

UNITED STATES TARIFF COMMISSION



**ECONOMIC CONTROLS  
AND  
COMMERCIAL POLICY  
IN  
COSTA RICA**

10

One of a Series of Reports on  
Economic Controls and Commercial Policy  
in the American Republics



Washington  
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**UNITED STATES TARIFF COMMISSION**

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**FOREWORD**

This is one of a series of reports on Economic Controls and Commercial Policies in the Latin American Republics.

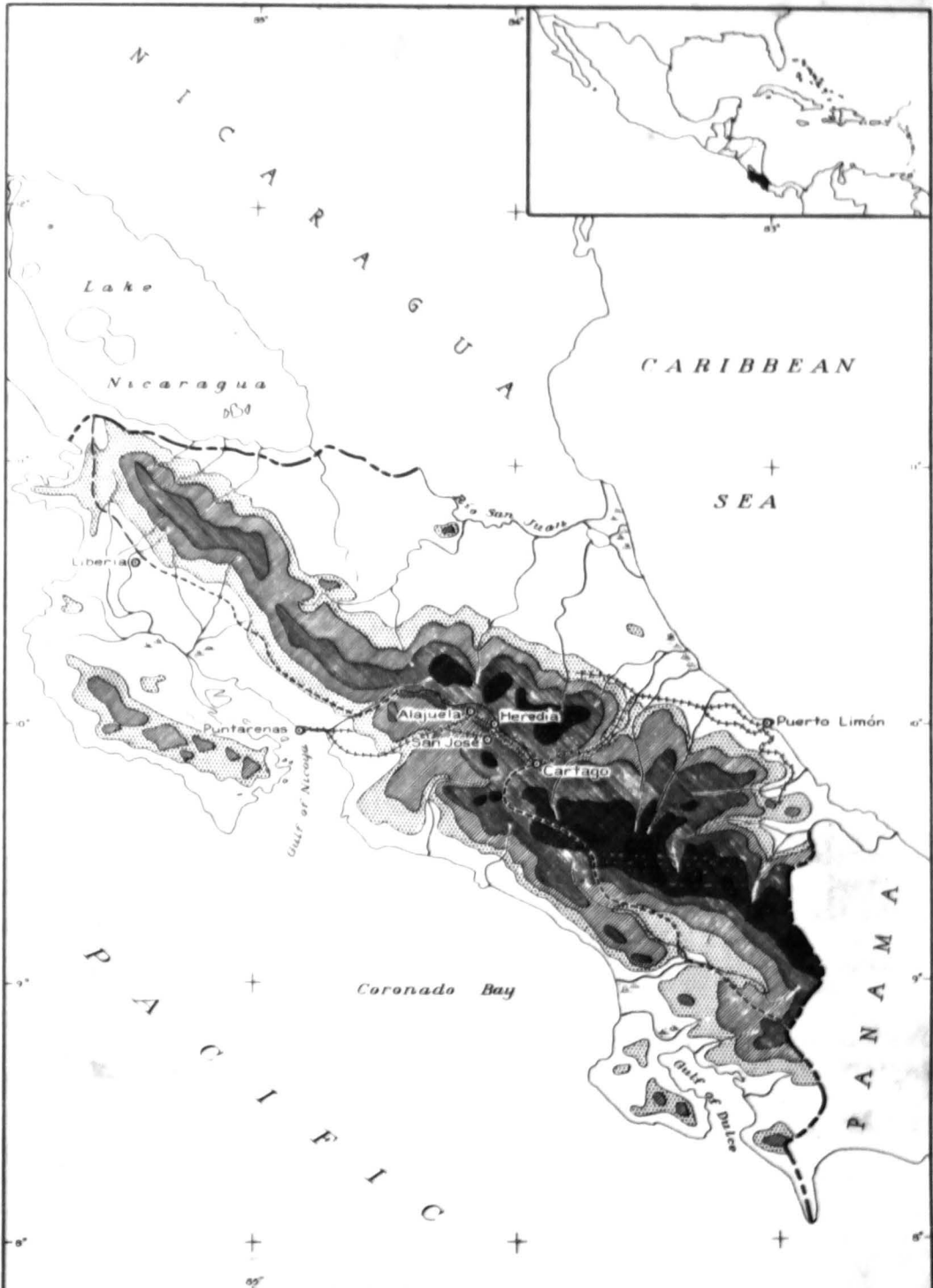
Other work in preparation by the Commission relating to trade problems of the American Republics includes a series of reports under each of the following headings: Mining and Manufacturing Industries; Agricultural, Pastoral, and Forest Industries; and Recent Developments in Foreign Trade.

In the preparation of this report the Commission had the services of Grace Roper Bohn, David Lynch, Allyn C. Loosley, and other members of its staff.

(24643)

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**COSTA RICA**  
**PHYSICAL MAP**

SCALE OF MILES  
 0 20 40 60

SCALE OF KILOMETERS  
 0 20 40 60

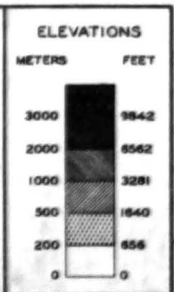
IMPORTANT CITIES AND TOWNS ..... ○

RAILROADS ..... + + + + +

PAH-AMERICAN HIGHWAY  
 ALL WEATHER ..... ————  
 DRY WEATHER ..... - - - - -  
 PROPOSED ..... - · - · -

RIVERS ..... ~ ~ ~ ~ ~

MARSHES ..... [Marsh symbol]



## ECONOMIC CONTROLS AND COMMERCIAL POLICY IN COSTA RICA

### Introduction

#### Costa Rica—a summary description

The Republic of Costa Rica,<sup>1/</sup> one of the six countries of Central America, is bounded on the north by Nicaragua, on the south and west by the Pacific Ocean, and on the east by the Caribbean Sea and Panama. Its area, 19,238 square miles, is somewhat larger than that of the States of Vermont and New Hampshire combined.

Costa Rica is traversed from northwest to southeast by two ranges of the Cordillera.<sup>2/</sup> Dense forests cover the Caribbean slope; on the Pacific side are rolling hills and fertile pastures. The broad plateau enclosed by the two mountain chains has an elevation of 3,000 to 6,000 feet. Flanking the ranges are coastal plains of varying widths; in general the Pacific littoral is narrow, but that on the Atlantic side is fairly broad.

Although Costa Rica lies in the Tropics, its climate is moderated by the altitude. In general, the country may be divided into the hot zone, which includes the coastal and river plains; the temperate zone, which comprises the central plateau; and the cool zone, which includes those areas with elevations of more than 6,000 feet. Rainfall varies considerably in different parts of the Republic; for the country as a whole it averages about 100 inches a year.

According to the census of 1927, the population of Costa Rica was 472,000. An official estimate for 1943 placed the number of inhabitants at 707,000, or about 37 persons to the square mile. The population is concentrated, however, in the healthful highland regions, especially in the vicinity of San José. Nearly seven-tenths of the people live in the Province of San José and the adjacent Provinces of Alajuela and Cartago, which together account for about one-third of the total area of the country. San José, the capital<sup>3/</sup> and principal city, has a population of about 76,000.<sup>4/</sup>

The people of Costa Rica are predominantly of European descent, many being of pure Spanish blood. The number of Indians is decreasing; in 1937 it was estimated that there were only 3,500 in the country. A number of Negroes from the British West Indies are employed on the banana plantations in the Caribbean lowlands, chiefly in the Province of Limón. The language of Costa Rica is Spanish; because of the large number of British West Indians in the Province of Limón, however, English is widely spoken in that area.

#### The Costa Rican economy<sup>5/</sup>

Costa Rica is primarily an agricultural country. The principal export crops are coffee, bananas, and cacao; but sugar, tobacco, corn, beans, rice, and potatoes are grown, principally for domestic consumption, as well as a wide variety of other fruits and vegetables.

In terms of value, coffee is the predominant export crop, and the prosperity of the country is largely dependent upon it.<sup>6/</sup> Exports in

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<sup>1/</sup> Officially known as República de Costa Rica (Republic of the Rich Coast).

<sup>2/</sup> These ranges, containing elevations of more than 10,000 feet, are dotted with numerous volcanoes, most of which are now extinct.

<sup>3/</sup> During most of the colonial period, Cartago was the capital.

<sup>4/</sup> Other important cities, with their estimated population (1941), are Cartago, 22,000 (including suburbs); Puerto Limón, 17,000; Alajuela, 13,000; Heredia, 10,000; and Puntarenas, 9,000.

<sup>5/</sup> This brief description of the Costa Rican economy relates principally to the period before the outbreak of the war.

<sup>6/</sup> Coffee trees are grown in virtually all parts of the country; production, however is centered principally on the central plateau, in the Provinces of San José, Cartago, Alajuela, and Heredia.

the 3 years 1936-38 averaged 53.5 million pounds annually, about two-thirds of which went to the United Kingdom and Germany; in 1939-40 about 40 million pounds were exported annually, chiefly to the United Kingdom and the United States. Production of bananas, which has been sponsored largely by United States companies, formerly took place principally on the Caribbean coastal plain, particularly in the Province of Limón.<sup>1/</sup> Because of the leaf-spot disease, however, cultivation of bananas has been transferred to the Pacific Coast and to other suitable areas. Annual exports of bananas in the 3 years 1936-38 averaged 5.2 million bunches,<sup>2/</sup> almost all of which went to the United States. In 1939-40 exports amounted to 3.2 million bunches annually. Cacao, the third-ranking Costa Rican export crop, is grown chiefly in the Province of Limón; exports averaged 14.6 million pounds annually in the 3 years 1936-38, and 12 million pounds a year in the period 1939-40.<sup>3/</sup>

The forest resources of Costa Rica have not been fully developed. Among the many woods are oak, mahogany, cedar, brazilwood, ebony, cocobolo, balsa, and fustic. Cedar, cocobolo, balsa, and rubber are the principal forest products exported. Mahogany, cedar, and rosewood are used in the manufacture of furniture for the domestic market.

