized societies. Thus it cannot be assumed that a government need only to adjust certain prices in order to trigger a desirable outcome.

The usual macro-economic framework for analysing structural adjustment is constructed simply in terms of two categories of goods (tradable and non tradable). It is assumed that the primary resources of land and labour can either be used to produce goods and services which are internationally tradable; or to produce goods and services which are not internationally tradable and which are produced and consumed only within national

boundaries (Sparr:16 & Elson, 1991:167).

Using this framework, World Bank economists diagnose the problem as one of policy-induced price distortions leading to over-production of non-tradable and under-production of tradable. In return, this produces balance of payments deficits and a shortage of foreign exchange that discourage economic growth. Structural adjustment consists of switching resources from the production of non-tradable to the production of tradable. The model suggests that the way to do this is by changing the relative prices of the two categories of goods, making tradable relatively more expensive, so as to give an incentive to produce them rather than non-tradable (Elson:167.)

But contrary to its pretence neoclassical economics is not a value-neutral science. It is predicated on culturally and historically specific interpretations of human behaviour seen through the lenses of a particular race, ethnicity, class and gender of thinkers. The ecological concerns of a particular ethnic group are overlooked upon the assumption that freely working market ensure economic growth. In this context, the social impact variable race has two dimensions: biological and sociological.

The first, differentiates populations in terms of the frequency distribution of given hereditary characteristics. In sociology, race is understood as a category of persons whose social positions are defined in terms of certain physical or other characteristics that are believed to be hereditary (Richmond, 1972:15-16).

Acting as a hidden bias of SAPs racism is the ideology which implies the belief that races or ethnic groups not only differ from each other genetically, but that some races or ethnic groups are inherently superior to other physically and mentally. Racism can articulated through prejudice, a mechanism by which people neutralize conflict of values or a threat of the individual's self-image. This is done by giving negative attributes to others. Stereotypes play an important role in governing race and gender relations. Similarly, stereotypes maintain systems of group privilege as an ethnic and sexual division of labour, facilitate in-group consensus and help to reduce cognitive dissonance.

Beyond reformist measures, such as recycling and pollution control, the social and ecological impact variables of SAPs calls into question existing class

relations of production and appropriation as well as of imperialist domination. In a similar fashion, the trade-off between labour and capital presupposes that the nature of the labour process is "technical" in nature and not a reflection of who holds power and how it is wielded (Dore, 1992:73-80).

Monetization and market presuppositions have had two effects on women's experiences. First, in some countries laws and custom may restrict or prohibit women's independent control of money, ownership of property and paid employment. The theory's assumptions of how people respond to changes in wages, incomes and prices as well as the primary motivation of economic activity (self-interest) are generalizations based on male experience. Second, in many countries women provide products, labour and services as part of family obligations. This theory considers work performed, services provided and products made that do not have a price or have no economic value. SAPs policy makers have assumed that women's unpaid domestic work is infinitely flexible and free.

The model also ignores the barrier to labour reallocation which is presented by the racial and sexual division of labour. The racial and sexual

division of labour is not just the pattern of work allocation between women and men from different backgrounds, but also the social practices that constitute some sorts of works as unsuitable for women but suitable for men and vice versa. A change requires not only a shift in the relative remuneration but also a redefinition of the work in the technical and cultural contexts. Two areas provide a good example of this issue: labour-intensive manufactures for export and production of crops for exports.

In Latin America labour-intensive manufacture for export are significant. It is, of course, open to question whether the promotion of such exports will lead to sustainable development. Similarly, it is a high-risk strategy vulnerable to fluctuations in the international market. The encouragement of the production of labour-intensive manufacture for exports is an important component of the switch from non-tradable to tradable. Likewise, studies done in such production show that they are female labour intensive. These same studies show that employers have a preference for employing women, particularly young and single, because they were regarded as having greater endurance and the ability to carry out tasks which were "painful for men", as well as having a better sense of

touch in their fingers."

Economic rationalism overlooks the fact that economic growth depends on male-female power relations. Women do not enjoy the same decision-making power as men in the household. Female-headed households are usually among the poorest households and frequently women face social denigration and physical violence. Similarly, no attention is given to the gender composition and the power dynamics inside the household. Generally, men react differently from women to increases in their incomes. A man is more likely to increase spending on luxury items for himself, while a woman tends to spend the extra money on children and domestic needs. Finally, sexism and a sexual division of labour distort women's free market entrance, exit and mobility. On the other hand, export crop output depends on how much power a man has over a woman to increase her labour. For instance, women farmers may not contribute more labour to exports crops if they do not have access to the additional income generated. This can undermine a government's attempt to expand agricultural exports if key crops rely for their cultivation on female household labour (Sparr:17-19 & Elson, 1991:165-166).

The fact is that adjustment implies an increase in female work because much of the time involved is unpaid and in the reproduction and maintenance of the labour-force. Macro-economic models ignore female work treating it as if were a non-produced natural resource. This assumption may be based on the idea that reproduction and maintenance of the labour force is undertaken for love. Nevertheless, unpaid domestic labour is not carried out entirely for love disregarding the economic costs and benefits, but neither is not another economic activity. Pay and unpaid work compete for women's time; and within the conditions typical in countries attempting to stabilize and adjust their economies, there is pressure on many women to increase both their paid and unpaid labour input.

Eco-feminism is an approach which explains how culture plays a significant role on defining gender roles and power issues in society. Eco-feminism defines the social status of women in Western societies from the contemporary conception of the dichotomy reason/nature. According to this approach the Western conception of "reason" has been attached to maleness while "nature" has been attached to femaleness. There exists an opposition between both concepts when the

masculine rational sphere of public and economic life stands in contrast to the feminine sphere of private, domestic and reproductive life.

The masculine sphere is one in which human freedom and control are exercised over the affairs and over nature, especially via science and in active struggle against nature. In contrast, the feminine sphere represents passivity and the acceptance of the unchangeable human nature. Furthermore, the rational side emerges as the ideal human character while women are defined as inferior, impoverished or imperfect human beings, lacking the characteristics of courage, control, rationality and freedom which make humans different from animals (Plumwood, 1992:8).

The interpretation of the connection between women and nature by the patriarchal ideology has structured women's roles in the public and private spheres. In this way, nature is defined in terms of women as mothers who "provide without ceasing, whose own needs, if they exist at all, always come second; whose value is determined by the child she produces; whose work is both expected and invisible." Furthermore, their labour in traditional roles -as mothers, housewives, nurses, etc- is not regarded in economic terms and

largely omitted from human history. In reality, women "provide the environment and conditions" in which male achievement take place. Indeed, the personal and social skills women teach to the child are the background to "real learning", which is defined as part of the male sphere of reason and knowledge. Women is defined in relation to her child or its father, just as nature is defined in relation to the human as the "environment" (Plumwood:9).

Traditionally, feminist (liberal, marxist and socialist) views have ignored the connection of women and nature. Instead, the solution for men's and women's differences is to become fully human. This view has been criticized because it is in compliance with women's connectedness and passivity with nature, but at the same time, a complementary framework for masculine disconnectedness from and domination of nature.

V Conclusions

Neoliberal ideology is based on the core assumptions of traditional liberalism; a set of economic and political principles that ignores the current contradictions of modern capitalism. The neo-

liberal model idealizes the "market" as the economic solution for the current world crisis. Similarly, this model preaches that representative democracy fits "naturally" in a free market system; parliaments should focus on enforcing "individual's natural rights." Nonetheless, the socio-economic conditions of Europe during the eighteen century differs from present trends at the nation-state and the international levels.

Structural adjustment programs imposed by the IMF and the World Bank have transformed class structure in developing countries. Basically, the middle class has been dismantled and a growing income gap between few rich and many poor people is evident. At the same time, upper classes in poor countries have become "junior partners" of the international corporative world.

TNCs have played a significant role on the development (under-development) of Third World countries. Arguments against and in favour of TNCs strive from the potential benefits of working with advance technology. For instance, access to better products, the opportunity for learning-by-doing and so on. However, the implementation of SAPs in developing countries has been accompanied by huge surplus-capital

outflows transferred from peripheral countries to the centre. These capital outflows are essential to balance economic dislocations produced by contradictions inherited in modern capitalist mode of production in core countries.

At the ideological level, neo-liberal thought has gained economic ground with the incorporation of ideologies that celebrates maleness and racism. Patriarchy and racism are two ideologies that identify themselves with neo-classic economics. Unfortunately, empirical evidence already shows the negative effects of the neo-liberal model on human beings in developing countries. Hopefully, it will not be too late for the design of an improved state-led development model.

Chapter Three

Socio-economic Development in Costa Rica: 1821-1982

This chapter summarizes the economic, social and political conditions in Costa Rica between 1821 and 1982. These conditions set the historical background for understanding the socio-economic experience of this country. Socio-economic structures became dependent of the world market during this time period and still economic dependency accounts as the cause for local economic instability. The information has been divided into three sections. Section one describes the opening of Costa Rica to the world market. Section two discusses the historical shift from a market-oriented economy to a state-led development model. Section three provides the conditions for the development of the debt crisis.

I Socio-economic development of 1821-1948

The massacre of indigenous peoples in the American sub-continent runs parallel with the exploitation of African peoples by Europeans. Although the slave trade was controlled by the Portuguese, the Spanish Crown decided to legalize this practice in 1595. Most slaves in Costa Rica came from Equatorial and Western Africa,

especially from groups known as the congos, bantu and angolas. The arrival of African peoples replaced an almost disease-depleted indigenous population.

Costa Rica became independent from Spain on September 15, 1821 and three years after, slavery was abolished. A combination of factors permitted such an outcome: increasing poverty, the introduction of new economic activities and the mixing or mestizaje of the ethnic groups. With the introduction of less-labour intensive activities poverty increased making difficult and too expensive to sustain slaves. Finally, the racial mix of different ethnic groups made difficult differentiation between mulato, mestizo or master. As a result, differences base on phenotype were less evident (Duncan & Meléndez, 1972:1-40).

After 1821, local socio-economic structures began to be transformed as the country passed from being a poor Spanish colony to an "independent" republic. Nevertheless, the unclear political situation in Nicaragua, Guatemala and Mexico made it difficult for Costa Rica to define its role in the world economy. The political influence of these three countries divided Costa Ricans into two factions: the republicans and the conservatives. The former group defeated the

conservatives in an armed confrontation in the Ochomogo Hills in 1823. Eventually, Costa Rica joined the Central America Federation, although it withdrew in 1838.

From this year on, governments oriented their economic policies into a development model that ensured autarchy. Similarly, the new approach was directed towards a mode of production based on capital accumulation. Structural changes occurred due to economic dependency on international markets and the imperialist character of these relations. Eventually, these factors contributed to the development of the debt crisis in the 1980s (Jiménez, 1992:15-16).

The first attempt to link the country into the world market was by Juan Mora Fernández in 1824. Fernández offered rewards to those who would open up roads and ports in order to foster a local and international trade based type of economic development. Fernández's successor was Braulio Carrillo (1835-1842), a dictator who overcame the strong regionalist feeling by integrating villages into a national economy. Carrillo established an orderly public administration and replaced the backward Spanish laws with new legal codes. Also, coffee was introduced as an ornamental

plant and eventually conditions were established for its production and commercialization in Europe

The introduction of coffee as the leading agro-export produced a more complex class structure that contrasted with the hidalgo (nobles), mestizo-hidalgo (children of Indian and Spanish nobles) and plebeyos (common people) ancestry-based colonial classes. Within this class structure people were classified in terms of skin colour which was the basis for a sort of caste system. This caste system was set in the following way: Spaniards or whites, mestizo, Indians, pardos (people of mixed African and mestizo or Indian ancestry), mulattoes and Africans.

Coffee production became the most important source of national income in the 1840s. Costa Rica presented several conditions for the development of coffee:

- 1- lack of rival products that could compete with the development of coffee farms
- 2- an almost non-existent indigenous population
- 3- most Costa Ricans lived in the Meseta Central (central plateau) where climatic conditions were ideal for coffee production (Biezans & Zubris, 1982:19).

During the 1850s a system of export and marketing, based on British shipping and credit, was controlled by the coffee oligarchy³⁵. The oligarchy created laws and mechanisms for rejecting development models from rival political groups that saw the need to introduce new forms of capital accumulation and wealth distribution. Distribution of coffee power involved not only ownership of coffee producing lands but also ownership of the beneficios or processing plants, access to credit and export markets and political power. Indeed, wealthy cafetaleros monopolized credit, export and processing facilities rather than land. Less than 50 percent of the oligarchy controlled 70 per-cent of the exports before 1920. The same group had access to 60 percent of the wealth generated through coffee and sugar cane (Solís & Esquivel, 1980:11).

