

The Construction of an Order:
Structural Adjustment in Costa Rica (1985-1995)

by

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November 1995

Submitted to The Graduate Faculty of Political and Social Science of the New School for Social Research in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

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This dissertation studies the political process of adjustment policies (1980-1995) with emphasis on World Bank structural adjustment programs (1985-1995) in Costa Rica. I focus on how these policies are elaborated and approved inside the polity. I then use that description to gain insight into the socio-political order that is emerging: the formation and/or consolidation of power structures, the empowerment of some social and political actors, and the exclusion and/or weakening of others. The empirical study is limited to the political process inside the state.

The main conclusions point to the emergence of an economic team as a new, informal institution, with precise functions as the national counterpart of the international agreements. This team, due to (1) its placement in the political system (appointment by discretionary action of the president of the republic and relatively insulated from public

opinion) (2) its relationship with its counterparts in the international financial institutions, and (3) the secrecy of the procedures of negotiation, is situated in a position of power that enables it to produce agreements which are negotiated in the name of the country and are in most cases enforced without any additional consultation with any other political institution, and in some cases with no exposure to the public sphere. Additionally, the country is bound to honor these commitments by the power that the international financial organizations have in the international financial community.

Parallel to the empowerment of the economic team, the legislative assembly has a subordinate position in relation to adjustment policies. Only structural adjustment loans are submitted to legislative scrutiny. However, they receive a limited discussion, and the legislative is restricted in its power to alter the agreement. The analysis of the discussion of the three structural adjustment loans shows that the legislative is a space for the struggle of corporatist party interests and for the inclusion of interests of economic elites.

The conclusions point to a closed and elitist political field, and a narrow development agenda, structured around the relationship between the economy and the state.

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INTRODUCTION

This dissertation studies the political process of adjustment policies (1980-1995) with emphasis on World Bank structural adjustment programs (1985-1995) in Costa Rica. Costa Rica, like most other Latin American countries, went through one of its worst economic crises during the early 1980's, a crisis that involved the state-centered "model" of inward-oriented import substitution industrialization (O'Donnell, 1992; González Casanova, 1992). To overcome this crisis, Costa Rica has followed stabilization policies proposed by the International Monetary Fund since 1980, and structural adjustment programs created and promoted by the World Bank since 1985.

The general objective of these adjustment policies is to achieve international trade and fiscal balance, two important components of the economic crisis of the Latin American countries. The World Bank's structural adjustment programs propose to accomplish these goals through changes that focus on the liberalization of trade, the elimination of subsidies and the restructuring of the State. The liberalization of trade implies the shift of the economy towards exports ("outward oriented"). The World Bank

states that its central concern is the establishment and operation of markets, limiting the state to a subsidiary economic role (World Bank, 1991).

These policies can be situated in the anti-statist intellectual currents of the eighties, which defined some forms of state intervention to be correct and others to be wrong, and which in general proposed reducing state intervention in economic activities. The World Bank and the IMF have been presenting these policies to the heavily indebted second and third world countries as technical proposals for the reassumption of economic growth. In exchange for its obedience and compliance with these guidelines, the recipient country receives loans and a certificate of good conduct vis à vis the international financial community.

Adjustment policies propose major changes of the social order, focussed on the relationship between the state and the economy: from inward-oriented growth to exports, from a state-centered organization to forms of regulation through markets. Contrary to their technical forms of presentation the reforms involve central political questions such as the distribution of wealth and power, the areas and forms of state intervention. The latter is particularly complex in the case of Costa Rica. Costa Rica developed a strong state (by Latin American standards), in the context of a stable democratic regime,¹ which creates a historical legacy with which adjustment policies have to deal, both in terms of the legitimacy of the forms of state intervention, and the challenge of introducing change inside patterned relations of power.

In this dissertation I focus on the political process of structural adjustment, on how these policies are elaborated and approved inside the polity. My objective is to then use that description to gain insight into the socio-political order: the formation-consolidation of power structures as well as the limits of political action on the part of different actors: the empowerment of some social and political actors, and the exclusion of others; the inclusion of some themes in the political agenda and the exclusion of others.

The focus is placed on the political process inside the state. The state is defined from the perspective of:

"a set of social relations that establishes a certain order and ultimately backs it with a centralized coercive guarantee, over a given territory...That order is not an equal, socially impartial order; it backs and helps reproduce, systematically asymmetric power relations. It is however an order, in the sense that manifold social relationships are engaged on the basis of stable (if not necessarily approved) norms and expectations." (O'Donnell, 1993, p. 1356).

This is justified empirically since the state is the central site of negotiation of the reform process and the ^{its} main agent of the reform process; it is justified theoretically in that the state -particularly in state-centered nations- constitutes the pivot of social organization.

This perspective of the state as an order² defines an angle from which to look at the reform process and the resulting power structures. The power structures are interpreted through the concept of political field, defined as a structured space of

positions in which the different actors struggle to maintain or alter the different distribution of power or "capital" (Bourdieu, 1980, pp. 113-120).

The methodological approach concentrates on reconstructing the political process at two levels: (1) that of the negotiation of agreements between the Costa Rican government and the international financial organizations (Part 1); (2) that of the legislative discussion of structural adjustment loans (Part 2).

In both cases I ask the same questions to guide the analysis: (1) Who participates in the negotiations, in whose name? Conversely, who is excluded? (2) How are agreements worked out? How are those that negotiate authorized to do so? (3) What is at stake in the negotiations?

The sources to reconstruct the narrative of events are different at each level, which defines differences in the analytical possibilities. For the international agreements I primarily used the texts of the covenants, which is a source that provides little insight into the actual process of negotiation and does not contain the point of view of the actors. To try to fill in some of the gaps of the material, I interviewed some national negotiators, which provided me with some information as to how these negotiations take place. Additionally, in some cases, where there has been conflict over an agreement, public debate has ensued. In some cases this debate gives some insight into the different social actors that participate in the struggle, as well as the points of contention. Finally, in a

few cases the minutes of negotiation of the Costa Rican government with the international financial organizations have become public, and these provide an important source of information. However, this is exceptional. The covenants of the international agreements provide the outline of the adjustment project.

At the legislative level, my source is the legislative files. These files contain the minutes of the legislative sessions as well as relevant documents in relation to the law that is being discussed. My attention was placed on the minutes. This material -the discursive expression of different social and political actors- provides a perspective on the power relationship between those actors, the distances and differences, the stakes in the struggles that they undertake, as well as the ways in which they justify their actions. The discussions are not only structured around what is being said, but are also related to other, non-verbal aspects that are present in the power struggles, such as the use of time and the uses of the legislative debate rulings. The interpretative effort concentrates on relating those different factors in a description of the logic of the legislative practice in the discussion of the structural adjustment programs.

The assumption that lies behind this approach to the material is that the interpretation of the discourse of different social agents (in the broad sense of the understanding of verbal and non-verbal meanings) together with a reconstruction of their positions permits a reconstruction of the political field (Bourdieu, Wacquant, 1992, pp.

104-105). The discourse analysis also sheds light on the interests³ that move different agents in the struggles, as well as the different strategies to accumulate capital.

It also constitutes a way to critically approach the study of the institutions in which these agents act and that are to some extent constituted by those actions: The perspective offered by the concept of fields provides an approach to the study of institutions, that avoids the pitfall of assuming as valid the formal rules that are said to organize the interaction inside and amongst institutions, and focusses the observation instead on the power struggles which take place amongst the actors.

The option of concentrating on these aspects of the political process of adjustment has the advantage of providing an approach to the study of the political field from the perspective of the "commanding heights" of the state. However, this angle of observation also entails limits in relation to the processes that are not visible from that standpoint. Amongst the angles that are excluded, it is important to point out two: (1) It eliminates the previous social discussion in relation to the policies, the process through which they were constructed; (2) It does not study the process through which these policies are applied, process in which social actors that have no voice in the previous decision process of the centralized political institutions sometimes become visible, and important struggles take place. In this latter process policies can change significantly in relation to their original formulation and objectives. This is the case, for example, of the legal

and political struggle of public employees in avoiding budget cuts, salary and job reductions.

An additional limitation of the study is that its restricted time frame does not permit a systematic comparison to establish in what ways the political field of the past decade is similar or different from the past. There is very little research on this theme, so it is not possible to compare.

Notes:

1. This point is further elaborated in Chapter 1 that situates the historical context of the reform process.

2. To differentiate this conception of the state from that of the "state theorists" as set forth in the trend of state theory and research expressed in "Bringing the state back in" (Evans, Rueschmeyer, Skocpol, 1985), I use the term "state apparatus" to refer to the aggregate of public institutions.

3. Interests is here defined in Bourdieu's sense (Bourdieu, 1990, p. 87), as the variety "motivations" or "emotional investments" of different actors. The different kinds of interests that can move actors is unlimited in its possibilities. This notion constitutes a direct critique to the one-sided assumptions of utilitarian "rationality" of rational choice theory. From this perspective, all of the actors in the political field are interested in acquiring and accumulating political capital.

Chapter 1

Historical Context of Structural Adjustment

Contemporary social sciences describe Costa Rica -a small and poor third world country- as having followed a "model of development" ¹ between 1948 and the late seventies which was in general considered to be unique and positive. This model was characterized by import substitution industrialization and diversification of agricultural exports, promoted by the developmental state.²
with the developmental state

The model was organized around this basic relationship between the economy and the state: from there, social and political development were to a large extent derived. The expansion of health and education -the main social policies that contributed to social mobility and improvement of standards of living- were viewed to be favorable to the expansion of industrialization (as state contributions to the "reproduction of labor force"). The stability of a democratic regime, exceptional in the region, was viewed to be the outcome of this general increase in welfare.

The evaluation of the accuracy of this way of thinking is beyond the scope of this dissertation, and may not even be possible for me, as my understanding of the period is framed in this perspective. It constitutes a set of "deep assumptions" about our society, its institutions and the relationship amongst them; an ideology, which organizes a historical logic, gives development a coherence, and glosses over what it cannot explain.

While I am unable to systematically deconstruct this set of deep assumptions in the context of this dissertation, in which the historical knowledge is also a form of organization of my experience and that of ~~those~~ people I know, it is necessary to point out that there are many ~~and~~ important questions that this interpretation leaves unanswered. Maybe the most salient one is the validity of the links it establishes between the form of state intervention and economic development and the extension of social welfare and a stable democratic regime. In comparative perspective, most Latin American nations undertook import-substitution policies under the aegis of the developmental state. The rest of the elements: political stability, a democratic regime, and the extension of welfare through the state, are not present in most other countries, during this period. This points to the possibility that these aspects may not be directly related to relationship between economic development and the state. However, answering these questions would lead to another research project.

Nevertheless -despite my insatisfaction with the prevailing interpretations- I cannot but introduce the non-Costa Rican reader to the context of the debates about how this

"structure must be adjusted" through this perspective, which is the social history of that time. Since the period before 1985 is not part of this dissertation, I cannot do otherwise.

From the end of the second world war, through the seventies, Costa Rica underwent a long period of sustained economic growth. During this period, traditional exports (coffee and bananas) grew significantly, some diversification of ^{agricultural} exports took place (sugar and beef) and an import substitution industry developed inside the Central American Common Market. Despite the significant growth and the impressive modernization of the economic structure, Costa Rica's economy maintained typical traits of peripheral capitalism: relatively simple productive activities, extensive use of human and natural resources, scarce internal links between productive activities, lack of a strong pressure towards technological innovation (mostly in the industrial sector and cattle raising), strong dependency on imported raw materials and machinery. Besides, the highly competitive export sector and the inefficient and strongly protected industrial sector remained clearly distinct and separated (Garnier, 1991).

In the mid-seventies, Costa Rica's economy -like those of other non-oil producing countries of the third world- was severely affected by the combined effect of the rise of oil prices and a decline in those of its main exports. However, the effects of the first oil shock were brief in Costa Rica since coffee prices rose that year bringing a sudden bonanza and dispelling the fear of an economic crisis.

The reaction of the "liberacionista"³ governments of the seventies (Figueres Ferrer administration between 1970 and 1974, Oduber Quirós between 1974 and 1978) to the slackening of growth was to increase state intervention, including the promotion of productive projects that private enterprise was unwilling or unable to undertake. The limitations of the process of industrial development were attributed to the shortcomings of private capital, particularly its reluctance to take risks. A state corporation was created (CODESA) in 1972, with the purpose of developing state projects that would later be transferred to private capital, or to promote joint projects between the state and private capital. Ultimately, if business did not want to invest in projects that were considered important by the government, the state would undertake them, by itself if necessary. During the Oduber government CODESA founded around forty enterprises (FINTRA, 1993), most of which were entirely state property.⁴ The justification of the state financial corporation's activities appears in a 1973 text by a prominent "liberacionista":

"The nation is conscious of the pressing need of a development corporation, that can directly contribute to the increase of programs of real economic development, by directing private savings and to contribute to or to substitute the business class, so difficult to find in our countries." (Valverde, Jenaro, 1973).

President Oduber phrased his position as follows:

"The thesis that the State must actively participate in Costa Rica's economic development through corporations such as CODESA, RECOPE⁵, etc. has made a lot of gentlemen that never dared to make these businesses sick and sleepless; because they won't invest unless the interest is high and the guarantees are big... But there is a difference between those that are accusing us of corruption; and those of us that believe that those vital products of the economy must not be the business of the few, but the service spirit of national enterprises." (Oduber, quoted by Rivera, 1982)

In Oduber's government the state and the nation were viewed as a unity, the embodiment of the collective interest.

The increase of the state's involvement in production was accompanied by the largest expansion in welfare policies in thirty years.⁶ Additionally, in reaction to the global crisis, the Oduber administration increased support for agricultural production of staple foods for the domestic market through state subsidies to ensure supplies through the Consejo Nacional de Producción,⁷ crop insurance through the Instituto Nacional de Seguros,⁸ and subsidized credit through the National Banking System. The massive increase in expenditure produced by these new programs was financed by larger tax revenues brought in by the coffee bonanza (1976-1978), as well as through the expansion of foreign debt.

Oduber's reformism can be situated as the last years of a long period (mainly since the 1940's) of increase in state intervention and functions. The state was central in defining the shape of post-war development in Costa Rica. In 1948, the group that triumphed in that year's civil war expropriated all private banks and declared a state monopoly of the public's deposits. From the state banking system production priorities were defined and new economic groups were created. Credit policies were determined politically: interest rates and amounts of available credit were established according to politically defined priorities. For example, credit for production was given at lower interest rates and higher amounts were assigned than that oriented towards services or

commerce. In turn, industrial credit and that oriented towards export crops was favored over production of food for the internal market. Differences were also established according to types of producers: small producers and those organized in cooperatives received credit at lower interest rates than large producers. Next to the establishment of these general objectives, the banking system favored credit requests from those politically close to Liberación Nacional. Through loans, members of the "liberacionista" leadership became important entrepreneurs .

The state developed infrastructure. Roads and bridges made most of the country accessible by road. Water, electricity, telephone and sanitation were extended to most of the territory, including those areas that were too remote or the population density too low for it to be profitable to do so.

Public health and education were largely expanded from the 1940's In 1942 a social security institution was created, the coverage of which expanded over the following decades. From 1970, the government decreed the initiation of the process to cover the entire population under the social security system. By the mid-eighties 90% of the population was covered by the National Health Insurance System and a higher proportion was included in the programs of prevention (mainly vaccination and primary attention). The high coverage of these policies led to health statistics that placed Costa Rica at the top of the list of Latin American countries in health conditions.

Public education had been one of the historical concerns of ~~the~~ different governments since the late nineteenth century, when elementary education was declared free, mandatory and financed by the state. However, it tended to expand in the twentieth century, and in the postwar period became one of the central forms of ^{expansion of} social mobility. The expansion of education occurred both in coverage and as to the development of institutions of secondary education and universities. In the 1970's three public universities were created besides the University of Costa Rica, that had been founded in the reformist period of the early 1940's. Educational statistics also reflected the state's efforts in the development of this area. Adult illiteracy was down to 6% in 1985 (Trejos, Juan Diego, 1991, p. 77). Participation in secondary education increased to 41% in 1988, from 24% in 1965. For the same years enrollment in higher education increased from 6% to 24% (World Bank, 1991). The social programs, together with policies oriented to maintain or improve minimum wages, contributed to improve income distribution, particularly in favor of the middle sectors.⁹

In the years after 1948 a particular form of relationship between the state and civil society developed, in which the state actively intervened in the organization of civil society. The state developed extensive institutional ties with business and subaltern groups. As social and economic problems emerged, the groups that presented the claims were absorbed into the competence of specialized state institutions. Parallel to this, business groups representing the main sectors of economic activity, were directly involved in the decision making of the related institutions.

An important distinction must be made in the historical relationship of the state with different social groups. While the involvement of business groups in state institutions was made particularly at the level of decision making -that which has been called "concerted action" by Portantiero-, that of subaltern groups was made at the level of "negotiation"; meaning that while an institutional linkage was established to deal with the group's claims, this did not necessarily entail a commitment to involve the groups in decision making (Portantiero, 1984). Nevertheless, despite this difference, the sole fact of establishing institutional channels to deal with these issues entailed a recognition of the group's claims and was important in terms of the state's contribution to social integration.

The state apparatus was extended considerably with the creation of the specific institutions that were created to address social demands: to mediate land tenure conflicts and to respond to the demands of landless peasants;¹⁰ to attend to the problem of the shortage of housing;¹¹ to attend to the problem of extreme poverty.¹² Besides, specific institutions were created to regulate determined economic sectors,¹³ jointly directed -formally or in practice- by political appointees and representatives of the business groups. Also institutional frameworks were created to integrate popular groups into the state structure: community organizations, youth groups, cooperatives, women.¹⁴

The state was thus central in creating the conditions for economic development. Secondly, it developed a large system of social welfare through the expansion of the

institutions and coverage in health and education. Thirdly, it developed extensive institutional mechanisms of mediation of social conflict (Rivera, Guendell, 1989). Related to the increase in functions and tasks, the institutional apparatus of the state became larger, and, as an unintended but central effect of this development it became the main employer of middle sectors and professionals, and contributed greatly to the expansion of this social group.

Between 1948 and the mid-seventies, one can speak of a strong state in Costa Rica following Nordlinger's definition of the coincidence of high autonomy and high societal support (Nordlinger, 1987). However, Oduber's experiment of direct productive investment on the part of the state brought about an openly negative reaction from private businessmen in 1977-1978, reducing societal support. Business groups opposed what was termed as the "entrepreneurial state" ("estado empresario"): a polarization took place between the defenders of increased economic participation of the state (mainly placed in political positions), and those that supported the values of free enterprise (mainly businessmen and business organizations). Liberacionista and anti-liberacionista entrepreneurs united around the anti-liberacionista candidate, Rodrigo Carazo, in the 1978 campaign (Vega, 1982), and won that year's elections on a strongly anti-statist platform. However, the unity of the Carazo government -based on an "oppositional" alliance- was very fragile, as it included groups with very different positions in relation to the role of the state.

Oduber's reformist efforts were politically defeated in the 1978 election. Besides they were only viable economically while coffee prices remained high (1976-1978), which multiplied its effects through the increase in state revenues due to export taxes. When these fell in 1978-1979, the Carazo government negotiated an agreement with the IMF to help compensate the fluctuations (decline) in export prices. Besides, it resorted to short term, high interest rate loans with international commercial banks, to avoid the crisis and the devaluation of the currency. However, these loans and the reluctance to devalue only accentuated the problem, contributing decisively to the production of Costa Rica's debt crisis. Between 1978 and 1982 Costa Rica's foreign debt doubled while its composition changed in favor of a greater proportion of short term loans with commercial banks (formerly most of the debt was made up of bilateral, long-term, low interest rate, loans) ¹⁵ *→ pasar a la al 15/10*

Politically, the 1978 election is a turning point in relation to central conceptions of the role of the state in economic development. From the 1940's there had been increases in state activity in orienting social and economic development. However, Vega (Vega, Mylena, 1982) and the UCID "Taller de Coyuntura" group (Alvarado et al., 1981), interpret the forms of state intervention of the seventies, and particularly the case of CODESA, as a fundamental change in relation to other, earlier forms of state action and as the cause of the negative reaction of business elites who interpreted the "entrepreneurial state" as a disloyal form of competition with private business (Vega,

1982). There is some support for the claim that private business felt that this new form of state investment competed with domains considered specific to private business.

Nevertheless, in historical perspective, it is clear that the expansion of state intervention in the past, such as the nationalization of insurance activities in 1924¹⁶ at the height of the liberal state, the nationalization of electricity and communications¹⁷ and the nationalization of the banking system in 1948,¹⁸ were all ultimately accepted by some or all of the business groups. All three activities were taken over from private ownership through an authoritative action of the state, and converted into legal state monopolies. The first two (insurance and electricity) were not ^{internally} contentious, possibly due to the fact that the state expropriated them from foreign corporations, in situations in which private national capital could not have taken them over. In these two cases, nationalization corresponds fully in its two senses: as being taken over by the state, and making ownership national. In the third case, that of the nationalization of banks, the state took expropriated banks that belonged to primarily to national business, creating a relationship of conflict with those groups formerly linked to the banks, but receiving the support of other groups that prospered thanks to the state banks' financing.

Unlike these previous experiences in which state control expanded successfully and with at least partial support from business and political elites; in the late seventies, most business mobilized to oppose the development of CODESA. Besides, what initially was a reaction to a specific form of state intervention, developed into an over-arching

critique of the developmental state, in correspondence with the development of the anti-statist intellectual trends of the late seventies and early eighties (Evans, Peter, 1992, p. 140).

The most coherent critique of the until then dominant developmental perspective, was the neo-liberal reinterpretation. According to this view, the state, through the creation of protectionist barriers, had promoted an inefficient industry. Additionally, the state was viewed to have grown too large, fiscal deficits unmanageable, and to have intervened in areas best left to private initiative.

It is interesting to point out that long before the neo-liberals became prominent in the early 1980's, similar analysis had been made by ANFE, an institution founded in 1958 that promoted liberal economic thought.¹⁹ It regularly published its opinions in the press. From its establishment it consistently expressed its positions against the legislation through which the state promoted import substitution industrialization, and in general against the expansion of the state. However, during more than two decades its standpoint remained marginal. From the late seventies, the neo-liberal perspective started to gain ground, and during the eighties its main tenets became the pivot of economic analysis.

The neo-liberals of the Carazo administration constructed an opposition between the market and the state. Unlike the developmental theories of the former decades, where the state was viewed to be the motor of economic and social development, neo-liberals

defended a normative conception in which the state was viewed to have a subsidiary function in relation to society, particularly in relation to the market. During these years there is a shift in the focus of analysis: while developmental economists had stressed the role of the state in the development of the nation, under the assumption that private capital could not develop on its own due to its weakness; neo-liberals displaced the critique to the state, demanding an increased reliance on market mechanisms.

The neo-liberal perspective coincided with business' anti-statist focus. However, its normative assumption of a desirable subsidiary economic function of the state contradicted the business elite's historical relationship with the state, in which, as has been analyzed above, business relied on the state not only for the creation of the general environment for the economy, but also for promoting and stimulating specific forms of economic activity.

Despite their ~~coherence and~~ prominence in the Carazo government, the neo-liberals did not have the power to execute institutional change. They could not attempt legal reforms since the Legislative Assembly was controlled by the liberacionista opposition. As a result, changes towards economic liberalization (liberalization of interest rates, reduction of import taxes on consumer goods) were taken through executive decrees. However, most of the neo-liberals' proposals were overturned by Carazo *himself* shortly after they were adopted, in response to the pressures of interest groups.

Another sign of the weakness of the neo-liberals in the Carazo government was their incapacity to overturn Oduber's most significant reforms. The enterprises of CODESA had had no time to consolidate in the Oduber administration, which made divestiture almost impossible for Carazo (since there were no established institutions to sell). Besides, conflict emerged as to who would be entitled to buy the enterprises and at what price.²⁰ As a consequence, the Carazo government was unsuccessful in eliminating CODESA. On the contrary, additional investment was made, to consolidate the businesses for future sale.

The cost of the policies to subsidize the production of grains was high, yet groups of producers defended them, thus also obstructing change. Finally, some changes were made in Asignaciones Familiares, in an effort to target the resources to the most needy population (unlike the Oduber administration where the programs had covered the entire population of the areas included in the policies).

Parallel to the political and ideological struggle, the drop in coffee prices the year Carazo took office, in a context in which internal demand (public and private) had increased, opened the way for the most severe economic crisis since the ^{Great} Depression. As a result of the combination of the differences amongst the members of the alliance that initially supported Carazo and the externally determined economic crisis, he was not only not able to keep campaign promises of reduction of state expenditure or sale of state

enterprises, but changed policies and decisions frequently, giving in to the pressures of interest groups, creating a climate of instability.

The 1980-1982 economic crisis is complex in its forms and causes. It took place in the midst of a political and ideological struggle over functions and forms of state intervention. The Carazo government, was slow to react to the changes in international conditions: it continued to acquire international loans at increasing interest rates and shorter terms, while it refused to devalue the currency between 1978-1980, creating conditions for massive capital flight. The process of capital flight, described by Díaz-Alejandro for the Latin American region, led to further increases in the "national" external debt, while it consolidated private external assets, as the two sides of the Latin American balance sheet (Díaz-Alejandro, 1984).²¹ This massive shift of resources from the public to the private ^{sector} and from the national to the ^{transnational} global, are possibly a significant factor to explain the strengthening of the positions of private business and the political decline of the statist ^{and nationalist} sectors ~~that are further analyzed in part 2.~~²²

In February 1982, the opposition candidate, Luis Alberto Monge of Liberación Nacional, won the elections by an ample margin, possibly due to the protest vote against the major devaluation and inflationary surge which was politically construed as Carazo's incapacity and mismanagement. In May, the Monge administration took office. Immediately, the government started to negotiate a new agreement with the IMF and a Structural Adjustment Loan with the World Bank (MIDEPLAN, 1993). A new historical

period of stabilization and adjustment had begun. Its political process, and through it, the recomposition of the political field, is the object of this dissertation.

Notes:

1. The notion of "model of development" was used mainly from the 1970's on, to refer to the combination of economic, social and political organization. The concept was used to organize a large amount of different characteristics into what were viewed to be the organizing traits of the social structure. The strong influence of the structuralist tradition, tended to give the narrative of development -constructed mainly by sociologists- a sense of a necessary relationship between this large and diverse set of factors, and to attribute different "logics" to historical development. The reference to the historical process as a "model" was itself an expression of the assumptions of this tradition.

2. This was in general held to be true for the whole period, despite the fact that import substitution industrialization was only undertaken as an official policy (through changes in rules of distribution made by the state) in the late 1950's and early sixties.

3. The "Partido Liberación Nacional" emerged from the Movement of National Liberation that won the 1948 civil war, and was the most important political party until 1990, to the extent that some authors refer to the long period of extended post-second world war growth as the "liberacionista era". It proclaims itself as social-democratic and belongs to the Socialist International.

4. The most important were two cement factories, a sugar mill and an aluminum factory (Sojo, 1984; Vega, 1982).

5. RECOPE (Refinadora Costarricense de Petroleo) is the state owned oil refinery and distribution network, which is a legal monopoly.

6. The most significant program was that of "Asignaciones Familiares" a program that expanded preventive health care, public sanitation, day-care and child nutrition programs (from birth through elementary school) to the whole country, particularly to the rural areas, where there was (and is) the largest concentration of poverty, due to more restricted public investment in economic and social infrastructure, the geographical dispersion of the population and unequal labor conditions in agricultural activities (sanctioned through differential legal regulations).

7. Consejo Nacional de Producción (CNP) is an institution created in 1948. Its purpose was to stabilize prices of products of popular consumption, particularly what is called "basic grains" (rice, maize and black beans, which are the staples of popular nutrition).

It incurred in losses through subsidies of the prices of grains. One of the conditions of the first two structural adjustment loans (PAE1, 1985; PAE2, 1989) was to reduce the losses of the CNP.

8. Instituto Nacional de Seguros: state monopoly insurance company. The state has had the monopoly of insurance since 1924.

9. Costa Rica: distribution of income 1961- 1986

<u>Sector</u>	<u>1961</u>	<u>1971</u>	<u>1977</u>	<u>1986</u>
lowest 20%	6.0	5.4	4.0	3.3
middle 60%	34.0	44.0	47.0	42.2
top 20%	60.0	50.6	49.0	54.5

Sources: Rovira, Jorge, Costa Rica en los años '80. San José, Editorial Porvenir, 1998, for the figures of 1961, 1971, 1977.

World Bank, World Development Report 1991: the challenge of development. Oxford University Press, 1991.

10. The Instituto de Tierras y Colonización (Institute for land and colonization) was created in 1960. It was reformed in 1982, and became the Instituto de Desarrollo Agrario (Institute for Agrarian Development).

11. The "Programa de Casas Baratas" (Program of inexpensive housing) was created in 1942 and became the Instituto de Vivienda y Urbanismo (Institute for housing and urban development) in 1948. The Instituto Mixto de Ayuda Social (the Mixed Institute for social aid), created in 1970, developed additional housing programs for the very poor that did not qualify for INVU projects. In 1986 the Comisión Nacional de Vivienda (National housing commission) was created to coordinate the public housing institutions.

12. The Instituto Mixto de Ayuda Social (Mixed institute for social aid) was created in 1970. From its origin its objective was to fight extreme poverty, which had been thematized in the 1970 election as a national problem.

13. To regulate the relations between coffee producers and coffee industrialists the Instituto de Defensa del Café was created in the 1930's. In 1948 it became the Oficina del Café. A similar organization in sugar production is the Liga Agrícola Industrial de la Caña. The chamber of industrialists deals directly with the Secretary of economics and industry.

14. An institution of community development undertook the organization of associations in villages and towns from 1970, the Dirección Nacional de Desarrollo de la Comunidad. A Ministry of Youth, Culture and Sports was created in 1970, which developed specific branches to organize youth in the Movimiento Nacional de Juventudes and women through the Dirección de Mujer y Familia. A support institution for

cooperatives, the Instituto de Fomento Cooperativo was also created, together with a similar institution for the support to local governments, the Instituto de Fomento y Asesoría Municipal.

15. This increase in credit from private banks occurred precisely at the time of the expansive credit cycle of the late seventies and early eighties when financial institutions of the first world were, looking for markets to place their resources (Devlin, 1989).

16. Soley Guell (1949) justifies the creation of a state monopoly of insurance: "The problem for the state was to stop arson, to moralize insurance, to facilitate insurance for the poor (neglected by the insurance companies), to offer other forms of insurance, such as insurance for labor accidents (which the existing companies did not offer) and to obtain the benefit of insurance activities for capital formation." In 1924 the law was approved. In 1925 the new state institution took over all life insurance, in 1926 it developed the insurance for labor risks and the direction of the fire department (Soley Guell, 1949)

17. Electrification was initiated early (1884). At the beginning (1884-1924) many small plants were developed by local investors. The need for larger plants, the economy of scale that these involved, together with the capital requirements, led to a process of consolidation in the 1920's, and to a takeover by the Electric Bond and Share's American Foreign Power Company in 1928. Simultaneously to the rumors of the planned takeover, a nationalist movement, composed mainly of liberal professionals, lobbied to restrict the entrance of the American company. After their initial plan to organize a large-scale domestic buy-out of one of the electric company's shares failed, they were able to pass a law for the creation of the Servicio Nacional de Electricidad (SNE) in 1928. The SNE's objectives were to "develop a national system of electric power, that in last instance would absorb the foreign company" and "to control and administrate the contracts the State had with electrical companies" (Dengo, 1964, quoted by Flores, 1993). The Depression, and later the Second World War, did not permit the SNE's proposed takeover. In 1948, the revolutionary junta created the Instituto Costarricense de Electricidad, a state company in charge of the generation of electricity and communications. The ICE developed its own system of electric power, and in 1968 finally expropriated the Electric Share and Bond's holdings.

18. The need for nationalization was established as follows:

"Considering that: 1. In the modern organization of national economy, all agricultural, industrial and commercial activities are vitally dependent on bank credit, the orientation of which is decisive for the progress or stagnation of the country.

2. That economic functions of such magnitude must not be in private hands, but constitute, due to their own nature, a public function.

3. That private banking does not consist exclusively of the placement of resources of their property, but mainly by the mobilization of national savings and the financial possibilities of the country, represented by the public's deposits.

4. It is not just that the profits of the banks, guaranteed by the state and the social organization, pertain to the shareholders of the banks that own a minimum share of the savings that are mobilized, but they must become national savings, the investment of which must be directed by the state." (Decree #71 of the Revolutionary Junta).

19. Asociación Nacional de Fomento Económico (ANFE).

20. The sale of the enterprises of CODESA was ultimately made possible in the mid-eighties by a USAID donation that paid off all their former debt and by a set of legal reforms that defined who was eligible to buy them.

21. There are no studies for capital flight from Costa Rica for the specific period of the late seventies and early eighties. However, in a larger time frame, Boyce (Boyce, 1991) has estimated capital flight from Costa Rica to be larger than the increase in foreign debt during the 1971-1987 period (\$5.644 million as opposed to \$4.444).

22. This problematic points to an important research topic, not only for Costa Rica, but for all Latin American countries. However, the lack of attention to the political implications of capital flight can only be construed indirectly due to the limited information on capital flows.

Part I

The making of a new form of national-international authority

The Costa Rican governments between 1980 and the present have construed their policies in close relation to three international agencies: the International Monetary Fund, the World Bank and USAID. In what follows, I describe the agreements of the Costa Rican government with these agencies. The narrative of the process establishes a chronology of the main agreements, as well as the links amongst them. Through this reconstruction I want to provide a first approach to (1) the aspects of "national" activity in which international agencies have become involved in the past fifteen years; (2) the identification of the main social actors that have participated in this new system, and; (3) an approximation to the relations of power, the mechanisms through which some actors increase their power, while others become marginal or are excluded. The focus of part I is thus placed on the relationship between the International Financial Organizations and the Costa Rican government.

Chapter 2

The construction of reform:

Description of the agreements of the Costa Rican government with the IMF, World Bank and USAID.

In March 1980 the Carazo government negotiated a stand-by agreement with the IMF, in support of a two-year program of economic stabilization that aimed at reducing fiscal and trade balance deficits through a contraction of internal demand. The program established that the government should increase budget cuts in the non-financial sector of government, create a centralized budgeting authority to control the financial operations of the government, increase some taxes (export tax on coffee, consumption tax on gasoline, some non-essential products). The government committed itself to sending legislation to the Legislative Assembly to organize public accounts (elimination of taxes for specific purposes, as well as the prohibition to increase expenses without the guaranteed income). According to this agreement interest rates should be established in line with international levels, subsidized credit reduced, and foreign public debt should

be limited. The IMF only disbursed one payment, because the Costa Rican government did not fulfill the conditions it had committed.

In June 1981 the Carazo government signed an agreement of extended facility (450% of Costa Rica's quota with three years for the repayment) and a second agreement related to the fluctuations in exports with the IMF (Picado, 1991). This agreement was the outcome of a protracted process of negotiation, due to the infringement of the conditions of the 1980 understanding. The main objective of this agreement was to reduce the deficit of the current account of the balance of payments through a contraction of internal demand. This proposal included: (1) restriction of credit (2) limits to the deficit of the public sector through a tax reform, the elimination of specific uses of tax monies¹ and significant cuts in expenditure (3) use of foreign loans for productive investment on the part of the government, (4) the decision to float the value of currency, and to unify exchange rates, (5) the establishment of goals for the payment to importers of the "blockage" of dollars ("presa de divisas"),² (6) objectives in relation to international monetary reserves. (Rivera, 1982, pp. 145-148)

Only one payment of the extended facility loan was made because Costa Rica again failed to comply with the conditions (Picado, 1991). In particular, the Supreme Court judged the executive branch's decision to float the currency to be unconstitutional, as it considered this decision to be of public interest and of the exclusive competence of

the Legislative Assembly. Additionally, the blockage of dollars turned out to be much larger than the Central Bank had expected (Rivera, 1982).