With the exception of gold mining, there has been little mineral development in Costa Rica. The principal manufacturing industries of the country are those associated with the processing of agricultural and forest products such as coffee, sugarcane, cacao, and lumber. The few other industries produce a variety of light consumer goods for the domestic market.

#### Prewar foreign trade <sup>4/</sup>

In foreign trade Costa Rica in 1938 ranked second among the six countries of Central America, being exceeded only by Guatemala. In that year, with exports valued at 10.1 million dollars,<sup>5/</sup> Costa Rica furnished 20 percent of the value of all commodities exported from the Central American republics. Imports amounted to 12.6 million dollars and represented 17 percent of the value of all Central American imports.

The most significant features of the Costa Rican export trade in the decade 1929-38 were the declining importance of exports of coffee, the decline in the position of the United Kingdom as a market, and the increased proportion of exports taken by the United States and Germany. Exports of coffee, the principal commodity, declined from 62 percent of the value of total exports in 1929 to 49 percent in 1938. In the decade 1929-38, bananas, the second-ranking Costa Rican export, accounted for between 25 (1936) and 33 percent (1932) of total exports. In recent prewar years cacao accounted for from 8 to 12 percent of total exports, in terms of value. Other export products included gold, tuna fish, sugar, woods, honey, ipecacuanha, hides and skins, oranges, cattle, tortoise shell, and rubber. The principal export markets in 1938 were the United States (46 percent of the total value of exports), the United Kingdom (24 percent), and Germany (19 percent).

Imports into Costa Rica consist almost entirely of manufactured products and foodstuffs. Significant features of the trade in the decade 1929-38 included the maintenance by the United States of its position as the principal supplier, the decline in the importance of the United Kingdom, and the increase in the proportion of imports from Japan and Germany. The principal sources of imports in 1938 were the United States (49 percent of the total value of imports), Germany (20 percent), the United Kingdom (7 percent), and Japan (6 percent).

<sup>1/</sup> Costa Rica was the first of the Central American countries to produce bananas for exportation.

<sup>2/</sup> Bunches of 50 pounds each.

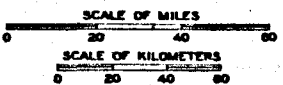
<sup>3/</sup> Small quantities of hides and skins and live cattle also are exported. Beef cattle are pastured principally on the Pacific coastal plains; dairy cattle are raised in the upper levels of the Cordillera.

<sup>4/</sup> For a detailed analysis of the foreign trade of Costa Rica as well as the other countries of Latin America in the decade 1929-38, see U. S. Tariff Commission, The Foreign Trade of Latin America (4 vols.), Report No. 146, Second Series, Washington, 1942.

<sup>5/</sup> The monetary unit of Costa Rica is the colón. Beginning in 1936 trade statistics were reported in United States dollars.



**COSTA RICA  
POLITICAL MAP**



- CAPITALS OF PROVINCES ●
- OTHER IMPORTANT CITIES AND TOWNS ○
- INTERNATIONAL BOUNDARIES - - - - -
- PROVINCIAL BOUNDARIES - · - · -

## General Character of Economic Controls and Commercial Policy

Although the economic life of Costa Rica has been subject to comparatively little governmental regulation, a number of controls operate in the domestic economy and over foreign trade. Until recently, the controls over foreign commerce have been the most important; since the outbreak of war, however, the decline in trade resulting from shipping shortages and the general dislocation of markets have reduced the importance of controls in this field. From time to time the importation of certain types of goods has been restricted in order to husband foreign exchange. Although the Government has regulated foreign-exchange transactions since 1932, more recently the favorable exchange position of the country has permitted a relaxation of such control.

Controls of the internal economy, on the other hand, have assumed greater importance during the war. Programs to increase agricultural output have been responsible, in part, for the relatively satisfactory economic condition of the country during the war, and have aided substantially in augmenting the food supply of neighboring countries and of nearby defense centers. Price control and the rationing of essential commodities have helped to stabilize living costs. The program for increased cultivation of certain strategic agricultural commodities has contributed materially to some of the wartime requirements of the United Nations. Controls established since the outbreak of the war have included measures to freeze Axis funds and to prevent the exportation of vital commodities to enemy nations.

### Economic Controls and Commercial Policy Before 1940

#### The import tariff

The Costa Rican tariff is chiefly a fiscal instrument, but it has been employed frequently to protect domestic industries. For many years import duties and related charges have been the major source of national revenue. Between 1929 and 1933 they contributed annually about 50 percent of the Government revenue and between 1934 and 1938, approximately 45 percent. During the latter period, the annual revenue from import duties was equivalent to about 27 percent of the total value of imported commodities (including those admitted duty-free).

The duties in the present import tariff, adopted November 1, 1922, are largely specific and are based on gross weight. <sup>1/</sup> Although there has been no general revision of basic rates in recent years, <sup>2/</sup> important modifications have been made by other methods, principally by the imposition of surcharges. <sup>3/</sup> Until the granting of certain conventional reductions in 1937, and the provision in 1939 for increased duties on imports from countries with which Costa Rica has an import balance of trade, the structure of the tariff, in both form and effect, was single column.

Reductions in or exemptions from import duties on machinery, seeds, and other essential supplies have frequently been made to encourage the establishment of new industries or to stimulate others. As early as

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<sup>1/</sup> Arancel de Aduanas de la República de Costa Rica, 2d ed., San José, 1933.

<sup>2/</sup> A general revision of the tariff was considered in 1931, and technical experts were engaged, but the plan was abandoned in favor of adjusting the tariff by other methods.

<sup>3/</sup> See the section on customs surcharges.



1918, machinery imported for new enterprises was accorded duty-free entry. In 1929 a number of industries already established, such as those engaged in the production of coffee, cacao, and rice, were permitted to import essential machinery and other equipment free of duty; in September 1931 this privilege was extended to all industries. <sup>1/</sup> In August 1937, in order to stimulate the production of abacá, henequen, sisal, and other fibers, numerous concessions were granted, including permitting the right of duty-free importation of seed and necessary supplies. <sup>2/</sup> Moreover, to encourage manufacturing, drawbacks of import duties have been granted since 1937 to exporters of articles made from imported raw materials not produced domestically in commercial quantities. <sup>3/</sup>

From time to time, additional protection has been extended to new domestic industries by increasing the import duties on many articles which can be produced in the country, or to established industries which face serious competition from imported articles. During the early years of the world-wide depression beginning in 1929, Costa Rica, following the example of other nations, sought by means of increased import duties to foster domestic industries and to reduce the country's dependence on foreign sources of supply. In recent years the country has made increasing use of this policy. To protect domestic clothing industries, the existing rates of duty on various textile manufactures were increased by 50 to 100 percent in September 1931. <sup>4/</sup> Import duties were also increased, for a period of 5 years, on a number of other commodities, including cheese, butter, margarine, certain other food products, soaps, toys, and footwear. <sup>5/</sup> It was provided, however, that if the domestic prices of specified foodstuffs should rise above certain designated limits, the previous rates of duty on these commodities would automatically become effective.

By 1934 the list of articles receiving protection had been expanded to include corn, beans, milk, lard and lard substitutes, wheat, wheat flour, rice, cattle, beef, pork, tallow, canned meats and other canned foods, beer, sugar, confectionery, leaf tobacco, and cigarettes. In some instances these duties failed actually to encourage domestic production and therefore operated principally as revenue measures. This was particularly true of wheat and lard, the production of which in Costa Rica is handicapped by climatic and topographical conditions. In various instances, the principal effect of the new duties was to increase the cost of living. From the available information it appears that in 1934 domestic prices of the eight principal protected articles (lard, wheat, cattle, soap, shoes, sugar, clothing, and textiles) were about two-thirds higher than they would have been had no import duties been imposed on them.

The Costa Rican Congress must approve all tariff concessions made in trade agreements and also, in theory, all other proposed tariff changes. From time to time, however, the Executive has been authorized

<sup>1/</sup> Legislative Decree No. 18, Sept. 1, 1931.

<sup>2/</sup> For a period of 20 years the cultivation, manufacture, transportation, exportation, and sale of products of the fiber industry were exempted from all special taxes.

<sup>3/</sup> Legislative Decree, effective June 1, 1937.

<sup>4/</sup> Legislative Decree No. 20, Gaceta Oficial, Sept. 2, 1931.

<sup>5/</sup> Legislative Decree No. 18, Gaceta Oficial, Sept. 2, 1931.

to alter import duties. Since 1901, he has been empowered to increase or decrease import duties; luxury goods, however, must be dutiable at rates higher than those applying to prime necessities or to materials for the use of national industries. <sup>1/</sup> Conventional reductions in the basic import duties were made for the first time in 1937 in the trade agreement with the United States; <sup>2/</sup> these concessions have been extended to imports from other countries with which Costa Rica has most-favored-nation agreements. <sup>3/</sup> The Executive has also been authorized, at times, to levy surcharges on imported goods.

