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The Development Path Divergence between Guatemala and Costa Rica. A Social Capability Approach, 1985-2020

By

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Abstract

This thesis investigates the outcomes of economic divergence during the neoliberal period in Guatemala and Costa Rica (1985-2020). The application of social capabilities: transformation, autonomy, inclusion and accountability allowed us not only to show the diverted social and economic paths, but also to inspect further and delve into the complex social dynamics in place. There was significant progress in Costa Rica's social capabilities however, both countries face common challenges in terms of quality job creation. Conversely, Guatemala experiences several developmental challenges. This study highlights the need for both nations to improve their access to economic opportunities across all societal sectors. This thesis also reflects on the role of elites in shaping economic and political institutions, providing an opportunity to reflect on potential path similarities for the rest of Latin America.

Keywords: Guatemala, Costa Rica, Social Capability, Inclusion, Development, Latin America

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1 Introduction

This thesis seeks to contribute to the understanding of why development paths diverted between Guatemala and Costa Rica despite similarities in aggregate growth performance. By going beyond a growth performance analysis and delving into the social and economic progression. Investigating the quality of social capabilities during the neoliberal period between 1985 and 2020.

Guatemala, with a multiethnic estimated population of 17.3 million (Our World in Data, 2024) and a gross domestic product of US$ 77.72 billion reported in 2020, (World Bank, 2023) is the largest economy in Central America with solid macroeconomic indicators from 2010 to 2019; the economy experienced a steady 3.5 growth in terms of GDP (Our World in Data, 2024). Nevertheless, half of the population survive on less than $6.85 a day with an estimated 55 percent of nationals during 2014 (World Bank, 2024) concentrated mostly in rural areas affecting Mayan indigenous. Consequently, leading to low development indicators; during 2019, the development index posited at 0.66, slightly above the average development country but far below the Latin American average; only Haiti, Nicaragua, and Honduras had a lower score than Guatemala (UNDP, 2022). Guatemala's Development Index experienced a positive performance from 2000 until 2015, mostly due to the implementation of policies agreed upon after the Peace Accords in 1996 that sought to increase government social and public investments. However, in 2015, the development index stagnated, followed by a decline.

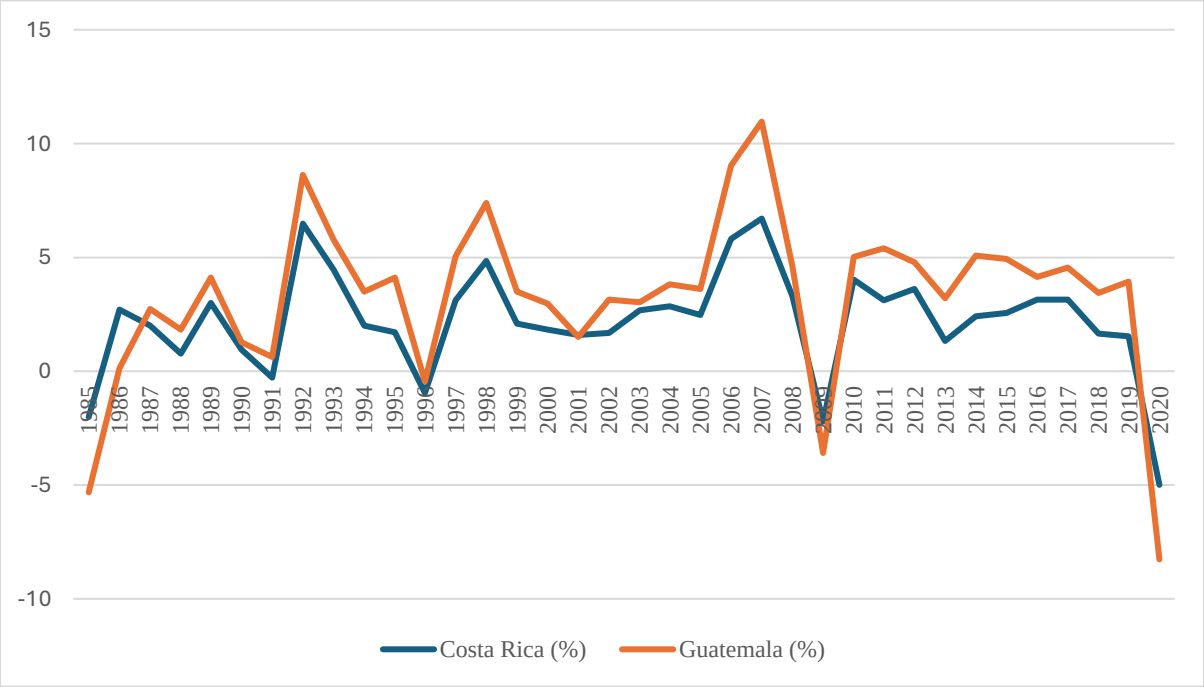
Conversely, Costa Rica with a population that reached 5.15 million in 2020 (Our World in Data, 2024) and a gross domestic product of US$ 62.4 billion (World Bank, 2024) is considered a middle-income country. Costa Rica's social and economic progress is based on trade openness, well-being with a long-lasting stable democracy. Over the last years, growth has been steady and GDP per capita have tripled (OECD, 2020) making significant investments through the years in education, health, and infrastructure.

Moreover, during 2019 Costa Rica's development index posited at 0.81 making it the highest score for Latin America and the Caribbean. In terms of poverty since 1986 Costa Rica has made significant improvements decreasing the figure to a 14 percent of the population living

under the $6.85 mark reported during 2019 (Our World in Data, 2024). However, Costa Rica's development is affected by longtime inequality, youth unemployment, and high levels of employment in the informal sector have hindered Costa Rica's overall development. Nonetheless, in 2021 Costa Rica's performance allowed it to become the first OECD member country from Central America.

Besides being neighboring countries, both nations have experienced similar growth performance and shrinking episodes (Figure 1), but their development paths have diverged significantly.

Figure 1. GDP per Capita Growth (%) Guatemala and Costa Rica 1985-2020



Source. Own elaboration based on data from World Bank 2024

Since 1950, Guatemala's annual growth rates have been highly volatile due to international prices of agricultural commodities such as sugar cane, coffee, and cacao beans. Structural inequalities and poverty caused social and political unrest that materialized in a civil war, impacting growth performance (Loening et al., 2010).

At the same time, Costa Rica also experienced a short civil war caused by political tensions. During 1975 and 1985, external shocks caused shrinking economic episodes for both countries, both in terms of trade and international economic crises due to the increase in oil prices. After 1985, both countries started a period of economic stabilization followed by moderate growth, but after the 2009 crisis, both economies stagnated. Nonetheless, both countries had different economic and developmental outcomes.

Such a diverted path requires an analysis based on theories of social capabilities and economic convergence. Both nations present an ideal scenario to investigate the convergence theory by examining their social capabilities, considering their shared economic composition at early stages of development and distinctive convergence outcomes. Hence, this study applies the theory of social capabilities to the Guatemalan and Costa Rican context; following (Abramovitz, 1986; Andersson & Andersson, 2019; Andersson, 2018). By investigating the long-term growth strategies both countries pursue through the lens of the four elements of social capabilities: transformation, social and economic inclusion, state autonomy, and accountability.

This paper seeks to understand their divergence path regarding their economic performance and the role that institutions and the state had in their development. Therefore, this research aims to provide insights into the complex social, political, and economic dynamics that have shaped the economic outcomes of both countries. Thus, the research questions proposed to guide this thesis are:

What were the fundamental social and economic differences that took place in Guatemala and Costa Rica that shaped their economic development during the neoliberal period? How social capabilities in Costa Rica and Guatemala progressed during the analyzed period? What factors impeded convergence in Guatemala to more inclusive economic growth?

1.1 Aim and Scope

Researchers have used diverse approaches to measure economic development however, I believe that social capabilities are the key and a better fit to understand the complex economic development and divergence between Guatemala and Costa Rica. By the application of such framework, we can gain insights into the determining factors that contributed to their economic development and get a deeper understanding of the effectiveness of the different approaches each country adopted in terms of long-term economic growth.

Analyzing each country's convergence path and progress on its social capabilities can also potentially lead to exploring the reasons behind the understanding of the divergence paths from the rest of Latin America. The study's conclusion can also contribute to policy-making, foster inclusive economic growth in Guatemala, and provide additional suggestions for improvement in Costa Rica.

The scope of this study is focused on economic convergence, social capabilities, and the strategies adopted in each country. By analyzing the interplay between those aspects, this study aims to provide insights into the elements that determine each nation's own economic development and its consequences for long-run growth. Hence, it contributes to a deeper understanding of the effectiveness of each nation's different economic policies and strategies.

This thesis centers its analytical method with (Andersson & Andersson, 2019) work. However, the central aim of this study is to determine whether a successful economic convergence and sustained, inclusive growth heavily relied on the quality and enhancement of each nation's social capabilities, its consequences, and development through the years. According to (Abramovitz, 1986; Andersson, 2018) the quality of a country's social capabilities play a more significant role in determining a nation's success and economic catch-up and be less prone to shrinking and eventually converge. Strategies based on the enhancement of social capabilities are crucial for long-term economic development; therefore, if the investigation progresses, such an argument becomes evident. A secondary objective will be to identify which social capability had the most significant influence and which ones have even more potential to develop. Such insight can provide valuable elements to consider as well as areas to improve for economic expansion.

To my knowledge, this is the first attempt to assess the development of social capabilities in Guatemala and Costa Rica and uncover the unique characteristics of each social capability. By taking a historical-empirical approach and inspired by (Andersson & Andersson, 2019) framework, it will be possible to gain insights into the economic, social, and political structures established and influenced by the neoliberal period.

1.3 Outline of the Thesis

After the “Introduction,” this thesis continues with the following sections: Context, Theory and Previous Research, Data and Method, and Empirical Analysis, followed by Conclusions.

The subsequent section, “Context,” is intended to provide the reader with key socio-economic events of each country. Specifically, this section describes each country's attempts for industrialization, its outcomes, and the effects of the Central American free trade agreement on each nation. Hence, sections (2.1) and (2.2) provide the socio-economic background of each country and (2.3) provide insights regarding the development of the Central American Common Market Agreement.

The third section, “Theory and Previous Research,” discusses the theoretical and conceptual framework used for this paper. The chapter provides a summary of all the theories utilized in this paper and their relation to one another.

The fourth section presents all the compiled data to be considered for this study, discusses their relevancy, and describes the method applied. It also discusses the data constraints, limitations, and challenges presented in terms of data usage.

The fifth section, “Empirical Analysis,” applies and analyzes the four elements of social capabilities: transformation, inclusion, autonomy, and accountability.

Lastly, the final section, “Conclusions,” revisits the main research questions proposed for this study, providing answers and proposing avenues for further investigation.

2 Context

The following chapter provides a comprehensive understanding of the social and economic context of Guatemala and Costa Rica from 1950 to 1985 laying the groundwork for subsequent discussions on the factors that determined economic development paths in between both countries. Several historical events, social and economic reforms impacted the further economic development of these nations.

The first section provides an analysis of the economic and social background of Guatemala and Costa Rica. While such countries shared similarities in terms of their economic transformation strategies at the early developmental stage, each country had their own challenges to overcome. The following section is also intended to provide an understanding of the complex political scenario prior to the period selected for this paper, and how the social context of both countries affected their economic outcomes, as well as the power dynamics that influenced their paths both internally and externally.

The second section analyzes the Central American Common Market Agreement (MCCA) 's influence on both countries. It also provides insights into the challenges faced by both countries during this adoption and their impact on their economies.

2.1 Guatemala Social and Economic Context 1950-1985

During the period of 1950s to 1980s Guatemala as many other Latin American countries experienced several political events that marked a period of conflict and political crisis. The Juan Jose Arévalo and Jacobo Arbenz administrations introduced a series of reforms that impacted land and labor. A land redistribution process began taking place during 1952 by the Arbenz administration, aimed to reduce the large land ownerships granted to a privileged economic elites that traced back to the land tenure system (*latifundios)* that took place during the colonial period, but also land belonging to the US-owned United Fruit Company (Krznaric, 2022).

During the Arbenz administration several economic policies were proposed to promote industrial development. During 1947 the first law to incentivize industrial transformation through tax extensions was passed, it was a milestone for the country as it was the first open not restricted to any individual or group (Ackah et al., 2018) industrial policy; leaving a side the usual individual *deals* the State made with the elites, during the previous governments of Justo Rufino Barrios, Estrada Cabrera and Ubico (Fuentes Knight, 2022).

Arbenz had a clear vision towards economic development that had as one of its main objectives to “convert Guatemala, from a backward country and feudal system economy, towards more a capitalistic and modern country” as he addressed the nation during his inauguration speech (Fuentes Knight, 2022).

Unfortunately, the US backed a coup that overthrew the Arbenz administration in 1954 with significant opposition from the economic elites to the expropriation of their lands and the military, supported by the CIA (Krznaric, 2022). Hence, during the early 1960s, a long period of civil war took place lasting more than three decades, with strong ideological influences from the Cold War, rooted in causes such as extreme poverty and land inequalities in rural areas. During the war, the worst human rights violations took place. According to the Truth Commission Report, around 150,000 Mayan indigenous were murdered as part of the army’s counterinsurgency efforts (Krznaric, 2022). Conversely, the economically powerful elites' farms and their properties were protected by the army with military police, neither were they subject to the mass violence the indigenous population suffered (Krznaric, 2022).

From 1951 to 1975, Guatemala continued expanding in terms of economic growth (Table 1); however, growth was volatile. Nevertheless, structural imbalances of the economy remained unchanged (Loening et al., 2010) causing social unrest. Growth was volatile due to the dependence on agricultural commodities, and external shocks provoked by the international oil crisis directly impacted economic performance. In 1976, a major earthquake severely affected Guatemala’s infrastructure, followed by the explosion of the civil war. Such events resulted in multiple human losses and high costs for long-run growth in terms of human capital development (Loening et al., 2010). In 1985, a period of economic restoration began, with moderate growth, although it was followed by stagnation that persists today. Since then, Guatemala has made improvements to investment in critical infrastructure, human capital, and tax revenue management (Loening et al., 2010).

Table 1 GDP Composition Guatemala 1950-1980

Year	Agriculture	Industry	Commerce	Government
1950	239.4	86.6	192.7	41.7
1957	269.3	116.8	255.1	52.4
1960	318.1	135.5	274.5	63.7
1965	389.4	190.8	376.6	65.1
1970	489.7	282.9	518	86.9
1971	524.3	303.2	542.1	88.1
1972	574.7	319.8	569.6	97.5
1973	605.1	345.8	609.1	99.8
1974	643.8	361.6	655.5	106.4
1975	659.9	356.3	648,7	118.2
1977	716.5	435.6	768.5	131.1
1978	739.1	463.7	802.4	138.2
1980	772	517.8	839.1	163

Source (Guatemala Central Bank, 2024)

2. 2 Costa Rica Economic and Social context 1950-1985

Costa Rica during 1948 experienced a short civil war that lasted less than a year due to political tensions that arose after the national elections during the same year. However, after the civil war the country experienced significant state transformations due to distributive and redistributive policies that helped consolidate an industrial sector (Mas, 1985) transitioning to a more capitalistic economy. A new economic and social structure emerged allowing more sectors in the society to hold spaces in the public sector, previously occupied mainly by the traditional elites conformed by coffee producers, import traders, and bank owners (Mas, 1985). There was political willingness from groups in power to modify the state structure to a more interventionist state as well as several economic reforms that promoted domestic consumption and the diversification of exports.