In August 1981 Costa Rica interrupted payments on the principal of its foreign debt, the first case of the Latin American debt crisis, one full year before the crisis was officially declared with the explosion of the Mexican debt (Edelman, 1993). President Carazo expelled the IMF mission and on September 1st, all payments, including interest, on the foreign debt, were suspended. During the rest of 1981 and all of 1982 Costa Rica made no payments on its debt (Rivera, 1982). Between 1980 and 1982, Costa Rica went through the most severe economic crisis in its history³ (Fallas, 1982), only comparable to that of the 1930's.

The Carazo government's relation with the IMF was ambivalent, which was expressive of the contradictions inside the government. The two agreements with the Fund expressed the prominent position of neo-liberal economists inside the cabinet.⁴ However, these were politically and legally difficult to undertake, as they ran counter to the forms of state intervention of the previous decades. Politically, interest groups pressured Carazo to overturn the reforms and in many cases were successful. Their protests expressed expectations of government action that had been constituted historically, and to which Carazo was sympathetic.⁵ Additionally, many of these historically constituted forms of state intervention were ratified by legislation, which the

neo-liberals did not have the power to overturn. Despite their leverage inside the executive branch, their influence in congress was limited.

This polarity led to both the establishment of agreements with the IMF, and their immediate infringement by the Costa Rican government. When the Fund protested the government's lack of compliance with the agreement, Carazo turned to a nationalist defense of Costa Rica's sovereignty and expelled the IMF mission from the country:

"The country has made great efforts in past years, and is adjusting its life to a situation of profound global change, produced among violent crises. We have asked for help outside the country; the result has been poor and with strong conditionality. If we would have attended to some demands of the international organizations, we would have lost our social peace...The government does not accept mandates from outside, as it represents a sovereign people...I even found myself in the obligation of asking a representative of an international organization to leave the country, as it was not acceptable to have an official that wanted to act like a proconsul...We cannot accept the conditions of the IMF that prohibit us to restrict luxury imports, and that obstruct national production. We are not in favor of increasing interest rates, or raising prices suddenly to international levels. We think that would produce a social disaster of unbearable magnitude." (Carazo, speech Jan 7, 1982, quoted by Rivera, 1982, p. 155)

In addition to the economic crisis, Costa Rica's geo-political situation also changed during the Carazo years due to the victory of the Sandinista Revolution in neighboring Nicaragua in July 1979. The Carazo government and the Costa Rican population were in general sympathetic to the revolutionaries' efforts to oust Somoza. After the Sandinistas came to power, Carazo established diplomatic relations with the new government. This entailed a distance from the U.S. government's position in relation to the Nicaraguan revolution.

~~As was mentioned earlier,~~ Luis Alberto Monge of the opposition party Liberación Nacional, won the February 1982 elections by an ample margin largely due to the economic crisis and the image of the Carazo government's mishandling of the situation. The Monge administration started to reestablish its relationship with the international financial community by negotiating a new agreement with the IMF. By December the Monge administration and the International Monetary Fund had negotiated a Stand-by Loan in support of an adjustment program for 1983. The objectives of the 1983 program were: the containment of inflationary pressures, the organization of the exchange market and to facilitate the resumption of payments on the foreign debt. It also established the need to fortify public finances and the reduction of the fiscal deficit to 4.5% of GNP (half of 1982). The fiscal deficit was to be diminished through a restrictive wage policy for the public sector, the paralyzation of investment in public enterprises and a severe budgetary control to contain the absorption of credit by the public sector. Simultaneously, income was to be increased through the elimination of subsidies for public services and the improvement of the collection of taxes. Unlike the two former agreements, in this case, the agreement expired in December of 1983 having accomplished all the conditions and with all the payments made. Additionally, the Fund authorized a third loan to compensate the decrease in exports in September of 1983 (Rivera, 1982; Picado, 1991). In the context of this agreement, the first renegotiation of Costa Rica's foreign debt took place at the beginning of 1983.

Parallel to the negotiations with the Fund, President Monge appealed to the United States government's good faith, not only in terms of direct aid, but also through its influence in the international financial organizations:

"We believe that Washington can help us not only in the framework of bilateral relations, but also by creating a favorable international environment that will allow us to find rapid financial solutions that will be acceptable and compatible with the survival of our system of social justice. The international institutions can help us, and inside them the voice of the United States can play an important role. The aid you can give us will become an incentive to receive economic assistance from public or private institutions of other countries and to renew the flow of investment the country needs." (Speech at the Committee of Foreign Relations, House of Representatives, June 22, 1982, cited by Sojo, 1991).

In the same speech Monge mentioned that with the help of the United States, the Costa Rican model could prove that "democracy and freedom are possible in a tropical nation" (Sojo, 1991). In the context of the Reagan administration's efforts to oust the Sandinista government in neighboring Nicaragua, the appeal to the United States, to jointly demonstrate the viability of a stable democratic regime pointed to precise ideological markers. It entailed an unspoken opposition of Costa Rica's democracy to the Nicaraguan regime. After Carazo's support for the Sandinista government, Monge's approach to the Reagan administration signified an important shift in Costa Rica's foreign policy.

Not only did the United States government collaborate with Costa Rica's standing vis à vis the International Financial Organizations, but it also assigned massive economic aid, mainly through Economic Support Funds, which are allotted in response to the United States' security interests in the world. Between 1982 and 1989 United States'

cooperation towards Costa Rica totaled \$1.237 million dollars (Sojo, 1991). The significance of this aid package -particularly in its first two years- can only be appraised in proportion to the size of the country, and of total U.S. foreign aid:

"Between 1983 and 1985, the \$592 million in U.S. economic aid was equivalent to a staggering 35.7% of the Costa Rican government's budget, one fifth of export earnings, and about 10% of GDP. By 1985, Costa Rica was the second highest recipient of U.S. assistance in Latin America, after war-torn El Salvador, and the second highest per capita recipient in the world, after Israel." (Edelman, 1993)

The new aid package denoted a quantitative and qualitative change in U.S. policy towards Costa Rica. Between 1946 and 1981 (35 years) U.S. aid totaled around \$220 million dollars; in the following eight years over five times that amount were given; an increase of an average amount of little over \$6 million dollars a year in the first period to over \$150 million a year in the latter (Sojo, 1991).

The kind of funding also changed. In the earlier period, aid was mostly given through long-term, low-interest development loans. In the latter, most of the funds -\$849 million dollars- were given in Economic Support Funds, and most of these (\$666 million) were direct donations, which according to Costa Rican law, unlike the procedure applied to loan projects, do not require congressional approval. This procedure avoided long periods of discussion in their approval, and, more importantly, public debate of the content of the agreement (Sojo, 1991). The granting of funds through donations thus avoids all forms of publicity and the procedures of democratic discussion of policies in Costa Rica. Additionally, Martha Honey (Honey, 1994, pp. 57-59) describes how

Economic Support Funds in general and the particular way in which they were disbursed in the case of USAID's policies towards Costa Rica during that period, were also designed to prevent close congressional oversight in the United States.

The Reagan administration's purpose with this massive economic aid was double. On one hand, it looked for logistical support in its war effort to overthrow the Sandinistas. On the other, it also complied with Monge's appeal to boost Costa Rica's stability in the midst of the rest of war-torn Central America, as proof of the virtues of democracy, and a strategic point of stability between Nicaragua and the Panama Canal Zone. This included, as will become clear in what follows, the Reagan administration's conception of democracy and its institutional foundations.

Tied to the funds, the United States government included its conditions. Economic Support Funds can include three kinds of conditions: (1) preceding conditions, which are composed of actions that the recipient must undertake before receiving the aid; (2) covenants, which are agreed-upon actions, that the United States expects the recipient to take at some point, but that are not linked to the payment of the funds; (3) previous conditions, which are similar to the preceding conditions, but differ in that they are not transcribed in the written document. The latter are related to sensitive political matters, which either government would rather not expose publicly. In this case, a significant topic was related to the logistical support for the Contra war (Sojo, 1991; Honey, 1994).

Two significant economic conditions the Costa Rican government negotiated with the United States government during the Monge administration were: (1) The Costa Rican government must sign an agreement with the IMF in December of 1982 before receiving the aid package of ERE2⁶ (Sojo, 1991), and; (2) A clause in the ERE II agreement (December 1982) that established that it would send a legal reform of the financial sector to the Legislative Assembly before the February 28, 1983,

The covenants, on the other hand, define the use of the monies. The funds in dollars were to be used exclusively in support of the balance of payments deficit. The money was internally converted to an account in colones (the local currency), and was used to promote internal institutional transformations, under the direct administration of the local USAID office. The main local activities point to the privatization of public institutions, particularly of financial institutions, and the simultaneous fortification of private capital, in three areas: (1) the privatization of state enterprises, primarily those of CODESA; (2) the development of a private financial sector and; (3) the promotion of exports and investments by private business. During the first years (1982-1985) the main concern of USAID, was the reform of the financial sector. The main points of the covenants during those years aim to ensure distribution of credit to the emerging private financial sector and the liberalization of the financial system through the deregulation of interest rates and opening of banking activities to the private sector.

From 1985 on, USAID's focus was placed on the promotion of exports -in ✓
concordance with the goals of World Bank structural adjustment policies- and the
privatization of CODESA. USAID donated \$174 million to eliminate the debt of
CODESA's corporations, and finance them adequately so that they could be sold. For
the promotion of exports, the funds were used to create two organizations to encourage
new investments and research new export activities: (a) CINDE (Coalición de Iniciativas ✓
del Desarrollo), which was administrated by a group of business and political leaders
appointed directly by USAID, that promoted industrial exports and (b) CAAP (Consejo ✓
Agrícola y Agroindustrial Privado) that was formed in the same way to support the
development of non-traditional agricultural exports, due to CINDE's concentration on
industrial activities. USAID also contributed funding for the development of private
universities, research centers and a business school. Additionally, some projects
contributed to social needs, particularly the financing of public housing (Sojo, 1992).

USAID's activities in promoting public, "state-like" projects, run by prominent
businessmen, in private organizations that it created or controlled, led presidential advisor
(to the Arias Administration, 1982-1986) John Biehl to denounce these activities as a
"parallel state". As Shallat has stated, these activities were a caricature of Reaganomics:
the call for reduction in government spending, a return to free market forces and the
transfer of resources to a more efficient private sector, was translated in USAID's policy
toward Costa Rica as selling off state enterprises and funneling US public funds to
private Costa Rican enterprises. } NO

"They ended up with a fiction. When something is financed with Costa Rican taxpayer's money, it's public and inefficient. When the same thing is financed by U.S. taxpayer's money, it's private sector and it's efficient." (Biehl, quoted by Shallat, 1989).

The Monge administration gained international credibility and support from local business groups during its first two years (1982-1983), partially through the IMF's satisfaction with the conclusion of the December 1982 stand-by loan and boosted by the injection of the United States government's donations. Additionally, there was a general recognition of the government's success in achieving economic stabilization: Fiscal deficits were contained, inflation and unemployment decreased.⁷ However, the public service tariff increases that the government decreed in compliance with the agreements of the 1982 Stand-by loan with the IMF produced popular protests. Between the signature of the agreement with the IMF in December 1982 and May 1983, electrical tariffs went up by 92%, which led many people in poor neighborhoods to arrears in payments, as well as general indignation. People organized to block streets in protest against the increases and created neighborhood committees to patrol the streets, preventing the electrical company from disconnecting the power supply in the houses where payments were due. The struggle against the tariffs extended from the worker and poor neighborhoods of the Metropolitan Area, to the rest of the country. The government negotiated with the National Committee that represented the movement, and temporarily revoked the tariff increase (Valverde, 1991). In later years tariff increases were much more gradual.

Before the end of the December 1992 agreement in December 1993, the government approached the IMF for a new stand-by loan. However, the IMF conditioned its future support on the negotiation of a structural adjustment loan with the World Bank.

The first World Bank mission visited Costa Rica in March 1984. Its main interest was to reduce the import tariffs on products from outside the Central American region. The mission's proposal was to reduce the tariffs to a uniform 25%. The World Bank's position was grounded on a technical tariff report, written by one of its experts in 1983 (Villasuso, 1995, interview). From the beginning, the Costa Rican government stated that it considered the World Bank's proposal to be totally unacceptable, that it would not consider reducing tariffs to those levels, which led to a stalemate for several months. At the end of 1984, a settlement was achieved, for a tariff level of 50 to 150%, substantially higher than the Bank's original goal of 25%. In exchange for the acceptance on the part of the Bank of higher tariff levels, Costa Rica accepted undertaking the defense of the "flexibility clause" in the negotiations of the Central American Tariff Treaty. This clause took the establishment of tariffs out of legislative jurisdiction, and established that the executive branch could decide tariff changes by itself (Villasuso, 1995, interview).

As a result of the conditions accepted by the Costa Rican government in its agreements with the IMF, World Bank and USAID, in 1984, the government prepared for legal reforms. Until that moment, the process of change had been undertaken

exclusively by the executive branch. Yet USAID, the IMF and the World Bank, wanted assurance of Costa Rica's commitment to the reform process and demanded that reform have a legal dimension. The executive branch submitted two important laws to the Legislative Assembly:

- (1) Law of financial balance of the public sector (law #6955 of February 16, 1984, agreed upon with the IMF): the project that was sent to the Legislative Assembly justified its importance on the need to negotiate an agreement with the IMF, as well as that the state must not grow at the expense of the private sector of the economy. It mainly consisted of mechanisms to reduce government expenditure through a ban on hiring, as well as mechanisms to have actual employees leave. It also established compulsory transfers of decentralized public institutions to the central government, it centralized budgeting in one institution and imposed budget cuts on institutions. These rulings caused debate in the legislative. However, the law that was finally approved reduced the scope of reform by creating clauses of exception for most of the mechanisms of control.
- (2) Reform of the Monetary Law and the Law of the Central Bank (agreed upon with USAID): The main purpose of reform was to allow the access of private banks to foreign loans and donations that would enable them to participate under equal conditions as the state banks in the reception of these funds (Gutiérrez, Vargas, 1986).

This legal reform created considerable public debate, as the state monopoly of banking (decreed by the Revolutionary Junta of 1948) was viewed to be one of the most

distinctive national aspects of Costa Rica's contemporary social order. The government's legislative fraction split in two, one in support of the changes, while the other defended the nationalized banking system and objected to the private banks using funds that were given to the country. After five months, the reforms were finally approved.

The year 1984 was difficult for the government. It had to deal with the three different international agencies, which each had their own agenda. The IMF was interested in stabilization, the World Bank in the commercial opening and USAID in the privatization of the financial system and Costa Rica's support in the contra war. Additionally, through crossed conditionality, they supported each other's policies. During the crucial year of 1984 both the IMF and USAID exerted pressure for reform. USAID threatened not to lay out the funds of the donations if the banking reforms were not approved⁸ and actively exerted pressure for further involvement of Costa Rica in the war against Nicaragua (Honey, 1994, p. 81). In the case of the IMF, no stand-by agreement was achieved during 1984 due to Costa Rica's breach of several of the agency's previous conditions: 1. that the reduction of the fiscal deficit would be grounded on a law and not on budget cuts; 2. that the following year's deficit would not be more than 1% of GDP; 3. that new interest rates should be higher than inflation; 4. the negotiation of a structural adjustment loan with the World Bank; 5. renegotiation of foreign debt with the private international banks (Fernández, 1987).

The tension between the government and the international agencies was however not insulated, but also affected the relationships between state and society. This was particularly acute in relation to USAID's objectives. During 1984 and 1985, the United States' government constantly sought further involvement of Costa Rica in the Contra war. The Contra's presence in the northern part of the country, as well as their military actions from Costa Rica created ongoing conflicts at the frontier with Nicaragua. These were exploited by the press, ultra-rightist groups, in an effort to obtain the rupture of diplomatic relations between Costa Rica and Nicaragua and the subsequent appeal to U.S. military intervention in support of Costa Rica. However, a massive demonstration in favor of peace, and against the war, in May 1984, expression of the clear opposition of the population to war, made these plans politically difficult to undertake. This allowed president Monge, who was also against Costa Rica's further involvement, to gain some leverage to limit the country's military support to the Contra war to the use of Costa Rican territory.

In relation to its support for the development of private business, USAID was more successful. The clause related to the banking reform was initially included by USAID in its conditions to the Costa Rican government at the request of the private bankers (Gutiérrez, Vargas, 1986). During the months of discussion USAID assumed the defense of the project, to the extent that the U.S. Ambassador was criticized for mixing in internal affairs of the country.

After the legal reform, USAID was able to donate large amounts of money to the private banks, contributing decisively to their consolidation. AID gave sixty million dollars directly to four private banks between 1981 and 1984. Between 1986 and 1987 it created a special account with 120 million dollars to be lent to the producers of non-traditional exports. It established that 80% of these funds had to be lent through private banks (Sojo, 1992). Most of the initial funds were given in long term loans at low interest rates (2-4%). In less than a decade, new loans from the private banks to the private sector soared from 11.8% of the total amount of credit allocated in 1984, to 54.2% in 1991. AID's contribution to the development of private banks was so significant, that an internal report (of the agency) expresses concern about the dependency of these institutions on those funds. In 1987, AID funds constituted 40% of private banks' assets. Equally, the report criticizes the use of significant portions of these funds for internal loans to the bank directors and their families (Sojo, 1992). This foundational process of construction and development of 'free enterprise' has appropriately been called "the visible hand of the market" by Carlos Sojo (1992).

After the turmoil of 1984, in March 1985 the government finally signed a new Stand-by loan with the IMF. Its goals were to consolidate economic recovery, reduce inflation, increase government revenues, reduce expenditures. These were to be obtained through a freeze on government employment, acceleration of retirement of older workers, facilities for workers to transfer from the public to the private sector. Besides, it committed the suspension of all public investment programs, with the exception of those

that could be financed with long-term foreign loans. The sale of enterprises of CODESA promised to generate additional income. The government also committed the restriction of foreign borrowing to long term loans, and limited the state's use of domestic credit, so as to gear it towards the recovery of the private sector. This agreement expired on April 4, 1986 with three of the five scheduled payments having been laid out. The last two were not assigned due to the nonfulfillment of conditions by Costa Rica.

Some days before signing the stand-by agreement with the IMF, on February 27, 1985, the Costa Rican government sent the World Bank a letter of development program for a structural adjustment loan; which was signed by both parties on April 16, 1985. The simultaneity is not coincidental, as the World Bank required an agreement with the IMF in order to proceed with PAE1; while this loan had been negotiated at the request of the IMF, as was mentioned earlier. The Bank also required previous conditions: the renegotiation of foreign debt with the commercial banks and bilateral institutions, as well as a prudent management of subsequent indebtedness.

While the negotiation of PAE1 seems to have been relatively free from conflicts amongst the national negotiators, in January 1985, a disagreement inside the executive branch led to a visit of the Vice-president of the World Bank. Minister of Planning Juan Manuel Villasuso, Costa Rica's main negotiator, wanted to include a clause that would specify the use of the funds in local currency, to ensure that they would be used (as opposed to not monetizing them) and that their use would be the one he considered

convenient. Eduardo Lizano, president of the Central Bank, did not want to include the clause. He justified his position by saying that the use of the funds was a national decision (Lizano, 1995, interview). The Vice President of the Bank supported Lizano's position in that the use of the monies in local currency was a national decision in which the Bank did not want to become involved (Lizano, 1995, interview). However, the Bank requested that the use of the funds would be in accordance with the conditions of the stand-by agreement Costa Rica was to sign with the IMF. Since the relationship with the IMF is of the competence of the Central Bank, this gave Lizano considerable leverage. The outcome was that the funds of PAE1 were only used in support of the trade balance. In later years, Villasuso has given public declarations stating that the sole use of PAE1 was to provide funds for foreign debt payments.

PAE1 is mostly a preparatory agreement. The policies of the structural adjustment program set the groundwork for the elimination of the incentives created for the promotion of import substitution industrialization (the promulgation of a new uniform Central American Tariff Nomenclature, the reduction of the spread of effective protection, the elimination of fiscal incentives for import substitution industries); while develop some incentives for the promotion of exports to countries other than the Central American region. Besides it agrees to reduce the losses of the state commercialization agency (Consejo Nacional de Producción) by 50%. Associated to the principal loan for eighty million dollars, is a second loan for three and a half million dollars, a technical

assistance loan, with the purpose of evaluating the functioning of a set institutions, as a preparation for a second PAE which is to deal with a more profound institutional change.

In February of 1986 elections took place, the incumbent party won the elections and Oscar Arias became president.⁹ Despite the continuity of the party in power, Arias designed the latter part of his campaign and his government's efforts towards a Central American peace process, as an alternative strategy to the Reagan administration's war against Nicaragua,¹⁰ and in an explicit effort to disengage the country's participation in that war (as the Monge administration had ended up accepting the use of the northern part of the territory for Contra activities).

While Arias decided to challenge the United States' military actions in the region, he simultaneously accepted the second dimension of Monge's agreement with Washington, by continuing the process of economic reform. The negotiation of a second structural adjustment loan started in 1987, when the Arias government decided to deepen the adjustment process by trying to accelerate economic recovery through the development of exports produced by private business. On February 26, 1988, the government sent a letter of intent to the World Bank, which was finally signed by both parts on December 16, 1988, after a previous condition, which was the Law of Modernization of the Financial System, had been met. This law was ratified by the Legislative Assembly on October 4, 1988. The main reforms of this law were: (1) inclusion of the private banks in the general system of auditing, (2) increase in the

flexibility of the administration of the state banking system (including the elimination of the salary restrictions that applied to the rest of the public sector), (3) elimination of the prerogative of the Consejo Nacional de Producción to receive direct financing from the Central Bank.

The liberalization of salaries in the state banks was justified in terms of being able to hire qualified personnel. However, politically it operated as a mechanism for coaxing the bank employees to support the legislation that they would otherwise have opposed due to the weakening of the state banking system vis à vis the private banks.

PAE2 was sent to the Legislative Assembly on March 17, 1989 and ratified on October 4, 1989. The main aspects of PAE2 are related to four themes:

1. trade regulations: modification of tariffs (reduction in industrial protection), changes in the incentives for exports, and rules for the trading in hard currency.
2. the elimination of subsidies for the production of basic grains (rice, beans and white corn, the staples of the popular diet).
3. reforms in the state banking system and regulation of private banking.
4. the increase in the savings of the public sector and improvements in programming public investment.

While the negotiation and approval of PAE2 was taking place, the Costa Rican government signed two agreements with the IMF, one in 1987, a second in 1989. The

1987 agreement was initially negotiated at the end of March of 1987. However, it did not become definite, since Costa Rica was unable to reach an agreement with its private creditors. Nevertheless, on October 28, the agreement was sent to the board of directors of the IMF by its managing director, and it was approved, despite the absence of a debt agreement between Costa Rica and the private banks.¹¹ The main points of this agreement are: the maintenance of a flexible interest rate policy, reduction of fiscal deficit from 5.75% of GNP in 1986 to 3% in 1988, (through the combined reduction of the deficit of non-financial public sector and the net operating losses of the Central Bank (Central Bank losses cannot be reduced by the government through discretionary action), improvements in the rationalization of the income tax structure and modifications in tax procedures so as to enhance tax collection, restrictive wage policy in the public sector (salaries remain constant including the effect of merit and seniority increases), efforts towards reduction of payments related to public employee pensions, freezes on public sector hiring, tariff increases, continuation of the process of divestiture of CODESA, reduction of the indebtedness of the non-financial public sector with the domestic banking system; export led growth strategy financed primarily by domestic savings, supported by the adoption of an exchange policy to favor exports, as well as the reduction of effective tariff protection, incentive structure and the institutional arrangements that might be hindering the expansion of exports, the execution of a restrictive monetary policy in correspondence with the goals in terms of inflation and trade balance, the commitment of structural reforms related to the size and efficiency of the public sector, improvements in the functioning of the national financial system (plan

to fortify state banks, to reduce the spread between deposit and lending rates), liberalization of foreign trade. (Banco Central de Costa Rica, 1987). Costa Rica did not use the resources assigned for this stand-by loan (Picado, 1991).

On May 23, 1989 the IMF's directory approved another stand-by agreement, in force for one year. The IMF accepted that 25% of the funds be used in reducing the foreign debt. It also accepted to increase the loan if the country arrived at a satisfactory agreement with the creditor commercial banks.

The Costa Rican government's letter to the managing director of the IMF on the occasion of the 1989 agreement, acknowledges that the results of the past stand-by program are mixed. It had been agreed upon that the combined deficit of the public sector would decrease from 3.2% of GNP in 1987 to 3.0% in 1988. Instead, it increased to more than 3.7% of GNP in 1988. There were fewer foreign loans during the period, which led to the internal financing of the fiscal deficit. Difficulties in controlling inflation were also present: inflation reached 25% in 1988, up from 16% in 1987. The pressure of government financing diminished the resources available for the private sector. While the fiscal situation deteriorated, there were sharp increases in export production. However, imports also increased, leaving a trade deficit of 3.5% of GNP. Part of this negative situation was related to the reduction in USAID's donations, together with the delay in the approval of PAE2 in the Legislative Assembly.

The goals of the 1989 agreement are to reduce inflationary pressures, improve public finances, continue to promote exports. The government expresses the need to solve the foreign debt problem. The goals in public finances are to diminish the deficit from 3.7% of GNP in 1988 to 2.8% in 1989. The measures proposed to achieve this are a change from a deficit of the non-financial public sector (0.6% of GNP in 1988) to a small surplus in 1989, by reducing the deficit of the central government from 2% of GNP in 1988 to 1.7% in 1989, and by generating a surplus in the rest of the non-financial public sector. Parallel to reducing the expenditure, the program proposes to increase income. For that purpose a tax reform was approved in November of 1987. Despite the difficulties in applying the reform, the government expresses optimism for the following year. The program also establishes restrictions in the kind of debt (long term with low interest rates) and the magnitude (\$60 million) that the government is entitled to contract. An excerpt of the program related to the second structural adjustment loan (PAE2) at that time being negotiated with the World Bank is also included in the letter of the Costa Rican government to the IMF (Banco Central de Costa Rica, 1989). At the conclusion of this agreement, on May 22, 1990, no payments had been made, due to Costa Rica's failure to keep the agreed upon limits of fiscal and trade deficits (Picado, 1991).

Towards the end of the Arias administration an important event took place: Costa Rica finally reached a successful renegotiation of the foreign debt under the Brady plan in November 1989, which included debt relief for close to a billion dollars, and which

situated the country in a position, for the first time in almost a decade, in which the country's foreign debt ceased to be a paralyzing constraint. The renegotiation of the debt under the Brady plan is the first agreement in which the debt is reduced to an amount which the country can honor.

In February 1990 elections took place. The Partido Unidad Social Cristiana won the presidency for the first time since the Carazo government (1978-1982) and a majority in the legislative branch. This was the first time since the 1948 civil war that the opposition to Liberación Nacional had control of both the executive and legislative branch.

Before taking office in May 1990, the government elect announced that it would start to negotiate a third structural adjustment loan with the World Bank. On April 5, the incoming government announced the parts of PAE3 according to a World Bank proposal. The structural adjustment program would deal with: state reform, modernization of the commercial sector and the establishment of a program of social compensation to mitigate the social problems caused by economic adjustment.

The day after the February elections the IMF expressed its dissatisfaction with the situation of Costa Rica's fiscal deficit. The Arias administration, had relaxed fiscal discipline in its last, electoral year. In March, Calderón announced that he would seek an Extended Facility loan with the IMF. In April the government expected to sign an

agreement with the IMF in July. However, the administration did not achieve the kind of loan it wanted, at the time it wanted. Rather, it was only able to negotiate a stand-by loan and external contingency financing (justified on grounds of low coffee prices and raises in oil prices) almost a year later, on March 5, 1991. Like the 1989 agreement, in this stand-by loan the government again acknowledged that the country did not meet the limits set by the former economic program. While the overall deficit of the public sector had been programmed to decline from 3.6% of GNP in 1988 to 2.8% in 1989, instead it had risen to 5.5% in 1989, due to this being an election year, in which the government failed to adjust public sector prices for political reasons.

The centerpiece of the economic program presented by the government to the IMF in 1991 is the reduction of the fiscal deficit from 5.1% of GNP in 1990 to no more than 0.5% of GNP in 1991. Again, the expectations are that the central government will reduce its deficit while the rest of the non-financial public sector is expected to increase its surplus. Central Bank losses are expected to remain constant. The program to increase public revenues is related to a tax package, composed mainly of a temporary raise in sales tax as well as a broadening of the base of the sales tax. It also establishes some policies to reduce the negative fiscal effects of the CATs,¹² to an important extent under the pressure of the World Bank, by restricting the concession of new benefits, while establishing forms of taxation of existing CATs. The government also establishes an increase in the divestment program, beyond the initial goals of dissolution of the state-holding company CODESA. Again in this case, the government had the support of

USAID to finance the change. The main policies to reduce expenditure are the reduction of central government employment and setting limits to wage increases, abandoning previous systems of wage indexation in the public sector. To finance the payment of anticipated pensions or severance payment in the case of employees that will leave their jobs, the government has a donation of 1.3 billion colones given by USAID. The government states that it will struggle to end the "laudos"¹³ to tie them to fiscal considerations. It will also strive for the reduction of central government transfers towards higher education, discretionary pension benefits and other projects. The state-owned petroleum refinery was to cut its planned investment by almost two thirds, while simultaneously increasing prices. Finally, the economic program established strict limits to the kind and amounts of foreign loans to which the government is entitled to agree. The last article of the agreement states that the government is planning to assist the most vulnerable social groups (the very poor) through a social compensation fund that will provide targeted assistance in the forms of basic food, medicine, housing, child care and training (Banco Central de Costa Rica, 1991).

On March 18, 1993 the Calderón government signed a second stand-by agreement with the IMF for the following 10 months, to cover the last period of the administration before the February 1994 elections. In the balance of the previous year, the government cites a slightly higher fiscal deficit than expected for 1992: 1.5% of GNP vis a vis a target of 1%. The nonfinancial public sector registered a small surplus of 0.5% of GNP, roughly in line with program projections. However, central bank losses, which were

expected to remain at about 1.5% of GNP, rose to 2% mainly because of liquidity sterilization operations.¹⁴ Revenues increased more than expected because of the effect of reductions in exemptions, the increase in imports and improvements in the administration. Expenditure also rose more than expected (1.1% of GNP) as a result of higher transfers for education and social programs; and larger pension payments due to a large increase in the number of retirements ahead of the scheduled increase in the retirement age (Banco Central de Costa Rica, 1993).

The latter increases in expenditure were directly related to government policy changes as a response to the mobilization of the social sectors that were negatively affected by adjustment policies. The state universities had demonstrated in favor of keeping the state transfers towards these institutions. Equally, the teachers' unions had successfully protested the new law that eliminated the existing pension benefits.

While the fiscal policies were mildly successful, trade policies led to sharp increases in external current account deficit. While the program target was of 2.4% of GNP, instead the deficit grew to 6.6% of GNP in 1993, due mainly to the increase in imports (about 27%). Since these were more than compensated by private capital inflows, the government was not very concerned with the deficit. There is no expression of concern about the costs of sustaining the inflow of private capital. In relation to the service of the debt, despite the November 1989 renegotiation, at the end of 1992 the non-financial public sector accumulated new arrears (Banco Central de Costa Rica, 1993).

The main targets of the 1993 economic program were: a real GDP growth of 4%, the reduction of inflation to a maximum of 12%, and an increase in international reserves. These objectives were expected to be achieved through a further reduction of the combined fiscal deficit (to be reduced from 1.5% of GDP in 1992 to 1.0% in 1993), wage moderation, credit restraint, and the continuation of market determined exchange rate policy. Tax revenues were expected to remain constant. However, the program established that the government would send a Tax Efficiency Law to Congress, through which it would seek to widen the base of the sales tax to include professional and other services, expand income tax to all sources of income and integrate the personal and corporate income tax; as well as a Property Tax Reform Law that consolidates land and property taxes.¹⁵ Simultaneously, caps on expenditure were to be obtained through wage limits, reduction of employees through the labor reduction program, privatization of two large state enterprises. A Public Concessions Law was to regulate the building and operation of infrastructure by the private sector (Banco Central de Costa Rica, 1993). Fiscal deficit was however larger than expected: 1.4% vis a vis 1.3% that was agreed upon. Costa Rica did not use the funds assigned through this stand-by loan, since it had enough monetary reserves.

Parallel with its negotiations with the IMF, the Costa Rican government prepared the way for the signature of a third structural adjustment loan (PAE3).

Despite the initial declarations of the Calderón administration when taking office in 1990, the internal and international negotiations took up its entire period, and Calderón left government without the approval of PAE3. Two bipartisan commissions worked on the preparation of a consensual position on the reform of the state (COREC 1989-1990, and COREC2 1991-1992) which was viewed to be the most problematic aspect of the reform process. By mid- 1992 there was a bipartisan agreement in the COREC2 on most of the program. However, the points of difference created a long debate, and despite the resistance of the Partido Liberación Nacional (in the opposition), the Calderón administration signed PAE3 for \$100 million with the World Bank on April 19, 1993 and for \$250 million dollars with the Inter-american Development Bank. PAE3 is the most complex program of those convened over the past decade and a half. The payment of the funds was directly linked to the congressional approval of 17 new laws, which made its approval extraordinarily difficult.

The unresolved disagreements of the government party with Liberación led to the impossibility of discussing the project in Congress during the remainder of the Calderón administration (April 1993- May 1994). Besides, the debate about the differences became a central part of the 1993-1994 electoral campaign. The opposition party, that had been very critical of the negotiation of PAE3 on the part of the Calderón administration, won the 1994 elections. Between May and August 1994 the incoming Figueres administration negotiated modifications of the original loan project with the World Bank. However, the PUSC, Calderón's party, refused to vote the project with changes, which led the Figueres

administration to present the Legislative Assembly with the original loan project that had been signed by the Calderón administration. PAE3 was voted by the legislative Assembly in November 1994.

However, despite finally having achieved internal consent, in March 1995 the World Bank canceled the loan arguing that Costa Rica had not met the first condition of the contract which was the maintenance of macroeconomic stability. However, it is possible that the Bank's negotiating committee did not believe in the political viability of the loan:

"In the World Bank's evaluations of Structural Adjustment Programs it has become clear that a program must be viewed to be national or it will fail. If a country views a program to be a World Bank program, this systematically leads to failure. I think that the people at the World Bank -although I do not know why they came to that conclusion so late- thought that the Figueres administration did not perceive this program to be a national program, or at least not belonging to the present government, and that it felt that the program was of the Calderón administration and/or the World Bank. At that point they decided to retreat from the program." (Lizano, 1995, interview)

After the World Bank's cancellation of its portion of PAE3, the Figueres administration went on to renegotiate the majority of the funds with the Inter-american Development Bank, and rescheduled the date of the first payment for November 1995. Additionally, the Figueres administration intensified its negotiations with the IMF for a stand-by agreement. Internally, Figueres met several times with Calderón, and together they made a pact for the approval of the legal reforms that the application of PAE3 and the reform of the state would require.