Customs surcharges.—In recent years the most important method of adjusting duties has been that of imposing surcharges on imported goods. In August 1931, in order to raise additional revenue, all import duties were increased by 10 percent of the basic rates, except on foodstuffs, for which the increases amounted to 5 percent. <sup>4/</sup> Although these surcharges were originally limited to a period of 1 year, they have been renewed annually and, with modifications, are still in force. In January 1933, in order to conserve foreign exchange, the Executive was authorized to increase the import duties on all non-essential articles <sup>5/</sup> up to a maximum of 100 percent above the existing rates. In an attempt to increase the country's export balance of trade, the Executive was authorized in February 1933 to impose a penalty surtax of 30 percent of the basic duties on imports from countries which do not extend most-favored-nation treatment to Costa Rican exports, particularly coffee, bananas, and cacao. <sup>6/</sup> These two grants of authority were not used extensively, principally because the exchange position of the country improved shortly thereafter; apparently, however, they did serve as a basis for the negotiation of a number of trade agreements. <sup>7/</sup>

In a further effort to increase the exportation of Costa Rican products, the Executive was authorized in 1939 to impose a surcharge of 100 percent of the basic duties on commodities from any country from which Costa Rica's imports exceeded its exports thereto by more than 50 percent. <sup>8/</sup> The Executive was instructed to designate at the beginning of each calendar year the countries to whose products the surcharges would apply. In May 1939 such surcharges were levied on imports from 26 countries. <sup>9/</sup> Specifically exempted from such treatment were the products of other Central American Republics and a number of countries (including the United States) with which Costa Rica had most-favored-nation agreements. Moreover, this measure did not apply to imports of prime necessities when there were shortages of such products in Costa Rica.

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<sup>1/</sup> Legislative Decree No. 7, June 14, 1901.

<sup>2/</sup> U. S. Department of State, Reciprocal Trade Agreement Between the United States and Costa Rica, Executive Agreement Series, no. 102, Washington, 1937.

<sup>3/</sup> See the section on commercial treaties and agreements.

<sup>4/</sup> Legislative Decree No. 8, Aug. 6, 1931.

<sup>5/</sup> Legislative Decree No. 49, Jan. 20, 1933.

<sup>6/</sup> Legislative Decree No. 55, Feb. 18, 1933.

<sup>7/</sup> See the section on commercial treaties and agreements.

<sup>8/</sup> Legislative Decree No. 33, Mar. 10, 1939.

<sup>9/</sup> Belgium, Bolivia, Brazil, China, Cuba, Denmark, the Dominican Republic, Ecuador, Egypt, Estonia, Finland, Greece, Haiti, Hungary, Japan, Latvia, Lithuania, Mexico, Poland, Portugal, Thailand, the Soviet Union, Switzerland, Turkey, Uruguay, and Yugoslavia. Exempted from the surcharge, because of exchange balances or existing trade agreements, were imports from Czechoslovakia, Eire, France, Germany, Italy, Norway, Spain, Sweden, the United Kingdom, and the United States.

In addition to customs duties and surcharges, a number of other charges have been levied on imports. "Provincial" charges, amounting to 2 percent of the import duty, are collected in all Provinces except Limón, where the charge is 5 percent. Other charges include consular and wharfage fees, and certain excise taxes, which fall principally on imported gasoline, wines, liquors, beer, rum, cigars, cigarettes, and tobacco. At times special taxes on imports have been levied to finance certain internal projects, such as hospitals, the State theatre, and the social security program.

### Export duties

For many years export duties have been imposed on various commodities, including, until recently, some of the country's principal export products, such as coffee, bananas, pineapples, sugar, chicle, deerskins, and gold. Before the war, export duties constituted an important source of Government revenue; in the period 1929-38 they accounted for about 11 percent of the total. In 1939 the most important commodities subject to such duties were coffee and bananas, which, in that year, together accounted for about 72 percent of the total value of exports. <sup>1/</sup> In September 1930 the export duty on bananas was fixed at 2 cents per bunch (for a period of 20 years); <sup>2/</sup> in a contract signed with the United Fruit Co. in 1938, however, the Government agreed not to reduce this duty before 1988 inasmuch as revenue from this tax is used to service a loan granted to Costa Rica by that company. From time to time, various products have been exempted from the payment of export duties in order to stimulate domestic industries. In 1938 the Government authorized, for a period of 10 years, the duty-free exportation (with certain exceptions) of fresh or canned fruits, vegetables, and related products, as well as canned meats and fish. <sup>3/</sup> In 1939 exports of chicle were similarly exempted. <sup>4/</sup>

Before 1940, the export duty on coffee was an important source of revenue. In 1939 coffee accounted for 51 percent of the total value of exports. In the period immediately preceding March 1939, the export duty on coffee was 8 percent ad valorem; a decree at that time, however, provided that it should be reduced progressively by 2 percent ad valorem each crop year until 1943-44, when exports would no longer be subject to duties or taxes. <sup>5/</sup> The same decree removed duties on all exports except gold, coffee, bananas, and tuna fish. <sup>6/</sup> Since 1939, exports have been dutiable only in accordance with special legislation for particular commodities.

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<sup>1/</sup> Cacao, the third-ranking export, accounted for 12 percent of total exports in 1939; no export duties, however, are collected on cacao.

<sup>2/</sup> Legislative Decree No. 2, Sept. 4, 1930.

<sup>3/</sup> Legislative Decree No. 270, Aug. 13, 1938.

<sup>4/</sup> Legislative Decree No. 26, Feb. 23, 1939.

<sup>5/</sup> The duty on exports of coffee for the various crop years was planned as follows: 1939-40, 8 percent ad valorem; 1940-41, 6 percent; 1941-42, 4 percent; 1942-43, 2 percent; 1943-44 and, thereafter, exempt. However, the export tax was abolished in 1940; see the section on reduction of export duties.

<sup>6/</sup> Executive Decree No. 37, Mar. 25, 1939.

### Commercial treaties and agreements

Before 1937 Costa Rica extended uniform tariff treatment to all countries except the other Central American Republics to which tariff concessions were granted, without trade agreements, on a reciprocal basis. The resort by many countries to methods of bilateralism, however, induced Costa Rica to adopt a system of preferential tariffs. <sup>1/</sup> In recent years Costa Rica has granted most-favored-nation treatment to certain countries with which no trade agreements have been concluded, the essential requirement being that to enjoy such concessions a country must be one with which Costa Rica had an export balance of trade in the preceding year. <sup>2/</sup> In its application of this policy to several nations, Costa Rica has taken into consideration its indirect exports to those countries.

Before the conclusion of the trade agreement with the United States in 1937, no conventional reductions in import duties had been made by Costa Rica. Although a number of agreements had been negotiated on a most-favored-nation basis, they provided for no reductions in the basic duties. Typical of these agreements was one with France in 1933, in which Costa Rica bound against increase the basic import duties on certain commodities in return for the extension of the French minimum duties to the principal Costa Rican export products.

At the outbreak of the war in 1939 unconditional most-favored-nation treaties or agreements were in force between Costa Rica and the following countries: Czechoslovakia (1938), France (1933), Germany (1933), Italy (1933), Norway (1939), the United States (1937), and Yugoslavia (1938). Conditional most-favored-nation agreements were in force with Eire (1934), Spain (1850), Sweden (1936), and the United Kingdom (1850).

The trade agreement with the United States, effective August 2, 1937, not only provided for the exchange of unconditional most-favored-nation treatment with respect to tariffs, but also safeguarded these benefits against impairment by quota limitation of imports, exchange-control discrimination, or differential internal taxes. The United States usually occupies the most important position in Costa Rica's foreign trade; between 1936 and 1940 it supplied annually about 54 percent of the country's imports and purchased approximately 48 percent of its exports. In the agreement, the United States pledged continued duty-free admission of Costa Rican coffee, bananas, cacao, deerskins, reptile skins, turtles, balsa and cabinet-wood logs, which ordinarily represent about 99 percent of United States imports from Costa Rica. In addition, United States import duties were reduced on dried bananas, and on guava and mango preparations; the rates on pineapples, which had previously been reduced, were bound against increase.

Costa Rica, on its part, granted reductions in the rates of duty on certain United States products, including lard, canned pork, canned fish, canned fruits and vegetables, dried fruits, prepared or cooked cereals, evaporated and dried milk, steel furniture, certain paints and varnishes, and pharmaceutical preparations. These reductions

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<sup>1/</sup> See the section on customs surcharges.

<sup>2/</sup> Legislative Decree No. 67, Aug. 13, 1937.

ranged from 8 to 65 percent of the existing rates; the commodities involved constituted 12 percent of the total value of United States exports to Costa Rica in 1935. Articles on which existing Costa Rican import duties were bound against increase accounted for 23 percent of United States exports to Costa Rica in that year, and included wheat flour, fresh fruit, oatmeal, condensed milk, cigarettes, typewriters, and cash registers.

