

The Future and Challenges of Economic Development in Costa Rica and the Region

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New Thinking about Development

From the Washington Consensus to the Stockholm statement

1. GDP growth is not an end in itself
2. Development has to be inclusive
3. Environmental sustainability is a requirement, not an option
4. The need to balance market, state, and community
5. Providing macroeconomic stability

But this does not just mean balancing budgets or focusing exclusively on inflation

Scotland's National Performance Framework

Purpose, Values and National Outcomes



Scotland National Indicators (1 of 2)

National Outcome

We respect, protect and fulfil human rights and live free from discrimination



National Indicators

- Public services treat people with dignity and respect
- Premature mortality
- Gender balance in organisations
- Food poverty
- Quality of public services
- Influence over local decisions
- Greenhouse gas emissions
- Carbon footprint
- Access to superfast broadband
- Income inequalities
- A positive experience for people coming to Scotland
- Trust in public organisations
- Relative poverty after housing costs
- Wealth inequalities
- Cost of living
- Unmanageable debt
- Persistent poverty
- Satisfaction with housing
- Crime victimisation
- Educational attainment
- Young people's participation
- Economic participation
- Employees on the living wage
- Pay gap
- Contractually secure work
- Employee voice
- Healthy life expectancy
- Mental wellbeing
- Energy from renewable sources
- Participation in a cultural activity
- Access to justice

National Outcome

We are creative and our vibrant and diverse cultures are enjoyed widely



National Indicators

- Attendance at cultural events or places of culture
- Participation in a cultural activity
- Growth in cultural economy
- People working in arts and culture

National Outcome

We are well educated, skilled and able to contribute to society



National Indicators

- Educational attainment
- Confidence of children and young people
- Resilience of children and young people
- Engagement in extra-curricular activities
- Young people's participation
- Skill profile of the population
- Skill shortage vacancies
- Skills under-utilisation

National Outcome

We have a globally competitive, entrepreneurial, inclusive and sustainable economy



National Indicators

- Productivity
- International exporting
- Economic growth
- Carbon footprint
- Natural Capital
- Greenhouse gas emissions
- Access to superfast broadband
- Spend on research and development
- Income inequalities
- Entrepreneurial activity
- Economic participation
- Scotland's population
- Growth in cultural economy

National Outcome

We are open, connected and make a positive contribution internationally



National Indicators

- A positive experience for people coming to Scotland
- Scotland's reputation
- Scotland's population
- Trust in public organisations
- International relationships
- Contribution of development support to other nations

Scotland National Indicators (2 of 2)

National Outcome

We value, enjoy, protect and enhance our environment



National Indicators

- Visits to the outdoors
- State of historic sites
- Condition of protected nature sites
- Energy from renewable sources
- Waste generated
- Sustainability of fish stocks
- Biodiversity
- Marine environment
- Natural capital
- Perceptions of local area
- Access to green and blue space
- Greenhouse gas emissions
- Carbon footprint
- Journeys by active travel

National Outcome

We are healthy and active



National Indicators

- Healthy life expectancy
- Mental wellbeing
- Healthy weight
- Health risk behaviours
- Physical activity
- Journeys by active travel
- Quality of healthcare experience
- Work related ill health
- Premature mortality
- Loneliness
- Healthy start
- Child social and physical development
- Child wellbeing and happiness

National Outcome

We have thriving and innovative businesses, with quality jobs and fair work for everyone



National Indicators

- The number of businesses
- High growth businesses
- Innovative businesses
- Economic participation
- Employees on the living wage
- Pay gap
- Contractually secure work
- Employee voice
- Skills under-utilisation
- Work related ill health
- Gender balance in organisations

National Outcome

We tackle poverty by sharing opportunities, wealth and power more equally



National Indicators

- Relative poverty after housing costs
- Wealth inequalities
- Cost of living
- Unmanageable debt
- Persistent poverty
- Satisfaction with housing
- Public services treat people with dignity and respect
- Children's material deprivation
- Employees on the living wage
- Income inequalities
- Food poverty

National Outcome

We live in communities that are inclusive, empowered, resilient and safe



National Indicators

- Perceptions of local area
- Influence over local decisions
- Loneliness
- Perceptions of local crime rate
- Crime victimisation
- Access to green and blue space
- Places to interact
- Social capital
- Trust in public organisations
- Journeys by active travel
- Quality of public services