Despite power struggles among the oligarchy they united to defend their own interests by controlling taxes, granting themselves exemptions and subsidies, spending government revenues on roads and railroads that would facilitate shipping. The oligarchy dominated government until 1948. Although wealthy families consolidated their holdings through intermarriage and through foreclosure, turning peasants

into semi-proletarianized³⁶ labour force or peones, small and medium size growers remained numerous.

A reason for such an outcome lies upon the low concentration of human settlement. The population of Costa Rica was composed of only 120,000 inhabitants in 1856. Only 75 percent of them lived in the Meseta Central. Therefore, the loss of the familial property did not mean the marginalization of these people into bad quality lands since the national territory was not totally colonized. Moreover, the oligarchy had used mechanisms such as housing loans and land grants in order to prevent the migration of the labour force. As a result, a pattern of small and medium size farms was established around large coffee plantations. Indeed, small producers began to grow coffee and confronted the oligarchy when their economic interest was affected (Solís & Esquivel:14-15).

In contrast to other Latin American countries the traditional oligarchy or gamonales had typically run their farms and processing plants themselves, and had direct contact with their labourers in Costa Rica. The paternalistic relationship that prevailed between patrón and peón somewhat softened power, wealth and prestige differences. However, the life styles of many

more affluent coffee planters diverged toward urban and contemporary European ways. As an outcome, the local class structure was further diversified by inheritance customs and occupational differences.

In 1856 the local class structure was divided into the oligarchy, the small producers, peones and small merchants. When the first rich cafetalero died the most capable of their sons or sons-in-law usually inherited their holdings, and the rest of the children had to seek wealth and prestige elsewhere. Many studied for the professions of law and medicine. This group became the third branch of what it has been called La Dinastía de los Conquistadores. The two previous branches were the result of racial interbreeding and the breaking off of contraband runners from conservative Cartago into the new-born liberal village of San José during the colony.

During the nineteenth century, Europeans married to elite families often converting to Catholicism as a necessary step toward acceptance. The openness to rich foreigners has been interpreted as a means of absorbing potential competitors for status. Despite the reluctance of elite families to marry down non-elite Hispanics gained upward mobility. After their children

acquired foreign diplomas and upper-class life styles they were accepted by the elite.

After 1900 a growing petty and medium bourgeoisie composed of merchants and industrialists began to search for more economic opportunities. At the same time, public servants and workers in small industries started to exert pressure in order to gain basic social guarantees and better salaries. Agricultural workers participated to a lesser degree in this movement. However, they represented 40 percent of the rural population. Eventually, these groups made up the social base for overtaking the government in 1948 (Edelman & Monge, 1993:23, Biesanz & Zubris:47-49)

During the 1930s the oligarchy managed to maintain coffee prices fairly low for small coffee producers. As a result, in the 1940s the Instituto de Defensa del Café was established for ensuring fair prices and better distribution quotas. A similar problem occurred for small sugar cane producers. For instance, in the 1950s the government founded La Liga de la Caña in order to ensure fair prices for the sugar cane. These economic problems responded to price fluctuations in a decadent world market supported by the imperial mercantilism of England and France (Solís &

Esquivel:16, Jiménez:19).

Economic constraints exacerbated during the 1940s when the United States became the hegemonic imperialist power of the world. During this period the possibilities for economic growth via national and foreign capital associations were obvious. Although, in the 1940s and 1950s, the industrial sector expanded its production into activities such as the manufacturing of drinks, food and textiles the oligarchy was indisposed to losing the agricultural labour force into the industrial sector. Industrial and public sectors workers sought to satisfy the need for better working conditions and better wages in the 1940s (Solis & Esquivel:17).

Furthermore, the rhythm of capital accumulation within the context of economic dependency was still low. This fact was reflected in the lack of laws governing periodical wage increases, labour security policies and a minimum of working hours. Under such conditions a process of industrialization required steady and growing rates of national savings available for investment by the local bourgeoisie. Because this process never occurred emerging political groups turned their attention to a state-led development model.

Workers began to organize and unions began to demand better working conditions as was the case of banana workers. The economic and political influence of the United Fruit Company on local government has been defined as a parallel state within the country (Jiménez, 1990:30.) Banana workers struck in 1934 due to the lack of labour regulations to stop the abuses practised by the United Fruit Company in Limón³⁷. As an outcome, some political parties³⁸ began to identify their political campaign with problems faced by rural and urban workers (Solís & Esquivel:23; Edelman & Monge:23).

Whereas Spanish and other Europeans dominates the political and economic spheres in the Valle Central chinese, West Indians and indigenous people conformed a parallel class structure on the Atlantic Coast. The development of a banana enclave in 1883 helped to create an ethnically-divided labour force. In this labour force white North American managers were at the top and followed by Hispanics in related managerial tasks. Nevertheless, blacks gained upward mobility due to land acquisition during the 1930s and high prices of cacao during the 1950s. In addition, the growing number of landless Hispanic migrants to the Atlantic coast provided blacks with a plentiful supply of

inexpensive day labour. Indeed, the Atlantic coast of Costa Rica has been an exception for worldwide standards in that "bourgeois blacks have exploited an underprivileged white minority" (Bourgois, 1989:163).

Meanwhile, the oligarchy tried to neutralize the social upheaval in the Meseta Central by establishing an alliance with the Communist Party. The Communist Party had exerted some political influence over the banana workers. However, black people alienated themselves from the political crisis due to the historical animosity between both groups. The political formula proposed by the former group was equal distribution of wealth while the emerging groups were seeking for economic growth via industrialization. Allegations of political corruption during the conservative government of Teodoro Picado accelerated the armed insurrection. The social base for this military confrontation was composed of Hispanic peasants, industrial workers, agricultural workers³⁹, merchants and intellectuals. With the military victory, led by José Figueres Ferrer, the Partido Liberación Nacional (PLN) introduced a state-led development model (Solis & Esquivel:29).

II The Economic Model 1948-1980

The economic model enforced the nationalization of the banking system and introduced a reform of the state apparatus. In order to accomplish this reform, four factors were taken into consideration:

- 1- first, the need to redefine the role of Costa Rica in the international division of labour. The goal was to search for new forms of capital accumulation and especially to achieve an economic alliance with the North American capital. The strategy included a "diversification" of the production in the agricultural sector, especially those products that traditionally had not been under the control of the "oligarchy." In addition, the government introduced laws to ensure a rational use of natural resources. Indeed, an acceptable economic environment was established to allow foreign investment
- 2- the abolition of the Communist Party up to the 1970s. Eventually, the Communist Party was permitted a return to political life because the government felt that its influence on workers had decreased
- 3- the abolition of the victorious army. Instead,

a civil police force was in charge of the "administration of violence" and of national security

- 4- the need to maintain the communication channels open between the oligarchy and the "emerging groups"
- 5- finally, was population. Although, the population had increased since the 1920s it was still below the necessary number of people for the incorporation of the country into the capitalist world market. The government began to search for ways to increase economic output by improving the reproduction of the labour force. Training and capacitation programs for the labour force were introduced through the educational system. Also the Caja Costarricense del Seguro Social ensured the productive live of workers (Solis & Esquivel:32-35).

The new economic model required the incorporation of large portions of land. For instance, the agricultural sector pointed towards the production of sugar, bananas and rice as well as the opening of livestock farms. In the industrial sector pharmaceutical, tires, cement, paints and light industrial equipment were produced. Nonetheless, the

base for capital accumulation still depended on the agricultural sector since world class industries were controlled by transnational corporations (Solis & Esquivel:38).

The role of the state was to assist the process of capital accumulation. Governments built the necessary infrastructure such as highways, energy sources, hospitals and housing. The nationalization of the banking system ensured the capital necessary to be invested in infrastructure projects. At the same time, the state had the task of maintaining class hegemony through different ideological mechanisms. For instance, the state offered to the non-oligarchical dominant class the chance to participate in the world market through alternative agro-exports that differed from traditional exports. Furthermore, the state proposed to the commercial petty-bourgeoisie⁴⁰ more participation in the local economy. State intervention produced an urban bureacratic-technical class composed of public servants. Indeed, peasants and industrial workers gained labour benefits, credit for housing and free education (Solis & Esquivel:40; Edelman & Monge:23).

The impact of the model in the local economy began

to be evident between 1960 and 1972. For example, the average rate of growth of the agricultural sector was of 5.8 percent per year. Exports grew at a pace of 9.2 percent per year. However, coffee production dropped to half of the previous year's, while the outputs of bananas, sugar and meat doubled. The economic growth achieved during this period was possible thanks to the monopolization of first quality lands by modern agro-export enterprises. Moreover, between 1973 to 1979 private sector credit grew from 27.5 percent to 31.8 percent of the GDP. In contrast, between 1957 to 1980 public sector credit consumed an average of seven percent of the GDP (Gutiérrez et al: 1985:22).

During the 1960s small farmers were displaced to peripheral lands. Eventually, peasants were transformed from a semi-proletarian labour force into a full-time work force in large agricultural and cattle enterprises. Nevertheless, price fluctuations of primary products in the world markets forced governments to seek new forms of accumulation. The Mercado Común Centroamericano (MERCOMUN) was founded in 1963. The MERCOMUN responded to the political agenda of regional integration. Nonetheless, it lasted for a short time period due to the homogeneity of exports, economic protectionism and the influence of foreign

economic protectionism and the influence of foreign economic interests (Solis & Esquivel:46, Jimenez:22-23).

During the 1970s the state played a more active role as creditor within the context of developmentalism⁴¹ and the import-substitution industrialization model. In 1973 cattle ranches accounted for 51 percent of the total number of farms. Large patches of rain forest were cut and middle size farms disappeared. Moreover, only eight per-cent of the cattle ranches occupied 70 percent of the land used for this activity, while, the ratio of agricultural workers per hectare was 1:50. These data reflect the trend toward cattle ranching, the introduction of African palm replacing bananas and new varieties of coffee that demanded less labour characteristics of the capital-intensive Green Revolution⁴² model.

This trend was accompanied by a constant accumulation of land in the hands of fewer people. Only 3.5 per-cent of all landowners held more than half of the land apt for agriculture while the other half was minifundio⁴³ in which families maintained labour-intensive activities supported with pesticides. Indeed, during the 1970's large numbers of landless

agricultural workers began to migrate towards the banana enclave on the Atlantic Coast⁴⁴ and to the urban areas in San José⁴⁵ (Solís & Esquivel:49; Hamilton & Stoltz, 1991:77-79).

Although the Costa Rican industry had been financed partially with the capital generated in the agricultural sector, a larger part had been provided by the United States. On the other hand, the dominant class had created a satisfactory economic environment for transnational corporations to invest in Costa Rica. At the same time, governments encouraged the development of large industries that assimilated labour from small and medium size industries (Solís & Esquivel:50; Biesanz & Zubris: 54).

Meanwhile, the class structure in the Atlantic coast of Costa Rica still remains to be distinct from the mainstream class structure. In this region African-Costa Ricans represent nearly three per-cent of the total population. Despite the upward mobility of African-Costa Ricans they never emerged as a true dominant class in Limón. Even at the height of their involvement in the cacao industry in the 1960s African-Costa Rican farmers were not large scale agro-industrial complexes oriented towards capital

accumulation. The largest landholding and the more profitable rural enterprises had been always owned by Hispanics and North American absentee landlords. Today, education and immigration to the US remains a two-path way for gaining upward mobility. Likewise, local racist ideology has prevented blacks from integrating into mainstream society.

Currently, blacks who remain working for the banana company perform semi-skilled jobs in positions such as low-level supervisors. Hispanics and indigenous people fulfil low status jobs as clearing land and spreading pesticides. In the urban areas in Limón 30.5 percent of blacks workers have white-collar jobs compared to 21.1 percent of Hispanics in 1980. Street sweepers, construction workers and shoeshine men are primarily Hispanic occupations.

Land acquisition and upward mobility have contributed to the development of conservative political attitudes among blacks. The economic dependency of blacks on the banana company for selling their products is expressed in the form of support to the US and the company. This attitude contrast with the labour militancy of the original immigrants. Meanwhile, the descendent of chinese immigrants have

been successful in medium and small-size business especially in activities such as preparation and supply of food stuff.

Finally, women in Costa Rica gained access to civil rights after 1949. Nonetheless, patriarchy assumptions still prevail in society and provide the criteria for justifying women's duty to social reproductive and productive work. Traditionally in Costa Rica the role of the male has been of "breadwinner". With the exacerbation of the economic crisis of the 1980s more women have been assimilated into exploitative and low-pay occupations such in the maquiladoras industries. At the bottom level indigenous women remain as "the poorest of the poor" due their extremely low level of education and integration into mainstream society (Carvajal, 1994:80, Bourgois:165-169).