Notes:

1. The limits established on public expenditure by this agreement were illegal, as most of the funding to public institutions was established by law, and could not be cut unilaterally from a central authority as the Fund expected.
2. During the first two years of the Carazo government, there was a strong resistance against devaluation, which accentuated the economic crisis. When the Central Bank ran out of dollars to pay for imports, it allowed importers to buy their dollars in the open market, but committed paying them back the difference between the official rate and what they had paid. This mechanism produced significant losses for the Central Bank (Rivera, 1982, pp. 145-148).
3. Foreign exchange rates, after desperate attempts by the Carazo administration to maintain the official rate of 8.6 colones to the dollar, rose to 14.5 in December of 1980, to 38.2 in December of 1981; to over 60 by the February 1982 elections, a devaluation of over 500% in little over a year (Fernández, 1987).
4. This prominence expressed Carazo's support for their position, as all were discretionary appointments of the president.
5. A clear example of the former is credit. For the previous four decades, the business groups had relied on credit from the State banking system for their productive needs, which they received at low interest rates. The change towards market determined interest rates, and significant reductions in the amount of this credit, entailed a drastic change in the relation between the state and economic actors. When the business groups protested, Carazo overturned the reforms. The analysis of Carazo's speeches shows that he shared the perspective that the state banking system should provide abundant and cheap credit.
6. After 1984, the United States Kemp-Kasten law, forbid crossed conditionality: the conditioning of United States foreign aid to the fulfillment of agreements with other national or multilateral donors. However, USAID negotiators were able to overcome the restrictions imposed by the law, by repeating the other agencies' conditions in their own agreements (Sojo, 1991).
7. "...the rate of consumer price increases dropped to about 10 percent at the end of last year (1983), compared with a rate of 82 percent in 1982 and a target of 42 percent in the program. The improvement of the financial position of the rest of the public sector, in particular the Social Security Institute, the National Electricity Company and the State Oil refinery, was stronger than expected, with the result that the current account balance of the nonfinancial public sector shifted from a deficit of 3 percent in 1982 to a surplus of 3 1/2 percent of GDP in 1983, while its overall deficit was reduced to the equivalent of around 3 1/2 percent of GDP, compared with one of 9 percent in 1982 and a program target of 4 1/2 percent. In the external sector the trade account weakened, and

consequently the current account deficit increased to around 10 1/2 percent instead of declining to 8 percent as called for in the program. Nevertheless, partially reflecting a reflow of private capital, there was a substantial improvement in the overall balance of payments..." (Banco Central, 1984, p.2)

8. It later became publicly known that those donations had already been given to the Costa Rican government, and that the news release was elaborated to influence the legislative decision (Gutiérrez, 1986).

9. There is no presidential reelection in Costa Rica.

10. Martha Honey describes how Arias included the peace issue in his campaign in the last months (September 1983) at the suggestion of Joe Napolitan, a New York-based political consultant. Up to that point, Arias had been trailing in the polls (Honey, 1994, p. 459). The playing up of the peace issue can be interpreted as a turning point in the Arias campaign.

11. This was the second time in the IMF's history that it accepted to endorse a stand-by loan without the required rescheduling of a country's debt (Picado, 1991).

12. CAT: "Certificado de Abono Tributario" allocates a tax refund to those that export outside of the Central American Region. During the 1980's these transfers grew so much that they entailed a significant fiscal burden.

13. "laudo": A legal recourse that workers of the public sector appealed to in the mid-eighties, after the government denied the unions collective bargaining in the public sector. It established mechanisms for salary increases and benefits.

14. During the early 1990's there was a significant inflow of capital (possibly to a large extent, the repatriation of capital), due to the fall in interest rates in the United States, and the offer of attractive rates by the Costa Rican Central Bank. The effort of the Central Bank to offer high interest rates while at the same time avoid inflationary pressures led to net transfers towards this capital and losses for the Central Bank.

15. These policies had been proposed to the Costa Rican government by the IMF through a report (Tanzi, 1990) undertaken by one of the fund's tax experts.

Chapter 3

The organization of a new national-international authority

During the past 15 years, the Costa Rican government has constantly been negotiating agreements with the international financial organizations. Stand-by agreements with the IMF (1980, 1981, 1982, 1985, 1987, 1989, 1991, 1993, 1995) are part of regular government activity and structural adjustment loans with the World Bank (1985, 1989, 1993) -while less frequent- point to the constancy of the relationship. In a 1990 speech on the 40th anniversary of the foundation of the Central Bank, the then executive president of the bank said:

"In the 66 months that we have been at the Central Bank, we have traveled to Washington approximately 30 times. This is evidence of the intensity of the relations and the close ties that our country has established with the Fund" (Eduardo Lizano, 1990, p. 4).

Besides the regularity of the agreements, their contents also express the detail of the aspects of national policies in which the international agencies have become involved.

Matters as typical of the nation-state's jurisdiction as government spending, taxation, economic incentives, the forms of functioning of markets, functions of the Central Bank; have become matters in which the international agencies participate, not only giving advice, but also by negotiating conditions that must be met.

This involvement expresses a new system of relations between the international financial organizations and Costa Rica (as is the case for most other Latin American countries), that emerged as a direct consequence of the constraints that resulted for these countries from the forms in which the debt crisis was negotiated and solved, which on one hand placed most of the responsibility of the solution on the debtor countries (Biersteker, 1993, p. 2). On the other hand, it created a new role for the Bretton Woods institutions, particularly for the IMF, whose historical function of monetary regulation had collapsed since the international monetary system fell into disarray in the early seventies. Brown(1993) describes the IMF's resolve in adopting its new functions:

(with Mexico's 1982 default) "As the atmosphere filled with rumors of the imminent collapse of some of the giant international banking houses, the managing director saw an opportunity for a powerful role for this increasingly irrelevant institution. With breathtaking courage, the IMF thrust itself into the debt crisis, extending loans, offering advice, and imposing conditionalities" (Brown, 1993, pp. 120-1).

The World Bank followed a couple of years later by changing its former policy of financing specific, well-grounded projects, and replacing them with structural adjustment loans. Structural adjustment loans are non-project specific loans to meet current expenditures, in exchange for major reforms on internal policies (Brown, 1993).

All funds go to support the trade balance, to boost the country's capacity to pay old debts

and to buy commodities (that are imported primarily from the industrial nations) thus indirectly contributing to the creditor nations' interests, by maintaining these countries' possibility of payment open.¹

For Costa Rica, as well as for most Latin American countries, these institutions have become the ultimate source of authority in relation to judgments of national economic governance. In exchange for aid during the debt crisis and later, the International Financial Organizations obtained the debtors' commitment to "set their houses in order," which meant undertaking structural changes which these agencies considered convenient (Williamson, 1990), mainly the shift towards market policies and the reduction of state intervention, consistent with "Washington's" ideological and intellectual climate of the early eighties (Evans, 1992, p. 140), and which can be summed up in Reagan's 1981 mandate ^{at} for a joint meeting of the International Monetary Fund and the World Bank "to believe in the magic of the market place" (Honey, 1994, p. 53). Williamson (1990) has defined the set of objectives that the "Washington consensus" states it wants for Latin America in a much broader way: growth, low inflation, viable balance of payments, an equitable income distribution, the reduction of corruption. Added to these economic objectives, "Washington" is also interested in the promotion of democracy and human rights, suppression of the drug trade, preservation of the environment and control of population growth (Williamson, 1990, p. 8). The "Washington" that Williamson describes is the political Washington of Congress and senior members of the administration, the technocratic Washington of the international

financial institutions, the economic agencies of the U.S. government, the Federal Reserve Board and the think tanks (Williamson, 1990, p. 7).

The structural changes that the agencies propose are presented to the recipient countries as technical proposals, which situates them as the product of a means-to-ends rationality and claims the truth value of scientific knowledge. A necessary point of reflection -the systematic exploration of which is however beyond the possibilities of this dissertation- is related to the underpinnings of this technical rationality. The breadth of "Washington's" objectives, as well as the complexity of the institutions that form the "Washington consensus" suggests questions as to the sources of the technical advice they give the Latin American countries. The World Bank's structural adjustment conception, for example, is elaborated on the basis of a combination of (1) the extension of insights from trade theory to the entire development debate² with (2) the modeling of institutional change on the basis of the historical experience of other countries, particularly that of the United States.

This variety of sources, the combination of historical experience and theoretical assumptions, together with the underlying interests of the proponents are not acknowledged in the technical form in which these programs are presented to the recipient countries. By hiding its sources, the discourse of adjustment glosses over the complexity and the ethnocentrism of its proposals. The Latin American countries are encouraged to copy institutions which emerge from concrete historical experiences, which

are very different from their own. This encouragement is made compelling by its attachment to foreign aid or international loans.

Despite the important degree of agreement of what the "Washington consensus" considers desirable, there are differences, among the agencies. As the previous description about the agreements between the Costa Rican government and the agencies has shown, there are significant differences in their actions, and they have developed a certain division of the areas in which each concentrates. The IMF deals primarily with monetary issues, inflation and the reduction of the fiscal deficit, where it concentrates on the reduction of government spending. The World Bank stresses the liberalization of trade, the elimination of subsidies and the restructuring of the State. USAID, the third agency considered above (not because it can be considered an international agency, but because of the significance of its support to the Costa Rican economy during the eighties) concentrated its efforts on the strengthening of the private sector and the privatization of public sector institutions and activities.

The existence of a high degree of consensus of what is desirable among the agencies, has allowed them to increase their leverage in relation to each country, as they can impose crossed conditionality, the acceptance of one agency's conditions in the agreement with another.³ Additionally, as has been described in the pages above, one agency can demand a covenant with the other before signing an agreement.

Besides, each agency derives its leverage from different sources. The IMF has become the country's auditor vis à vis the international financial community. The value of a stand-by loan is not primarily financial, but a recognition of the IMF's support of the government's policies. This is important in terms of the country's credit-standing, and as a sign for foreign investors. On the other hand, the importance of these agreements for Costa Rica, gives the IMF considerable power to insist on its policy options. Although it is true that the government has some discretionary power of not doing what it has agreed to (Bulmer-Thomas, 1988), non-compliance creates difficulties for future agreements. These can be solved by a recognition of past mistakes and a commitment to do better in the agreement that is being signed at the moment. This is however not simple when the limits with the IMF have been flagrantly disregarded. It can then take more time to establish a new agreement and conditions can be more stringent. Of the ten agreements of the past fifteen years, only one was considered by the IMF to have accomplished all the goals that were pledged. Conversely, since the government will in the future have to negotiate again, this gives the Fund the possibility of insisting on the policies it considers convenient. There are three distinct periods in which the country has violated the funds policies flagrantly: during the 1980-1982 crisis, and in the electoral years of 1989 and 1993. In the latter case, the Arias and Calderón administrations diminished adjustment policies during their last year in office, by postponing price and tariff increases, as a way to create an environment of well-being and optimism to influence the electoral results in favor of the incumbent party.

In the case of the World Bank, the importance of the structural adjustment loans is different. In the interviews with national negotiators I received two different answers. One of my interviewees explained the negotiation as the consequence of a condition demanded by the IMF for a new stand-by agreement. A second, viewed their importance as a mechanism through which national statesmen can gain leverage to make internal reforms that may not be of the liking of powerful interest groups. This difference is possibly due to different perspectives on the importance of these programs. Both opinions are accurate in that they express really existing aspects of the relationship between the government and the international financial organizations. Their difference expresses the difference in the position of the two negotiators interviewed; while one views the international organizations as limiting the sovereignty of the state, the second views them as a factor of empowerment of national reformers in relation to domestic politics. However, I think that in recent years, these programs tend to be viewed more in the latter perspective: as a way to develop policies with the increased support of the backing of the World Bank.

Finally, USAID's leverage during the 1980's came from the massive amounts of money it donated. USAID's perspective was different from the former institutions in that its main objectives were geopolitical. It attempted to contribute to Costa Rica's internal stability and order during the Central American political crisis and to gain Costa Rica's support for the contra's war against Nicaragua (the USAID program diminished greatly after the 1990 elections in Nicaragua, and in 1994 closed entirely).

The perspective of how the first objective was to be achieved was strongly influenced by the conceptions of Reaganomics: the monies were used to a large extent to favor privatization and the creation of private institutions in the places and areas where formerly the state had been dominant or had been in a monopoly position, in some cases explicitly favoring the duplication of functions between a private and state institution⁴. The main focus of interest was the financial system; AID donated large amounts of money to support the development of private banking institutions. The specific contribution of AID in this field was to create and expand the capacity to act of private institutions, mainly through the creation of the Costa Rican Coalition of Initiatives for Development (CINDE), the Consejo Agropecuario Privado (CAAP), and through significant funding for private banks (Interfin, COFISA, Asociación Bancaria Costarricense) and for private universities and schools (UACA, EARTH and INCAE). Additionally, it contributed to the privatization of state owned enterprises, by financing the divestiture of CODESA (the state holding company created during the Oduber administration). The general thrust of USAID's contribution is a foundational process in the strengthening of the private sector.

USAID's second objective was less successful. The Arias administration's efforts to establish a peace negotiation in the Central American region undermined the Reagan administration's military perspective of the conflicts of the Central American region, and Costa Rica's involvement in them. However, AID tried repeatedly to exert pressure on Arias by reducing and retaining previously committed and scheduled funds. Arias was

able to counteract some of this pressure by obtaining support from the Democratic Party congressional majority. Nevertheless, Arias' independent position did finally lead to a reduction of USAID (Honey, 1994, pp. 457-504).

There are also differences in the temporal perspective of the programs. The IMF typically acts on short-term stabilization. The World Bank aims at producing permanent structural change through a limited number (3 to 4) of structural adjustment loans. USAID's timing was determined by the fluctuations of the State Department and the Pentagon's policies in relation to Costa Rica's role in the Central American crisis.

Despite these differences in the focus, timing and policy instruments of each of the agencies, there is a general common framework of the policies in Costa Rica between 1980 and 1995. All of the agreements consist of the government's commitment to take action in the following areas: (1) the recovery or maintenance of macroeconomic stability, (2) the displacement of incentives and subsidies from some economic sectors to others, (3) fiscal discipline and (4) the reform of specific institutions, particularly through the change of ownership from the state to the private sector (privatization). These four objectives point to the more restricted perspective of "believing in the magic of the market place" than the more complex agenda of the "Washington consensus" described by Williamson (Williamson, 1990).

In Costa Rica, the establishment of this new international authority, has led to changes in the political field. The agreements with the international agencies have become the outline and limits of economic policy during this period. The commitments that are there expressed are of a more binding nature than the issues that are debated in national political campaigns or the programs of the "National Development Plans" that the Ministry of Planning elaborates every four years.

A new national institution has emerged as part of this process, the "economic team" that negotiates these agreements with the international financial organizations. Normally it is constituted by the president of the Central Bank, the minister of finance and the minister of planning.⁵ All three are discretionary appointments of the president of the republic, and their permanence in their posts depends entirely on his confidence. The "economic team" is an informal group, as it has no legal status as to its constitution, functions or responsibility. It has however become a central institution in the political system, as will become obvious in the political processing of structural adjustment loans.

The members of the economic teams between 1980 and 1995 have overwhelmingly been economists by their academic training. This creates a conceptual unity of discourse among them, as well as with the functionaries of the international financial organizations, who are also largely economists. In my interviews with national members of the economic teams, it was obvious that the recognition of and respect towards the representatives of the international financial organizations was marked to a

large extent through the value of professional capacity (or incapacity). There is also an awareness on the part of the national negotiators of the members of the agencies' evaluating look towards their professional capacity. Factors such as academic training and professional expertise, are elements that can command respect from the other. The discussions are mediated by the appeal to legitimate scientific knowledge by both.

The main factors that were mentioned as creating differences between the members of the economic teams and the negotiators of the international organizations were professional incapacity, lack of power inside the institution and cultural differences. The national negotiators preferred dealing with high-ranking functionaries, preferably with a long trajectory inside the Bank or the Fund, as they felt that this kind of functionary would more easily risk discretionary action. Some difficulty was expressed in relation to the understandings with functionaries that had developed their careers in other areas of the world, as they lacked knowledge in relation to national institutions.

These negotiations have led to the constitution of a policy area is constituted where functionaries develop expertise, which includes the establishment of a labor market for these experts; who now is part of a government team may later get a job or do consulting work at an international financial organization. On the basis of these characteristics, I think it is adequate to think of the national economic teams and the international functionaries as forming an "international epistemic community", in the way proposed by Haas (1992).

The national economic team and its actions in the name of the country are to a large extent insulated from the rest of the population. Both the IMF and the World Bank agree to keep all negotiations secret among both parties, unless the country authorizes the release. The media only cover what national negotiators are willing to say, or what has previously been agreed to be public information. The agreements become public only when they have been ratified by both parts.

Much of this insulation is derived from the institutional organization of the negotiation of the agreements. The IMF deals directly with the executive president of the Central Bank. No legislative ratification is required of their agreements. In the case of USAID, most of the funds were given in the form of donations, which were organized in a very peculiar way: The funds in colones were deposited in a bank account that was directly administrated by the USAID office. This created a peculiarity of AID's dealings with the country, that in some cases did not even have to go through the government. While the economic team is the official representative of the nation in these negotiations, in the case of USAID other social groups, in particular, business groups, established direct contact with the agency. In what has been analyzed of the banking laws of 1984, there is an explicit alliance between private bankers and USAID. USAID also established groups of private businessmen in CINDE and CAAP, as the executors of there policies and gave them the responsibility in the allotment of the funds (Honey, 1994).

Only structural adjustment loans with the World Bank needed legislative ratification, and then it was only a process of approval, in which the project that was already negotiated could not be altered significantly.

Another dimension of the insulation is related to the access of public opinion to the understanding and critique of the negotiations. The wording of the agreements is technical which makes them inaccessible to the general public. An example of the former is the experience of the peasant organizations. In 1987, the organizations protested the agreements with the international financial organizations and demanded access to the texts of the covenants that the government was negotiating. When the government complied, they were of little use for the leaders of the organizations, since, in the first place, they were given to them in English. But, even when they were translated, the organizations were not able to analyze what was at stake from the point of view of their interests. While they had intended to use the agreements to make proposals for policy reform, their lack of expertise in relation to economic texts made this goal impossible.

Despite this general trend of insulating these agreements from democratic politics and democratic procedures, they are exposed to pressure from private agents. As has been mentioned in the case of USAID, Costa Rican businessmen were directly involved in developing the policies. The international institutions are also open to pressures from private social agents in Washington. The U.S. government exerts pressure in favor of

U.S. companies when they have a claim or litigation against the government of Costa Rica.⁶ Also other agents have exerted pressure through the U.S. government: the AFL-CIO denounced the violation of labor laws and the right to form unions, which the U.S threatened to use against Costa Rica in its trade.

The pages above also show how this national system of relations did not fall into place automatically with the debt crisis. During the Carazo years the economic team did not yet have the authority it was to achieve later on. While Carazo authorized the functionaries to negotiate in the name of the country, he later did not stand by their commitments when submitted to political pressure by interest groups. It is possibly at the beginning of the Monge administration, through the efficacy of the stabilization program led by Carlos Manuel Castillo, that the economic team gained its pivotal place in the political system, between the nation and the international financial organizations.

The authority of the international financial organizations was not either accepted automatically by the Costa Rican government. The conflicts of the Carazo government point to the initial problems of acceptance. During the Monge years, the agencies were still perceived by government officials as forcing the country to adopt policies that it would otherwise not consider. In this sense, the negotiation of PAE1 in 1985 is marked by the sense of something external that had to be accepted as unavoidable, but that could and should be resisted in every possible way. This is not the case in later governments, where the new role of the international financial institutions has been accepted as part of

the political and economic reality, and even as a source of empowerment of national groups, that would otherwise lack the power to undertake reforms that they consider necessary. However, the possibility of empowerment through the relationship with the agencies is differential for those that share the international financial institutions' general perspective and those that do not. For those that oppose the processes of reform as they are understood and undertaken through the international agreements, these create limits that tend to displace them from political action, as they cannot offer a viable alternative to the existing order.

Besides, U.S. foreign aid between 1983 and 1986 was a decisive factor for the acceptance of adjustment in Costa Rica, at least amongst the political and business elites. The magnitude of the contribution, together with its form of donations, in the midst of an acute economic crisis, made the adjustment process difficult to resist on the part of those elites. Unlike most other Latin American countries, in which the first steps of the adjustment process have taken place inside strict austerity policies; in the case of Costa Rica, the role of USAID made this process less harsh for the population.

It is also possible to assume that the leniency of the international agencies towards Costa Rica's adjustment efforts during those years, was also influenced by the U.S. government's support for the country inside the World Bank and the IMF.

The inclusion of the international agencies in the political system, in the way that has been described above, directly affect the institutional possibilities of democratic governance. The lack of publicity for the agreements, the political insulation and discretionary appointment of the economic team, all lead to the approval of policies that are separated from forms of democratic accountability. Besides, they also point to the non-democratic procedures of the international agencies involved: Their willingness to acknowledge the national negotiating team as having the right to deal in the name of the country in absolute secret, as well as their willingness to keep the technical reports that they produce confidential; entail an acceptance and a promotion of the elitist power structure described above. This absence of democratic procedures in the relationship of the international financial organizations and the Costa Rican government is also to a large extent derived from the former's own internal organization which does not follow democratic forms of deliberation and decision.

Notes:

1. The U.S. government's foreign aid office, USAID also directed all the funds given through loans and donations during this period to support the trade balance.
2. Dani Rodrick (1993) has recently reviewed the sources of structural adjustment inside the economic literature, and assigns significant influence to the early work in trade theory of Little Scitovsky and Scott (1970), Balassa (1971) and Bhagwati (1978) and Kreuger (1978).
3. With the limits in the case of AID that are mentioned in endnote 6, Chapter 1.
4. A visible example is the creation of the EARTH agriculture science school in Guápiles. Costa Rica's main public university had built the facilities to train agricultural experts, but did not have the funds, due to budget cuts, to operate the school. USAID donated

money to start a new school, at the same place, for the same careers, but refused to coordinate efforts with the University of Costa Rica (Honey, 1994, pp. 110-114).

5. At some times other functionaries have been included, such as one of the vice-presidents or the minister of foreign commerce or the minister of foreign debt (a post that was created briefly in the early eighties).

6. This has been the case of legal expropriation of land owned by american citizens, for the development of national parks and areas of conservation; the Millicom telephone company, that obtained a permit to operate cellular phones through shady dealings, and in violation of national law. More recently, the Chiquita Brands Banana company has claimed discrimination when the European Union excluded their exports from Costa Rica's quota to the EEC.

Part II

The legislative process of structural adjustment loans

Of the international agreements considered above, only structural adjustment loans require legislative approval. Stand-by loans with the IMF are negotiated directly by the executive president of the Central Bank. As was described in Part I, the United States government gave most of its financial aid to Costa Rica during the 1983-1993 period in the form of direct donations that do not require legislative approval. In most cases, the names of the Costa Rican representatives in the negotiations were not even public. As a consequence, many of the policies that have contributed to create the new order were not exposed to public debate. In many cases, the text of the agreement was not even published. This is particularly true of all the USAID agreements and some stand-by loans. However, in the past years, an unofficial translation of the agreements with the IMF has been published by a major daily newspaper around the date of its signature. An anecdote can help underscore this lack of public exposure: The most relevant studies written on AID's activities in Costa Rica in this period have been based on documents

obtained by United States citizens from United States agencies through the Freedom of Information Act. The lack of publicity and the procedures of approval isolate the government's negotiation with the IMF and USAID from democratic political procedures. The required legislative ratification makes structural adjustment loans more political in this sense of exposure to public debate.

In what follows, I will describe the legislative debate around each of the three structural adjustment loans, as an approach to the political processing of adjustment. The source for this analysis are the legislative files, which include: the loan project, the congressional committee hearings, the discussion and approval of the project in the committee and plenary discussions. The questions I sought to answer were: What were the different positions in relation to the project among the deputies? What was at stake in their differences? How were differences and disagreements dealt with to achieve consent or a majority position? Who was invited to the hearings (political and civil society actors)? What was the deputies' reaction to the opinion of these actors? What was the relationship of the executive and legislative branch in the approval of the project?

The most difficult task in the analysis of the legislative files was to construct the meanings of what was being said and the interests that were being defended. My effort concentrated on approaching the material without attributing the actors any interests other than those that they displayed in the debate itself. Bourdieu's concept of interest, was particularly useful in relation to this point. In Bourdieu, "interest" is not viewed from the

perspective of the individual's choice, but from the angle of the relationship between the individual and the field, it is simultaneously individual and collective. Besides, the motivations behind the interests are not assumed a priori. The struggle for the accumulation of capital inside the field is what constitutes the field.

A second theoretical insight that was particularly useful was that of the dialogical nature of discourse (Bakhtin, 1986; Bakhtin, 1981; Voloshinov, 1992). The assumption of a dialogic intention in discursive exchanges, opens the question about what the actors are taking about, what the discussion is about. In this perspective, the uses of words, their accents and meanings are specific to the context in which they are uttered, and intended towards the interlocutor.

The three chapters that follow offer a narrative reconstruction of the legislative debate around each of the structural adjustment loans. The narrative is elaborated to highlight how I think the actors position themselves in relation to each other and what is at stake in their debates.

Chapter 4

PAE1: The first steps towards structural adjustment.

Introduction:

The first structural adjustment loan (PAE1)¹ was for \$80 million. Attached was a technical assistance loan for \$3.5 million directed at the evaluation of several institutions.² The declaration of development policies emphasized the slow and gradual reduction of the protectionism of import substitution industrialization and the development of incentives for exports. A new Central American Unitary Tariff Treaty was one of the main conditions, as well as the effective reduction of protection to Central American products to a range of 50 to 150%³. It simultaneously proposed the creation of stimuli to "non-traditional exports to third markets"⁴ through a very broad set of fiscal incentives (elimination of export taxes, corporate income tax exemptions, elimination of taxes on the imports of prime materials, tax incentives). The letter of development establishes:

"To promote exports outside of the Central American Common Market, the Government has set up a comprehensive system of incentives for exports that was approved by the Legislative Assembly at the beginning of 1984. This framework includes a deduction of 100% of income tax on the net income obtained through non-traditional exports to third markets, import tax exemption on inputs for exports, and the fortification of drawback mechanisms. It also defines the establishment of a National Council of Investments to coordinate the efforts of promoting exports and the concession of export contracts with a coherent set of benefits for exporters, that includes port tariffs, simplification of administrative procedures, preferential access to credit, accelerated depreciation and the giving of "certificados de abono tributario"⁵...in relation to these, the government will introduce new regulations to make them more uniform and automatic...The Government acknowledges, however, that the granting of CAT must gradually be reduced when more emphasis is placed on a more competitive exchange rate." (Alcance 7, La Gaceta 76, April 23, 1985)

It is interesting to point out that there are no conditions attached to the development of incentives for the development of exports. The government seems to be fully committed to enforcing them, without the requirement of compulsory specifications on the part of the World Bank. On the contrary, the last sentence of the paragraph cited above, points to the recognition, on the part of the government, of the transitory nature of the CATs.

The development policy of PAEI restated what had been negotiated with the IMF in terms of liberalization of interest rates (although it allowed the CNP and the cooperatives to retain interest rates below inflation), the elimination of priorities in relation to the sectors that are to be financed through credit, the orientation of external credit towards the private banking system (condition already demanded by USAID), and increases in the independence of the state banks and the central bank from the executive branch.

The declaration of development policy of PAE1 also proposed economic democratization through the access of popular sectors to property and the modification of the structure of internal demand by increasing the demand of the popular sectors through mechanisms to distribute income (as, for example, low income housing and agrarian reform). However, none of these aspects were linked to loan conditions, they were just stated in the program.

The changes in the public sector are dealt with extensively in the declaration of development policy, and some are bound to compulsory conditions. PAE1 increased budgetary control through the budgeting authority, and restated the procedures to control public employment of Law 6955,⁶ in particular though the increase in savings of the non-financial public sector (by 6.4% on GDP in 1985). It also combined the demand to reduce the expenditure of public institutions with the contention that the diminished resources should lead to greater efficiency and quality in the services. However, it does not establish how this could and should be done, and Annex 4 does not establish any binding conditions to this effect.

Government expenditure was to be reduced through the reduction of the losses of the CNP by 50%,⁷ and established the preparation of the sale of the enterprises of the state holding company (CODESA) to the private sector or to cooperatives.⁸

Finally, in the area of public investment the Government requested aid to finance a program in the Ministry of Planning to reinforce (i) its capacity in evaluating projects with the goal of establishing priorities that have to be justified from a socioeconomic point of view, as well as by the financial analysis of the rate of return; (ii) its analytical capacity and its skills in making macroeconomic projections to give a solid framework to the investment program, that takes into consideration the fiscal restrictions as well as the implications on the service of the debt. All of this would be financed through the technical assistance loan. Besides, the declaration of development policy establishes that:

"the government has carefully examined the program for public investment, so as to ensure that the new projects are consistent with the efforts of economic reactivation and the emphasis on the increase of exports. It has also decided to limit expenses of public investment to a maximum of 6.5% of GNP between 1984-86, to ensure that public investment is compatible with the availability of resources" (Alcance 7 de La Gaceta, April 23, 1985).⁹

Legislative discussion of PAE1:

PAE1 was signed on February 27, 1985. It was sent to the Legislative Assembly on April 19, 1985. A week later, on April 25 it was sent to the Permanent Committee on Economic Matters. Almost three weeks later, on May 14, the Committee started to analyze the project. Between May 15 and June 5 representatives of the Executive branch visited the committee to defend the project and clarify congressional questions and doubts. From May 29 on, suggestions for changes were made. These proposals were discussed between June 5 and June 25. Almost two months later, the project was sent to

the plenary of the Legislative Assembly, and was approved in three consecutive debates on August 13, 14 and 19.

The only external visitors invited to the hearings were the members of the executive branch, that came to defend the project and answer questions. On June 12, three separate motions were presented by the leftist deputy to ask for the opinion of (1) workers' organizations and cooperatives, (2) the members of the Commission appointed through the AID donation to privatize CODESA, (3) the representative in Costa Rica of the World Bank. All three were rejected, on the grounds that there was no time.

During the first three weeks of the discussion of PAE1, while the government's authorities explained the program, deputies of all the political parties represented in the commission¹⁰ expressed their misgivings. The main point they raised was the perception that there was no connection between the structural adjustment program and the use of the money of the loan; there was a general distrust of a loan that does not finance anything specific (Rodríguez Quesada, PUSC). Guzmán Mata, deputy of the government party, states:

"...other than the advantages for the Central Bank, I cannot see the point of this project, I don't think it is that indispensable." (Guzmán Mata, legislative file 6998, committee hearings, May 22, 1985, p. 109)

The deputies' logic was based on historical experience: a loan must finance something, the country must be able to do something that it otherwise would not be able

to (like build a hospital, a road, or construct a dam, or set up a health service). What is the sense of a loan that does not do any of these things?

Eduardo Lizano, the president of the Central Bank explained that this was the new mode of operation of the World Bank. He explained that, in the past, the World Bank had financed specific projects, then specific sectors, while now (1980's) it gives payments in support of the balance of payments. Lizano, and a representative of the Minister of Planning (Ennio Rodríguez) told the deputies that the funds go to the Central Bank to pay for imports.

What none of the representatives of the executive branch explained to the deputies, was that the funds could be monetized, and that a plan to spend the money could be elaborated, so as to establish a relationship between what was being committed and the use of the money. Besides, as has been mentioned in chapter 1, this point had already created conflict in the executive branch, where a discussion had taken place between Villasuso and Lizano in relation to Villasuso's desire to include a chapter specifying the use of the monetized funds in the loan contract with the World Bank, and where Lizano's position had prevailed thanks to the intervention of the vice-president of the World Bank. However, this is not mentioned in the legislative debate, and there is no evidence that the deputies were informed about this. In particular, neither Villasuso or Lizano -who both went to the committee- mentioned this point. As a consequence of these partial answers, the deputies doubts in relation to this point remained unanswered.

While the position of the deputies of the two majority parties was of perplexity, Montero Mejía, the deputy of the small leftist minority, attributed direct causal relations between Structural Adjustment and the payment of foreign debt:

"... what the Minister (referring to Minister of Planning, Villasuso) has not wanted to say is that this money is to pay debts. It is not being given to pay for infrastructure or new roads, or other tasks important for the country's development... This loan has nothing to do with the country's economic structure. On the contrary, it ties us increasingly to the unfavorable conditions of our balance of payments." (Montero Mejía, legislative file 6998, committee hearings, May 29, 1985, p. 143).

Another aspect where deputies -in this case of all parties represented- expressed their skepticism, was in relation to the technical assistance loan. They did not understand why the country had to take on new debt to pay for evaluations of institutions. They stated that the public institutions had qualified personnel to do that job, without having to take on new debt. Ennio Rodríguez, the government representative, answered that: (1) the institutions had asked for support (so as to imply that the existing professional capacity was insufficient) and (2) if the money was available, why not take it?¹¹ Lizano added that the technical assistance loan was to prepare for a second structural adjustment loan. Despite these reasons, the deputies do not seem to be convinced, and argued that in times of a severe fiscal problem, it did not seem reasonable to pay for studies that could be undertaken by existing personnel. There is also concern that this will lead to the hiring of foreign consultants, in accordance with the World Bank's priorities, with money that Costa Rica will have to pay back.

The deputies also expressed their concern in relation to the conditionalities of the loan. This preoccupation is analyzed from several different angles. A first aspect of this concern is related to the request for information about what the country is really committing in exchange for the loan, as well as the questioning about what exactly happens if the country does not comply with the conditions. A second aspect is related to the loss of national sovereignty. This point is initially raised by Montero Mejía in relation to the foreign debt problem, and is acknowledged, both by an opposition deputy, as well as by the president of the Central Bank:

"In relation to the foreign debt, this is one of the great problems we have at hand. The indebtedness of the country has substantially decreased the margins of freedom of the political and economic authorities of the country..." (Lizano, executive president of the Central Bank, legislative file 6998, committee hearings May 22, 1985, p. 113)

Besides, he points to the crossed conditionality amongst the international agencies:

"... if we don't get this loan from the World Bank, the commercial banks will not lend us money. The same applies to the IMF that wants us to be in order with the World Bank...all the loans add up to 140 million dollars that are all bound together" (Lizano, executive president of the Central Bank, legislative file 6998, committee hearings, May 29, 1985, p. 130).

Trejos Fonseca (PUSC) expressed the problem in terms of sovereignty:

"It is important to establish the fact that the country has gradually lost some of its sovereignty; to sustain a thesis to the contrary is to ignore reality. With the IMF we have a series of commitments; we cannot even establish a list of priority import articles...all of this is an undoubted loss of sovereignty. This agreement commits us to several things, we are losing power of decision, I understand that this loan is important for the government, because they have constructed stability of the basis of foreign financial support"(Trejos Fonseca, legislative file 6998, committee hearings, p. 147).

What is significant about this point is that, although problematic, it is presented as a fact, as something that cannot be changed or avoided.

A third aspect of the deputies' concern with the conditions the country is committing is in relation to the increases in the tariffs for public services. This is directly related to the popular mobilization that had taken place earlier in the Monge administration against the increases in tariffs. All the deputies voted in favor of a motion to restrict the increases in tariffs. However, the form in which the motion was worded makes it an expression of good intentions, not an effective constraint to the action of the executive branch. The point shows both the deputies' concern and their incapacity of intervening.

