Political Competition, Constitutional Arrangements, and the Quality of Public Policies in Costa Rica

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Lehoucq, F. "Political Competition, Constitutional Arrangements, and the Quality of Public Policies in Costa Rica," *Latin American Politics and Society*, Vol. 52, No. 4 (November 2010): 54-77. DOI: 10.1111/j.1548-2456.2010.00098.x

Abstract:

This article explains why Costa Rica, by the mid-twentieth century, began to depart from the all-too-common mixture of political instability and economic stagnation characteristic of much of the developing world. The article argues that this country has benefited from better-than-average public policies, a conclusion based on a major comparative ranking of state policies. It further argues that interminable political stalemates gradually democratized the struggle for power and laid the groundwork for an innovative constitutional framework, one that allocates the technical functions of government to a set of autonomous institutions. A central implication of this argument is that institutional design is the backdrop for development-enhancing public policies.

Keywords: Costa Rica | politics | political competition | Latin American politics | history | public policy | constitutional arrangements

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The question of whether good political systems precede or follow the development of vibrant economies has generated much controversy. Although cross-national research suggests that economic growth facilitates democratization, there is considerable debate about the mechanisms that link development with political change (Robinson 2006). Philip Keefer (2007) suggests that time makes parties in competitive systems more accountable because experience helps voters distinguish credible from irresponsible policy promises. John Gerring and his associates also claim that accountability, as proxied by time, is what forges the policies and institutions that foment growth (Gerring et al. 2005). Evelyne Huber and her coauthors (2008) propose that democratic longevity encourages parties - especially on the left - to outbid each other in making social spending promises.

This article uses a case study of Costa Rica to identify strategic and institutional factors that bind democracy with development. Analysis of this case provides three advantages for studying this relationship. First, Costa Rica is a case of relative development success. Between 1950 and 2000, the share of the population living in poverty fell from 50 to 20 percent. By the 1970s, the United Nations Development Program's Human Development Index placed Costa Rica in the category of an upper-middle-income country (PEDN 2003, 398). Since 1950, Costa Rica has tripled its GDP per capita (Maddison 2003). In a region that, on average, barely doubled its GDP per capita in 50 years, Costa Rica's performance is notable.

Second, Costa Rica is a case of political success. After the United States, Costa Rica has had the longest continuous period of democratic stability among nations with a presidential form of government. Standoffs between the executive and the legislature have never been the backdrop for a presidential assault on the political system. Since the late nineteenth century, Costa Ricans have participated in competitive elections that, by the mid-twentieth century, had become devoid of fraud and violence (Lehoucq and Molina 2002).

Third, the study of a "deviant" case, one that departs from the alltoo-common cycle of political instability and economic stagnation, sheds light on the factors that make a difference for development. More important, studies of positive cases permit researchers to identify the mechanisms that causally link the variables presumably associated in cross-national statistical studies.

This article focuses on the role that public policy plays in shaping the relationship between political competition and economic development. Public policy here means concerted efforts by public authorities to change behavior, be it economic, political, or social in orientation. Political competition refers to the struggle for state power that can, at extremes, be either violent or peaceful. And institutional arrangements consist of the constitutional and legal rules that assign the functions of government among the parts of government. To explore these relationships, this study uses the pioneering framework developed by Spiller et al. (2003) to measure the effectiveness of public policies, to compare them cross-nationally, and thus to understand why state action makes a difference for development. Thanks to the systematic study of the quality of public policies in 18 Latin American countries by Stein et al. (2005), we now know what country specialists suspected but could not demonstrate; namely, that Costa Rica benefits from superior public policies.

This article identifies a set of strategic and institutional factors that laid the basis for Costa Rica's policy success. It was actually a long-simmering political stalemate - one that could, if any party became politically marginalized, have turned violent - that prompted parties to develop an innovative constitutional design that would be the backdrop for above-average public policies. It was, furthermore, the 1949 Constitution that entrusted the central and decentralized sectors of government with different functions, a principle of constitutional design that embodies what Bruce Ackerman (2000) calls the new separation of powers. Health care, old age pensions, and monetary policy are among the policy areas whose budgets the executive does not propose and the legislature does not approve. This case study therefore suggests that political competition must approximate a stalemate - one in which no single political force dominates the political system - for politicians to delegate technocratic functions of the state to autonomous agencies, ones that empower the bureaucracy to develop long-term policy solutions to development challenges.

The first two sections of this article identify the central characteristics of economic, social, and political development, especially during the second half of the twentieth century. Then the quality of public policies is assessed, a discussion that permits ranking their effectiveness alongside the 18 countries of Latin America and, in a more limited fashion, alongside a sample of 77 countries. The article reviews "deep roots" arguments about public policy, which trace twentieth-century developments to colonial-era institutional arrangements, before examining patterns of political competition and institutional innovations. The final section discusses several implications of the Costa Rican case useful for the study of comparative political economy.

ECONOMIC AND SOCIAL DEVELOPMENTS: A BALANCE SHEET

It was not clear in the mid-twentieth century that Costa Rica would become an economic performer. Its GDP per capita, at US$1,963, was only slightly above the average for the 11 smallest economies in Latin America, US$1,711, in 1950 (in 1990 US$, PPP). Its GDP per capita actually had stagnated between 1920 and 1944 (an average annual per capita growth rate of -0.07 percent), a trend that augured well neither for future growth rates nor for the transformation of its highly competitive electoral system into a full-fledged democracy. Yet by the end of the twentieth century, the country's GDP per capita was nearly twice as high as that of the other small economies of Latin America. It ended the twentieth century with a GDP per capita three times higher than it had in 1950 (US$6,174) while the 11 smallest economies fell short of doubling their GDP per capita (US$3,359). Costa Rica, in other words, kept pace with the global mean (US$6,033) while the Latin American small economies did not (Maddison 2003).