National Outcome

We grow up loved, safe and respected so that we realise our full potential



National Indicators

- Child social and physical development
- Child wellbeing and happiness
- Children's voices
- Quality of children's services
- Children have positive relationships
- Children's material deprivation
- Healthy start
- Healthy weight
- Confidence of children and young people
- Educational attainment
- Resilience of children and young people
- Young people's participation

UN Sustainable Development Goals (1 of 2)

National Outcome

We respect, protect and fulfill human rights and live free from discrimination



UN Sustainable Development Goals

- Gender equality
- Reduced inequalities
- Peace, justice and strong institutions
- Partnerships for the goals

National Outcome

We are creative and our vibrant and diverse cultures are enjoyed widely



UN Sustainable Development Goals

- Gender equality
- Reduced inequalities
- Sustainable cities and communities

National Outcome

We value, enjoy, protect and enhance our environment



UN Sustainable Development Goals

- Gender equality
- Affordable and clean energy
- Decent work and economic growth
- Industry, innovation and infrastructure
- Responsible consumption and production
- Clean water and sanitation
- Climate action
- Life below water
- Life on land

National Outcome

We have a globally competitive, entrepreneurial, inclusive and sustainable economy



UN Sustainable Development Goals

- Quality education
- Gender equality
- Affordable and clean energy
- Decent work and economic growth
- Industry, innovation and infrastructure
- Reduced inequalities
- Responsible consumption and production

National Outcome

We are open, connected and make a positive contribution internationally



UN Sustainable Development Goals

- Gender equality
- Industry, innovation and infrastructure
- Reduced inequalities
- Peace, justice and strong institutions
- Partnerships for the goals

National Outcome

We tackle poverty by sharing opportunities, wealth and power more equally



UN Sustainable Development Goals

- Gender equality
- Affordable and clean energy
- Reduced inequalities
- Responsible consumption and production
- No poverty
- Zero hunger

UN Sustainable Development Goals (2 of 2)

National Outcome

We are healthy and active



UN Sustainable Development Goals

- Gender equality
- Reduced inequalities
- Responsible consumption and production
- Good health and well-being

National Outcome

We have thriving and innovative businesses, with quality jobs and fair work for everyone



UN Sustainable Development Goals

- Quality education
- Gender equality
- Affordable and clean energy
- Decent work and economic growth
- Industry, innovation and infrastructure
- Reduced inequalities
- Responsible consumption and production

National Outcome

We are well educated, skilled and able to contribute to society



UN Sustainable Development Goals

- Quality education
- Gender equality
- Reduced inequalities
- No poverty
- Zero hunger
- Good health and well-being

National Outcome

We live in communities that are inclusive, empowered, resilient and safe



UN Sustainable Development Goals

- Gender equality
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Alliance of countries to promote well-being, with Costa Rica playing a prominent role

Group of Friends for Wellbeing Economies (Group of WE) Declaration and Invitation WE, MINISTERS AND REPRESENTATIVES of Costa Rica, Scotland and Slovenia [New Zealand, Wales, Others]:

- CONSIDERING that: 1. While the economic growth experienced across the world has improved living standards for many, the benefits have not been spread evenly and inequality remains entrenched in many countries.
- 2. The pursuit of growth without proper regard for the environment has contributed to the acceleration of climate change which threatens us all and the poorest disproportionately.
- 3. The challenges of inequality and climate change are faced in every community, region and country and can be best overcome with shared ambition, understanding and action.

Wellbeing Alliance

DECLARE that we:

1. SUPPORT the creation of an alliance of wellbeing economies that acknowledges the inextricable connection between the environment, society and our economies.
2. Will SHARE best practice in pursuit of innovative policy approaches toward creating wellbeing economies.
3. INVITE other ambitious governments to join us in this shared mission to create wellbeing economies as a path to achieve the UN Sustainable Development Goals.

From the Washington Consensus to the Stockholm statement

6. Attending to the impact of global technology and inequality

- Key issue is not developed vs. less developed countries, but appropriate treatment of labor, in both developed and developing countries
- Requires investment in human capital
- Creating new instruments of redistributions within and between countries

7. Social norms and mindsets matter

- Bringing the insights of modern behavioral economics to bear in development economics
- Effective ways of altering behavior (savings, fertility, etc.)