Alongside the critical approach of the deputies to the project, a sense of urgency in relation to the approval of the loan runs through the entire debate. This is stressed by the statement that the money of the loan has already been budgeted for 1985. Should it not come in, there is a danger of instability:

"We are counting on that money for this year. Besides, there is a negotiation for \$75 million dollars that are linked to the SAL. The approval of SAL thus implies income for \$80 million plus the \$57.5 million of the \$75 million that would come in this year. That is important for the balance of payments."

"This means that if there are no payments from the World Bank, there won't be any from the commercial banks. The same applies to the IMF" (Eduardo Lizano, executive president of the Central Bank, legislative file 6998, committee hearings, May 22, 1985).

From this angle, the crossed conditionality, which above had been valued as a constraint to sovereignty, now exerts its positive force towards the approval of the loan. The danger of instability is very real to the discussants' recent experience, as less than three years had gone by since the 1980-1982 crisis.

Besides, the timing of the discussion of the project shows a deliberate effort to narrow the time dedicated to the discussion of the project: two and a half months elapsed between the signature of the loan and the beginning of legislative analysis. It then took the representatives of the executive branch three weeks to explain their position. The day they finished their participation, and discussion was to begin, it was announced that the project must be debated and approved in 12 days. Guzmán Mata, who announced the deadline, also complained about the restrictions for legislative work:

"Here at the Legislative Assembly, we really go through situations of anguish, because they tell us that if we do not approve a law by a determined deadline, the agreements with international financial organizations will be void" (Guzmán Mata, legislative file 6998, committee hearings, June 4, 1985, p. 173).

However, despite his complaints, he, his fellow 'liberacionista' deputies, as well as those of the Unidad Social-Cristiana opposition, all accepted this constraint. Only the leftist deputy refused to comply, creating the main source of confrontation inside the committee. Montero stated:

"... I start to feel the pressure. The orchestra of the media and government is ready...soon they will start to say that if this (project) is discussed in depth it will be an act of sabotage..., it will be treason to the nation" (Montero Mejía, legislative file 6998, committee hearings, June 4, 1985, p. 142).

Unlike the rest of the committee members, Montero was not willing to accelerate the discussion of the project or to silence his comments. On the contrary, his effort was geared to delay the approval of the project. He tried to avoid the calling of additional meetings of the committee. He presented a total of 28 proposals for reform of which only 6 were accepted. All of his motions that dealt with substantive matters were rejected. The main subjects presented were: the sovereign authority of the Costa Rican state to decide its own economic policies (such as exchange rates, interest rates, import taxes), a clause to protect the popular sectors from regressive policies, the demand to link the concession of government subsidies to the respect to workers' rights by the beneficiaries. The majority of his suggestions were rejected by the combined vote of both large parties.

The authenticity of his interest in reforming the project was constantly questioned by the deputies of the government party, on the grounds that his sole interest was the loss of time:

"Deputy Montero Mejía, I know that you do this to lose time, but yesterday you were going to appeal and did not. Today you have made us lose half an hour. Besides, what we would be doing is discussing your own motions, which shows that you are not serious about the presentation of the motions" (Bolaños Quesada, president of the committee, legislative file 6998, committee hearings, June 12, 1985, p. 243).

"...as much as I like you, Diputado Montero -by the way, I dreamt about you yesterday- maybe that happened because with so many of your interventions in this committee, you start to traumatize me" (Chajud, legislative file 6998, committee hearings, June 20, 1985, p. 371).

Montero denied that slowing the discussion of the project was his main goal (although he did acknowledge that he was doing that):

"...in the discussion of my motions I have tried to argue rationally and with validity, not simply to say things to gain time, but also to express thoughts that are sometimes lacking in parliament. I am trying to introduce a reflection on problems, where there are evidently different points of view" (Montero Mejía, legislative file 6998, committee hearings, June 20, 1985).

Since the committee's efforts to silence Montero were unsuccessful, on June 25, the president of the Economic Committee sent the project to another committee, the Permanent Treasury Committee, for its discussion. The president of the Treasury Committee set a meeting for June 26 (the following day), at 7:30 p.m. The committee met earlier, at 7:10. In fifteen minutes Montero's remaining motions were rejected and the committee approved PAE1 unanimously. The meeting was adjourned at 7:25 p.m., five minutes before the time it was scheduled to begin. The deputies of the Treasury Committee voted the project favorably, following party instructions:

"I would like to make some brief comments, because, since this is a new project for this committee, I would like to justify my favorable vote on two grounds: first, because deputies Villalobos Villalobos and Trejos Fonseca of the Economic Committee directed me to. I personally do not know the project in detail, but I have their recommendation, and they are both very serious deputies that have studied the matter in depth. The second reason, is a reason that we all know, which is that there is a high level (bipartisan) agreement around this project, so I am going to vote it favorably with pleasure. Finally, to add an additional motive: the importance of this project for Costa Rica, and this is something all of us know, so it is unnecessary to elaborate on this point..."(Muñoz Vargas, legislative file 6998, p. 413).

Muñoz's speech evidences his subordination to a higher authority. Besides, his claim about the "importance of this project for Costa Rica" can only relate to the necessity of the monies, as the project had not been defended on any other grounds.

Montero's dissent was dealt with through an authoritarian action on the part of the two majority parties.

Another mechanism of closure to debate used by the executive branch -and particularly the economic team- was to state that the project had to be accepted or repealed in the form that it was signed by the government and the World Bank. The purpose of this was to stop potential changes that could significantly alter the project.

However, the most interesting aspect of the committee's work is related to the ambivalent position of the majority: the members of the Partido Liberación Nacional and the Unidad Social Cristiana. While on one hand their questioning expressed an unfavorable position in relation to the project, they are committed to its approval on the grounds that the money is needed and that there seems to be no alternative. Guzmán challenged Montero's oppositional standpoint by saying:

"For some it would be easy if we did not pay, that they freeze our international debt, but that would make us irresponsible... The country has made a great effort to obtain the credibility of the international financial institutions, and we must correspond to that confidence. If there are deputies that are not in favor of further foreign debt, let them propose other solutions, let them tell us where the petroleum is, where we can convert the gold as a solution to the debt problem" (Guzmán Mata, legislative file 6998, committee hearings, June 5, 1985).

It is important to point out the notion of confidence and the sense of legitimacy that it encloses, while at the same time the lack of an alternative to structural adjustment on the part of all the political parties possibly explains why the debate is centered on the timing rather than substantive issues: The majority of the deputies have no arguments to

defend the loan, but sense that they must approve it. This realism, and sense of acceptance of the constraints is worded by Muñoz Retana:

"...we here only have three alternatives: one is to say that we won't pay, then what would happen is that they close all the international loans, because we would be declaring ourselves absolutely insolvent. This has been shown to be more dangerous than the other road. The second alternative would be to pay our debt, but we cannot. The only way that is left is negotiation, it is the only possibility. This is what the government has tried to do..."(Muñoz Retana, legislative file 6998, committee hearings, June, 18, 1985, p. 319).

Only Montero's position is different in that he does not think that the loans can solve the country's problem:

"We are paying debt with more debt. Sovereignty and freedom are reduced to taking or leaving the loans. If we take them we are sunk, if we do not, we are too" (Montero Mejía, legislative file 6998, committee hearings, p. 174).

Additionally, the legislative debate of PAE1 also shows a situation of extreme weakness of congress, that does not sustain an independent opinion from the executive branch or from the high-level negotiations inside the political parties. The most extreme version of this situation is Muñoz's participation on June 26, when the project was discussed in the Treasury Committee (cited above).

This weakness is also manifest in that the most recurrent and consensual demand of the representatives is to be better informed. Almost half of the motions that were accepted during the committee's debate (5 out of 12) were demands for basic information.¹² Additionally, this weakness is also present in the feeling that the loan includes more than what is being explicitly stated:

"I have the impression... we have the sense, that there is information that is not in our power; that agreements have been committed that do not appear in the

written text. (We) then (feel) that if we place a series of trenches, the ghost might fall in one of our traps. I would prefer the contrary: that whatever there is, the Executive branch would explain whatever there is to explain." (Villalobos Villalobos, legislative file 6998, committee hearings, p. 275).

This sense of tricking the executive into saying more than it wants to by setting up "trenches" to catch "ghosts", shows that the deputies sense that they are not getting full information, regardless of their legal right to demand it. Two related processes overlap in relation to this uncertainty of not knowing what is going on. The first is the demand for information, for facts, mentioned above. The second is the perception on the part of the deputies that the loan entails more than what is being explicitly stated.

The deputies' distrust must be situated in the context of the constant rumors about military involvement in the U.S. war against Nicaragua, which could be linked to the conditions that the government presumably accepted from AID and that were never made public. A homology in their reasoning could relate the negotiations with USAID to those that the government simultaneously undertook with the international financial organizations.

The discussion in the plenary sessions started on August 14, in a time frame restricted by the World Bank's requirement that it be approved before August 16 (in June, despite the initial information, the World Bank extended the period for two additional months). At the time of the discussion of PAE1, Costa Rican law required that a law be ratified in three separate discussions on three different dates. Since August 15th

is Mother's day in Costa Rica, a debate took place if it would be necessary to also discuss the project on a holiday, but a representative found out that the World Bank would be satisfied if two of the discussions took place before the sixteenth. Right after the discussion Minister of Planning Villasuso left for Washington to inform the World Bank about the results.

Thirty-five motions for reform were presented to the plenary session. They were filed overwhelmingly by the left. Their content was related to the establishment of priorities, the definition of criteria for the application of policies and the definition of the grounds for sovereign action of the state, all of which were contrary to the spirit of adjustment policies. Some examples of the motions are: (1) Motions that establish that the loan does not commit the state to any legal changes that are not explicitly stated, (2) Motions that try to establish the sovereignty of the state in defining priorities and in deciding economic policies (priorities in the assignment of credit or foreign currency). (3) Motions that try to explicitly favor projects and legislation that have distributive impact.

Many of these demands point exactly to what the international financial organizations considered unacceptable and unsound economic practices. The international financial organizations considered subsidized credit and the definition of differential interest rates to be wrong and demanded that credit be given according to market conditions. In cases of scarcity of convertible currencies, the Costa Rican government

had historically established priorities as to the social and economic need of certain imports. Neo-liberal conceptions objected to a central agency (the state) defining criteria of social need of some commodities over others: Imports had to be dealt with in strict order of reception of the request for dollars.

As in the committee hearings, the motions were not exposed to debate. Instead of being submitted for discussion in plenary sessions, the legislative directory sent these motions to a Committee, where they were all rejected without any comments or discussion. On August 19, the project was approved in third debate.

The plenary sessions are important to understand the content of the discussion of PAE1. Their importance does not reside in being decisive, as before the plenary started the two main parties had come to a non-publicized extra-legislative agreement to approve the project. The only opposition was to come from the left. However, they express the most articulate discourse in relation to the positions around the project. All of the interventions in favor or against the project claim the defense of national interest.

The deputy that defended the project on the part of the government party expressed its necessity as being:

"According to the rules, I am entitled to fifteen minutes to refer to this project, but I believe that this Congress, and the country in general, do not need that any deputy justify the importance and necessity of the approval of this law. All I can do is insist to the deputies that they approve this project without passion, with no electoral goals in mind, it is an absolute necessity for the country's interests

(Granados Ramírez, legislative file 6988, plenary session, August 13, 1985, p. 480)"

This speech is significant, since to that point nobody in congress had justified the importance of PAE1, other than obtaining a certain amount of money. National interest is an abstract concept to which no content is assigned, but which is assumed to be obvious.

The only deputy that defended the conception of structural adjustment was Víquez Víquez, also of the official party:

"This loan for structural adjustment, for 80 million dollars corresponds to...a declaration of development policy of the government of Costa Rica, through which the fundamental aspects through which a real structural change in our economy can take place. I enumerate some of them: tariff reform, change of the productive system, modification of the financial system, oriented towards a fundamental sector of any reactivation, the export sector."

"It is to be expected that this covenant will be developed according to the conditions and the structural adjustment that is being produced, in terms of a high benefit, from which we can look with a better perspective on the dreadful balance of payments, that could allow us a good productivity of the export sector, and that would allow us to aspire to stability, to a renewed economic development...on these grounds I will vote this ratification so necessary to the homeland (patria)" (Edgar Víquez Víquez, legislative file 6998, plenary session, August 19, 1985, p. 570).

The opposition party, Unidad Social Cristiana, argued its support in practical terms. Chaverri Soto stated that the immediate purpose is to solve balance of payment problems. However, he expressed concern in relation to the restrictions as to the choice in imports, the danger of high increases in the costs of public services and the range of limitations in the action of the internal price stabilization institution, the Consejo

Nacional de Producción. He said his party, despite these social implications, has decided to support the project because:

"...the country cannot do without that money, without risking the stability that has been achieved during 1985" (Chaverri Soto, legislative file 6998, plenary session, August 13, 1985, p. 480).

The other deputy from the PUSC that gave a long speech during the plenary sessions was Trejos Fonseca. He complained about the speed with which the project had been approved. Additionally he said that this loan is made to enable the country to continue buying imports, and that it is unrelated to the structural adjustment component:

"...I think that the World Bank's intentions of structural adjustment of the Costa Rican economy are somewhat illusory, and it might be a way that the World Bank has found to lend Costa Rica 80 million dollars" (Trejos Fonseca, legislative file 6998, plenary session, August 19, 1985, p. 559).

Besides, he expressed concern with loan's interest rates. Finally, he referred to the government's need of the money, due to the country's precarious stability. "We either approve this loan or the country dies tomorrow." An interesting aspect of Trejos' speech is that he says he will vote against the project:

"They have presented the country with a debt program, not with a goal worthwhile taking on new debt... this has not happened, and this project does not require my vote, because there are another thirty eight deputies that are willing to vote it...I will vote against this project, the same way as I have in the past. And I tell my distinguished companions, that are forced through the imperious need to vote in favor, because otherwise the country falls into an abyss... to reflect on future loans"(Trejos Fonseca, legislative file 6998, plenary sessions, August 19, 1985, p. 577).

His reasoning for not voting in favor of the project is in terms of his being against the loan and his vote not being necessary. Trejos' position is surprising as, above

another deputy (Muñoz Vargas, legislative file 6998, p. 413) was quoted as saying that he would vote in favor of the project due to Trejos' recommendation. He argues that since it is possible to achieve a qualified majority without his vote, he can take the liberty of voting against it. This shows on one hand, the lack of conviction in relation to the project, while at the same time it also denotes a pragmatic sense. Opposition and an independent position is possible only if there is a security the project, which is viewed to be inconvenient, but necessary, will pass anyway.

In general, the Unidad Social Cristiana's argument can be viewed as the defense of the nation being linked with the requirement of stability.

The frontal attack by the leftist deputies is entirely different. Based on a strongly principled argument, they claim their right to be different from the two majority parties. They ask respect and to be considered as national as the other parties. The differences among them must not lead to exclude the left on the grounds that it is foreign. The rhetoric claims for the left the heritage of sovereignty and independence of Juanito Mora and Juan Santamaría (founding figures of the nation); of republican values of Gregorio José Ramírez; of patriotism and justice of Omar Dengo and Joaquín García Monge; of the values of social justice of Carmen Lyra and Monseñor Sanabria; of peace and neutrality of José Figueres.

"Are we foreign when we claim an economic and social democracy with pluralism and tolerance which is the most authentic trait of being Costa Rican?" (Ardón Ramírez, legislative file 6998, plenary session, August 13, 1985, p. 485).

However, although they claim a place in the nation, the rhetoric tends to exclude the rest of the parties as having sold out to the International Monetary Fund and the World Bank. This is explained as the existence of two kinds of Costa Ricans: conservative Costa Ricans, and progressive Costa Ricans. These fractures and irreconcilable differences are expressive of the political climate of the moment; neither right nor left are able to view a nation which includes the other's position.

Besides, the deputies from the left express their opposition with the increasing debt:

"...I will not vote for this project, as we have not voted any of the loans of the last years, that have led our beloved homeland not only to financial bankruptcy, but also to the bankruptcy of our sovereignty...as a worker, and a union representative in this Legislative Assembly and outside of it, I could not endure to have the workers of my country accuse me of having mortgaged their children's future or having sold the sovereign will of my homeland" (Menéndez, legislative file 6998, plenary session, August 19, 1985).

Politically, the left's option is the Latin American unity of debt moratoria called for by Fidel Castro. However, this is only expressed as a statement, with no real effort at convincing the other deputies. An option of this kind seems very far removed from the options of a country like Costa Rica, that was being "bailed out" by the U.S. (Edelman, 1993). It seemed obvious to the left, not unlike all other political options, that the Monge administration would do nothing to lose Washington's favor, let alone something that would frontally oppose the Reagan government's politics.

In general, what is most striking about the legislative discussion of PAE1, is that it was approved in Congress with virtually no explicit support for structural adjustment policies. The votes that sanctioned the project, were mainly obtained through the deputies' fear of losing the newly recovered economic stability, as well as the impossibility of suggesting viable alternatives. The preparatory nature of the program, also made the reform process less threatening, as the program itself entailed no mayor reforms. The constraints on legislative action imposed by the executive branch's previous agreement and the international financial organizations' new leverage in domestic politics, left the deputies with no power to accept or reject the project. Approving the project became more of an administrative procedure than a political debate on desirable policies.

Notes:

1. The official loan contract establishes the government's commitment to the policies in two places: (1) in the "Declaration of Development Policies of the Government of Costa Rica." (2) At the end of the loan agreements there is an Annex (usually annex 4) where the conditions for payment are established. The latter are the conditions that the Bank and Government establish as the compulsory agreements that are linked to the payment of the loan; while the former can include declarations of intent that have no policy instruments related to them. The comparison between the program and the conditions highlights the difference between those aspects in which the government is interested (but that are not considered important by the bank) and those that are the product of the joint negotiation.
2. In the listing of its objectives, it is stated that the technical assistance loan will develop studies that will support the strengthening of the budgetary authority, redefinition of CODESA, reinforcement of the Ministry of Planning, of the Social Security Fund, of the agricultural sector (including the pricing mechanisms and subventions, particularly of "basic grains"), the banking sector, tax and customs administration, the educational system and the industrial sector.

3. Clause c, f, and g of the conditionality (Annex 4) establish that before the second payment:

"The recipient of the loan will have:

c) adopted all the necessary policies to create a program of modernization of its industrial sector, including a program for the improvement of its facilities and equipment, credit policies and the training of personnel and workers.

f) will have adopted all the necessary steps to put into practice tariffs on the imports of prime materials, intermediate goods and capital goods, in accordance with the levels established in this program.

g) will have taken all the necessary steps to i) apply the Uniform Central American Tariff Classification; ii) convert the tariffs on imported goods to an ad valorem base; and iii) apply a new commercial regime, all in conformity with the dispositions of the new Central American Tariff and Customs Regime of December 14, 1984."

4. "non-traditional exports to third markets": non-traditional refers to new export products; third markets, to those other than (1) the domestic market, and (2) the Central American Common Market. This means that it applies to all exports outside of the Central American Common Market, with the exclusion of coffee, bananas, meat and sugar.

5. For a definition of the CATs, see footnote 12, chapter 1.

6. Clause a) of the conditionalities states that the recipient will have taken all the necessary steps to freeze the hiring in the public sector in accordance with the dispositions of law 6955.

7. Clause b) of Annex establishes that the recipient will have adopted all the necessary steps to reduce the 1984 operation losses of CNP to 50% by 1985.

8. Clause f establishes that the recipient will have completed an action plan that will include a program for the liquidation during 1985 of the enterprises of CODESA, according to the dispositions of Law 6955.

9. Clause e) establishes that the recipient will have completed an examination of the progress that has been achieved in the execution of the program of investment of the public sector that has been established in the program, including the achievement of the public sector investment goals that have been established for 1985 in the program.

10. During the 1982-1986 government, the Legislative Assembly was composed of 33 deputies of the Partido Liberación Nacional, the government party, 18 of the oppositional coalition Unidad Social- Cristiana, 4 of the leftist parties, 1 of a regional party and 1 of a rightist party. For the approval of a loan a majority of two thirds is required. In the Permanent Committee for Economic Matters, where the hearings of PAE1 initially took place, there were 5 deputies of Liberación Nacional, 3 of the Unidad Social-Cristiana and one of the left.

11. Since the 1980's, this kind of loans as well as donations for technical support have primarily been spent in the payment of consulting services. This mechanism allowed the government and the international financial organizations to ignore the restrictions that they themselves had imposed, in those same years, in relation to public employment, particularly in relation to the salaries of highly qualified technicians and politicians.

12. The representatives ask to be informed in relation to the administration of the project, the use of the funds (although the dollars of the loan are used to pay for imports, the monetization to local currency is a national discretionary decision), the general conditions for World Bank loans, the agreements of the government with USAID in relation to CODESA, the situation of Costa Rica's foreign debt.

Chapter 5

PAE2: The liberalization of trade

Introduction:

The negotiation of PAE2 started in 1987, when the Arias administration (1986-1990) decided to deepen the adjustment process by further encouraging the development of exports produced by private business (legislative file 7134, p.8). The justification of PAE2 -presented by the executive to the Legislative Assembly in 1989- is grounded on a positive evaluation of Costa Rica's past development, in relation to its economic and social achievements; while it is also critical of that development's incapacity to find sound sources to finance the state's intervention, as well as the structural frailty of the trade balance. While external financing was available, the situation was tenable; at present (1988), this lack compels the government to find an alternative mode of development, through exports.

On February 26, 1988, the Costa Rican government sent a letter of intent to the World Bank, in which it described a program of policies and objectives oriented to the structural adjustment of its economy. The program had been elaborated by the Ministry of Planning. On March 16, 1988, the World Bank and the Costa Rican government signed the program they had agreed upon. However, one of the members of the economic team, Eduardo Lizano, then president of the Central Bank refused to sign the program on the grounds that what was being committed was too gradual and that more could be done (Lizano, 1995, interview). A previous condition for the first payment of the loan was the Law of Modernization of the financial system, which, after a long discussion, was ratified by the Legislative Assembly on October 26, 1988 (Law 7107). Another previous condition was the approval of legislation in relation to the regime of incentives for exports and the new tariff law (Gestión Empresarial, 1989).

After complying with these conditions, the loan contract of PAE2 for \$100 million was signed by the Bank and the executive branch of government on December 16, 1988. Additionally the government signed another loan, attached to the same program, financed by the Japanese government, for an additional \$100 million.

Between the signature of the Development Program of PAE2 in March and the signature of the loan in December, Ottón Solís resigned to the Ministry of Planning in October 1988. The explicit reason for Solís' resignation was the exclusion of the Minister

of Planning from the board of directors of the Central Bank. When asked why he had resigned, Solis answered:

"Let me say this carefully. In general I resigned because a PAE -that modified what we had negotiated- was negotiated behind my back, and MIDEPLAN had been left out. I always said that the Ministry of Planning should be at the center of the negotiations of the PAE... and when I found out that the conditions that were being negotiated in the final project were very different from what we had agreed upon, I thought there was no alternative. And in those months, in September and August, Oscar Arias took sides in favor of that position. Oscar Arias had never said anything, it had always been a fight amongst ourselves, but there he manifested his position in a couple of aspects, which revealed which side he was on. I think it was his right to do so, although I don't know why he did not do so before. But when he took a direction, it was his right, he was the elected president, I was nothing. But I did not agree, and that was fundamental for me, and it still is fundamental, which is why I am here, in economic policy-making. "In all of this there was a particular event that was the last straw: financial reforms were negotiated with deputies of both political parties. I did not find out that this was being done, it was very secretive of these companions of the government, of technicians of the Bank and the Ministry of the Treasury. "In the negotiations with the World Bank in 1987, among other things, the World Bank had asked that the Ministry of Planning leave the Executive Board of the Central Bank. I was convinced that the Ministry of Planning should be in the Central Bank; and this was one of the points we managed to change in the negotiation. At one point, the board of directors of the Central Bank, at my initiative, declared that the Ministry of Planning should stay. However, in September-August 1988 I found out that the law that was being negotiated eliminated the seat of the Minister of Planning in the Central Bank, which was very different from the former agreement. Through this, I found out about the other negotiation (the changes in PAE)" (Solis, 1995, interview).

Solis' resignation specifies several traits of the forms of negotiation. First, the different positions inside the economic team are played out as differences amongst individuals, of which the general population is not aware. Second, the ultimate judge is the president, who appointed the functionaries to their jobs and has the power to remove them, while this is usually not necessary, as someone who feels he has lost the confidence of the president will possibly resign voluntarily. Third, the existence of

secretive forms of negotiation, even among high ranking officials. Fourth, there is not a univocal definition of "national" interest as opposed to the demands of the international financial institutions. It is rather that different positions come together in their similarities, regardless of their origin.

PAE2 was signed in December, after Solis' resignation in October, by Eduardo Lizano of the Central Bank, Fernando Naranjo of the Ministry of the Treasury and Jorge Monge, the new Minister of Planning. Unlike PAE1 and PAE3 the institution that acts as the national address for the program is the Ministry of the Treasury.¹

The project that was sent to the Legislative Assembly does not contain the "Declaration of Development Program" that had originally been signed by Solis, although the first paragraph does contain a reference that states that the loan that follows is designed to accomplish that Program. The project that was sent to the Legislative Assembly included an excerpt:

1. Exports, industrialization and trade policies: it states that Costa Rica, due to its small internal market must grow through exports, which must become more diversified, through non-traditional exports to countries outside of the Central American Common Market. To promote these exports there are policies in three areas: exchange rates, the tariff regime and the tax structure and incentives for exports. The program is gradual so that these changes do not affect the rest of the economic structure and it includes benefits

for indirect exporters so as to tend towards an integration of the national economy. This point does not include a specification of the elimination of the CATs, which had been explicitly mentioned in the Feb. 26, 1988 "Declaration of Development Program."² The definite agreement established the government's commitment to a new Law of Incentives for Exporters (Condition 3 for the second payment, Annex 4), which is not specified, and has not yet been worked out at the time of the legislative approval.³

2. Reforms of the financial sector: It states that the State Banks must improve their efficiency, and maintain passive interest rates above inflation. The loan includes the capitalization of the state banks by financing the clearing the portfolio that was overdue for more than 180 days. It finances the losses of the Central Bank and contributes to the national component of loans with external financing. The program allows for the maintenance of the previous amounts of subsidized credit for small producers, while increases will have to be financed by the Ministry of Agriculture, not by the banks. The program also establishes the strengthening of the banking auditing board (AGEF) to extend its area of competence to include the private banking system.

3. Improvement of the administration of the public sector: increase in public savings (6% of GDP in 1989 and again in 1990), improvement in the use of public resources and reduction in the size of the public sector. Public sector investment priorities have been placed on the investment that supports the agricultural and industrial activities of the private sector, and the adequate provision of social services to the population.

4. Agricultural pricing policies: the agricultural sector is seen to have a great potential for exports, which must be developed through the increase in the production and productivity. The support for the producers of grains will be through a system of technical and financial support as well as the adjustment of prices to the producers. The promotion of traditional and non-traditional exports and budget cuts in the Consejo Nacional de Producción are also part of the program.

The process of elimination of subsidies for agricultural production for the domestic market generated a vigorous protest movement by peasant organizations, primarily maize producers. The government established forms of negotiation with the organizations; however they were not able to revert the elimination of subsidies.

PAE2 entails more radical changes than PAE1. The tariffs on imported goods are to be reduced to a range of 40-5% of effective protection at the end of the period, the incentives for exports, in particular the CATs, are to be reduced and most subsidies to the production of grains are to be eliminated. There is a demand for efficiency in state banks, while the existence and operation of private banks are acknowledged and their operation is protected.

The political process of PAE2 is much more complex than that of PAE1, mainly because the structural transformations it involves are much more profound. The spaces of the political process are also much more diverse. Besides the legislative discussion,

there is also struggle inside the executive branch (expression of differences inside the government party), between the executive and organized groups of businessmen and agricultural producers (especially those groups who produce for the domestic market: industrial and agricultural business groups, and peasant organizations), and between the two main political parties.

I initially worked with the legislative files. However, the presence of conflicts that were not explicitly addressed in the legislative debate, led me to look for other sources: the press of the period and to interview some of the main actors of the conflicts.

Legislative discussion of PAE2.

* The loan project was sent to the Legislative Assembly on March 17, 1989 and ratified by the Legislative on October 4, 1989. The legislative discussion of PAE2 can be divided into three distinct periods:

- i. February 21, 1989 to March 15, 1989: A commission of deputies from the government party met with members of the executive branch to generate internal consensus and prepare the legislative strategy.
- ii. April 4, 1989 to April 27, 1989: the Permanent Treasury Committee studied the project, held hearings and defined a majority position in favor of the project.
- iii. August 7, 1989 to October 4, 1989: plenary sessions and approval.

i. Convincing the Liberacionista deputies: February 21 to March 15, 1989.

While PAE2 was sent to the Legislative Assembly by the presidency on February 27, 1989 and published in the official paper on March 17, before that a special committee formed entirely by representatives of government's party (PLN), met on at least five occasions⁴ (between Feb. 21 and March 15) to prepare the legislative strategy. During these meetings government officials clarified doubts and supplied information: Fernando Herrero (Vice-Minister of Planning), Carlos Espinach (member of the board of directors of the Central Bank), Antonio Burgués (Minister of Economics), José María Figueres (Minister of Agriculture), Sandra Piszck (Vice-Minister of Economics).

The position of the group of leading liberacionista deputies that form the committee is complex. They simultaneously (1) express doubts and questions about the project, (2) are concerned because the language of the project is not clear to them and (3) are worried about the legislative approval.

(1) The questions point to most aspects of the program: Does the pricing mechanism for the production of grains really protect the national producers? How is the technical assistance for agricultural producers to be financed? Is the process of concentration in the property of the land related to the adjustment program? Is there a relation between this loan and the payment of the foreign debt? If we (Costa Rica) reduce tariffs, isn't there a danger of an increase in the commercial deficit? Is there a relationship between PAE2

and the GATT? What will happen to inefficient industries, and what social effects could their bankruptcy entail? How does the program relate to the protection of the environment, the development of science and technology? Which sectors benefit from the program? Is it correct that the state banks benefit from the program? If we (Costa Rica) orient our production towards external markets, how do we know that the countries we export to will not apply protectionist laws that make the entry of our products difficult?

In this phase of the discussion, the members of the commission also express their concern with the conditionality of the loan. While the loan project allows for the maintenance of subsidized credit, as long as it is financed by the government budget, the project does not point to sources of income to finance it. The same occurs with the process of industrial reconversion. While the project establishes that this is a process that is to take place, it does not cite how this will happen.

(2) While the deputies express all these questions in relation to specific aspects of the project, they also ask the government representatives to give them general explanations so that they can understand the project. Again, as in PAE1 the economic language creates a barrier for understanding:

"Methodologically, you move around in a world of concepts and you think everybody understands you, and it is not true...we would like a didactic guide so we can explain the benefits of PAE2, inside and outside the Legislative Assembly" (Tacsan Lam, legislative file 7134 pp. 175, 180).

"I would ask the Minister of Planning to prepare a comparative synthesis of the benefits (of the program). But a clear synthesis, since most of us don't understand economic problems. Most of us can't distinguish the benefits of PAE1. Why do

we need PAE2? What would be the difference without the SAL? What is its importance? I am thinking of a short, simple document" (Aguilar Sevilla, legislative file 7134, p.86).

"If you could give us the content of what Fernando Herrero explained to us the other day, but in terms that anyone of us can understand, to be able to sustain a favorable position towards the plan in a committee or a plenary session or for the public opinion...I want you to know that we need the same information you have" (Rossi, legislative file 7134, p. 80).

"If the executive could please send us somebody that knows about these matters, and stay with us in the Treasury Committee, because I think that this is going to be one of the most controversial projects. We must become imbued in the problematic, look for the sites of attack and the answers" (Chaves Sanchez, legislative file 7134, p. 95).

(3) The last two quotes point to the third aspect of their position: despite their questions and their insecurity about exactly what the program is about, as representatives of the official party, some of these deputies already assume that they will defend PAE2 in Congress, for the sake of the party and the government:

"If we are attacked, we have to defend ourselves...I believe that our objective is to have ammunition and (internal) consent, because if we divide, we won't achieve anything, the government and the party are damaged, and we will be crucified" (Karpinsky, legislative file 7134, p. 93).

The conflation of these three aspects expresses the subordination of the deputies to the executive branch. They ask that the executive send them information and someone who can help on technical matters, instead of looking for help inside Congress. Besides, it also expresses the subordination of their doubts and criticism to a superior goal, that of the unity of the party, its future strength and the image of a Liberacionista government.

In some interventions there is more concern with the unity of the position of their own legislative fraction than with the opposition. A reason for this concern is that the acceptance of the objectives of PAE2 is particularly problematic for the "liberacionistas" in relation to the party's past practice and ideological positions, much more so than for the opposition. Liberación is in this case the "historical" party, that has had the central responsibility in government over the previous 40 years.⁵ Most of PAE2 challenges much of that past: the state monopoly of banking, import substitution industrialization, the protectionist policies for agricultural producers of domestic goods, strong state intervention. All of these aspects had already been undermined to a lesser or greater degree since the 1980-1982 economic crisis; by the change in economic conditions, the negotiation with the international financial organizations and the changes in legislation from 1984 on. However, the ideological principles that valued them as positive historical achievements remained important to the "liberacionista" identity, despite the profound fractures in their institutional contents. These deputies must somehow solve the conflict between their party's ideology and action in the past, and the present policies. The opposition's position is less problematic, as it is organized in a new party,⁶ which builds on an anti-liberacionista agenda as a source of identity. However, the opposition's relationship with these aspects is not totally unproblematic, since the prominence of Liberación over the previous decades gave these "liberacionista" achievements a national character with which the Unidad Social-Cristiana must also deal.

The interlocutors in this discussion are the representatives of the executive branch. They describe a highly positive view of the project. They present the project as the outcome of a long, intensely democratic, and national process. They claim that the government first elaborated a national development plan. On the basis of an extract, and the consultation with over 500 functionaries, PAE2 was elaborated and then sent to the World Bank. The exaltation of this particular way PAE2 was elaborated is repeated in different ways by Carlos Espinach and Fernando Herrero:

"When the Bank's mission came here, we assigned someone to every bank specialist, so that we could follow up on what they were asking, so as to establish a process of negotiation which is completely different to any other in any other country" (Herrero, legislative file 7134, p. 115).

"...because we believe that with very ample information, we are going to realize that this project is a very national project, managed in a very costarrican way and different from anything that is said about the projects in Chile" (Espinach, legislative file 7134, p. 88).

"We believe that the goals express a very successful negotiation on our part, and since we have nothing to hide ...we must defend what we are doing in its entirety. We are not hiding anything from the representatives or from anybody...One could have thought that there could be letters of external commitments, but then one would not be in a negotiation facing the people, which is what we are doing, an open negotiation, we think it is good for the country and we want to defend it" (Espinach, legislative file 7134, p. 103).

At the end of this nationalist defense of the program Espinach tries to dispel the fears that might exist in relation to the process of commercial liberalization, on the grounds of the positive traits of the Costa Rican population:

"We Costa Ricans should not be afraid to compete with more and more products in the international market...by lowering tariffs... we are creating incentives for a process which is not unknown for Costa Ricans, which is the challenge of opening to international markets, because we have a raw material which is the 'Costa Rican being' ('el ser costarricense') which is much better than that of other countries" (Espinach, legislative file 7134, p. 105).

The nationalist defense of the project is also linked to having reduced the number of conditions of the loan contract⁷ (Herrero, legislative file 7134, p. 97; Espinach, legislative file 7134, p. 110):

"International loans have a conditionality that we have wanted to reduce to the minimum so that the development project and the export-led development is a Costa Rican development" (Espinach, legislative file 7134, p. 110).