III The Breakdown of the model

Although the model of development introduced by the PLN encouraged the diversification of the production in the agricultural sector and the development of an indigenous industry this model depended too much on economic and technological

assistance from core capitalist countries. Moreover, the agricultural production was directed to satisfy the needs of the world market. Because the hard currency generated by the agricultural and industrial sectors was insufficient for closing balance of payment⁴⁶ and public deficits governments had to borrow from abroad (Solis & Esquivel: 56; Edelman & Monge:23.)

During the 1970's, Costa Rica was highly dependent of an US economy that was falling into a recession. In the US the rate of economic growth was 4.6 percent from 1960 to 1967 while 2.5 percent per year from 1967 to 1976. Unemployment "jumped" from 6.7 percent during the 1960's to 8.5 percent in the 1970s. The validity of the Bretton-Woods agreement began to expire as a result of the changing socio-economic conditions in the post-Pax Americana period (Solis & Esquivel:60).

Under these conditions the US economic hegemonic role and the high rates of economic growth experienced by developing countries after the post-World War II period began to decline. The Bretton-Woods agreement ensured the validity of the US dollar as a measuring currency for exchanging goods and services worldwide. While the US experienced recurrent disequilibrium in its balance of payments Japan and Germany pressed for a

review of the Bretton-Woods agreement. As a result, with the decline of the US monetary hegemony the creation of an Euro-currency was proposed.

Under these conditions the international division of labour was redefined and reconstituted. Core capitalist and peripheral countries began to search for ways to integrate more efficiently their economies into the world market. Meanwhile, economic doctrines preaching indigenous industrial development and self-reliance began to lose influence in developing countries due to the lack of appropriate technology and markets. Some developing countries protected their industries by creating "cartels", this was the case for the Organization of Petroleum Exporting Countries (OPEC.) Indeed, a considerable amount of the capital produced by the oil price increases circulated in the international financial system. This capital was available to developing countries in the form of cheap credit but under flotant interest conditionality (Solís & Esquivel:66, Gutierrez et al, 1985:36).

In Costa Rica, Daniel Oduber Quirós (1974-1978) tried to slow down the inflationary effect of the world crisis in the local economy by restricting the import of luxury items. For instance, some goods were taxed

up to 100 per-cent of the original market price. Moreover, the moderate growth experienced by the state was financed with new taxes for imports, instead of relying only on international bank's credits. In contrast, public servants and industrial workers began to organize themselves against the government because agricultural workers' wages had being financed at their expense.

Fortunately, a substantial increase in the coffee prices⁴⁷ between 1976 and 1977 allowed the government to balance fiscal deficits and maintain the growth of the state via international credits. In 1976 the external debt of Costa Rica represented 40 percent of the GDP and absorbed 26 percent of exports earnings. Nonetheless, the agricultural sector benefited from more credits and crop insurance policies. Meanwhile, the industrial sector was assisted with credits and protected with a more strict system of tariffs (Solís & Esquivel:72).

The PLN encouraged public savings by freezing the salaries of civil servants. In this manner the government could maintain a fund to finance the structural expansion of key governmental institutions. Such is the case of the Caja Costarricense del Seguro

Social, the institution in charge of health programs. Another example is the Instituto Costarricense de Electricidad (ICE) which is in charge of the production and delivery of hydro-electric power. ICE began to increase energy rates in 1975 in order to pay for infrastructure projects in the rural areas. At the same time the government expanded the bureaucratic-technical class. In 1973, for example, the number of bureaucrats conformed 86.900 positions while in 1976 it grew to 111.300 (Solis & Esquivel:75). In addition, some groups of the dominant class who were politically connected with the government began to take advantage of the potential economic opportunities of state enterprises. For instance, in the Corporación de Desarrollo (CODESA), allegations of corruption and appropriation of public funds by high level executives was made public.

Rodrigo Carazo Odio, from the Partido Renovación Democrática (PRD), was elected president in 1978. PRD represented the alliance between the oligarchy and members of the PLN marginalized by Oduber's government. The economic strategy introduced by the PRD "curved" the deficit of the balance of payment and reviewed the structure of production. First of all, the strategy changed the paternalistic role of the state into one

that promoted individual economic activities. Furthermore, the budget of the health care system was substantially cut and instead community groups were encouraged to perform certain state activities. Likewise, this strategy proposed a rational use of natural resources and a more diversified agricultural sector. Protective tariffs for imports were "knocked down" and better economic conditions were established to attracting international corporations (Solís & Esquivel:76).

The strategy of agricultural diversification, however, was affected by oil prices increases in 1979. The export of commodities decreased as a result of the worldwide recession. In return, the lack of hard currency diminished the financial capability of the country for importing capital goods. IMF studies indicate that a \$1 per barrel rise in the price of oil means \$2 billion more in annual spending for developing countries. Inflationary trends skyrocketed loans interest rates that had been used to finance local balance of payment. For instance, in Costa Rica the demand for imports had increased close to 42 percent in 1974. Between 1973 to 1974 the deficit of the balance of payment changed from US \$110 million to US \$280 million. Furthermore, the gross domestic product fell

from 5.5 percent in 1974 to 2.1 percent in 1975 (Solis & Esquivel:67; Hogendorn, 1992:199).

To make things even worse the US dollar gained strength between 1978 and 1982. Close to US \$50 billion were transferred to the US responding to high interest rates due to the high demand of credit in the public sector. In contrast, in peripheral countries interest rates for loans increased due to the high credit demand in the US. These factors affected developing countries' supply of credit for servicing the external debt. In addition, interest rates were "variable" (LIBOR) meant to increase under inflationary conditions.

Conclusion

During the 1940s the traditional agricultural model was diversified and resources were allocated for the development of an endogenous industrial sector in Costa Rica. The economic surplus generated by the agricultural sector was invested in a new born industrial sector. However, during the search for an endogenous industrial development and regional integration economic conditions were set in motion for the insertion of transnational capital in Costa Rica in

the 1970s. Under the constraint of worldwide prices fluctuations for commodities the state in Costa Rica began to cut back on social programs such as health care, education and sports. Instead, the state set opportunities for private capital based on the comparative advantage of a relatively cheap local labour force and raw materials.

These factors can be analyzed from the perspective of economic dependency and its collateral effects throughout history in developing countries. The socio-economic crisis experienced by poor countries are symptoms of the inadequate and contradictory local capitalist development model. This model has served as a "cushion" for assimilating economic crisis in core capitalist countries. Also, this model has been based on the export of primary products -mainly coffee and bananas- whose prices depend on international market. Historically, the crack-down of the local socio-economic structure tend to follow changes in the contemporary capitalist mode of production and the organic composition of capital.

Chapter Four

Socio-economic impacts of SAPs

This chapter discusses the socio-economic impacts of SAPs on workers, women and ethnic minorities during the 1980s. This analysis acknowledges the condition of historical economic dependency and its reinforcement by IMF and World Bank cross-conditionality policies on developing countries. From this background sections have been ordered as follows: section one examines the 'crisis (1978-80) and the stabilization period (1980-1982); the reason for subscribing Costa Rica into the list of recipients of IMF and the World Bank financial assistance. Section two and three describe the stabilization and adjustment policies introduced in SALI and SALII. Section five analyzes the effects of these policies on the social impact variables during the stabilization (1980-82) and recovery (1983-86) periods.

I Crisis and Response: Structural Adjustment in the 1980s

The socio-economic impacts of SAPs on Costa Rican society can be analyzed from the perspective of an exhausted and dependent model of development. The main

characteristics of this model are that capital has been accumulated by foreign companies, and to a lesser degree by a domestic market distorted by a concentration of income. During the Lost Decade of Development (1980s), the structural weakness of this model produced a fast pace of indebtedness and a crisis of liquidity vis-a-vis honouring the external debt. This process of indebtedness has been historically associated with the needs and contradictions which marked the process of modernization under economic dependency (Timossi, 1990:76; Villasuso, 1987a:108).

Some manifestations of these problems were that the industrial sector came to consume more foreign exchange than it generated; and that state expenditures grew without modifications of the tax structure. Unexpected external factors, such as price increases of hydrocarbons and derivatives in the 1970s, the rise of interest rates, and the fall of international prices of exports created financial disequilibrium in Costa Rica. With the simultaneous processes of economic stagnation in core capitalist countries and the rise of the oil prices the policy options which could have been taken at the time would have meant sacrificing some of the interests of the traditional elites or, to the contrary, implementing explosive social and political

changes (Timossi:77). Instead, little was done.

Besides the burst of political conflicts in Central America, the economic instability and the weakness of state controls made possible that Costa Rica suffered significant capital flight intensifying in this way the need for foreign finance. This was notorious during the presidential period of Rodrigo Carazo (1978-1982) when neo-liberal policies were used with an overvalued exchange rate for holding together the economic structure. In 1983, however, there was a progressive deceleration of the rate of indebtedness as a result of four factors:

- 1- improvement of the international prices of some exports
- 2- new money disbursements from international agencies and private sources under the cross-conditionality set by the IMF and the World Bank
- 3- political-economic goals revolved increasingly around short-term financial disequilibriums. These policies relieved the pressure on the balance of payments but at the same time institutionalized the stagnation of the productive forces

4- the influx of dollars from USAID in 1982

Although, the pace of indebtedness has slowed and the export of non-traditional products directed to the US market (in 1988 exports of non-traditional products contributed with US \$491 million compared to only US \$164 million in 1980) has increased the capacity for honouring the debt goes beyond Costa Rica's financial resources. In addition, the debt will continue to grow if the US reduces its foreign aid budget or if the conditions of the international market worsen (Timossi:78-85). Table 2 shows the size of the external debt in 1989. Similarly, in that year servicing the debt required 236.2 percent of the income generated by exports; approximately 91.2 percent of the GNP.

Table 1: Relative indebtedness indicators (1989)

ED (\$b)	ED/XE (%)	ED/GNP (%)	TS/XE (%)	ED/POP (\$)
4.47	236.2	91.2	19.2	1,541.4

ED: total external debt
XE: total export earnings
TS: total debt service
POP: total population

(Source: Culpeper:7)

The effects of SAPs on people in Costa Rica began to be conspicuous after 1982. Yet, state intervention

has neutralized the effects of the socio-economic discrepancies produced by neo-liberal social theory with the implementation of social programs directed to the poor. Therefore, the implementation of social programs run along structural adjustment programs as a pivotal condition for maintaining social peace. Table 1 shows key social indicators of human development. As can be seen the quality of life of most Costa Ricans has improved since the 1960s.

Table 2: Social Indicators in Costa Rica

	<u>P\Ph</u>	<u>Daily/int/pc</u>	<u>Per/exp/h/e</u>
1965	2,010	2,366	32.1
1987	960	2,803	35.5

P\Ph: population per physician

Daily/int/pc: daily calorie intake per capita

Per/exp/e/h: Percentage of gov. exp. on education/health

(Source: Culpeper, 1991:6)

Traditionally, in Costa Rica governments have invested in education and health care. Costa Rica had the lowest infant-mortality rate and highest average life expectancy (72.6 years) in Central America in 1980. Neo-liberal ideology, however, has overlooked human development standards in Costa Rica in order to create conditions for capital accumulation.

During the crisis period (1978-1980) Carazo's

government had been blamed for liberalizing the economy too fast and depending on credits from abroad under the conditionality of "variable" interest rates. As a result, the size of external debt grew from US \$1.455 in 1977 to US \$3.290 in 1981, an increase of almost 100 percent in four years (Gutierrez et al, 1985:28; Lizano, 1990:17).

Although, the economic policies implemented by Carazo's government accelerated the pace of indebtedness other factors had influenced the development of the debt crisis. For instance, a deterioration of the terms of trade affected the price of imports. Especially, between 1977 and 1981 the price of imports increased by one third. During the same time period one percent of the agro-export business owned one third of the most fertile land. Part of this land was used for livestock maintenance which is twenty times less labour-intensive than agriculture. Indeed, large agro-export businesses as Del Monte, Standard Fruit and the United Brand still exert control of this land (Villasuso, 1987a:108).

Furthermore, the aggregate-value of the industrial sector to the GDP was at 27.8 percent in 1977. However, this percentage comprised less than 50 percent

of the costs of industrial inputs⁴⁸ during the same year. In nominal figures these percentages represented US \$208 millions in exports against US \$426.1 million in imports of raw materials. In addition, 72 percent of the industrial facilities depended on transnational capital and technology for its functioning.

Moreover, the crisis in part was exacerbated by the war in Nicaragua and El Salvador. Although most Costa Rican governments vindicate a pro-peace policy the Reagan administration discharged political and economic pressure for using Costa Rica as a military stronghold against Nicaragua. All these factors combined with high levels of public expenditure produced vicious balance of payment deficits (Gutierrez et al:1-31).

