Kindred Economies? Poverty in Costa Rica and the Irish Example

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Bananas don't necessarily conjure up images of advanced technology or qualitative research and design. Indeed, the association is more with Harry Belafonte than the Finance Minister of a nation's government. Yet, if per chance you were to come upon the Costa Rican Finance Minister, bananas would most definitely be the order of conversation of the day.

Bananas are the main exporting product of Costa Rica, and therefore are pivotal to its overall economy, together with coffee, in much the same way as beef and butter were to Ireland in the 1950's. The commodity prices paid for bananas, coffee, beef or butter are relatively low when compared to the prices paid for electronic equipment, the main export products of a country such as Japan. Possibilities for technological advance in the case of the former are conspicuously fewer than those of the latter, and therefore opportunities for product diversification are significantly higher for Japan than they are for Costa Rica. In fact, Costa Rica relies so heavily on such a small base of commodity-type products that it is described quite aptly, as a 'banana republic'. Consequently, Costa Rica and poverty are highly associated.

How then did Ireland move from a relatively undeveloped economy, also reliant on a small base of commodity products, to the position it now enjoys as a constituent member of one the world's largest trading blocs? The overall objective of this paper is to discover why poverty exists in Costa Rica, and by employing the example of Ireland's rapid economic growth during the 1960's, to outline possible ways in which this poverty might be eased.

In order to make use of the Irish example, some fundamental assumptions must first be made, with regard to the analysis of the following sections. Firstly, it is assumed that the attainment of economic growth will go at least some way toward the alleviation of poverty, and that, coupled with improved income distribution, economic prosperity is a possibility. This cannot be taken as implicit, as much of the literature on development economics expresses conflicting theories as to the specifics of the effects of growth on income distribution and poverty eradication. Secondly, the analysis will only focus on economic aspects of poverty; social factors shall be overlooked in this paper.

Costa Rica as a small open economy

According to Nolan's (1987) definition of a small open economy, theoretical 'smallness' is identified by the lack of any effects of shifts in domestic demand or supply schedules on international markets. In addition, the domestic producers of traded goods should face no constraints to demand; and a 'small' economy should not be able to influence the prices it pays for internationally traded products.

The application of these criteria to Costa Rica indicates that, theoretically, it is a small economy, qualifications to this being that with regard to bananas, in which it produced 16.7% of world exports in 1986, and to a lesser extent, coffee, Costa Rica is not 'small'.

The extent to which Costa Rica is 'open' is determined by the existence of a series of 'linkages' to the international economy. The integration of Costa Rica's traded goods sector can be gauged by analysing the ratio of exports and imports, in turn, to the overall level of GNP. In 1989, these were 28.3% and 36% respectively. The equivalent figures during the period 1961-68, for the Irish economy were 44% and 47% respectively. While the levels differ considerably between the two economies, the trend in the Irish figures is significant, as by 1989 they had grown to 67.9% for exports, and 57% for imports. This constitutes enormous growth in Ireland's traded sector in the intervening twenty year period, and implies that there was a reversal in the structure of the growth in the Irish traded sector, a point which will be discussed later. Costa Rican integration is further underlined by high labour market integration, as evidenced by large scale emigration to the United States. The high level of foreign debt highlights the interconnections with the international financial markets, and the operation of multinationals gives further testimony to the 'openness' of the Costa Rican economy.

The conclusion to be reached, therefore, is that Costa Rica is an SOE, facilitating the use of SOE constructs in attempting to model and explain its growth processes. Nolan delineates two distinct categories in this growth process. Firstly, there are those factors which influence the growth of the international system (of which the SOE is part) and secondly, there are those factors which alter the position of the SOE within the international climate. It is assumed herein that Ireland and Costa Rica are both small open economies (the purpose of this paper is not to prove this - it shall be taken as given) and this result allows parallels between the Irish and Costa Rican economies to be made. We may therefore ask if the 'prescriptions' of the Irish SOE construct are suitable for application in a Costa Rican context.

Irish growth and its implications

Kennedy and Dowling (1975) concluded that the marked rise in the level of Irish economic growth between 1961-68 did not take place in the context of an overall rise in growth or trade levels of the OECD countries. The implication of this, then, is that Ireland's growth can be attributed to the second category of the growth process above, the factors influencing the change in the position of the SOE within the international climate. The Irish growth experience involved a rise in the level of exports (at current market prices) of

9.2%, and a growth in overall output of 4.1% per annum (the highest level of any period since the second World War). Most significant, however, was the growth in the industrial sector, which increased at a faster rate than any other sector. This, in effect, answers the question of why this rapid growth in the total economy occurred. As mentioned, the traded sector, as a sub-component of the industrial sector, grew rapidly, with the increase in exports (and imports, which were a result of growth rather than a cause), driving and fuelling the economy. The most important of the factors responsible for this boom was the reversal of Ireland's inward looking protectionist policies, and a new focus upon the attainment of industrial growth, which was aided by the influx of multinationals whose intent was to use Ireland as a gateway to Europe. That Ireland was able to attract these multinationals can be attributed to the improvement in the infrastructure, the introduction of financial attractions (such as tax incentives), and the abolition of any discriminatory policies.