They point out several of the aspects that they consider make the PAE2 a national project. Herrero mentions that one of the central aspects is that public investment is to be oriented towards social investment, unlike other countries. (In spite of this claim none of the loan's funds are budgeted to be used for social investment). He also points out that the project strengthens the state banking system, and regulates the private banking system. Both he and Espinach point out how successful the export policies have been. They claim that practically all social sectors can benefit from structural adjustment, particular emphasis is placed on showing the benefits for those sectors that could be negatively affected:

"Adjustment will require no social cost on the part of small producers. They are totally protected by the arrangement that has been negotiated. Besides technical assistance programs are being created to allow small producers to become more efficient, so that they can have a higher income than at present. The reduction of industrial protection is very slow, and if necessary can be made slower. State banks are fortified and private banks are regulated. Salaried workers benefit because the program tries to avoid unemployment and the tariff reduction will lower prices" (Fernando Herrero, legislative file 7134, p. 106).

The most detailed explanations are related to the policies for the small and medium agricultural producers of grains, the groups that staged the mobilizations

between 1986 and 1988. An extensive list of policies to protect these sectors are presented:⁸

"This is the essence of the defense that the Costa Rican group has made in the structural adjustment program of the agricultural sector and this is the part of the program that is unlike any other program in any other place" (Espinach, legislative file 7134, p. 163).

The strategy is to support these producers, not only in relation to the traditional products, but to try to get them to produce exports as well. The perspective of the kind of relationship with the small and medium producers is paternalist and expresses concern with the poverty of those producers:

"...one has a coffee producer that generates around two hundred thousand colones annually. These gentlemen (the grain producers) are so poor we cannot take them beyond forty thousand a year... What we are saying is not only the increases in productivity, but also to look after their small milk farm, to see how we can improve it for them, and how we can increase their income...and the same with other products: how we can improve this for them so they can get an increased production" (Saenz, legislative file 7134, p. 176).

The paternalism of Saenz's intervention, expressed in doing for small producers what will be good for them, does not mention the intense peasant activism of the previous two years and does not acknowledge them as social actors. The position to allow them to produce grains, as well as helping them produce everything else efficiently, particularly exports, takes the peasants explicit demand -the right to continue to produce grains- and includes it in a larger package of economic diversification and efficiency, which will benefit them, even if they do not know it. The representative of the Ministry of Agriculture speaks in the name of the peasants, viewed as underage children, denying them their own voice.

The nationalist discourse of the government representatives is geared to appeal to central values of the Costa Rican and more specifically, "Liberacionista" identity. Some of the traits that are attributed to the negotiation, in particular the absence of impositions and the publicity and openness of the negotiations, are part of the more general ideological framework and practice of the Arias administration. Despite the continuity in the political party with the Monge administration, Arias assumed an entirely different position towards the U.S. government's Central American policies than did his predecessor. Arias struggled against the U.S. government's military perspective of the "Central American crisis" and favored the search for negotiated solutions among the Central American presidents. In this context he no longer accepted secret conditions in the USAID programs, nor did he accept conditions contrary to peace efforts. The prevalence of Arias' position in the resolution of the 'Central American Crisis' led to an effective affirmation of Costa Rica's sovereignty in relation to the U.S. The peace policy thus accentuates values that have also been present in the economic negotiation. This renewed nationalism thus opens a different perspective to the negotiations than that of PAE1, despite the fact that the economic reforms are much more drastic.

After having defended the programmatic aspects of the program, Herrero points to the loan component:

"...the loan is for 100 or 200 million dollars to support the trade balance. What does this support for the trade balance mean? This support means that the stabilization program will be less destructive, and this year, as you know, and we all know, is very important...the loan allows us to have a more harmonious end of government; both in terms of credit (we won't have to restrict credit further)

and in terms of devaluation (which allows us to a slower rate of devaluations, which in turn allows us to control inflation)" (Herrero, file 7134, p. 107).

Through this explanation, Herrero added a practical argument to the programmatic and ideological aspects that grounded the defense above. 1989 is an electoral year in which elections will take place in February 1990. When Herrero said that "this year is very important," and established this importance as a known fact, he only reminded the deputies of what they already knew. However, what he added is important: the funds that the PAE will bring in could help the government give credit, detain the rate of devaluation and control inflation, several aspects which can be crucial to give an impression of economic well-being and stability in the face of elections.

ii. Committee hearings: defining the points of the discussion, introducing proposals for reform: April 4 to April 27, 1989.

Parallel to the meetings of the group of Liberacionista deputies, the Technical Services Office of the Legislative Assembly also studied the project and gave a written statement of comments on March 14, 1989. The main point is similar to that expressed by the leftist deputies in the discussion of PAE1: "This is a loan to pay external debt."⁹ (Estrada, file 7134, p. 67). The question according to the statement is if this loan is to contribute to economic development or if it will increase our debt in a sterile way, as a result of compensatory loans that can only be used to pay for old obligations (Estrada, file 7134, p.75). This report appears in the file, but it did not affect the debate in any

way.¹⁰ In one of the first committee meetings, Araya Umaña (PUSC) highly recommends that the other deputies read it, but there is no other mention of the report (Araya Umaña, file 7134, p. 230).

Once the project started its official discussion in the Permanent Treasury Committee¹¹ (meeting 96, April 4, 1989), a list of possible guests for the hearings was elaborated. It included four high governmental officials: Eduardo Lizano (executive president of the Central Bank); José María Figueres (Minister of Agriculture); Antonio Burgués, (minister of economics); Fernando Naranjo (Minister of Treasury); two leaders of the opposition party (Miguel Angel Rodriguez and Rodrigo Carazo); two leaders of the ruling party: Otton Solis (ex-Minister of Planning) and Bernal Jiménez (ex-President of the Central Bank during the Oduber administration); one political leader from the left (Alvaro Montero Mejía); two leaders of business groups (Juan Rafael Lizano (agriculture) and Samuel Yankelewitz (industry); two labor representatives (Luis Armando Gutiérrez (politically affiliated with Liberation); Alvaro Rojas (politically affiliated with the Communist Party), and Guido Vargas, representative of one of the peasant organizations, the most moderate one in orientation and the one that had participated the least in the mobilizations of the previous two years (UPANACIONAL).

As in PAE1, after the first hearings, it was argued that there was no time for the rest, and the list was reduced to Ottón Solís, Samuel Yankelewitz, Bernal Jiménez, and Miguel Angel Rodriguez. At the insistence of the deputies of the Unidad Social Cristiana,

Juan Rafael Lizano of the Chamber of Agriculture was included. This entailed the representation of the two majority parties to the exclusion of the left; the representation of the main business associations to the exclusion of labor and peasant organizations.

As in PAE1, in PAE2 the use of legislative time is central in understanding the political tensions. Twenty days after the committee discussions started, the liberacionistas started to exert pressure to vote the project. Their interest was to get the project ratified in extraordinary sessions (in which the executive has the prerogative of defining the agenda). In contrast, the deputies of the PUSC continually presented new motions to invite more people to the hearings. This tension is explicitly stated by both parties: while the "liberacionista" deputies accuse the PUSC of deliberately obstructing the approval of the project, the PUSC deputies speak of the dictatorship of the PLN. From this temporal sub-text it is clear that the PUSC is interested in delaying the project,¹² while Liberación is interested in approving it as soon as possible, but that it lacks the votes it needs for ratification by the plenary.

The hearings contributed to the specification of the main political tensions of PAE2. In the first two meetings (#96 and 97, 5-4-89), the PUSC framed the terms of the discussion from their point of view: for the opposition it is essential that the government defines what it will do with the funds in local currency, without which it will not consider to vote the project (Delgado Monge, PUSC, file 7134, p. 219). The government's answer is that it will distribute the money (1) to cover losses of the Central

Bank, (2) to contribute to the improvement of the financial situation of the state banks, and (3) to pay for the local part of international loan contacts. From these first meetings the PUSC deputies expressed its opposition to this distribution: they demand that a significant amount of the money be oriented to productive reconversion, particularly that of the industrial sector.

The first visitor to the hearings was Otton Solis. He used his participation to lobby for the development of additional policies to promote: (1) efficient production, particularly for small producers and (2) the reduction of the fiscal effort in the promotion of exports. His concern is to find a way of developing an efficient export economy that is not based on subsidies and that produces commodities that can permit a higher standard of living for the population. He stated that the mechanisms that the World Bank is willing to approve were all indirect, and that they would not be effective without direct policies to increase efficiency through programs of irrigation and drainage, the maintenance and strengthening of subsidized credit, direct aid for small producers, technological innovation, educational reform to encourage the taking of risks among students, and finally, the increase of efficiency of the state banks. None of these direct measures are included in PAE2.

Solis' participation highlights four aspects of the controversies: (1) He continues to express the traditional Liberacionista position of development through an activist state. (2) He is worried about the "phenomenal fiscal effort" (Solis, file 7134, p. 233) that the

country is making to support the export economy, through tax exemptions, subsidies and direct transfers through the CATs.(3) For him it is necessary to develop direct measures in support of the indirect measures of PAE2. Without them, the goals of adjustment will be a failure. (4) He thinks it is necessary to reduce public expenditure through the reduction of current expenses, and to increase efficiency in the use of public resources.

The second hearing is that of Miguel Angel Rodriguez (presidential pre-candidate of the PUSC in the 1990 elections). He started his intervention with a narrative of the consistency of his liberal convictions since his youth. He expressed general support for the program, for a rationalization of public expenditure, development of efficiency and of market mechanisms. From his point of view the country would have to undertake these policies anyway, not because they are imposed from the outside, but because they are necessary.

However, he doubts if the loan component of the program is necessary, as there are enough dollars at that moment, and one would have to ask if further debt is warranted. Besides, like the rest of the official position of the PUSC, he objects to the lack of definition for the use of the monies:

"This is a blank check for 200 million dollars...my recommendation...is that you ask for adequate information (in relation to the use of the monies) and that you use those legal instruments to dispose of those resources" (Rodriguez, Legislative file 18-4-89, p. 281)

The following hearing is of Samuel Yankelewitz of the Chamber of Industry. Yankelewitz expressed his dissatisfaction with the lack of interest that the government had shown in consulting with them and involving them in the negotiations with the World Bank. In a long document that he read to the committee, the Chamber of Industry expresses that the adjustment process must be "gradual, simultaneous, selective, and guarantee a minimum level of protection." The Chamber demands government protection to help them reconvert inefficient industry, so that they can participate in the world market. For this they ask that the government simultaneously protect the domestic market, so that its members do not have to compete with imports, while at the same time keeping incentives such as the CATs to promote their involvement in the new export model. Additionally, the Chamber asks that the policies to reduce protection not start until the government makes similar progress in the reduction of the deficit and in the improvement of state services to industrialists and exporters. They do not believe that trade liberalization will be symmetrical: they believe that through the GATT foreign powers want to send Costa Rica their products while they maintain their protectionist structures.

They demand three concrete changes in the project:

1. the creation of a technical structural adjustment commission, with the participation of a representative of the Ministry of Economics, of the Treasury, and of the Central Bank, as well as two representatives of the Chamber of Industry. This commission will study

the proposals for the reduction of import duties, which cannot be changed without the support of this commission.

2. the inclusion of a flexibility clause, which would permit the exclusion of a sector from the program of import tariff reduction.

3. the inclusion of a clause for the creation of a fund for industrial reconversion:

"This chamber has always considered that the majority of the funds of the structural adjustment loan should be used to create an industrial reconversion fund" (Yankelewitz, file 7134, p. 268).

They end this list of petitions with the following challenge to the government:

"Without these changes -much to our regret- we would not be able to support the project of PAE2. We share the basic philosophy of the program...but we are concerned by its possible effects." (Yankelewitz, file 7134, p. 268)

The tone of this last statement is that of one who has veto power over political decisions. The final sentence in which they claim to support the basic philosophy of structural adjustment, is more like a disclaimer. There is very little conviction amongst the industrialists in relation to the goal of being exposed to the liberalization of foreign trade. Additionally their proposal to have dual protection (in the internal market and subsidies for export activities), runs counter to the World Bank conception that incentives are to be transitory while distortions are corrected, but must disappear as soon as the latter are reduced.

The industrialists' standpoint that state policies and support must accompany them through structural adjustment, expresses the history of the Chamber of Industry, which always considered that their development was a matter of national interest, consistent with the central place of industrialization in the project of import substitution industrialization. The concrete petitions for the reform of the project are however much more restricted, and refer to specific corporate interests.

The fourth person invited to the hearings was Bernal Jiménez, a liberacionista politician and businessman who had been president of the Central Bank during the Oduber Administration, and later was elected deputy in the 1982-86 administration. His intervention is in favor of PAE as a necessary although insufficient process. He says the country must define its own long-term policies, since in recent years there has been no long-term perspective. He agrees with the demands of the Chamber of Industry and adds that none of the funds must go to the state, but must go to support private business. Deputy Araya Umaña confronted Jiménez with his past practice as defender of the statist policies in the Oduber administration. Jiménez gets angry and says he has come to the committee as an economist and not as a politician, that he has held lifelong social-democratic convictions, that he is concerned about the distributive effects of policies (unlike Miguel Angel Rodriguez), and that it is false that he has changed, that there is a continuity in his thought and practice.

The final hearing is of the Chamber of Agriculture, invited to the hearings (Juan Rafael Lizano, meeting minutes 106, 26-4-89), after much insistence on the part of the PUSC deputies. As was the case with the industrialists, Juan Rafael Lizano, the chamber's president, comes to the committee with a document stating the chamber's position. The main problem for them is the existence of a large and inefficient state, and the inequity of the international financial organization's demands to eliminate subsidies in the production of food crops, when the developed countries all subsidize their own farmers:

"What happens is that what is good for the goose is not good for the gander; the World Bank is interested in our opening our markets, but it is not interested in our entering other markets" (Juan Rafael Lizano, file 7134, p. 526).

J.R. Lizano says that as a country Costa Rica must do the same as its farmers: first supply itself, later produce for the market. There is no confidence in the objectivity of the proposal of pricing mechanisms:

"This (the establishment of prices) is never going to be technical; it is always going to be political; let's be realistic; and while this is political, production will continue to descend" (de la Espirella, file 7134, p. 527).

The Chamber of Agriculture demands that they receive at least 20% of PAE2 funds in order to undertake the modernization of agriculture, particularly since agriculture is much more significant than industry in generating hard currency (74% of exports) and in producing employment (28 to 29% of total jobs). Second, they also ask that the Legislative Assembly define what is to happen with the fiscal incentives for exports, as PAE2 has a condition, that it must reduce or eliminate the CAT's before the second payment of the loan. They say they agree that these incentives have to be

temporal, in the beginning stages of a business, but they do not know how the elimination of the CATs could affect the large amount of foreign capital that has been invested in the country. (Will foreign investors interpret this as a change in the rules?) Third, they ask for a joint commission between government agencies and private agriculturalists in order to develop legislation to protect agriculture, similar to the way that industrialists have laws that protect their activity. However, they do not want the government to create one commission with both business groups, as they consider that this should not turn into a conflict amongst business groups.

The five hearings can be divided in two groups: (1) those of the business groups and (2) those of the politicians. The business groups have much in common: they visit the committee with a written document in which the organization presents its point of view, and they end their intervention with suggestions for the modification of the project. Both business lobbies represent sectors that produce for the domestic market and that have benefitted from protectionist policies; neither is convinced that the anti-protectionist stance of the World Bank will have any effect on the rich nations. However, neither see an alternative to structural adjustment.

The presence of these two business groups also points to those that are absent. The groups that benefit from adjustment policies (non-traditional exporters, tourism entrepreneurs and bankers) did not ask for a hearing, nor did the deputies consider inviting them.

In the case of the three politicians, what is most striking is the presence of two levels in their intervention: (1) a general and relatively abstract normative discourse about the desirable adjustment for Costa Rica; (2) the relationship between their conceptions and their personal histories. The claim to personal coherence over time stands out as a notorious trait. In their interventions they highlight different and not necessarily contradictory aspects of the desirable adjustment: Solís emphasizes productivity and the appeal to state support for small producers; Jiménez the support of the private sector, and Rodríguez the accountability of the State's expenditure. If their positions were presented in more concrete terms, contradictions might arise, but as they were worded, they can even be considered to be complementary to each other. Finally, all five men -politicians and businessmen alike- share the general perspective of the PAE2, in that the future development of the country's economy should be through the development of exports.

In the last 5 sessions (103 to 108) that took place between April 25 and April 27, the following motions were presented (and approved) by the Liberacionista majority:

1. The creation of a technical committee of structural adjustment to give suggestions in relation to the process of change.
2. Autonomy of the executive branch from the legislative in the approval of the tariff reductions to make the process of tariff reduction more gradual according to the needs of specific industrial sectors.

3. A clause requiring the government to find sources of financing industrial reconversion and to develop a plan. Equally, to produce a plan for the financing of small grain producers.

4. The creation of an anti-dumping commission to protect national producers.

PUSC tried unsuccessfully to pass a clause that would bind the use of part of the funds for agriculture and industry. Liberation argued that this would be a modification of the loan project, which the World Bank would not accept.

Finally, the deputies of the commission unanimously rejected Clause 2 of the loan agreement, which stated that the regulations of SAL2 would stand above the national legislation.¹³ This is significant as it is the only point around which there was full bipartisan consent.

Despite the fact that Liberation was able to push the project through the committee, it was not able to schedule the plenary sessions during that legislature, but had to wait for the following extraordinary legislature, which delayed the discussion of PAE2 until August.¹⁴

The motions presented and approved, and the use of time, express the real political process of PAE2 in the committee hearings and in the legislative process in general. Through the motions, the deputies allow the business groups that were dissatisfied with the loan project to include the changes they had asked for. The

agriculturalists and industrialists through these motions introduce some leverage in the decisions which affect them (in the structural adjustment committee and in the anti-dumping committee). Both large political parties support the business lobbies' demands. All the requests of the private chambers were incorporated in the Treasury Committee's report, with the exception of their demand for a clause that earmarks part of the funds for the financing of agricultural and industrial activities.

The second aspect, that of the use of the time, points to what is really at stake in PUSC's demand that the government define the use of the monies of the loan. This problem had two dimensions:

(1) a public side, which was the demand that the government define the use of the monies, and in relation to which the two main parties had different agendas as far as their priorities. While Liberation considered that the funds had to be employed entirely in public institutions, PUSC considered that part had to be used in the support of the adjustment process of private business, particularly industry and agriculture.

(2) a private angle that was never talked about in the legislative debate or in the press, but was understood to be present in the discussion over the use of the funds: how were the funds to be distributed between the Arias administration and the following government? PUSC hoped to win the February 1990 elections. In that sense, it did not want the Arias administration to use all the monies of the loan: this would improve the

Arias administration's public image (making winning the election more difficult), and it would leave no money for the next government (that PUSC hoped to control). On the other hand, the Arias administration had budgeted most of the funds to be used in its last year in office. As was mentioned above, in the introductory sessions Herrero had reminded the Liberacionista deputies of this fact.

To delay the payment of the funds, PUSC deliberately delayed the approval of PAE2. As was mentioned before, in March, even before the discussions began, a newspaper had reported that PUSC would not approve PAE2 before November. Although PUSC denied the report, its legislative practice confirmed it. During the time the PUSC deputies delayed the project in the committee hearings they never presented any motions for the modification of the project. They claimed they wanted to hear more opinions, have more criteria, etc.

The final balance of the Treasury Committee is to have included most of the business lobbies' demands and to have specified the terms of the political situation for PAE2: the Arias administration either negotiated the distribution of the funds with the PUSC, or it could forget about the approval of PAE2, at least for the remainder of the 1986-1990 government.

iii. The plenary discussion: August 3 to October 10, 1989

The project reached the presidency of the Legislative Assembly on May 10, 1989. During the ordinary sessions, the opposition deputies refused to vote on a clause to assign the project priority status. On July 31, the project was in the 125th place of the legislative agenda. As a consequence, it was only in August -with the beginning of the extraordinary sessions- that the discussion around PAE2 could continue. Meanwhile, on June 19th, the government asked the World Bank for an extension of the deadline for the approval of the loan. On June 29th, the government announced an offensive for the approval of the project, which meant the increase in the negotiation with the opposition (Vega, 1990).

On August 3, the plenary session voted for the creation of a special committee, which in a week would prepare the project for the legislative discussion. One of the reasons that made this committee necessary was that the executive branch had meanwhile signed a loan project with the Japanese Development Fund for \$100 million, to be added to the \$100 million of the World Bank's SAL loan. This doubled the amount of the funds.

During the plenary session of August 3, the PUSC deputies used their time to complain about the unjust criticism leveled by Liberación that they had deliberately been delaying the project. It seems apparent that at this point there is a schism in the PUSC bench: while some deputies continue to oppose the project, others have already come to an agreement with the government party.

The former position is expressed by Araya Umaña (PUSC), the only member of the Treasury Committee that had objected to the entire form of financing of the PAE on ideological grounds, in that it only increased Costa Rica's foreign debt.

The latter position is clear through Guevara Fallas' (PLN) first intervention, in which she points to the achievement of an agreement. She thanks the members of the opposition that have been working on a special, informal committee with the government¹⁵ for their participation and collaboration in trying to work out a consensual position. She also indirectly speaks of the resolution of the unspoken conflict as to which government is going to be able to use the funds:

"...this program of Structural Adjustment will mean a great contribution to the development of the economy in the coming years. I say this because it is not only for this year; the payments this year are really minimal in comparison to the advantages that structural adjustment will have next year" (Guevara Fallas, plenary legislative file 7134, August 3, 1989, p. 661).

The wording of her intervention produces a conflation between the program and the funds. Her reference is to the use of the funds, but it is worded in the concepts of the program. The promise of use of the majority of the PAE2 funds by the 1990-1994 administration (to be elected in February ¹⁹⁹⁰ 1989) was achieved by PUSC through their actions to delay the project. By the middle of 1989, the Arias administration was hostage to the parliamentary actions of the Unidad in relation to the PAE2 project. The compromise enabled the Arias administration to be able to dispose of part of the loan, and gave the following administration -regardless of who would be elected in February 1990- fresh funds for its first two years in office.

However, the pact seems to include an additional compromise in relation to the distribution of the funds. One of the outstanding points of disagreement at the end of the Treasury Committee's work in April, had been the absence of financing for the industrialists' and agriculturalists' productive reconversion (raised by these groups' corporative organizations and PUSC). In his intervention at the August 3 plenary session, deputy Jimenez Piedra of the official party points out that 30% of the funds will be used for industrial reconversion. The 30% of the funds that were to be set aside for the capitalization of the public commercial banks (and was to be used only to write off old debts) will be used to create an investment fund for medium-term financing of the transformation of production.

The government has been able to negotiate a qualified majority in exchange for assigning most of the funds to the next government and the creation of a reconversion fund for the industrialists. The deputies replicate the arguments that the government gave them in the committee hearings: Molina Rojas (PLN) says that it is essential to become competitive in exports; Jiménez Piedra (PLN) talks of the process of economic reactivation; Chaves Sánchez of the need to increase production to be able to pay the foreign debt; Cruikshank (PLN) replicates Solis' arguments about the need for additional policies to ensure the technical development and inclusion of small producers; Rossi (PLN) talks of a "project of hope" because it sustains the relationship between equity and growth. Jiménez Maroto (PUSC) says the Japanese loan must be used to protect the most vulnerable sectors, specifically the rice producers.¹⁶

The special committee: Between August 3 and August 8, the special committee of 5 deputies (3 from Liberation, 2 from PUSC) discussed the new clauses and presented a modified project. They specified the constitution of the Technical Committee of Structural Adjustment to be formed by 5 high government officials, one representative of the Chamber of Industry, one representative of the Chamber of Small Industry, and two representatives of the Chamber of Agriculture). The executive's proposal includes a representative of the Chamber of Small Industry, while it continues to exclude the representation of the peasant organizations.

The executive also further specified the distribution of the funds: 30% for the capitalization of the State Banks (funds that are to be used for the creation of the investment funds), 20% for the national part of foreign loans (for state projects) and 50% to cover losses of the Central Bank. The monies for the Central Bank would not be monetized.

A motion was presented by Jimenez Piedra (PLN) to maintain the establishment and change of tariffs as a legislative prerogative. It was overruled. Clause 2, which established that the regulations established by PAE2 stood above national legislation, was again included into the project, despite its earlier, unanimous rejection in the Treasury Committee. Finally, the Japanese loan was also included in the loan project.

The deputies approved the report unanimously, and sent the project back to the plenary sessions on August 8.

Back to the plenary sessions: On August 10, the debate in plenary sessions started. On that day, it was not possible to start the debate, because there was no quorum. Again this happened on August 14th. Finally on August 16th it was possible to finish the reading of the texts.

A total of 53 motions for the reform of the project were presented. The directory received them and immediately sent them to the Special Committee. Of the 53 motions presented, 51 were rejected. Of the two motions that were approved, one was a formality in relation to the text of a clause, and one stated the sovereignty of the Central Bank in the definition of monetary policies. All other motions that claimed sovereignty in different spheres of government (7 motions) were rejected. The motion that rejected the clause that gave the loan contract precedence over national legislation was again rejected. The government's representative, Fernando Herrero, justified the rejection on the grounds that the procedures proposed by the PAE were more agile, and thus better.

Through the motions, the legislative left was able to present their comments on PAE2. Unlike Montero Mejía's position in the discussion of PAE1 -which was oriented to stop the structural adjustment project- the left's proposals for reform are geared to making changes: (1) to include social groups that were excluded from the structural adjustment and anti-dumping commissions. In both cases there is a proposal for the inclusion of peasant organizations and unions. There was also a committee proposal to study the social effects of the structural adjustment process, and propose corrections to

the executive (2) compensation for specific sectors that had been negatively affected by the adjustment process: peasants that had been forced by the government to produce cocoa in exchange for land (the plants were of inferior quality and cocoa prices fell in the international market); small investors that placed their money in the non-regulated banking system without knowing or being informed by the government of the risks in doing so. (3) to reverse the elimination of state prerogatives in the financial sector: the financing of the state regulating agency by the Central Bank; the elimination of the clause that allowed international agencies to earmark publicly contracted loans for the private banks (4) a motion to restrict budget cuts in programs that could affect basic needs of the population or employment. All of these points were rejected in the special committee. However, the legislative again left restated their motions in the plenary sessions. Vargas Carbonell defended his motions in the August 25th plenary session, saying that the distribution of the funds should be changed to favor different interests: while the present distribution favors some interests, he proposes to change it so as to favor others, according to criteria of social justice. The left's motions were again rejected in the plenary sessions, although in some cases they received the support of 10 to 15 deputies from the other parties.

As with PAE1, there are also several proposals -also presented by the legislative left- to maintain the authority of the Legislative Assembly, as well as demands for information on the progress of the adjustment process from the executive branch. PAE2 establishes that the authority to establish tariffs passes from the executive to the

legislative branch, and that the pricing and imports of grains are an executive decision; several motions were presented to reverse this process. As with PAE1, the deputies ask for biannual reports on the advance of the program, which are also denied. Additionally, there were different motions to change the use of the funds to favor regional interests. These were mainly presented by Brenes Castillo (a regional representative) and Villalobos Salazar (PLN).

Finally four motions were presented to include the elimination of production taxes on coffee. The coffee producers were starting to mobilize in opposition to these taxes (which they had traditionally paid, since 1952) as all the new export activities were not only exempt from all taxes, but additionally received fiscal subsidies. It is possible that one of the reasons for the frequent rupture of the quorum at the beginning of the plenary sessions was to exert pressure for the elimination of export taxes on coffee. Villalobos (PUSC) expresses his concern over the mobilization of the coffee producers and the danger of loss of social stability (file 7134, p. 1523). Although this was not included in PAE, several Liberacionista deputies (Guevara Fallas, Solis Fallas and Rossi Chavarría) promised the rest of the legislative Assembly as well as the coffee producers present in the public seating, that a new coffee taxation law would be approved shortly afterwards. The change in the taxes on coffee also created conflict in the executive branch, with the resignation of Fernando Naranjo, who disagreed with Lizano's position to eliminate the coffee taxes.

Another discussion that took place in the plenary sessions was related to sovereignty. Again the clause that establishes the loan contract's precedence over national legislation was objected to (Corrales Bolaños (PLN), Solis Herrera (PU), as well as those that eliminate legislative competence in matters of tariffs.

The proponents of the motions are overwhelmingly the deputies of minority parties (a total of 32 motions), 23 of which come from the left (composed of two deputies), and 9 from the deputy of a regional party (Brenes Castillo).

The last long speech before the vote was that of Araya Umaña, of the PUSC; he argued that structural adjustment expresses the interests of the industrialized countries, that the claim for the elimination of protection and subsidies is unilateral towards poor countries, while industrialized countries continue to protect and subsidize their producers. However, despite this criticism, he says he will vote in favor of PAE2. The project was approved in first debate by 34 votes to 43.

The discussion of PAE2, shows the separation of two discourses, that of the economists, that is viewed as "technical," as opposed to that of the politicians. The economic discourse is seen as something difficult to understand, and as the monopoly of experts; at the same time, it is granted a position of authority, which is derived from the attribution that what is being presented is "technical," which places it beyond political

interests and considerations. This gives it a truth value which is not questioned during the debate.

This situates the "political" as a discourse that does not deal with the central aspects of the program, which has already been taken care of by the "technical" negotiators, but rather as the space of struggle over the appropriation of the funds (in the case of the politicians) and the demand to be included in the benefits (in the case of business and the peasant organizations). The two majority parties function primarily as corporations, defending their interests as government and opposition, and situating their positions relative to the expectation of being in one or the other position.

The differences in the results of the negotiation of the business groups and the peasants point to the differences in power. While the peasants staged several massive mobilizations over two years, the process of negotiation in which they entered offered few concrete results. In the case of the businessmen, the deputies attended to their demands. However, it is also necessary to consider that the business lobbies adjusted their demands to what they felt was feasible: The concrete reforms they proposed are much more restricted than what they express as their points of opposition to the program. The transactions between elites -business and politicians- express a relationship full of implicit assumptions and understandings which are not verbalized. On the contrary, the relationship with the peasants is one in which they are viewed as minors that must be

protected, while the peasants' demand for recognition in the negotiations is constantly denied.

Notes:

1. In PAE1 and PAE3 the national address is the Ministry of Planning. In the initial period of PAE2, Solis viewed the Ministry of Planning to as the head of the negotiating committee (Solis, 1995, interview). However, other members of the technical support group viewed the center of the negotiation as being the vice-presidency, with Vice-president Jorge Manuel Dengo at the head of the negotiating team (Herrero, legislative file 7134).

2. The February 26, 1988, letter stated: " The 'certificados de abono tributario' (CAT) that are now extended to exporters will be eliminated. However, those exporters that actually benefit from CATs may maintain them for the duration of their export contracts" (p. 963, legislative file 7134).

3. In the legislative discussion, Fernando Herrero, one of the government's main representatives, says that a new CAT is being considered. The main point is that the percentage of return to the exporters would in the future be established on the basis of the value added domestically to the exports, rather than on the basis of the total value, as was the case until that moment (Herrero, legislative file 7134).

4. File 7134 contains the minutes of five meetings. In these discussions there is, however, reference to other meetings that possibly took place outside of the Legislative Assembly, and for which there are no minutes.

5. The 1953-1958, 1962-1966, 1970-1974, 1974-1978, 1982-1986, 1986-1990 were governments in which Liberación had the presidency and a majority in congress. In the remaining administrations (1958-1962, 1966-1970, 1978-1982) the conservative opposition party won the presidency, but Liberación continued to have a legislative majority.

6. The Unidad Social-Cristiana was first formed as a coalition of parties in the opposition of Liberación Nacional for the 1978 elections. In 1983 it became a unified party.

7. There is a veiled criticism of Solis letter of development policy in that it contained too many conditions and was excessively complex.

8. (1) Imports will only be authorized when there is scarcity in the domestic market; (2) tax reduction on inputs and capital goods; (3) strengthening of the state banking system and subsidized credit charged to the national budget; (4) technical assistance; (5) maximum prices to protect producers of fluctuations; (6) promotion of increases in efficiency of the small producers (Herrero, legislative file 7134, p. 178).

9. This was also Villasuso's position at the time of PAE2. While he had defended the PAE1 project at the time of its approval, in retrospect, he also said that the loan had only contributed to pay past debts (cited by deputy Araya Umaña, file 7134, p. 217)

10. All projects have to be evaluated by the Technical Services Office, and must be read in the committee that studies the project. However, if the approval of the project is considered to be urgent, this requirement can be waived. As a consequence, in many important projects, the technical report is not taken into consideration unless the project is considered to contradict other legislation or to be unconstitutional.

11. Unlike the initial committee, which was constituted entirely by members of the Partido Liberación Nacional, the Treasury Committee had 6 members of Liberation, and 3 members of the Unidad Social Cristiana. The small parties had no representation. Unlike the initial discussion of PAE1, the "liberacionistas" had a qualified majority of 2/3 without the votes of the opposition. When the project reached the plenary, Liberation only had a simple majority, not the qualified majority it needed for the ratification of the project, which meant that at that point it required votes from the opposition (Liberation had 29 deputies, the Unidad Social Cristiana had 25, the leftist parties had 2 and the regional parties had 1). During the plenary sessions, a third committee was created by the legislative directory for the discussion of the motions of modification to PAE2. In this group, the requirement of achieving a consensual position with the Unidad Social Cristiana led the liberacionista directory to appoint three Liberacionista deputies and two from Unidad. The remaining parties were not included.

12. Even before the legislative sessions started, on March 22, 1989, the main daily newspaper had published an article saying that the PUSC would not approve PAE2 before November (La Nacion, 22-3-89, quoted by Vega, 1990).

13. Clause 2: "The procedures and norms contained in this loan covenant, its annexes and general conditions established in Article 1, will prevail over the procedures and norms that the internal legal order contains on these points."

14. According to the constitution, the Legislative Assembly meets in ordinary sessions between May 1 and June 30, and between September 1 and November 30. The extraordinary sessions take place between August 1 and August 30, and from December 1 and April 30 (Art. 116 and 118, Political Constitution). During the ordinary sessions, the Legislative defines its agenda, considering the projects in the order of their presentation, unless a qualified majority (2/3) decides to alter this order. In the extraordinary sessions the executive branch defines the sequence of the different projects.

15. This is the first mention of the existence of this committee in the legislative file.

16. Since the 1970's the production of rice has been in the hands of very large producers that developed mainly through government incentives and subsidies.

Chapter 6

PAE3: State Reform

Introduction:

Towards the end of the legislative discussion of PAE2, in 1989, it was already clear that the government, the opposition party, and the business chambers expected to negotiate a third structural adjustment loan immediately afterwards, and that it would deal with the reform of the state.

In June, 1989 (before the legislative approval of PAE2) the Minister of Planning created a bipartisan committee, the COREC (Comisión de Reforma del Estado Costarricense), to prepare a consensual position on this matter. Minister Monge formed a group with eight high-ranking members of the two main political parties, four representatives from each; and of members of different fields of expertise (administrators, economists, lawyers, social scientists and specialists). Minority parties were not included in the commission or in the consultation. The World Bank authorized

the use of some remaining funds of a 1985 loan to cover the committee members' salaries, while the United Nations Development Program covered the payment of a consultant's fees. The commission held meetings with the ex-presidents of the republic, the general secretaries of the two large parties, ministers, executive presidents of decentralized institutions, active politicians of the parties, university professors. The commission met for little over a year, held discussions, and rendered its report in September 1990.

