

# Social Protection Systems in Latin America and the Caribbean: **Costa Rica**

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**In the mid-20<sup>th</sup> century**, Costa Rica designed a universal social protection system dedicated to the promotion of citizenship and fundamental social rights. The institutionalisation of social policy, the development of universal policies for health care, security, education, housing and basic services (water and electricity), together with significant economic growth, allowed for a continuous improvement in human development and significant, internationally recognised achievements. Among these are the reduction in infant mortality, which dropped from 123 children per 1000 born in 1940, to 61.5 in 1970 and 9.1 in 2011; the increase in life expectancy, which rose from 55.6 years in 1950 to 79.3 in 2011; and the reduction of poverty incidence, from 50 per cent of households in 1950 to 20 per cent at the end of the century.

The development of the welfare state during this period comprised strengthening democratic processes, designing an economic development strategy aimed at diversifying production, and giving the State a central role of promoting economic growth and providing well-being to the population through partnerships with national and international business groups of all sizes. In addition to these elements, we can add a robust social legislation and important events such as the institution of a Labour Code, the inclusion of social guarantees in the country's Constitution (dated from 1949), bank nationalisation, the abolition of the army and the creation of key institutions for national development, including the Costa Rican Social Security Fund (*Caja Costarricense de Seguro Social, CCSS*) and the Costa Rican Institute of Electricity (ICE).

The distribution of welfare among the population was made possible by strong social investment, policies aimed at increasing wages and land redistribution. These served as redistributive mechanisms that gave way to a more symmetric social structure. The design of the Costa Rican social protection system was innovative from the start, as evidenced by strong sectoral institutions created to promote universal policies, in conjunction with specific instruments established by law—with the country's own resources—dedicated to bring forth targeted policies for the poorest and most vulnerable populations.

At the beginning of the 1980s, Costa Rica—like the rest of Latin America—faced a major economic crisis as a result of the increase in oil prices and foreign debt. This generated a severe impact on poverty figures, cuts in social investment and poor performance in key indicators, such as education. From 1982 onwards, in response to the crisis at

that time, the country adopted policies to open trade in general and become an active worldwide player in the global market, which led to a deeper and more diversified participation in the world's economic system. The country shifted from a type of development based on an agricultural exporting economy (accompanied by a strategy of substitutive industrialisation geared towards the Central American regional market) to a development focused on the promotion of non-traditional exports, which set the stage for new productive sectors. Out of this new style of development a two-sided economy emerged: a dynamic and non-traditional export sector focused on the external market and services (the 'new economy') and large and relatively stagnant segments concentrated on the domestic market (the 'old economy').

The institutional strength forged throughout decades, based on universal social policies coupled with an extraordinary effort in the 1990s to recover social investment, has allowed Costa Rica to maintain important social achievements in difficult times, associated with structural changes in its production model and various economic crises. However, the benefits reaped from such a strong institutional framework tend to run out, creating new challenges related to the clear possibility of degradation of the welfare state thus far enjoyed by the Costa Rican population.

The main consequences of this new production model—in which sectors of the new economy accumulate higher revenues without paying sufficient taxes—are increasing inequality and fewer possibilities of improvement for citizens in terms of access to goods and services. This sets the country relatively backwards with regard to some of its social indicators, while other nations make swift progress.

At the dawn of the 21<sup>st</sup> century, Costa Rican society needs to renovate its social policy strategy and, furthermore, modernise its institutions in such a way that they are able to answer to the needs of the emerging risks that affect the country's population. To this end, new agreements must be carried out among the major social and political forces, to provide new funds to the State and maintain a level of sustained social investment capable of preserving and multiplying the country's achievements in human development as well as addressing the issue of increasing inequality.

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