The attributions of the state were extended by the creation of key state institutions such as Costa Rica's Electricity Institute and Telecommunications (ICE), the Institute for National Insurance (INS) and the National Learning Institute (INA) in charge of the training and qualification of capabilities demanded by the industrial sector. The Institute for National Insurance (INS) was also created (Roman, 2012) and more responsibilities were granted to Costa Rica's Social Security system "Caja Social" (CCSS). Since Costa Rica's independence from colonial Spain in 1821 to 1947 a total of 112 public entities were created (Mas, 1985) and from 1948 to 1980 another 106 new public entities were also inaugurated in just 32 years apart (Mas, 1985). In 1957, Costa Rica's public sector contributed to 12.1 percent of GDP (Table 2), slowly degrading in accordance with the economic strategy oriented to create the preconditions necessary to constitute and strengthen the capabilities to promote a capitalistic

state. During 1980 state contribution to GDP posited at 9.8 percent (Table 3) Costa Rica's state represented approximately 20 percent of the occupied workforce (Mas, 1985) with more than 143,000 employees.

Table 2 Costa Rica GDP growth (%) by Economic Sector 1957-1979

Year	Agriculture	Industry	Commerce	Government	Others
1957	24.4	14.1	20.7	12.1	28.7
1960	25.2	13.8	20.4	11.3	29.3
1965	22.9	16.7	20.2	10.8	29.4
1970	24.1	18.6	19.9	9.9	27.5
1971	23.6	18.8	19.5	10	28.1
1972	23	19.2	19.4	10	28.4
1973	22.6	19.7	19.5	9.8	28.4
1974	21	21	18.4	10.2	29.4
1975	21.2	21.2	17.2	10.3	30.1
1976	20.2	21.3	17.8	10.1	30.6
1977	19	22	19.2	9.8	30
1978	19	22.4	18.9	9.7	30
1979	18.3	22	18.7	9.9	31.1

Source. (Mas, 1985)

From 1950 to 1980 Costa Rica's GDP kept a dynamic yearly increase rate of 6 percent (Mas, 1985). Primarily due to the expansion of agricultural activities oriented towards exports in products such as coffee, bananas and an incipient diversification of commodities such as sugar cane, cocoa among others (Mas, 1985). However, the industrial sector was experiencing an important development, increasing the contribution to the GDP. Nearly half of the labor force in 1963 (49.7%) was involved in agricultural activities, manufacturing accounted 11.7 percent, construction 5.5 percent (Fields, 1988); public sector was still an important employer with 13.3 percent an indicator of a strong state institutional development at early stages, the lasting 33.1 percent was divided among services, commerce and transportation (Fields, 1988).

1948 represented for Costa Rica a breaking point. Set after the civil war, the new constitution promoted in November 1949 meant a new political pact; it incorporated new ideas and the redistribution of power between the executive and the legislative branches, the legislative branch gained a strong supremacy (Mas, 1985). The creation of the Electoral Supreme Court guaranteed the procurement of the upcoming electoral processes. Due to redistributive strategies unemployment rates held upon six to nine percent, to avoid any social polarization. Social development was important during the tenure of the National Liberation Party during 1953 and 1958, paying attention to two strategic sectors: health and education (Mas, 1985). Hence, at the end of the seventies the life expectancy indicator had reached seventy two years

(Our World in Data, 2024). Child mortality index per 1.000 children had descended from 84 in 1953 to 21 in 1978. Additionally, the national health system practically covered 90 percent of the Costa Rican population (Mas, 1985). In terms of education, after an impressive expansion of elementary and high school levels during the 1970, state higher education levels reached 48.000 students or 2.16 percent of the total population of Costa Rica in the 1980.

Between 1950 and 1979 Costa Rica benefited from a healthy rate of economic growth (Franzoni & Sánchez-Ancochea, 2013). GDP per capita in real dollars expanded at an annual average rate of 3.2 percent (Franzoni & Sánchez-Ancochea, 2013). Unemployment and underemployment were low, universal social programmes expanded between the 1950s and early 1980s (Franzoni & Sánchez-Ancochea, 2013).

2.3 The Central American Common Market Agreement (MCCA)

In 1950, a regional industrialization strategy began to be discussed and led by the Economic Commission for Latin America of the United Nations (CEPAL). A plan based on import substitution to enhance industrialization was proposed. After years of negotiation, Guatemala adopted the agreement in 1961 and Costa Rica in 1958. The agreement most important results, included a common external tariff for Central American countries and the free commerce of industrial goods (Fuentes Knight, 2022). Integrational institutions such as the Central American Economic Integration System (SIECA) were also created to oversee the compliance of the regional free trade and tariff system. Additionally, the Economic Integration Central American Bank (BCIE) was also created and funded important infrastructure plans to integrate Central America economically (Fuentes Knight, 2022). A Central American monetary council was also inaugurated to contribute to the coordination of the central banks policies. These regional institutions contributed to the formulation of more open-access economic strategies in Central America and stimulated regional cooperation.

In Guatemala the effect of the regional integration translated into an increase of industrial activities in terms of GDP from 1965 to 1970 (Table 1). The agreements led to a special interest for foreign investment, who saw the Central American market as one, in an integrated manner. Such investment was translated into the acquisition of Guatemalan companies by transnational companies such as General Mills, Coca-Cola, Cargill, Purina, Goodyear, Colgate Palmolive (Fuentes Knight, 2022). Such companies took advantage of cheap labor, to

produce at a low cost and the special exports agreements between the rest of Central America. Therefore, an important effect of those agreements was the stimulus of foreign investment. Domestic medium size companies were large companies established had to re-adjust or simply disappear in a process of creative destruction. However, the accelerated plan to boost industrialization in Guatemala and transform the economy was instantly limited for several reasons.

Most of these transnational companies needed supplies that the domestic market could not provide because the Guatemalan market was not developed, still very much reliant on agricultural commodities. Consequently, the new industrial sector was forced to import supplies for transformation, this effect did not allow a successful merging of the domestic agricultural market with the new established industrial sector (Fuentes Knight, 2022). Domestic consumption was low because of low wages, which limited Guatemalans from purchasing new industrial products. External events such as the oil crisis in 1974 affected the ongoing economic transformation, causing an increase in inflation in Guatemala and other Central American countries. Exports to the Central American market experienced a significant increase from 12 percent of GDP in 1960 to 22 percent in 1980 in GDP (World Bank, 2023). However, despite of the important increase in the industrial sector activities Guatemala was not able to achieve a successful transformation as other countries did when they experienced their industrial revolution. The unequal distribution of resources (Rosenthal & Cohen, 1977) and the preconditions of an open access society not being fulfilled yet. The unfavorable political landscape to seek for inclusive social development made these growth efforts unsustainable. Instead, the integration efforts did now allow mechanisms to promote a better-balanced development (Rosenthal & Cohen, 1977). It led to an “additive development” where the new industrial sector lacked spillover effects and was simply “aggreged” into the economy without promoting a profound transformation (Rosenthal & Cohen, 1977).

Costa Rica had also adopted an import substitution strategy alongside with the adoption of the Central American Common Market Agreement. However, Costa Rica had already started developing its state institutions oriented to the development of its human capital and a more pro-poor growth approach, placing ambitious social policies to guarantee the food safety of its population. Costa Rica’s state institutions had a more social-oriented approach.

Table 3 GDP Real Growth (%) by Economic Activity 1981-1984

	1981	1982	1983	1984
Agriculture	5.1	-5.5	3.9	8
Industry	-0.5	-11.4	1.2	10
Commerce	-10.6	-32.7	2.7	9
Construction	-21.7	-11.7	3.6	18.3
Basic Services	1.6	-1.3	1.4	1.5
Other Services	-0.7	-0.3	2	2.7

Source. (Mas, 1985)

After thirty years of accelerated growth (1948-1980) and public policies oriented towards the improvement of the distribution of resources and redistribution of incomes (Mas, 1985). Costa Rica kept a steady 6 percent (in real terms) growth (Mas, 1985). Compared to Guatemala, which kept pretty much intact the distributive structures with highly concentrated structures and a non-inclusive set up in most proportions of the society. At the beginning of 1980 Costa Rica suffered the consequences of an economic recession. Inflation reached 65 percent during 1981 and 80 percent during 1982 unemployment peaked at 8.7 in 1981 percent and 9.4 percent in 1982 (Mas, 1985). External debt went from 1.870 million dollars in 1978 to 3.497 million dollars during 1982 (Mas, 1985); debt was the equivalent of 185 percent of their total exports during 1980, three times more than the equivalent debt from Guatemala with 61 percent of their total exports (Fuentes Knight, 2022). However, such debt allowed Costa Rica to invest in programs oriented towards social-economic development (Fuentes Knight, 2022; Mas,1985) which contributed to the fact that even with an economic crisis Costa Rica did not experienced social unrest because of the economic slowdown, as other Central American peers did, including Guatemala.

3 Theory and Previous Research

The former thesis is based upon established theories. The following chapter is structured into a literature overview and a theoretical framework. The literature overview covers the main topic of the thesis—social capabilities and economic convergence—all in the context of Guatemala and Costa Rica. The second part of the chapter outlines the theoretical framework that defines the capabilities with more precision.

3.1 Literature Overview

The following subchapter presents a literature overview on the main topics that evolved this thesis: theories regarding social capabilities, economic convergence, and the neoliberal strategy for Central America.

3.1.1 Economic Convergence

Several authors have contributed to the concept of economic convergence. Neoclassical convergence models, such as the growth model developed by Swan (1956) and Solow (1950), focusing on capital accumulation, labor, and technological progress, explain how a nation's economy can drive changes and advancements over time. Such theory served as a foundation for the concept of economic convergence. For instance, Abramowitz (1986) developed the "catch-up hypothesis," which explains how a nation can exploit emerging technological opportunities by being "technologically backward but socially advanced" (Abramovitz, 1986). According to this theory, low-capital developing countries have the potential to accelerate their growth by adopting the latest technologies from developed countries by reaping the benefits of the "advantage of backwardness" (Abramovitz, 1986; Gerschenkron, 1979). Having a strong potentiality to converge. Nonetheless, this is granted by countries that have strong social capabilities (Abramovitz, 1986). Such theory highlights the importance of effective institutional conditions that can propitiate the diffusion of technologies such as legal frameworks, political stability, and educational systems.

Moreover, Barro and Sala-i-Martin (1996), based on the neoclassical growth model from Solow's (1950) and Swan's (1956) model, nuanced the foundational ideas of the theory of convergence. Their main contribution evolves from the idea that in open economies, it is possible to find convergence effects associated with technological diffusions even if the returns to capital are constant (Barro, 1992). As well as the role of institutions and policies in "steady state" nations can have long-run growth. Acemoglu and Robinson correlated

differences in colonial experiences as a way to explain differences in institutions and state policies, highlighting the role of institutions for economic convergence (Acemoglu et al., 2001) and problems with persistence in colonies where extractive institutions were promoted, recognizing that the role of institutions was largely treated as a "black box" (Acemoglu et al., 2001). (Rodrik, 2011) Highlighted the importance of "pro-active policies that foster structural transformation in convergence industries which requires the development of social capabilities".

3.1.2 The Neoliberal Period in Central America

Many discussions have been held about difficulties in convergence in Latin America. The period of analysis selected for this study marks the beginning of the influences that came from the Washington Consensus (1985). The Washington Consensus then proposed, in line with the neoliberal views, to liberalize economies by promoting state privatization to stabilize nations. Fiscal discipline was promoted as a reduction of government expenditures, commercial liberalization, market de-regularization, and the free entry of foreign companies, which are some effects that will be further discussed in this thesis.

Homogenizing the Washington Consensus, especially in the 1990s, created many expectations that market reforms would make economies in the region resemble liberal economies elsewhere (Schneider, 2013). Indeed, market reforms and globalization have transformed several aspects of capitalist systems in Latin America. However, convergence was less consequential for development than the areas of continued divergence (Schneider, 2013). However, its effects combined with colonial legacies emerged into "hierarchical capitalisms," as (Schneider, 2013) posited, with effects on political systems that favored incumbents who pressed governments and influenced political and economic institutions, in the elaboration of those ideas, this study shall investigate such effects in Guatemala and Costa Rica.

3.1.3 Social Capabilities

After World War II, economists searched for a different approach to understanding convergence, specifically to comprehend the role of social and political institutions in economic growth in Japan (Palacio, 2018). A complication regarding social capabilities is that its exact definition remains ambiguous.

Following Kuznets (1966) discussion on Abramovitz he posits that social capabilities consisted in the following elements: "people basic social attitudes and political institutions"

and “the ability to exploit modern technology”. Later on, (Abramovitz, 1995) asserted more precisely the key elements that foster growth such as: the institutional differences and social factors promoted opportunities and incentives (Abramovitz, 1995). (Palacio, 2018) understands them as a set of national characteristics that explain why some countries grow faster than others (Palacio, 2018). Thus, social capabilities are mostly seen as a critique of the conventional and simplistic theory of growth (Andersson & Andersson, 2019). Based on the latter, (Andersson & Palacio, 2017) developed a conceptual framework of four interrelated dimensions for capability development for developing countries that enables the analyses of the potential processes for an economic catch-up. Such abilities are: (i) diversification of the economy (transformation), (ii) connecting people to the growth process (inclusion), (iii) imposing laws and taxation for everyone (autonomy), and lastly, the ability to provide goods to broad sectors in society (accountability) (Andersson & Palacio, 2017).

Other scholars have also contributed by adding more elements that contribute to the development on social capabilities such as: human capital, distribution of incomes, government policy and the state of financial systems (Koo & Perkins, 2016). While other authors have aligned social capabilities with the relationship with better institution performance which goes hand in hand with more advanced social capabilities (Putterman, 2013). Later work from (Rodrik, 2011) discussed how governments have expanded fast in most open economies due to globalization, contrary to what most economists would expect, which requires the need to develop more social capabilities.

Furthermore, works from (Andersson, 2018), (Palacio, 2018), (Andersson & Andersson, 2019), (Andersson et al., 2021), (Rohne Till, 2022) documented the strong influence of social capabilities towards shrinking and sustained economic growth. (Andersson, 2018) work provided a new research agenda on how the role of social capabilities is crucial to building up resilience against shrinking; complementing our understanding of catch-up growth including economic shrinking would have a large impact on shrinking on long-term sustained growth, contributing to the literature on economic development. (Palacio, 2018) contribution was in terms of a summary measure of the capabilities based on historical processes through which successful economies had to go through to industrialize and eliminate poverty. (Andersson & Andersson, 2019) investigated the uneven progress in social capabilities in Côte d’Ivoire and Senegal highlighting how the lack of broad-based access to economic opportunities played a role in disrupting sustained economic and social progress in both countries. (Andersson et al., 2021) examined the role of social capabilities in Indonesia from 1950-2015; their findings

contributed to the understanding of the importance of powerful and privileged elites' role in shaping economic and political institutions and how institutional changes are needed to distribute rents and political participation more widely so that they can achieve an open-access society as a precondition for inclusive growth and remain a shrinking-resilient country. (Rohne Till, 2022) explore the catch-up opportunities for Ethiopia by measuring the four elements of social capabilities, providing some insights about how levels of inclusion have been persistently low, which had conditioned future catch-up growth.

3.2 Theoretical Approach

This paper is built upon the conceptual framework proposed by (Andersson & Andersson, 2019). They captured the multi-dimensionality of the development process in Senegal and Côte d'Ivore following Abramowitz (1995) interpretation of social capabilities. Therefore, this subchapter is intended to define the four elements of social capabilities to be analyzed in this paper.