### Exchange control

The world-wide depression following 1929, and the numerous restrictions imposed by many countries on imports, resulted in serious problems for Costa Rica. A steady decline in the value of exports after 1928 created a shortage of exchange for the purchase of essential imports. On January 16, 1932, in order to prevent further depreciation of its currency and to confine imports to necessary goods, Costa Rica initiated a system of exchange control. A Board of Control of Exchange and Exportation of Products (Junta de Control de Cambios y Exportación de Productos) was established to control exchange transactions in conjunction with the National Bank of Costa Rica (Banco Nacional de Costa Rica). Thereafter, all exchange operations had to be approved by the National Bank, which authorized certain commercial banks to deal in foreign exchange. It was required that all holdings and receipts of gold and foreign currency be declared and surrendered to the Board, which was authorized to prohibit gold movements and to determine the selling rates for foreign exchange. <sup>1/</sup> Export licenses had to be obtained from the Board, their issuance being dependent upon guaranties that the receipts from exports would be sold to banks authorized to deal in foreign exchange. <sup>2/</sup>

In January 1933 an order of priority was established for the purchase of foreign exchange. Four-fifths of the available exchange was allocated to importers, 48 percent of this amount being reserved for articles of prime necessity and raw materials for domestic industries, 24 percent for essential consumer goods, and 8 percent for luxury goods; the rest (20 percent) was made available for authorized expenditures by private individuals. <sup>3/</sup> It was at this time, as an additional measure to conserve foreign exchange, that the Executive was authorized to increase import duties up to 100 percent of existing rates on "nonessential" articles. <sup>4/</sup> In November 1934 a new system of allocation provided that exchange from exports to a particular country would be used preferentially to cover "obligations due to that country."

In February 1935 the exchange-control system was modified; a new control agency, the Board of Control of Exportation of Products, was created to operate under the supervision of the National Bank. <sup>2/</sup> Thereafter, all holdings of exchange had to be reported to the Board and could be sold only to the Minister of Finance or to authorized banks and individuals. Banks were permitted to fix their buying rates

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<sup>1/</sup> For specified years before 1940 the average dollar equivalent of the colón was as follows: 1929, \$0.2500; 1932, \$0.2273; 1936, \$0.1783; 1937, \$0.1783; and 1938, \$0.1683. In 1939 the controlled rate was \$0.1779, and the uncontrolled rate, \$0.1754.

<sup>2/</sup> Legislative Decree No. 52, Jan. 16, 1932.

<sup>3/</sup> Legislative Decree No. 49, Jan. 20, 1933.

<sup>4/</sup> See the section on customs surcharges.

<sup>5/</sup> Effective Feb. 23, 1935, Gaceta Oficial, Feb. 27, 1935.

each day and could sell exchange at not more than two points (2/100 of a colón) above the average cost of all exchange purchased during the month. For legal purposes, the official rate, established daily by the Board, was the average of the buying rates of the purchasing banks on that, or the preceding day. In July 1935 the Control Board, in granting authorizations to purchase foreign exchange, was directed to give preference, first, to the liquidation of invoices from the country on which the exchange was drawn and, second, to the payment of invoices from countries which were important purchasers of Costa Rican products.

On January 1, 1937, new regulations required importers to register their orders for goods and, in effect, to obtain exchange permits from the Board of Control before placing their orders abroad. Preference in the granting of permits was accorded for payments to countries with which Costa Rica had an export trade balance. The regulations also provided that foreign exchange could be bought and sold only through registered banks, such operations being contingent upon declaration of their transactions to the Board. After January 1, 1937, the buying and selling rates of the colón were established by the National Bank.

During the greater part of 1938 and 1939 there was generally sufficient exchange to cover all merchandise imported and virtually all exchange restrictions were relaxed. Should a shortage of foreign exchange develop, however, the authorities were in a position to exercise selective preference in the allocation of the available funds. Shortly after the outbreak of the war in Europe such action was again taken. <sup>1/</sup>

Since 1935 there have been two types of exchange in Costa Rica—controlled and uncontrolled. Controlled exchange arises out of exports of Costa Rican products and is sold by exporters at the official rate. Uncontrolled exchange results from nonexport transactions (such as tourist expenditures) and may be purchased without restriction. In practice, there has been little difference between the two rates.

### Government monopolies

An important share of Government revenue has been derived from monopolies exercised over the match, gasoline, and distilled-spirits industries. In 1939, about 14 percent of total Government revenue came from the liquor monopoly and approximately 1.5 percent from the control of gasoline. Since 1853 the production of distilled spirits has been a Government monopoly, now operated by the National Liquor Works (Fábrica Nacional de Licores); the monopoly controls the production of rum, alcohol, and other alcoholic beverages except beer, wines and certain food preparations containing alcohol. The Government distillery, which produces principally for domestic consumption, has an annual output of about 750,000 gallons. Inasmuch as its products are purchased principally by those with incomes insufficient to buy imported liquors, which are subject to high customs duties, the import trade is not greatly affected by the monopoly. The match monopoly (Fábrica de Fósforos) was established in 1919; since that time the manufacture, importation, and sale of matches and wax tapers

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<sup>1/</sup> See the section on exchange and import control since 1939.

has been reserved to the Government, and a consumption tax, equal to the duties and related charges on imported matches, has been levied on matches of domestic manufacture. On November 1, 1932, in order to provide funds for road construction, the Government established a monopoly over the importation and distribution of gasoline; <sup>1/</sup> the Executive was authorized to enter into contracts with individuals or companies for the conduct of this business and for the construction of storage tanks. <sup>2/</sup>

### The Coffee Protective Institute

For more than a decade before the outbreak of World War II, serious problems had confronted Costa Rican producers of coffee. Unfavorable weather conditions in several years had resulted in small harvests. Moreover, the depressed condition of the world market and the decline in exports of coffee to Costa Rica's best customers, the United Kingdom and Germany, had left the country with large surpluses. These conditions caused the Government to extend various types of assistance to the coffee industry. In 1929, imports of equipment necessary for the coffee industry were accorded duty-free entry. In 1933, the Coffee Defense Institute (Instituto de Defensa del Café) was created. <sup>3/</sup> This semiofficial organization, functioning under the direction of the Department of Agriculture, conducts research in the interest of the industry, operates experiment farms, and publishes statistics and other data relating to coffee culture. When necessary, it also assists in the regulation of the coffee trade and advises the Government on agricultural credit policy. Other Government aids to coffee growers have included crop loans, and provision for the reduction and elimination of duties on the exportation of coffee. <sup>4/</sup>

### Economic Controls and Commercial Policy Since the Outbreak of the War

The principal features of prewar economic controls in Costa Rica have been retained since the outbreak of war. A number of important modifications have been made, however, because of the general dislocation of maritime commerce and, particularly, because of the cessation of trade with Germany and other countries of continental Europe. New controls have been designed to curtail the importation of luxuries, to assure equitable distribution of imports among domestic consumers, and to develop domestic industries. Some import restrictions have been removed to encourage the importation of materials necessary to domestic industries. Certain export taxes have been abolished to facilitate the exportation of Costa Rican products. Control of foreign exchange, inaugurated in 1932, has been relaxed, and certain Government monopolies have been abandoned. Of particular importance to the Costa Rican economy has been the Inter-American Coffee Agreement, which makes possible the systematic marketing of the country's leading export commodity at favorable prices. Shortages of shipping, resulting in a scarcity of many types of goods, have necessitated the adoption of price control and the rationing of essential commodities.

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<sup>1/</sup> No gasoline is produced in Costa Rica.

<sup>2/</sup> Legislative Decree No. 33, May 29, 1931 (effective Nov. 1, 1932).

<sup>3/</sup> Law No. 121, July 24, 1933.

<sup>4/</sup> See the section on export duties.

Other wartime measures include projects for the cultivation of strategic raw materials, for blocking the flow of essential commodities to enemy nations, and for freezing Axis funds.

### Modification of import duties and surcharges

The Costa Rican import tariff has continued to be the principal source of Government revenue, accounting for 46 percent of the total in 1939 and 1940, and for 49 percent in 1941. In 1942, however, because of a decline in imports, the proportion was only 34 percent. Certain changes in import duties since 1940 have been designed to foster new industries; others have been adopted to curtail the importation of luxury goods. <sup>1/</sup> In August 1940 import duties on unrefined sugar were doubled. In December 1940 duty-free entry was accorded to imports of fuel, spare parts and accessories for machinery, and materials required by new industries when these materials are not available in the domestic market. <sup>2/</sup> At the same time, the Government granted additional protection to new industries by agreeing to make no further reduction in import duties on competing goods, and, if necessary, either to levy new duties on these products or to increase rates of duty by not more than 50 percent of the previous rates. To be eligible for these concessions, new industries are required to purchase such materials only from countries with which Costa Rica has an export balance of trade. In order to relieve distress among low-income groups, certain import duties were reduced in November 1943.

To provide funds for internal improvements, additional surcharges have been levied during the war on various imports, chiefly luxury items. In July 1943, a new Welfare Supply Tax of 2 percent ad valorem was imposed on all imports except items upon which concessions have been granted in trade agreements. <sup>3/</sup> In October of that year existing import duties and surcharges were increased by 20 percent for certain luxury items, principally liquors, soft drinks, silk clothing, silk and rayon hosiery, jewelry, cosmetics, playing cards, cigarette paper, firearms, and furs; <sup>4/</sup> the additional revenues are used to help finance the new social security program. In November 1943, to provide funds for increased salaries of public school employees, duties were increased on certain "dispensable" goods and the surtax on most imported foodstuffs was increased to 10 percent. <sup>5/</sup> In December of that year, to provide funds for servicing road bonds which were authorized at the same time, a customs surtax of 0.10 colón (about \$0.018) was levied on each gallon of imported gasoline. <sup>6/</sup>

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<sup>1/</sup> Early in 1944 a commission was appointed to revise the tariff. It was unofficially reported that import duties on luxuries would be increased and that customs procedure would be simplified by the consolidation of import duties, surcharges, and other taxes on imports.

