The London School of Economics and Political Science

The Political Economy of Financing Late Development: Credit, Capital and Industrialisation; Colombia 1940–67

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Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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Abstract

Accounts of economic development during mid-twentieth century have been dominated by import-substituting industrialisation (ISI) and/or state-led industrialisation frameworks. This literature attaches considerable importance to such policy areas critical to manufacturing as: trade and tariffs, foreign exchange and the promotion of credit. According to this view, industrialisation became an official goal and in many developing economies governments committed to it seriously. Focusing on Colombia, this dissertation challenges conventional wisdom. It demonstrates that the Colombian state did not provide financial aid, or implement deliberate trade-protectionist support, for industrialists to the degree hitherto argued. A distinct political-economy configuration, in which small-scale agriculturalists, particularly coffee exporters, wielded significant power within the state, meant that the type of distortive pro-ISI macro policies pursued in other Latin American economies were eschewed. Industrialisation proceeded apace in Colombia, but this was chiefly a market- or private-led phenomenon.

The methodology employed to substantiate this claim is not comparative, yet frequent references are made to other Latin American nations to serve as benchmarks and counterpoints. New archival material, both quantitative and qualitative, is combined in novel ways to substantiate the original, revisionist interpretations advanced in the thesis.

Policy-makers, targeting the twin challenges of managing external-account pressures and sustaining fiscal revenue, rather than promoting inward-looking development, best explain moderate levels of tariffs and slight overvaluation of the currency observed in Colombian trade policy. The heretofore untold history of the Institute for Industrial Development, a direct supplier of venture capital, shows a government agency with major organisational weaknesses, incapable of fulfilling its legal mandate, least of conforming to the major role attached by the literature as key agent for industrialisation. Findings regarding credit demonstrate that neither ordinary nor subsidised credit flowed to manufacturing to the extent previously thought. Patterns of legislated credit, sector-targeted banking and privileged access to the Central Bank, all show that agrarian ventures, not industrialists, were the recipients of subsidised official financing. A growing incompatibility between the financial requirements of advanced industrialisation and the clientelistic nature of the domestic polity that had to cater for the needs of agrarian groups, prevented policy elites from adopting a pro-manufacturing stance in financial and credit policies, even had they so wished.

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Introduction

'Believe me, do not fear crooks or evil people, fear the honest person who is wrong. That person is in good faith, he wishes everyone well, and everyone has his confidence: But unfortunately his methods fail to get out the good in humans'

Ferdinando Galiani, Italian economist, 1770

Colombia's experience with import-substituting industrialisation (ISI) is a case of the dog that didn't bark. For historians, economists and political scientists alike the statement must come as a shock. But it should not. The notion that Colombia, like other Latin American nations, chose ISI as development model became scholarly certainty mainly through unscrutinised mutual repetition and failure to see the woods from the trees. The historical narrative of ISI, in which successive governments (invariably) since either the Great Depression or WWII opted to develop domestic manufacturing by means of trade-protectionism, generous financing and direct public involvement in the promotion of industrial ventures, has become so entrenched that irrespective of the ideological hue, ISI is treated as fact. Reference works in economics,[1] history manuals[2] and specialised studies on industry and industrialisation,[3] from Marxists accounts to mainstream neo-classical interpretations, implicitly or overtly consider the 1930/40–1970 period as the period of ISI, and typically underscore its omissions, excesses and failures, exalting it as textbook-case of wrong practices.[4]

[1] See for example Avella, M., Bernal, J., Errázuriz, M. and Ocampo, J. A. 'La Consolidación del Capitalismo Moderno, 1945–1986' in Ocampo, J. A. (Ed) *Historia Económica de Colombia* (1987).

[2] Mayor Mora, A. 'La Historia de la Industria Colombiana' in Tirado Mejía, A. (Ed) *Nueva Historia de Colombia* (1989) Vol. 5.

[3] See for instance, Berry, A. and Thoumi, F. 'Import Substitution and Beyond: Colombia' in *World Development* (1977) Vol. 5, No.1/2, or more recently, Vejarano, C. 'Industrialization and Industrial Policy in Colombia: A Tale of Economic Development' (2002) *Serie Documento. Borradores de Investigación*, No. 31.

[4] Commendable exceptions are the edited volume by Cárdenas, E., Ocampo, J. A. and Thorp, R. (Eds) 'An Economic History of Twentieth-Century Latin America' (2000) Vol. 3.; and Thorp, R. 'A Reappraisal of the Origins of Import-Substituting Industrialisation, 1930–1950' in *Journal of Latin American Studies* (1992) Vol. 24. As will be discussed below, however, the edited collection also exhibits shortcomings when examining the Colombian case.

The failure to reconstruct history accurately is disappointing in itself. But the consequences of misconstruing the past are serious. In assuming the path taken was akin to that of other ISI-nations, the literature has ascribed to the Colombian experience assessments and characterisations on the role of the state issued on its regional counterparts. Excessive and misguided state interventionism compounded with substantial rent-seeking and incapable bureaucratic apparatuses led to economy-wide distortions, perverse incentives, inadequate investment levels, and the retreat from the international economy, for which ISI-nations paid a high price, not least in terms of 'missed opportunities'.[5] States that tried ISI, the story goes, by and large failed at attaining the transformations that industrialisation was expected to bring about, in fact, often the kind of industrialisation achieved has been questioned (artificial, inefficient, welfare-hindering). In short, states that failed at ISI represent cases of 'state- or government-failure'.[6] Because Colombia has been customarily included as member of the ISI-club, its state has accordingly received pejorative epithets. This is somewhat unjustified, as is discussed below.