According to Acemoglu and Robinson (2006) a democracy consolidates firmly when elites do not have a strong incentive to overthrow it. This is due to the fact that different social groups prefer different sets of political institutions because they can allocate political leverage and economic resources (Acemoglu & Robinson, 2006); political power can also allow elites to shape economic institutions to their vested interests (Acemoglu et al., 2004). Therefore, elites tend to concede power to more democratic conditions when they realize they may lose their privileges anyways, avoiding social revolutions (Acemoglu & Robinson, 2006) which are far more detrimental to economic performance and can allow a shift of power abruptly.

Similarly, North et al. (2009) acknowledge the problem that intra-elites dominant relationships cause to impede what they define as an "open access society". They argue that the main characteristics of modern societies are those who provide material prosperity and political liberties to broader sectors in the society (North et al., 2009); asserting that modern societies need to transition from a natural state to open access societies. Their framework suggest that they are three necessary doorstep preconditions for nations to follow to transition for an open access society: (i) rule of law for elites, which requires the establishment of an unbiased judicial system in which all individuals have access to rules and procedures (pp. 152); (ii) perpetually lived organizations in the public and private speres, meaning that the durability of institutional agreements lives beyond the life of individual members, but not without a proper legal system capable of enforcing legal rules regarding organizations

(pp.152); and (iii) a consolidated control of the military, because in most natural states violence can be dispersed throughout the elites, therefore the need of an organization who oversees all military resources and operations in the nation so that they won't interfere with political matters (North et al., 2009). Notably, natural state conditions limit access to broad sections of societies, concentrating political power and resources on a few selected groups.

Nevertheless, nations around the world are at a natural state level, representing approximately 85-90% of the countries around the world; no countries in Latin America have been able to achieve open-access conditions yet; however, most of these countries are at *mature state levels* (Andersson et al., 2022). Meaning they can support broader and diverse sets of institutional organizations outside the control of the state (North et al., 2009). As I will explore in this study, I shall expose the progression of Guatemala to improve its development to achieve such pre-conditions and the complications that Costa Rica faces in terms of economic development and successful convergence.

To better understand the progression of the latter for both nations, I will be analyzing the cumulative evolution of the four elements of social capabilities: *transformation, inclusion, autonomy, and accountability* during the proposed time frame (1985-2020). As Abramowitz's (1995) posits: Social capabilities develop in a process of interaction between the development a country can achieve, given its state of technology, capital, and social capability, and the further effect of that development on its social capability, which is one of the conditions for further development (Abramovitz, 1995; Andersson & Andersson, 2019). This will allow a proper assessment of the social and economic dynamics in each country and investigate further their diverging paths. By considering Abramovitz's (1995) discussion on social capabilities inspired by Kuznets (1966) two distinct elements can be related to social capabilities (1) people's basic social attitudes can be captured by *inclusion* as the way for states to provide incentives and sense of belonging (Andersson & Andersson, 2019) translated into the inclusion of economic and market opportunities broadly. Political institutions are captured by *autonomy and accountability* and (2) the ability to exploit modern technology is captured by the *transformation* capability. Each of those elements is interconnected and can be measured by different proxies coming from Abramovitz's (1995) framework and the doorstep conditions proposed (North et al., 2009). I will now define each of the four elements with more precision.

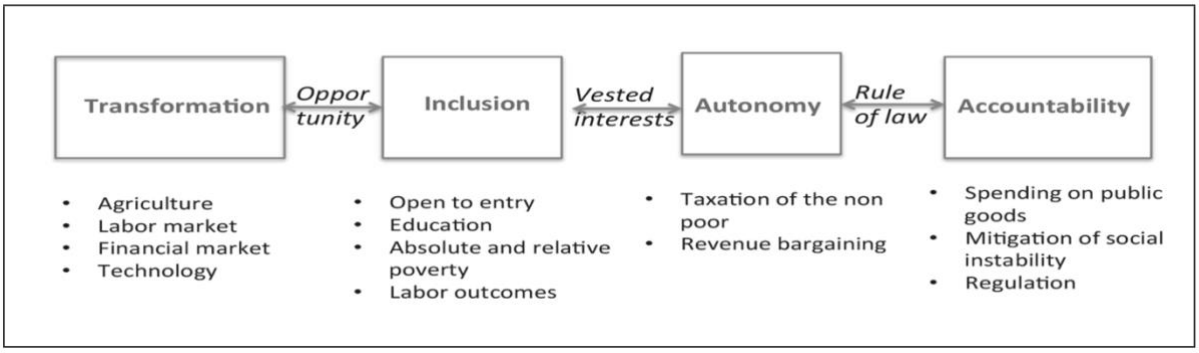
Transformation captures the ability of states to scale up into more productive economic sectors by structural transformation through technological diffusion. This element is vital for economies to be less dependent on raw commodities prone to volatile prices. As Kuznets (1973) posits a country's long-run sustained economic growth may be achieved by its capacity to supply diverse economic goods to its population by growing its capacity based on advancing technology (Kuznets, 1973).

Autonomy is often referred to as the ability to choose rules and regulations that prevent interference from vested interests (Andersson et al., 2022). "When a particular group is a rich relative to others, this will increase its de facto political power and enable it to push for economic and political institutions to its interests" (Acemoglu et al., 2004). Autonomy is often measured by the ability of the state to tax in broad sectors of the society including the elites or non-poor, and minimize tax evasion (Andersson & Andersson, 2019).

Inclusion measures the ability to distribute access to economic opportunities broadly (Andersson, 2018). Such cumulative conditions are vital to increasing the country's human capacities and allowing faster technology adoption.

Accountability refers to the quality of governance and provision of public goods (Andersson & Andersson, 2019). The state's autonomy is an important characteristic of an open-access country as it prevails from powerful groups to impose their vested interests and ensures that social needs are considered. This capability is often measured by the government's evolution on expenditures in health, education, or infrastructure (Palacio, 2018). Another important role often encouraged is the ability of the state to provide law and order, manage conflicts, and guarantee the enforcement of contracts (Andersson & Andersson, 2019). Such preconditions are beneficial in creating ease of doing business and attracting foreign direct investments.

Figure 2 The four dimensions of Social Capabilities



Source. Andersson & Palacio, 2017

As Figure 3 shows, all four elements of social capabilities are interconnected and equally important. They are argued to be key for developing economies but not preconditions for sustainable growth (Andersson, 2018).

4. Data & Method

Following (Andersson & Andersson, 2019; ed. Rodrik, 2003) the framework, the research method to be applied to this study can be described as a comparative country analytical narrative. This method involves applying an elaborate theoretical framework to two country cases, using thick descriptions to increase our understanding of the growth process (Andersson & Andersson, 2019; ed. Rodrik, 2003). This method will allow us to look deeper into the development paths followed by Guatemala and Costa Rica, identifying their divergence and which social capabilities can be further improved since both countries have yet to achieve economic convergence.

This study uses multiple historical datasets to measure all four dimensions of social capabilities in both nations to understand the social and economic dynamics in both contexts. Since the development of social capabilities is a non-linear process, the approach selected for this thesis better captures the dynamic and cumulative process of social and economic development to help answer the research questions proposed for this paper instead of a cross-sectional framework, following (Andersson & Andersson, 2019). Adopting a country narrative approach allows the possibility to explore the respective roles, microeconomic policies, institutions, political economy, and initial patterns of technological convergence and accumulation in selected countries (Rodrik, 2003) to the progress on social capabilities.

A significant problem with the social capabilities approach is that its precise definition is still disputed, reducing its application. It also builds upon the cumulative progress a developed country can achieve based on its current technological advancements. A major complication observed regarding the assessment of Guatemala was data quality before the 2000s, which made measurements of certain capabilities difficult. Official national employment data is incomplete for the period considered; therefore, only formal employment has been considered for the analysis, as it is known that Guatemala faces challenges regarding data recollection. A limitation of the current study relies on a more in-depth analysis of the cumulative progress of both states' roles in providing law and order as stated in the Accountability capability.

5 Empirical Analysis

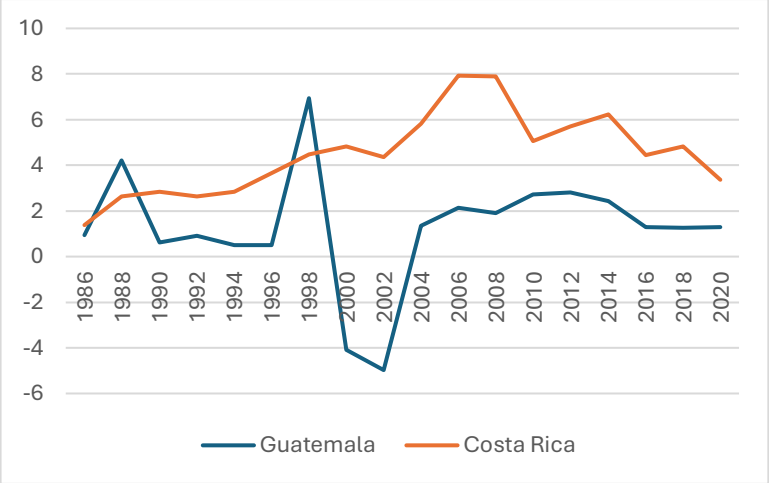
The following section covers the empirical section of this thesis, which consists of applying the four social capabilities to Guatemala and Costa Rica from 1985 to 2020.

5.1 Transformation

The following subsection starts with a general overview of both countries' progression to transform their economies. Secondly, I elaborate on the differences between the two nations regarding their land redistribution process. Thirdly, I analyze agricultural transformation since it represents an essential development sector, followed by a brief microeconomic analysis of Costa Rica and Guatemala's productivity. Finally, I provide an in-depth analysis of the elite dynamics and their role in transformation.

Agriculture in Guatemala represents 11 percent of the GDP employing 2.5 million people, equivalent to 32 percent of all workers (World Bank, 2023). In rural areas agriculture employs 70 percent of rural workers and 81 percent of indigenous workers specifically, most of them are employed in primary agriculture (World Bank, 2023). Compared to an scarce remaining 20 percent working in processed or secondary agriculture (World Bank, 2023) despite all the efforts to promote structural transformation Guatemala is still predominantly an agricultural country. By the end of 2022, Guatemala's main exported products were coffee, bananas, plantains, palm oil, and cardamom (Statista, 2024a) (Appendix A). Nonetheless, heavily reliant on the services sector, where the greatest proportion of workers are concentrated, alongside commerce and construction, these three sectors occupied more than half of the total proportion of employment in 2019 (INE Guatemala, 2022). The manufacturing sector mainly comprises garment manufacturing, which employs 16.6 percent of formal employment, and processed food, which accounts for 42 percent of total manufacturing output (World Bank, 2023). The industry sector experienced a slow positive development throughout the period analyzed. However, in the last decade, it slowdown returning to 1986 value-added performance (Table 4) an effect of scarce public and private investments based on science and technology, and a modest contribution from foreign direct investment (Figure 3). Family-owned Guatemalan elite business groups have historically developed their businesses in this sector.

Figure 3 FDI Costa Rica and Guatemala 1986-2020



Source. Own elaboration based on World Bank Data 2024

Few episodes can be accounted for FDI in the country throughout the last three decades. The most significant has been the interest from South Korean investments in textile production, mainly during the 1980s due to cheap labor and privatization from state companies such as telecommunications and electricity at the end of the 1990s (Fuentes Knight, 2022). The acquisition from Walmart of "Almacenes Paiz," Guatemala's largest retailer, the interest from foreign investors in promoting extractive industries during 2010, and more recently, the acquisition from two private banks by Colombian banking investors (Fuentes Knight, 2022) represent the most relevant investments through the period analyzed. Costa Rica's FDI since 1986 had followed a positive trend until 2009, which decelerated due to the economic crisis. Since then, FDI has been negative; however, several international firms such as Bayer, Intel, Coca-Cola, Amazon, Procter & Gamble, Microsoft, Hewlett-Packard have established operations in the country attracted mainly by Costa Rica's stable and peaceful social conditions.

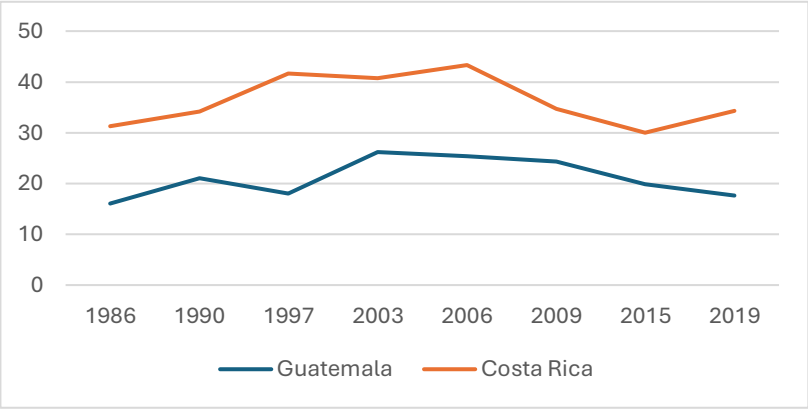
Table 4. Main Sector Composition 1986-2020 value added (annual % growth)

	Guatemala					Costa Rica				
	1985	**1995**	**2005**	**2016**	**2020**	**1985**	**1995**	**2006**	**2016**	**2020**
Agriculture	0.4	4	2.1	2.4	-0.1	-5.5	10	9	5	-1.4
Industry	-2.48	5.3	3	1.7	-0.8	1.5	4.3	6	3	2
Manufacturing	-0.8	3	2.6	3	-0.6	2	4	4	4	2
Services	-2.2	6	4	3	-2	2.8	3	8	4	-5.5

Source. World Development Indicators, 2024

Furthermore, Guatemalan service firms tend to perform poorly and export less than manufacturing businesses. Nonetheless, net exports have decelerated since 2003, followed by a negative trend (Figure 4). Consequently, domestic firms reduced the size of their employees; in Guatemala, services and manufacturing firms reported 59 and 81 employees on average in 2010; however, during 2017, companies reported a reduction of 29 employees for services while manufacturing was reduced to 57 employees on average (World Bank, 2023).

Figure 4 Exports of goods and services (% of GDP)



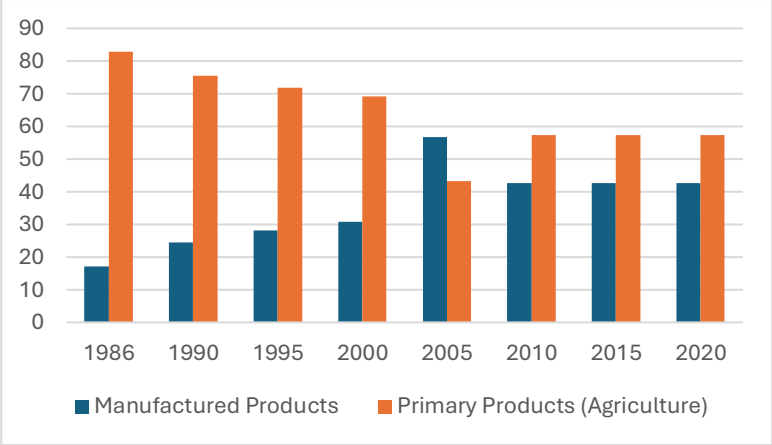
Source. Own elaboration based on World Bank Data 2024

Similarly, Costa Rica's GDP performance has been mostly dependent on the services sector by 69 percent, with commerce, finance, and tourism as the most grossing industries (Statista, 2024b). By 2022, the main exported products were devices and instruments for medical purposes, orthopedic equipment, and implants, followed by coffee, pineapples, bananas, and plantains (Statista, 2024b) (Appendix B).

Compared to Guatemala, Costa Rica experienced a degree of transformation (Figures 6 & 7), moving away from primary products by being able to produce sophisticated medical equipment. Costa Rica has recently partnered with the US government to promote opportunities to diversify and grow the semiconductor supply chain; as part of the US International Technology Security and Innovation Fund created by the CHIPS policy implemented in 2022 (US Department of State, 2023) the policy aims to make Costa Rica a regional semiconductor hub.