In the COREC's report, state reform is viewed as necessary to respond to increasing social demands, as well as to support the productive sector in shaping a new development strategy (COREC, 1990, 17). The COREC aspired to produce a conception of the state that would establish the responsibility of the state in a changing international context of globalization of a market economy.

The goal of reform is seen as the democratization of the state, and secondarily its effectiveness and efficiency (COREC, 1990, p.18). Democratization is to be obtained through a distribution of state power towards regional and local agencies, as well as through the development of forms of accountability towards citizens. Effectiveness and efficiency are to be obtained through a restructuring of the state apparatus to make it more flexible to adapt to a changing world. Although the commission made some administrative proposals, the core of the discussions were the general policies that relate the state with society. (COREC, 1990, p.20).

The COREC's report was presented when the Calderón Administration was in its first year in office. It had little political impact as the new administration viewed the COREC as a remainder of the Arias administration. Besides, the committee's focus on democratization rather than on the reduction of the fiscal deficit and efficiency did not coincide with the priorities of the moment.

Parallel to the COREC's more theoretical and normative discussion, a different perspective of state reform had been developed, one that derived directly from the process of structural reforms of the adjustment process. In December 1989, Miguel Angel Rodríguez, former pre-candidate of PUSC, published an article in which he expressed that a PAE3 was the alternative. He considered that it was urgent to:

"...accelerate the elimination of the distortions so that exports can grow on their own strength and not on the basis of subsidies which are now indispensable for their development" (Rodríguez, 1989, p.34).

The causes of the distortions were -according to Rodríguez- the uncontrolled increases in public expenditure, the increase of the internal public debt, the increases in interest rates and the fiscal cost of subsidies. In this perspective, the demand for state reform is basically motivated by fiscal considerations: the state must not accumulate deficits, but rather spend less, and become smaller.

Parallel to the COREC's meetings, and even before president-elect Calderon was inaugurated, he met with the president of the World Bank, Mr. Conable, and asked for

the bank's support in designing a third structural adjustment loan (LN, 30-8-91; text of the PAE3 program). Several bank missions visited the country to prepare the plan.

During the second semester of 1990 and during 1991, while the government tried to develop a PAE3 program, it simultaneously had problems with the World Bank in relation to PAE2 due to delays in the reform of the CATs, which led the bank to withhold payments. While the bank pressured the government to reduce the CATs, the business lobbies struggled to maintain them. As a form of pressure they expressed their concern about the reduction in the growth of non-traditional exports; the president of the Chamber of Exporters announced that this was possibly due to the uncertainty in regard to the future of the incentives for exporters. While the exporters pressed for the maintenance of the CATs, even against what had been agreed with the World Bank, the industrialists lobbied for no further reductions in tariffs (April, 1991). Their position was confronted by the Chamber of Commerce that instead defended further liberalization (LN, 3-4-91, 21-4-91). Each business group tried to push the government in favor of its interests.

During this period, the unions presented a program that they viewed to be the national alternative to the PAEs (Programa de Economía Costarricense), which was disregarded by the press and politicians alike.

During the first half of 1991, the press registered a lot of speculation on the content of PAE3, partly due to the fact that the government had not yet presented a document (Helio Fallas, Jan. 29, 1991). In May, 1991, there were reports that the World Bank had demanded that the privatization of the state banks be part of PAE3, but the government said that it was out of the question (LR, May 4, 1991; LN June 16, 1991). However, different aspects of a reform of the financial system emerged during that month: the government proposal consisted of keeping the state property of the banks, but giving private banks conditions equal to those of the state banks.

In August-September, 1991, the government finished the first draft of their proposal for a PAE3. The government then started the dual process of negotiation: in Washington with the World Bank and the Inter-American Development Bank (most of PAE3's funds come from the IDB), and in San José with the main party of the opposition (PLN). The Minister of Finance and the President of the Central Bank traveled to Washington to present the proposal to the World Bank. To start the national discussion of PAE3, as well as to find a way to reform the state institutions, president Calderón created a second bipartisan Commission for the Reform of the State (COREC2).

The main point of PAE3 is state reform. The reform consists mainly of (1) a reduction in the number of public employees; (2) elimination or reorganization of institutions where duplication exists; (3) privatization of those institutions that can be sold or transferred to the private sector; (4) improvement in the budgeting of public

institutions; (5) fiscal reform to eliminate a large number of minor taxes and to concentrate on the 5 or 6 major taxes, including penalization of tax evasion; (6) the modification of all public pension funds, tending towards a single public pension system, as well as a reduction of their dependency on the national budget (through the reduction of benefits or increases in contributions); (7) the targeting of social programs towards the poorest sectors of the population; (8) the elimination of the CATs. Additionally, PAE3 includes a clause for a new lowering of tariffs to a range of 10 to 20%. Additionally, PAE3 includes financial reform (the assignment of equal conditions to private banks), which was included during the process of negotiation.

The program of state reform is motivated by fiscal considerations. While the efforts at adjustment had initiated in 1980 with the central goal of solving the fiscal deficit, this had in fact increased over the period of the program. The liberalization of trade policies had eroded significant sources of income for the state; the promotion of the export strategy implied a "phenomenal fiscal effort" (the phrase used by Ottón Solís in the discussion of PAE2 in 1989), while the government had been unable or unwilling to develop new sources of income. On the side of the expenditure, attempts to reduce the budget were to a large extent unsuccessful as the organization of the state is primarily decentralized, which gives institutions relative insulation from budget cuts and is due to the leverage of the organizations of public employees.

State reform promised to be the most difficult aspect of structural adjustment. While there was a general agreement on the part of different leaders of both majority parties that the state institutions had lost their capacity to respond effectively to the needs and demands of the population (Méndez Mata, Thelmo Vargas, Jorge Manuel Dengo, LN, 1-9-91), there were differences as to the desirable state reform. PUSC -in government- emphasized the fiscal considerations and had a more drastic agenda of reduction of the size of the state and privatization. Liberación tended to have perspective that assigned greater importance to preserving or recovering state capacity. Liberación defended the thesis that there were central activities that the state should not abandon. However, there were significant differences inside the Liberacionista position: while some leaders defended the forms of state intervention of the past on ideological grounds (in the sense that there were activities that should be in the hands of the state), others, particularly, Liberacionista representation inside the COREC2, had a pragmatic point of view. They considered that privatization had to be analyzed on a case by case basis; it did not make sense to privatize public institutions that were providing good service and that did not run deficits, although they were open to considering privatization, or forms of community management. Liberación was wary of state reform in the hands of PUSC, in which many leaders had dogmatic anti-statist perspectives (Garnier, 1992, interview).

The COREC2 worked intensively during the first semester of 1992: They set up an agenda to analyze the different sectors of the state apparatus, and worked through discussions of different institutions, depending on the specific situation of the sector. For

their work, they were able to use the evaluations of state institutions that consultants had elaborated under the Technical Assistance Loan attached to PAE1 and the evaluations and recommendations in relation to the fiscal situation elaborated by IMF and IDB experts (Tanzi, 1990; Schenone, 1991).

While the COREC2 held its meetings, the government intensified its negotiations with the World Bank and the Inter-American Development Bank, particularly after finally meeting the conditions in relation to the incentives for exports (PAE2) in February 1992 (LN, 5-2-92). In April, June, and July, the banks' missions and the government experts held meetings to come to an agreement.

However, the process of internal bipartisan negotiation and the international meetings were conducted separately, and according to Liberación, on different terms. In July 1992, the Liberacionista group of the COREC2 expressed their disagreement with several points of the PAE3 project that PUSC was negotiating with the banks. They considered that it was strictly oriented by fiscal considerations and that its perspective in relation to the state was dogmatic (LN, 8-7-92). A couple of days later, the leaders of Liberación met to discuss the government's PAE. On July 23, 1992, one of Liberación's presidential pre-candidates, José María Figueres, asked the government to discuss the model of the state that was implied in PAE3. The government answered that it was willing to negotiate a consensual position. However, the Liberación group left the COREC2 in August, objecting that no real consensus building was going on, and that the

PUSC continued to negotiate with the banks behind their backs. The main objections of the Liberacionista group in the COREC2 were:

1. the Program of Worker Mobility of the Public Sector. The program proposed to eliminate 25,000 public sector jobs, which Liberación did not consider feasible. Their counter-proposal was to restructure the institutions first, and according to the product of this process, eliminate those jobs that would be found unproductive.
 2. the privatization of the state monopoly oil refinery that was a possible outcome of the technical report that would evaluate the sector.
 3. the requirement of the rupture of the state monopoly of insurance activities which was to take place at the end of the 24 month period of PAE3.¹
 4. the intention of privatizing the communications sector of the electricity and communications state company (also in a monopoly position).
 5. the replacement of universal social policies by policies that targeted the very poor.
- This meant that while they agreed that focalization was necessary to attend to the demands of the sectors that were in condition of extreme poverty, it should not replace the general policies.

After the dissolution of the COREC2, the government proceeded with its negotiation with the World Bank, and first came to a general agreement in November 1992. At that moment, the government presented the banks with a Letter of Development Policy. Appended to the letter were 11 projects of new laws (of the 17 new laws that were committed through PAE3) and 11 projects or programs for institutional reform. The

World Bank presented a draft of the loan agreement and both negotiating teams met between November 11-13, 1992. From the minutes of that meeting,² it is clear that the bank representatives exerted pressure for: (1) the elimination of export and import licenses. The bank demanded that the government give proof that it had eliminated all those licenses that were possible through decrees. Additionally, all remaining licenses were to be eliminated through the "deregulation law."³ (2) The definite elimination of all new CATs,⁴ for which it set a final deadline of April 1, 1993, after which the government would assign no new CAT contracts. The government said it would try to eliminate them earlier, in January, 1993. However, the bank also insisted that the government explain why it had to honor all old CATs until the export contract to which they were linked expired. (3) It had to give convincing evidence that 12,000 jobs had been eliminated in the public sector. (4) It had to present the law for deregulation to the bank's satisfaction. (5) It had to present the law of regulation of public services to the bank's satisfaction, and (6) submit to the Bank the amount of subsidized credit according to a new definition of June 30, 1992.

Several important aspects can be inferred from these minutes. First of all, there is the government's obvious reluctance to eliminate CATs. The government's proposal gives exporters a chance to sign new export contracts over the following six months. Second, it shows the bank's distrust of the effective elimination of jobs in the public sector, as well as its disbelief in the government's commitment to reducing subsidized

credit and to the elimination of export and import licenses that benefit specific businesses above others.

On April 19, 1993, the government signed the principal loan of PAE3 with the World Bank for \$100 million. Before that it had signed three separate loans with the Inter-American Development Bank: a loan for the adjustment of the public sector for \$80 million on January 13, 1993; a sectorial investment program for \$80 million on March 27, 1993; and the Multi-Sector Credit Program to finance the installation, modernization, extension, and diversification of private business, for \$70 million, also on March 27, 1993. The total loan package included under PAE2 adds up to \$350 million.

Right after the World Bank's board of directors approved the loan, and before the government signed it, the main opposition party, Liberación Nacional, objected to it. On April 17, Hugo Alfonso Muñoz, head of the Liberacionista congressional bench, stated that his party was not willing to accept the PAE3 signed by the government because it violated the principles of social justice.(LR, 17-4-93) That same day, the president of Liberación stated that his party did not agree with the privatization of the insurance company (Instituto Nacional de Seguros), RECOPE (the oil refinery and distribution institution) and of health services (which is not included in PAE3) (LR, 17-4-93).

While Liberación opposed signing the loans, the main newspaper ran an editorial column on the fact that nobody forced the country to sign loans with these organizations,

but that the advantage of having their support is that in a certain sense it signals that there is internal order (LN, 22-4-93).

On May 1, 1993, President Calderón signaled that the country was living a period of strong economic growth and that the country could not and should not go back (LN, 2-5-93). Economists from Liberación, answered that economic growth was not reaching the population. Fernando Naranjo, ex-minister of finance, cited the decline of social conditions as well as reduced public safety due to the increase in crime (LR, May 5, 1993). Besides, Federico Vargas of Liberación proposed that the reform of the state continue, but without additional debt.⁵ The president of the Central Bank considered this to be "stupid," as the availability of long-term, low- interest loans made them very useful, and if the loans were not approved this could lead to the interruption of the process of state reform.

In July 1993, when Liberación had already chosen Figueres as its presidential candidate for the February 1994 election, a group close to the candidate traveled to Washington to meet with representatives of the banks. They have declared that the purpose of the visit was to ask what the commitments really meant, to ascertain in what terms they would have to respect them if Figueres were elected. This was particularly important due to the magnitude of the legal reform that was attached to the conditionality of the program. World Bank's vice-president for Latin America answered that he could not say; first the country had to approve the law, and then the bank would decide if it

was satisfactory or not (Garnier, legislative hearing, # 96, 2-3-94, File 11.771). The day before the Liberacionista group met with the bank representatives in Washington, the Costa Rican government representatives also had a meeting with the same functionaries, which is an indication of the extent to which Washington has become a site for Costa Rican politics and the international agencies have become political actors on the domestic scene.

When the Liberacionista group returned from Washington (PL, 6-8-93), José María Figueres, at the petition of Enrique Yglesias, president of the Inter-American Development Bank (LN, 7-8-93), proposed a mechanism to get by the impasse created by the differences between both parties. He proposed to first discuss the 17 laws, and to discuss the loan project after having approved the laws. That way it would be possible to know in advance if the banks were in agreement with the final text of the laws (LN, 6-8-93). Not incidently, this process would take at least until the end of the Calderón administration.

Legislative discussion of PAE3:

The legislative discussion of PAE3 is different from that of the two earlier programs in that the legislative process did not develop an internal dynamic, but was entirely

subordinated to the extra-legislative political process. As a consequence, the criteria that organize the periods that divide this process are both legislative and extra-parliamentary:

- i. August 1993- February 1994: the Calderón administration's bid to approve PAE3.
- ii. May 1994- September 1994: Liberación's "PAE a la tica."
- iii. October 1994- November 1994: Burki's mediation, and the legislative approval of Calderón's original project.
- iv. March 1995- April 1995: from the World Bank's rejection of PAE3 to the "National Pact"

i. Calderón's attempt to obtain the legislative approval of PAE3.

The Calderón administration -despite Figueres' request- sent PAE3 to the Legislative Assembly for its study and approval on August 11, 1993. Calderón declared that his objective was that the deputies could start to study the project (PL, 11-8-93). However, Figueres interpreted this action as the desire to impose the project as it had been negotiated by the PUSC government with the banks (RE, 10-8-93).

Simultaneously, PAE3 became an issue in the campaign propaganda waged in the media. The government presented the advantages of PAE3 through advertisements organized around the values of progress and modernization, while the Liberacionista opposition built its campaign on the accusation that PUSC's PAE would remove 25,000 workers from the public sector and privatize institutions (LN,19-8-93).⁶ Liberación

exploited what they termed PUSC's scarce interest in social matters. Liberación, in opposition to what they called the "neo-liberal PAE of the government," coined the phrase "PAE a la tica" ("PAE Costa Rican style") (LN,27-8-93). Despite the tone of the earlier, more technical and more state-oriented objections to PAE3, the electoral position was geared to show the PUSC as an elitist party and Liberación's historical commitment to social justice. Besides, it was useful for Liberación to delay the approval of PAE3 so that the Calderón administration would not have access to the funds during its last year in government, which reversed the position of the parties in relation to PAE2.

In September, Calderón looked for an agreement with Figueres (22-9-93). However, Figueres refused to negotiate unless Calderón withdrew the project from the Legislative Assembly (RE, 25-9-93). On September 28, Calderón announced that he would postpone the discussion of PAE until after the February election, but that he would not withdraw the project from Congress because that was the institution where it had to be discussed⁷ (LR, 28-9-93).

On February 6, 1994, elections took place. Figueres won by a very slight margin (less than 1%), and while Liberación obtained the largest number of seats in the Legislative Assembly, it did not get an absolute majority.⁸ Inauguration of the new government was to take place on May 8.

Immediately after the election, Calderón proposed the discussion of PAE. His administration would no longer benefit from the funds if the project were approved, but he was interested in the program becoming effective.

The Legislative Assembly's Treasury Committee met to discuss PAE3 during eight sessions between February 15 and March 2, 1994. On February 15, the President of the Treasury Committee presented the project for its discussion. Immediately, a member of the Liberacionista bench questioned the purpose of discussing the project at that moment:

"I think that the project has good things, I have scanned through it a little, but there are some things with which our President-elect is not in agreement.

"...I think that with a project like this we are going to get worn out bringing so many interesting people in that are also going to waste their time...

"All of this can be very interesting for us, but it will be sterile; the project as it stands today can be approved or rejected in this committee, but when it reaches the Plenary, it will be lost.

"...this whole effort is a very important effort...that would be in vain; I think it would be important to make an extraordinary effort and see if we can negotiate with the international organizations that have to do with this and not throw it away just because it occurred to us..." (Chaves Zamora, file 11.771, 15-2-94, p.3)

His intervention, in the context of just having won the elections, asks of the losing party to look for a renegotiation of the loan, without which it does not make sense to discuss the project because, although PUSC has the necessary votes to approve it in the Treasury Committee, it will not be able to get it through the plenary discussions. It is the disagreement of the president elect with the project that makes its discussion inviable.

Bolaños Alpízar, deputy of PUSC and president of the committee, says that the Legislative Assembly does not have the wherewithal to renegotiate the loan, and that the Calderón administration would not be willing to as they feel that they have to be consistent with something they felt they did well. He stated that this is PUSC's reason for submitting the project to the Assembly.

A second Liberacionista deputy that spoke during this session is Castro Retana (PLN) who stated that he was in disagreement with the PAE3 project because it does not consider the social implications of the policies, particularly for the very poor. He stated his consistency with his social-democratic principles, and said he would not consider voting on the project in its present formulation. His intervention is consistent with the focus of the Liberacionista campaign that had strongly emphasized the return to the social policies that had had important distributive effects, particularly for the middle class, over the previous decades, and that had predominantly been proposed by Liberación between 1948 and 1978.

In this first session, both parties set up their positions: Liberación that they would not vote in favor of the project unless it was changed, while PUSC wanted to discuss it because they felt it was a good project. In this first session it was also decided who would be invited to the hearings. PUSC proposed the invitation of four ministers of the Calderón administration, four leaders of the business lobbies and two Liberacionista

economists.⁹ PLN proposed the invitation of seven Liberacionista economists close to Figueres.¹⁰

The following three sessions the government set up its defense of the project through three consecutive visits from Carlos Vargas Pagán, Minister of Planning and one of the main negotiators of the program and loan. Vargas divided his explanation in two parts: first he said he would explain the general orientation of the country and its problems, and secondly he would go into the detail of each loan and answer the criticisms it had received.

In the first part, he developed a historical explanation of the economic development of the country and the growth of the state since 1950. In it he criticized the problems of the inefficiencies of the industrial sector that developed with ISI, inefficiencies that he attributed to the fact that they had "no incentive towards progress," and to state intervention:

"...Through the models and through price controls, a form of political clientelism is established and the social pressure of some economic sectors on the state." (Vargas Pagan, file 11.771, 15-2-94, p.10).

The losers in this system then are the consumers. Additionally he viewed the interventionist state to have developed a process of social engineering, which ultimately led to perverse effects. He used the example of what he viewed as alternative forms of development followed by the Asian Dragons and more recently some Latin American countries such as Chile and Argentina. He considers PAE3 to be essential for Costa

Rica's development. He points out the main objectives of the program: (1) liberalization of trade and the development of markets; (2) a different form of state organization that increases the participation of civil society, that strengthens its social dimension as its basic element; (3) the elimination of the losses of the Central Bank; (4) the development of the capital markets by means of the development of long-term investments through pension funds and promoting the growth of insurance companies; (5) the reform of the financial sector to increase its efficiency. As a response to PLN's criticism of the absence of the social dimension, he states that the government commits itself to guarantee that minimum salaries will at least cover basic purchases (*canasta básica*), and the development policy will tend towards increasing salaries¹¹ (a campaign issue of Figueres). The adjustment program includes financing for the reform of the health system, creation of Basic Health Attention Units (promised as a campaign issue by Figueres), as well as additional financing for the building of new hospitals. He also defended the policy of establishing registers of the very poor to be able to target specific social policies towards those sectors. Due to the need to improve the educational system, the Calderón government had contracted other loans with the international agencies, and part of the funds of PAE3 were to be earmarked for the training of teachers and other workers.

Additionally, Vargas said that the program solves the fiscal deficit by improving the tax and customs systems while changing the procedures for setting expenditures. Besides, he explained that cost reduction will partly take place by displacing state

functions to private business, in some cases to organizations constituted by former state employees.

He explained that structural adjustment was the economic angle of the reform process, while the Calderón administration was negotiating a plan for "Perfecting Costa Rica's Social Model" with the Inter-American Development Bank and simultaneously another plan for perfecting the political model through decentralization and fortification of municipal organization. As with the discussion of PAE2, the social aspects belong primarily to other loans, but are brought into the discussion of the economic reforms as if they were part of the latter.

To appeal to the future Liberacionista administration, Vargas shows how the payments will be made by the banks after the Legislature's approval, pointing to the fact that the program has a duration of two years, after which the government will have two additional years, before having to pay back the loan. This would allow the incoming Liberacionista government to dispose of all the funds without having to pay back the loan.

Finally, Vargas approached the criticisms that had been made against the project:

1. "It contains too many laws, which makes its development cumbersome. The opposition could then boycott the entire program by boycotting the individual laws that form part of the conditionality." To this he answers that if the country needs many reforms, there

is no alternative other than to undertake many legal reforms. Besides, he considers that the argument about the boycott is no longer valid, because it could only apply to a liberacionista opposition. Since this is a PUSC project, they will have no interest in boycotting it.

2. "The PAE3 is a blank cheque because it commits reforms that are not specified." He answers that this is standard procedure that has been followed in previous international agreements, including some negotiated by Liberacion, and in particular by José María Figueres, president-elect.

3. "The country should not contract any more loans that go to balance of payments, but rather loans that finance specific projects." While he agrees that sectorial loans are important, he considers that they do not replace the need for general structural change. Moreover, he says that while the loan initially goes to balance of payments, the country decides freely what it will do with the funds, with no intervention from the World Bank.

4. "The loan project entails the privatization of RECOPE, ICE, and INS." In the case of RECOPE he states that what was agreed upon was to study the sector and to find solutions to its problems, which does not necessarily imply privatization. In the case of INS, the proposal in PAE3 is not its privatization but the opening of the insurance market (the rupture of the state monopoly). Finally, in relation to ICE, he says there is no mention of this in the entire project.

5. "The program proposes to eliminate 25,000 public sector jobs". He points to the fact that since the Monge administration in the early 1980s, it has been acknowledged that the state should reduce its employment, and that while the two Liberacionista governments of the 1980's accepted the validity of this argument and enacted legislation to this effect, they never effectively diminished jobs, while the Calderón administration had restructured 12,000 jobs to this effect. He points to studies that shows that those that moved to the private sector have jobs and are happy with the change,¹² and that the project to move public sector activities to cooperatives or workers' organizations has widespread support among the employees and that the law that regulates these transitions was approved with bipartisan support in the COREC2 (Vargas Pagán, 22-2-94).

6. He sums up the criticism with the accusation that the project is technically badly designed and socially unjust. He points to the fact that Figueres and his main advisors have acknowledged that they agree with 90% of the program, which leaves only 10% to be criticized.

"What happened? With the heat of the campaign the ten percent difference was magnified, establishing a great distance that has become very harmful for the country, because they say that it is difficult for human beings to turn on a 90 degree angle; then we have to realize the absurd situation that on the grounds of the maximization of a critique of 10%, there is opposition to an agreement of 90%. In sum, I think that the adjustment process is fundamental if Costa Rica wants to eradicate poverty and become a developed country" (Vargas, file 11.771, 22-2-94, p.16).

He linked this criticism directly to its use inside the campaign, but considered that now that the election is over, it is time to put the differences aside:

"I understand that much of this criticism was made in the heat of the electoral campaign, by trying in justice to gain support; but the electoral contest is over and now it is necessary to pursue the country's interest, and to analyze that what is suitable for Costa Rica, without anger and in depth, and to situate the just dimension of this criticism" (Vargas, file 11.771, 22-2-94, p.18).

When Vargas finished, Chaves Zamora (PLN) tried to find a way to have Figueres and Calderón meet, so that the differences could be solved and PAE approved. He points to a preliminary meeting in Washington where both parties seem to have met with people of the World Bank. However, Vargas answers that Calderón has on many occasions tried to meet with Figueres and that the latter has refused.

After Vargas Pagan's hearings, the list of people to be invited to the Assembly is extended. Liberación proposes to invite leaders of 7 different unions and the agriculturalists' business union (Cámara Nacional de Agricultura) while PUSC proposes to invite the Executive President of the Central Bank. All these invitations are approved unanimously. However, none of these took place. Only four more sessions were held: two members of the Figueres group (Saul Weisleder, deputy-elect; and Leonardo Garnier, who later, in May, 1994 was appointed Minister of Planning); ex-president of the Central Bank, Eduardo Lizano; and Raul Odio, representative of the Chamber of Commerce).

Raúl Odio's intervention enthusiastically supported the approval of the project. He argued that the world has changed and that Costa Rica must change to enter the world market with efficiency and competitiveness. His example is Korea, where:

"On the basis of sacrifice, where the population worked 60 hours a week and studied in its free time, with a clear national objective of improving the welfare of all and achieving the per capita income of the U.S., they are getting close." (Odio, File 11.771, 23-2-94, p.3).

For him, the fundamental aspect of PAE3 is not the loan, but the structural change that the program undertakes, the "philosophy of adjustment." This structural adjustment is an adjustment of the state, necessary because the rules of the game have changed; international aid is scarce and conditioned to more fiscal order and discipline. Costa Rica can no longer obtain aid on the basis of being an example of democracy and freedom. In this context the state must become more agile, and less costly for the country. A smaller state will lead to more efficiency and a better economy, which will necessarily benefit all:

" A healthy economy and an efficient productive apparatus is the best way to offer Costa Ricans a better standard of living...any action that tends to improve the productivity and the wealth of a country, necessarily benefits all" (Odio, File 11.771, 23-2-94, p.10).

In his conception there is no mediation between economic growth and distribution; the relation is automatic. Finally, he places the responsibility of achieving the changes on the politicians:

"Last year I was talking to a politician...who said to me: "The problem is that that solution is not politically viable," and I reflected on that, and with all due respect, I want to tell you that the task of the politician is to make the solutions that the country needs politically viable, mainly when we are convinced of their importance" (Odio, file 11.771, 23-2-94, p.7).

This quote says much of the relationship between the politicians and the organized business groups. The business leaders in this process feel that they define the national

interest ("when we are convinced of its importance"). It is the politician's job to succeed in the political negotiation to make the plan feasible.

The remaining interventions of the three Liberacionista economists all stress the need for overcoming the differences. However, while Garnier and Weisleder express the position of the government-elect that changes have to be made in the project, Lizano's point of view is oriented toward attempting to arrive at an agreement to get the process of negotiation started.

The positions of Weisleder and Garnier are very similar. For both, the most problematic point is technical and is related to the ambiguity of some of the clauses:

"The problem of ambiguous clauses constitutes a fundamental technical problem of the way in which this loan is written; beyond the general objectives, which, as I said before, we share and we can agree on" (Weisleder, file 11.771, 23-2-94, p.6).

Unlike the campaign, where the differences were attacked on political grounds, here Garnier points to the technical weaknesses in the way certain goals are formulated. For example, the main objection to the worker mobility program is the same as before the campaign had started: It is not feasible, and this is not the best way to reform the state. In the campaign, the PLN had focussed on the social problem of firing 25,000 workers, and on generating fear amongst them of the loss of their jobs.

Among the points where both Garnier and Weisleder say that the ambiguity can be very problematic is that of the globalization of income tax.¹³ While the PAE3 says

income tax must be globalized, Calderón had assured the business lobbies that this could be changed. However, the commitment with the World Bank remained the same.

Weisleder's position is that the ambiguity gives the dominant partner in a negotiation the power to decide the correct interpretation, thus limiting the legislative sovereignty:

"As a deputy, I will not agree to being told that I have to approve a law project in such a way that it substantially takes into consideration a conception of the World Bank that is unknown to me, because then we would given up any liberty of sovereignty as legislators in a total and absolute way" Weisleder, file 11.771, 23-2-94, p.10).

Despite these critical comments, the tone of rejection of the Structural Adjustment process of the campaign has disappeared. Weisleder says he is satisfied with the adjustment process that Costa Rica has followed; he considers that it is possibly the most successful in all Latin America, which according to him can be measured through the degree of social conflict that adjustment has generated, which in the case of Costa Rica has been low, and through the success in economic growth. Despite the emphasis on the disagreements that his party sustained during the electoral campaign, he states:

" I think there is a consistency, that there is clear agreement in relation to the general objectives understood in these terms, of what is proposed in the Structural Adjustment programs" (Weisleder, file 11.771, 23-2-94, p.3).

He also says that:

"Now that the elections are over, I think a new effort of good faith is necessary to abandon former conceptions and compromises or positions adopted in a different context"(Weisleder, file 11.771, 23-2-94, p.4).

Both Garnier and Weisleder emphasize that the president-elect has tried to contact President Calderón by letters on two occasions, on July 27 and October 11, 1993, through which the differences might be overcome. Both economists point out two procedures to get beyond the impasse: (1) to ask the World Bank to define the requirements for its satisfaction in relation to the legal reforms; (2) to first approve the laws that accompany PAE3, and then present them to the World Bank to see if they are acceptable.

Eduardo Lizano's point of view is oriented to finding a way out of the impasse:

"My position on this subject is very pragmatic, in the sense that I think that the political fields on this project are quite demarcated, and what has to be done in those circumstances is to see what can be done and where this boat can be led to" (Lizano, file 11.771, 2-3-94, p.2).

Subsequently he says the main issue is to find a procedure for the negotiation of the differences, possibly through the discussion and approval of the laws that produce the most conflict. He proposes that the consent be elaborated through a political negotiation of the two main political parties:

"...it is necessary to find a way; the deputies know better than I how to do these things; this is the way I think the actions can be oriented" (Lizano, file 11.771, 2-3-94, p.13).

Finally, he points to how structural adjustment programs have ended up being more complex than what was thought at first. The World Bank's initial perspective had been that they would take 5 or 6 years and that the benefits would rapidly absorb the negative aspects. The fact that they have taken much longer has led the bank to combine

the programs with complementary social programs to attack the negative social effects. He considers that what has made the adjustment process so extraordinarily complex is the action of pressure groups that are negatively affected by the process.

Moreover, he says the legal reform is complex, and that it will take time. When asked about Weisleder's objection on the grounds of sovereignty, he says the point is moot: If the Legislative Assembly votes for the project, it makes the commitment to make the reforms it includes, which are both sovereign decisions.

Lizano's entire intervention is an appeal for political negotiation. However, since he does not take sides with either party, the deputies, and particularly those of PUSC, situate his intervention as that of a "technician" whose reasoning is above the conflicts of party politics.

On March 2, 1994, this first period of legislative debate over PAE3 closes. It is clear that there is no political will for it to pass as in its original state, or to modify it.

All of those invited to the committee stress that both parties agree on 90% of the project and that the differences do not add up to more than 10%. However, for neither is this 10% negotiable. They emphasize that the election is over, and that this somehow implies a return to a different state. The most obvious change is that of Liberación, which now stresses the technical difficulties more than the unjust consequences of the

law. Only one liberacionista deputy repeated the arguments of the campaign that had ended less than a week earlier. Both parties claim that their representatives have wanted to talk to the other, and that the fault for the lack of dialogue lies with the other side. Although Lizano, Garnier and Weisleder all suggested passing the laws first, there is no indication that the Commission acted on this suggestion.

ii. The construction and end of the "PAE a la tica":

In May, 1994, President Figueres was inaugurated, and the new economic team started to re-negotiate the PAE3 project so as to change those aspects that it considered unacceptable. In meetings that took place in Washington on June 8 and 9, 1994; on July 13 and 14, 1994; and in San José on July 25 and 26, 1994; the World Bank, Inter-American Development Bank, and the economic team of the Costa Rican government agreed to the following changes:

1. Worker mobility program: the banks accepted that instead of using the elimination of jobs as the indicator of public-sector reform, the government would present alternative measurements of the increase in efficiency of public service. The government proposed a process of reform of the public sector, with the goal of increasing efficiency and accountability. This would operate through (1) institutional restructuring to avoid duplication,¹⁴ make procedures more agile and increase efficiency, and (2) a national

system of evaluation of public institutions, to follow up on their attainment of the purposes for which they were created. The banks and the government agreed to use the relationship between the expenditure in salaries and the rest of the expenses (excluding interests) of the non-financial public sector as the quantitative indicator of the progress of this process.

2. The government informed the banks that it was aiming to implement a more profound reform of the financial system than what was originally stipulated in PAE3. In this context, the elimination of the monopoly of insurance did not have a high priority. Instead, it proposed to (1) privatize the commercialization of insurance, (2) create a Superintendency of Insurance to regulate the activity, and (3) restructure the National Institute of Insurance.

3. It clarified the "ambiguity" in relation to the study of the oil refinery (some had assumed that it meant privatization) by stating that there would be no prejudgments as to the most appropriate alternative to come out of the study.

4. In relation to the tax reform, the government considered that it could not introduce the procedure of monetary correction.¹⁵ The government said that while it agreed with the objective of the globalization of income tax, it considered that it would be important to establish a scheduling of its introduction to run parallel to the improvement in the tax administration. It also disagreed with the integration of companies and personal income

tax, and asked to temporarily maintain double taxation on dividends. Finally, the government agreed to take into consideration the bank's recommendations of reduction of taxes on interests and not to discriminate against private banks (Legislative file 11.771, pp. 1633-1642).

5. The law of promotion of efficiency and the effective defense of consumers would be revised and submitted to Congress. The new version would include the "procedures of social agreements that we have applied with so much success in the production of coffee and sugar" (Figueres, file 11.771, 18-8-94, p.4), which meant that the political modes in the establishment of prices would be conserved for several products.

The modifications that the Figueres Administration had achieved would not entail a renegotiation of the loan, but when the time came for the execution of the corresponding conditions, the banks would waive those requirements.

The executive thus sent the PAE3 (in the form negotiated by Calderón) back to Congress, together with a letter signed by President Figueres and Ministers Herrero (Treasury) and Garnier (Planning). In the letter they explained the changes, and added (1) the minutes of the meetings with the banks, (2) letters from the authorities of the banks saying they were in agreement with the changes, and (3) a redistribution in the use of the funds. The principal loan would now be used to finance the reform of the financial system (\$100 million)¹⁶ and to diminish the internal debt (\$100). These texts were the

only written formulation of the "PAE a la tica" that President Figueres had announced in the campaign.

The letter was received in Congress on August 22, and the debate started in the Treasury Committee on August 30. The presentation shows the haste with which the documents were sent. There is no alternative text of the laws that will be changed, and the photocopies of the minutes of negotiation and the letters of the presidents of the banks were sent in English with no Spanish translation.

The hearings followed the same order as the February meetings, only that the position of the actors was inverted. Now Leonardo Garnier (as Minister of Planning) attended the first sessions to defend the reforms of the project, while Carlos Vargas Pagán, (ex-Minister of Planning of the Calderón administration) attended to attack the project. Saúl Weisleder, who had attacked PAE3 on the grounds of violation of legislative sovereignty, presided over the committee as a Liberacionista deputy. The arguments were also inverted: while Garnier argued that the project had ceased to be ambiguous, Carlos Vargas considered that the reforms that the Figueres economic team had introduced made what was formerly clear, undetermined. The presence of the business lobbies was the constant factor; they insisted on their position of the need for reform of the state. In the last two sessions the deputies received the president of the Central Bank and a delegation from the oil refinery.