From the Washington Consensus to the Stockholm statement

8. Global policies and the responsibility of the international community

- Recognizing the interdependence of countries
 - That the policies of the large rich countries have large externalities on the rest of the world, which they often don't take into account (including their monetary, regulatory, trade, and migration policies)
 - But tax havens affect all countries
- International agreements cover only part of these arenas
 - Climate change agreements do not go far enough
 - Do not cover cost of adaptation by poor countries
- Developed countries have not lived up to their commitments of .7% of GDP in aid

Marked change from the Washington Consensus

- With its primary emphasis on markets
- With its inadequate treatment of market failures
- With its narrow view of macro stability
- With its narrow conception of the goals of development
 - More instruments, broader goals

New problems of the 21st century

- Climate change
- Inequality
- Reassessing meaning of comparative advantage
- End of the manufacturing export led growth model
- End of the era of globalization: anti-globalization in the era of Trump

Need to bring insights from Stockholm Statement and modern economics to bear in responding to these challenges

Will consider in reverse order

End of the era of globalization: anti-globalization in the era of Trump

- Understanding new protectionist sentiments in Europe and America
- Globalization was oversold
 - Benefits exaggerated—increase in growth much smaller than anticipated
 - Growth in era of capital market globalization lower than in earlier era
 - Capital market globalization may have contributed to instability, lowering growth
 - Jobs were destroyed in many places faster than they were created
 - Globalization increased uncertainty—at same time that neo-liberalism was eroding systems of social protection

Globalization was oversold

- Costs underestimated
- Especially distributive costs
 - With most—in some cases more than 100%—of the gains going to the top
 - Bottom and middle saw incomes stagnating or declining
 - Predictable—and predicted
- Elites continued to believe in trickle down economics, even when theory and evidence said it wouldn't occur
 - Elites claim problem was with technological change
 - But globalization compounded problems posed by technological change
 - And conservatives wanted to do nothing about either
 - Businesses gained from weak labor market—wages declined

Problem is bigger than Trump

- And likely to be longer lasting
- Problem was not with globalization, but with way we managed it
- There were alternatives (e.g. in Scandinavia) where everyone could have been better off
- Now Trump is blaming trade agreements as being unfair
 - They were unfair—US got most (almost all) of what it wanted
 - Unfair to developing countries
 - Unfair to workers in all countries

Trump's policies are fickle, likely to leave long lasting negative effects

- Especially hurting those who supported him
- Deglobalization will be costly—and especially to those in the manufacturing sector
 - American automakers will lose competitiveness
- Trump was against TPP, now wants to reconsider
 - Never had clear notion of what was wrong with trade agreements or how to fix them—just evocative political rhetoric
- Based on multiple confusions
 - What matters is multilateral trade deficits, not bilateral trade deficits
 - What matters is overall trade balance, not just deficit in goods

Trump's policies likely to leave long lasting negative effects

- US cannot be trusted
- World worked to create a world where borders mattered less—now we know they can matter a great deal
- Trump has hastened the creation of a new world order
 - System with American dominance could not continue
 - China is larger than the US in multiple dimensions
 - World was moving to multilateral trade system
 - Trump has just hastened the day

Those in the rest of the world should use this period as an opportunity

- To create new trade alliances and strengthen old
- America's farm subsidies and other unbalanced policies inhibited creation of a Free Trade Area of the Americas
 - This is the time to move
 - Time to strengthen cooperation/trade between Mexico, Central America, and the Caribbean
 - Time to strengthen cooperation/trade with China, Europe, India, and Southeast Asia
- TPP 11 have moved to create a new agreement—like the old, but with the removal of some of the most noxious provisions (making generic drugs more expensive and less accessible) demanded by the US

Impact on Costa Rica

- Mexico and other major sources of immigration are likely to remain main brunt of Trump's antipathy.
 - Costa Rica could even benefit from trade diversion
 - Costa Rica should also focus more efforts on trade diversification
 - Both products
 - And countries
 - Advantage of small country: only needs to find a few niches
 - Costa Rica has found one: eco-tourism
 - Importance of which will only grow over time
 - Needs to find some additional niches

Rethinking Economic Strategies: The end of manufacturing led growth

- Success in development over past 60 years was greater than anyone anticipated—contrast Myrdal’s predictions for Asia with what happened
- There is an enormous gap in knowledge, as well as in resources, that has to be closed
- Most of the advanced countries are engaged in service sector—80% or more
 - So if there are disparities in standards of living, it relates to productivity in these service sectors
 - There are huge disparities in productivities within countries, even greater between countries

The end of manufacturing led growth

- The basis of the success of growth over past half century was export-led growth
 - We have to deconstruct what enabled manufacturing to provide this growth spurt, this structural transformation
 - Simultaneously providing foreign exchange, creating jobs, enhancing learning, closing knowledge gap and resource gap
 - It won't be able to do so in the future to anything like that extent
 - There has to be another strategy—that performs some of the essential roles that manufacturing export-led development did