<sup>2/</sup> Legislative Decree No. 36, Gaceta Oficial, Dec. 25, 1940. Machinery for the establishment of new industries has been admitted free of duty since 1918; see the section on import tariff.

<sup>3/</sup> Legislative Decree No. 37, July 15, 1943.

<sup>4/</sup> Legislative Decree No. 17, Oct. 27, 1943, and Executive Decree No. 20, Apr. 22, 1944. (The latter decree listed additional articles to which the increased charges would apply.)

<sup>5/</sup> Executive Decree No. 29, Gaceta Oficial, Nov. 21, 1943; see also the section on customs surcharges.

<sup>6/</sup> Executive Decree No. 50, Dec. 30, 1943.



### Reduction of export duties

The importance of export duties has declined greatly in recent years. In the decade before the war, export duties made a substantial contribution to the national treasury, accounting annually for about 11 percent of the total revenue; in 1939 and 1940, however, the share declined to about 5 percent. In 1942 less than 1 percent of Government revenue came from export duties, and most of this was derived from the tax on bananas. Export duties were abolished in 1939 for all "natural and industrial" products, except those provided for by special legislation, and a plan was adopted for the progressive reduction and elimination of the duty on coffee. <sup>1/</sup> Shortly thereafter, however, it became apparent that more immediate aid was necessary for the coffee industry, which was confronted with serious marketing problems resulting from the European war. With the loss of the German market, and the dislocation of others, coffee prices had declined 30 percent. In October 1940, therefore, all duties and other export charges on coffee were abolished. <sup>2/</sup>

### Exchange and import control since 1939

After the outbreak of the war in September 1939, the Government of Costa Rica instituted new measures to protect its exchange position. Important European markets for coffee had been closed, and it became necessary to husband exchange balances in order to finance necessary purchases abroad. National, provincial, and municipal agencies were ordered to reduce their expenditures and to use foreign exchange for essential purchases only. On September 6, 1939, the following new order of priority was established for allocating available exchange: (1) 80 percent to pay for imports of specified prime necessities; <sup>3/</sup> (2) 10 percent for other imports; and (3) 10 percent for remittances to families, students abroad, and for similar purposes. In order to protect the country's financial position, the Government announced that it was prepared to limit imports and to take any other measures deemed necessary.

Because of the improved exchange position of the country after 1939, however, exchange controls have been relaxed materially. In February 1940 a slightly modified system of priority was established for the allocation of exchange: (1) 80 percent for the importation of specified articles of necessity, (2) 12 percent for other imports, and (3) 8 percent for noncommercial purposes. <sup>4/</sup> The Board of Control of Exportation of Products was authorized to determine each month the amount of exchange to be allocated for each class of imports, and to give preference to applications for exchange to cover the importation of necessities. Otherwise, it was required to act on applications for exchange in the order of their presentation.

In August 1942, because of the increased supply of exchange and the prospect of further increases, the system of allocating foreign exchange was abolished. <sup>5/</sup> The improved position was attributable

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<sup>1/</sup> See the section on export duties.

<sup>2/</sup> Legislative Decree No. 115, July 9, 1940, effective Oct. 1, 1940.

<sup>3/</sup> Principally wheat, flour, sugar, beans, clothing, seeds, fertilizers, gasoline, Diesel oil, paper, certain raw materials, agricultural machinery, and construction materials.

<sup>4/</sup> Executive Decree No. 3, Feb. 9, 1940.

<sup>5/</sup> Gaceta Oficial, Aug. 15, 1942.

largely to increased dollar expenditures (actual and contemplated) for the Pan-American Highway and other projects; certain credits advanced by the Export-Import Bank of the United States; and the policy of Costa Rican banks of obtaining, as far as possible, the dollar currency previously held by private individuals. By July 1943 the exchange position of the country had become so favorable that it was proposed to discourage further accumulation of foreign exchange by suspending exchange-control regulations for the duration of the war. Although these regulations were still in force throughout 1944, they were generally not invoked, and applications for exchange were usually approved with little delay.

#### Government monopolies since the outbreak of the war

At the outbreak of the war the Government exercised monopolies over the match, gasoline, and liquor industries. The match monopoly was abolished in June 1940, principally because the employment situation had improved. <sup>1/</sup> The gasoline monopoly, created in 1932, was abandoned in June 1941, after investigations had indicated that the monopoly yielded less revenue than might have been derived from taxes on gasoline imported and sold privately. <sup>2/</sup> Moreover, Costa Rica's main highways were being developed as a part of the general program for the Pan-American Highway. The decree abolishing the monopoly provided for a tax on the importation and sale of gasoline to provide funds for servicing the loan from the Export-Import Bank of the United States for the completion of Costa Rica's section of the highway. The monopoly over alcoholic liquors continues to be an important source of Government revenue; in 1940 and 1941 it accounted for 15 percent of the total and, in 1942, for about 22 percent.

A new Government monopoly, established in August 1940, controls the production and importation of salt. <sup>3/</sup> Rather than producing salt on its own account, the Government has organized a cooperative which controls both production and distribution. An administrator, appointed by the Government, is in charge of the monopoly, and prices are fixed by the Secretary of Finance. The monopoly, which produces between 3,000 and 4,000 tons of salt annually, supplies nearly the entire domestic requirements.

#### Further assistance to the coffee industry

The outbreak of the war created serious problems in the production and marketing of coffee. Before the war, British importers had usually financed much of the coffee production in Costa Rica by loans against future delivery. When these operations ceased, principally because of British exchange regulations, it was arranged for the National Bank of Costa Rica to give similar assistance. Wartime dislocations, including shipping shortages and the closing of important export markets, created other difficulties. For many years European countries had absorbed the greater part of the Costa Rican coffee crop. In 1939, nearly three-fourths of the country's exports of coffee went to Europe, Germany alone taking about 35 percent, and the United Kingdom, 30 percent; only about one-fifth was marketed in the United

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<sup>1/</sup> Legislative Decree No. 64, Caceta Oficial, June 22, 1940.

<sup>2/</sup> Legislative Decree No. 29, Dec. 15, 1940, and Executive Decree No. 20, June 2, 1941.

<sup>3/</sup> Legislative Decree No. 242, Caceta Oficial, Aug. 20, 1940.

States. Although the German market was closed after 1939, increased purchases by other countries, principally the United States and the United Kingdom, prevented a precipitous decline in exports. Also, as stated previously, export duties were canceled on October 1, 1940, in order to facilitate the exportation of coffee. <sup>1/</sup>

The Inter-American Coffee Agreement.—Despite the fact that recurring annual world surpluses of coffee had been a serious problem for many years before the war, the producing countries had been unable to arrive at any international agreement to control marketing. By late 1940, however, highly competitive conditions resulting from the closing of important markets and the accumulation of surplus stocks in the producing countries made it apparent that only systematic international cooperation in the marketing of coffee could prevent further distress. Negotiations between the 14 important coffee-producing countries in the Western Hemisphere and the United States resulted in the signing of the Inter-American Coffee Agreement on November 28, 1940. Under present arrangements, the agreement will continue in force until October 1, 1946. The purpose of the agreement, to which Costa Rica is a signatory, is to provide for the orderly marketing of coffee and to assure conditions of trade equitable to both producers and consumers by "adjusting supply to demand."

Markets were allocated among the 14 Latin American producing countries; in effect, four basic annual quotas were adopted: (1) an export quota for each producing country signatory to the agreement, regulating shipments to the United States; (2) an export quota for each producing country, controlling shipments to all other countries; (3) an import-quota system, controlling the quantity of coffee that might be received in the United States from each Latin American producing country; and (4) a much smaller aggregate quota for United States imports from sources other than the American Republics. The basic quotas are subject to change by the Inter-American Coffee Board, which was established by the agreement. Except in an emergency, increases or decreases may not be made more often than once in 6 months, and no change may exceed 5 percent of the basic quotas at any given time. Each signatory country is represented on the Board; the United States has 12 votes; Brazil, 9; Colombia, 3; and each of the other 12 supplying countries has one vote each. <sup>2/</sup>

In 1940-41 Costa Rica's basic annual quota for exports of coffee to the United States was fixed at 200,000 bags of 60 kilograms each, and the quota for markets outside the United States at 242,000 bags. The share allotted to Costa Rica was about 1.3 percent of the basic quota for total exports to the United States, and about 2.1 percent of the quota to other countries. Several times since the signing of the agreement, the relative scarcity of coffee in the United States, resulting from shipping shortages, has necessitated an increase in the quotas for all producing countries, the effect of which was to permit larger shipments by countries most accessible to the United States. <sup>3/</sup> During the war, however, Costa Rica, as well as other coffee-producing countries, has not filled its allotment to countries other than the United

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<sup>1/</sup> See the section on export duties.

<sup>2/</sup> The United States selects one-third of the members of the Inter-American Coffee Board. The consumer in the United States is protected from unwarranted price control by a provision in the Agreement that, in the event of an "imminent shortage," imports may be increased beyond the established quota by a one-third vote of the Board.

<sup>3/</sup> Effective October 1945, the quota provisions of the Agreement became inoperative, except under emergency conditions when they may be placed in operation by a 95 percent vote of the Board.

