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LADB Staff

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by LADB Staff
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President Oscar Arias has raised Plan Escudo to shield Costa Rica and its people from the global economic crash. Arias announced the plan after two straight quarters of contraction, earning him harsh criticism for a late response. In December 2008, economic activity declined further than in any month in the past 17 years since the Central Bank began calculating the economic-activity index. Production fell 3.3% year-on-year (y/y). Usually a star performer compared with the rest of Central America, the Caribbean, and much of South America, Costa Rica's current plunge has local economists arguing about whether the country is in recession, but the point has been reached where that is just a discussion of semantics. Wherever one looks, there is curtailment. Industrial production was off 16.7%, hotel occupancy off 5.5%. Trade, agriculture, banking, construction, are all reported down, and there is at least some suggestion that official figures do not reflect the full effect of the situation. According to Latin America Monitor, the Camara Nacional de Turismo de Costa Rica (CANATUR) has projected empty rooms and falling revenues to come. The business publication reported anecdotal findings that hotel occupancy was down by 25% y/y in the last quarter of 2008, with expectations of further worsening. Tourism is estimated to have brought in about US$2 billion in 2008. That would amount to 6.5% of GDP. Unemployment is up, but only anecdotally. Official figures have not been released since last July when, at 4.9%, the rate was among the lowest in Latin America. President of the Union Nacional de Empleados de la Caja del Seguro Social (UNDECA) Luis Chavarria has estimated, however, that the number of people who have lost their jobs between November and January is 25,000. Arias is also drawing criticism for his refusal to be upbeat about the economic outlook as he sees it. As in other countries, there is a belief that a president can cheerlead the country to better times, but Arias is not a believer. He said at the unveiling of his plan, "The coming months will be hard. Poverty and unemployment will probably increase. There will be less tourism; exports will decrease, as will foreign direct investment (FDI). People accuse me of being a pessimist, but pessimism is often just well-informed optimism." Henry Vargas of the Central Bank is not on board with unhappy talk. "It could cause an overreaction; firms could stop producing or investing because they worry that they won't be able to sell their products," he said. Treasury Minister Guillermo Zuniga seemed less concerned about causing production stoppages and freely told reporters in mid-February, before figures for 2009 were available, that the December numbers were very bad, the trend was bad, and he said, "I don't have many reasons to think that this tendency is going to turn around in January." Arias gathered all his ministers, institution directors, and representatives of diverse political and social sectors around him to announce Plan Escudo. It is a 29-point plan divided into four foci help for families, measures for workers, proposals for business, and a program for the financial sector. Some of the points are not new, but rather beefed-up editions of programs already under way. The Advancemos program that provides money to families to keep their children in school is one example (see NotiCen, 2008-90-18). There will also be new social spending with a 15% increase in pensions and an increase in low-income housing subsidies to about US$9,500 through the Banco Hipotecario para la Vivienda (BANHVI). Along with that, the government has asked banks to drop rates on existing mortgages by 2% for mortgages of US$95,000 or less. Private citizens will also have their Internet connection and telephone rates reduced significantly. The state-run telecom company Instituto Costarricense