- Successful development policy will need to be explicitly more multi-pronged, multi-sectoral addressing separate “challenges” that manufacturing sector addressed simultaneously
 - Embracing multiple institutions and stakeholders
- Government will need to play an important role in the new structural transformation towards a modern economy—which will be centered around a modern *services* economy
 - But simultaneously embracing agriculture and manufacturing

Rethinking Economic Strategies: Reassessing Comparative Advantage

Old theory based on static comparative advantage; new strategies must be based more on dynamic comparative advantage

- Capital highly mobile
- Knowledge relatively mobile
- Skilled labor relatively mobile

Real source of comparative advantage

- Skills, health and discipline of work force
- Embedded Knowledge
- Institutions and norms
 - Institutional infrastructure
- Physical infrastructure
- Reputation (“branding”)

All of these affect

- ability to attract and retain talent
 - Young people care about the environment, about “meaning” in their work, and cooperation and challenge (including intellectual challenge) in the work place
- ability to attract and retain capital

Hard—but essential—to change these in constructive way

Perspectives on Costa Rica: In many overall measures of well-being, Cost Rica performs well

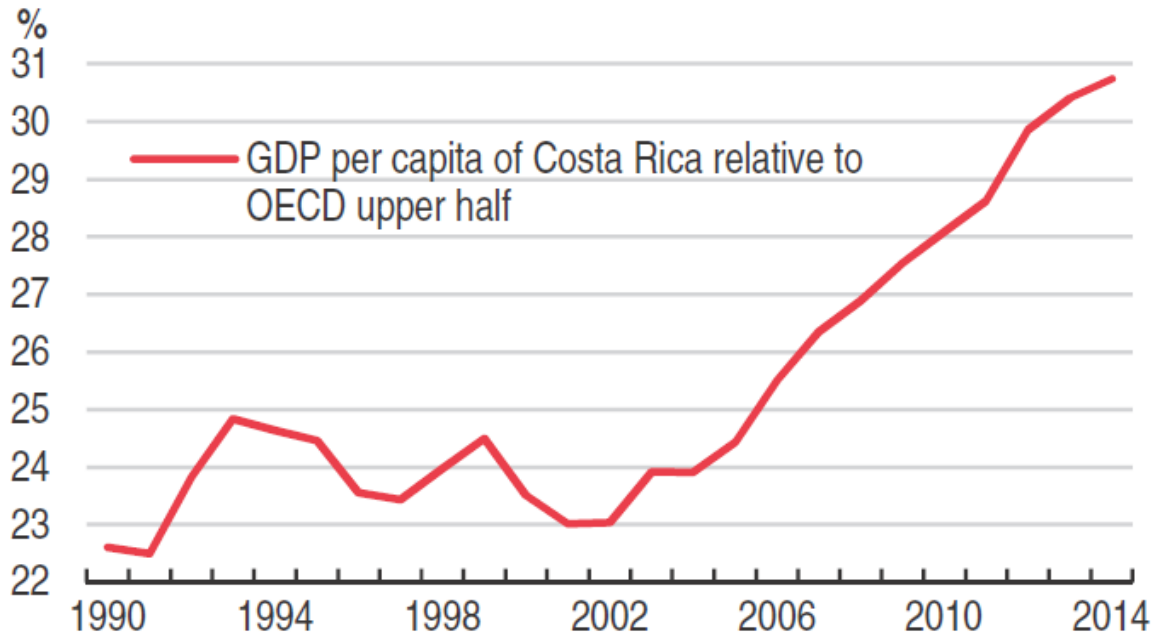
- Good growth
- Life expectancy at birth 79 years
- Expected years of schooling 14
- Well being rating in top 7% of “Happy Planet Index” (outperforming US is both wellbeing and life expectancy)

(US expected years of schooling is 16, per capita gross national income is more than three times higher, life expectancy slightly lower)

- **The country has established a specially favorable reputation because of positive environmental policies and its strong stance in peace**

Growth: Costa Rica has a GDP per capita of about \$15,500 (PPP). Strong growth in this century