Public expenditures rose 52 percent between 1978 and 1979 while public revenues rose only 28 percent. As a result, the Carazo government began to borrow more money from international agencies. Traditionally, this has been one of the mechanisms for financing balance of payments deficits. Another mechanism is foreign investment. Between 1977 and 1982 Costa Rica received credits for US \$2.7 billion from abroad. Also, during the same time period Costa Rica became one of the

countries in Latin America with the highest debt per-capita ratio. Indeed, the service of the external debt consumed close to 60 percent of the exports in the early 1980s (Villasuso, 1987a:109).

In 1981 the government of Carazo had suspended debt payments to virtually all of its creditors and applied to the World Bank and the IMF for assistance. Two separate contingency loans with the IMF were prepared in 1980 and 1981. Compliance with IMF conditionality placed the country in a critical economic situation when inflation increased up to 109 per-cent while the GDP fell seven percent (Lizano, 1990:19-25).

The combination of decreased production, trade imbalances and budget deficits brought maladies relatively unknown in this country. Inflation and unemployment are short-term effects of a development model influenced by historical structural disadjustment and dependency. These constraints have hastened the process of exhaustion of the model of desarrollo hacia dentro, that is, capital accumulation via investment in behalf of the state for the development of the local market. From this perspective state intervention can be conceived within the context of a local bourgeoisie

unable to break the vicious circle of economic dependency.

The structural elements of the economic and social crisis during this period include:

- 1- a series of problems caused basically by the type of productive structure and which have brought zero economic growth, low growth in productive employment and a chronic deficit in the balance of payments after 1980
- 2- a lack of development of the productive structure, characterized by excessive dependence on imported inputs
- 3- rapid and unplanned expansion of the public sector, particularly in the 1970s, in large part as a result of the inability of the productive structure to generate sufficient growth and employment
- 4- generalized poverty in large part as the result of concentration in the ownership of the means of production, a growing inflation rate, growing unemployment and underemployment resulting from economic stagnation (Fallas, 1989:195; Villasuso, 1989b:198-200).

III SAL I: stabilization without growth

Costa Rica was the first country in Central America to undergo structural adjustment under the guidance of the IMF and the World Bank. The debt crisis in Costa Rica was officially declared by the government of Luis Alberto Monge in August, 1982. In 1985, Costa Rica received a structural adjustment loan (SAL) from the World Bank to support long-term structural changes. Costa Rica's terms of trade fell by one-third and its debt service quadrupled between 1977 and 1981. By mid-1980, dollar reserves covered only one week's imports and the colón⁴⁹ experienced a devaluation of 500 percent in only 18 months.

Costa Rica declared a moratorium on debt payments in July, 1981 and immediately began to receive economic-aid from USAID. In 1982 Monge signed a US \$100 million IMF stand-by accord when inflation soared 100 per-cent and unemployment more than doubled from 4.1 to 8.3 percent between 1979 and 1981. The conditionality of the accord imposed budget cuts in the public sector, a rise in taxes and interest rates. At the time Costa Rica's foreign debt was at US \$4 billion; a per-capita basis still remained as one of the highest in Latin America (Edelman & Kenen, 1989:188; Villasuso, 1989b:107-110).

The Monge administration with the "help" of the IMF brought inflation down from nearly 100 percent in 1982, to 33 percent in 1983, and 12 percent in 1984. Economic growth reached six percent in 1984, fell to two percent in 1985, and climbed again to 3 percent in 1986. In return, the IMF insisted on changing the nature of the local economy by expanding the role of private banks, by selling state enterprises and by creating new non-public organizations⁵⁰ to accelerate Costa Rica's embrace of neo-liberalism (Edelman & Monge, 1993:24; Edelman & Kenen:189).

SAL I was signed along with a stand-by accord with the IMF and an agreement with commercial banks and creditors nations of the Paris Club⁵¹. The SAL I involved a US \$80 million long-term loan that demanded local industries to withdraw from domestic and Central America markets and to redefine production in terms of the international markets needs.

Lower tariffs, tax breaks and mini-devaluations were imposed to force local industries to become more competitive. In the agricultural sector the World Bank demanded a substantial reduction of subsidies and credits. Agricultural producers were urged to take advantage of Washington's Caribbean Basin Initiative

(CBI) under the promise of "more opportunities and greater access to the US market." Likewise, the state was forced to cut the public budget and to improve the efficiency of administrative activities (Anderson, 1990:89-107; Edelman & Monge:25).

The United States Agency for International Development (USAID) joined the IMF and the World Bank with the activation of the Economic Support Fund (ESF). The ESF encouraged the development of a non-traditional agro-export sector under the slogan Volvamos a la Tierra. ESF's primary objective was "to support US economic, political and security interests and to advance foreign policy objectives." ESF funding was used to enforce US policies in the region under the excuse of ensuring compliance with World Bank and IMF conditionalities. For instance, between 1948 and 1980 US economic assistance to Costa Rica totalled only US \$282 million. This figure increased to US \$1.33 billion over the following decade when the US used Costa Rican territory to supply the Nicaraguan Contras with guns. Again, in 1985 Costa Rica received a US \$160 million grant under the ESF program. US economic "assistance" placed Costa Rica as the second largest US aid recipient in Latin America during the 1980s (Edelman & Kenen:189; Lizano, 1990:75).

From this socio-economic perspective Monge's administration set the economic conditions for economic stabilization under growing political pressure from the PLN, FUSC and PVP. The traditional social-democratic ideology of the PLN contradicted the political agenda of the groups that supported the neo-liberal proposal. In addition, the political turmoil exacerbated by the continuous mini-devaluaciones, capital outflows and the crisis in Central America had produced a climate of insecurity for capital investment (Lizano:65-66).

Furthermore, Monge's task was to stabilize the economy and to create socio-economic conditions for attracting capital investment, especially, the huge economic resources of the International Development Agency (IDA.) This economic option, however, entailed a political compromise with the US in the war of intervention against Nicaragua. At the same time, this compromise threatened any possibility for Costa Rica to achieve economic growth and to maintain social peace. Stabilization, economic growth and social peace conformed the three pillars of the socio-economic policies during this administration.

The economic policies introduced by Monge guaranteed conditions for capital accumulation in the

context of a global free market relatively dominated by the US. Nevertheless, the concept of economic growth introduced in SAL I ignored the need for an institutional apparatus for ensuring an adequate extraction of the global surplus -within the context of nation-states- in control of TNCs. In summary, SAL I target four goals:

- 1- the reduction of the size of the state and the opening of opportunities for private economic activities
- 2- a reform of the banking system for facilitating the free movement of capital
- 3- a substantial reduction of the redistributive activities of the state
- 4- a functional integration of local economic activities into the world market.

These economic principles can be conceived as an attempt to achieve "stabilization and adjustment with social peace." The economic measures for achieving economic stabilization and capital inflows were:

- 1- the exchange rate was fixed from 38 to 40 colones against the US dollar. However, as the domestic prices were adjusted income distribution

shifts for the benefit of exporters and the detriment of consumers, producers for the local market and other socio-economic groups as workers, women and ethnic minorities

- 3- transactions of hard currency became a monopoly of the Central Bank
- 4- conditions were established for attracting investment. The 1982 agreement for US \$100 million with the IMF target a reduction of the public deficit from a 9.5 percent to 4.5 percent of the GDP by 1983.

Furthermore, the public deficit was concentrated on two institutions: ICE and CODESA. With the implementation of stabilization and adjustment policies power rates, health care and the basic family basket costs increased substantially. With the intervention of the IDA the state's development corporation (CODESA) was privatized. This fact illustrates that the state had to find forms for capital accumulation -such is the case of CODESA- due to the lack of inventiveness of the local bourgeoisie. These economic policies helped to reduce the fiscal deficit from 9.1 percent in 1980 to 3.4 percent in 1982. In fact the combination of fiscal policies, increases of public services and credits from international agencies slowed the pace of inflation.

A set of socio-economic policies were executed for neutralizing the effects of the crisis on low income workers and business at the verge of bankruptcy.

A escala móvil de salarios (sliding salary scale) was set in motion with the assistance of union leaders.

The criteria utilized considered the costs for basic food stuff and the living standard of workers.

Although, these social policies released economic pressure from poor people salaries increases remained below workers' needs. For instance, in 1982 the average wage was only 24.2 percent of real wages in 1981.

These social policies had the objective of maintaining social peace under a strict and rational use of the scarce public resources. By mid 1980s, state average expenditures was 44 percent compared to 51 percent during the 1970s. Public expenditure was used for increasing wages in the public sector and for financing social programs for groups living under conditions of poverty and extreme poverty.

A Plan de Compensación Social (social compensation plan) was developed for delivering food to 40,000 families living in extreme poverty. Also a Programa de Subsidio al Desempleo (subsidies for unemployed people

program) and a trust fund known as the Sistema de Economía Laboral (SELA) was proposed for introducing workers as share holders in already consolidated business. SELA's goal was to neutralize the tendency towards privatization of the economic activities in the direction of bourgeois property.

In regard to the SELA project three social groups presented different political positions:

- 1- the cooperative movement headed by the Instituto de Fomento Cooperativo (INFOCOOP) and the Consejo Nacional de Cooperativas (CONACOOOP)
- 2- Cámara de Comercio de Costa Rica, Asociación Nacional de Fomento Económico (ANFE), Federación Nacional de Asociaciones Solidaristas (FENASOL) and Asociación Solidarista Costarricense
- 3- Partido Vanguardia Popular and unions.

The discussion of these three groups centred around the origin of the economic resources necessary for the development of the SELA project. The original proposal of the SELA suggested the utilization of retirement and laid-off funding under employer management as the financial source. The PVP rejected this proposal because it had considered it as a form of

aburguesamiento.

At the national level the social actors during the process of stabilization and adjustment were: Cámara de Comercio de Costa Rica (CCCR) and the Cámara de Industrias de Costa Rica (CICR.) This last organization embraced the neo-liberal project because of the "potential economic opportunities for the local industry" by the CBI and the Coalición de Iniciativas para el Desarrollo (CINDE)." The new development model idealized by this group of actors followed the slogans of laissez-faire, privatization, export promotion and anti-communism.

The second social actor was the formal proletariat represented by Frente Democrático de los Trabajadores and Frente Magisterial. Both unions demanded wages increases at the time when the PVP showed signs of political fragmentation at the top level. Some PVP leaders saw the crisis as a perfect stage for pre-revolutionary action. The issue, however, was whether to achieve social change via an alliance with the poor or at the regional level with the Frente Sandinista de Liberación Nacional in Nicaragua.

Finally, the last social actor was the popular

organizations. The Unión de Productores Agrícolas Nacionales (UPANACIONAL) -composed of small and medium size agricultural producers- exerted great pressure for maintaining interest rates and prices of pesticides low (pesticides prices increased 310 percent between 1972 and 1981). In the rural area UPANACIONAL exerted pressure by closing roads. Meanwhile, in the urban area community organizations publicly rejected increase of power rates.

At the ideological-theoretical level three currents of thought supported the agendas of these social actors: liberal, pro-state and collectivization. The liberal position defended market principles and monetarism. Also it rejected ISI policies, especially the development of a local and regional market. Indeed, within this ideological current demands to facilitate capital movement and a more efficient distribution of resources for competing at the scale of urbis et orbe were prominent.

The pro-state argument sustained that state intervention is necessary due to the historical incapacity of the local bourgeoisie for finding new forms of accumulation as a result of the economic dependency to the US. In addition, state intervention

is justified by the effects of the historical structural disadjustment and the socio-economic crisis as a form of antiperistalsis.

Finally, the third argument conceived the development of cooperatives as a feasible socio-economic solution for the crisis. Finally, cooperatives could be financed with the economic resources of the Movimiento Solidarista⁵² as it had been proposed in the SELA project (Lizano:68-93).

IV SAL II: the opening to TNCs conditio sine qua non

On March 17, 1989 the SAL II for US \$100 million was approved by the World Bank. In addition, a second loan for US \$100 million was acquired from the Japanese government. The objectives of SAL II were to maintain the stabilization policies introduced in SAL I and to create conditions for the opening of the country to transnational capital. SAL II's intention was "to modernize and to diversify the productive structure and to improve outdated governmental institutions for competing in the world market."

