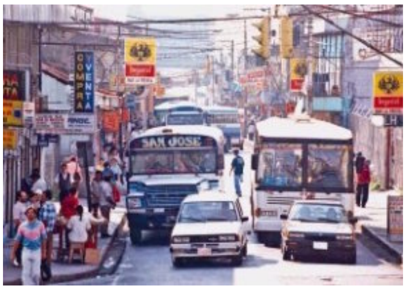
Más o Menos: Ticos Cheerfully Eke By

By Kerry Pechter *Wed, Feb 1, 2017*

With 4.8 million people, Costa Rica's problems are comparable to those of a big U.S. city, like Los Angeles or Chicago. Yet the tensions of a large U.S. city seem absent here, as the famously warm and friendly 'Ticos' go about their business. (Photo: Traffic in San Jose)



Many in the U.S. are still leery of European-style social democracy, with its taxpayer-funded universal medical care and mandatory, centrally managed workplace savings programs. But modern Costa Rica embraced the social democratic model almost 70 years ago, after its civil war, and never turned back.

To say that the system here works flawlessly, however, or that it is financially sound, would be an exaggeration.

On the one hand, Costa Ricans, unlike North Americans, can take basic medical care for granted. "When Obamacare was introduced, I tried to explain the health care situation in the U.S. to my maid," said Alberto Trejos, dean of the MBA program at INCAE, a San Jose business school created in the early 1960s with help from Harvard and U.S. foreign aid. "She didn't understand it. She's an immigrant from Nicaragua, and she still couldn't imagine that someone wouldn't be able to a doctor if they needed to."

On the other hand, Costa Ricans who want the best, most prompt health care need to buy supplemental insurance—or simply pay doctors and hospitals in cash. And only a small percentage of Costa Ricans can afford to do that.

A congenial academic of about 50 who earned his economics Ph.D. at Penn and once taught at Northwestern University, Trejos (below) was Minister of Trade during the presidency of Abel Pacheco de la Espriella (2002-2006). Among other things, he helped negotiate the

Central American Free Trade Agreement, or CAFTA.

With its 4.8 million people, Costa Rica's economic issues are comparable to those of a big U.S. city, like Los Angeles or Chicago: Fiscal debt and deficits; aggressive public sector unions with pension issues; traffic jams and a creaky intra-city rail line; uneven access to health care; a neglected African-American region (the Caribbean coast); and drugs (Costa Rican authorities interdict many tons of Colombian cocaine each year, which arrives here by boat for transfer to Mexico-bound planes). Yet the tensions of a large U.S. city seem absent here, as the famously friendly "Ticos" enjoy what some here like to call "pura vida," or pure life.

Trejos, who runs an econometric consultancy and a business consultancy here in addition to his academic work, discussed a few of these issues with *RIJ*, in no particular order, over glasses of iced lassi at a bistro in San Jose's fashionable Escazu suburb.

'Intel Inside'–or not

Costa Rica still exports a lot of coffee and bananas, but its economy today depends on agriculture for only 6% of GDP. It's mainly a service economy, with tourism as an important engine. The creation of tax-advantaged free trade zones and the passage of the North American Free Trade Agreement have brought foreign investment over the past two decades.

U.S. electronics companies like Hewlett Packard and Intel, surgical supply firms like Boston Scientific and Hospira (a unit of Pfizer), and retailers, especially Walmart, employ thousands of Costa Ricans. In 2012, according to news reports, call centers employed as many as 16,000 Costa Ricans. Still, an estimated half of what Costa Ricans earn is off the books, in the "informal" economy, and therefore out of reach of the taxes that fund universal health care and pensions.

Intel’s 20-year presence in Costa Rica illustrates the good news/bad news contradictions of globalization, an issue that figured prominently in the recent U.S. election. In 1997, the giant chipmaker built a large microprocessor plant in Costa Rica. At the time, East Asia’s gravitational pull on U.S. manufacturers hadn’t yet gathered critical mass, and American companies were still looking to the south for low-cost labor and tax concessions.

Putting a big Intel facility in Costa Rica’s tax-free Export Promotion Zone was, as one Intel executive said at the time, “like putting a whale in a swimming pool.” Intel’s investment of $300 million over two years (and a total commitment of $600 million) was equal to 2.1% to Costa Rica’s GDP. (*The Economist* magazine estimated the value of Intel’s investment here at $2 billion.)

Intel was a boon to Costa Rica for 17 solid years. Intel built two facilities outside San Jose: one for high-tech chip assembly and testing (where raw silicon wafers are diced, infused with circuitry and tested) and another for research and design. A network of local suppliers flourished. A Bank of America call center arrived. Largely because of Intel, Costa Rica GDP jumped to 8% in 1998 and 1999. Intel alone accounted for about 20% of the country’s exports.