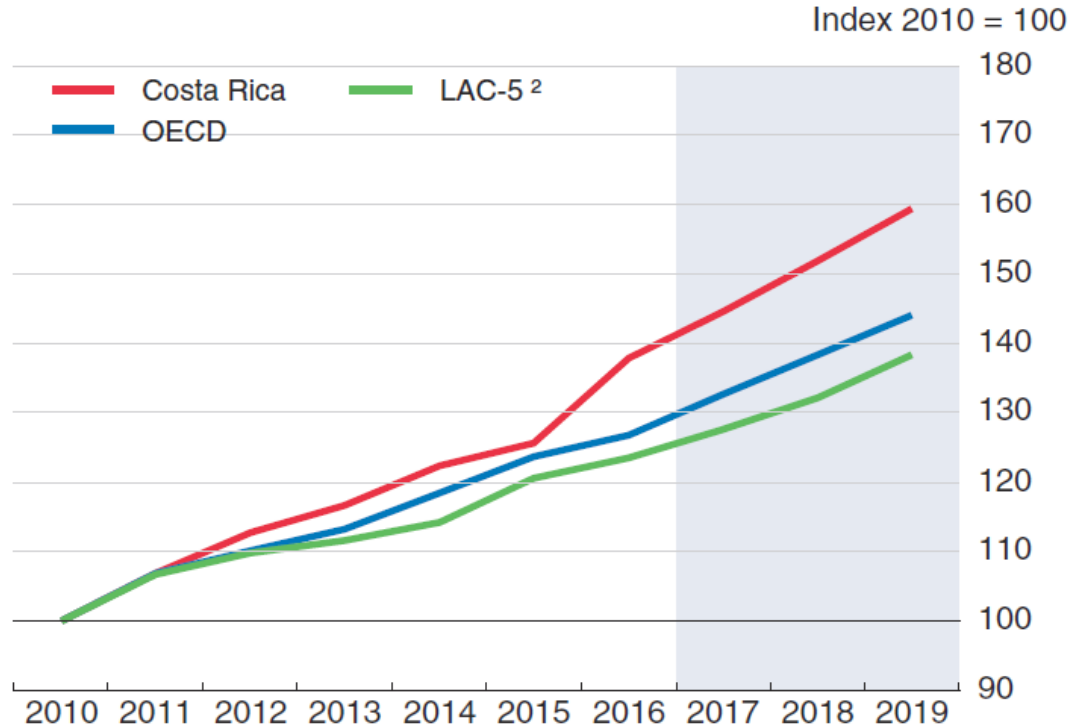
GDP per capita is increasing



Source: OECD, National Accounts Database and World Bank, World Development Indicators.

And exports are performing above OECD average

Export growth is strong
Exports volume



Note: LAC-5 is the weighted average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: Ministry of Finance; and OECD Economic Outlook 102 Database.

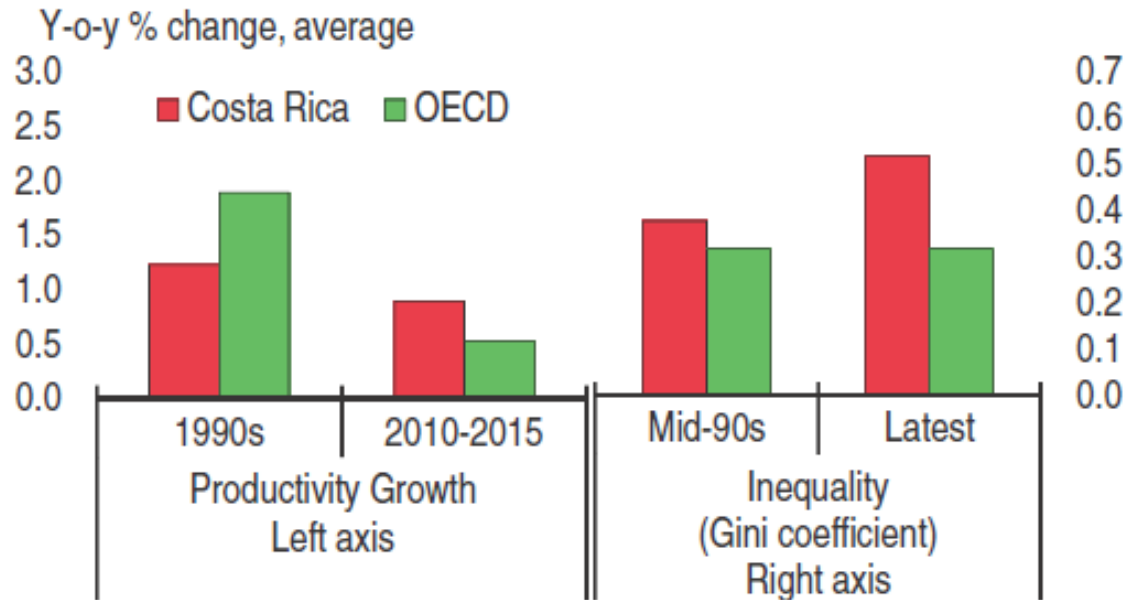
But there are still a large number of problems