According to SAL II, four economic areas had to be improved: international trade, the banking system,

public sector expenditures and the agricultural sector. In order to achieve these objectives the government of Oscar Arias (1982-1986) introduced economic policies for boosting the new-born non-traditional agro-export sector:

- 1- lower tariff for facilitating trade with the world market
- 2- determination of prices of agricultural products according to world market standards
- 3- financial assistance to health care and housing programs
- 4- determination of interest rates via market fluctuations
- 5- consumer tax increases for closing the deficit of the public administration
- 6- increases of power, fresh water and public services rates
- 7- total privatization of CODESA
- 8- abolition of subsidies for the production of basic food staples

In addition, SAL II introduced two projects for adjusting the agricultural and industrial sectors into the world market. These two projects are known as Proyecto de Reconversión Industrial (industrial reconversion project) and Proyecto para La Agricultura

de Cambio (agriculture of change project).

Reconversión Industrial is defined in SAL II as "adapting the local industry to technological changes, modern productive process and price fluctuations of raw materials." CODESA was in charge of this project.

Finally, the Agricultura de Cambio is defined as "the incorporation of peasants in a profitable way into local and international markets." In fact, the Agricultura de Cambio was designed to redirect agricultural production into the non-traditional agro-exports sector. Credit and subsidies for the development of the local market almost disappeared while tariffs for food imports were lifted. The economic benefits promised to agro-export businesses include:

- 1- removals of taxes
- 2- preferential interest rates
- 3- free access to US dollar credits
- 4- export-incentives bond known as Certificado de Abono Tributario (CAT). For example, CAT value at more than 12 percent for non-traditional exports can be used for reducing income taxes (Hansen-Kuhn, 1993:182; Lizano:65).

V Socio-economic impacts: class, gender and race

Generally, macro-economic policies change the level of wages, taxes, employment and the degree of effectiveness of social programs. Commonly, these policies involve quantitative combinations of fiscal austerity, devaluation, deregulation and privatization. As a result, during periods of economic crisis the amount of public expenditure, the level of employment and the level of real-salaries tend to decline. In this sense, the function of social policies is to redirect resources and to free access for the poor.

In Costa Rica, the distributive structure had permitted social improvement and mobility during the 1970s. Social and economic inequalities, however, still exist due to a tendency toward a concentration of wealth (ILO, 1992:8). The following data illustrates these inequalities in Costa Rica during the 1970s.

- 1- approximately five per-cent of the wealthiest families received 26.5 percent of family income in 1977. The poorest 40 percent received only 12.4 percent of the total. The situation has deteriorated because these statistics were 25.6 percent and 14.1 percent respectively in 1971

- 2- in the mid-1970s, it was estimated that the poorest half of the population set aside 31.7 percent of its income to pay taxes, while the richest ten percent reserved only 21.9 percent for that purpose
- 3- in 1982 the unemployment rate reached 9.4 percent and the underemployment rate was of 22.4 percent. In 1977, however, these rates were 4.6 and eleven percent respectively
- 3- in 1989 more than 75 percent of the population depended on a salary or daily wage and did not possess means of production
- 4- of the smaller farms, forty percent occupied 1.3 percent of the land used for farming and livestock, while five percent of the largest farms covered 59.3 percent of this land in 1982 (Villasuso, 1989b:202).

Although, in the 1970s governments made a great effort to reverse socio-economic inequalities these patterns have become chronic under the influence of SAPs. Data available on income distribution demonstrates a deterioration despite the social programs implemented by governments during the 1980s. During the recession period (1980-82), for example, stabilization policies produced unemployment among the

salaried population. Likewise, the constant devaluations of the colón have increased the cost of the basic family basket. Despite Monge's government implemented compensatory social programs inflation and fiscal deficits continued to grow since these programs depended on funding from abroad. During these years the unemployment rate almost doubled from 5.9 percent to 9.4 percent. In fact, the effects of the economic crisis meant that less qualified and educated wage earners were the most easily dismissed. Indeed, inflation and the lack of automatic income adjustment mechanisms produced a reduction of 45 percent of the real-salary between 1979 and 1982 (ILO:4; Villasuso, 1989b:202).

Furthermore, Monge's government cut public budgets and increased taxes. Workers, however, were affected in different ways. The impact depended on job category, type of economic activity and negotiating power. For instance, labourers and artisans had seen their real earnings reduced more than professionals and technicians, and the decline of wages in the agricultural sector had been significantly greater than in the industrial sector.

Furthermore, the devaluation of the local currency

had important repercussions on the distribution of income. For example, export activities with a high value added -coffee, bananas, sugar and meat- have experienced a great increase in profits. These agro-exporter groups are already at the top of the distributive pyramid and are benefiting from devaluation, which in turn, generates the inflation that harms the salaried workers and wage earners. Also, the impact of devaluations has changed the ownership of the means of production. Devaluation cheapens domestically produced goods and services, as well as capital and land. This reduction in the price of land, infrastructure, equipment and machinery can cause the means of production to pass from domestic to foreign hands (Villasuso, 1989b:203-204; García & Gomariz, 1989:47, Stoltz-Chinchilla, 1993:17, Barrera et al, 1987:38).

In order to acquire a better understanding of the impacts of SAPs on workers presume that under the condition of economic crisis patterns of labour market composition and income distribution are expected to change as follows:

- 1- economic crisis combines decreased employment in the formal economy with increased employment in

the informal

- 2- real-earnings fall more sharply for informal versus formal workers**
- 3- the labour-force participation rate of primary earners -predominantly males of intermediate age- as a consequence of acceptable employment drops**
- 4- the labour-force participation rate of secondary earners -typically females along with youths and the elderly rises**
- 5- based on the reduced availability of formal jobs and relatively skilled jobs the unemployment rate of secondary earners grows faster than that of primary wage earners**
- 6- in the post-crisis (adjustment) period the labour market will be fuse with a resurgent of employment for the household primary earners and an expansion of low-paying and unstable jobs for primary and secondary earners alike**
- 7- due to the relative shortage of skilled labour relative to recuperating market demand the average real earning will rise, especially for formal workers. The average real earnings of both formal and informal workers, though, are unlikely to match their pre-crisis levels as a result of the socio-economic and political undercutting of labour bargaining**

8- with respect to gender patterns of labour-force participation, a rise in the labour-force participation of primary earners is expected to rise in response to the expansion of acceptable employment. In turn, labour-force participation rate for secondary earners should fall, as households require that fewer of them be employed (Tardanico, 1993:511-513).

In Costa Rica, changes in the labour market composition had been strongly influenced by a cumulative 17.2 percent drop in the value of per-capita production during the stabilization period (1980-82). Under this condition, the rate of employment expanded, though its expansion rate was less than the years before the crisis. For instance, the male employment rate increased from 2.2 to 2.9 percent while for female it increased from 3.8 to 6.5 percent. As for the people who have the skills for fulfilling available job positions are hired those who do not are dismissed. Therefore, the unemployment rate increased in the agricultural sector from 3.9 to 5.1 percent; in the manufacturing from 5.6 to 10.3 percent; and in the services sector from 4.3 to 7.1 percent. However, the rate of unemployment in construction experienced the highest upswing from 7.5 to 15.8 percent.

Similarly, during the same period there was no sign of an increase in non-wage jobs (a common indicator of informality); actually it decreased from 27.2 to 25.3 percent between 1979 and 1982. Meanwhile, wage employment grew from 72.8 to 74.6 percent. The reason for such an outcome is that the government executed social programs, expanded the public employment sector and submitted minimum wage policies in 1982. Additionally, the slower expansion of non-wage employment and faster expansion of wage-employment has been linked to jobs trends in the agriculture. Furthermore, agriculture continued to be the sector where informal employment is most prevalent, and provides easiest entry into the labour market for refugees entering from other Central American countries (Tardanico:514-516).

Nevertheless, the increase of jobs in the agricultural sector clearly depends on the demand for agricultural products in US markets. Furthermore, the CBI promises of economic growth via export of flowers, spices, and tropical plants have proven to be unreliable. While non-traditional exports have grown rapidly, duty-free exports to the US under the CBI totalled only US \$33.9 million in 1984 and three-quarters of this was by beef; one of Costa Rica's four

main traditional agro-exports. Coffee, bananas and sugar cane, which accounted for more than 54 percent of total foreign sales, were subject to export quotas (Villasuso, 1987a:112).

The devaluations did not have any great impact on other farms products because their domestic prices remained far above international prices. For instance, prices for the 1984-85 harvest were 90 percent higher in the case of rice, 102 percent for maize and 50 percent for beans. Therefore, it must be assumed that the increased income resulting from devaluations went mainly to agro-export business. In contrast, of the dozen companies drawn to Costa Rica by the CBI, four planned to start or expand tropical fern and flower production. Only 362 new jobs were created while the US Commerce Department imposed a 19 percent tariff on cut flower imports (Edelman & Kenen:190).

Opposite to the IMF and World Bank expectations, Costa Rica's trade and fiscal deficits have increased and inflation still continues to be high. In the agricultural sector, the emphasis on export crops has produced rural poverty and environmental degradation. The proportion of Costa Rican families classified as poor rose to 26 percent in 1977. Generally speaking,

the incidence of poverty was greater in rural areas, where 34 percent of the families were classified as poor and 19 percent extremely poor. In the rural area poor families made up 57.7 percent of the total in 1980, and this proportion rose to 72.1 percent in 1981 and 82.3 percent in 1982. Furthermore, nearly 53 percent of the poor families have incomes above the extreme poverty line (the line corresponding to the cost of the basic food basket), but their income is not enough to satisfy their non-food needs. The incidence of poverty for the country as a whole was 14 percent, while the incidence of extreme poverty was estimated at 12 percent. Finally, 41.7 percent of the wage earners were poor in 1980, and this proportion rose to 72.1 percent in 1981 and 82.3 in 1982 (Hansen-Kuhn, 1993:179; Taylor-Dormond, 1991:136; Menjivar, 1987:50-61).

In summary, the labour-force and employment dynamics during the Costa Rican recession (1980-82) - with the exception of agriculture- have conformed with expectations. Incidentally, poverty levels increased as a result of changes to labour market composition, income distribution and cutting of public budgets. However, after the execution of the Fondo de Desarrollo de Asignaciones Familiares (FODESAF) poverty levels

dropped by the end of 1983.

The FODESAF was established in 1975. FODESAF is a governmental institution mandated to administrate public resources directed to poor families. In 1983, FODESAF's goal was to fulfil food, education and housing needs among the poor. The overall subsidy in 1983 was calculated at 19,512 million colones; equivalent to 16 percent of the GDP in that year. More than two-thirds of this global figure corresponds to education (39 percent) and health care (38 percent) (Taylor-Dormond, 1991:138; ILO, 1992:31). Table 1 shows the proportion of families living in conditions of basic and extreme poverty in the rural and urban areas in 1983.

Table 3: Estimates of poverty by level and region

	<u>Whole country</u>	<u>urban</u>	<u>rural</u>
Prop/p/f	25.7	19.0	33.5
Bp	13.7	10.6	17.5
Ep	12.0	8.4	16.0

Prop/p/f proportion of poor families

Bp basic poverty

Ep extreme poverty

(Source: Taylor-Dormond, 1991:136)

Despite the positive effects of the FODESAF, many women and unskilled members of the household were

forced to participate in the labour market. This is an unmistakable result of escalating formal unemployment and underemployment, depressed average real-wages and diminished government subsidies. In Costa Rica, this is true for individuals within the age group of 12-19 between 1980-82. In this group, the rate of participation grew faster for females than males (3.8 percent versus 2.2 percent). Indeed, these figures affirm the presumption that during periods of economic crisis women and children participation in the labour market increases.

Furthermore, during the recovery period (1983-1991) the GDP grew 1.2 percent compare to a -3.9 percent in 1982. The economic growth experienced in these years produced a deceleration of the labour-force expansion from 3.0 to 2.2 percent. Nonetheless, during these years job expansion was faster in the manufacturing sector with a 4.6 percent compared to a 2.3 percent in 1982. The remaining economic sectors experienced growth (construction from -3.7 percent to 3.2 percent and services from 3.1 percent to 3.2 percent) with the exception of agriculture. These percentages suggest that urban Costa Rica was the centre of economic growth between 1983 and 1991.

Furthermore, during these years part-time jobs continued to grow faster than full-time jobs. Between 1989-91 the upward turn of underemployment grew from 9.0 percent to 11.6 percent. These percentages show an increase in the inability of workers to obtain suitable full time employment. In addition, in 1991 Costa Rica's aggregate rate of female labour-force participation was higher than for males (3.2 versus 2.3 percent). For the female side, the age rates participation in the labour market remained stable for the 12-19 age group and risen for the 20-70 age group. These findings appears to represent a response to persisting household economic pressures and a contradiction to the presumption that as "economic growth unfolds female labour market participation decreases." Finally, the male-female average-wage gap seems to have widened in 1987 (Tardanico:514-533).