Other indicators also underscore this transformation. Costa Rica went from exporting coffee and bananas - which accounted for threefourths of exports in I960- to exporting a wide variety of nontraditional agricultural products, light manufactures, and even sophisticated computer goods. By 1993, those two products accounted for only a third of all exports (Mesa-Lago 2000, 515) as a transnational coalition of exporters, state officials, and USAID officials promoted the development of nontraditional exports (Clark 1997). Between I960 and 1994, the economy was open: exports and imports averaged 66.4 percent of GDP. Even during the heyday of import substitution industrialization, between 1965 and 1982, exports to the Central American Common Market (CACM), which erected trade barriers with the rest of the world, constituted less than 18.57 percent of its international trade (both figures based on data in Mesa-Lago 2000, 518).

Costa Rica is also now a major tourist destination; foreign exchange from tourism equaled roughly a fifth of total export earnings by 2000 (PEDN 2004, 412). Economic transformation also led to important social structural transformations. In 1950, 63 percent of the economically active population (EAP) labored in agriculture. In 2000, just 20 percent of the EAP worked as agriculturalists (PEDN 2003, 398).

Important social indicators also display dramatic improvements between 1950 and 2000. The share of the population in poverty fell from 50 to 21 percent. Infant mortality rates fell from 90 to 10 per 1,000 live births. Life expectancy increased from 55.6 to 77.7 years. The literacy rate increased from 79, already high by regional standards in 1950 (Molina and Palmer 2004), to 95 percent of the population 12 years or older. The country's Human Development Index - a composite measure including GDP per capita, life expectancy, and educational attainment -rose from 0.55 in I960 to 0.79 in 2000 (all data are from PEDN 2003, 398). Costa Rica managed to combine economic growth with equitable development and to become a social democracy, one where the Gini coefficient fell from 0.50 to 0.43 between 1961 and 1988.1

THE POLITICAL TRAJECTORY

Costa Rica has had a competitive political system for more than one hundred years, though one not always free of violence and fraud. Along with Chile and Uruguay, it has one of the oldest democracies in the Western Hemisphere and in the world more generally. Peter H. Smith's classification of political systems in Latin America (2005) indicates that Costa Rica was a competitive political system for 98 years in the twentieth century (1900-2000). It spent 48 of those years as a full democracy; it was a competitive oligarchy for the preceding 45 years.2

Smith's figures are arguably the most valid regime classification for Latin America during the twentieth century, certainly more accurate than the Polity IV or other regime classifications (Bowman et al. 2006). They date full democracy from the late 1950s, when the losers of the 1948 civil war returned from exile and began to compete for elected offices once again. The one exception was the ban on antidemocratic parties that kept the Popular Vanguard Party (PVP), the Costa Rican Communist Party, out of politics until 1975, when the Supreme Court declared this ban unconstitutional. Since 1958, when the incumbent Party of National Liberation (PLN) reluctantly conceded defeat in the presidential elections, executives and legislators have come to power in concurrent and quadrennially scheduled elections renowned for their openness and fairness.

Smith's figures nevertheless understate the extent of democracy in twentieth-century Costa Rica. If, for Smith, a competitive oligarchy is a political system with fair but not free elections and restricted to less man half the population, then for a good many years, Costa Rica was a democracy and not a competitive oligarchy. Since the late nineteenth century, virtually all elections have been free, and most have been fair. Most important, suffrage rights were extensive, especially for an early twentieth-century society. Though the 1871 Constitution did create a gender as well as a property restriction on the franchise, all adult males were registered to vote since the late nineteenth century, largely because many met an ambiguously worded wealth requirement and competitive political races encouraged parties to enfranchise all adult males. Women received the right to vote in 1949. Since 1901, turnout has been 71 percent of the eligible adult population (based on figures in Molina 2005 for the 1901-49 period; for the period since 1953, see Zovatto 2005).

THE QUALITY OF PUBLIC POLICIES

A ranking of the quality of public policies in Latin America (roughly since the 1980s), based on international indexes and a survey of more than 150 regional experts, gives Costa Rica good marks on most policy dimensions (Stein et al. 2005). This assessment, based on a transaction cost framework, measures the ability of the policymaking process (PMP) to provide a predictable yet flexible set of rules, procedures, and norms conducive for public-regarding policies and useful for confronting unexpected developments and even exogenous shocks.

The principal conclusion of figure 1 is that Costa Rica does better - and occasionally much better - than the average of 18 Latin American countries. The ranking of the Inter-American Development Bank, furthermore, confirms what specialists on Costa Rica had suspected but had been hard pressed to demonstrate. The last set of columns in figure 1, which provide an average of the performance on four core features of public policies, ties public policies in Costa Rica with those in Brazil as the second-best in the region. The IADB ranking suggests that Brazil, Chile, and Uruguay rank alongside Costa Rica as the countries with the best-quality public policies in the region. International comparisons indicate that the quality of Costa Rica's public policies (and those in Brazil and Chile) are near the global median (Stein and Tommasi 2005); only Chile's rank favorably with the top countries in a sample of 77 countries.

Policy Flexibility

The IADB assessment ranks the flexibility of public policies in Costa Rica as the second most adaptable in the region, tying with Brazil and Uruguay. On balance, public policies have proven capable of accommodation to changing circumstances, though economic policymaking improved by learning from blunders as well as by foresight.