States. Although price control was not specifically provided for in the coffee agreement, the Inter-American Coffee Board, through quantitative control of exports, has influenced prices. In Costa Rica the coffee industry is regulated by the Coffee Quota Committee, created in October 1940 to estimate annual domestic requirements, to establish minimum prices for exports, and to assign quotas among domestic exporters. <sup>1/</sup> Although Costa Rican coffee production has not expanded appreciably during the operation of the Inter-American Coffee Agreement, <sup>2/</sup> the country has benefited from the stabilization of markets and the general rise in prices; its exports to the United States have increased greatly, largely offsetting reduced exports to continental Europe.

#### The Board for the Protection of Sugar Cane Cultivation

In recent years, various aids have been granted to producers in order to develop the sugar industry. Import duties on unrefined sugar were doubled in August 1940 and taxes on exports were prohibited for a period of 10 years. <sup>2/</sup> At the same time there was established a Board for the Protection of Sugar Cane Cultivation (Junta de Defensa de la Caña), which in 1942 was authorized to regulate the production, sale, and exportation of sugar, and to fix maximum prices for both sugarcane and processed sugar. <sup>3/</sup> All relations between growers and sugar mill owners are governed by this Board, which, under certain conditions, is authorized to pay subsidies to exporters and to manufacturers using domestic sugar in their products. The Coffee Institute is required to furnish its services to the Sugar Board; its statistical, technical, commercial, and publicity services are now employed to develop the sugar, as well as the coffee industry. It is too early to appraise the results of the Board's activities or the possibility of developing an important export trade in sugar.

#### Wartime mobilization of the domestic economy

Costa Rica declared war on Japan on December 8, 1941, and on Germany, December 11. Shortly thereafter the Executive was authorized to take all steps necessary to protect and promote the development of the agricultural, industrial, and commercial activities of the country; the Council for Economic Defense (Junta de Defensa Económica) was created to advise the Executive. <sup>2/</sup> As early as June 3, 1941, the Board of Control of the Exportation of Products <sup>6/</sup> had been instructed by the Executive to prevent the exportation or reexportation of products, directly or indirectly, to countries whose policies are inimical to the defense of the Western Hemisphere.

The wartime mobilization of Costa Rican resources has chiefly involved its agricultural industries, and the country, therefore, has

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<sup>1/</sup> Executive Decree No. 9, Gaceta Oficial, Oct. 26, 1940.  
<sup>2/</sup> Costa Rican coffee production in recent years has been as follows (in metric tons): 1939, 20,244; 1940, 18,707; 1941, 21,504; and in 1942, 20,672.  
<sup>3/</sup> Legislative Decree No. 359, Gaceta Oficial, Aug. 29, 1940.  
<sup>4/</sup> Executive Decree No. 3, Gaceta Oficial, Oct. 28, 1942.  
<sup>5/</sup> Legislative Decree No. 34, Gaceta Oficial, Dec. 30, 1941. The Council for Economic Defense was abolished by the Economic Reform Law (No. 206) of Sept. 3, 1944, which created the new Board of Economic Defense; see the section on the Office of Economic Defense.  
<sup>6/</sup> See the section on exchange control.

played an important role in the production of food. Because of acute food shortages in the Caribbean area in 1942, resulting principally from the disruption of shipping facilities, the United States entered into a number of agreements with Costa Rica to increase the production of foodstuffs. Under these arrangements Costa Rica has supplied food to the United States armed forces in the Canal Zone, which, in turn, has served as a supply center for other defense bases. The program of increased food production has been carried on in cooperation with the Institute of Inter-American Affairs; through the Institute, farmers have been able to purchase tools, seeds, and fertilizers at cost, and warehouses have been built at Alajuela, Cartago, Naranjo, and San José. By special legislation of August 3, 1943, a National Agricultural Center (Centro Nacional de Agricultura) was established to increase the quantity and improve the quality of the country's agricultural output. <sup>1/</sup>

In November 1943 the Government initiated a 5-year program to increase the production of basic foods such as corn, rice, beans, and potatoes. A fund of 1.5 million colones was created to finance this undertaking, which was under the management of the National Bank and the Ministries of Finance, Agriculture, and Labor. <sup>2/</sup> In an additional effort to increase agricultural production, a law of March 1944 required owners of idle land either to rent it to the Government or to place it under immediate cultivation. Certain lands were exempted, including those devoted to cattle raising, those especially reserved for crops such as bananas, abacá, cinchona, and rubber, and other lands which might be designated as exempt by the Costa Rican Department of Agriculture. <sup>3/</sup> In February 1945 the National Production Council (Consejo Nacional de Producción) was created to coordinate all activities relating to the program for increased production of basic food commodities. At the same time, an advisory Technical Commission (Comisión Técnica Asesora), attached to the National Bank, was authorized to undertake research in various agricultural regions, to operate experiment stations, to provide plans for organized group activity, to initiate educational projects, and to arrange credit facilities for growers. As a further inducement to production, the Section for the Development of Agricultural Production (Sección de Fomento de la Producción Agrícola), an agency of the National Bank, was authorized to purchase staple crops at minimum prices fixed by the National Production Council. <sup>4/</sup>

The programs of increased food production <sup>5/</sup> have aided in relieving the shipping situation, particularly in the Canal Zone, inasmuch as Costa Rican products are transported to that region by truck.

<sup>1/</sup> Legislative Decree No. 149, Gaceta Oficial, Aug. 26, 1943.

<sup>2/</sup> Legislative Decree No. 26, Gaceta Oficial, Nov. 11, 1943.

<sup>3/</sup> Legislative Decree No. 58, Gaceta Oficial, Mar. 11, 1944.

<sup>4/</sup> Executive Decree No. 2, Gaceta Oficial, Feb. 7, 1945.

<sup>5/</sup> Of considerable importance to Costa Rican agriculture was the establishment at Turrialba, in 1943, of the Inter-American Institute of Agricultural Sciences. The Institute is designed to function as a permanent research and experimental center in the interest of agriculture in all the American Republics. Stations which cooperate closely with the Institute have been opened elsewhere in Central and South America. An initial fund of \$500,000 was provided by the United States through the Office of the Coordinator of Inter-American Affairs, and projects were initiated early in 1943 to promote the production of quinine, rubber, fibers, tropical fruits, and vegetables.

Moreover, an additional source of income has been provided for Costa Rican farmers, and the increased output of food has been an important factor in combating the rising cost of living within the country. <sup>1/</sup>

In addition to the wartime expansion of food production, Costa Rica has participated in the inter-American program designed to increase the output of other strategic materials. It has signed agreements with United States procurement agencies for the cultivation of rubber, cinchona, abacá, and balsa wood. Although before the war only a negligible quantity of rubber had been produced in Costa Rica, it was believed that there were considerable potential resources of wild and cultivated rubber. <sup>2/</sup> In an agreement effective June 16, 1941, Costa Rica agreed to provide lands for rubber plantings and experiment stations, to be developed and financed by the Rubber Reserve Co. of the United States. <sup>2/</sup> The Company agreed, for a period of 5 years, to purchase all exportable surpluses of rubber produced in Costa Rica. Because of favorable conditions of production and the high-yielding strains which were planted, it was anticipated that an annual yield of at least 1,000 pounds of rubber per acre would be possible, compared with 300 to 400 pounds from the unselected seedling areas in the Netherlands Indies. It is expected that the rubber program not only will contribute to the supply of strategic materials, but also may benefit the economy of the country by developing a new industry. In 1943, exports of crude rubber from Costa Rica to the United States amounted to about 425 tons.

The Government has sponsored projects for the cultivation of cinchona trees with the expectation that they will eventually provide an important source of quinine. On March 21, 1944, Costa Rica placed 3,000 acres of land at the disposal of the Defense Supplies Corporation of the United States for the purpose of planting cinchona trees; if necessary, an additional 1,800 acres was to be made available. Under the terms of the agreement, which is to extend for a period of 25 years, the Defense Supplies Corporation is to have complete control of all properties developed, and the Costa Rican Government is relieved from all obligations or responsibilities in connection with their use. After planting cinchona on at least one-third of the adaptable land, the Corporation, or its successor, may terminate the contract at any time. On its part, the Costa Rican Government guaranteed, for the life of the agreement, not to increase export duties on cinchona products shipped to friendly nations. Moreover, these products have been exempted from all national and municipal taxes. In order not to foster the development of a monopoly, private individuals have been permitted to produce cinchona for commercial purposes and to enjoy similar advantages. <sup>4/</sup>

Abacá plantings have been increased to provide a source of hard fiber for cordage. <sup>2/</sup> In August 1943 new areas under cultivation amounted to about 11,500 acres, the plantings on which were expected to reach maturity that year. This project has been developed by the United Fruit Co. under contract with the Defense Plant Corporation of

<sup>1/</sup> See the section on price control.

<sup>2/</sup> In 1926 the U. S. Department of Commerce reported that about 1 million acres in Costa Rica were suitable for rubber planting.

<sup>3/</sup> U. S. Department of State, Executive Agreement Series, Nos. 222, 318, and 335, Washington, D. C., 1941-43; see also U. S. Department of State Bulletin, June 20, 1942.

<sup>4/</sup> Legislative Decree No. 63, Caceta Oficial, Mar. 29, 1944.

<sup>5/</sup> Legislative Decree No. 37, Caceta Oficial, Mar. 13, 1942.

the United States. The production of balsa wood has also been expanded; in 1942 it amounted to 150,000 board feet, and in 1944 was estimated to have been more than 4 million feet. A fully equipped plant for drying balsa wood has been constructed at Limón, financed by the Defense Supplies Corporation. This plant is operated by the International Balsa Corporation.