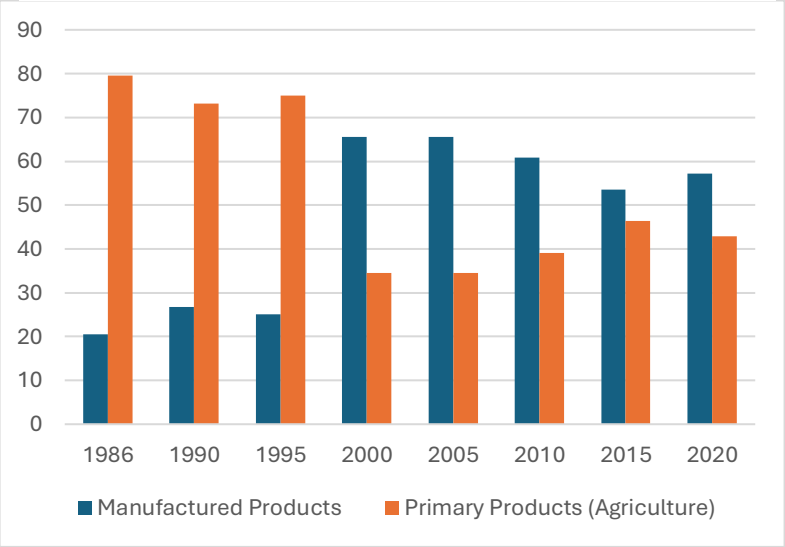
Several challenges and difficulties have hindered Guatemala's transformation. For instance, the lack of public infrastructure critical for commerce and logistics.

Figure 5 Evolution of Exports by Sector Total (%) Guatemala



Source. Own elaboration based on data from Cepal-STAT 2024

Figure 6 Evolution of Exports by Sector Total (%) Costa Rica



Source. Own elaboration based on data from Cepal-STAT 2024

According to the Global Competitiveness Report, Guatemala ranks 114th out of 141st in transport and logistics infrastructure (World Bank, 2023). Reasons for this are primarily due to the poor quality of the road network and low maintenance, persistent corruption and criminal schemes by contractors to whom they allocate contracts for main infrastructure, as (Waxenecker & Prell, 2024) documented. Making it difficult and adding additional transportation costs to commercial operations. Especially in rural areas limiting small-scale producers, leading to logistical inefficiencies, undermining the competitiveness of agricultural products, and limiting export capacity (World Bank, 2023). The road density is below the average from the rest of Latin America 15.5 km/100 km^2 compared to the average 22 km/100 km^2 (World Bank, 2023).

To understand the dependence of agriculture in the Guatemalan context. I considered relevant to investigate in-depth the land redistribution process of both countries, specifically, the subsistence or primary agriculture. Such analysis is also important to contextualize the dynamics of the elites and their influence during this process. I attempt to do so in the following subsection.

5.1.1 Land Redistribution

As previously discussed in the context section, the agrarian reform (1950) attempted to enforce land redistribution in Guatemala. During the short period, the reform was implemented, the lands of these powerful elites were affected; such is the case of the Ibarguen family, owners of the textile company "Tejidos Cantel" who used to hold the textile sector under a monopoly; this family lost over an impressive 12,000 acres of land (Díaz, 2019). Bouscayrol family was another important family to whom land was expropriated (Díaz, 2019; Melville & Melville, 1982). The wealth of the Herrera family was such that around 10,000 acres of land were expropriated by the state, the second largest property confiscated by a single owner. Nevertheless, the US banana company United Fruit Company was the most affected by the land redistribution process (Melville & Melville, 1982). Unsurprisingly, in 1954 the process was frustrated, and swiftly reverted, sectorial interests were at play.

In Guatemala, only four agricultural censuses measuring land tenure have been held; the latest was performed in 2003. This census determined that the country had been experiencing a reduction in the size of land properties combined with an increase in landowners. According to the data from all censuses, the average length of a property used for agricultural purposes was 25.84 acres in 1950 and 1964, with 20.06 acres, 18.87 acres in 1979, and 10.88 acres in 2003 (INE Guatemala, 2003). The Gini index for land concentration reported for 2003 posited at 0.84 (INE Guatemala, 2003) , meaning that Guatemala has one of the starkest inequalities in terms of land ownership (Krznaric, 2022). An estimated 2 percent of the population owns 72 percent of the agricultural land used for the country's main export products: sugar, bananas, coffee, and rubber (Krznaric, 2022). The 2003 census reported that over 1000 estates (0.2 percent of the total national) own 52 percent of the cultivable land (Krznaric, 2022).

Contrary to the 1979 census that reported 31 percent of smallholdings under 0.7 hectares covering only 15 percent of the potential agricultural land (Krznaric, 2022) on these small

parcels, rural indigenous practice subsistence agriculture, cultivating corn, beans, and sprouts for daily consumption. However, this proportion worsened to 45 percent in 2003, with an estimated one-third of rural heads of households being landless (Krznaric, 2022). In 2019, estimations accounted for 80 percent of farms being smallholdings of less than 0.7 hectares and 60 percent of farmers engaging in subsistence agriculture with no technical assistance from the state or planned agronomic plans (World Bank, 2023).

Conversely, elites have kept large land ownerships, which has allowed them to control sectors like sugar cane processing (Appendix C). Attempts to redistribute land had been promoted; in 1996, the government established FONTIERRAS, a state institution that provided technical assistance and financial support to help the landless obtain credit for land ownership. Between 1997 and 2008, FONTIERRAS redistributed a scarce 4 percent of the country's arable land to less than 5 percent of the country's landless families (Alonso-Fradejas, 2013). Nevertheless, the adverse economic situation of these families forced many of them to sell their land titles due to the low quality of the lands being sold to them, with no support from the state followed by the disadvantageous neoliberal structural adjustments (Alonso-Fradejas, 2013) promoted in 1996; diminished the support for subsistence farmers by practically eliminating the agricultural extension services (Fuentes Knight, 2022). These reflect the sector's low productivity and value-added per worker, a scenario where 90 percent of the jobs are informal (World Bank, 2023).

Moreover, in a short-sided vision the Arzú government (1996) severely reduced the budget for the National Institute for Agricultural Science and Technology Research Center (ICTA) (Fuentes Knight, 2022). The only public institution established for research and development for agriculture. Such measurements responded to neoliberal structural adjustments to public institutions, with the idea that innovation should instead come from the private sector without support from the state. On the other hand, the elites had made investments in research and development in sectors they control, such as the case of the sugar cane industry with the introduction of the Center for Investigation and Capabilities Enhancement for Sugar Cane (CEGICAÑA) in 1992; the owners of the sugar cane industries integrate the general assembly. More recently, public spending on agricultural R&D equals less than 0.2 percent of Guatemala's agricultural value added, far below the levels of regional peers and the 1 percent recommended by the UN (World Bank, 2023).

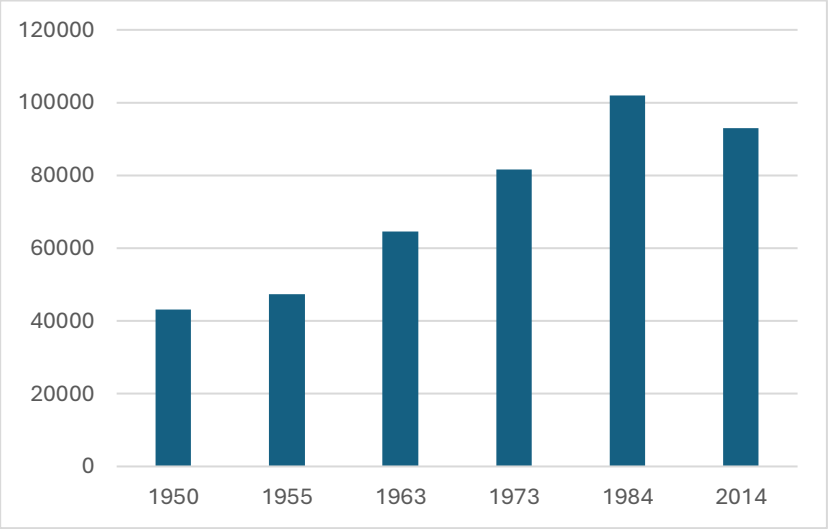
Costa Rica's development success, according to researchers, is due to a relatively equal pattern of land distribution since colonial times, which resulted in a more equal society from a less predatory elite (Franzoni & Sánchez-Ancochea, 2013) whose primary interest initially was not to reduce inequalities but to build state capabilities (Franzoni & Sánchez-Ancochea, 2013) by socially incorporating the society into the national markets. During 1963, 100 hectares or more holdings accounted for 6.5 percent of the total farms but represented 62.4 percent of the arable land (Franzoni & Sánchez-Ancochea, 2013 pp 37). Such a scenario led to around 16,000 households engaging in land occupations in different parts of the country (Franzoni & Sánchez-Ancochea, 2013) during the beginning of the 1960s. Because of the escalating growing tensions in rural areas. The state created the Institute of Land and Colonization (ITCO) (1961) to expand the number of landowners in the country and reduce social conflicts between large landowners, small owners, and the landless (Franzoni & Sánchez-Ancochea, 2013). ITCO purchased 1,384 hectares and distributed them among over 60,000 farmers and their families (Franzoni & Sánchez-Ancochea, 2013; Román Vega & Rivera Araya, 1990). At the same time, the state encouraged the creation of agricultural cooperatives or co-ops to support rural families. Until today, it represents a necessary social and economic support to Costa Ricans, where 21 percent of the population are reportedly members of at least one co-op.

Until the closure of ITCO (1984), the redistribution had modest results. For instance, the share of land in the hands of smallholders increased from 20 percent to 24 percent, while the percentage of large landowners decreased from 67 percent to 61 percent (Franzoni & Sánchez-Ancochea, 2013). The redistribution process was also accompanied by state support through the National Production Council, which provided access to preferential credits and technical assistance. Such policies contributed to the slowdown of farmers working in primary agriculture from 54 percent in 1950 to 27 percent in 1984, setting an important development milestone for Costa Rica since the proportion of employment in agriculture reduced (Franzoni & Sánchez-Ancochea, 2013) while other sectors increased their participation.

According to the last agricultural census in 2014, the total number of properties reported for agrarian purposes was 93,017, representing a decrease of 8,921, equivalent to 8.7 percent, compared to the 1984 agricultural census (Instituto Nacional de Estadística y Censos, 2015). From the total six agricultural censuses held (1950-2014) (Figure 7) from 1955 until 1984, Costa Rica experienced an increase in the number of properties; however, the trend diverted

during 1986-2014, possibly due to the closure of ITCO following structural policy adjustments.

Figure 7 Costa Rica Agricultural Properties per census 1950-2014



Source. INEC National Agricultural Censuses 1950-2014

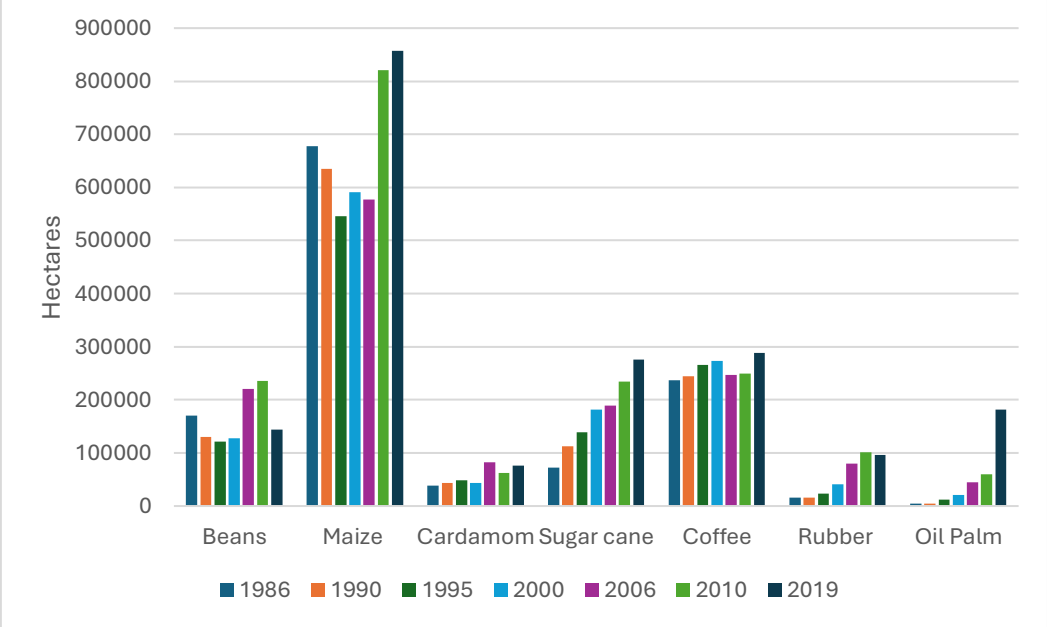
5.1.2 Agricultural Production

The production of maize represents the largest share of harvested products in Guatemala (Figure 8), an indicator of a low degree of transformation from an unequal land distribution composition, leaving many farmers in primary subsistence agriculture cultivating small parcels of maize and beans for daily consumption. Producing coffee, sugar cane, and palm oil is only possible for large landowners with access to water and technologies. Similarly, beans and corn are essential to Costa Rica's daily consumption. However, as previously discussed from favorable state support, Costa Rica decreased the production of their basic grains (Figure 10) to give space to value-added, better-paying products, now becoming an importer instead of a producer. Concentrating agricultural production in coffee, bananas, and pineapples, among others.

According to the Guatemalan Central Bank, primary agriculture represented 876,400 jobs while secondary agriculture employed 421,600 people, totaling approximately 1.3 million employees; such estimates almost tripled the number of people employed in non-traditional production (Fuentes Knight, 2022) primarily for export purposes. In 1985, non-traditional agriculture represented 11 percent of the total exports to Central America, increasing its value to 19.5 percent in 1995 (INE Guatemala, 2003).

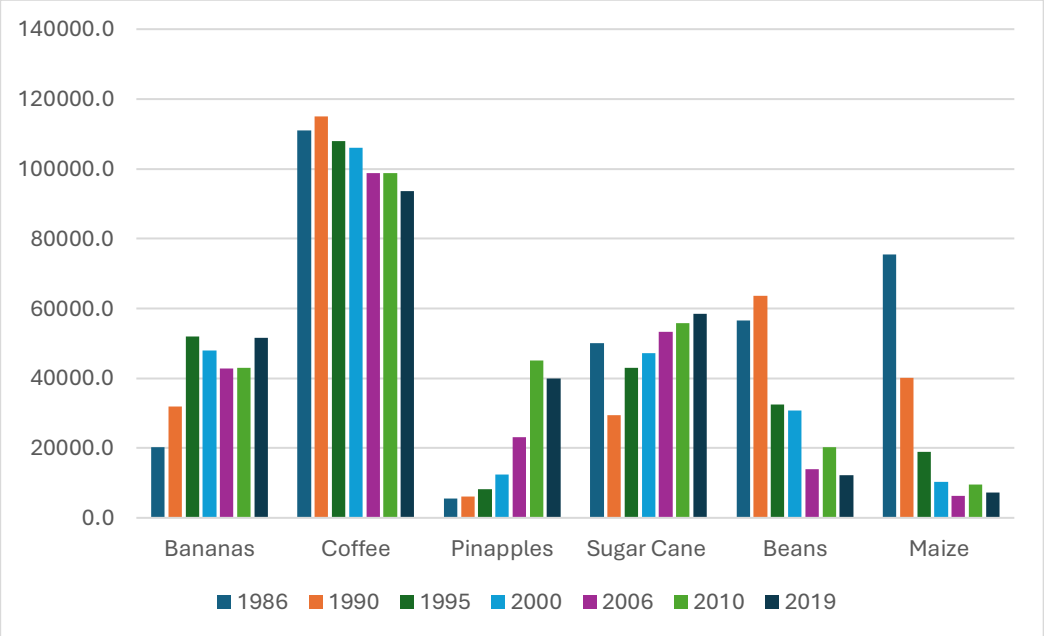
Combined efforts from part of the private sector, international cooperation, and ICTA sought to boost the production of such products during the 1990s by promoting technological packages to cooperatives and organized producers, investing in research (Fuentes Knight, 2022) made by ICTA.