During the heyday of import substitution industrialization (ISI), a largely fixed exchange rate, an average of 7.1 colones to the U.S. dollar between I960 and 1980 (Mesa-Lago 2000, 508), worked well enough because an independent Central Bank controlled the money supply and the public debt to GDP ratio was an average of 23.6 percent between I96I and 1980 (Mesa-Lago 2000, 520). During three decades of continuous growth (from the 1950s through the 1970s), the Finance Ministry and the Central Bank maintained the right mix of policies to preserve macroeconomic stability, even though the central government ran an average annual fiscal deficit of -2.9 percent between 1966 and 1992 (Mesa-Lago 2000, 508). The Central Bank is an autonomous agency with a reputation for high-quality economic advice and for more than 50 years of intelligent handling of monetary and exchange rate policies, despite constraints imposed by chronic public sector deficits (Delgado 2000).

There was one occasion when economic policymaking proved insufficiently flexible to address a rapidly changing economic environment. In 1979 and 1980, the current accounts deficit shot up to -10.51 of percent of GDP from an average of -6.67 percent in the previous 18 years (see Mesa-Lago 2000, 513-14). Inflows of private capital fell to US$57 million in 1979 from an average of US$134 million in the previous five years, when official capital inflows could make up for the difference (González Vega 1984, 382). Yet President Rodrigo Carazo of the United Coalition (1978-82), who faced a hostile Assembly during his term, refused to readjust macroeconomic policy. Despite repeated warnings to the contrary from domestic and foreign economists since the late 1970s (for several of the dire forecasts, see Lizano 1999, 15-18), President Carazo refused to unfix the exchange rate. Rigid adherence to an outdated fixed exchange policy that led to a rapid conversion of colones to U.S. currency at artificially low rates, in the context of trade and fiscal deficits, prompted the public debt to increase from 56.2 to 125.2 percent of GDP between 1980 and 1981 (Mesa-Lago 2000, 520). In 1982, the government defaulted on its international debt.

Exchange rate policymaking has since become more flexible, thus preventing a repetition of the 1982 financial crisis. After the debt crisis forced the government to let the colón float, the Central Bank developed a crawling peg system in 1985 as a compromise between a fixed and a floating exchange rate. This system worked well enough because it made monetary action predictable, but it encouraged economic agents to increase prices and thus fueled inflation, because the crawling peg system meant that the prices of tradable goods would be increasing continuously. In newspapers, policy think tanks, seminars, and private meetings of the Central Bank between 2004 and 2006, economists considered alternative proposals, including a free float, and opted to establish a foreign exchange rate band regime, one that let the colón float with upper and lower limits (see, e.g., Lizano and López 2006). Since October 2006, the system has worked well enough, and the colón has tended to gravitate toward the floor price set by the Central Bank.

The inability to raise taxes or cut expenditures is a long-term policy rigidity, though this dimension of policymaking has witnessed improvements in recent years. Central state revenues remained at an average 12 percent of GDP between 1991 and 2003, while expenditures averaged 15 percent of GDP during this period. This led to a chronic fiscal deficit, on the order of an average 3.7 percent of GDP between 1984 and 2003 (Lizano 2005, 106).

That nonfinancial autonomous institutions retain a small budgetary surplus helps to reduce the overall size of the public sector deficit (PEDN 2003, 195, 412). Instead of floating bonds abroad, moreover, the central state sells bonds domestically, including to autonomous institutions like the Board of National Social Security (CCSS) and the Costa Rican Institute for Electricity (ICE). Though the public debt has fallen from close to 100 percent in. the mid-1980s to 55 percent by 2003, the cost of not raising taxes or rationalizing expenditures is high: an average of 32.53 percent of central state expenditures went to pay the interest on the public debt between 1984 and 2003 (Gutiérrez-Saxe 2003).

A large public debt has also contributed to an average annual inflation rate of 15 percent a year since 1984 (Lizano 2005, 106). Prudent management of a large fiscal deficit, however, has allowed the central state to run a small surplus. Official figures indicate that the government ran a surplus of 0.6 percent in 2007 and a slightly smaller one in 2008. Strong economic growth, better tax collection procedures (in 2007, tax receipts reached 15.5 percent of GDP), and a successful renegotiation of its public debt - which the Chinese government bought and then offered at a lower interest rate to the Costa Rican government - helped to improve what has been a far from ideal fiscal balance sheet in Costa Rica. In 2007, the public debt fell to 46 percent of GDP from an average 54 percent between 2005 and 2006 (PEDN 2008).

Policy Coherence

The IADB study (see Stein et al. 2005) concludes that Costa Rica's policies are the third most coherent in the region (see figure 1). Between the 1950s and 1982, ISI policies led to the creation of tariff walls to protect domestic industrialists, protection that was extended to the CACM starting in 1963. On the basis of a Law of Industry enacted in 1959, the Costa Rican state also began to subsidize credit and foreign exchange for domestic industrialists (González Vega and Céspedes 1993). In 1972, a PLN government created a privately held corporation (whose board consisted of the president and his ministers or the Council of Government) known as the Costa Rican Development Corporation (CODESA) to create a state-directed industrial sector. During this period, both social policy and industrial policy were part of a broader economic development strategy that gradually turned the domestic terms of trade against export agriculture.