The implication of the aforementioned points is that Ireland's rising economic prospects were, in the main, the result of an increase in the performance of and volume of the industrial sector, driven by the traded goods sector. It is with this then that attention is now focussed upon the situation of Costa Rica.

Poverty in Costa Rica

The analysis of the preceeding section has enabled us to identify those factors which contributed to Ireland's advancement in the international economy to the status of an industrialised nation, albeit on a more peripheral level than the central regions of Europe. This section will entail a discussion of the current state of the Costa Rican economy, and an analysis of why advancement will prove more difficult than in Ireland's case, and why the term 'poverty' is thus so closely associated with Costa Rica.

Any discussion of the causal factors of poverty in Costa Rica must begin with reference to the relatively low level of growth experienced by the domestic economy. Indeed, the industrial base (which played a vital role in the rising fortunes of the Irish economy in the 1960's), upon which Costa Rica can hope to develop, is insufficiently large, thus even though growth rates may in fact be on a par with some of the more developed economies, the divergence between the economies remains somewhat marked. Thus it is this which lies at the crux of Costa Rica's economic 'growth' problem. In contrast to the Irish agricultural sector the percentage contribution to GDP of agriculture in Costa Rica has remained constant, and agriculture is still looked towards to provide some impetus to economic growth. However, the downward spiralling of commodity prices on international markets has caused a corresponding downward spiral in economic growth.

Another contributory factor to the persistence of poverty in Costa Rica is the relatively low level of factor incomes, as evidenced by the figure for GNP per capita, which in 1990 was

US$1,690, or approximately one fifth the level of Ireland's equivalent figure. Compounding this is the low level of GNP growth per capita which stands at 1.4% compared to Ireland's 2%. Add to this the high levels of inflation that exist in Costa Rica (as high as 25% during the 1980's) and the reasons for the existence of poverty become more clear. As if this weren't enough, the distribution of these relatively low income levels causes a polarisation in the economy, where the lowest 20% of the population earn just 3.3% of the income, while the highest 20% earn 55%.

Table 1 illustrates the trend in income distribution for the thirteen year period between 1973-86. As can be seen, the position of the lowest 40% in society has disimproved in this period, and relative to the figures of the other nations in the comparison, the level of income this lowest group holds is still significantly small. Marginal transference of income holdings was achieved in the highest income quintile, but this has merely passed to the middle income groups. Accordingly then, it can be deduced that without more equitable levels of distribution, any increase in the level of economic growth will give only marginal relief to the poorer sections of Costa Rican society. It is at this juncture however, that economic factors become influenced by politics. Any fiscal measures implemented to increase distribution of income, such as increased transfer payments, will have to be financed by increases in taxation. Obviously this will prove unpopular among the more influential income groups and the private sector. For any government to introduce these policy measures, there will obviously be a need for unilateral agreement (on much the same lines as the PESP 1990). This type of approach has its problem areas of course, and these include the disincentives to investment of higher taxation. Certain exemptions will be required with regard to foreign investment in order to maintain Costa Rica's attractiveness as a location for industry; however, it is here that a lesson can be taken from the Irish experience, namely to build into the system of foreign investment certain specifications for increased involvement in the domestic economy. Put more bluntly, it must be ensured that benefits accrue to the indigenous economy as a result of direct foreign involvement, whether by minimum levels of profit retention or by more direct spending in Costa Rican markets. Further, guarantees of more labour intensive methods of production must be sought in order to utilise the one factor of production Costa Rica has in abundance.

In conjunction with industrial growth and employment creation, efforts needs to be directed towards the support of the agricultural sector. In order for industrial growth to achieve any significant effects on economic growth and employment, the agricultural level of employment must at least remain constant. Otherwise, unemployment will merely shift to urban centres

Conclusion

If it is assumed that economic growth will go some way towards the

Income Distribution: International Comparison

Country,	Year	Lowest 40%	Middle 20%	Highest 20%
Costa Rica	1973	13	12	60
Japan	1979	21.9	17.5	37.5
Israel	1979	18.1	17.8	39.6
U.S.A.	1985	15.7	17.4	41.9
Costa Rica	1986	11.6	13.2	54.5

Source : Adapted from World Development Report 1990

Table 1

easing of poverty, then as has been emphasised in this paper, increased distribution of income is imperative, for one without the other is a zero sum gain. Also highlighted were some of the ways in which economic growth might be achieved in Costa Rica, by relying on the experience of the Irish economy during the 1960's.

The implication of this analysis is that a transfer of emphasis from the agricultural sector to industry is necessary in order to diversify production and achieve higher levels of factor income through an expanded traded goods sector. International trade theory, macroeconomic theory or balance of payments theory based on large countries and their interactions cannot simply be applied to small economic entities. Indeed, macroeconomic theory becomes trivial in the light of the appropriateness of the SOE construct to Costa Rican circumstances. The assumptions of traded goods sector integration and smallness are not significantly violated by conditions in the Costa Rican economy. This paper has outlined some ways in which the domestic economy can move forward in the absence of any direct foreign aid and, therefore lessen the burden of poverty.

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