Figure 8. Evolution in Agricultural Production Guatemala



Source. Own elaboration based on data from FAOSTAT (2024)

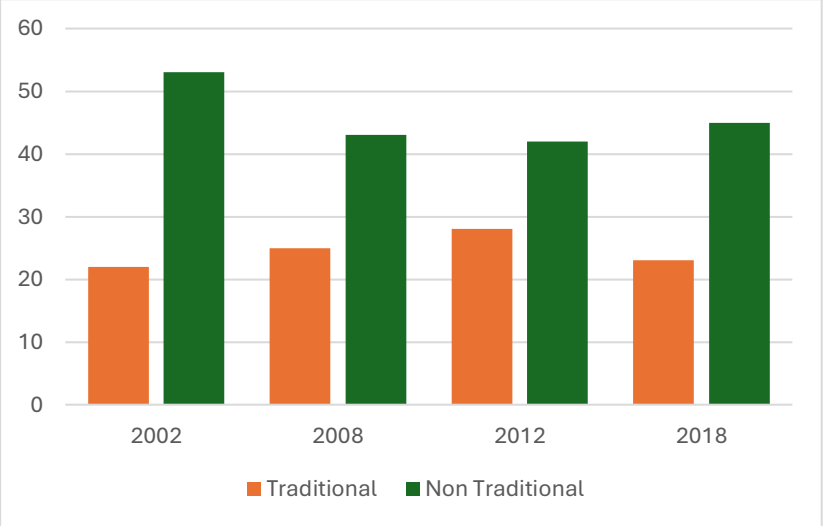
Figure 9. Evolution in Agricultural Production Costa Rica



Source. Own elaboration based on data from FAOSTAT (2024)

As a result, the proportion of non-traditional exports increased to 52 percent during 2002 (INE Guatemala, 2003). However, price fluctuations combined with the unfavorable policy adjustments during the Arzú administration weakened the technical capacities of ICTA (Fuentes Knight, 2022) , diminishing the attempt to transform the agricultural sector and stagnating production (Figure 10).

Figure 10. Proportions of Traditional and non-traditional Agriculture Guatemala



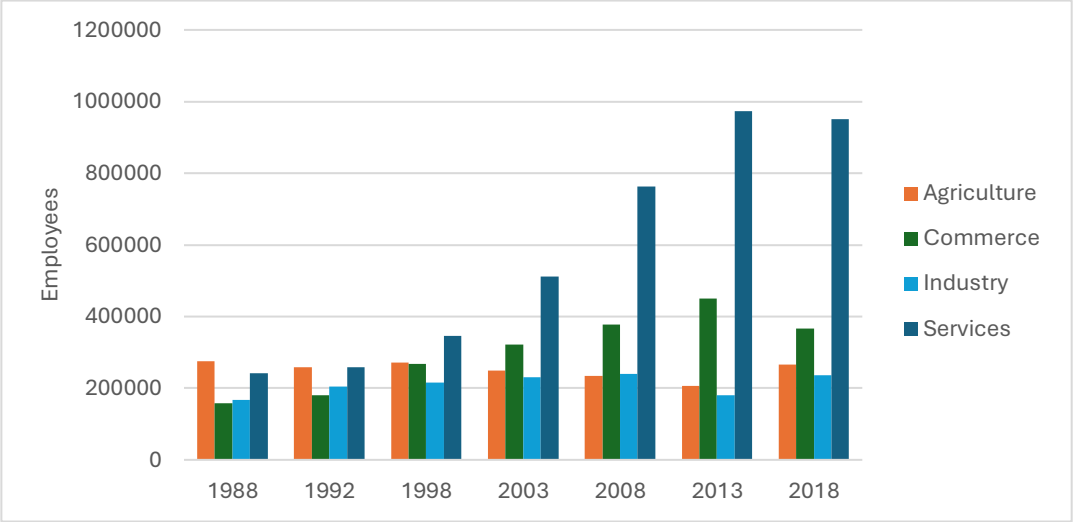
Source. Fuentes Knight (2022)

On the other hand, Costa Rica reduced their economic dependence on three traditional products (coffee, bananas, sugar), which represented 90 percent of total exports in 1950, constituting only 14.1 percent of total exports in 2001 (Rodríguez-Clare et al., 2002). Following instead the promotion of non-traditional exports focusing on international markets linking into global value chains, causing structural transformation in labor markets (Roman, 2012). Thus, impacting the composition of formal employment (Figure 11).

A remarkable difference between Guatemalan and Costa Rican agricultural development was the support from the state for the cooperative system. Such organizations pursue economic objectives and social and long-term development for their members, focusing on their members' well-being (Roosendaal et al., 2021). By integrating smallholders, such organizations can collect large volumes of harvested products from small producers, reduce the costs of supplies for the field, and give voice to small producers. According to the last cooperative census in 2012, cooperatives contributed 37 percent of the total coffee production (Programa Estado de la Nación, 2012). During the 1980s, structural adjustment programs (SAPs) were implemented in several countries in Latin America (Roosendaal et al., 2021),

following the neoliberal strategies; However, the Costa Rican government decided to continue the support for free extension services spread across the country (Roosendaal et al., 2021) with programs like the agricultural knowledge and innovation system (AKIS).

Figure 11. Formal Employment Evolution by sector Costa Rica

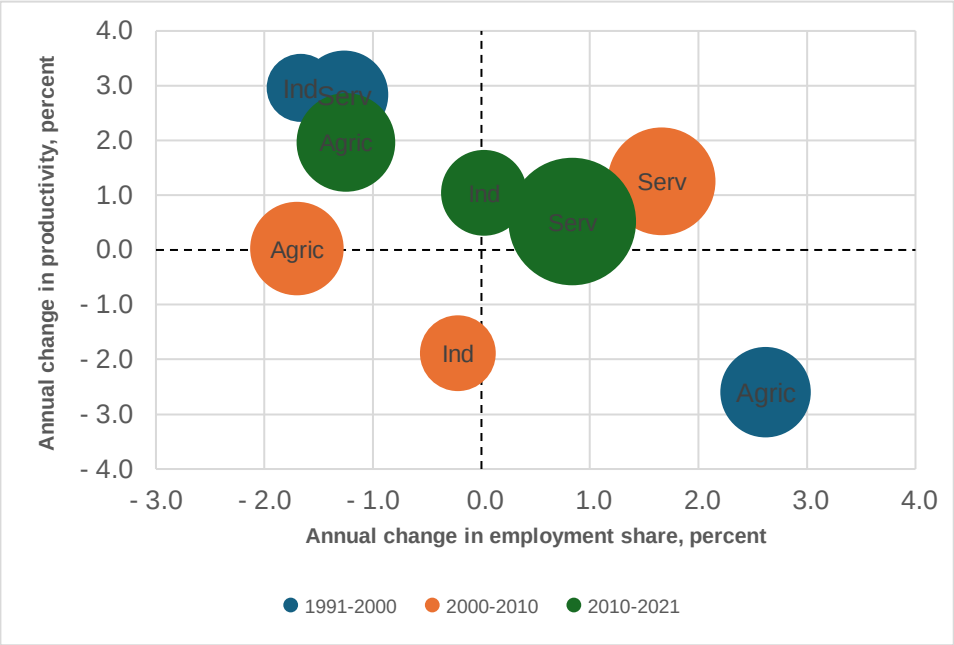


Source. Own elaboration based on Employment Censuses by INE, Costa Rica

Despite positive outcomes in structural transformation, Costa Rica experiences difficulties creating quality jobs, with almost 40 percent of informal jobs accounted for during 2020, according to the employment survey held by the National Statistics Institute (INEC). Approximately one in three workers in Costa Rica is informal; the informal sector is the smallest among neighboring Central American countries, but the index doubles the OECD standards (OECD, 2017a). According to the employment survey, the services sector held approximately 69 percent of the total informal sector, followed by the secondary sector (industries) and the primary sector (agriculture).

In 2018, services and commerce employed more than half of the Guatemalan working force (Figure 12). Analyzing the change in sectoral productivity (Figure 13) from 2000-2010 compared to 2010-2021, all sectors had reduced their productivity levels. Specifically, the large number of workers in the services sector had produced less compared to the last decades, leading to underemployment, and hindering the possibility of workers improving their incomes. Productivity in the industrial sector has changed abruptly across measured periods, sightly improving during the last decade.

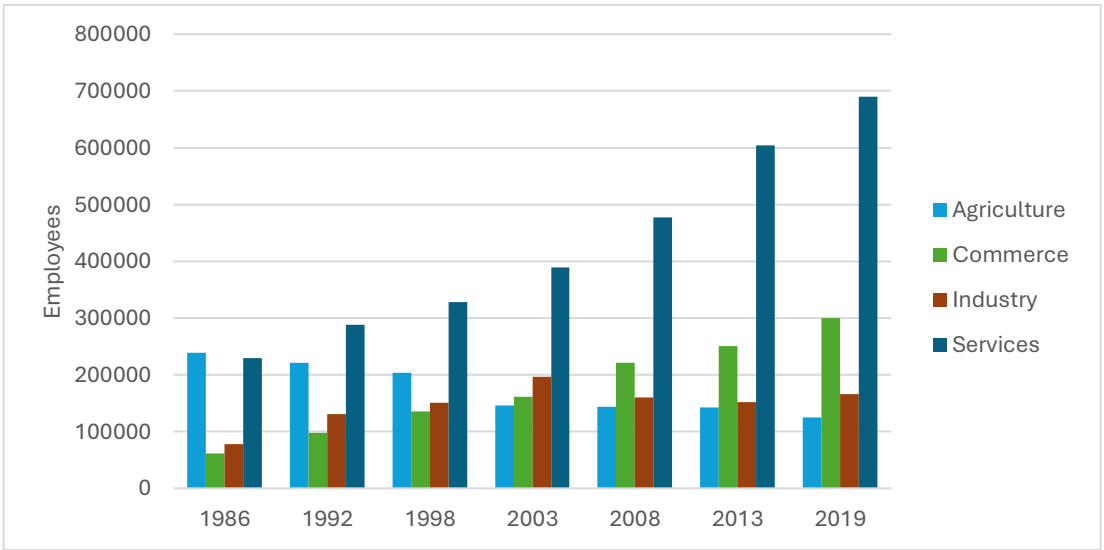
Figure 13. Correlation between Change in Sectoral Productivity and Employment shares by Period Guatemala



Source. World Bank Job Structure Tool, 2024

However, the industry has created minimal jobs (Figure 13). Agriculture represents the largest increase in productivity levels; however, the sector has created less formal employment.

Figure 12. Formal Employment Evolution by Sector Guatemala

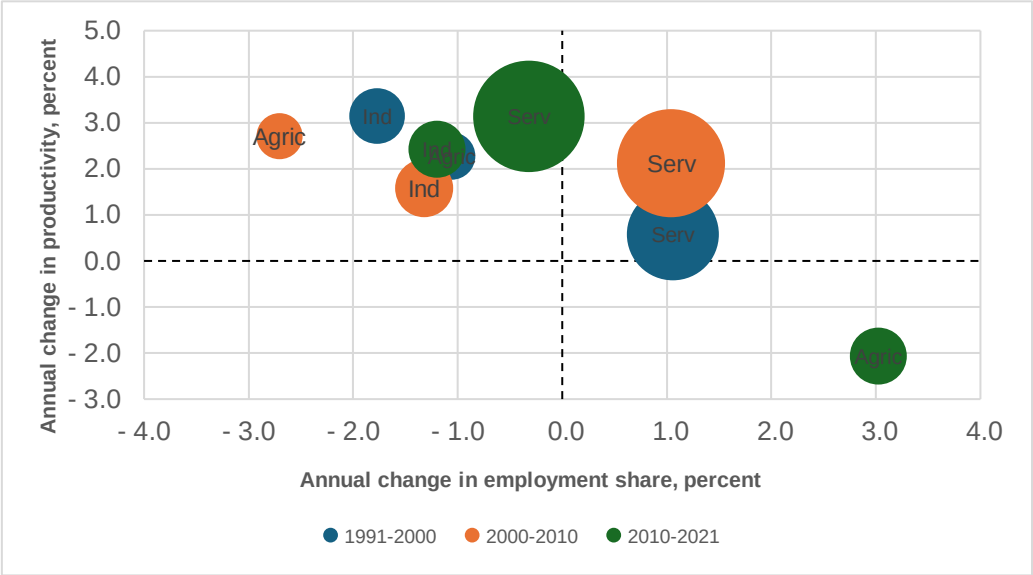


Source. Own elaboration based on National Social Security IGSS data, 2024

Additionally, the Guatemalan informal sector continues to be significant; between 2004 and 2018, according to the Employment National Survey, 60 percent of the jobs created were hired by informal conditions (World Bank, 2023).

Costa Rica has gradually improved its productivity levels following its structural transformation improvements. Since the beginning of the 1990s (Figure 14), a notable decline in agricultural productivity has been observed, with higher productivity levels in the services sector compared to Guatemala. However, industrial productivity has decelerated compared to the 1990s period. Increasing industrial productivity represents an opportunity for rapid development as it has recently been introduced into manufacturing high-tech medical equipment.

Figure 14. Correlation between Change in Sectoral Productivity and Employment shares by Period Costa Rica



Source. World Bank Job Structure Tool, 2024

5.1.3 Elite Dynamics in Guatemala and Costa Rica

The excessive land concentration from a colonial legacy allowed the surge of a powerful group of families often labeled by authors as the Guatemalan "oligarchy" due to their high levels of wealth accumulation and vast influence in the Guatemalan social-political context. Some of these families' descendants can be traced back to the colonial period, like the case of the Castillo family, whose lineage goes back to the Spanish *conquistador* Bernal Díaz del Castillo (Casaús Arzú, 2018). Particularly in Guatemala, the elites are linked by several closed intermarriage marital ties, which allowed them to create powerful networks combining wealth and resources (Appendix D). Such linkages constituted their assets and expanded their capital and influence. Nowadays, the 150 families that control the country's five leading business conglomerates (Appendix E) exercising high *de facto power* (Sanchez, 2009).

According to research, the wealth and origins of some of these family industries came with the promotion of extractive institutions (Fuentes Knight, 2022), such as sugar cane and coffee production (McCreery, 1983).

Elites in Guatemala are known as being among the most rapacious in Latin America and the Caribbean (Casas I Klett & Cozzi, 2023). It is generally acknowledged that the political economy context created permitted the elites to push society to the maximum possible inequality levels by extracting the entire economic surplus, falling into the category of *rentier elites,* according to the Elite Quality Report in 2023 (Casas I Klett & Cozzi, 2023). The development of the industry and commerce sector has been predominantly dominated by such elites evolving into powerful business groups, controlling key markets, and diversifying their investments domestically and internationally. (Bull et al., 2014) Define such business groups as *legally independent firms operating in multiple (often related industries) controlled by a family or a family network through direct ownership, mutual shareholders, or another persistent linkage* (Bull et al., 2014, pp. 15).