Public policies began to shift in orientation after the 1982 debt debacle. With the collapse of the CACM in the mid-1980s (as a result of civil conflict in much of Central America), extended negotiations with domestic industrialists and exporters led to the gradual elimination of tariffs on most products during the 1990s (Clark 2001, 65-68). On the trade component of Eduardo Lora's structural reform index (2001), Costa Rica's score rose from 0.355 in 1985 to 0.902 in 1999· In a rare example of rapid change for Costa Rica, the trade subindex shot up to 0.752 by 1986. Average tariffs dropped from 53 percent 1985 to 3-3 percent by 1999.

Neoliberal governments sold off the inefficient firms in CODESA during the 1980s. By 1994, reform-oriented governments also had eliminated the price supports for basic grains belonging to the National Production Council (CNP), despite political protest from small and mediumsized corn and bean growers (Edelman 1999). Though the state continues to own three commercial banks, the Bank of Costa Rica, the National Bank of Costa Rica, and the Agricultural Credit Bank of Cartago (the fourth, the Anglo-Costa Rican Bank, was closed in 1994), financial reforms of the 1980s allowed private banks to accept foreign loans (Wilson 1984). An open economy became even more globalized with the development of tourism in the 1990s. When added together, exports, imports, and tourism-generated foreign exchange went from 56.9 percent of GDP between 1983 and 1986 to 96.7 percent between 1995 and 1998 (Lizano and Zúñiga 1999, 16).

The October 2007 referendum - the first ever in Costa Rica - that approved the Central American Free Trade Agreement (CAFTA) broke a political logjam, resulting in legislative approval of a package of reforms to open up strategic sectors of the economy, including insurance and telecommunications (Vargas Cullell 2008). Between 1985 and 1999, there was virtually no change in the privatization component of Lora's reform index, despite the privatization of CODESA and the advent of private banks. (The financial component of Lora's index registers an increase from 0.210 in 1985 to 0.727 in 1999.) Since then, the National Insurance Institute (INS) has no longer held a monopoly on insurance policies in the country. The telecommunications and electricity sectors have been gradually opened up to competition without, however, privatizing the ICE, the longtime monopoly provider of these services in the country.

Public Regardedness of Policies

The IADB regional assessment suggests that Costa Rica has the second most public-regarding policies in the region. Respectable levels of public investment between the 1950s and 1970s promoted the public regardedness of public policy. By the 1970s, public investment had reached more than 5 percent of GDP (and private sector investments had reached more than 10 percent).

This is a factor that sophisticated econometric models show is causally related to annual increases in GDP per capita of 4.3 percent between 1963 and 1973 (Rodriguez Clare et al. 2004). By 2003, virtually the entire population had access to public health care services and 60 percent of the economically active population was part of a public pension system (Martinez Franzoni 2004). By the 1970s, almost every household had access to electrical service and all communities had at least one public telephone. The autonomous agency responsible for water and sanitation provides these services to virtually the entire population.

As a result of these investments (and economic growth), the Gini coefficient fell below 0.45 by the late 1980s, as previously noted. Since the 1980s, the percentage of families living in poverty has fallen from 30 percent to less than 20 percent, even though chronic budget deficits reduced, by nearly half, the amount of public sector investment in social programs and the economy before and after 1982. Social policy has also proven to be flexible: though nearly half of all families fell below the poverty line with the 1982 economic crisis, policymakers redirected limited funds to programs to help the destitute (Jiménez et al. 2006).

Policy Stability

Only the stability of Costa Rica's policies, according to the IADB, is below the regional average. Changes in government, also according to the IADB, are somewhat more likely to drive policy choices than in the average Latin American country. Public policies are only the tenth most stable in the region, a characterization that arguably is inaccurate.

The basic policy framework has been largely invariant to political changes, despite a change in executive and legislative incumbents every four years. (A constitutional prohibition forbids consecutive re-election for the president and deputies). More conservative governments did not (or could not) roll back the growth of the public sector, even when leftof-center governments headed by the PLN started to expand the role of the state in the economy in the 1950s. None of the 73 constitutional amendments enacted between 1949 and August 2000, for example, radically changed the letter or the spirit of the 1949 charter (count based on Arias Ramirez 2000). Institutional stability is both testimony to a robust intertemporal agreement among key partisan and policy players and a safeguard against precipitous changes in policy.

COLONIAL ROOTS AND POLITICAL COMPETITION

Concluding that good policies have contributed to development success itself requires explaining why political parties and their leaders have reached the intertemporal agreements behind welfare-enhancing policies. One argument traces uncommon development performance to institutions created during the colonial period. Another emphasizes how unending political stalemates gradually made the struggle for power more democratic.

Deep Roots

The first argument about Costa Rican development emphasizes a history of colonial poverty and sparse settlement, one that recent comparative political economy studies suggest is a product of these deep roots (Acemoglu et al. 2001; Mahoney 2003). Like Chile and Uruguay, Costa Rica was on the margins of the Spanish Empire and contained a small indigenous population. This is very much the story that Costa Ricans tell about themselves (for critical overviews, see Booth 2008; Gudmundson 1986). It is a story that emphasizes the equalizing effects of poverty on social and political development. Settlement patterns of the distant past, according to this view, explain why a rural, egalitarian society developed in Costa Rica, and therefore why the country has had an enviable political economic trajectory.

There is more than a grain of truth to this portrait of Costa Rican social development. The scarcity of labor, along with the abundance of land, fueled the growth of a large class of small and medium-sized propertyholders who both cultivated coffee for export and participated in the emerging rural wage economy. Class struggle took the form of a series of conflicts between what is often labeled a "rural middle class" and the owners of coffee-exporting firms over the price paid at harvest time. The magnitude and frequency of rural protest began a long-term decline by the early 1930s, when small and medium-sized coffee growers settled their differences with coffee-exporting firms through the creation of a government agency to regulate the price of coffee. Though the number of landless peasants has steadily increased since the late nineteenth century, neither they nor urban-based artisans and workers ever became the basis of counterhegemonic social movements (Acuña Ortega and Molina 1991).