- Deficient infrastructure
 - Which hinders the development of tourism
- Quality of education
 - Which hinders productivity
- Concerns about banking regulation
 - Which raise concerns about financial stability
- Most pressing problems: inequality and fiscal position

Inequality—the core challenge of the 21st century

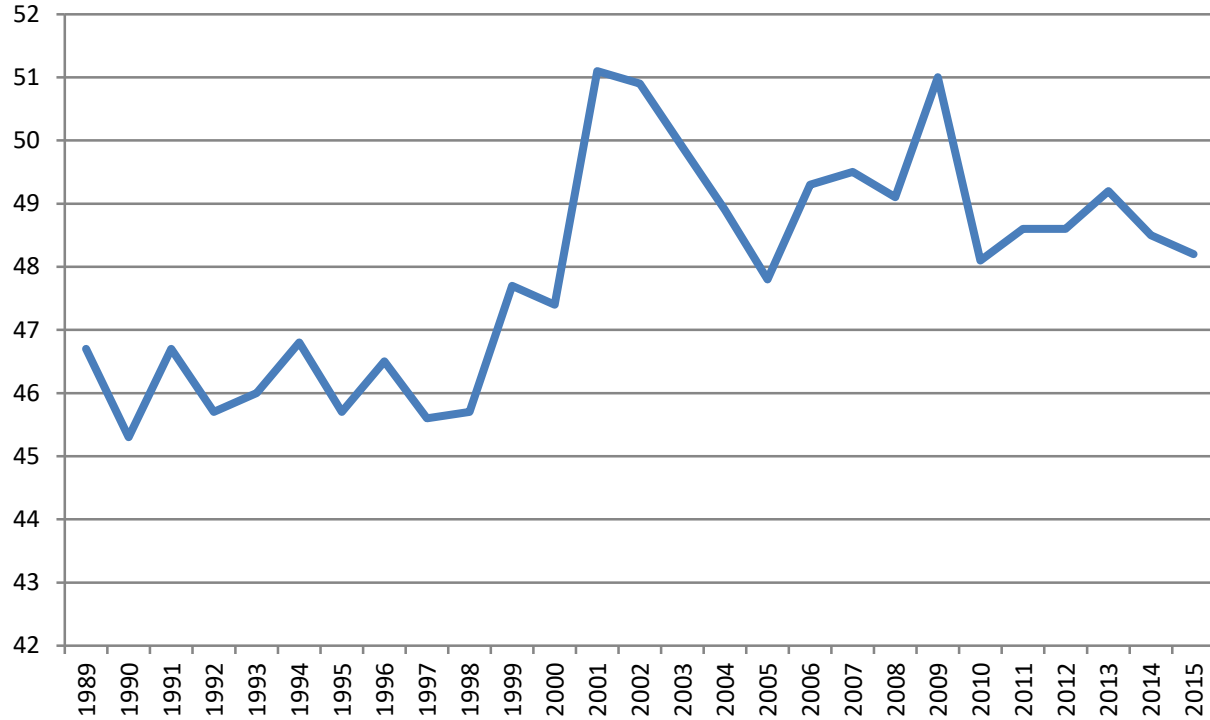
- Ensuring a modicum of social justice in the distribution of income, wealth, opportunities, health
- Costa Rica has been growing well, in ways which are environmentally sustainable, and in many dimensions place it towards the top of the world, but in some dimensions has not been doing as well as it should
- Trump and the rise of authoritarian and fascist leaders in many countries shows the dangers of not addressing concerns about social justice
 - I had warned about the risks in my book *Price of Inequality*
 - Empirical evidence that many of those adversely affected in US by trade moved markedly to right
 - Establishment parties lost credibility throughout world
 - They will fail to deliver on what they promised: worry that politics may get even uglier

Inequality is rising and productivity is slowing



Source: OECD, Economic Outlook 98 Database; OECD, Income Distribution Database; Estado de la Nación.