In fact, the female earnings have been affected by the recession and stabilization periods. In December 1980 the colón was devalued and inflation increased from 18.1 percent to 90.1 percent in 1982. In 1983, unemployment fell 8,5 percent compare to 9,9 percent in 1982. Likewise, the real-wage rose from 85,5 percent to 99,3 percent in 1983 (ILO, 1992:9). However, falling unemployment and rising real-wages were results

of a 7.8 percent increase of the public-sector employment in 1983. The rise in the average wage resulted from institutionally determined public sector minimum wages policies. Nonetheless, the wage gap between men and women increased during the years of the recession (1978-82)) and the period of stabilization (1982-83) and decreased after 1983. As shown in table 4, the earning gap between men and women increased during the years of the crisis and stabilization (1980-83) and the period of recovery (1983-86) and then fell to pre-crisis levels.

Table 4: Ratio of mean male to mean female earnings

<u>Earnings</u>		
<u>year</u>	<u>s/e/o</u>	<u>h/w/w</u>
1976	1.17 (.0031)	1.02 (.0005)
1977	1.19 (.0034)	1.07 (.0005)
1978	1.07 (.0034)	1.08 (.0010)
1979	1.16 (.0029)	1.08 (.0020)
1980	1.15 (.0029)	1.07 (.0009)
1981	1.19 (.0047)	1.07 (.0011)
1982	1.19 (.0032)	1.07 (.0011)
1983	1.26 (.0031)	1.06 (.0030)
1984	n.a.	n.a.
1985	1.12 (.0028)	1.06 (.0010)
1986	1.13 (.0023)	1.09 (.0008)

s/e/o salaried employees only
h/w/w hours worked per week

(Source: Gindling, 1993:280)

Five probabilities account for the male-female wage gap:

- 1- the increase in the male-female wage gap could be an increase in the number of hours worked by men relative to those worked by women during the recession (1980-82)
- 2- women entering the labour force in the recession had, on average, a lower level of human capital than the women in the labour force before the recession, therefore the average-wage of women will fall
- 3- as the economic crisis unfolded, discrimination against women in the labour market increased
- 4- secondary household earners who entered the labour force performed low pay jobs
- 5- and/or increases in the women/men wage gap could be related to changes in male-female skill levels

Table 4 shows that during the crisis and period of stabilization the ratio of mean hours worked by men relative to those of women declined slightly (notice figures in bold). In fact, the increase in the male-female wage gap during the recession or crisis was due to the influx of less educated women into the labour force.

These women entered the labour force in order to help to maintain family income in the face of falling

real-wages for primary income earners. Likewise, these women had less education than those women already in the labour force; therefore the ratio of education and salaries of employed women relative to that of employed men fell. Table 5 shows the male-female mean of schooling and experience (see figures in bold). Table 6 shows the male-female rates of labour force participation.

Table 5: Ratio of employed male to employed female (mean years of formal schooling and experience)

<u>year</u>	<u>schooling</u>	<u>experience</u>
1980	.785	1.35
1981	.831	1.27
1982	.805	1.27
1983	.817	1.35
1985	.772	1.29

(Source: Gindling:287)

Moreover, during the period of stabilization (1983-86) the wage gap was a result of the large increase in public sector employment which was disproportionately male. Hiring in this period was discriminatory for women (Gindling, 1993: 277-295). Table 6 shows a percentile increase of female labour force participation at all age groups between 1980-83. However, the rate of male participation in all age groups surpassed the female rate participation.

Table 6: Labour force participation rates

Sex and Age	80	81	82	83	85	86
Female						
12-14	6.20	4.51	8.02	5.28	3.97	4.89
15-19	24.15	25.04	27.76	25.44	22.91	21.80
20-29	33.82	35.87	37.11	34.46	36.65	35.13
30-39	35.52	36.52	35.93	32.97	36.29	36.09
40-49	25.54	29.78	29.25	28.42	27.98	31.18
50-59	14.39	18.62	19.72	18.29	16.33	16.19
60-69	8.57	10.45	8.22	8.89	5.49	7.23
70+	2.58	2.31	3.06	1.58	1.95	1.16
total	24.36	25.86	27.01	25.22	25.50	25.79
Male						
12-14	22.50	19.51	23.78	22.05	18.86	17.31
15-19	61.47	61.11	63.70	62.38	60.38	58.13
20-29	91.00	89.42	91.18	90.52	90.52	88.58
30-39	97.44	95.20	96.21	96.62	97.02	96.20
40-49	96.05	95.51	93.93	93.98	95.00	95.05
50-59	91.88	87.69	87.46	85.97	84.81	83.08
60-69	63.33	60.98	59.05	55.78	54.68	53.47
70+	26.98	26.77	31.56	25.14	21.79	20.00
total	75.96	74.43	76.74	75.93	75.63	75.06

(Source: Gindling:286)

Since 1983, governments have combined both stabilization and adjustment policies in order to balance the effects of prices fluctuations of commodities worldwide. In 1985 real-wages decreased as inflation increased from 12.0 to 15.1 percent. At the same time the GDP grew, indicating that the benefits of that growth had not been evenly distributed. The trade deficit increased over 400 percent in six years; from \$134.9 million in 1984 to \$568.7 million in 1990. Despite claims that adjustment programs help countries ease their external debt, Costa Rican rates actually increased; from 2.7 billion in 1980 to 4.3 billion in 1990 (Jiménez, 1992:25).

The pace of devaluation averaged 16 per-cent between 1984 and 1990. This pace led to a resurgence of inflation to average 28.7 percent in 1991. The subsequent price increases of basic foods, petrol, transport and electricity forced governments to borrow abroad. In this process, the difference between the average-wage and the minimum-wage decreased. Nonetheless, there were significant wage differences between sectors (see table 7).

Although the World Bank had suspended disbursements in early 1990 when both inflation and fiscal deficits exceed the specified targets, the IMF freed further SAL disbursements while the government committed to reduce inflation and budget deficits to ten per-cent by 1993. In this agreement, Costa Rica promised the an up to 30 percent tax increase in consumption goods. This most adversely hurt the poorest groups (Hansen-Kuhn:180; Country Profile, 1994-95:18).

Furthermore, a development-assistance agreement was signed in June 1991 between Costa Rica and USAID. This agreement was conditioned by further privatization of public enterprises as had occurred with CODESA. While the public budget was slashed USAID had been

funding private agencies operating outside state control were forced to perform similar functions. For instance, the Coalición para Iniciativas de Desarrollo (CINDE) received funding from USAID, while, Centro de Promoción para las Exportaciones e Inversiones (CENPRO) had been neglected. USAID policies have been interpreted as a manoeuvre for undermining state's control over the local economy (Hansen-Khun:181; Shallat, 1989:221-226).

Also, in 1991 the non-traditional export sector grew considerably . Moreover, the production of traditional agro-exports fell by 17 percent while non-traditional agro-exports production rose 82 percent by 1990. Non-traditional exports, however, accounted for only ten percent of the export earnings during this period. At the same time, capital goods and luxury items imports had grown even more rapidly as trade barriers and imports duties collapsed. As a result, increasing inflation and fiscal deficits still persist thanks to contradictory macro-economic policies attempting to bust the non-traditional agro-export sector.

One example of these policies is CAT. More than 80 percent of CAT's benefits have been received by five

transnational corporations, with nearly a quarter of the total going to a local subsidiary known as Del Monte. Between 1988 and 1989 CAT benefited only eight firms with US 72 million dollars. Moreover, over a period of five years, the value of CAT has increased 1900 percent, so that by 1990 these constituted eight per-cent of total government expenditures. In 1991 CAT accounted for 43 percent of the fiscal deficit at a time of budget cuts in education and primary health care (Edelman & Monge:26; Torres, 1994: 28-29).

In contrast, small agricultural producers restrained from participating in agro-export due to requirements of new techniques and information about quality controls, prices and markets. In fact, local governments have provided very little technical assistance and credits in these areas to small producers. For instance, the start-up costs for one hectare of non-traditional crops range from 170,000 to 85 million colones, despite the fact that 97 percent of the country's farmers earn less than 180,000 colones per year.

In the majority of the cases small producers find themselves linked to the external market not directly, but by way of the agro-industrial and agro-export

sectors. These, in turn, depend on the level of trade established by external demand. With or without this intermediation small producers still constitute a minority group in the agro-export business. One of those businesses is the farming of roots and tubers located in the Atlantic and northern areas of Costa Rica (Torres:29).

Certain farmers have found routes to participate in the production of these crops, but often at a loss of their independence. Usually, such farmers have to enter into long-term contracts with larger corporate agribusinesses who provide credit and technical assistance to producers. In return, farmers must to produce only a specific commodity, sell it to the contracting firm and not to sell, rent or mortgage the land during the duration of the contract (usually up to 17 years). In addition, interest rates had been climbing from 14.5 percent in 1978 to forty percent in 1991. As a result, the concentration of land produced by mass selling has forced more small producers to become workers in corporate plantations (Torres:32; Hansen-Kuhn:179).

Moreover, environmental damage is enormous in the agricultural sector. The production of new export

crops in Costa Rica involves massive use of agrochemicals because many of the non-traditional crops are not native to the country and are highly susceptible to pests and diseases. Nearly three quarters of the farmers have reported health problems attributed to collateral effects of insecticide and fungicide poisonings (Hansen-Kuhn:180-182).

In the industrial sector SAPs have paid back in the form of low-pay jobs in assembly industries or agricultural export enterprises. By 1991 an estimated of 37 per-cent of workers were paid less than the legal minimum. Close to 22 percent of the urban workforce was employed in small private enterprises. In addition, in the industrial sector maquiladoras and Free Trade Zone (FTZ) have employed mainly women. Plant managers prefer to hire women because of their familiarity with textile production and their need to accept lower salaries (production workers in FTZ receive \$80 to \$120 per-month) while men fulfil supervisory and high skill positions that pay two to four times women's wage. In 1986 textile exports rose rapidly and government sources claimed that the garment sector employed between 30,000 to 40,000 workers since 1980. It was estimated that the Costa Rican economy should had created over 27,000 new jobs a year to

simply maintain with the natural growth of the labour force.

The economic growth achieved especially by the non-traditional agro-exports sector has been relatively successful thanks to the CBI subsidies given to exporters. This strategy, however, will be tested as more Central American countries adopt a similar development model (Hansen-Kuhn:183; Edelman & Monge:190).

Parallel to the efforts made by local governments to obey IMF and the World Bank conditionalities is the increase in the number of people living in conditions of poverty. In 1988, 34 percent of the entire population was living in extreme poverty. In the rural area 34 per-cent of the population was very poor. In the urban area 14 per-cent of the population was considered extremely poor. In 1991, however, it was estimated that 24.4 percent of the population was living under continuous of poverty (Edelman & Monge:29; García & Gomaríz, 1989:42). Table 7 shows that wages in the different economic sectors have been below the minimum wage.

Table 7: Employment, wages and salaries

Year	U	Uem	EAP	MW	IS	AS	CS	S/GDP
1980	6.0	26.4	34.7	100	100	100	100	49.5
1981	9.1	31.3	34.9	90.4	94.7	92.2	89.5	43.4
1982	9.9	47.6	36.1	85.8	71.5	75.7	63.0	39.1
1983	8.5	35.6	35.5	99.3	78.3	90.4	83.1	43.6
1984	6.6	32.9	35.6	104.4	77.5	99.4	79.6	45.0
1985	6.7	30.4	35.7	112.2	88.1	99.9	100.5	46.7
1986	6.7	28.8	35.8	118.6	92.3	103.7	106.8	45.7
1987	5.9	21.2	37.5	118.1	85.0	102.4	99.5	46.6
1988	6.3	21.4	37.6	115.0	85.5	98.2	86.8	46.7
1989	3.7	19.0	37.5	119.7	na	na	na	

U unemployment
 Uem underemployment
 EAP economically active population
 MW minimum wage
 IS industry salaries
 AS agriculture salaries
 CA construction salaries
 S/GDP ratio salaries and GDP

(Source: ILO, 1992:9)

In 1988, the informal sector employed 46 per-cent of the total non-agricultural workers (ILO:47).

A large segment of workers in the informal sector was composed of poor women. Table 8 provides real figures of single/married poor women in the rural and urban areas.