Nor have other cleavages destabilized the political system. The secularization of political authority in the nineteenth century did not trigger a longlasting conflict between opponents and proponents of an important role for the Roman Catholic Church in public affairs. Despite the presence of an Afro-Caribbean population in the Caribbean province of Limón, the racial homogeneity of most Costa Ricans in the four central provinces has prevented the development of ethnic polarization. Thus, social consensus dating from European settlement fueled the democratization and development of Costa Rican society.

This approach, however, remains an incomplete account of democratization and development, for several reasons. Deep roots may explain the presence or absence of broad-scale consequences, but such factors cannot explain why economic agents took advantage of limited resources (e.g., Costa Rica) or despoiled them (e.g., Argentina). Moreover, sparsely settled countries with small, indigenous populations, such as Honduras and Nicaragua, had political economic trajectories that began to diverge sharply from Costa Rica's by the second half of the twentieth century, when Costa Rica's GDP per capita began to diverge from that of its neighbors. Other factors of a less deterministic sort played pivotal roles in promoting development.

In addition, the deep roots approach cannot explain why political competition became less violent by the end of the nineteenth century. Until the twentieth century, most chief executives were selected in essentially noncompetitive (and indirect) elections, or assumed office as legal designates for brief periods. Seven chief executives in Costa Rica came to power through the force of arms, one of whom constructed a dictatorship that lasted nearly a dozen years. Two presidents had the misfortune of being summarily executed after having become the victims of coups. Only one chief executive was chosen in a competitive election.

Even as Costa Rican presidents increasingly were selected in fair and competitive elections, the struggle to hold or maintain control of the executive branch did not always remain peaceful. Since 1882, outgoing presidents have imposed their successors at least 6 different times. Opposition movements have launched 26 rebellions against central state authorities, 3 of which succeeded in installing a new president. Disputes regarding the results of the 1948 presidential elections became so intense that a faction of the opposition started a civil war, which caused between 1,000 and 1,300 deaths. Only in the aftermath of that 1948 war did the use of violence and fraud to capture state power decline (Lehoucq 1996).

Democratizing the Struggle for Power

A second approach points out that economic and political trajectories are the product of a large number of temporally linked choices; decisions to invest, whether for economic or political profit. Another, more fruitful area for inquiry therefore requires understanding why the struggle for power became more democratic by the late nineteenth century. The inability of any single political force to dominate the political system fueled democratization, a trend that correlates with an above-average development performance.

The 1871 Constitution, the predecessor of the 1949 charter, gave the executive the upper hand in election administration and therefore facilitated the executive's domination of national politics. Though Congress was constitutionally empowered to certify election results, it was the president who was responsible for assembling the electoral registry, organizing and naming most officials at polling stations, and tallying the vote. Far from balancing the executive and legislative branches of government, the classical theory of electoral governance encouraged the president to pack the legislature with supporters to minimize its ability to check the president's arbitrary use of state powers. These attributes transformed the race for the presidency into a contest whose rules were continually violated. If he was willing to risk attempts on his life, the president could manipulate electoral laws for partisan advantage and then ignore the handful of opponents who managed to obtain seats in Congress. Indeed, as the number of opposition legislators declined, the probability that the incumbent would become the target of coup attempts increased. Between 1882 and 1955, three incumbents managed to impose their successors on the presidency. During this period, opposition movements also launched 26 rebellions against central state authorities, 3 of which succeeded in installing a new president (Lehoucq 1996).

Political dynamics during the 1940s, the decade in which parties forged so many of the institutions of contemporary Costa Rica, were part of this long-term pattern. Political competition began to polarize once President Rafael Angel Calderón Guardia (1940-44) of the National Republican Party (PRN) deployed presidential powers to exclude his opponents from the political system. The election of Teodoro Picado to the presidency in 1944 was widely perceived as a product of his predecessor's machinations, even if analysis reveals that officially sponsored fraud was not the reason the opposition lost these elections (Lehoucq and Molina 2002, 190). Equally destabilizing was the marginalization of the opposition in Congress: between 1940 and 1944, the PRN and the PVP held approximately three-fourths of all legislative seats. By upsetting the delicate balance of power responsible for maintaining political stability, President Calderón Guardia provoked the formation of groups dedicated to the use of force to capture state power.

Opposition hardliners outdid each other in lambasting the efforts of pro- and antigovernment moderates to effect a compromise after the 1944 elections. José Figueres and others plotted to overthrow a government that had briefly exiled him in the early 1940s. Otilio Ulate of the

National Union Party used the pages of the Diario de Costa Rica, the newspaper he edited, to argue that compromise with the government -which he disparaged as caldero comunista - was a sellout of democratic principles. Though pro- and antiregime moderates did negotiate a major electoral reform - the 1946 Electoral Code, the cornerstone of existing electoral legislation in the country - which addressed many of the opposition's demands, hardliners managed to scuttle the efforts to stabilize political competition. The death of León Cortés, the undisputed leader of the opposition (and president 1936-40), in March 1946 deprived the moderates of their chief spokesman; no other leader with as large a popular following could bargain with the government. Once Calderón Guardia entered the race for the 1948 presidency in late 1946, the allegations of hardline opposition leaders became more credible. Having discredited opposition moderates, hardliners selected Ulate to become the opposition's presidential candidate. Political competition polarized as threats of civil war replaced compromise in the months before the fateful 1948 elections.