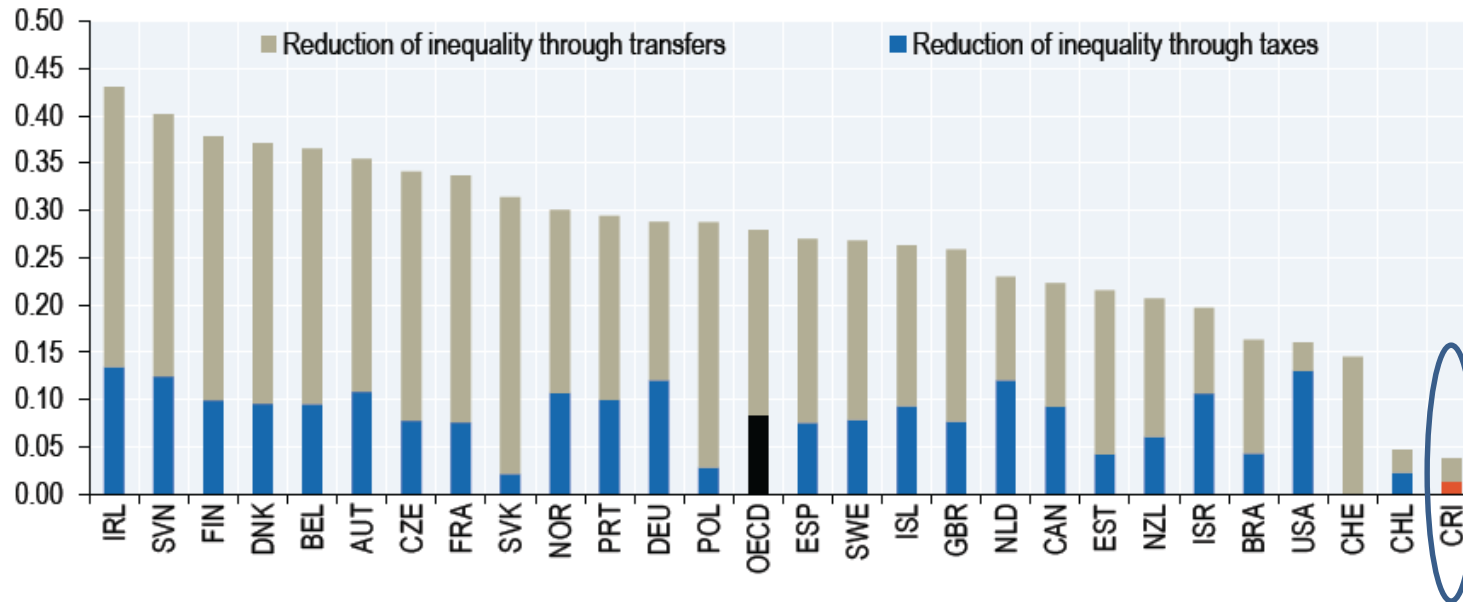
Gini Coefficient Costa Rica



Government is not doing as much as it could to address inequality

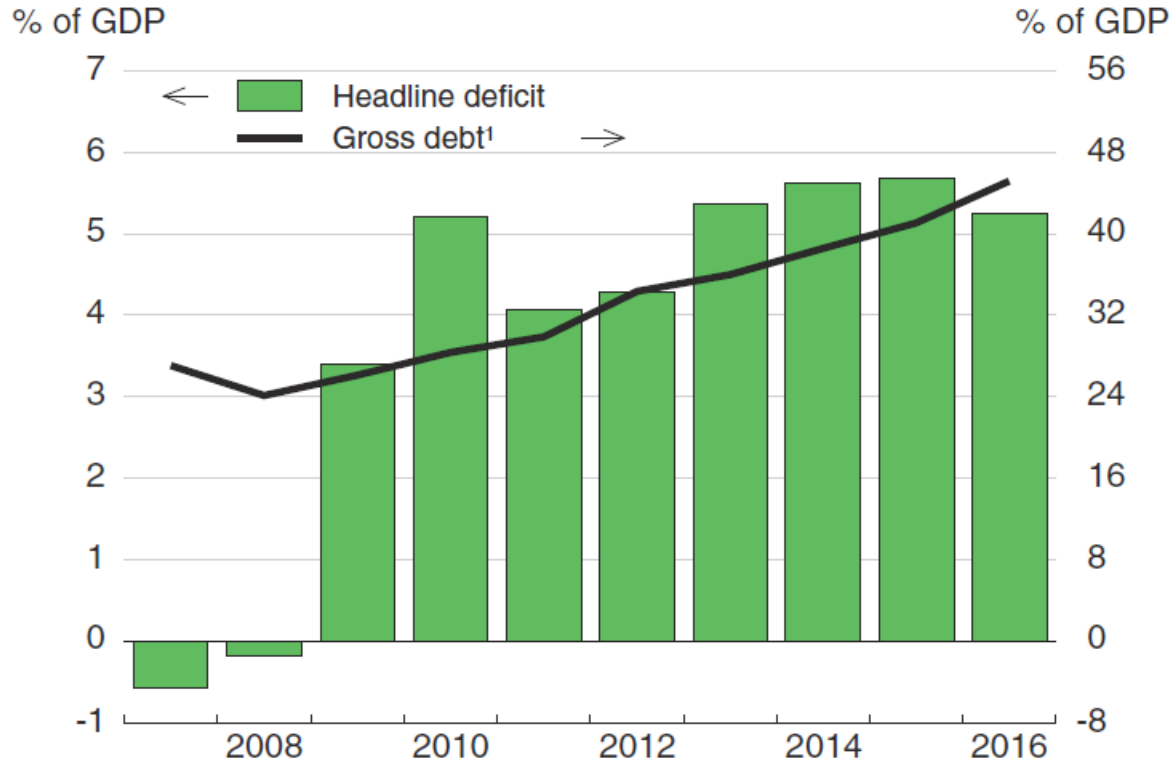
» The redistributive effect of the Costa Rican tax and cash transfer system is rather weak