#### Export and reexport control

To overcome shortages of essential materials and to prevent their shipment to Axis-dominated countries, Costa Rica exercises strict control over both the exportation and reexportation of strategic commodities. In September 1939, at a meeting of the Foreign Ministers of the American Republics, resolutions were adopted affirming the necessity of mobilizing the resources of the Western Hemisphere for common defense. In February 1942, accordingly, Costa Rica prohibited, for the duration of the war, the exportation and reexportation (except when authorized) of oils, fats, unwrought or scrap metals (except gold), and all industrial raw materials. When so authorized, surpluses which remain after national requirements are met, may be exported. <sup>1/</sup> In May 1942 the exportation of livestock and poultry was forbidden, except when authorized by the Government. <sup>2/</sup> By the middle of 1943 the list of restricted exports had been extended to include cotton goods, tools, machinery, hardware, leather and rubber in all forms, sawed lumber, furniture, and all articles manufactured from imported materials subject to export controls in the United Nations. In addition, licenses must be obtained from the exchange-control authority (Board of Control of Exportation of Products) for all exports; they must be approved by the Office of Economic Defense, <sup>3/</sup> which is in a position to determine the national requirements.

#### Wartime financial controls

The Ministers of the American Republics, meeting at Rio de Janeiro in January 1942, recommended the adoption of measures to block the use or transfer of funds held by nations (or their nationals) which had committed acts of aggression against the Western Hemisphere. As early as October 1941, Costa Rica had required the registration of Japanese, German, and Italian subjects and companies, and the filing of complete reports of their holdings within the country. <sup>4/</sup> Shortly after the attack on Pearl Harbor, all trade and other commercial transactions with the Axis powers and Axis-controlled territories were forbidden. <sup>5/</sup> In March 1942 all funds belonging to these countries or their nationals were "frozen" and became subject to the control of the Costa Rican Alien Property Custodian; the property, stock certificates, credit instruments, and rights of such countries or nationals were treated in the same manner. <sup>6/</sup> A law of December 1942 authorized the expropriation of alien properties and provided for their sale, lease, or operation by the Government. Frozen funds and those obtained from the disposition of expropriated properties have either been invested

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<sup>1/</sup> Executive Decree No. 4, Gaceta Oficial, Feb. 8, 1942.

<sup>2/</sup> Executive Decree No. 16, Gaceta Oficial, June 16, 1942.

<sup>3/</sup> Formerly by the Central Supply Board. See Legislative Decree No. 35, May 12, 1943; see also the section of this report on the Office of Economic Defense.

<sup>4/</sup> Legislative Decree No. 40, Oct. 10, 1941.

<sup>5/</sup> Legislative Decree No. 34, Dec. 26, 1941.

<sup>6/</sup> Legislative Decrees No. 9, Mar. 25, 1942, and No. 66, June 27, 1942.

in Costa Rican defense bonds or paid into blocked accounts to the credit of the former holders. It is expected that, eventually, a substantial portion of the earnings derived from the management of the seized properties will be utilized to reduce or eliminate the Costa Rican floating debt.

Financial controls were strengthened in July 1942 when the importation of all foreign currency was prohibited, with the exception of necessary funds carried by travelers or those brought back by laborers returning from the Canal Zone and the Republic of Panama. At the same time, the exportation of money was also forbidden and the National Bank was authorized to handle all transactions in United States currency. <sup>1/</sup> In September 1942, to prevent the liquidation of funds by enemy agents, the circulation of United States currency in Costa Rica was prohibited. Travelers entering the country are permitted, however, to bring in amounts up to \$250, which must be exchanged for colones at the National Bank. <sup>2/</sup>

#### Rationing of scarce commodities

The scarcity of many types of commodities, resulting principally from the wartime shipping situation and the requirements of the belligerent powers, caused the Costa Rican Government to ration certain basic essentials, in order to prevent speculation and to assure fair distribution. Although the Government does not ration tires, construction iron, cement, and fertilizers, it does control the sale of these commodities. <sup>3/</sup> The distribution of drugs, medicines, and certain chemicals is regulated by the National Drug Control Board (Junta Nacional de Control de Drogas). <sup>4/</sup> All transactions involving sugar are handled by the Board for the Protection of the Cultivation of Sugar Cane, which buys, sells, and exports sugar, maintaining the price at the official level. <sup>5/</sup> In a similar manner, the Coffee Protective Institute regulates the trade in coffee, in conformance with the policies of the Inter-American Coffee Agreement. <sup>6/</sup>

In the summer of 1942 it became necessary to restrict the use of petroleum products to transportation enterprises, industries indispensable to the economic life of the country, and activities related to national defense. No petroleum is produced in Costa Rica; thus, with the progress of the war, domestic shortages became critical. As stocks diminished, voluntary rationing was employed by local distributors; in August 1942, however, a Board of Gasoline Rationing (Junta de Racionamiento de la Gasolina) was established. <sup>7/</sup> This board, which was financed by a tax on each gallon of gasoline sold, was authorized to analyze the petroleum requirements of the country

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<sup>1/</sup> Executive Decree No. 22, Gaceta Oficial, July 9, 1942.

<sup>2/</sup> Executive Decree No. 29, Gaceta Oficial, Sept. 17, 1942. Hotels, transportation lines, and certain other agencies are permitted to receive from each traveler as much as \$50 in United States currency daily, which, in turn, they must deliver to the National Bank.

<sup>3/</sup> Executive Decree No. 3, Gaceta Oficial, June 12, 1940.

<sup>4/</sup> Executive Decree No. 2, Gaceta Oficial, May 13, 1943.

<sup>5/</sup> See the section on the Board for the Protection of Sugar Cane Cultivation.

<sup>6/</sup> See the sections on the Coffee Protective Institute and the Inter-American Coffee Agreement.

<sup>7/</sup> Executive Decree No. 26, Gaceta Oficial, Aug. 21, 1942.



and to prescribe the conditions under which petroleum products should be distributed. Rationing of gasoline was inaugurated in August 1942; in May 1943, because of an acute shortage, further restrictions were placed on nonessential uses. Since March 1945 the distribution of gasoline and other petroleum products has been supervised by the Office of Economic Defense. <sup>1/</sup>

Other products whose distribution has been rationed are flour and lard, both of which ordinarily are imported in substantial quantities. Shortages of ocean shipping, the disruption of railroad communications, and labor difficulties in local mills brought about a scarcity of flour in May 1942. Rationing of flour, initiated in 1942, apparently has operated with only limited success; hoarding and speculation are reported to have been frequent, and the price of bread has often been beyond the reach of low income groups. At times, when supplies of flour were deficient, a number of tropical products (bananas, yucca, sweetpotatoes, corn, and other starch foods) have been blended with wheat flour after simple processing. Rationing of flour was discontinued late in 1943, when sufficient supplies were received from abroad. Rationing of lard, begun also in 1942, has been intermittently relaxed when imports have met requirements. In October 1944, during a period of acute shortage, sugar was rationed to manufacturers of confectionery and beverages pending the arrival of foreign supplies. At times since the outbreak of the war there have also been shortages of meat, corn, rice, beans, and other food staples in which Costa Rica is not self-sufficient. Government importations during critical times, however, have made it unnecessary to ration these products. Since March 1945 the rationing of prime essentials has been a function of the Office of Economic Defense. <sup>1/</sup>

### Price control

One of the most serious problems confronting the Costa Rican economy since the outbreak of war has been the rise in the cost of living. The upward trend of prices, evident in 1941, was sharply accentuated during 1942. Wholesale prices rose nearly 60 percent between 1939 and the close of 1942, and about 80 percent by the end of 1944. At the end of 1942 the official index of the cost of living in San José was 40 percent higher than in 1939, and by the close of 1944 it was more than 70 percent higher. The greatest increases have been in the prices of food, clothing, textiles, and other manufactured products.

Several factors have contributed to this price situation. Higher wages, increased expenditures by the Government, and projects financed by United States procurement agencies have greatly increased the purchasing power of a large part of the population. Moreover, despite Government encouragement, the production of agricultural foodstuffs and various other commodities has failed to keep pace with the increased demand, and imports have declined markedly.

Measures relating to price and production control had been adopted in Costa Rica even before the outbreak of the war in Europe. As early as 1932 an attempt was made to lower the cost of living by preventing speculation in and the monopolization of essential commodities. Severe penalties were provided for such acts, as well as for collusive agreements to limit the production of basic necessities. The measure,

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<sup>1/</sup> See the section on the Office of Economic Defense.

known as the Subsistence Law, compelled producers, manufacturers, and merchants to submit to the Department of the Interior quarterly statements of stocks of essential commodities. <sup>1/</sup>

In September 1939, following the outbreak of the war, a Committee of Supply (Comisión de Abastos) was created to enforce the Subsistence Law of 1932, and to initiate whatever measures might be necessary to combat speculation and hoarding. <sup>2/</sup> Shortly thereafter the Legislature declared it a matter of public interest to maintain prices of articles of first necessity within the reach of low income groups. In order to extend control over nonluxury items, the Executive was authorized, through the Committee of Supply, to expropriate merchandise at prices prevailing in August 1939. Imported goods thus acquired were to be purchased by the Government at cost, plus a margin not to exceed 10 percent. <sup>3/</sup> A fund of 500,000 colones was created for the Government purchasing program. In March 1942 the Committee for Supply became a dependency of the Department of Labor, and in July of that year it was placed under the supervision of the National Board of Civilian Defense (Junta Nacional de Defensa Civil), which was created at that time. This Board, in addition to enforcing civilian defense measures, was authorized to fix prices for articles of first necessity. Although no general price ceiling was established, maximum prices were fixed for individual agricultural commodities. The National Board of Civilian Defense resigned in August 1942 because of objections to its policy of fixing maximum prices for farm products, principally by farmers who were compelled to pay increasingly high prices for other articles of necessity. In order to curb widespread speculation in agricultural supplies, the Department of Agriculture was authorized in September to establish a consulting committee to fix minimum prices for agricultural products grown in Costa Rica and maximum prices for imported articles of prime necessity.

