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Recent Development of the Labor Market in Costa Rica

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Introduction

This report aims to provide the reader with a brief portrait of the labor market in Costa Rica as well as a general overview of its recent evolution. In order to accomplish these goals, the report is divided into four sections. The first section analyzes the employment and unemployment situation in the country, specifically which sectors or groups of society have most benefited and been harmed in recent years. The second part indicates differences between the poor and non-poor households, specifying the kinds of labor activities in which members of these households are engaged. Thirdly, this report briefly presents some of the changes that have taken place in the structure of the labor market. And, finally, a brief reflection regarding the labor policies Costa Rica has adopted.

1. Employment Situation in Costa Rica

Costa Rica stands out as one of the Latin American countries with the lowest and most stable rates of open unemployment. From 1982 to 1990 the tendency was towards a lowering of unemployment rates; however, this indicator had two periods of growth (1993-1996; 2001-2002) since the beginning of the decade of the 1990s. (See Table 1). Not surprisingly, these fluctuations are directly related to the acceleration and deceleration of the national economy.

Table 1
Costa Rica: Rates of Open Unemployment by Sex. 1990-2002 (%)

Years	National Total	Men	Women
1990	4,6	4,2	5,9
1991	5,5	4,8	7,4
1992	4,1	3,5	5,4
1993	4,1	3,6	5,3
1994	4,2	3,5	5,8
1995	5,2	4,6	6,5
1996	6,2	5,3	8,3
1997	5,7	4,9	7,5
1998	5,6	4,4	8
1999	6	4,9	8,2
2000	5,19	4,4	6,8
2001	6,07	5,2	7,6
2002	6,4	5,6	7,9

Source: Multi-Purpose Survey of Homes. INEC

In other words, we can see that the periods of economic growth have been characterized by a generation of employment and a consequent reduction of the rate of unemployment, while the periods of recession have coincided with a contraction of the labor market. The latter was accomplished in part due to the fact that the level of open unemployment has grown gradually in spite of improvement in the economic outlook. One possible explanation for this growth in unemployment in recent years is that the volume of employment has not kept up with the population, specifically the Economically Active Population.

Unemployment affects women more intensely, even though the gradual growth of the rates are similar for both sexes. We should keep in mind that the disparity between the rates of men and women has been oscillating between 1990 and 2002, with a tendency towards reduction since 1998, particularly in the urban zone.¹ While it's true that the situation between men and women is not the best in the region, it is at least more stable or less volatile than in other countries. Still, it is important to note that for the 12-24 year old age group the rate of unemployment is triple that of the 25-40 year olds. (14.2 and 4.3, respectively). This is due primarily to the fact that employment availability has not been sufficient to keep up with the rate of growth of the younger age group.

Table2
Costa Rica: Rates of Invisible and Visible Unemployment; Underemployment and Underutilization. (1)
1990-2002

Years	Rate of Invisible Unemployment			Rate of Visible Employment			Rate of Underemployment			Rate of Underutilization
	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
1990	2,7	2,9	2,1	3,4	3	4,5	6,1	5,9	6,6	10,7
1991	2,6	3,1	1,8	4	3,5	5,1	6,6	6,6	6,9	12,1
1992	3,6	4,3	2,5	2,8	2,6	3,4	6,4	6,9	5,9	10,5
1993	2	2,2	1,5	2,6	2,4	3,1	4,6	4,6	4,6	8,7
1994	2,4	2,8	1,6	3,5	3	4,5	5,9	5,8	6,1	10,1
1995	2,1	2,5	1,3	3,7	3,2	4,9	5,8	5,7	6,2	11
1996	3,3	3,8	2,1	4,4	4	5,2	7,7	7,8	7,3	13,9
1997	3,2	3,8	2,1	4,2	3,6	5,6	7,4	7,4	7,7	13,1
1998	2,7	3,1	1,8	4,8	4,1	6,3	7,5	7,2	8,1	13,1
1999	3	3,4	2	4,8	3,9	6,6	7,8	7,3	8,6	13,8
2000	3	3,5	2,2	3,8	3,3	4,8	6,8	6,8	7	11,99
2001	3,3	3,5	2,9	4,3	3,7	5,5	7,6	7,2	8,4	13,67
2002	3,3	3,8	2,2	4,9	3,9	6,8	8,2	7,7	9	14,6

Source: Multipurpose Survey of Homes. INEC

1. In the case of Costa Rica, the rate of underutilization is calculated by adding the rate of open unemployment to the rates of visible and invisible underemployment.

¹ In rural zones, the different in the rate of open unemployment between men and women is greater than in the urban zones and there is no trend towards reducing this disparity.