Percentage reduction in the Gini coefficient due to taxes and transfers, working-age population



Note: Data for Costa Rica are preliminary and refer to 2015. Data for all other countries refer to 2012 or 2013.
Source: OECD Income Distribution Database (<http://oe.cd/idd>); data for Brazil from LIS Database (www.lisdatacenter.org).

Increasing worries about fiscal position



Note: Gross debt refers to central government debt.
Source: Ministry of Finance; and OECD Economic Outlook 102 Database.

Important for Costa Rica to respond to fiscal challenge in ways which strengthen its dynamic comparative advantages

- And which address its crucial problems noted above
- Recognizing the large changes in the global economy that have been occurring
 - Some noted above
 - Internet changes connectivity, can enhance opportunities

Examples of what might be problematic

- a) Cutting government expenditures, to worsen infrastructure, weaken education, undermine limited efforts to increase inequality
- b) Increase taxes in a regressive way (such as the standard value added tax)
- c) Any government expenditure cut combined with increases in taxes will reduce aggregate demand, increase unemployment, and increase inequality

A framework for fiscal consolidation

Raising revenues

- Carbon tax
 - Stiglitz-Stern Commission recommends taxes in order of \$100 ton
 - Strengthens aggregate demand as economy retrofits to new regime
 - Helps restructure economy for the future
 - Enhances Costa Rica's reputation
 - Raises needed revenue
- Progressive Consumption taxes
 - Large cars, large homes
- More progressivity in income taxes
 - Property taxes, capital gains taxes, especially on land
 - Property is one asset which is not movable
 - Henry George argued that it was the best progressive tax

Other sources of revenues

- Identifying areas of negative externalities
 - Financial transactions tax (imposed on residents, wherever transactions occur)
 - Other environmental taxes

Redirecting and increasing expenditures

- Well structured increase in taxes, restructuring and increasing expenditures can actually lead to increased aggregate demand
- Expenditures directed at addressing major challenges
 - Infrastructure
 - Education—including pre-school
 - Now recognized to be pivotal in addressing long run inequalities
 - Restructuring education to improve quality and link it better with demands in labor market
- These expenditures more than pay for themselves in the long run

Rethinking social protection, labor market policies, and institutional arrangements

- Well designed systems of social protection can help increase labor mobility at the same time they promote equality
 - Workers less afraid of job restructurings
- Active labor market policies can help match skills with needs in labor market
- Analyzing sources of weaknesses in labor force protection
 - In US: absence of family friendly policies that help women participate in labor market, and poor health policies that result in large fractions of the population not well enough to work
- Promoting institutional arrangements that enhance well-being
 - Support for cooperatives

National dialogue in the context of an overall “well being framework” and consistent with “Stockholm Statement”

- Costa Rica cannot just borrow a framework from others
 - It has established its own distinct culture
 - With a strong commitment to democracy and processes of consultation
 - Learning from others what has and has not worked in other contexts
- Has to create a comprehensive development and transformation agenda
 - All of the issues are interrelated, so addressing them piece-meal won't work
- There is an urgency to addressing these issues now
 - A new Presidency is a good time to forge a new national consensus