Table 8: Women and poverty (thousands)

MR/Ep	SM	MR/Ep	IM	YW	OW
24	90	50	33	83	53

MR/Ep married women extremely poor
 SM single mother
 MR/Ep married-rural extremely poor
 IM indigenous women
 YW young women (10-18 years old)
 OW Older women (50+ years old)

(Source: García & Gomariz, 1989:81)

In the province of Limón women have been especially affected by SAPs. Limón is Costa Rica's poorest province, although it produces banana wealth. Similarly, land is more concentrated than in other provinces due to the large banana plantations (Anderson, 1980:100). Women in Limón comprise 47.7 percent of the population (64,555 women). In the urban areas 21.2 percent of the households are female-headed compared to 10.4 percent in the rural areas. Although women in Limón fully participate in the local economy, Bribri women's lack of formal training restrain them from taking part. Table 9 shows the literacy rates among Bribri women age 35-20

Table 9: Bribri women education rates

<u>Level</u>	<u>%</u>
Without any formal education	18.1
Grade first	3.2
Grade two	22.2
Grade three	6.2
Grade four	22.2
Grade five	28.1

The percentile of illiteracy for Bribri women over the age group of 45 is hundred per-cent

(Source: Osorio, 1980:20).

In addition, cuts in the health care budget have limited the provision of primary health care among the indigenous communities. For instance, the health

centre at Amubri serves 6,000 people and is directed by a nurse in midwifery. Lack of resources for program development in preventive medicine is the major constraint upon more effective patient service. This is reflected in a poor vaccination coverage, lack of programs on health education and health promotion (Bwogo, 1990:1-5).

Originally, the goal of local governments was to create a low-cost primary care network accessible to the entire population. By 1980 the government had nationalized all the hospitals and had extended social security health coverage to almost all citizens regardless of income or occupation. Between 1970 and 1980 infant mortality dropped by 69 percent; death from infectious and parasitic diseases fell by 98 percent and diseases such as polio and diphtheria were eradicated.

In the health care sector, the effects of the crisis can be seen in four areas:

- 1- deterioration in health status as poverty contributed to higher disease rates
- 2- reductions in the government's ability to maintain public health and medical services

- 3- increased reliance on foreign aid to finance the health system
- 4- growing debate over the state's role in health care.

Although, there are no available data for defining who benefited from the large influx of foreign aid it is evident that increased poverty had produced deteriorating nutritional and health status. In 1982 nutrition experts estimated that 111 percent of the average monthly salary would be required to feed a family of six members. The number of children hospitalized with severe malnutrition rose from 152 cases in 1981 to 322 cases in 1982. In the agricultural sector, workers would have had to earn 71 per-cent more than their actual salaries just to afford the basic family basket. In addition, malaria began to rise from 189 cases in 1981 to 569 cases in 1984. Generally, primary health care programs had been heavily dependent on assistance from abroad. Nonetheless, USAID took Costa Rica off its health aid eligibility list because this country "showed very high rates of human development" (Morgan, 1989:213-218).

With the approval of the SAL III in December 1992 more conditions were imposed on Costa Rica.

- 1- deregulation law or Ley de Democratización Económica which sought to privatize government functions
- 2- lay-off of 25,000 public servants
- 3- privatization of the health care system
- 4- elimination of state price control (La Nación, Nov, 1992).

With the incorporation of these conditions into the government macro-economic policies, more socio-economic constraints are expected to arise. Meanwhile, people in Costa Rica patiently wait for a better future for their families.

Chapter Five

CONCLUSIONS

The focus of analysis in this thesis is on the socio-economic impacts of structural adjustment programs (SAPs) on Costa Rican workers with reference to conditions created by an exhausted model of state led-development based on agro-exports. The characteristics of this model up to the 1980s include the following:

- 1- lack of development of the productive structure characterized by excessive dependence on imported inputs and agro-exports. In return, this dependency produced continuous deficits in the balance of payments
- 2- rapid and unplanned expansion of the public sector, with the state actively engaged in the process of development as well as the regulation of the private sector
- 3- widespread poverty resulting from the concentration of the means of production, growth in the rate of inflation, and conditions of economic stagnation including unemployment and underemployment. Although, governments since 1949 have implemented minimum wage and salary policies

and have invested heavily in education and health care programs, socio-economic disparities still prevail

To some extent SAPs were implemented to provide a better model of socio-economic development -to generate growth under conditions of macro-economic stabilization. However, our review of SAPs and their socio-economic impacts shows that they generally failed to reverse the effects of economic stagnation. In addition, SAPs have created conditions that deepened and accelerated conditions of economic underdevelopment. Specifically, SAPs accelerated the process of concentration of the means of production, deepened and extended inequalities in the distribution of income and brought about a sharp drop of real wages and created conditions for a fast expansion of the informal sector and the impoverishment of large sectors of workers and independent producers.

It is the thesis of this study that the socio-economic impacts of SAPs need to be differentiated, in particular by the variables of gender and race. These experiences also differ for workers in the rural and urban areas, and the urban gendered labour force differ by sector (formal-informal), conditions and effects of

which are generally ignored by the architects of SAPs. In addition, there are several ideologies that negatively impact both women and members of subordinated ethnic and racial groups. On the one hand, patriarchal beliefs are used to justify women's duty to reproductive work. As a result, with the exacerbation of the socio-economic crisis of the 1980s, more and more women have been incorporated into exploitative and low-pay occupations such in the maquiladoras industries. On the other hand, racist belief help to shape a local division of labour divided by race. For instance, at the bottom level of the structure of economic activity indigenous women remain as "the poorest of the poor" due to their extremely low level of education and integration into mainstream society.

With reference to these problems and within the limits of available data the analysis of the socio-economic impacts of SAPs have been divided into three time periods:

- 1- the crisis (1978-80) period marked the time when Costa Rica experienced a "liquidity crisis" for honouring the external debt. Also, external political conditions affected the delicate

internal political balance. Both created circumstances for pushing local governments to embrace structural adjustment policies under the leading role of the IMF and the World Bank. The goal of governments was to achieve economic growth and to maintain social peace

- 2- the stabilization period (1980-82) was characterized by a gradual liberalization of the economy under a relative control of public expenditures
- 3- the adjustment period (1983-1986) created the economic conditions for introducing Costa Rica into the world market. However, this period is characterized by the persistent inability of the local economic apparatus for achieving steady economic growth with full employment and increasing wages and salaries

From my analysis the following conclusions can be drawn with respect to the impacts of SAPs on class, gender and race during the 1980s:

Class

- 1- workers have experienced a drastic fall in the value of wages, with large numbers forced to work for less than the minimum wage

- 2- workers and their families have experienced budget cut of free health care and education programs
- 3- workers in general have experienced frequent increases in the cost of basic food basket
- 4- poverty levels increased rapidly, especially in the rural areas. In the urban areas, the poverty level was lower due to the effects of social assistance
- 5- workers bargaining power over wages and other conditions has been substantially weakened

Gender

- 1- women have been forced to complement household income by accepting low-pay part-time jobs or by participating in the informal sector. They account for the vast majority of entrances into the informal sector
- 2- the male/female wage gap has widened
- 3- women became more dependent economically on men because of the budget cutting on social programs
- 4- women's productive and reproductive work burden have increased considerably
- 5- women and children have fallen victim to familial violence

Race

- 1- indigenous people have been forced to leave their land as TNCs set "development projects" in the rain forest
- 2- indigenous people have been the most affected by primary health care and education budgets cuttings
- 3- indigenous workers have experienced severe unemployment and extremely low wages
- 4- black farmers depended more on the United Brands for selling their products in the world market
- 5- black women have been severely affected by SAPs because they are the inhabitants of the poorest province of Costa Rica

Based on these findings the thesis of this study has been partially confirmed, supported by available data. More research has be done on the impacts of SAPs by gender, ethnicity and race. Recognizing this need is important for the benefit of future studies on the impact of structural adjustment on Costa Ricans.

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Endnotes

1. Quality of life is a broad term. However, in this thesis is defined as the development of people themselves through health care, education, training and cultural activities. In order to fulfil basic needs a reasonable amount of material resources are needed. Although, contemporary forms of capital accumulation are detrimental to minority groups and the environment economic growth can bring desirable standards of living, employment, and end of poverty. (Source: Mini-Dictionary of International Development, Youth Edition Group, Hull, 1990, p29)

2. "Another Development" is the alternative paradigm and seek to fulfil basic human needs. The principles of this paradigm are:

Need oriented: being geared to meeting human needs, both material and non-material.

Endogenous: stemming from heart of each society, which defines in sovereignty its values and the vision of its future.

Self-reliant: that is implying that each society relies primarily in its own strength and resources in terms of its members' energies and its natural and cultural environment.

Ecologically sound: utilizing rationally the resources of the biosphere in full awareness of the potential of local ecosystems as well as the global and local outer limits imposed on present and future generations.

Based on structural transformation: seeking conditions of self-management and participation in decision making by all those affected by it, from the rural to the urban community to the world as a whole, without which the goals above could not be achieved.

This paradigm contradict the mainstream paradigm. The mainstream paradigm is rooted in an institutional structure with manifestations such as industrialism, statism and professionalism. Marxism is linked to state intervention and the command economy, while mainstream economics is concerned with market exchange (Source: Development Theory and the Three Worlds, Bjorn Hettne, New York, 1990, p.152)

3. During the nineteenth century neo-classic economics focused on the maximisation of efficiency with short-run resource allocation. This economic approach values the merits of competitive private enterprises operating in a free market system. Belief in the philosophy of

laissez-faire and acceptance of the theory of the comparative advantage are the principles of the neo-classical school. Currently, the main concern of neo-classical economists is to promote individual incentives and efficient resource use by improving the operation of the market system. This concern is closely linked to economic and political factors. A free market is seen as the economic counterpart to a multi-party democratic political system based upon a universal secret ballot.

In the 1950's two themes were central: the importance of restricting the role of the state and the importance of promoting international trade. Governments should concentrate in the performance of those tasks which are essential preconditions for the development of the private sector. For instance, the dissemination of technical information to small-scale producers, both agricultural and industrial and promoting institutional changes conducive to the development of private enterprise. Eventually, it was recognized by orthodox economics the great diversity of conditions - economic, political and cultural- that are prevalent in underdeveloped economies. Similarly, it was acknowledged the importance of free movement of immigrants across national boundaries and selective provision of international credit available to those countries which make best use of capital.

During the development debate (1960-70's) the "*laissez-faire*" theorists considered the option of governments as participants in income distribution and engagement in production. In contrast, the "welfare" theorists were concerned on finding the most efficient, least distortionary method of achieving government objectives. For both groups international trade and national industrialization were the goals. The strategy for economic development was export-led growth in which a set of "distortion minimising" principles were provided for policy formation. The basic assumption was that countries can mutually gain from trade and that the opportunity to trade extends the frontier for consumption.

Both *laissez-faire* and welfare neo-classic economists viewed the possibility that economies may be subject to various types of institutional and other factors that distort the efficient functioning of the market system. These distortions were divided in two groups: endogenous to the existing culture, society and economy and those created by government policies. For *laissez-faire* economists, distortions produced by governments

should be removed, however, endogenous distortions should not be intervene. Meanwhile, for welfare theorists only distortions in the international market justify the implementation of taxes and tariffs.

Neo-classical economists made an analysis of the causes of balance of payments instability and domestic inflation in less developed countries. According to them, market distortions are results of monetarism and state intervention. This view can be resume as follows:

If the growth rate of the money supply in a particular country exceeds the rate of growth of output and income, then the demand for goods and services will grow faster than output. This leads to upward pressure on domestic prices and to pressure on the balance of payments. At the same time, declining real interest rates may lead to increasing capital outflows. Finally, the cure for both balance of payments deficits and for domestic price inflation lies on curtailing the rate of growth of domestic demand by controlling the growth of the money supply. Similarly, an important feature of monetary control is the reduction of public sector deficit. Likewise, the equilibrium of the balance of payments can be achieved if imports are reduced and exports are increased. Nonetheless, this policy has to be accompanied with a devaluation of the domestic currency. In addition, in order to reduce both aggregate domestic demand and capital outflows an increase in domestic interest rates is likely to be necessary. Failures to attain desirable objectives are ascribed to introducing large changes too fast or to implementing a portion of the complete package of reforms. (Source: Diana Hunt, 1988: 127-147)

4. The debt crisis grew slowly since the 1970's when a large number of developing countries began to receive credits from commercial banks. Many developing countries had financed deficits in their balance of payments with low interest rate credits. Interest rates remained stable during the 1970's despite the stipulations that made them "variable or floatant" under inflationary conditions.

The rise of the oil prices in 1974 and 1979 produced a large pool of cash that was borrowed by many poor countries. The Organization of Petroleum Exporting Countries (O.P.E.C.) had deposited about 50 percent of their funds in 1974 and 65 percent in 1979 in international commercial banks. Banks lent to non-oil producer countries over \$354 billions U.S. in 1982. Although many poor countries were able to borrow, some

very poor countries were never able to borrow much from commercial banks. Near eighty seven per cent of the very poor countries debt was contracted with governments and international agencies in 1980. About two-thirds of the commercial bank loans were acquired by thirteen countries including Argentina, Brazil, Mexico, and South Korea. Almost a third of the commercial banks were U.S. based with loans contracted by Latin American countries for over 98 billions U.S. dollars. The crisis began with Mexico's announcement that it had a shortage of funds for servicing its external debt in 1982.