Preliminary results indicated that the opposition had won the 1948 elections. Once the semiautonomous National Electoral Tribunal declared Ulate the winner, the PRN-dominated Congress used its constitutional right to annul the election on March 1. The progovemment majority argued that the opposition-controlled Electoral Registry had deprived thousands of its followers of electoral identification cards necessary to vote, and thus of Calderón Guardia's victory. In the weeks that followed, efforts to negotiate a pact between government and opposition became irrelevant as a ragtag army led by Figueres won the twomonth civil war.

The government's defeat in the civil war and Calderón Guardia's flight into exile covered up the disunity in opposition ranks, a factor with profound consequences for the country's political development. Though the political (and more conservative) and the military (and more progressive) wings worked to defeat the PRN, their divergent aims became manifest during the civil war itself. The PUN wanted to elect Ulate to the presidency. Figueres and his followers wanted an economic transformation of the country. Paradoxically, the PRN's defeat did not end the strategic impasse between rival political parties; this continued as the political and military wings of the opposition split after the civil war.

Stalemate between the left and the right forced rival groups to compromise.3 In control of the only armed force left in the country, Figueres and the insurgents formed a junta that forced the PUN to wait 18 months (until December 1949) before Ulate became president. At the end of 1948, however, the junta lost the elections for a National Constituent Assembly. The PUN-dominated Constituent Assembly quickly moved to strip the junta of its legislative powers and to restrict its ability to issue emergency decrees. Conservatives also stymied progressive forces by rejecting the junta's draft constitution, which called for a dramatic expansion of the state's role in public affairs. In the end, the pro-junta forces in the Assembly got many of their proposals incorporated into the revised version of the 1871 Constitution; the Assembly ultimately approved them as part of a broader compromise that included its ratification of the revolutionary junta's decision to ban a standing army (Gardner 1971). The absence of the military not only liberated additional funds for human development (Bowman 2003) but eliminated the possibility of using armed forces to crush the opposition or to overthrow the government.

Competiveness, Inclusiveness, and the Median Voter

With time, politics became increasingly more competitive, with parties defeating each other by smaller margins. On average, between 1901 and 1944, candidates who made it to the presidency won 62.2 percent of the valid vote. During this period, they had an average margin over their nearest rival of 35.3 percent of the vote. Between 1953 and 2006, after an electoral tribunal was established, the average share of the vote that presidents obtained fell to 49.9 percent. Their margin of votes shrank by more than two-thirds, or 9-3 percent of the vote, during this period.

The qualified plurality system for electing presidents and the use of proportional representation (PR) to elect members of the Legislative Assembly encourage politicians to pursue policies favorable to the median voter. Dating from 1936, the qualified system of plurality rule awards the presidency to the candidate who obtains the most votes and at least 40 percent of the valid vote. Calculations suggest that the winner in all but 3 of the 14 presidential races held since 1953 has been the candidate who appealed most successfully to the median voter (Lehoucq 2004). The use of PR also produces a median deputy who echoes the preferences of the median voter. The use of proportional systems, as several analysts point out (Iversen 2005; Powell 2000), creates political systems with a center-left thrust.

The data in table 1 underscore the importance of electoral competition and the progressive thrust of the party system. Power has alternated regularly, thereby encouraging all parties to compete for voter support. Since 1953, only three incumbent parties have managed to win re-election, and with a new candidate, given the ban on the consecutive re-election of sitting presidents. Electoral returns also show that the left-of-center PLN, the programmatic option of less affluent voters, has been the most successful party in the post-civil war period. It has obtained the presidency 8 out of 13 times since 1953.

The strategic implications of competitive elections and an electoral system with a center-left thrust, especially one in which a low-income voter was the median voter, were (and are) enormous. Indeed, both factors illustrate the operation of the mechanisms that link democratic longevity with high social spending. In the context of an electoral system that privileges the relationship between left parties and the median voter, the PLN possessed a strategic advantage because its platform committed it to increasing social expenditures. Put on the defensive, its more conservative rivals could only commit to supporting (at most, slowing down) welfare state expansion; opposing or even reversing welfare state reforms would be a sure way to lose elections in a lower-income-biased electoral system.

The central prediction of this model is perfectly consistent with the growth of social programs in Costa Rica. Despite conservative attacks on the progressive governing coalition led by Calderón Guardia in the 1940s, opposition deputies did not block the creation of the CCSS in 1943 (Soto Valverde 1985). Nor did conservatives roll back any autonomous agencies (the principal route that social democrats used to institutionalize welfare reform gains), even if they created fewer of them in the postwar period than their progressive rivals, as we will see. As a result, the percentage of the population covered by health care rose from 15 to 86.2 percent between I960 and 1993 (Mesa-Lago 2000, 648), and levels of inequality approximated levels found in advanced welfare states. The post-tax and transfer Gini coefficient was 0.313 in 1990, even after the severe expenditure restrictions in the aftermath of the 1982 debt default (PEDN 2003, 98). 4 Not surprisingly, parties of the left as well as of the right carefully assessed the effects of health care expansion on their electoral fortunes, as James W. McGuire (2010) shows, in what remains an intensely competitive party system. In the struggle to win office, elected officials rationally supported the growth of public investment in education, health, and physical infrastructure.5

THE NEW SEPARATION OF POWERS

The inability of any single political party to dominate Costa Rican society turns out to be crucial not only for the democratization of the political system, but also for notable public policies and improvement in the country's development performance. Deadlock also leads to the construction of a political system that assigns the more political and the more technical functions to different parts of government. Unlike the checks and balances (or Madisonian) version of the separation of powers, the new separation of powers does not compel the different parts of government to share responsibility over all or even many governmental functions. The 1949 Constitution instead promotes the isolation of key bureaucratic responsibilities from the vicissitudes of partisan politics. By fragmenting state power, the constitution promotes a consensual style of policymaking that, in tandem with regularly held elections, keeps elected officials focused on the median voter.