Garnier's initial explanation detailed the changes of how the project was improved by introducing the changes of the aspects that Liberación had considered objectionable in the Calderón project. He also established some points in relation to the reform of the state. He viewed the reform as a slow process in which it is necessary to displace the evaluation of planning towards the evaluation of results. Increases in efficiency of state institutions, must be measured through three criteria that must operate simultaneously: (1) the cost, (2) the quality, and (3) the coverage of the services.

"...what we are trying to do is to set up a program of state reform that first focusses this change of culture with which we manage the state, placing the attention on the results and the attention of the users, developing a system of evaluation of the performance of institutions, particularly those that act as bottlenecks" (Garnier, file 11-771, 30-8-94, p.11).

This perspective summarizes the alternative conception that Liberación had developed during the COREC2, in the sense that state reform was a complex process that could not be measured or evaluated through job reduction. This position implied not only a criticism of PUSC's earlier programs, but also of the international financial organizations that had been measuring state reform and reduction through budget cuts and job reduction.

Garnier's proposal of evaluation is not however reflected in the reformed procedure that the Banks approved.

Méndez Mata (now deputy of PUSC, Minister of Finance under Calderón), objected to the absence of documents that explain the detail of the changes:

"... the clear and concrete reforms that had been proposed now become this, a series of unknown factors... that will convert forms of measurement into changes in laws that have not yet been presented to the banks" (Mendez Mata, file 11.771, 30-8-94, p.4).

The point that raised the most conflict is that of the labor mobility program. While the PUSC considered that the best indicator of reform was a reduction in the number of employees, Liberación sustained that if the goal was efficiency, there were better ways of attaining it than a fixed objective of job reduction. While Méndez was in discussion with Garnier, Deputy Villanueva of PUSC intervened to express his concern that this discussion could take up all the remaining time, and that would not give the rest of the deputies time to ask their questions. He proposed that the time be distributed equitably among the members that wanted to intervene. Méndez claimed his right to ask questions in depth, did not accept the time restrictions, got up and left the room. Before leaving he said:

"My participation today has not been to bother anyone, and I think it has been a high-level dialogue on very important themes, but you can rest assured, my desire is not to torment anyone; I will ask no more questions, now or later. I will ask the Minister nothing more. Thank you" (Méndez Mata, file 11.771, 30-8-94, p.9).

In this session, as with the February sessions, the positions are set up, and they do not change in the remaining sessions. Now the Unidad will not negotiate, as Liberación had not negotiated in February. Liberación did not accept PUSC's PAE, and PUSC will not accept the reforms that Liberación included. For this the PUSC uses the legislative ruling to waste time, to detail the defects in the presentation of the project by

Liberación, and to complain about the absence of substitute projects for those that were eliminated. PUSC deputies do not accept the scheduling of additional meetings to discuss the PAE, which leaves Liberación tied to the legislative ruling. Besides, by having to function in ordinary sessions, Liberación's room for manoeuvre is much more restricted. Weisleder points to the October, 19th deadline to approve the project; the PUSC deputies do not accept the time limit. They take up the argument that Liberación had initially used, that the process of reform was of greater importance than the loan. Now they can present the loan component as secondary, while it becomes of the utmost importance for the Liberacionista administration to be able to dispose of the money.

After Garnier's intervention, on the following day, the list of persons to be invited is presented and approved. The list consists of the Chamber of Commerce, the Chamber of Industry, the Chamber of Agriculture, a representative of the Association of Public Workers, Thelmo Vargas (former treasury minister of the Calderón Administration), Carlos Vargas Pagán (former minister of planning of the Calderón administration), Carlos Manuel Castillo (executive president of the Central Bank), and the executive presidents of the insurance company and the oil refinery.

The hearings were restricted to the Chamber of Industry and the Chamber of Commerce, Carlos Vargas Pagán and the three executive presidents. As in past cases when it had been suggested that a representative of populist groups be invited, this was ultimately canceled.

The Chamber of Commerce was the first business lobby invited to the sessions (September 6, 1994). It expressed its support for the previous PAE3 project (that of PUSC), as it considered the reform of the state essential, and considered that the changes in the project do not guarantee that it will happen. Even the letters of the directors of the banks create uncertainty about the commitment to state reform. The Chamber lists a series of inclusions to the project which are directly related to their corporatist interests: to increase the liberalization of trade through the further reduction of tariffs, the liberalization of the internal market through the elimination of restrictions of entry to the market as well as the liberalization of prices. They also express their support for the reduction in size of state enterprises as well as the privatization of state monopolies (ports, insurance, and oil refinery). They also consider that the use of the funds is inadequate, because it covers the losses of the Banco Anglo, and does not develop new investments in physical and human capital, which they consider essential for the success of the program. They consider that the reformed PAE is not worth approving as the loan is not strictly necessary, and in its actual formulation, does not lead to the necessary reforms. They repeat their point that the reform is more important than the funds.

The central focus of their perspective is that they, as private businesses, need an efficient state:

"...the PAE3, according to the version that is now debated in the Legislative Assembly, must be adjusted to include effective policies for the reform of the state, so that they contribute to improve the conditions of the productive sectors

in the tasks we are undertaking, not only in defending the national markets, for the benefit of consumers, but also to offer more work opportunities for Costa Ricans. This is only feasible if we obtain efficient competitiveness in the international markets, the sole alternative for a small country like Costa Rica...and that requires...a real reform of the state, in the concrete sense of the PAE3" (Alvarado, file 11.771, 6-9-94, p.7).

The Chamber of Industry presented its proposal in the following hearing. Their position is similar to that of the Chamber of Commerce in the demand of the reform of the state via the reduction of expenditure:

"The increase in public expenditure is the stumbling block that remains, growing wider and separating us more and more from economic stability and competitiveness."

"The magnitude of the state's expenses, its composition, as well as the form of financing them, constitute the point of departure of a chain of negative effects on the principal variables of the economic system..."

"...the structure of public expenditure, together with the lack of political will to adjust the state apparatus to the dimensions and possibilities of the economy..."

"The efforts of fiscal adjustment -until now- have depended on the increase in taxation or on the generation of significant surpluses in public institutions. PAE3 must be the opportunity to revert this dangerous tendency" (Schyster, file 11.771, 7-9-94, p.5).

These reductions in public expenditure must be attained through:

"An integral restructuring of the tax system, reduction of the internal debt through the sale of state assets and a law that limits government from taking on new debt to finance current expenses; the reform of the state that considers the role it has to play in the development model, a new system of regulation that permits the control of expenditure, and a regime of evaluation of public institutions" (Schyster, file 11.771, 9-7-94, p.5).

However, as to the necessary state functions, Schyster considers that:

- a. a fund must be created to promote the modernization of the productive apparatus (He states that the funds that were assigned through PAE2 never reached the productive sector appropriately);
- b. infrastructure has to be improved to support competitiveness;
- c. internal distortions in costs, like electric energy, ports, and oil products have to be eliminated.
- d. institutions must be restructured to support competitiveness and to advance in state reform, particularly in those areas that are central to the establishment of comparative advantages: to reform the educational system, and to fortify the scientific and technological infrastructure.
- e. the tariff range of 20%-5%-20% is acceptable, but the floor (5%) should be reduced to 0 in order to support competitiveness and equality of conditions with other sectors.

After this list in which the state must improve its activities, they consider that PAE3 must also contain social programs to improve the living conditions of all Costa Ricans:

"The ultimate objective of any economic policy is the increase in the welfare of the population. Better salaries and consumption, better possibilities of education, health and housing, are some of the results that permit the evaluation of this objective. To achieve these results it is necessary to produce more and better" (Schyster, file 11.771, 7-9-94, p.6).

Finally, Schyster says that the Chamber of Industry is willing to support the approval of PAE3 if: (1) all the laws that are required by the project are discussed and concerted with the private sector; (2) the government accepts the commitment to approve

a law for the permanent improvement of competitiveness;¹⁷ (3) the creation of a mixed high level committee to follow up on the actions to reform the Costa Rican state.

After Schyfter's intervention, all of the deputies of the PUSC express their agreement with his position, whereas they criticize Liberación's proposal as ambiguous and imprecise, and finally say that the Figueres administration does not have the will to make changes in the state. They extensively cite past comments of members of the Figueres administration in relation to the PAE3, in which the program was accused of being 'neo-liberal,' and of representing a social tragedy for the country. They even cite recent comments made by Figueres himself, who said that he could understand that the deputies of the Unidad Social-Cristiana would be against what the government was proposing as a PAE project, because everything had been changed. Finally, they question the Figueres administration's will to reform the state.

The deputies of Liberación repeat, in different ways, that the project has not become undetermined, that in the worst case, if the World Bank did not accept the ways in which the government changed the PAE, they would ultimately have to break the contract and lose the loan, or be obliged to execute what PUSC had originally negotiated.¹⁸ In the position of the Liberacionista deputies, there is no recognition of PUSC as a political actor that has the power to prevent the approval of PAE3. It is a minority deputy that reminds the Liberacionista bench:

"I only want to say that your theory is good, but what is definite is that, for the approval of this, article 121 of the constitution establishes a qualified vote, that

is 38 votes, and the PUSC has to participate, or there is no PAE" (Brenes, Juan Guillermo, file 11.771, 13-9-94, p.16).

There is no acknowledgment by the Liberacionista deputies of the gap between the government's rhetoric in the media and the negotiation in congress. The substantive differences refer to a small percentage of the general program, as opposed to the declarations in the media that even opposed the "neo-liberal PAE" to the "PAE a la tica." Committee President Saul Weisleder tries to introduce a pragmatic shift to overcome Liberación's contradictions in dealing with its history and the recent past, and with the opposition between its electoral rhetoric and its interest in the approval of the loan. He appeals to them to forget the past:

"I think that the man in the world must walk forwards and not back. Memory should be only not to repeat mistakes, but it is not to permanently ratify and remember mistakes of the past, because the children of the future will not thank us for reminding them of the mistakes of their parents. Costa Rica deserves that consensus, and in that sense we thank you; you are a primordial sector for state reform, because it is ultimately the private sector that will have to absorb what will have to be done in the reform of the state, because it is not only thinking about reducing the employees, and where we get them jobs...

"...what the country is asking of us is to sit down and converse, analyze, and rapidly find a zone of convergence and understanding for the benefit of Costa Ricans" (Weisleder, file 11.771, 7-9-94, p.6).

This appeal for negotiation did not have any effect on the course of events. The following three sessions -taken up by the exposition and discussion with Carlos Vargas Pagán, ex-minister of planning of the Calderón administration- marked the end of this period of legislative discussion. Vargas Pagán took up two entire sessions in describing

the Calderón administration's PAE3, and how it had been entirely ruined by the reforms that the Figueres administration had presented to the banks.

From the first moment of his intervention, it is clear that Vargas Pagan will develop and reiterate PUSC's objections to the renegotiation, providing arguments for the opposition's unwillingness to contribute to the approval of the new project.

He defines the structural adjustment process as an approach to the solution of the exhaustion of the "interventionist economic model," which started with PAE1 and PAE2. PAE3 was designed to solve four problems that remained:

1. inadequate assignment of economic resources in the domestic economy,
2. the imperfections of the internal market,
3. poor quality and restricted coverage of public services, together with the existence of a chronic deficit of the Costa Rican state that affects the capital markets and inflation,
4. the absence of long-term savings coupled with high financial costs.

The first problem was to be solved simultaneously by the completion of the export strategy through the further reduction of tariffs and the negotiation of free trade treaties. Simultaneously, the capital account was opened to permit the free flow of capital. The second was to be dealt with through the improvement of internal markets through deregulation, liberalization of prices, and both anti-trust and anti-dumping regulations. The third was to be dealt with through the simultaneous improvement of fiscal income,

the improvement of the efficiency and quality of state services and the reduction in their size. The labor mobility program was not to be developed primarily through dismissals, but through the transfer of subsidiary public services to the former employees.

Besides opposing the decision to not open the insurance monopoly, he considered that the change in labor mobility was a veiled formulation of the same project.¹⁹

Vargas Pagán's intervention opens two debates of importance.

One takes place with Weisleder, in relation to the openness of Figueres and Calderón to dialogue in the preceding year, while Weisleder's questioning pointed to Calderón's lack of interest in negotiating the project and in establishing conversations with Figueres. Vargas Pagán points to several efforts to approach Figueres in relation to PAE3. He says he personally invited Figueres to his home, where he says he tried to advise him against excessive politization of this issue. President Calderón is said to have approached Enrique Yglesias, president of the Inter-american Development Bank, to ask him to try to point out the importance of PAE3 for the country to Figueres (Vargas Pagán, file 11.771, 19-9-94, p.14). Vargas' accusation is that Figueres failed to perceive the difference between electoral politics and governing the country:

"...if this had been managed in separate political spaces, if the renegotiation had been well managed, this could have worked out..." (Vargas Pagán, file 11.771, 19-9-94, p.14).

However, Weisleder objects to this perspective:

"I reject your contention that José María Figueres adopted a point of view -as presidential candidate- for political or electoral reasons...For this, ...we have to see the complete history" (Weisleder, file 11.771, 19-9-94, p.32).

Weisleder goes on to detail how Liberación has an alternative conception of state reform to that of PUSC, and how the conflict of the previous years has shaped the political perspective that Liberación has presented. He cites the presentation by the Liberacionista group of an alternative PAE3 in the COREC2, which was radically different from the Calderón administration's conception, and how that difference in conception had somehow led to the rupture of the COREC2:

"After the breakup of the COREC2...the Calderón Fournier administration started to work intensively to formulate an integral conception of structural adjustment to be negotiated by the country with the international organisms." (Weisleder, file 11.771, 19-9-94, p.32).

Later -according to Weisleder- when Figueres expressed his disagreement with Calderón's PAE3, this was a more restricted critique, related to the points of a different conception (Calderón's) that he objected to. According to Weisleder, this process shows:

"an effort -of the PLN and of its candidate Figueres- to come closer to the positions of the government of Calderón Fournier. This is why I asked you why the Calderón administration had not made greater efforts (to bring the positions closer)" (Weisleder, file 11.771, 19-9-94, p.32).

What Vargas views as the incapacity to visualize the difference between elections and governing, for Weisleder is a coherent process of giving up points of contention to overcome differences. What is common to the two positions is that they both attribute the position of intolerance to the other, and as a consequence expect the other to do more to achieve a consensual project.

The second debate takes place between Vargas Pagán and two Liberacionista deputies (Villanueva Monge and Román Trigo). The Liberacionista position does not seem to be able to recognize PUSC as a political actor that has a position independent of the international financial organizations, but tends to conflate both as a single "neo-liberal" position. It is implied that PUSC's guarantee of fidelity to what it negotiated, lies in the World Bank. This was already implied in Garnier's initial statement when he said that in the best case, the World Bank would waive the requirements that Liberación did not agree to, and that in the worst case, if the bank did not waive the requirements, the Unidad could be satisfied, because then the PAE that would be applied was the one that had been negotiated by the Unidad. The inability to see that the Unidad might not be satisfied with the waivers Liberación negotiated, remains in the rest of the debate, in Villanueva's position. Counter to that "neo-liberal" position, is the road of Liberación:

"...the rest remains for the second part, to see if the banks accept the other road, the Costa Rican way (a la tica), the way of Liberación Nacional, the way of social compromise..." (Villanueva Monge, file 11.771, 13-9-94, p.16)

This view leads another deputy to ask if the acceptance of changes in PAE3 then implies a general change in position of the international financial organizations:

"Do you think that there has been a change among the international financial organizations in what they consider structural adjustment?" (Román Trigo, file 11.771, 19-9-94, p.16).

Vargas Pagán clarifies that it is not the international financial organizations that design the program but the country's government:

"...your negotiation of structural adjustment is not primarily with the World Bank, but with your country. You propose the changes that you feel the country needs, and you propose them to the national community..." (Vargas Pagán, file 11.771, 19-9-94, p.17)

From this perspective, the adjustment process is a national, sovereign decision. This new definition of sovereignty is marked by at least two changes that have taken place over time. On one hand, there has been a recognition of the World Bank -in its evaluations of structural adjustment- that the process has to be felt as a national process by the national government to be successful, which is a change from the earlier programs. Second, the negotiation of PAE3 -or the difficulties thereof- shows how the negotiation of structural adjustment has become a "national process." The profound legal and institutional changes that are involved in the reform of the state, can no longer be negotiated primarily in Washington, but require a national process of consensus building among the central social and political actors.

Vargas' comment that the programs are national, runs counter to what is assumed to be true, in congress and outside of it. In earlier agreements, the members of the economic team either presented their own suggestions as impositions of the international financial organizations -as a way to reduce the political cost of policies that they felt were important to undertake, but unpopular- or they presented the program as the conquest of national sovereignty against what the ank would have wanted --as was the case with the nationalist legislative defense of PAE2. In either situation, the struggle was always directed against an agent that was outside the national polity, and was entirely insulated from domestic politics.

In PUSC's perspective, the terrain of negotiation is the domestic political struggle. It wants the guarantee that what it negotiated in the law is approved in the Legislative Assembly:

"If you don't reform the state or do not open the insurance business, I will oppose the PAE3. This shows you that the bank did not impose it, and what interests me is the road the country is to follow..."

"As a Costa Rican, I am interested in knowing what the reform of the state you are proposing is; I don't care if Washington approves it or not; it is here that we have to come to an agreement...if the World Bank later agrees or not is unimportant, because it will not be the World Bank in a closed negotiation who will say the kind of state the Costarricans have to have" (Vargas Pagán, file 11.771, 19-9-94, pp.17-18).

Gonzalo Fajardo, deputy of the PUSC who was also part of the Calderón administration's economic team, further defines the way in which the commitments with the international financial organizations are binding:

"...one sends the text of law projects to the organisms, which does not mean that they expect that the text will not be modified. Normally they are. What the international organisms evaluate or watch over, is that the fundamental principles that are contained in the minutes or political letters are accomplished" (Fajardo, file 11.771, 19-9-94, p.22)

It is in the negotiation -between the country and the international organism- where the pact regarding those fundamental principles is established. Another deputy of the PUSC who was a member of the Calderón administration's economic team, Méndez Mata, adds that in this negotiation, the international organisms have a perspective which defines the limits of what they consider acceptable, and of which fundamental principles they are willing to include in a pact:

"To begin with, there has to be a macroeconomic program, which possibly implies a stand-by agreement with the IMF. We might not like those conditions,

but there the World Bank intervenes and says: 'We won't die if you don't ask for the money. If you want the money, these are our conditions' " (Méndez Mata, file 11.771, 19-9-94, p.27).

Another intervention, also by Fajardo of PUSC, again qualifies the relationship with the international financial organizations:

"I would like to express some points of view in relation to the theme of sovereignty, where there are sectors that feel attacked in relation to the fact that the international financial organizations impose conditions on us. I always say that this is like a preventive covenant. It's like a debtor who is in a bad situation and the creditor tells him: if you want me to help you get ahead, if you are willing to accept a certain discipline, I will help you. If not, it's your right to go off the cliff" (Fajardo, file 11.771, 19-9-94, p.38).

The following hearings corresponded to Carlos Manuel Castillo, president of the Central Bank. He visits the committee accompanied by Silvia Saborío, then advisor to the Central Bank and Ministry of the Treasury.

Castillo situates structural adjustment in a historical perspective of the development and crisis of the import substitution industrialization model and the need to reorient the economy towards exports, which he views as a displacement of subsidies from one activity to another:

"...we started to modify the system of subsidies and subventions, not to eliminate them, but to substitute them with other incentives, oriented in other directions, closer to the needs of the new export economy"(Castillo, file 11.771, 20-9-94, p.6).

He views this to be a process of connection with the world economy, a process of globalization, of transnationalization, one that has to take place taking into account national interests and reality:

"...every country makes its adjustment process with the materials of its own history" (Castillo, file 11.771, 20-9-94, p.6).

In the process that has taken place, he considers that large areas of national consent have developed. Everybody now agrees that macroeconomic stability is important, and that the process of economic opening is irreversible. He states that there are still two areas of disagreement, which are at the center of the conflict over PAE3:

"One is in relation to our conception of the desirable state reform, the other is in relation to the legitimate state involvement in the economy" (Castillo, file 11.771, 20-9-94, p.9).

"Those of us that are in the government consider that the basic public services (electrical energy, telecommunications, ports, insurance and others, related with the financial system) should be in the hands of the state. There are political, economic and social groups that disagree with this position, and consider that the basic public services must be transferred to the private sector."

"The same occurs with the concept of state reform and the way of achieving it, in which there is a fundamental discrepancy between what some associate with the term of labor mobility, with what others call the restructuring of the public sector" (Castillo, file 11.771, 20-9-94, p.10).

In relation to this definition of substantive differences between the PLN and PUSC's conception of state reform, Fajardo (PUSC) answers that he thinks that the differences are not so big, that they are more related to the forms than to substantive matters. He says that the main disagreement in relation to the restructuring of the state is that the government has not presented the Legislative Assembly with an alternative indicator to measure the reform process. In relation to privatization, he says that the differences -at least in relation to PAE3- are restricted to the opening of the monopoly of insurance services. However, Castillo answers that his opposition to the monopoly of

insurance is not a principled position, but a pragmatic one; he is concerned about the changes that must be made before opening the monopoly, and the time that it takes, which is the reason he opposed the clause to break the monopoly in 24 months.

After Castillo's hearing, there is one brief hearing of directors of the oil refinery in relation to the terms of reference of the study of the oil sector, and this part of the debate of PAE3 finishes. This meeting was on September 21, 1994. The final deadline for the approval of PAE3 was on October 19th. The Treasury Committee goes on to another project, with no signs of the possibility of bipartisan consent for its discussion and ratification.

iii. Burki's mediation to save PAE3.

For weeks it seemed that there would be no way to overcome the stalemate in relation to the project. The fiscal situation tended to deteriorate,²⁰ with no chance that the PUSC would accept new taxes. The government invited different economic and social sectors to a three-day meeting on September 22, with the hope of discussing the national situation. The invited sectors interpreted the event as an activity to promote a new tax package.

On October 19, the day that the PAE3 project was to expire, the papers announced that ex-president Calderón and president Figueres would meet on Saturday,

October 22, to try to find a consensual proposal around PAE3. As a token of good faith, Figueres offered to expedite the approval of four projects the PUSC was interested in. This was to be the first time Figueres approached Calderón since he was inaugurated president. The press also reported that the government was asking the banks to extend the deadline of PAE3 for an additional three months. It was also announced that Shadid Javed Burki, the new World Bank Vice President for Latin America, would visit the country on October 22 and 23rd.

Figueres and Calderón met for five hours on October 22. No agreement was reached in relation to PAE3, although some progress was made in relation to other projects.²¹ Calderón proposed two alternative solutions to Figueres in relation to PAE: one would be the discussion and approval of the laws before ratifying the loan project, which had originally been proposed by Figueres when he objected to Calderón's PAE; the second would be to approve the Calderón administration's project. Figueres said both alternatives were unacceptable. The first, because there was no time, the second because there were significant differences between both perspectives (LN, LR, 23-10-94).

On Sunday, Figueres went on a day trip with World Bank's Vice President Burki. In the evening, he met with leaders from the minority parties, from his own party, and with business and union leaders. The government announced that Costa Rica would start

to negotiate new, sectorial loans with the World Bank, specifically in the areas of infrastructure, productive reconversion, health and education.

On Monday morning Figueres met with his cabinet, and in the afternoon, in a manoeuvre that surprised the PUSC, he offered to approve the loan project as it was negotiated by the Calderón administration. However, he maintained the right to ask for the waivers when the time came. The PUSC was caught unprepared, which led different sectors of the party to opposite declarations. The legislative fraction expressed their outrage at what they viewed as a tricky solution (to say that what was being presented was the PUSC's PAE3, and then to change it through the waivers). However, Calderón supported the approval of the original PAE and said he took Figueres' word of honor (which Figueres had never offered) that there would be no changes in the project. If the Figueres administration would make modifications, he trusted they would be sent to the Legislative Assembly for their approval.

After the initial surprise, on Tuesday, October 25th, the PUSC fraction in the Legislative Assembly took Calderón's position and agreed to vote on PAE3 in its original formulation. Different groups expressed their opinions: the business lobbies their enthusiastic support, the unions their misgivings about an arrangement in which neither position favored popular interests.

That day was also a very active one for World Bank Vice President Burki, who also seems to have extended the duration of his stay. He met with different political

sectors and the press, and closed the day with a cocktail party with members of the government and high-ranking leaders of the PUSC. In his final declarations, Burki said:

"We are not contemplating any change in the Third Structural Adjustment Program after its approval in Congress. It is important that the country execute the program as it was negotiated and agreed upon with the bank" (Burki, LN, 26-10-94, p.5a).

While this seemed to point to the idea of abandoning the idea of applying the waivers before the second payments, it could also be interpreted as pointing to what had later been "negotiated and agreed upon" with the Figueres administration. However, this point -the center of contention over the previous month- remained ambiguous. This is obvious by Figueres' declarations that he will later look for a way to 'fix' the clauses with which he is not in agreement. La Nación reported that:

"Despite the executive power's decision to accept the PAE3 that was negotiated by the Calderón Fournier administration, it will renegotiate the clauses it considers unacceptable -the rupture of the monopoly of insurance and the dismissal of 25,000 public employees- with the World Bank and the Inter-American Development Bank" (LN, 25-10-94, p.6a).

The orientation of the renegotiation with the banks and not with PUSC points to the same tendency that had appeared before, to look to the international financial organizations as legitimate interlocutor, and to ignore the opposition. Simultaneously, he accused the PUSC of being "anti-democratic and disrespectful" when they proposed adding a clause to the agreement to ensure that any latter changes had to be approved by the Legislative Assembly. However, this ambiguity was not clarified at this point.

On October 24, 1994, the government introduced an order motion in the Legislative Plenary to exempt the PAE3 project from all the regular procedures. It approved the motion with the support of the Liberacionista bench and two votes from regional parties. Liberacionistas that had formerly opposed PUSC's PAE welcomed the plan. Weisleder:

"...the message that is being sent to the world is that Costa Rica is a country that deserves to attract foreign investors that together with national initiative continue to give better employment opportunities to the population" (Weisleder, file 11.771, 24-10-94, p.6).

Rolando González, head of the Liberacionista bench, describes the activity of the weekend that has led to this acceptance of Calderón's proposal:

"Today the fraction of Liberacion Nacional has made an additional effort in the context of an exceptional weekend. The president opens dialogue with the main political force of the opposition, listens to the wisdom of the pastor of the Catholic Church, the representatives of the emerging parties, and businessmen and the workers of this country" (González, file 11.771, 24-10-94, p.10).

On October 25, 1994, the Legislative Assembly unanimously approved a motion to alter the order of the plenary sessions to deliberate the following three laws: PAE3, the acceptance of the Uruguay Round of the GATT, and the free trade treaty with Mexico.

On October 27, the discussion of PAE3 started in the plenary sessions, and all the requirements were waived. On that day, the clause that stated that any change had to be ratified by the Legislative Assembly was approved. On November 9, 1994, the PAE3 was approved by the Legislative Assembly.

iv. From the cancellation of PAE3 by the World Bank to the National Pact.

The deadline for the Costa Rican government to satisfy the previous conditions for PAE3 was March 1, 1995, when the World Bank would make its first payment. The main obstacle was the macroeconomic situation. Due to increases in government spending,²² the absence of international funds due to the lack of an agreement with the IMF and the delays in PAE3, and the impossibility of the government to convince PUSC to pass new taxes, the fiscal deficit had soared to over 8% of GDP, the highest since the 1980-1982 debt crisis.

The government frantically tried to achieve a stand-by agreement with the IMF in the first months of 1995. An agreement with the IMF would be a credible commitment for the World Bank and could lead to the first payment of PAE3. The Costa Rican economic team arrived at a draft agreement with the IMF on February 24, and presented it to the World Bank as proof for the clause of the macroeconomic stability. However, the World Bank was not satisfied with a draft (not a definite agreement), particularly after having extended the deadline six times. The World Bank component of the loan (\$100 million) was canceled. This left an additional \$250 million to be renegotiated with the Inter-American Development Bank. The deadline for the approval of this part of PAE3 was extended until November 17, 1995, and the conditionality was renegotiated. However, this loan, although part of PAE3, is no longer called PAE3 by the politicians

or the press. PAE3 is viewed as having expired with the cancellation on the part of the World Bank of its component of the loan.

There were different versions of the bank's motives in canceling the loan: (1) One was related to the possible pressures of the U.S. government in relation to several conflicts over the property of American companies in Costa Rica (Rumbo, 14-3-95, pp. 4-18). (2) A second explanation was given by Eduardo Lizano, who mentioned that maybe the World Bank did not trust that the government perceived the project to be a Costa Rican project, but viewed it as something foreign with little commitment with its accomplishment. (3) Garnier (Minister of Planning and part of Figueres' economic team) viewed it to be related to Burki's recent arrival to the region, which made him insecure in relation to the projects. (4) Finally, the ambiguity of the October agreement might also have affected the confidence in the validity of the agreement. Ronulfo Jiménez, economist close to the PUSC, blamed the Figueres administration:

"What happened in relation to PAE3 shows a more general problem of the Figueres administration: its scarce ability to detect the economic and political restrictions it faces" (Jiménez, LN 5-3-95, p.15a).

Apparently the cancellation of the World Bank component of PAE3 increased Figueres's ability to detect his political restrictions, and led him to look for a new agreement with Calderón. From the beginning of March, 1995, the two men met privately at a ranch on the outskirts of San José on four different occasions. At the last of these meetings politicians from the government and PUSC were invited. On April 28, 1995 they met for a fifth time in the presidential office, and at noon announced to the

press that they had come to an agreement to expedite the laws and changes the country needed:

"We, sons of two beloved leaders of the people of Costa Rica, makers of our XX century history, feel the imperious need to search, through permanent and sincere dialogue, roads of hope and concrete and sustained responses to the national and international challenges our fatherland faces.

"The fatherland our fathers contributed to construct through the social guarantees, the universalization of suffrage, the labor code, the abolition of the army, the creation of social security, the establishment of development banking and the modernization of the state faces today large transformations that invite us to reflection, revision and renovation....

"This marvelous and dramatic setting, which coincides with the change of century and the oncoming of the third millennium of humanity, calls us to reconciliation, to the unity of the Costa Rican family, to respect, humility, to the spirit of service and truth, to join labor to attack with vigor and renewed idealism the grave problems our country suffers. Our salvation resides in the unity around what is essential, hard team work, and the loyalty and devotion for the fatherland, above party interests and ideological dogmas" (Figueres, Calderón, 28-4-95. Transcribed in LN 29-4-95, p.15a).

Through the pact, each leader called on his legislative fraction to advance in the discussion and approval of a set of laws and administrative rulings. Unlike the rest of the negotiation of PAE3, where each party objected to minor aspects that invalidated the entire project, during the pact, each party -or leader- put forth his interests and negotiated them in exchange for other things the other wanted. This allowed both leaders to sidestep differences. The PUSC obtained the beginning of a process of administrative state reform through the closing of institutions (which had been included in their original PAE project), and the reduction of public expenditure through the reduction of salaries. They obtained initial approval for a law of economic guarantees, which establishes a constitutional prohibition for fiscal deficits that are larger than 1 % of GDP. Both parties

obtained advances in the reforms of the financial system, reforms of the old age pension system, and the penalization of tax evasion. On the other hand, Liberación was able to maintain the monopoly on insurance activities, the absence of a specific figure of labor mobility, and above all, the approval of a tax package.

Notes:

1. In the case of insurance, they did not object to privatization, but to its timing. The experience with the banking system, in which the private banks generate extraordinary profits derived from the public banking system's inefficiencies and subsidies to diverse sectors, led them to want to develop the opening of the insurance monopoly more slowly than PUSC proposed so as to have the time to make the state insurance company more competitive.
2. Unlike the other PAE legislative files, the PAE3 file contains some of the minutes of the meetings of the national team with the representatives of the banks. This allows one to view the points of difference more clearly.
3. The minutes state that the "deregulation law" has been called "a law for the promotion of competition and the effective protection of consumers" in Costa Rica. The renaming is possibly aimed at garnering more support for its contents among the legislators and the general public.
4. PAE2 had been changed from the elimination of CATs to the modification. The modification was delayed two years in relation to what had been scheduled with the bank, due to which the Bank delayed some payments of PAE2. Finally, the modified CATs began to take effect in 1992. The Bank insisted on the elimination of all new CATs as a condition for the signature of PAE3.
5. Identical argument to that given by Miguel Angel Rodríguez in the discussion of PAE2. While the government party considers the funds of utmost importance, the opposition downplays their significance.
6. There was also a more technical debate that went on simultaneously, in relation to how effective the employee reduction of the Calderón administration had been. A consultant's report on this matter for AID showed that while the government paid large amounts of money to entice public workers to give up their jobs, the government had hired new people in almost the same numbers, from which it showed that the net effect was

minimum. In an internal USAID memo, consultant Silvia Saborio stated that while 9,719 jobs had been eliminated, 9,186 new jobs had been created:

"The bottom line is that after having spent over 3.4 billion colons, public sector employment is today only 0.2% lower than it was when the labor mobility program started in 1990" (Saborio, legislative file 11.771, p.2323)

However, this information was later contested by Carlos Vargas Pagán, who said that while there had been agreement between the Calderón administration and the World Bank in relation to how to estimate the job reduction; Silvia Saborio and Leonardo Garnier (who estimated that the numbers were not correct) had boycotted the program:

"I think that for political reasons, transparent national accounts were objected to, with the exclusive purpose of generating more fear in the public employee so as to obtain some potential political dividends" (Vargas Pagan, file 11.771, 19-9-94, p.6).

7. PUSC honored its commitment by placing PAE3 at the bottom of the Legislature's priority list.

8. Liberación elected 28 deputies, PUSC 25, Fuerza Democrática 2, Unión Agrícola Cartaginesa 1, Partido Agrario Nacional 1.

9. The Ministers of Planning, the Treasury, External Trade, the ex-minister of the Treasury (Mendez Mata); Samuel Yankelewitz of the Chamber of Industry, Carlos Alvarado of Commerce, Luis Liberman of Banking, and Marco Vinicio Ruiz of the Union of business Chambers. The economists were Eduardo Lizano and Francisco de Paula Gutiérrez.

10. Rebeca Grynspan (vicepresident elect), Otton Solis (deputy elect), Leonardo Garnier, Fernando Herrero, Carlos Manuel Castillo, Saul Weisleder (deputy elect) and Fernando Naranjo.

11. These are assumptions of what he thinks will be the outcome of the program, but nothing to this effect is included in the loan project.

12. Independent studies point to the contrary: high unemployment, lower salaries and diminished working conditions (Valverde et al., 1993)

13. Globalization of income tax: concept of taxing individuals on the sum of income of all sources, which is the only way to make income tax progressive. It was proposed by IMF's Vito Tanzi in 1990.

14. Which was included in the original PAE3 project.

15. This procedure proposed to correct the amount of taxes paid to the inflation figures of that fiscal year. Since taxes are paid at the end of the fiscal year, their value is eroded through inflation when this is high.

16. This included a contribution to finance the losses of the Banco Anglo, a state bank that went bankrupt due to bad administration and corruption.