Then, in April 2014, Intel said it would move 1,500 manufacturing workers from Costa Rica to Malaysia, China and Vietnam, attracted by lower costs in Asia. Intel still employs about 1,200 research and design workers in Costa Rica. (Only days before Intel’s announcement, Costa Ricans had elected a center-left president, but Trejos rejects the idea that that played any role in the chipmaker’s decision.)

To focus on the Intel episode, Trejos suggested, is to sell Costa Rica short. “We have the highest fraction of our territory as environmentally protected land in the world,” he told me. “All of our electricity is generated from renewable resources. In terms of biodiversity we are bigger than Russia. We doubled the forest cover of the nation between 1987 and 2015, a time where most countries lost forest cover. We are the oldest democracy in the developing world, and one of the ten oldest in the whole world. We have been without armed forces, unilaterally disarming, for 68 years.”

Canadian-style finance

Dollars, colones and merchandise easily change hands in Costa Rica. If you walk down the busy Avenida Central in the San Pedro Montes de Oca suburb of San Jose, you pass several bank branches and ATM sites. If you run out of colones, you can pay almost anybody in U.S.

dollars without being badly cheated on the exchange rate. All but the smallest shops and restaurants take major debit and credit cards. Tips are typically included in restaurant bills.

The government owns four of the biggest banks here: Bancredito, Banco Popular, Banco de Costa Rica and Banco National. These commercial banks, along with three private banks, make most of the collateralized loans on which the country's business runs. "The financial market is bank-controlled and highly-regulated. It's old-fashioned financial services, similar to Canada's. There's very little funky finance here," Trejos said.

No major U.S. banks currently compete in this market. The private banks include BAC and Davivienda, both from Colombia, Scotiabank, a $900 billion Canadian bank that bought Citigroup's banking operations here a year ago, and Cathay Bank, a $13 billion Los Angeles-based U.S. bank. BAC and Banc Lafise, two Nicaraguan banks, also operate here. Costa Rica has twice resisted pressure from U.S. banks to sell its banking system: once in 1948, when the banks were first nationalized, and again in 1967. Private banks were eventually permitted and now comprise about 30% of the banking industry.

'A different view of life'

At a time when the U.S. Congress is preparing to repeal the Affordable Care Act (Obamacare) and replace it with something more market-driven, Costa Rica is proud of its national health service. Officially, Ticos pay about 15% of their salaries toward universal health care. In other words, a relatively few highly paid workers contribute a lot more than the poor for access to the same medical services, thus subsidizing the nation's health care system for all.

In practice, Costa Rica's widely admired medical system (one of the reasons North Americans choose to retire here) has two and perhaps three tiers. About 40% of Costa Ricans also have private health insurance, said Trejos, a physician's son. Some doctors work full-time for the national health service while others, like Trejos' family doctor, divide their time between public and private service. "It's a different view of life," Trejos said, referring to most doctors' sense of obligation to serve the public.

Bottomless potholes

Costa Rica avoided the extremes of the Great Financial Crisis (though zombie condominium towers and resorts on the Pacific Coast testify to a period of speculative real estate investment), but the government struggles—more successfully than some countries, worse than in others—to cover the cost of basic services.

The most obvious and exasperating problem in Costa Rica is the lack of good transportation infrastructure. Not long ago, the rate of auto ownership jumped from 14% of households to 37% without "a single new road being built," Trejos said. The country's roads are improving but its "huecos," or potholes, remain large, numerous and legendary.

A light rail line runs the breadth of the city, but many cars are outdated and decrepit—they are literally used cars, purchased second-hand by Costa Rica from Spain several years ago—and the rail service seems to do nothing to relieve rush-hour congestion. Lax zoning regulation has allowed housing to sprawl over the hills and into the arroyos that surround San Jose. This rugged topography, a thin mask of the volcanic activity underneath, resists easy road-building and complicates the delivery of essential services.

The biggest public controversy and frustration in Costa Rica today is the battle over public sector pensions. A powerful coalition of unions represent the public employees, and they have reportedly arranged to pay themselves, via the nation's budget, a variety of bonuses and benefits that private-sector Costa Ricans don't have.

"You might see a math professor, who had a final salary of $8,000 a month, retiring on $23,000 a month," Trejos said by way of illustration. As of the end of January, the unions appeared to have the upper hand. A recent news story in *The Tico Times* said that union leaders had just called off a national strike, scheduled for February 6, but only after the legislature tabled a bill that would have eliminated their perks.

Uncontrolled spending on public sector pensions, and other sources of fiscal imbalances, such as tax evasion, now plague Costa Rica, whose financial management has oscillated between pro-business and populist administrations. In January, Fitch Ratings downgraded the country's long-term bonds to BB from BB+.

Fitch also downgraded the long-term issuer default ratings of four state-owned and two private Costa Rican banks. These latest developments mark the return of difficulties that Costa Ricans thought they had resolved. "I'm less optimistic than I was five years ago," Trejos said. "Ten years ago we didn't think that public finances would be broken again. Problems that we had a few years ago, that we thought were solved, are creeping up again."