In the budget policy area - the central state's core lawmaking responsibility - constitutional statutes and laws create "fast track" procedures that deprive the elected branches of government of the ability to hold the annual budget approval hostage in interbranch conflicts. Based on estimates of central government revenues from the Department of the Treasury (a semiautonomous body that the president appoints for a six-year term), the president and his ministers (especially the minister of public finance) prepare a budget that, according to the constitution, must be sent to the Assembly by September 1 every year (the budget year is the calendar year). The legislature then has 90 days to amend and approve it, a proposal that the president must accept because the constitution explicitly denies the president the right to veto the ordinary budget. Since 1949, the executive and the legislature have issued a new budget in a timely fashion.

That the elected branches of government are isolated from electoral administration and adjudication is the best example of the functional specialization at the core of the Costa Rican constitutional tradition. Constituent Assembly delegates built on the 1946 Electoral Code to create the Supreme Tribunal of Elections (TSE). Seeking to depoliticize electoral governance and prevent the outbreak of civil conflict, institutional reformers in the second half of the 1940s made the electoral tribunal one of the first in the region to be solely responsible for certifying election results (Lehoucq 2002). They thereby scrapped a central tenet of classical constitutional theory, which had entrusted the executive with the responsibility of organizing elections and had delegated the function of certifying their results to the legislative branch of government. Made a branch of government equal to the other three in 1975, the TSE is solely responsible for calling elections, appointing members of all polling stations, and interpreting legal and constitutional provisions relating to electoral matters.

Creating the decentralized sector or the autonomous institutions was also part of the constitutional convention's effort to remove as many functions of the modern state as possible from the purview of the elected branches of government. As of 2004, there were more than 55 autonomous institutions in Costa Rica, 12 of which were created before 1950 (Alfaro Redondo 2004). Rodrigo Fació, a social democratic delegate at the 1949 Constituent Assembly (and a distinguished author), argued before the Assembly's conservative majority that, in his words, "constitutionalizing" the autonomy of certain institutions was simply recognizing the reality that state reformers had gradually created these islands of technical competence to insulate core governmental functions from the passions of electoral politics (Castro Vega 2003, 197-98).

Perhaps the most prominent of these institutions were the CCSS and the University of Costa Rica, both founded in 1943. In 1949, the Assembly ratified the revolutionary junta's decision to create, among other bodies, an autonomous Central Bank (Facio became its first director) and the ICE. In later years, elected officials created the Mixed Institute of Social Assistance (1971), the National Institute of Housing and Urban Issues (1954), and the National Ward for the Blind (1957).

In accounts of welfare state development that stress the importance of partisan differences, the PLN was responsible for the creation of most decentralized institutions. It created 67 percent (or 29) of the 43 autonomous institutions established between 1953 and 2004, when most decentralized agencies were created. Put differently, the PLN erected an average of 1.32 autonomous institutions for each of the 29 years it controlled the executive branch during this 51-year period. Its more conservative rivals, in contrast, established 33 percent of these agencies, or roughly an average of 0.55 decentralized agencies for every year during the 22 years they held the presidency. Programmatic differences between the PLN and its more conservative rivals perhaps even help to explain why the PLN won more elections than its conservative rivals: voters, especially lower-income voters, stuck with the party because it delivered on its policy promises to expand the welfare state. That the PLN's opponents also created autonomous institutions (and never closed or underfunded one), however, upholds the argument that every party faced incentives to maintain and even expand social policy objectives.

Several Supreme Court rulings have upheld the constitution's grant of institutional independence to the institutions of the decentralized sector by reaffirming their budgetary autonomy (Asamblea Legislativa 1977, 490-91). Their budgets are not proposed by the executive or approved by the legislature. Only the Comptroller General, an auxiliary institution (e.g., a semiautonomous agency) of the Assembly, audits their budgets. By the 1970s, the decentralized sector was spending 15 percent of GDP, some 6 percent less than the central government (Vargas Madrigal 1995). By the mid-1980s, the consolidated public sector - the central and decentralized sectors - spent approximately 35 percent of GDP, making the Costa Rican state as large, in relative terms, as that of the average state belonging to the Organization of Economic Cooperation and Development (OECD) (Straface and Vargas Cullell 2008, 98).6

That Costa Rica was able to improve performance on a host of economic and social indicators while establishing autonomous institutions suggests that functional specialization was conducive to the development of the stable, flexible, and public-regarding public policies for which the country is well known. A comparatively well regarded bureaucracy is another indicator of the overall strength of the country's public sector. The Inter-American Development Bank's Network on Public Policy Management and Transparency, for example, gives the Costa Rican civil service 58 out of a potential 100 points on its Bureaucratic Merit Index, the third-best ranking in the region after Brazil (88 points) and Chile (6l points) (Stein et al. 2005, 68).

CONCLUSIONS AND IMPLICATIONS

The case study of Costa Rica upholds the claim that democracy foments development because competitive elections do reward parties for listening to voters interested in welfare-enhancing programs. In other words, it clarifies the mechanisms behind relationships detected by cross-national statistical studies. More important, though, this case study uncovers new ways to think about central political economic relationships - ways that emphasize the importance of institutional design.