In 2017, the World Bank enterprise survey for Guatemala established that the average firm age was 28.5 years, one of the highest records across 144 countries. Since 2017, Guatemala has had the fifth-highest average firm age ever recorded worldwide. This indicates a low degree of creative destruction leading to a lack of market dynamism, confirmed by low levels of productivity growth, as previously discussed. The lack of dynamism also implies that the informal sector has instead driven most employment generation in Guatemala (Eberhard-Ruiz, 2021).

Moreover, the econometric analysis conducted (Bull et al., 2014) portrayed how the Guatemalan predatory business groups have negatively affected economic development, underperforming in innovation. Hampering and slowing economic growth and development, therefore qualifying them as *parasites* for development with hierarchical networks, strong sectorial diversification, lower organizational upgrading with notable path-dependencies, and negative complements to national development (Bull et al., 2014)

Recent studies conducted by (Díaz, 2021) and (Romero et al., 2023) identified high levels of concentration and anti-competitive practices in specific sectors and products dominated by such business groups (Table 5). Commodities like sugar production and distribution are handled by a single entity, the “Association of Sugar cane Producers of Guatemala.” Together, they own Máquinas Exactas, S.A. This company (vertically integrated) oversees the

industrialization and commercialization process, which is then sold by six brands processed by Máquinas Exactas, S.A., owned exclusively by the sugar cane producers (Appendix A), this allows them to set prices of the final product, acting as a single monopoly (Díaz, 2021).

The production of poultry is captured by the *multilatina* Corporation "Multi Inversiones" (CMI), owned by the Gutierrez family. Their chicken and its derivatives are commercialized by its predominant brand, Pollo Rey, and sold in all supermarkets but precisely in its more than 1000 stores distributed across the country, allowing them exclusivity and price fixing for resale prices (Díaz, 2021). Corporation Multi-Inversiones became a large organization that expanded across three continents and six principal sectors, employing around 30,000 people (Bull et al., 2014). Their flagship company, "Pollo Campero" a fried chicken restaurant, has expanded to the United States, Spain, Indonesia, India, Mexico, and Ecuador (Bull et al., 2014). Additionally, the corporation invested in shopping centers all across Guatemala, as well as real estate projects (Bull et al., 2014) their energy division was the latest to be created with investments in hydroelectric plants since 2004; currently, the group owns Renace I, Renace II, Santa Teresa, Agrocomercializadora Agropolochic, Rio Las Vacas I, and II (Bull et al., 2014).

Progreso is a Guatemalan corporation owned by the Novella business group dedicated to the industrialization of cement. Their operations expanded to Costa Rica, Honduras, Panamá, Belice, Colombia, and El Salvador (Romero et al., 2023). For decades, Progreso benefited from a monopoly condition until the 2000s, when the market was opened and Mexican companies began importing the commodity (Romero et al., 2023). Nevertheless, Progreso kept a market share of approximately 80 percent until 2007 (Romero et al., 2023). Progreso is vertically integrated with a vast network of distributors, establishing exclusivity distribution deals and making anti-competitive barriers for other competitors; the corporation is also the owner of hardware stores "Construfacil" and "ConstruRed" distributed across Guatemala, offering a wide variety of supplies for construction.

Table 5. Guatemala's Anti-Competitive Markets

Product	Corporation	Owners	Herfindahl Hirshman Index	Market Share	Anti-Competitive Practice
Sugar Cane	Asazgua Máquinas Exactas, S.A	Herrera, Campollo, Vila, García, Botrán, Leal, González	1,335 for agricultural production	100%	Cartel pricing, Vertically integrated, distribution

					exclusivity, horizontal agreements
Poultry	Multi Inversiones Corporation (CMI)	Gutierrez/ Bosch	9,050	90%	Vertically integrated, price fixation
Pasta	Multi Inversiones Corporation (CMI)	Gutierrez/ Bosch	2,488	40%	Entry barriers, limited market access
Cement	Progreso	Novella/ Torrebiarte	6,800	81%	Vertically integrated, distribution exclusivity,
Source. Adapted from (Díaz, 2021) and (Romero et al. 2023)					

Furthermore, the Castillo business groups nowadays lead the two largest Guatemalan industrial corporations: Cabcorp Group and Cerveceria Centroamericana (Bull et al., 2014). Cerveceria Centroamericana has a dominating position in Guatemalan beer production, having established a joint venture with the multinational AmBev (Bull et al., 2014). In contrast, Cabcorp is dedicated to producing and distributing soft, non-alcoholic beverages by having a franchise with PepsiCo and a strategic alliance with Pepsi Americas (Bull et al., 2014). Additionally, the Castillo business groups founded in the 1960s the leading private bank in Guatemala: Banco Industrial. This bank concentrated 35.2 percent of the market share in loans for businesses in national currency (Guatemalan Quetzal) and 41 percent of the market share in US$ dollars in business credits during 2022 (Romero et al., 2023).

Similarly, in Costa Rica, sugar production is under a monopoly through the umbrella entity “Liga Agrícola e Industrial de la Caña de Azúcar” (LAICA). Thanks to the political negotiations done by this entity, strong entry barriers have lasted for sugar and its derivates in Costa Rica; LAICA has reassured beneficial traits from the state by granting tariff extensions for imports of sugar processing machinery, credit support from the National Banking System, the construction of exclusive infrastructure for sugar exports and extended influence on the discussions of the latest free trade agreements during the last two decades (Sanabria, 2016). Several power networks have been built between the business groups and political parties to ensure its privileges, especially in the “Liberación Nacional” party (Sanabria, 2016).

Behind LAICA, the business group with the most significant political influence is “Ingenio Taboga.” this firm is represented by one of the most influential families in Costa Rica, the “Sanchez”. Since 1958, the business group has diversified its domestic portfolio by investing or establishing marital ties with families who lead the production of cattle, coffee, agro-industrial production, and distilleries for the production of ethyl alcohol and its derivatives (Sanabria, 2016). It is also known that the Sánchez business group has a nexus with other firms that surged in the last three decades, such as Grupo SAMA and Adral S.A., both dedicated to commerce and financing (Sanabria, 2016).

Companies like the Cuestamoras group, owned by the Uribe family, have a strong presence in tourism, real estate, energy, and entertainment services (Bull et al., 2014). Zeta Group, owned by Zingone Group, was the pioneer investor in industrial parks for FDI (Bull et al., 2014). Montecristo Group, owned by the Durman family, is the only one with the potential to be compared to the level of the largest Guatemalan corporations according to (Bull et al., 2014) with its core activity in manufacturing diversifying their portfolio into cattle, mango production, logistics, real estate, and hotels (Bull et al., 2014).

Overall, Costa Rican business groups have diversified in agriculture, ranging from cattle tropical fruits to pork and African palm (Bull et al., 2014; Franzoni & Sánchez-Ancochea, 2013); they have not diversified their portfolio excessively as Guatemalan groups have (Appendix F) this is primarily due to the slow pace of liberation of the economic sectors controlled by the state and the presence of several cooperatives in multiple sectors, making a more competitive market, which reduced the opportunity for diversification in non-tradable sectors (Bull et al., 2014). Sectors such as banking, telecommunications, and electricity were either state-owned or dominated by state-owned companies that resisted privatization; while some state companies were privatized at the beginning of the 1990s, business groups showed vague interest in sectors they did not have prior experience in (Bull et al., 2014).

Costa Rican firms follow a more conservative approach, keeping a safe path in their sectors, as (Bull et al., 2014) posited: “Costa Rica business groups prefer a more safe route of selling their firms and investing in real estate. They are risk-averse and ignore the preconditions that the country offers to boost innovation.”

Regression analysis performed by (Bull et al., 2014) demonstrated that, in general, Central American firms tend to invest less in innovation, with Costa Rica performing the best in comparison with the rest of Central America but less than its South American peers.

However, they qualify as *paragons* or complements for growth with positive national development trajectories and path creators instead of path-dependents (Bull et al., 2014).

Paradoxically, domestic firms seem to have ignored the country's clear advantages in terms of political and institutional stability and an educated, highly skilled workforce. Such conditions have attracted high-tech multinational companies to open electronic product and medical device assembly lines (Bull et al., 2014).

5.2 Inclusion

In terms of poverty reduction Costa Rica had already been reducing its poverty headcount since before 1986 (Table 6) due to an early institutionalization from a social state composition that allowed the promotion of universal policies in areas such as health, social security, education, housing and basic services (Roman, 2012).

Costa Rica’s record in state-driven social incorporation was remarkable, a growing number of citizens benefited from free access to health care, education, pensions, and affordable services such as water and electricity (Franzoni & Sánchez-Ancochea, 2013). These conditions allowed the nation to reduce its poverty by up to 15 percent in 2014.

Guatemala on the other hand had a poverty headcount in 1986 of 88 percent of the population due to social unrest and a civil war whose deep-rooted causes were the extreme poverty conditions and land inequality. During the 2000s, Guatemala reduced poverty up to 49 percent after following the peace accord agreements. Nevertheless, the latest official poverty measurement held in 2014 showed that poverty rebounded to 55 percent.

Table 6 Poverty Headcount ratio at $6.85 a day (2017 PPP) (% of population)

	1986	2000	2006	2014
Guatemala	88	50	49	55
Costa Rica	63	36	25	15

Source. World Bank, 2024

Much of Costa Rica's success is accounted for by the successful example of a mixed economy in which states and markets worked together, creating opportunities for private actors, large domestic business groups, and small and medium-sized firms and cooperatives (Franzoni & Sánchez-Ancochea, 2013). The state provided learning by creating the National Learning Institute (INA) in 1965, increasing its human capital capabilities. The differences in state institutions and economic structures between Guatemala and Costa Rica influenced the

distribution of incomes, it comes as no surprise that Guatemala, since 1986, was highly unequal, making modest improvements. However, the Costa Rican state has difficulties securing market social incorporation and sustained structural transformation simultaneously (Franzoni & Sánchez-Ancochea, 2013), consequently leading to an increase in income inequality, pairing its Gini index with Guatemala in 2014 (Table 7).

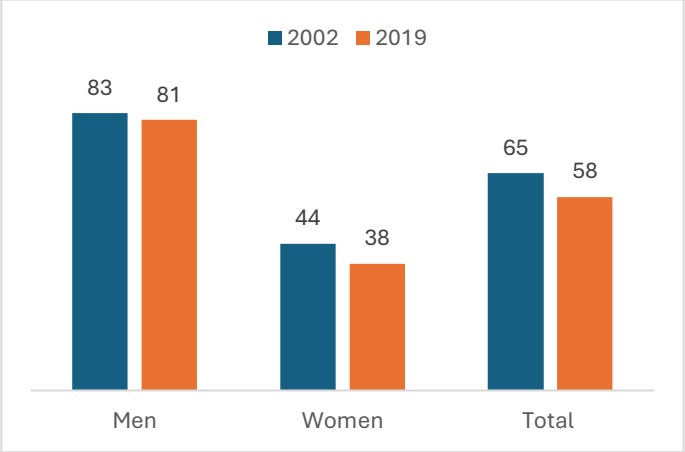
Table 7. Gini Coefficient for Costa Rica and Guatemala

Costa Rica		**Guatemala**	
1986	34,4	1986	58,3
1989	45,6	1989	59,6
2000	47,4	2000	54,2
2006	49,3	2006	54,6
2014	48,6	2014	48,3
2020	49,2	2020	No data
Source. World Development Indicators, 2024			

Rising inequality in Costa Rica is due mainly to changes in the composition of household incomes. Wages from skilled employees are attributed to be where the most income inequality derives from a substantial disparity between wages earned by non-skilled and skilled employees during the past 15 years, reflects the rise in wages premium associated with education (OECD, 2017a). After the 2009 financial crisis, the economic recovery has been slow. Lower employment is mainly due to a lower participation among women, with almost half of all working-age women reporting inactivity because of household responsibilities; migrant women tend also to be trapped in informal jobs, all of the latter hamper Costa Rican women getting access to pensions (OECD, 2020). Migrants and indigenous populations also face difficulties in accessing formal labor markets.

As previously discussed, Guatemala faces difficulties in creating quality employment, which is explained by the high employment levels in the informal sector. According to the national jobs survey held by the National Statistics Office (INE) in 2002, the proportion of occupied Guatemalans of working age posited at 65 percent. The figure decreased during 2019 to 58 percent (Figure 15), meaning that the employment opportunities decreased from 10 million Guatemalans in working age conditions during 2019, only 6 million people were reported as employed; during the last decade, state policies and the private sector have failed to create new employment opportunities alongside with a detrimental low female labor force participation.

Figure 15. Proportion of Guatemalans in Working Age, Occupied

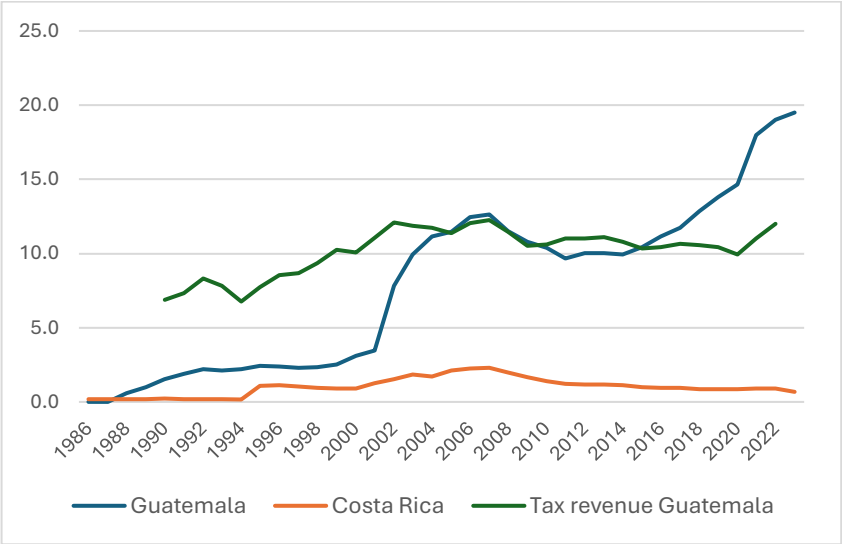


Source. Fuentes Knight (2022)

Such a critical scenario motivated almost 3 million Guatemalans to migrate sharply at the beginning of the 2000s, mainly to the United States (Díaz, 2023). According to the latest remittances survey held by IOM, 85 percent of Guatemalan migrants decided to migrate for economic reasons, seeking jobs and better incomes (OIM, 2022) to support their families left behind. During 2020, remittances sent to Guatemala accounted for 15 percent of GDP (Figure 16), a situation that increased during and after the pandemic, accounting for a historic 20 percent of GDP during 2023. Additionally, since 2015, remittances surpassed tax contributions. Remittances have then become an essential part of the Guatemalan economy, boosting internal consumption. However, it also indicates the nation's failure to create employment and, more importantly, decent wages.

According to the IOM survey 44 percent of family remittances are being used to pay for household primary consumption (Appendix G). A combined 14 percent (raw material, merchandise and equipment) indicates that remittances are also used as capital to invest in small businesses. Conversely, Costa Rica has high levels of emigration, mainly from large and rising flows of Nicaraguans (OECD, 2017a) seeking economic opportunities, attracted by the main drivers of labor migration in Costa Rica including: stable political climate, good socio-economic conditions and labor market opportunities for low-skilled workers, involving light manufacturing and agriculture (OECD, 2017a).

Figure 16. Personal remittances, received (% of GDP)



Source. Own elaboration based on World bank Data 2024

Regarding educational outcomes, Costa Rica is often recognized in Central America for its high educational performance. Since the 2000s, Costa Rica has achieved a 95 percent literacy rate among people ages 15 and above, according to UNESCO. On the other hand, Guatemala had only achieved 69 percent of the adult literacy rate by 2002. Such figures improved for Costa Rica, achieving a 97 percent literacy rate in 2011, whereas Guatemala's literacy rate went to 81 percent in 2014; however, until 2018, Guatemala's literacy rate stagnated, starting again at 81 percent.