Three factors initiated the crisis: 1) the world recession in the 1980's 2) the sharp increase in the interest rates starting in 1978 and 3) the strength of the dollar.

The world recession of the early 1980's maintained rich countries working at a slow pace. As a result, exports from poor countries were reduced since its demand in rich countries decreased. Moreover, the rise of the oil prices in 1979 contributed to enhance the economic and social impact of the recession because poor countries' hard currency reserve was shortened since the price per barrel was higher. For instance a \$1 per barrel rise meant \$2 billion more in annual spending on oil at the time. The combination of low demand for exports and the rise of oil prices not only contributed to a shortage of hard currency, but also to the diminishing of the purchasing power of the U.S. dollar in poor countries.

The second cause of the debt crisis was the rise in interest rates. The interest rate payments for loans in developing countries had absorbed only 0.5 per cent of the G.N.P. in 1970, while it reached 2.8 per cent in 1984. The reason for increasing interest rates was due to the combination of monetary policies in the United States and Britain on one hand and the variability of interest rates for loans. Monetary policies were implemented by European banks to resist the inflation produced by oil prices. Close to seventy per cent of the banks loans came from European currency markets which maintained a policy of variable interest rates (LIBOR) in order to avoid economic losses, especially in 1970 and 1979 with the rise of oil prices. In addition, the growing budget deficits in the United States demanded more credits causing a rise of interest rates.

A third factor was the relative strength of the U.S. dollar due to capital transfers from abroad. From 1978 to 1982 near \$50 billion US were deposited in US banks. Interest rates were high because of the US budget deficit. (Source: Hogendorn, 1992:196-202.)

5.Liberalism refers to the rights and freedoms of individuals and groups (pluralism.) Sometimes groups (ethnic, racial, occupational or functional) may make claims that requires a great deal of decentralization of the state. These claims even go beyond decentralization to assert separation and independence. As long as there is a basic agreement in society about the rules that determine political competition, and as long as there is economic growth, pluralism and liberalism may coexist. (Source: Macridis, 1983:41)

6.Jeremy Bentham (1748-1831) developed the concept of "utilitarianism" that affirms that "every object has a subjective utility and that this utility can be determine by how much pleasure it produces on people. (Source: Macridis, 1983:23)

7.Relating to or constituting a contract.(Source: Webster's Ninth New Collegiate Dictionary, 1988)

8.This concept derives from either the German *Staat* or the French *Etat*; meaning a legal entity or organization of the highest order designed by human beings for the purpose of expediting their survival on earth through a set of prearranged institutions and processes. The essential elements comprising a state in the classical sense are: territory, population, sovereignty, political institutions, effective control over population and territory and continuity.(Source: Dictionary of Politics, Walter J.Raymond, Lawrenceville, 1973:657-659)

9.The basic formulation of the concept of market system was articulated by Adam Smith (1723-1790.) In The Wealth of Nations, Smith opens the channels for free individual economic effort and the free market economy as the best instrument for producing wealth.(Source: Contemporary Political Ideologies, Roy C. Macridis, Toronto, 1983:27)

10.Traditionally, a representative democracy has been associated with three liberties: personal, civil, and social. Personal

11. John Stuart Mill proposed that all individuals are motivated by self-regarding acts, that is acts that can not be controlled by the state. However, acts that concern and affect others can and should come under regulation of the state. (Source: Macridis:35.)

12. Jean Jacques Rousseau defined the concept of government as a committee in where sovereignty under the general will is protected. A government is merely an agent using powers which are granted to it by the people and which it can be withdrawn at their will. (Source: Dictionary of Politics: 606)

13. For Barry B. Levine (1992) the collapse of the Soviet Union, the economic prosperity of some Asian countries, the transformation of left wing political parties in West Europe and the emergency of a strong European Market have made the Marxist debate on politics and economics irrelevant. Moreover, in Latin America the economic achievements in Chile has allowed the implementation of liberal policies. As a result, paternalism, populism and dependency have been "overcome in most Latin American countries."

14. Mercantilism is an economic philosophy that measures the power of a state in terms of its possession in gold and silver. (Source: The Dictionary of 20th Century World Politics, Jay Shafritz, New York, 1993:443)

15. Coaction means a balance between human activities and the ecological community.

16. For Marx Weber a social order is democratic if people believe and support the political regime.

17. Power on hands of one person is considered as a dictatorship.

18. See Karl Popper, The Open Society and Its Enemies, Pricenton University Press, 1966.

19. Values such as mutual tolerance, party system and free media are important elements within the democratic model.

20. A "Estado de Derecho" is a law system that specifies the division of power, judicial procedures and administrative analysis.

21. The classical approach introduced by Marx Weber in the Protestant Ethics and the Spirit of Capitalism argues that modern capitalism is characterized by a systematic application of rationality and the practice of ascetism and hard work.

22. For Karl Marx the general formula of capital is M-C-M. In other words a sum of value is thrown into circulation to extract a profit. The only way in which

the capitalist can convert the value of his advanced variable capital into a greater value is by exchanging it for living labour and exploiting living labour. (Source: Das Kapital, Karl Marx, 1962:41)

23. For Karl Marx the owners of labour power, owners of capital, and land owners constitute the three big classes of modern society based upon the capitalist mode of production. In the Marxist tradition a social class is defined in term of the relationship individuals have with the means of production. (Source: Marx, 1963:862, Macridis:106)

24. This concept refers to the "historical process of divorcing the producer from the means of production" (Source: Marx, 1962:349-350)

25. Cost-price and surplus value are two elements that determinate the value of a commodity. Surplus-value is the excess value of a commodity above its cost price, while, cost-price equals the value of the consumed capital. (Source: Marx, 1963:34)

26. According to Marx "the immediate producer, the labourer, could only dispose of his own person after he had ceased to be attached to the soil and ceased to be the slave, serf, or bondman of another. The historical movement which changes the producers into wage-workers, appears, on the hand, as their emancipation from serfdom But, in the other hand, these freedmen became sellers of themselves only after they had been robbed of all their own means of production, and of all the guarantees of existence afforded by the old feudal arrangements." (Source: Das Kapital, 1965:351)

27. For Marx a capitalist process is characterized by the expropriation of private proprietors from the means of production. This expropriation is accomplished by the action of the immanent laws of capitalistic production and by the centralization of capital: one capitalist always kills many. This centralization is accompanied by a conscious application of science, a methodological cultivation of the soil, and a transformation of the instruments of labour and an entanglement of workers in the net of the world-market. (Source: Das Kapital:355)

28. The law of the pauperization refers to the "army of unemployed and unemployable people" as the *lumpenproletariat*." (Source: Macridis:101)

29. Dependency theory refers to an unequal trade relationship between industrial countries (the centre) and poor countries (the periphery.) The first argument within Dependency theory is unequal exchange. Unequal exchange considers that the doctrine of "comparative advantage" is "flawed" and that trade is likely to result in "unequal exchange." The "enclave" argument affirms that exports from developing countries fail to stimulate development because of the low multiplier effect of trade base on primary products. The "backwash" argument asserts that trade under static comparative advantage may be of benefit of all, but that some countries will benefit far more than others. The last argument, "terms of trade", argues that the prices of exports from developing countries have declined compare to the prices of goods exported from the industrial world (Source: Hogendorn, 1992:434.)

30. The Argentine-Uruguayan (1890) and the Latin American (1930) debt crisis are the two previous debt crisis. (Source: Dietz, 1989:17)

31. The onset of the current debt crisis began between 1970 and 1982.

32. A crisis of capitalist relations of production involves a crisis of the capitalist form of class domination -economic, political and ideological. The outcome of the crisis involves a choice between the reconstitution of those relations of production in a manner that will make possible the renewed self-expansion of capital. This outcome depends upon the way in which the crisis is apprehended ideologically and the way in which the perception of the crisis influences the political struggles around the reconstitution or the transformation of the relations of production. The following factors count for the development of the current effects of the crisis of capitalism:

- a massive concentration of capital as numerous producers were forced to bankruptcy.
 - the war years generated a huge stock of scientific and technical innovations.
 - a large pool of cheap and skilled labour force.
 - 4- new forms of intensive accumulation and the division of technical and manual labour associated with the spread of Fordism.
 - creation of a set of financial and trading arrangements that was designed to balance international trade and investment under the US hegemony.
- Complementing the Bretton Woods agreement was the

General Agreement on Tariffs and Trade (GATT), which opened the way for a more liberalized international trading regime in the post-war years.

The onset of the current economic crisis in the late 1960's and early 1970's was the result of the intensification of inter-imperialist rivalry among the major capitalist economies. The introduction of new information technologies by Japan and Europe produced massive dislocations in the patterns of work and levels of employment -particularly for women workers. On the other hand, states played an important role in providing the material conditions necessary for capitalist production and accumulation. Also states worldwide laid the basis for the implementation of an agreement between capital and labour known as Keynesian welfare policies. (Source: Wolfe:7-15)

33. Developing countries responded to these policies in different ways:

- the share of the world's exports of manufactured goods deriving from the periphery rose from 4.3 percent in 1965 to 9.2 percent in 1980, and to 12.4 percent in 1985.

- local content laws were being applied against transnational capital and demands were made for repatriation of profits.

- a third challenge came at the level of ideology and political structure. The Nonaligned Movements, UNCTAD and UNESCO became the political forums of developing countries.

peripheral countries attempted to orchestrate their own development with the aid of state plans, state development plans, and a growing state industrial, agricultural and trade network of publicly owned firms. This strategy is known as *dirigisme*.

- some developing countries have sought to form cartels in mineral and tropical products in order to neutralize the Organization of Petroleum Exporting Countries (O.P.E.C.)

- peripheral countries began to take an active role on fulfilling their needs in the 1970's. The I.M.F. moved away from imposing austerity programs in response to countries with acute balance of payments problems. Meanwhile the World Bank pushed project lending into housing, schooling, transportation, and basic food programs. The changes at the IMF and the World Bank responded to the availability of transnational bank credits in the 1970's. (Source: Cypher:58-59)

34. Monetarism argues that economic outcomes depend on the rate of growth of the money supply. Inflation control, economic growth and employment depend on monetary policies. For monetarists the best economic performance is achieved by having the central bank set a long-term growth rate of money supply. and then letting the free market allocate resources within society. Monetarists reject fiscal policies because "it does little on the level of economic growth, the rate of inflation and the creation of jobs. (Source: A Dictionary of Canadian Economics, David Crane, Hurtig Publishers, (Edmonton, 1980) p:223-224)

35. An oligarchy is a government where the political and economic power is controlled by people who belong to the same social class.

36. Semi-proletarian peasants are independent peasants who supplement their earnings performing wage work for large agricultural enterprises.

37. *Limón* is the capital city of the Atlantic province of *Limón*.

38. The Communist Party, the Reformist Party and the Social Democratic Party were the political parties whose programs focused on current socio-economic problems.

39. During the 1920's agricultural workers had been benefit by good coffee prices, however, during the 1930's coffee prices dropped. Many agricultural workers began to migrate to the banana enclave in the Atlantic Coast of Costa Rica.

40. At the time the petty-bourgeoisie was composed basically of merchants and small industrialists.

41. Developmentalism seek to increase investment and capital formation rates with the intervention of the state.

42. The Green Revolution refers to the introduction worldwide of new techniques in the agriculture sector in the 1960s.

43. Small farms of less than 5 hectares.

44. The banana industry had moved from the Atlantic Coast during the 1940's but it returned 1968.

45. *San José* is the capital city of Costa Rica.

46.Trade off between exports and imports.

47.Coffee prices shifted from \$1.26 in 1975 to \$4.72 in 1977. (Source: Solís & Esquivel:71)

48.By the early 1970's every US \$100 of manufactured goods required \$80 of imported machinery and materials.

49.Local currency.

50.CINDE is a coalition for development initiatives; FINTRA is a fund trust that supported the buy out of state enterprises.

51.The Club of Paris is an informal gathering of creditors nations who meet to discuss rescheduling requests from debtors nations from outstanding loans to official and governments.

52.The *Solidarista* movement is based on a non-antagonist philosophy of the relations between capital and labour. On a firm basis, a *Solidarista* organization can be set with contributions by employees and tax deductible matching funds by the employers. The organization with an employee majority in its board of directors decides the use of such funds, which may range from buying the very same company to creating others firms and investing in housing programs (Source: Rodriguez, 1993:43).