There is thus evidence for Keefer's claim (2007) that programmatic parties make for better public policy and therefore for more development. As the struggle for state power in Costa Rica became more institutionalized, parties shifted from just being concerned with sharing the spoils of office to developing platforms to appeal to large numbers of voters. The electoral success of the PLN (since the 1950s) stems from its ability to make commitments of interest to large numbers of voters and to act on them every time it returns to office. It is the virtuous circle between electoral competition and government responsiveness - or accountability - that allows a democracy to contribute to development, a process that takes time to develop, as Gerring et al. (2005) point out. In the context of a poor and rural society, the struggle for votes not only encouraged the formation of a successful left party, but also generated incentives for all parties to furnish a large array of public services and therefore to placate both the needs of the median voter and of electoral majorities (e.g., Huber et al. 2008). And it echoed the finding from the comparative electoral systems research (e.g., Powell 2000) and political economy literature (Iversen 2005) that a proportional electoral system also helps channel political competition in a center-left direction that fuels the growth of the welfare state.

This article also identifies two additional mechanisms present in Costa Rica's political economic evolution that theoretical or statistical studies should find helpful. First, this study suggests that nondecisive electoral results promote the consolidation of democracy and also generate the positive externalities for development. An enduring feature of political - and not just electoral -

competition in Costa Rica has been the absence of a hegemonic player; that is, a party that wins a disproportionally large share of the vote or that otherwise monopolizes state power. As elections have become more competitive and the use of violence has failed to produce stable dictatorships, parties have invested their time and effort in building electoral majorities and reforming institutions.

Second, recurring political stalemates generate fair or neutral institutions. If parties expect control over the state to rotate between different parties over the long run, they will shift their attention to creating fair ways of counting votes and to establishing an inclusive electoral system. This case study shows that parties delegated these functions of government to nonpartisan institutions, ones that make the Costa Rican political system resemble Bruce Ackerman's "new separation of powers." By separating the political from the more technical functions of government, the 1949 Constitution created an independent bureaucracy, isolated from the partisanship of the elected branches of government, one capable of creating the physical and human capital improvements that fuel economic growth. The postwar political system thereby encouraged public officials to create public policies that were superior by regional standards and impressive by global standards.

The construction of a political system with an institutionally protected core of technocrats designing and implementing superior public policies was neither conflict-free nor inevitable. Making elections fair, establishing an electoral tribunal, and creating autonomous agencies was not solely the result of peaceful negotiations between incumbents and their opponents. The threat of losing an armed conflict encouraged each side to compromise and to reform institutional arrangements that made political life more democratic. Armed struggle, however, was not the prelude to dictatorship; it instead served to forestall the concentration of power and thus to reinforce commitments to democratic institutions. The data on the increasing closeness of elections indeed indicate that with time, the results of electoral competition have come to reflect the political impasse of society at large.

NOTES

I am particularly indebted to Jorge Vargas Cullell and Miguel Gutiérrez for their comments as well as conversations, over the years, about the Costa Rican political system. Any analyst of Costa Rican political economy must also express a debt of gratitude to the Programa del Estado de la Nación and the Academia de Centroamérica for their research, data, and websites. I am also grateful for the comments by Evelyne Huber, Stephan Klasen, Homi Kharas, Ernesto Stein, Mariano Tommasi, and Kurt Weyland on earlier versions of this study. I acknowledge the useful remarks made by the three anonymous reviewers on this manuscript and especially the judicious advice of this journal's editor, William C. Smith. While these and other individuals helped me strengthen my arguments, I alone am responsible for remaining shortcomings.

1. These Gini coefficients are for pretax family income (Mesa-Lago 2000, 524). On the development of social democracy in the Third World, see Sandbrook et al. 2007.

2. A full democracy is a political system in which virtually all political forces can compete for elected offices and where the entire adult population is entitled to vote. In a competitive oligarchy, parties field candidates for elected office in fair but not free elections, and the franchise is restricted.

3. Jacobo Shifter (1978) insightfully makes a similar point, though he concentrates on the class character of the standoff between some of the winners (what can be called the progressives) and the losers (the PRN) of the civil war. He emphasizes the class consequences of the differences between Figueres's middle-class supporters and Calderón Guardia's working-class supporters.

4. This is the only place in the text that provides post-tax and transfer Gini coefficients, which are one of the standard measures of the redistributional capacity of public expenditures. Previous references to Gini coefficients are based on "autonomous" income; that is, income before factoring in the effect of taxes and government programs. Data on income distribution are not always readily available, and data on pre- and post-tax and transfer income is even harder to obtain. Post-tax and transfer income data require carefully designed surveys, which do not exist before the 1990s for Costa Rica.

5. A competitive and responsive electoral system, in fact, has been able to absorb the challenge posed by increasing disenchantment with the strong twoparty system that emerged in the 1980s, one that was ill-equipped to address the concerns of a more educated and more urban population by the late 1990s (Sánchez 2007). For an analysis of these trends, along with a discussion of the jailing of Rafael Angel Calderón Fournier (1994-98) and Miguel Angel Rodriguez (1998-2002) in 2004 on charges of influence peddling and corruption, see Lehoucq 2005; the former president's reply to that article (Rodríguez Echeverría 2006); and the reaction to his response (Lehoucq 2006).

6. One of the anonymous reviewers helped clarify the points made in this paragraph and reminded me to point out that no one knows the exact size of the consolidated public sector because its accounts do not permit straightforward calculation of an overall estimate of its size.

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