Some improvements have been made to primary education coverage; according to the national census held in 2018, primary education coverage improved to 93 percent from 86 percent educational coverage for children ages 7 to 12 years. However, secondary education coverage improved by just one percent going from 63 percent coverage in 2002 to 64 percent in 2018 (Fuentes Knight, 2022) such conditions put Guatemala into a challenging scenario to promote structural transformation to highly industrialized sectors, according to the Human Index Capital reported by the World Bank for Latin America during 2020 Guatemala was behind Honduras and Nicaragua, only below Haiti. Differences with Costa Rica are remarkable; for instance, during the 1970s the nation met full primary education (OECD, 2017b) coverage. However, according to (Roman, 2012) the 1980s was a lost decade in terms of education development because of structural adjustments education suffered important setbacks, social investment was reduced by 5 percentage points of GDP from 18.5 percent to 13.5 percent (Roman, 2012). It was not until 2001 when the country recovered the 60 percent

coverage, the secondary schooling rate it already had at the beginning of the 1980s (Roman, 2012). Between 1999 and 2014 gross student enrolment rates increased from 79 percent to 133 percent (OECD, 2017b) Outside of the formal education system the National Training Institute (INA) increased its enrollment rates by 44 percent since 2005.

5.3 Autonomy

Latin America is often known as one of the regions with the lowest tax revenues, and Guatemala and Costa Rica are no exception (Figure 17). However, each country has unique challenges to overcome. In the following section, I will briefly elaborate on both countries' constraints to seek tax reforms and the state's ability to keep interests at bay.

In the case of Guatemala, before the signing of the peace accord in 1996 taxes were recollected by the Ministry of Finance specifically by the General Directorate of Customs and the General Directorate of Internal Revenue (Schwartz, 2021). However, authorities realized there was “corruption on all sides” inside both branches; therefore the minister of finance announced their dissolution (Schwartz, 2021) which led to the creation of the ‘Superintendecia de Administración Tributaria’ (SAT), seeking to recover society’s confidence in public authority by eliminating the predatory informal rules that allowed military, political and economic elites to capture state revenue on a systematic basis (Schwartz, 2021).

Afterwards, tax reforms have been a true political battle between the business sector; represented since 1954 by the lobby predatory organization ‘Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras’ (CACIF) (Steenbergen, 2011); this umbrella association has a historic legacy of defending elite interests operating primary by *veto* and *obstruction* (Steenbergen, 2011); CACIF centralizes all the political and economic interests from the wealthiest Guatemalan corporations and business chambers, this organization is the foremost defender of Guatemalan, social, political and economic status quo (Sanchez, 2009). The history of taxation reforms shows unambiguously that tax reform initiatives have met the implacable opposition from CACIF (Sánchez, 2008).

This entity has opposed land tenure, labor unions, rejected demands to improve labor conditions and wages (Sánchez, 2008). Its influence was reflected in the decisions from the government not to increase minimum wages recently during 2018 and 2020 with an insignificant increase during 2019 (Fuentes Knight, 2022) they are also accountable for the fact that Guatemala does not have a market competitiveness law that would allow the creation

of a state institution that would oversee market anticompetitive behaviors, making the only country in Latin America besides Cuba not to have such law.

Moreover, CACIF and its members have enjoyed direct access to the president and government ministers, retaining this privileged access since 1985 (Sanchez, 2009) giving them *de facto power*. Proven in multiple ways; first providing a ready source of candidates for ministerial positions in incoming government cabinets, regardless of the electoral victorious party (Sanchez, 2009). For example, they basically appointed the minister of economy who served from 1996 to 1998 during former president Alvaro Arzú tenure as (Krznaric, 2022) documented. During the 2007 presidential election, all of the vice-presidential candidates belonged to the business elites, including the running mate of the indigenous leader Rigoberta Menchú (Sanchez, 2009). In 1993, influenced by the neoliberal strategy they promoted an initiative that prohibited the Government from seeking financing from the Central Bank, leaving as the only option the selling of bonds to domestic banks (Fuentes Knight, 2022) or allocation of external bonds, exposing the government to unforeseen crisis, giving them power over macroeconomic policies and economic institutions.

Tax reform is one of the most pressing matters for Costa Rica to address. According to (Arias Chavarría, 2022) 2017, most of the tax revenues came from indirect taxing, consumption, and social contributions, while only 6.2 percent of the taxes came from direct contributions. Such a taxing composition has benefited corporate elites. The neoliberal influence that began in 1986 led to profound structural change in terms of fiscal capacities and tax revenues. As a result, the state went from a social and developmental state to a debtor state (Arias Chavarría, 2022).

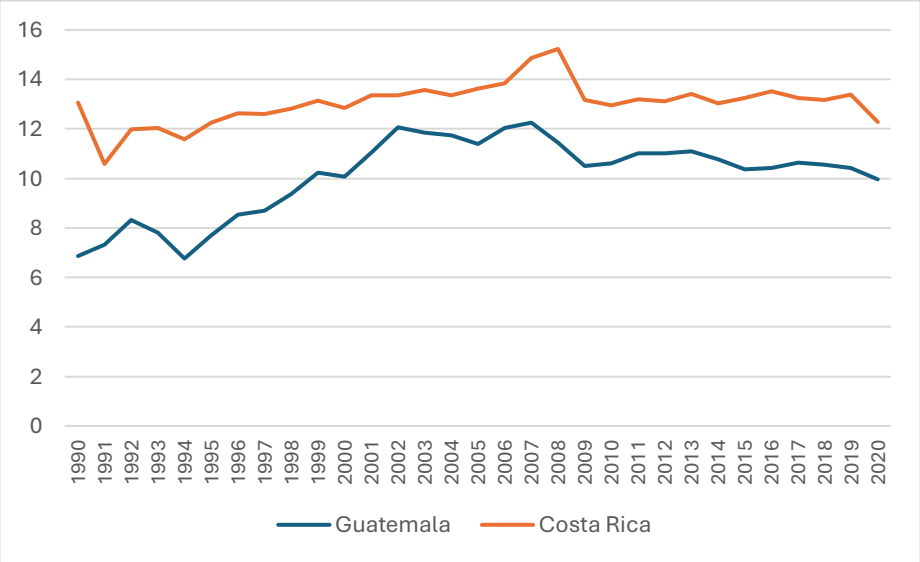
In the last two decades only one tax reform has been approved after several attempts as (Arias Chavarría, 2022) posits; all attempts had failed due to strong opposition from two groups: the parliamentarian elites and the business elites. The latest tax reform was highly questioned due to a reduction for rent direct taxion for corporations and other fiscal privileges; such a decision led to social protests in 2018. The business sector exercised a decisive influence on the formulation of such reform they even offered logistical support and food to police forces that helped to dismantle the protests as (Arias Chavarría, 2022) documented; from such experience, it was clear that the fiscal regime in Costa Rica is fundamentally a game of power related to the existing economic and political hierarchies (Arias Chavarría, 2022). Taxing the business sector has been particularly challenging in Costa Rica, even though corporate

taxation posits at 30 percent. According to CEPAL and (Arias Chavarría, 2022) the potential losses from tax corporate evasion posits at 65 percent.

Since the beginning of the neoliberal reforms, several beneficial treatments have been granted to elites in Guatemala and Costa Rica, specifically to the export sector through fiscal incentives and exonerations, with the promise of more quality jobs. However, such promise has yet to be the case in both nations. In the case of Costa Rica, exceptions to SZEs during 2019 ascended to 1.33 percent of GDP.

Tax elusion and evasion are celebrated among corporate elites as the founder and former president of the American-Costa Rican chamber expressed: 'Tax elusion is a universal right, and every person who does all it can to avoid paying taxes is just, especially when taxes are being spent on "superfluous things" such speech exposes the social distancing from elites (Arias Chavarría, 2022).

Figure 17. Tax Revenue (% of GDP) Guatemala and Costa Rica



Source. Own elaboration based on World Bank data 2024

5. 4 Accountability

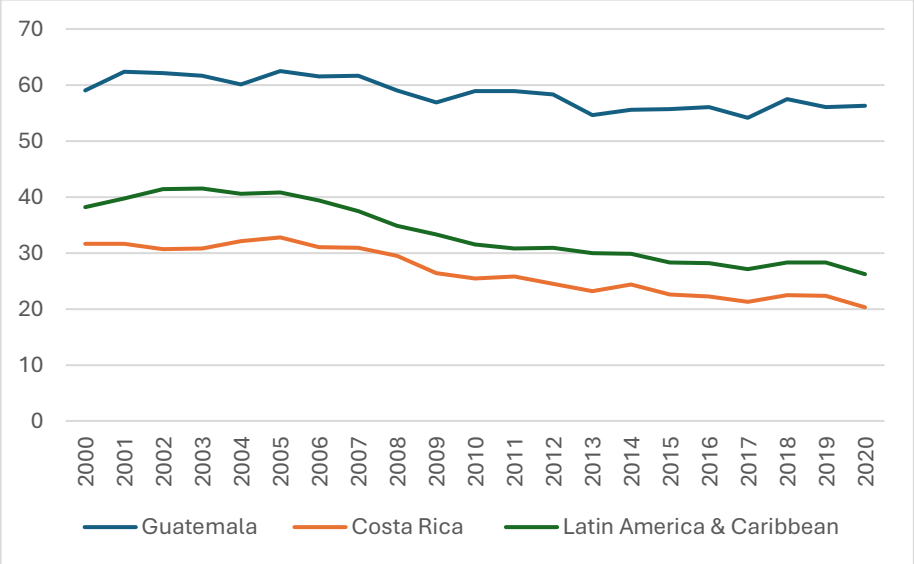
Lastly, I revise the progression from both states to provide public goods focusing on health access.

Costa Rica has been recognized as the country in the region with the highest health insurance coverage, with 92 percent of the population covered by 2008; youth under 18 enjoy free coverage even if their parents are not, and high pension coverage has been maintained (Franzoni & Sánchez-Ancochea, 2013). Since 1984, it was decided that the poor should have access to a health care system; therefore, an insurance scheme was created to cover people from the lowest quintiles, which other mechanisms cannot cover (Roman, 2012). However, in the last decade, public quality services have reduced their quality with long waiting times, encouraging individuals with the capacity to pay to opt for private services, thus increasing health inequalities (OECD, 2017c pp. 66). In Guatemala, data from the OAS established that only 14 percent of the total population was covered by a health program by 1989. By 2003, the index degraded to only 11 percent of the population having access to health services based on World Bank definitions, making Guatemala the second lowest per capita public spending in Health (Gragnolati & Marini, 2003).

Several challenges, like reaching remote rural areas, have made it difficult to expand health services broadly. Differences in public health settings and institutions have diverted Guatemala and Costa Rica regarding their ability to provide health services. For instance, Costa Rica has designated several contributory and non-contributory insurance mechanisms over the years. Independent workers are obligated to pay contributions for health insurance and pensions, while other initiatives have promoted enrolment for indigenous citizens since 2005 (OECD, 2017c).

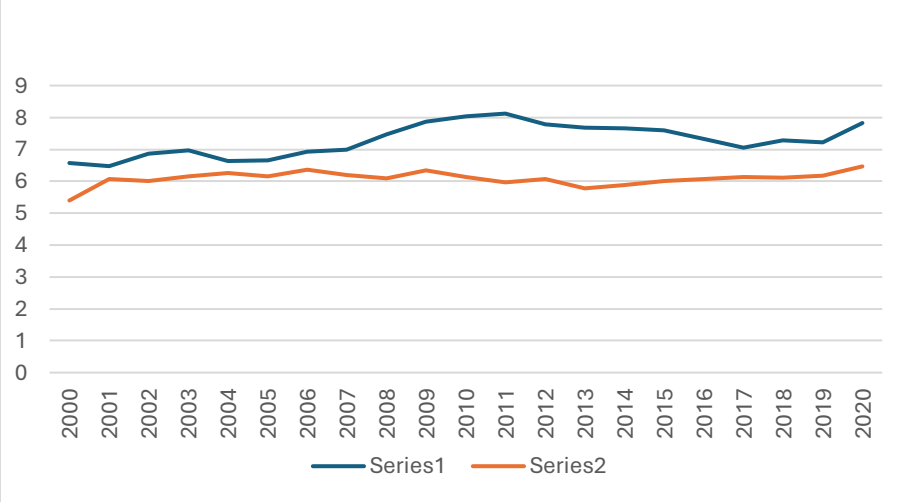
Institutional frameworks and distinct visions established before the neoliberal adjustment in Costa Rica accounted for the success in this area. Conversely, in Guatemala, access to private health has been held mainly by private services; out-of-pocket health expenditures during the beginning of the 2000s were already at 59 percent compared to Costa Rica's 32 percent (Figure 17) and above the Latin American average. For instance, remittance beneficiaries dedicate at least 8 percent of their expenses to health expenses (Appendix G).

Figure 17. Out-of-pocket Expenditure (% current health expenditure)



Source. Own elaboration based on World Bank data 2024

Figure 18. Health Expenditure as (%) of GDP



Source. Own elaboration based on World Bank data 2024

6 Conclusion

Applying the social capabilities approach allowed to show not only the diverted outcomes for both nations but also inspect further beyond a simple growth analysis, delving into the complex social dynamics in place, their repercussions for development, and disentangle the progression of their development paths.

Between 1985 and 2020, the neoliberal agricultural strategy implemented during the 1990s reduced the state's capacity to distribute resources nationwide in Guatemala due to a lack of public institutionalism that did not promote technical assistance and technology, contrary to its neighboring peer, which directly affected the nation's efforts to promote transformation from the agriculture sector. A fundamental difference between both nations was the active role of the Costa Rican state in creating pre-conditions that favored more inclusive growth.

A fundamental social difference between Costa Rica and Guatemala can be found in the role of the elites as complements for development. The link between the elites and the state is strong in Guatemala, hampering the state's autonomy from sectorial interests. Contrary to the Guatemalan case, Costa Rica seems to have more efficient state regulation institutions with greater capacities for law enforcement, making a weaker private-public link. Nevertheless, both nations face a shared challenge: improving accountability, particularly by direct taxation. Complex political-economic sectorial interests are at play; further research focused on political economy, especially in Costa Rica, is needed to understand the dynamics in place, focused on the last decade.

The strategies adopted since 1985 have made quality employment creation challenging for both nations. Although Costa Rica experienced considerable positive overall progress in social capabilities, particularly from sustained transformation, such advancements have not moved in parallel with inclusion, especially during the last bdecade.

From 1985 to 2020, Guatemala experienced poor overall progress in its social capabilities. This study highlights the two countries' most important social capability difference: the lack of inclusion. The insufficient efforts for transformational development, combined with a deficient effort towards poverty reduction and a persistent lack of quality employment opportunities, aggravated by the state's low accountability, have forced millions of Guatemalans to migrate in search of economic opportunities.

Autonomy in Guatemala is questionable, as procurement for a competitive market is deficient. These conditions are reflected by the low capacity to attract foreign direct investment that could help promote transformation. A series of investments in technology, in parallel with an increase in public spending, would improve the efforts for sustained transformation and, more importantly, create inclusive employment opportunities. However, complementary research focused on the state of autonomy is advised.