17. Which is to include: a program for the improvement of the productive sector, financial resources for the reconversion and development of competitiveness, the improvement of infrastructure for the productive sector, the reform of the state that considers the state's role in a context of economic aperture; a new system of regulation that permits the control of expenditure and a regime of evaluation of the programs of public institutions; an integral plan of restructuring and efficiency of the tax system; modernization of the customs office, reform of the financial sector, reform of the educational sector, reduction of the internal debt through the sale of assets; a constitutional reform to limit the government's debt to finance current expense; a program of investments in science and technology.

18. These are repetitions, in different forms, of what Garnier had argued when he went to the committee hearings a week before.

19. He argued that to establish the ratio between investment and total expenses pointed as much to the reduction of spending in salaries as to the reduction in certain amount of jobs, and could even lead to higher reductions. Besides, he strongly disagreed with the government's perception that their indicator was superior because it measured efficiency. He said neither of the two measured efficiency.

20. Due to the large government expenses to finance (1) the attrition of employees that were related to the former government, (2) the payment of interests on the internal debt - Calderón had financed deficits with domestic bonds, and the service of these bonds was one third of fiscal income in 1994- and (3) the default of the Banco Anglo.

21. Specifically a project to penalize tax evasion, financial reform to give access to checking accounts and to last-resort credit to the private banks and Costa Rica's ratification of the Uruguay round of the GATT. The PUSC again objected to the new tax project. The remaining point, the free trade treaty with Mexico, was objected to by Figueres. The press interpreted this as retaliation for the PUSC's unwillingness to advance in relation to PAE3.

22. See endnote 21.

Part III

Conclusion: Interpretation of the new order

Chapter 7

Interpretation of the political process

The analysis of the legislative process of approval of the three structural adjustment loans gives further insight into the politics of adjustment, as well as to the political order that is emerging. I will organize the interpretation of the main traits of this new order through the analysis of the redefinition of limits: how the adjustment process opens some possibilities while it restricts others.

The legislative discussions show how, between 1985 and 1995 (or between PAE1 and PAE3), the new form of development¹ became accepted in the polity, and that the structural adjustment programs effectively frame the debate. While the discussions around

PAE1 tended to be restricted to the country's need for the funds that the loan would bring, and there is virtually no support in Congress for the project itself, in PAE2 all the actors' interventions are framed inside the notion that the economic development of Costa Rica will be through exports. In PAE3, all actors accept that state reform has to take place. This process takes the form of a displacement of external impositions to internal needs.

The establishment of the themes of structural adjustment as the focal points of the discussion cannot, however, be defined as the legislative actors' "choice" of structural adjustment. The text of each agreement has already defined the structural changes that are to take place, and the members of the legislative branch are only able to express doubt, misgivings, and criticism, which does not lead to substantial modifications. The new limits are assumed by the majority of the deputies to be facts that cannot be changed. In the discussion of PAE2, for example, there were several actors -members of the business community and deputies- that were critical of the possible success of development through exports. They viewed the World Bank's prescriptions for the liberalization of trade of the third world countries as unilateral at a time that the developed countries were becoming increasingly protectionist. They criticized the bank's stipulations for the reduction of subsidies in the production of grains, when the developed countries refused to eliminate their own subsidy policies. In both examples, the participants in the legislative debate expose the power relationship between countries and the selective participation of the World Bank (which can act in the interests of the

creditors of the developed countries, but that does not influence those countries' internal policies when they contradict the international agencies' principles of sound economic practices). However, the statement of these facts does not in any way lead to the proposal of alternative arrangements that are sensed to be beyond what is possible. The proposals for change that are viewed to be viable or realistic slightly modify the new rules to include the interests of business groups in PAE2, particularly in relation to the use of the funds.

There are, however, voices of dissent, of groups that try to find a national alternative of development, and that demand the rupture of the relationship with the international financial organizations. This is the case for the deputies of the left in the Legislative Assembly (particularly during the discussion of PAE1), the peasant organizations during the mobilizations between 1986 and 1988, and the unions in their proposal of a "Programa de economía costarricense" in 1990. On each occasion the government established from the beginning of the discussion that the relationship with the international financial organizations was not open to discussion. The proposals of these groups are viewed by the mainstream politicians as too radical, beyond what is possible, and maybe also beyond what is desirable. The analysis of the legislative debate shows how the two main parties are able to effectively eliminate the deputies of the leftist parties from the commissions where these discussions are to take place.

A second angle that shows the tracing of limits is in relation to what is and what is not included in the texts of the structural adjustment programs, as well as the part of the agreement in which different aspects are included. In PAE1, and to a lesser extent in PAE2, the letters of development policies deal with distributive issues, particularly in relation to the protection of small producers, while the conditionalities contain nothing that points to those aspects. This gap is also present in the "direct measures" that are frequently mentioned in the debate of PAE2. The government's representatives talk extensively about the need for technological packages and systems of support for small agriculturalists, which are introduced in the defense of the structural adjustment program without being part of it. The program only includes the limits (the pricing mechanisms in the process of reduction of subsidies) and the restrictions for the producers or negative side of the policy. The members of the executive branch defend the program on the grounds of its positive aspect (the support package for the small producer to be able to produce inside the new conditions), which is not part of the agreement. This allows them to include social concerns in the discussion, which are not present in the loan agreement. However, there is no guarantee that the aspects they refer to will become effective. In the case of the specific example, of the support of the small producers, much of what was being defended as "direct policies" was contained in PASA, a loan that was never approved. In the case of the chapters related to distributive issues in PAE1, there was no reference to concrete policies to sustain them.

One can then distinguish in the texts a line of agreements that is binding (expressed in the conditionality). Surrounding these commitments are a group of declarations and intentions that are possibly included by sectors that might (a) consider them to be important, but don't have the power to have them introduced in the structural adjustment agenda or (b) that include those aspects to make the program politically more acceptable. In this sense, the effective outline of the structural adjustment program is given by the conditions (annex 4), not by the letter of development policy, which can include aspects that the bank is not interested in and has no will to contribute to enforce.

However, the internal political struggles can lead to changes. The most important were the modifications of the conditionalities of PAE3 on the part of the economic team of the Figueres administration, and the later reverse of these changes during the legislative discussion. Of lesser importance -from the point of view of the agreements with the World Bank- are the struggles over the use of the funds by political and economic forces. However, as in the case of the funds for industrial reconversion in the case of PAE2, the legislative process allowed a business group to modify the project against the economic team's intentions.²

A third angle from which to see the construction of limits in the process of change towards structural adjustment, is in the institutional conformation of the policy. In this dissertation I have chosen to analyze two institutional loci: the negotiation by the executive branch and the ratification by the legislative.³ The origins of these programs

have been placed in a new strategy of the international financial organizations for the second and third world. The Costa Rican programs have been jointly elaborated by these organizations and the national economic team; together, this negotiating group is bound together by a disciplinary community which defines the substantive matters of the agreements, criteria of convenience, and the criteria of validity. The national economic team has emerged as a new, informal institution, with precise functions as the national counterpart of these international agreements (Part 1). This team, due to (1) its placement in the political system (appointment by discretionary action of the president of the republic and relatively insulated from public opinion) (2) its relationship with its counterparts in the international financial institutions, as well as (3) the secrecy of the procedures of negotiation, is situated in a position of power that enables it to produce agreements which are negotiated in the name of the country and are in most cases enforced without any additional consultation with any other political institution, and in some cases with no exposure to the public sphere. Additionally, the country is bound to honor these commitments by the power that the international financial organizations have in the international financial community.

The restrictions for the national economic team are defined by the guidelines of what the World Bank considers important at the moment of negotiation, as well as by what can be considered "politically acceptable" inside the country:

"The complexity of these negotiations is that they must be developed on three fronts simultaneously: with the government party, with the opposition and with the World Bank. Not much can be done in San José if one does not advance in

Washington; one cannot do much in Washington if one does not advance in San José" (Lizano, interview: 22-3-95).

This means that the economic team must combine (1) what it considers are adequate policies, (2) that which can be considered acceptable by the bank (or the other international financial organizations) and (3) that which is politically viable inside the country. Besides, achieving a consensual position inside the economic team is no simple task. The narrative of the agreements has shown that the economic team cannot be viewed as a unitary collective actor. The differences in the economic team have been the way through which some of the different positions and interests around structural adjustment have been confronted politically, in the form of differences between individuals.⁴ In some cases the internal conflicts have become public through differences that have led to the resignation of those members that have been on the losing side of the conflict. In these situations of conflict, it has mostly been the President⁵ that has decided who is to stay. This attribution is considered to be legitimate by the contending parts, and is played out in the action of the conflicts. This conception points to a vertical conception of the hierarchies of power. The president's authority can also be invoked as a demand for recognition of the actor's power. This was the case when Lizano resigned in his conflict with Esquivel Volio, which instead led to Esquivel's fall. In the three cases of conflict in the Arias administration, all referred to differences between Lizano and another minister: Alberto Esquivel Volio⁶ (Arias' first minister of agriculture), Otton Solis (Arias' first minister of planning), and finally with Fernando Naranjo (minister of the treasury); in each case, Arias supported Lizano, and the minister on the other side of the conflict resigned. Additionally, it is possible that Lizano had a closer relationship

with the World Bank, which gave him increased leverage in relation to the domestic situation.

The analysis of the legislative discussion has shown the subordination of the Legislative Assembly in relation to the definition of adjustment policies. First of all, because only structural adjustment loans require legislative approval, and then it is only a process of ratification. A second kind of subordination is due to the deputies' lack of understanding of exactly what is at stake in the programs that they are approving. The chapters of PAE1 and PAE2 contain multiple examples of this point, as well as the deputies' insecurity in having to deal with a subject matter that they do not understand well and consider the domain of experts. While the programs contain important distributive issues, these are not explored by the deputies. In some cases, the deputies have concerns that lead to questions. However, they pose their questions to the members of the economic team or their technical assistants, who are all interested in approving the loan project, and are not particularly interested in enlightening the deputies. Additionally, the presence of different texts of the program⁷ creates a certain fuzziness about what is at stake, which contributes to the deputies' difficulties in understanding.

The exception to this legislative "distance" from the substantive aspects of the loans was during the latter part of the legislative discussion of PAE3 (August-September 1994), in which three deputies of the Treasury Committee were former members of economic teams. Those members established a relationship of equality with the members

of the executive branch that attended the hearings. However, those three deputies have favorable opinions of the adjustment process, which does not permit their knowledge to be used for a critical legislative position. In this case a split is established between those members of the committee and the rest of the deputies.

The acceptance of a subordinate position by most of the deputies can be interpreted as indicative of their lack of interest in the substantive aspects of the program. This can be inferred by the fact that the demand for explanation is always for ulterior purposes: to be able to explain to others or to maintain the party's position, not for self-understanding. In contrast with this absence, there is a permanent -although generally unspoken- concern about the use of the funds: the government party aspires to approve the loan quickly so that the government can dispose of the funds; the opposition tries to obstruct the loan with the opposite purpose. The struggle over party interests is directly related to the party's access to the funds. Therefore, while the Legislative Assembly is a subordinate political space as to the content of the policies, it offers a space for the struggle over party interests. These are directly related to the aspiration of political power, and directly related to the control of government.

The legislative debate is also a space for the expression and negotiation of corporate interests. The sectors that participate in the discussion are clearly defined.⁸ Despite the long list of people to be invited at the beginning of the discussion of each PAE, the hearings are always restricted to members of the two main political parties and

representatives of the business chambers, in particular the traditional business groups. This inclusion points to the ones that have been excluded: no representatives of the minority parties,⁹ and no representatives of popular organizations.¹⁰

The business groups that attend the hearings are the organizations that have historically been politically strong, particularly the Chamber of Industry and that of Commerce, and to a lesser extent the Chamber of Agriculture. The new chambers, related to the activities that have benefitted from the adjustment process -exporters, bankers and tourist entrepreneurs- do not attend the hearings and generally nobody brings up inviting them.¹¹ Three different possibilities could explain this absence: they (1) either coincide completely with the policies (2) they have other means of presenting their demands, or (3) they have not constituted similar mechanisms of intermediation.

The business groups use the Legislative Assembly to present their points of view and to reform those aspects of the project they are not in agreement with. The presence of the business groups points to the formal aspect of corporatist intermediation, and offers what is possibly a very partial perspective on this relationship, which is possibly much broader, but that takes place outside of the public sphere. However, what is visible points to very powerful social actors. This is evident by the tone in which they formulate their demands, the response of the deputies, and the response to their demands. Only for PAE2 did the Chamber of Industry and that of Agriculture formulate concrete changes to the loan project, and they were all accepted, despite the recurring reminder on the part

of the representatives of the executive that the World Bank would not accept any changes to the project.

There is a significant difference in the business chambers' participation in PAE2 and PAE3. In PAE2 the corporatist pressure is restricted to the aspects in which the business groups feel negatively affected by the adjustment process, and their intervention is directed at trying to improve their position. In PAE3, the business groups' tone is that of the demand for national changes centered on the reform of the state. This theme implies a selection of the topic that the business chambers decide to talk about because, while state reform is certainly the main topic of PAE3, there are several other changes that affect the business groups (further tariff reductions, significant changes in taxation, the elimination of price controls, and the changes in licensing). In the hearings, the representatives of the business groups acknowledge that the executive has sent them the laws that deal with these matters and that they are studying them to prepare comments.¹² However, they do not use their time to refer to these aspects, as they have other, more direct channels to influence the government on these matters. They use the time allotted to them to stress the importance of state reform, in particular the kind of reform that they consider important, which means (1) the improvement of the institutions that are directly related to their economic activities (customs, ports, airports, infrastructure, oil products, etc); (2) the reduction in state expenditure; (3) the sale of state enterprises to solve the fiscal deficit. They view themselves as those who define national interest and see government as being at their service.

Besides, the chambers ground their expositions on research they have themselves undertaken on matters such as the efficiency of ports and efficiency of institutions, which are themes and activities that are more often related to government activity. The origin of those activities as part of private business associations can be traced to USAID's activities in the eighties. The general shift in the position of the business organizations seems to point to a process of empowerment of business vis à vis politicians.

The politicians of both parties and the business leaders recognize each other as important actors in the political field, while other actors are excluded. When PAE3 was being discussed, the Union of Business Chambers sent the Legislative Assembly a proposal to expedite the approval of the legislation. They propose to organize the projects according to a hierarchy as follows:

- "a. list 1: those projects in which there is no conflict at the level of business nor at the level of the parties
- b. list 2: includes those projects in which there is no consensus among business, but there is between the parties
- c. list 3: those projects in which there is consensus among business, but there is none between the parties.
- d. list 4: there is no consent among any groups
- e. list 5: 'unknown projects'" (Unión de Cámaras, 27-8-93. Legislative File 11.771, 1602-1616).

This definition of the relationships maps a closed and elitist political field in which the mutual recognition of the actors, as well as the practical actions for the exclusion of others, defines the limits of the discussions and interest representation. This closure leads actors to the identification of this political field with the nation. When

justifying why the tax reforms were eliminated from the PAE3 by the Figueres administration, Garnier says:

"In fiscal efficiency, the two points we had objected to formerly... and it was not only we that objected to them; I would say that there was a generalized objection in Costa Rica" (Garnier, file 11.771, 30-8-94, p.4)

Garnier fails to mention that the proposals of the World Bank and IMF towards progressive taxation were not known by the general public, and that neither political party made them public during the elections despite the importance of PAE3 as a campaign issue. The Costa Rica that presented the "generalized objection" is that of the leadership of the two main political parties and the business elite.

This approach to the political field also helps interpret the economic team's concern with rapid approval in the case of PAE1 and PAE2. In both cases, the economic team tries to get the project through congress as fast as possible, possibly concerned that the corporate interests will modify the timing and the content of the policies. In PAE3 there seems to be a change. The divisions between the parties lead deputies of both parties to bring in the business actors to support their points of view and to contribute to the approval of the project that they consider important. The demand for national unity comes from the business groups rather than from the parties. In the case of PAE3, the opposition of party interests became so extreme that a negotiation was needed to recompose the political field. The substantive differences of positions between the parties, which were much smaller than the points of agreement, became magnified to appear to be larger in the dynamic of advancement of party interests. The Figueres-

Calderón pact is primarily an agreement between the parties to put their corporatist interests aside in the name of the national interest, with the enthusiastic support of the business chambers.

Aside from this field where the principal negotiations take place, there are institutional relationships of the state with other, subaltern groups. This was clear in the constitution of commissions with the peasant representatives during the protests of 1986-1988 and there are forms of mediation with the unions. However, the political field, as was mapped above, is relatively insulated from these demands.

This does not mean that different governments have not attended to popular demands expressed through anti-austerity protest. In 1983 the protests against the increase in electric bills led the government to make the rate of increase more gradual. In response to the protests of the state universities, the Calderón administration maintained the funding they received, even against the agreement the government had signed with the IMF. The Calderón administration also yielded with respect to the reform of the teachers pension fund reform, so as not to make it retroactive for those that were already in the old system. However, the Figueres administration, as part of the Figueres-Calderón pact, again reformed the law and made its effects retroactive. Despite a five-week-long teacher strike (July-August 1995), the government was not willing to give in.

The former seems to point to two characteristics: (1) that there is an intention of the governments to negotiate with subaltern groups, not to change the policies, but to make them more gradual; (2) the margins for this kind of action seem to be getting more restricted as the adjustment process advances.

Finally, there is a silent actor that is permanently present -particularly for the politicians- which is the electorate. The politician's failure or success in their bid for power is ultimately contingent on the voters' choice. This has led to what Rovira has called "the political logic that over-determines the economic policies" (Rovira, 1995, p.20). Incoming governments can apply adjustment policies, partly because they can blame the outgoing government of economic mismanagement (particularly when the opposition has won the election) partly because elections are a long time away. Conversely, towards the end of each administration, government officials abandon adjustment policies, increase public expenditure and create situations of prosperity to favor the ruling party in the coming elections. Sojo (1994) has shown the fiscal impact of these cycles. Besides, this dynamic was also clear in the compliance with the commitments with the IMF: the conditions of the stand-by agreements of the beginning of the Monge, Arias and Calderón administrations were mostly satisfied, while the ones close to the election period were flagrantly disregarded. The legislative approval of PAE2 and PAE3 is also determined by the electoral cycle, which is evident in the struggle of the government party and the opposition in relation to the use of the money.

These comments point to a segmented political field, with different actors that defend different kinds of interests. This segmentation is accentuated (or defined) by the differences in information available to the different actors. As has been repeated on many occasions, the negotiations in which the initial agreements are produced are secret.

The actors that do not take part in those negotiations tend to attribute the entire agreement to the World Bank, despite the indications to the contrary. In PAE2 the negotiating team sustained a nationalist defense of the program by repeating that it was a national program, that it was different from any other program in any other country, and that it was strictly Costa Rican. In PAE3, the construction by Liberación of the confrontation between the "neo-liberal PAE" and the "PAE a la tica" led Liberacionista deputies to identify the PUSC's PAE with the "impositions" of the World Bank (which here seems to act as a synonym for "position" of the PUSC, as the PLN deputies are unable or unwilling to distinguish the two positions) and the reforms as a nationalist victory. Vargas Pagán had to insist that both programs were to a large extent Costa Rican. In general, the subaltern social actors -such as the peasant organizations or the unions- also tend to identify the policies with the impositions of the international financial organizations.

The secrecy of the negotiation, together with this tendency to hold the World Bank responsible for the entire adjustment process, allows the members of the economic

team to introduce politically sensitive matters in the program, which reduces the political cost for the government party of unpopular policies.

The restricted disclosure of the information also gives the economic team the discretionary power to deal with matters that are in the interest of the different actors of the political field, without having to expose them publicly. When the government defended reducing the CATs more gradually than the bank would have wanted, or when it eliminated the globalization of income tax or the monetary correction, none of this was exposed in the public sphere. All of these changes were negotiated by the economic team with the World Bank. The references in the legislative debate are minimum, and take place once the change has been accepted by the World Bank, and they point to previous agreements between the two main parties and business, agreements which are not publicly discussed. The restriction of information in relation to the bipartisan consent of the changes in taxation points to the relations of loyalty inside the political field and the interest to segregate these aspects from public debate.

There is a second kind of segregation of information in relation to the opposition between the technical and the political discourse. This theme opens the extraordinary complexity of Liberación's relationship with its past, in which it promoted the state's development and expansion (1948-1978).¹³ The 1994 electoral defense of some institutions like INS, ICE, and RECOPE appealed to the values of these institutions being national and public. In contrast, the legislative discussion around the possible privatization of those institutions did not point to arguments of this kind, but rather the

"technical" discussion. The question in relation to the INS is related to the timing of the opening of the insurance monopoly, not the principle of the rupture of the monopoly itself. For RECOPE, Liberación demands that the conditions of the study not presuppose that it has to be privatized. In the case of the ICE, the situation is even more vague. Both parties accepted that the institution be divided into its two components -electricity and telecommunications-, and both parties acknowledged that the intention of this is to prepare for a partial or total process of privatization. Liberación accepted the separation, but did not accept the following step towards privatization that is implied (at least not at present). Castillo (President of the Central Bank during 1994) stated -somewhat inconsistently- that while they have accepted the separation into two divisions, they did not in any way accept privatization.

In the case of the nationalized banking system, one of Liberación's principles, the official position of Liberación has been to approve each step towards the legalization of a private banking system (in 1984 and 1988), while simultaneously denying that this meant a restriction to the decree of nationalization of the banks of 1948, even in face of the opposition of deputies of that party. In the 1995 reforms, where the last remainder of the banking monopoly -the checking accounts- is to be eliminated, Liberación must finally confront its history and change its constitutive charter. It does this, however, at a time when it is clear that the monopoly no longer exists, when it has been undermined by the processes of development of private banks over the previous 15 years and the legal reforms that legitimated it.

There is then a gap between Liberación's public discourse, and that which it sustains in political negotiations. This latter form of confrontation (or avoidance of confrontation) of political differences, points to another trait in the way conflicts have been dealt with inside Liberación: the form of presentation of the changes is that of "technical" solutions, which conceal different "political" positions inside the party and allow the actors to avoid (or minimize) confrontation while the changes start to take place. The outcome of what happens with these "technical" solutions will be determined by the results of the power struggle among the different actors. However, it will not take the form of an "ideological" debate, but rather one of pragmatic solutions, which will be determined by the interests of those that are in a position to be included in the reform process.

This form of political negotiation also gives the actors greater flexibility to change positions without contradicting themselves. The interests that motivate the actors in the political field are varied. They are not only political but also social and economic. By avoiding the fixation of difference of "opinion" into "ideological positions," the actors do not have to confront their differences and can maintain the possibility of simultaneously struggling for political and economic interests. This particular way in which political differences are dissolved into technical and pragmatic solutions, could be one of the underpinnings of the corporatist party structure. The narrative has shown how the majority of the politicians accept and develop their interests inside these corporatist forms: the terms "politics" or "political" refer exclusively to the interplay of these

personal and collective interests related to the power of the party. Politicians then "invest" their political capital in the power structure of the party.

This complexity and these contradictions are not present in the PUSC position. PUSC is the "party of adjustment." With no history prior to the period of adjustment, the party does not have a past to deal with.¹⁴ However, despite the dominant position of the PUSC in the adjustment process, all structural adjustment loans have been approved in the Legislative Assembly during Liberacionista administrations. This is due to the way in which the political dynamics are established. When Liberación is in the opposition, it falls back on its historical social-democratic conceptions of regulation through an activist state, and blocks the policies of the "neo-liberal" PUSC. However, once in power, Liberación tends to support the adjustment process as the only way to develop public policies, which PUSC does not object to, since they coincide with its general orientation. As a consequence, Liberación discusses its points of view in the opposition in ideological terms, while in government it resorts to a technical and pragmatic discourse. PUSC has no such difficulties, as they do not face such contradictions.

Finally, the relationships inside the political field, and in relation to groups that are relative outsiders, point to specific forms of processing the political differences. A very significant trait is the emphasis on dialogue. In the conflicts between the peasant organizations and the government, or between the government and the opposition -

particularly at times in which the relations become very tense- one finds the insistence of both sides that they have through all means tried to establish dialogue with the opposing party, particularly in those situations in which neither party is willing to modify its positions. There is an assumption in the political field that all must be willing to dialogue. However, as was the case with the peasant organizations, the establishment of a mechanism of "dialogue" between the organizations and the government did not in any way commit the government to the search for solutions to the peasants' demands. On the contrary, the relationship can be interpreted to have been a mechanism for the demobilization of the peasant organizations and for the government to gain time.

In the case of the legislative debate, particularly that of the committee hearings, one also observes the resistance to dialogue. In the hearings the deputies stage the representation of their party's position, which is enunciated, but not discussed. When the party interest is related to matters which the deputies do not want to expose, even the enunciation is presented in an encoded form. Once the deputies have set up their positions, a new process takes place: those differences are then discussed privately, so as to find a transaction that will enable each to develop their interests. I think that in most cases -as far as the evidence seems to show- these negotiations do not take place among the deputies, but rather at higher political levels.

Therefore, next to the very public and notorious demand for dialogue, most of the differences are ultimately processed privately in agreements where the content of the pact

is never made public. This is the case of the approval of PAE2. It is clear that Arias and Calderón negotiated the use of the loan's funds over the two administrations. It is also obvious that direct channels of corporatist intermediation exist between the executive branch of government and the business chambers, channels in which there is no public exposure. Finally, the Figueres-Calderón pact, which (somewhat arbitrarily) closes the time-line of this dissertation, arrived at agreements that led to the approval of several laws of great importance for the country, without the content of the pact having ever been publicized, and having been justified by the sole legitimacy of "sons of the caudillos."

In all these cases of secret negotiations, which replace the publicly sustained value of dialogue, my impression is that the content is not that of dialogue and discussion, but rather a situation in which the parties exchange aspects they are interested in. When made public, the media generally report these events by listing the demands of each group that is to participate in the negotiation. The success of such a negotiation is related to having achieved a viable transaction.

A final aspect through which it is possible to view the redefinition of limits is in relation to the substantive institutional changes of the adjustment process in general, and the structural adjustment policies in particular.

The state's adjustment policies have changed the relative profitability of different economic activities, and with these modifications the business community has reorganized its interests. Former agriculturalists and industrialists for the internal market now produce primarily for export. Tourism -viewed as an export activity and thus beneficiary of the same incentives- has expanded. So has the private financial sector, which was formerly severely restrained in its development by the state regulations that left few banking activities open for the private financial institutions. Exports, tourism and private banking are thus the business sectors that have flourished under the conditions created by the state through incentives and legislation. The conflicts around this shift were concentrated around the approval of PAE2, and were partially resolved through the introduction of very gradual reforms that would allow the investors to adapt to the new situation, and change their activities to benefit from the new incentives.

Next to this redefinition of the state's incentives towards economic activities, structural adjustment policies have transformed the state's forms of intervention in the economy. Stand-by agreements and structural adjustment loans have insisted on the elimination of (1) differential interest rates, (2) protectionist trade policies and (3) the control of foreign exchange. In the past, the state had used the differential interest rates to promote production over commerce and services, tariffs to protect domestic industrial production, and exchange controls to force exporters to give their earnings in hard currencies to the Central Bank. The elimination of these instruments in the hands of the state gives private capital increased mobility and flexibility. If this change has led to the

World Bank's explicit goal of contributing to the "establishment and operation of markets," it is beyond the scope of this dissertation. Besides, as Colclough has pointed out, neo-liberal reforms are more concerned with attacking the defects and shortcomings of state action than with attacking the shortcomings of markets:

"...if there were one statement which symbolized the fundamental message of neo-liberalism, it would be this: in settling matters of resource allocation, imperfect markets are better than imperfect states" (Colclough, 1991).

It is clear that through adjustment policies, the state's forms of control have diminished. However, despite this difference in the forms of economic intervention of import substitution, industrialization, and structural adjustment programs, they have in common that they organize their conception of (developing) societies and of the desirable order on the relationship between the economy and the state. The forms of social and political organization are viewed to be factors that are derived from the successful "development" of the basic organizing axis: economic growth (achieved through a joint effort of state and business) will provide more wealth, which can then be distributed, contributing to social welfare and mobility. Social development will provide the polity with satisfied citizens, who will have an interest in the maintenance of the existing order.

Another aspect in which this continuity in both perspectives is clear, is that despite the extensive discussions around state reform, one aspect that was never doubted was the necessity of state support for economic activities, which is more consistent with the ideology and functions of the developmental state related to import-substitution industrialization, than with the neo-liberal alternative. All of the national actors that

participated in the adjustment policy discussions situated their reasoning along these lines, even those that are considered neo-liberal. The narrative of the political process has shown how the political relationship between business and political elites is central in the explanation of the maintenance of this historical pattern of relationship between the state and the economy.

This relationship has in the last years created sources of tension between the World Bank and the Costa Rican government. The World Bank and the IMF have been the only sources of opposition to the unlimited maintenance of export subsidies, which the government has ultimately -after much pressure- promised to eliminate. However, the government's relative success at delaying the elimination of those subsidies also shows the limits in the action of the international financial organizations when confronted with powerful social actors.

The closure of the conceptualization of "development" to the relationship between the economy and the state, also leaves most of the reform of the state apparatus outside of the focus of observation and restricts it to the reduction of state expenditure. The policies of the international agreements have established constant cuts in the state budget, without there having been a project of reform. Personnel reductions have not considered the organizational needs of the institutions, budgetary restrictions have eliminated investment in equipment, and public investment has diminished greatly. With this reform process, the state's capacity has plummeted, as most institutions are unable to undertake

the tasks for which they were created. While the latter cannot be viewed as an intentional result of the adjustment policies, it is however the product of the perspective with which they confront institutional change.

Notes:

1. Characterized first by an export economy, and new forms of state intervention and regulation.
2. However, Miguel Schyfter, president of the Chamber of Industry, claims that the money that was supposed to go to industrial reconversion never reached the industrialists in adequate conditions (Schyfter, file 11.771, minutes of session 57).
3. I again want to stress that this does not mean that they are the only important ones, and that this strategy implies blindness in relation to other struggles that are not visible from the "commanding heights" of central government.
4. It is however important not to restrict the conflicts to the differences in position in relation to the adjustment process. Other differences, of a personal kind or of perceived differences in power, can also be at stake.
5. With the exception of the conflict of Eduardo Lizano with Juan Manuel Villasuso (Monge's second minister of planning) in 1985, where the mediator was the vice-president of the World Bank, and the resolution of the conflict did not lead to Villasuso's resignation.
6. The case of Esquivel Volio is slightly different, in that the minister of agriculture is not a member of the economic team.
7. In the presentation of the program by the executive branch to the legislative, in the letter of development policy, and in the conditionalities.
8. List of people invited to the Legislative debates of the structural adjustment loans:

(The names that appear in **bold** correspond to those members that were invited and participated in the hearings).

1. PAE1: exclusively representatives of the executive branch:

Rodolfo Quirós Guardia	Minister of Exports
Calixto Chaves	Minister of Economics
Eduardo Lizano	Central Bank
Ennio Rodriguez	Department of Planning
Saul Weisleder	Department of Exports
J. M. Villasuso	Minister of Planning

Odalier Villalobos	Department of Economics
Jorge Madrigal	Department of Economics
Rep. World Bank	World Bank
Rep. USAID	USAID
Rep. unions	unions
Rep. cooperatives	cooperatives

2. PAE2: in the previous sessions only members of the executive branch were invited. In committee hearings, representatives of the main parties and the Chamber of Industry and Commerce.

Previous sessions with members of the PLN:

Fernando Herrero	Department of Planning
Carlos Espinach	Central Bank
Antonio Burgués	Minister of Economics
Sandra Pizsk	Department of Economics
José María Figueres	Department of Agriculture
Carlos Saénz	Department of Agriculture

Sessions of the Committee of Treasury Matters:

Eduardo Lizano	Central Bank
Antonio Burgués	Ministry of Economics
José María Figueres	Ministry of Agriculture
Fernando Naranjo	Ministry of Treasury
Miguel Angel Rodríguez	PUSC
Rodrigo Carazo	PUSC
Otton Solis	PLN
Bernal Jiménez	PLN
J. R. Lizano	Chamber of Agriculture
Samuel Yankelewitz	Chamber of Industry
Alvaro Montero M.	PU (leftist party)
Luis Armando Gutiérrez	CCTD-PLN (union federation)
Alvaro Rojas	CUT (union federation)
Guido Vargas	UPANACIONAL (peasant union)
Chamber of small ind.	Chamber of artisans and small industry

3. PAE3: representatives of the Executive Branch ,majority parties, and the Chamber of Commerce and Chamber of Industry.

Sessions of the Treasury Committee, February 1994:

Treasury Minister	Minister of Treasury
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Min. of Foreign Trade	Minister of Foreign Trade
Carlos Vargas P.	Minister of Planning
Rodolfo Méndez Mata	PUSC (dep. elect)
Rebeca Grynspan	PLN (Vicepres. elect)
Otton Solís	PLN (dep. elect)
Leonardo Garnier	PLN
Fernando Herrero	PLN
C.M. Castillo	PLN
Saul Weisleder	PLN (dep. elect)
Fernando Naranjo	PLN
Eduardo Lizano	PLN
Fco. de Paula Gutiérrez	PLN
S. Yankelewitz	Chamber of Industry
Carlos Alvarado	Chamber of Commerce
Marco Vinicio Ruiz	UCACEP (Union of Chambers)
Raúl Odio	Chamber of Commerce
Luis Liberman	ABC (Banking Chamber)

Sessions of the Treasury Committee, August-September 1994:

Leonardo Garnier	Minister of Planning
INS	INS (State Insurance Institute)
Chamber of Commerce	Raúl Odio
Chamber of Industry	Miguel Schyfter
Carlos Vargas Pagán	PUSC
RECOPE	RECOPE
ANEP	ANEP

Source: Legislative files: 6988, 7134, 11.771.

9. Besides, after the "trouble" with Montero Mejía in the discussion of PAE1, in which Montero's objections and interventions led the deputies of the majority parties to change the project to another commission, the majority party has taken care not to have a deputy from the left in the commission where the PAE project is discussed. In PAE2 and PAE3, the project has been sent to the Treasury Committee, where the government party has assured a qualified majority, so as to be able to overrule any initiative that it considers inappropriate. Additionally, in 1994 the Treasury Committee included a deputy of a regional party, which allowed Liberación to form bipartisan commissions that the legislative regulations require for the debate of some laws, without having to include a deputy from the PUSC.

10. Although a representative of the public employees was invited to a hearing in relation to PAE3. Albino Vargas attended the commission. However, since Carlos

Vargas Pagán's intervention was too long there was no time left for his participation. He was dismissed with the promise of rescheduling the hearing, which never happened.

11. There are two partial exceptions. In PAE3 it was suggested that the chamber of private banks be invited. Later, when Carlos Alvarado attended the PAE3 hearings, the deputies not only interrogated him as representative of the Chamber of Commerce, but also asked him about banking, as he is also a private banker.

12. This is exposed through the criticism of the PUSC's deputies, as the Liberacionista government has not yet sent them the projects, while all the business chambers seem to have been consulted.

13. Even the two following Liberacionista administrations (Monge , 1982-1986) and Arias (1986-1990), were unable to detain the growth of public employment, despite the commitments with the World Bank and the IMF to the contrary. The Calderón administration's success in this field -regardless of the contested 'labor mobility' figures- is to have detained the growth of public employment.

14. Maybe with the exception of the legacy of the Carazo administration, which has systematically been used by Liberación to show that the PUSC does not have the capacity to govern. However, after the Calderón administration, this point has lost relevance.

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