With regard to underemployment, between 1992 and 2002 there has been a slight tendency towards growth (2% between the years mentioned), due primarily to a growth in the number of workers with part time or short-term jobs (visible underemployment) and to a lesser degree by those who undertake jobs whose monthly income is less than that established by the minimum salary (largely invisible underemployment). Similarly, due to the increase in rates of open unemployment as well as underemployment, underutilization has tended to grow 4% since 1990, reaching its highest levels since the period of socioeconomic crisis (1982-1986). (See Table 2). The fact that the rate of invisible unemployment has not grown at the same pace as visible unemployment could be seen as an encouraging sign, since policies that can be implemented to control visible unemployment are generally less complex than those aimed towards invisible unemployment.

On the other hand, it is significant that in the case of visible underemployment or partial work, women show a higher rate than men, while in cases of invisible underemployment it is the men who show a greater willingness to work part-time despite earning an income below the minimum wage. Workers in the agricultural and livestock sector have the highest rates of both visible and invisible underemployment, followed by those working in the informal sector, particularly self-employed non-professionals.

Table 2b
Costa Rica: Rate of Employment by Sex
1990-2002

Years	Total	Men	Women
1990	51,1	73,8	28,6
1991	49,3	71,3	28,3
1992	49,4	71,5	28,4
1993	50,5	72,3	29,3
1994	50,9	72,7	29,7
1995	51,1	72,5	30,3
1996	49	69,7	28,5
1997	50,7	70,9	31
1998	52,2	72,3	32,7
1999	51,5	71,4	32,6
2000	50,8	69,6	32,6
2001	52,4	69,8	35,7
2002	51,8	69,1	35,2

Source: Multipurpose Survey of Homes. INEC

Employment rates have fluctuated between 49 and 52% since 1990, which shows a relative stability due, fundamentally, to an increase in female employment (see Table 2b).

Nevertheless, this should be interpreted as a positive tendency towards equality. The type of employment that has grown the most is salaried work, followed by independent workers. Employment has been steadily growing in urban zones while diminishing in rural zones. Until the mid-1980s the generation of employment had primarily benefited the young (20-32 year old) population. However, since 1995 the number of jobs for this age group has not pace with the growth in the population.

Another significant factor is the fact that the public sector is functioning less and less as an employer, leaving the creation of new opportunities to the private sector, which became the engine of the national economy during the social and economic reforms of the late 1980's. Until very recently, there was no questioning the ability of the private sector to absorb demographic growth and keep down the rates of open unemployment. Presently, however, it appears that this capacity is diminished due primarily to the lack of a concrete labor policy or a policy intended to stabilize the labor market.

Table 3
Costa Rica: Average Monthly Income from Primary Occupation (Nominal Colones)
1990-2002

Years	Income
1990	20.381,00
1991	24.554,00
1992	31.167,00
1993	38.719,00
1994	46.298,00
1995	55.041,00
1996	63.458,00
1997	72.155,00
1998	85.661,00
1999	95.195,00
2000	111.669,00
2001	126.753,00
2002	136.183,00

Source: Multipurpose Survey of Homes. INEC

While it is true that there has been a tendency towards annual increases in income, the real income from primary employment has grown less than 2% in recent years. (See Table 3). It is estimated that the population that has benefited the most has been skilled workers, particularly those who work as managers in the private sector, as self-employed professionals, as mid-range professionals and, to a lesser degree, as skilled technicians.

As for those who work in the public sector, their incomes have not increased significantly, at least since 1991. Nevertheless, we should dispel the popular belief that workers in the public sector have not experienced any increase in their average income. In fact, there have been increases, but not nearly as large as those in the private sector. However, those who work in the agricultural sector and informal activities have either not seen a substantial increase in their incomes or have suffered slight reductions in income.

In practical terms, in Costa Rica there is a direct relationship between the type of home and average monthly income. Poor households have showed average incomes up to three times lower than those in non-poor homes. The situation is more complex in certain contexts: when the poor household is located in a rural zone, the head of the household works in agricultural and / or livestock activities.

Table 4
Costa Rica: Nominal Gross Domestic Product and the Creation of New Jobs.
(1992-2002)

Years	GDP (US\$) x		Creation of new jobs
	millions	GDP	
1992	8.589,34	2.691,50	36.311
1993	9.620,14	2.939,60	53.478
1994	10.560,67	3.131,30	41.153
1995	11.722,36	3.378,40	30.467
1996	11.843,23	3.322,40	-23.034
1997	12.828,98	3.508,50	82.312
1998	14.095,92	3.761,90	72.672
1999	15.796,57	4.116,20	141
2000	15.956,90	4.065,10	155.510
2001	16.381,90	4.087,00	97.268
2002	16.836,70	4.116,90	33.567

Source: Central Bank of Costa Rica and Multipurpose Survey of Homes. INEC

While the growth in nominal GDP is regularly cited to explain the creation of new jobs, the case of Costa Rica provides evidence that continual increases in the Per Capita GDP has had a positive direct impact on job creation. (See Table 4).² Thus, we can determine that modest macroeconomic improvements have widespread repercussions in the creation of new jobs. In other words, the creation of new opportunities as well as the growth of various forms of underemployment react significantly to periods of slight deceleration in the national economy, leading salaried workers to participate in the informal sector in order to compensate for poor performance due to macroeconomic variables.