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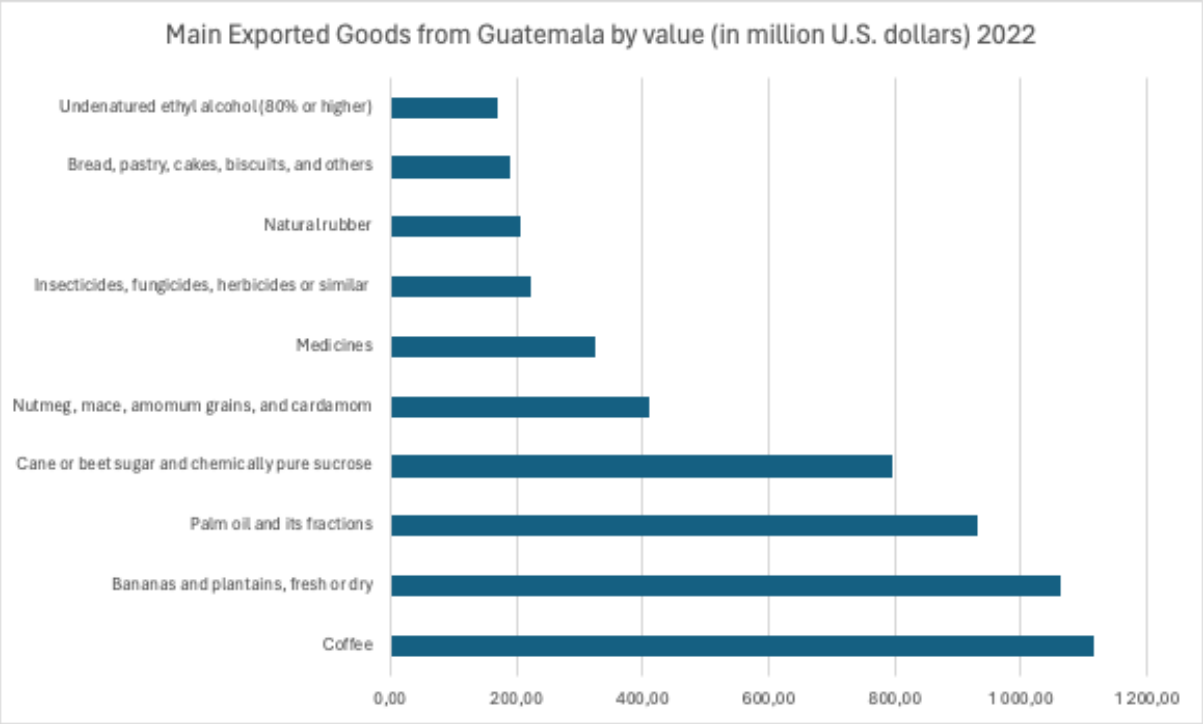
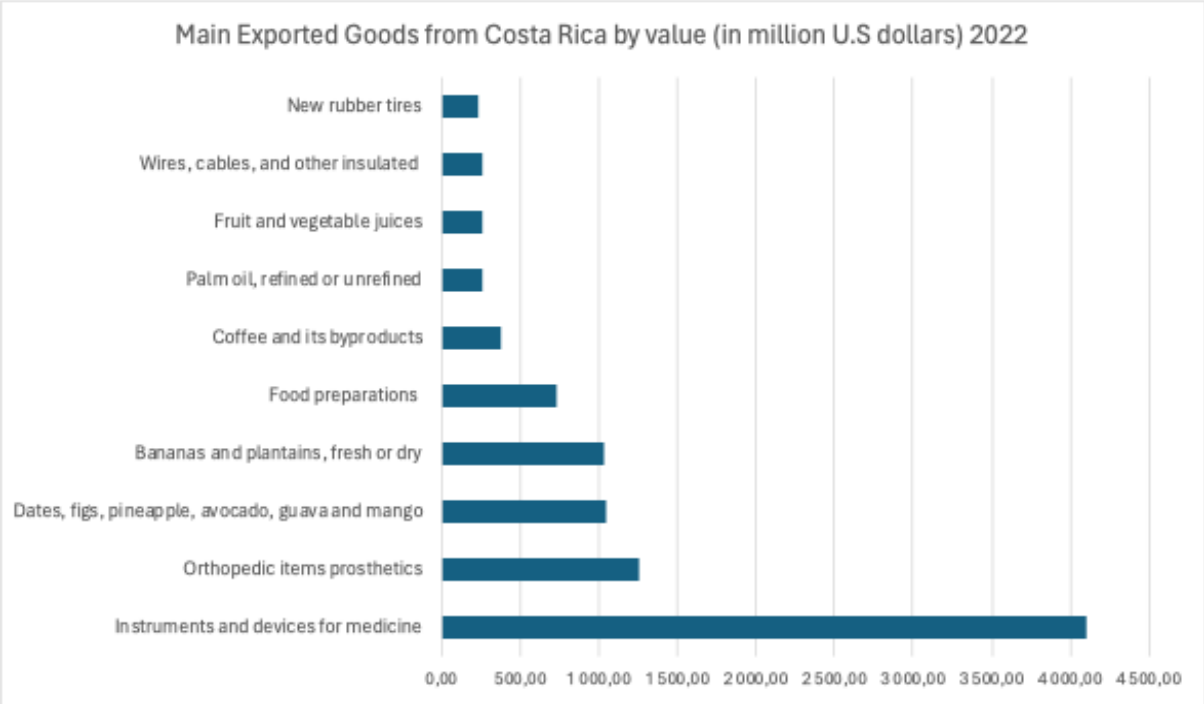
Appendix A



Source (Statista, 2024)

Appendix B



Source (Statista, 2024)

Appendix C

Guatemalan Sugar Cane Owners				
Sugar Cane Company	**Year of Foundation**	**Family Owner**	**Origin of Wealth**	**Investments in other Sectors or Industries**
Pantaleón	1849	Herrera	Coffee	Real State, Banking, Palm Oil, energy sector, ethanol
Concepción	1878	Herrera	Coffee	Real State, Banking, Palm Oil, energy sector
Madre Tierra	1963	Campollo	Coffee	Oilcloth, Palm Oil, energy sector, ethanol
El Pilar	1975	Campollo	Coffee	Oilcloth, Palm Oil, energy sector, ethanol
Trinidad	1980	Vila	Textile Industry and Real State	Real State, energy
San Diego	1887	Vila	Textile Industry Real State	Real State, Energy
La Unión	1969	García	Commerce	Construction, energy sector, Food Industry
Los Tarros	1959	García	Commerce	Food Industry, energy, Construction
Santa Ana	1968	Botrán	Liquor Industry	Transportation, Liquor Industry, energy sector, ethanol, Hospitality sector, Banking
Tululá	1904	Botrán	Liquor Industry	Transportation, Liquor Industry, energy sector, ethanol, Hospitality sector, Banking
Palo Gordo	1930	González (Bauer-Hertzsch)	Sugar Cane	Energy sector, ethanol
Magdalena	1976	Leal	Cattle, Coffee, Sugar Cane	Real State, Banking, Food industry, security, energy sector, ethanol
Adapted (Fuentes Knight, 2022)				

Appendix D

Guatemalan Oligarchic Families in the Twentieth Century

	Coffee	Sugar	Cotton	Cattle	Other	Commerce	Industry	Finance	Oil	Mining	Maritial Ties
Aguirre	X	X			X		X	X			Arrivillaga, Arzu
Alejos	X	X	X	X	X	X	X	X			Arzú, Batres, Díaz Durán
Andrade	X							X			Arrivillaga, Aycinena, Díaz Durán, Falla
Arenales	X				X	X	X	X	X	X	Aycinena, Castillo, Dorión
Arrivillaga	X	X			X	X			X		Aguirre, Aycinena, Batres
Arzú	X					X	X	X			Alejos, Azmitia, Castillo, Herrarte
Asturias	X				X	X	X	X			Arzú, Aycinena, Beltranena, Urruela
Aycinena	X		X	X	X	X		X			Asturias, Batres, Beltranena, Piñol
Azmitia	X						X				Beltranena, Castillo, Toriello
Barrios	X	X		X				X			Alejos, Aparicio, Dorión
Batres	X	X			X	X	X	X			Arrivillaga, Arzú, Asturias, Castillo
Beltranena					X	X	X	X			Castillo, Sinibaldi, Urruela, Valladares
Berger	X			X	X		X				Azmitia, Dorión, Novella
Bouscayrol	X	X		X	X	X	X			X	Asturias, Castillo, Saravia
Castillo	X	X		X	X	X	X	X			Azmitia, Beltranena, Lara, Sinibaldi
Cofiño	X	X			X	X	X	X			Castillo, De León, Díaz Durán, Herrera
Cordon	X	X	X		X	X	X		X		De León, Matheu, Samayoa
Dardón	X										Köng, Lara, Ibargüen, Neutze
De León	X	X		X	X	X	X	X			Barrios, Castillo, Cordón, Dorión
Díaz Durán	X										Cofiño, Falla, Herrera, Klee
Dorión	X	X		X		X	X	X			Berger, Castillo, Klee
Falla	X				X						Arrivillaga, Beltranena, Castillo, Saravia
Fischer						X	X	X			Castillo, Cofiño, Saravia
García Granados	X	X	X								Aguirre, Köng, Neutze, Vasquez
González		X					X	X			Barrios, Saravia
Herrarte	X			X							González, Pivaral
Herrera	X	X	X	X		X	X	X			Dorión, Ibargüen, Ubico, Urruela
Ibargüen	X		X		X	X	X	X			Asturias, Batres, Samayoa, Stahl
Klee	X	X		X	X	X	X	X			Garcia Granados, Matheu, Samayoa, Saravia
Köng	X		X		X	X	X	X		X	Castillo, Cofiño,Dardón, Díaz Durán, Urruela
Lara	X					X	X	X			Castillo, Cofiño, Dardón, Diaz Durán
Maegli	X		X	X	X	X	X	X			Novella, Urruela
Matheu	X		X			X	X	X			Bouscayrol, Klee, Neutze, Sinibaldi
Molina			X	X			X	X			Aycinena, Lara, Valladares, Zirión
Neutze	X	X				X					Aycinena, Matheu, Toriello
Novella	X				X	X	X	X	X		Berger, Klee, Maegli, Urruela
Piñol	X	X	X	X		X					Asturias, Batres, Valladares, Vásquez
Pivaral	X			x		X	X	X			Batres, Herrarte, Rodríguez, Valladares
Robles	X			X		X					Dorión, Herrera, Klee, Stahl
Rodríguez	X	X		X	X		X	X			Batres, Castillo, Robles, Saravia
Samayoa	X				X	X	X	X			Aycinena, Azmitia, Matheu, Piñol
Saravia	X	X				X	X	X			Aparicio, Asturias, Castillo, Ubico
Sinibaldi	X	X		X	X	X	X	X		X	Castillo, Herrera, Saravia
Stahl	X					X	X	X			Cofiño, Ibargüen, Robles
Toriello		X		X		X	X				Castillo, Herrera, Saravia
Ubico	X										Cofiño, Köng, Novella, Urruela
Urruela	X	X			X		X				Castillo, Köng, Novella, Ubico
Valladares						X	X	X			Aycinena, Beltranena, Castillo, Molina
Vásquez	X	X		X							Arzu, Castillo, García Granados, Piñol
Zirión	X	X				X	X	X			Castillo, Lara, Molina, Urruela

Source (Dosal, 1995)

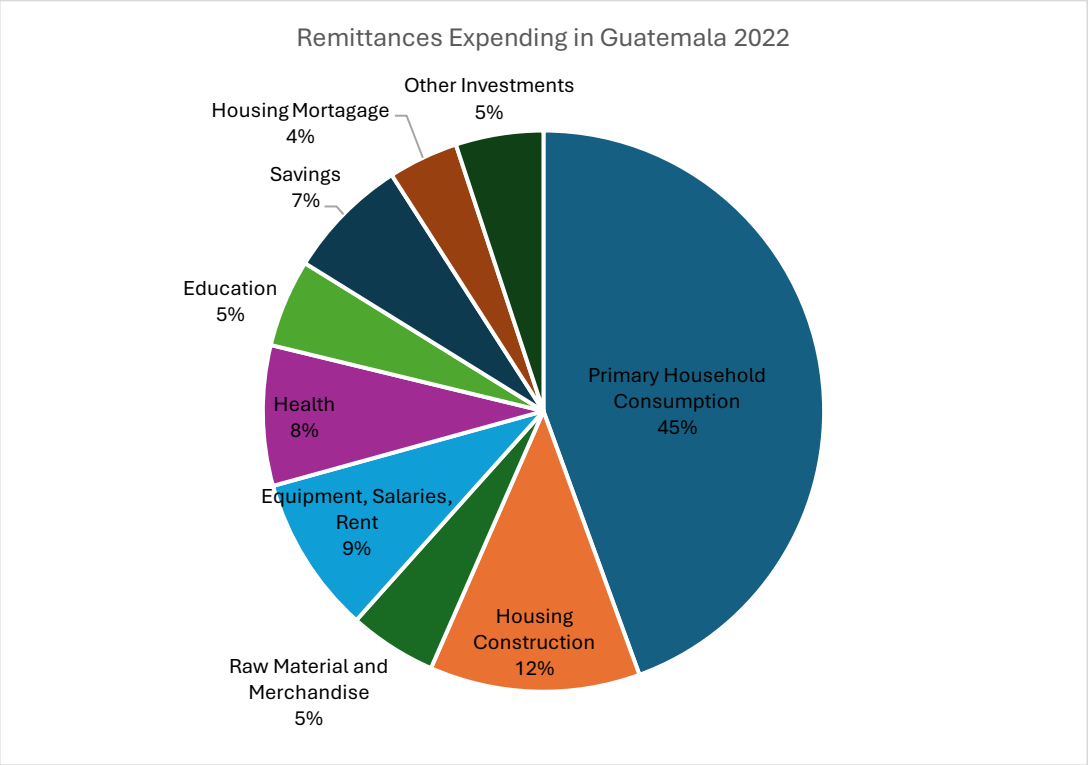
Appendix E

Main Guatemalan Corporations: Local Portfolio and Foreign Investment between 1986 and 2020			
Primary Sector	**Business Group/Family Network**	**Local Investments and Portfolio**	**Foreign Investment**
Processed Food Industries	CMI-Gutierrez, Castillo, Paiz, Torrebiarte	Banking, food industry, real state, commercialization services, telecommunications, energy, port services	Acquisition of several production facilities across Central America, Mexico, and the Dominican Republic
Alcoholic Beverages and non-alcoholic	Two Castillo Groups, Botrán	Banking, dairy industry, snacks, ultra-processed food industries, subproducts made by coffee, coffee commercialization, food services, commerce, real state, transportation, telecommunications, energy, plastic industry	Co-investments in Central America and the Caribbean, Ecuador, Perú and Argentina.
Pharma, Cosmetics, Vegetable Oils	Solares, Köng, Cohen	Cosmetics, Pharma, Banking	Distribution stores in Central America
Chemicals	Dalton, Ascoli	Agriculture equipment and fertilizers	Distribution Stores in Central America and Colombia
Cement	Novella, Torrebiarte, Maegli	Palm Oil, construction, rubber industry, footwear, bananas, energy, and Banking	Investments in Panamá, Honduras
Iron and Steel Industry	Gabriel	Banking, mining, energy	
Source. Fuentes Knight 2022, Bull et al 2014			

Appendix F

Table 4 Costa Rica Main Business Groups	
Salume Group	Wholesale and retail, food services, real state, food processing, construction
Belismelis Group	Transportation; Wholesale and retail; Agriculture
Kriete Group	Transportation, Wholesale, and retail; real state, tourism, agriculture, and finance
ADOC Group	Manufacturing, Wholesale, and retail
Zablah Group	Wholesale and retail, finance, supporting office services
Regalado Group	Agriculture, Energy
	Source. (Bull et all, 2014)

Appendix G



Source (OIM, 2022)