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de Electricidad (ICE) will drop Internet rates by between 24% and 38% and double the speed. At the same time, it will reduce phone bills by 20%. At the new rate, subscribers can call anywhere in the country for about US$0.01/min. ICE was forced to lose its monopoly under provisions of the Central America Free Trade Agreement (CAFTA). Now incoming competitors will have to deal with the new rates and might do so by charging ICE with unfair pricing. As recently as December, the new telecom regulatory agency prevented ICE from increasing prices by 10%. People who lose their jobs will continue to have health coverage from the Caja del Seguro Social (CSS), extended from three to six months of unemployment. The national school lunch program will expand to feed students on the weekend, and they can even bring two family members along. Businesses will see some US$400 million in credit coming on line through the development-bank system, and the agriculture sector will benefit from US$28 million through a Plan Nacional de Alimentos (National Food Plan). The financial sector will see new money, US$117.5 million, flowing into banks to stimulate credit, if the government can get the legislature to approve a US$500 million Inter-American Development Bank (IDB) loan. Arias knows his plan is not going to extricate Costa Rica from the muck that engulfs the world, and he has acknowledged the fact. "Nothing in this plan is perfect, but I assure you that it is all necessary. The measures that are in process have started to bear fruit, but we must act quickly to protect the most vulnerable sectors," he told listeners at the unveiling. Plenty of criticism But the acknowledgement of his plan's imperfections has not saved him from a popular drubbing. The Campana Regional contra la Flexibilidad Laboral en Costa Rica stepped up to accuse Arias of taking advantage of the situation to impose a rollback of worker rights. The organization also says Arias is lying when he blames the economic crisis on the developed countries, or when he says, "We did not provoke this crisis." Although in existence only since 2004, the organization carries a 20-year-old brief against Arias for going along when neoliberalism was sweeping the region and the agricultural sector, then a domestic grain producer, was wiped out. Now, say this and other labor organizations, Arias is trying to impose some very damaging work rules on the labor force in the lee of Plan Escudo. The "flexibility" Arias wants would allow employers to force workers into 12-hour days and to "annualize" working hours, so that limits on hours would be reckoned over a year's time, instead of days, weeks, or months. So, says a campaign document, employers would be able to tailor the number of hours worked to production schedules rather than to the needs of workers. Were this a simple difference of opinion, it would not be worth the mention. But one of the campaign's members, the Asociacion Nacional de Empleados Publicos y Privados (ANEP), is the biggest union in this country long noted for its well-organized and effective labor sector. ANEP can, and has, shut down the country's productive capacity at will. ANEP has defined "labor flexibility" in educational material for its members as the "tendency of national or international business sectors to eliminate the regulations of the labor market that are seen as obstacles for the competitiveness and development of the companies. It seeks greater liberty for the companies in the forms of contracting and deploying the labor force according to their needs." The material makes the point that what the companies see as obstacles "are precisely the labor rights acquired and portrayed in national laws (Constitution, Labor Code). All the regulations that favor and protect the rights of workers are seen as obstacles for the profits of the companies. That is why they seek to eliminate them." It is also one of the reasons why Plan Escudo could quickly turn counterproductive. Arias' use of the notion of solidarity to defeat labor law has moved into international discourse as labor advocates have picked up on the notion of solidarity as sacrifice, where the working class absorbs the consequences of the global crash. Labor organizations of many stripes are returning to theory to divine the course ahead. Arias counters the criticism saying, "We cannot reject a priori a debate that other nations have long ago resolved." Battling a return to protectionism Market

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gospel of only a year ago has become anathema. Where trade agreements were the only game in town, fears of protectionism are looming just as Costa Rica has put all its eggs in the free-trade basket. It was one of fifteen similarly dependent countries to sign an appeal against protectionism as a response to conditions at the World Trade Organization (WTO) in Geneva, Switzerland. The signatory countries fear that nations will turn to misuse of international rules to safeguard their flagging industries. "Given the unprecedented economic crisis and potential rise in protectionist sentiment, WTO members need to be aware of a possible increase in anti-dumping actions and to void the unwarranted use of such measures," said the group of nations that have taken to calling themselves the "anti-dumping friends." Costa Rica joined Brazil, Chile, Colombia, Hong Kong, Israel, Japan, Mexico, Norway, Singapore, Switzerland, and Thailand. They were aiming primarily at France and the US, both of which have been heard to murmur "protection" recently. French President Nicolas Sarkozy has spoken of government help to keep its auto factories at home, and the US frightened them with a "Buy American" clause in its stimulus plan. Costa Rica appears to have joined good company in its fight against protectionism. The WTO director has vowed to press the membership and the G-20, to which France, the US, and several of the 15 belong, on this point at the upcoming meetings in London in April. Director-General Pascual Lamy reminded the world of its commitments to reject protectionism and said, "We know, too, that the credibility of G-20 on trade cannot be separated from decisions they must make in other areas of their agenda, including coordination of stimulus packages and the foundation of a proper regulation of international finance to try and avoid future meltdowns." Lamy noted that WTO rules helped to soften the Buy American provision so that it now mandates that the measures be done in a manner consistent with the trade pacts the US has in force. Costa Rica, along with other countries with a stake in agriculture, might have been heartened by President Barack Obama's mention in his Feb. 24 speech to a joint session of Congress that he would seek to end "direct payments to large agribusinesses that don't need them." These subsidies have been a tool in these companies' ability to crush agriculture in small countries like those of Central America (see NotiCen, 2006-09-14).

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