This is true for all the years following the socioeconomic crisis of 1980-1982 except for 1999 and 2000, when there was a labor market expansion in spite of the lack of growth in the real GDP per Capita.

2. Poverty and the Labor Market

In general terms, we have seen a decrease in the percentage of poor families since the mid-1980's. However, since 1993 the fight against poverty has undergone stagnation. (See Table 5). In the case of poor families, the labor force (those who actually work or seek employment) is on average lower than that of non-poor homes. We see this reflected in the averages for the past three years of 1.2 members employed in poor homes versus 1.83 in non-poor homes. In other words, poor homes evidence lower net rates of participation.

By the same token, as could be expected, the rate of open unemployment is higher in poor homes, as is invisible underemployment, particularly in homes where income comes from agricultural activities. Another element that shows the disparity between poor and non-poor homes in relation to the labor market is the number of hours worked per week (in the primary employment), which is significantly lower in poor households.

Table5
Costa Rica: Percentage of Poor Homes as Part of the Total Number of Homes.
(1987-2002)

Years	Percentage
1987	22,28
1988	22,83
1989	20,96
1990	20,81
1991	24,37
1992	23,79
1993	17,83
1994	16,70
1995	17,03
1996	18,33
1997	17,50
1998	16,75
1999	17,63
2000	17,84
2001	16,63
2002	17,12

Source: Multipurpose Survey of Homes. INEC

The presence of a salaried worker occurs in 45% of poor households, while in non-poor households the rate is 70%. This is due to the fact that workers in poor households generally work in agricultural activities and in informal sectors where the potential to earn a regular monthly income is increasingly scarce.³ Similarly, it is worrisome that in the case of poor homes there has been an increase in the percentage of heads of household who are inactive and, to a lesser degree, those who are unemployed.

³ For the year 2002, it was estimated that 48% of poor people participated in the informal sector.

Recent research has found a significant link between informality, labor instability and poverty. Poor homes have been characterized by having workers who are linked to the informal sector and agricultural sectors. Thus the fact that these sectors offer the lowest levels of security and direct benefits have serious implications for poor households' quality of life. In contrast, non-poor homes have shown a strong presence of salaried employment.

At the end of the 1980's the income distribution was less unequal than in the years before the socioeconomic crisis. Between 1990 and 1996 there was a period of stabilization characterized by slight fluctuations. However, since 1996 the distribution of income has tended to worsen slightly. As we can see in Table 6, the richest 20% increased their participation between 1997 and 1999, which has had repercussions for the poorest 20%. Currently, there has been a slight reduction in the participation of the first quintile.

Table 6
Costa Rica: Income Distribution of Homes, by Quintile
1994-2002

Year	Quintile I	Quintile II	Quintile III	Quintile IV	Quintile V
1994	4,1	9,2	14,2	22,1	50,4
1995	4,2	9,4	14,5	22,6	49,1
1996	3,8	9,1	14,1	22,2	50,8
1997	5,6	11,1	15,4	23	44,9
1998	5,3	10,7	15,5	22,9	45,6
1999	5,6	11,1	15,4	23	44,9
2000	4,9	10	15	22,9	47,2
2001	4,4	9,6	14,6	21,8	49,7
2002	4,6	9,8	14,5	21,7	49,5

Source: Multipurpose Survey of Homes. INEC

In terms of labor organization, the rate of unionization has undergone a gradual exteriorization since the end of the 1980's. In 1990 the rate of unionization reached 15.2%, while in 2002 it was only 9.8%. (See Table 7). This change is due, on the one hand, to a reduction in the legitimacy accorded to the Costa Rican labor movement in recent decades, as well as the consolidation of new forms of representation and organization such as employee associations and solidarity associations.

Table7
Costa Rica: Rate of Unionization.
1990-2003

Year	Rate	Year	Rate
1990	15,2	1997	12,4
1991	15,6	1998	10,4
1992	15,4	1999	11,2
1993	14,5	2000	10,4
1994	14,5	2001	9,4
1995	14,7	2002	9,8
1996	14,4	2003	9,5

Source: Ministry of Labor

On the other hand, after undergoing a positive trend since 1982, the real minimum salary demonstrated a slight retraction between 1990 and 1991 and then grew again until 1999. Currently, there is some concern over the apparent stagnation of this indicator. (See Table 8).⁴ Among the factors which could explain this stagnation of real minimum salaries is the fact that there has been a reduction of private sector contributions to the increases in real salaries as well as a tendency of the public sector to only comply with the minimum employer responsibilities. Additionally, it has been suggested that the stagnation is linked to an increasing concentration of wealth.