During the latter half of 1942 speculation in essential commodities continued, and, in response to a growing public demand for action to curb profiteering, a Congressional committee of investigation was appointed. As a result of its inquiry, a new General Supply Board was created in January 1943; <sup>4/</sup> this Board expropriated clothing, food, and medicines, and has sold them below cost to low-income groups in rural districts. Funds to cover losses incurred by the Board were obtained from taxes levied on luxury items. In further response to public demand, a maximum profits law was enacted in July 1943; this law restricted manufacturers' margins on all essential commodities to 20 percent, and those on luxury goods to 50 percent. At the same time the General Supply Board was replaced by the new Central Supply Board. <sup>5/</sup>

In addition to fixing maximum prices, the Central Supply Board was charged with supervising the importation, or purchase within the country, of essential articles in order to assure their distribution in accordance with public needs. The Board was also authorized to permit the exportation of essential materials when this action was

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<sup>1/</sup> Legislative Decree No. 51, July 16, 1932.

<sup>2/</sup> Executive Decree No. 2, Sept. 4, 1939.

<sup>3/</sup> Legislative Decree No. 6, Sept. 14, 1939.

<sup>4/</sup> Executive Decree No. 27, Gaceta Oficial, July 15, 1943.

<sup>5/</sup> Legislative Decree No. 27, Gaceta Oficial, July 15, 1943.

deemed necessary to prevent losses to domestic manufacturers, and when it did not reduce domestic supplies to the extent of causing a rise in prices. Among the measures initiated by the Central Supply Board were the following: Profiteering was made punishable by imprisonment; the aid of consumers was enlisted to report violations; and auxiliary control boards were set up in the capitals of the various Provinces. By the end of 1943 price ceilings had been established for many commodities, including beans, bread, butter, flour, corn, cooking oils, lard, milk, rice, sugar, cotton goods, galvanized iron sheets, metals, gasoline, hides and skins, and shoes.

In 1942 the Government began a program of purchasing essential commodities for resale to consumers. Because of inadequate funds during the first year, this program had little effect on the general price level; in the latter part of 1943, however, a fund of 1.5 million colónes (about \$262,000) was created to finance Government purchases of corn, beans, rice, and potatoes. <sup>1/</sup> By November 1944 large quantities of these foodstuffs had been purchased for resale to the public at cost. At that time the Government announced that, if necessary, it would also import lard, sugar, and oil. In order not to discourage domestic production, imported supplies purchased under this program are distributed gradually. Purchases by local merchants are financed by the National Bank of Costa Rica and are underwritten by the national treasury. The approval of the Office of Economic Defense is now required for the acquisition of exchange to pay for these imports; the Office is also authorized to supervise the sale of these products and, if necessary, to ration their distribution. Another important means of relieving the domestic supply situation, and thereby controlling prices, has been the requirement that all idle land be placed under cultivation. <sup>2/</sup>

The Office of Economic Defense.—In an effort to strengthen the Government's program to control prices and the cost of living, the Central Supply Board was abolished in September 1944 and the Board of Economic Defense (Junta de Defensa Económica) was created. <sup>3/</sup> This agency was authorized to: (1) Issue import permits and fix quotas; (2) require licenses for the exportation of certain domestic commodities; (3) regulate the distribution of gasoline and other petroleum derivatives; (4) control the supply of rubber and other essential war materials; (5) fix prices; and, when necessary, (6) ration both imported and domestically produced articles. In March 1945 the Board of Economic Defense was reconstituted as the Office of Economic Defense (Oficina de Defensa Económica). <sup>4/</sup> Its Department of Prices has power to regulate prices of articles of prime necessity and to apply other emergency measures when deemed necessary. The Department of Quotas is in charge of the allocation of export quotas, makes recommendation for the importation of essential commodities, and, with the approval of the National Council of Production, may grant licenses for the exportation of surplus commodities. The Department of Distribution of Gasoline and Rubber Products is charged with the rationing of petroleum products, automobiles, trucks, and tires.

<sup>1/</sup> Legislative Decree No. 26, Gaceta Oficial, Nov. 11, 1943.

<sup>2/</sup> See the section on wartime mobilization of the domestic economy.

<sup>3/</sup> Economic Reform Law No. 206, Gaceta Oficial, Sept. 3, 1944, as amended by Legislative Decree No. 5, Gaceta Oficial, Sept. 30, 1944.

<sup>4/</sup> Legislative Decree No. 57, Gaceta Oficial, Mar. 28, 1945; see also Executive Decree No. 29H, Gaceta Oficial, Mar. 14, 1945.

## Postwar Problems Relating to Controls and Commercial Policy

Economic controls and commercial policy in Costa Rica after the war will probably differ little from the pattern which prevailed before 1939. Restrictions on foreign trade will probably be employed principally to raise revenue; their use to conserve foreign exchange and to balance trade will depend largely upon the soundness of the country's foreign-exchange position, and it, in turn, will depend on the general ability of the country to market its exports without undue hindrance from exchange restrictions and import barriers of other countries, and by bilateral devices.

After the war there may be, as there has been in the past, increased efforts by various groups to obtain protection for domestic industries from the competition of foreign products, which often are of higher quality and lower price. The success or failure of these efforts will depend, in large measure, on whether there is a prosperous export trade in Costa Rican agricultural products, as well as on whether other countries adopt commercial and other economic policies conducive to a revival and expansion of world trade. Because of the importance of exports to Costa Rica's economy and because of the small magnitude of its trade in relation to the world total, the country will, perhaps, be affected more by the policies adopted by the major trading countries than by controls instituted by its own Government. However, even though an expansive commercial policy on the part of the major trading nations would contribute to the economic welfare of Costa Rica, policies adopted by Costa Rica itself may serve either to enlarge or to contract these benefits. A program to serve the broad economic needs of the Costa Rican people and to promote a healthy development of domestic enterprise can best be achieved, of course, in cooperation with other nations.

Rising prices and the continued increase in the cost of living have been a matter of considerable concern to the Government, but efforts to check them have thus far been only partly effective. The newly created Office of Economic Defense appears to have ample authority to develop an effective system of rationing and price control. The recent program for increased agricultural production may also serve to reduce the cost of living.

Exports of Costa Rican coffee have been relatively well-maintained during the war. This favorable situation has resulted principally from the fact that the country has suffered less from wartime shipping shortages than have some of the major coffee-producing countries; moreover, Costa Rican coffee is of a mild type which enjoys consumer preference in world markets, and the quotas allocated to Costa Rica under the Inter-American Coffee Agreement have been sufficiently large to permit the exportation of the bulk of its output. The position of the Costa Rican coffee industry in the future, as in the past, will be influenced less by controls instituted by the Costa Rican Government itself than by conditions of the world market and by control schemes initiated either by other coffee-producing countries or by international agreement. It appears that surplus stocks in other coffee-producing countries will concern Costa Rica primarily through their effect on world prices.

Any one of a number of conditions may characterize coffee-marketing practices after the termination of hostilities. One possibility is that some type of international arrangement for the control of the coffee trade may be maintained. The Inter-American Coffee Agreement, adopted to deal primarily with wartime conditions in the industry, might form the basis of a more permanent control plan, broadened, if possible, to include all, or practically all, of the producing countries, and all, or at least the most important, consuming countries. Indeed, should an international control program be maintained, its success might in the long run depend on the support of the major coffee-consuming countries, particularly as their influence might be brought to bear upon the policies pursued by the control agency. One of the basic problems of such a program would be to avoid the pitfalls into which other commodity-control schemes have fallen, in causing the expansion of output in areas not subject to the agreement, and in encouraging high-cost and inefficient production in the agreement areas, with a resultant general expansion of production and cumulating annual surpluses.

It is possible, of course, that the chief coffee-producing and consuming nations may fail to agree on an international control program for the postwar period. In that case there may be either a return to a free coffee market or a resort to independent control measures on the part of the governments of individual producing countries. The removal of all controls, national and international, would probably bring about a period of oversupply, depressed prices, and financial difficulties in the producing countries. Although, in the long run, freedom from artificial controls might prove advantageous to the national interest of the several countries by restoring market equilibrium and by eliminating submarginal producers, there would be strong pressure for the adoption of national coffee-restriction programs designed to mitigate the distresses of the moment in each particular country. Such action might be taken in one or several countries, with results which might prove to be contrary, not only to the interest of the coffee-consuming countries, but also to the interest of the coffee-producing countries and even the coffee producers themselves.

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1/ For a description of the coffee-control programs adopted by Brazil and Colombia, for example, see U. S. Tariff Commission, Economic Controls and Commercial Policy in Brazil, 1945 [processed] and Economic Controls and Commercial Policy in Colombia, 1945 [processed].