In terms of gender, the growth in the real salary has been relatively faster in the case of women than men. Nevertheless, the disparity between men's and women's salaries remains.

3. Changes in the structure of the labor market

By comparing the data provided by the National Population Census of 1984 and 2002 we can highlight significant changes in the Costa Rican labor market. Among the arenas of activity that have decreased in significance is agriculture, which went from accounting for 34.6% of the total employment to 19.5%. In contrast, jobs associated with financial establishments (2.9 – 6.2%) and commerce (9.5 – 13.9%) have showed a significant growth, increasingly becoming the principal sources of new salaried jobs.

In terms of sectors, the tertiary sector made up of jobs associated with basic services (electricity, gas and water, transportation and storage), services of distribution, sales and maintenance of vehicles, commerce, storage and small businesses account for around 56% of all employment. The secondary sector, tied mainly to the manufacturing industry, food and

⁴ Between 1982 and 1999, the real salaries had tended to grow at a greater rate than that of the per capita GDP.

drink, clothing and leather, wood and furniture, machinery and equipment accounts for 24%. And finally, the primary sector, with private jobs in the areas of traditional exports (coffee, cane, banana, cattle), non-traditional agricultural exports and, to a lesser degree, basic grains, accounts for 29%.

Table 8
Costa Rica: Real Minimum Salaries (Indices 1984=100) and
Lowest Minimum Salary, 1990-2002

Year	Real Minimum Indices	Lowest Minimum Salary Colones
1990	100,82	12.298
1991	97,73	16.523
1992	99,36	20.826
1993	103,54	22.078
1994	106,31	24.859
1995	104,04	29.458
1996	106,02	37.646
1997	109,97	45.240
1998	113,79	51.884
1999	116,3	57.460
2000	115,64	63.544
2001	115,88	71.968
2002	115,13	77.584

Source: Central Bank of Costa Rica,
Multipurpose Survey of Homes. INEC

4. Policies aimed at the labor market

It is difficult to determine if there has been a consistent labor market policy in Costa Rica over the past decade. Rather, there have been a range of independent efforts which, in real terms, have lacked a unifying and organizing thread. On the one hand, a neoliberal economic policy has been put forth. This policy is based on the belief that improvements in employment generation, salaries and the stabilization of the labor market can be reached through a constant increase in productivity, deregulation and privatization of various arenas of the economy. This approach promotes the idea that a deepening of commercial relationships and competition will bring economic benefits for the working class.

On the other hand, there have been efforts to improve workers' conditions and environment. From the mid-1980's, measures have been implemented which aim to improve occupational health, hygiene and safety standards. Also, there have been attempts to improve labor relations, especially between employers and employees and, to a lesser extend, between employers and trade unions. Among the main laws that have been approved in this arena are

those regarding occupational risks, sexual harassment in the workplace and educational institutions, equal opportunities for disabled workers, the general health law and the workers' protection law (which we cited earlier). In addition, a substantial amount of regulations have been instituted, for example: the regulation of occupational health commissions, industrial hygiene, labor security and hygiene, emergency exits, regulations regarding noise and vibration levels, services for inspecting the workplace, and the regulation of labor contracting.

Despite the importance of the judicial reforms cited in developing what could be called the country's labor policy, the main milestone has been the Workers' Protection Law of 2002. This law constitutes a range of economic and social instruments that aim to consolidate and guarantee the security and integrity of every worker, regardless of their role in the system of production. On the one hand, the Law has widened the Costa Rican Social Security's ambit of disability, old age and death to include diverse workers who were previously excluded due to their informal status or the part-time nature of their work. Also, pensions have been universalized for older adults in situations of poverty and risk.

Perhaps the greatest accomplishment of the Workers' Protection Law has been that it has organized and regulated the obligatory complementary pensions for all workers, which constitute approximately a third of the future pensioners registered before 2000. Thanks to this step, saving and investment funds have been established, which has allowed new resources to enter the national financial system while safeguarding the future of pensioners.

With regards to institutions, the Ministry of Work and Social Security is the entity in charge of watching over the elaboration and enactment of labor policies in Costa Rica. Nevertheless, this institution has had a low profile when compared with its equivalent in other Latin American countries. While there are other institutions charged with directing labor policies such as the Superior Councils of Work, Salaries and Occupational Health, policies for job creation or salaries are traditionally set by the Presidential House, specifically in the Economic Council. Thus, negotiations for rates of salary increases, discussions about social conventions or about the development of pension regimes take place within a political arena wider than that of the Ministry alone.