The wider significance of a re-examination of the state's protagonism in late-industrialisation lies in the lessons to be drawn from a more precise reading of history for policy-making. If contrary to conventional wisdom, the Colombian state did not provide financing support for domestic industrialisation, which is a cornerstone of ISI strategies, then clearly interpretations about the state's record of intervention have to be revisited. Such review should prompt both critics of state action and detractors of unfettered markets with ammunition to further their cases. Market advocates can point out that the inaction of the state regarding ISI prevented Colombia to get caught in the inflationary spirals and macro-economic imbalances that affected actual ISI followers. Market critics, on their part, could argue that this case of endogenous or market-led industrialisation is an instance of ultimate failure to attain developed status because of the lack of a pro-active industrial

[5] Such accounts can be found in Edwards, S. 'Crisis and Reform in Latin America: From Despair to Hope' (1995) Ch.1; and Bulmer-Thomas, V. 'The Economic History of Latin America since Independence' (1994) Chs. 9 and 10; and Taylor, A. 'On the Costs of Inward-Looking Development: Price Distortions, Growth and Divergence in Latin America' (1998) Vol. 58, No. 1.

[6] For influential works on state/government-failure; see Krueger, A. 'Government Failures in Development' in *Journal of Economic Perspectives* (1990) Vol. 4, No. 3; Krueger, A. 'The Political Economy of the Rent-Seeking Society' in *American Economic Review* (1974) Vol. 64, No. 3.

policy, or following Amsden, an 'inability to industrialise when markets work' type of situation.

Either way, the priority once the historical facts are straightened is to explore and to understand the singularity of the arrangements that led the state to keep its hands off the ISI strategy. Space for a distinct contribution to the knowledge on the political economy of late-development is made, by considering an alleged case of state-failure at ISI where actually there was none. In explaining the non-event, generalisations about the political economy of non-ISI supply further judging criteria for the industrial policy debate. The originality of the dissertation stems from two of its defining features; first, the unearthing of new facts and narratives, such as the history of the Institute for Industrial Development as a direct promoter of industry, the comprehensive calculations on industrial financing or the display of primary evidence revealing the dire credit-shortages faced by industrialists at various points during the period studied. Secondly, the position from which the author departs on this thesis is a revisionist one, not as just 'another revisionist' interpretation, but a *solo* one, for the 'take' offered constitutes a novel interpretation of Colombia's industrialisation in mid-twentieth century.

Two important clarifications must be made at this point. First, pointing out that the state could not have failed at ISI, because in fact it did not attempt such a developmental path, is not to claim that this was a capable, effective, modern state. No apology about state failings in other areas or at different endeavours is intended. Secondly, the object of study in this dissertation might be a 'non-subject', i.e. ISI as the 'dog that didn't bark', but it is no straw man. The view that Colombian governments actively pursued it is widespread; actually, prominent authors have come to claim that industrialisation there was pushed "at any cost".[7]

The thesis claims that state support for industrialisation was limited at best and certainly less prominent than the literature to date has assumed. It emphasises funding and financing policies, yet other areas crucial to the ISI strategy, such as trade and foreign exchange policies are also examined. The range of themes covered is broad by necessity, for what

[7] Fajardo, C. and Rodríguez, N. 'Tres Décadas del Sistema Financiero Colombiano: 1950–79' in Cabrera, M. (Ed) *Sistema Financiero y Políticas Anti-Inflacionarias: 1974–1980* (1980).

is being scrutinised is a long-run model of development, and the actions of governments pursuing it have been said to be diverse enough as to deserve the label. Thus, it is imperative to review the core elements of the model. Efforts then turn to explain the absence of ISI. It will be argued that the distinct political-economy configuration, in which small-scale agriculturalists — particularly coffee exporters — wielded significant power within the state, meant that distortive pro-ISI macro policies were eschewed. Industrialisation proceeded apace, but this was chiefly a market- or private-led phenomenon.

Although the initial motivation driving the dissertation did not change greatly, that is, the pressing need to understand why industrial policies fail, the original line of enquiry altered as research got underway and became dynamic. The earlier, and not so exciting queries, aimed at calibrating the rents that presumably powerful industrialists had extracted thanks to polices they imposed on society after colonising the state. This trail got cold as the evidence found during fieldwork failed to substantiate this view; instead, hinting at the more interesting questions that came to guide the dissertation in its current form: Why were credit policies not being directed at the industrial sector during the alleged era of ISI? Why was the developmentalist agency that epitomised the commitment to industrialisation from the state so poorly funded? What kind of political economy prevented elected politicians to implement strong pro-industry measures? Why did a *de jure* centralised and presidentialist political system fail to push for industrialisation?

The selection of the case study was made on the grounds that Colombia is atypical. Its polity, in particular, exhibits characteristics distinctly enough for a study favouring a political economy approach to late-industrialisation. Amongst these feature the lasting dominance of politics by two of the oldest parties in the world, the absence of populists in power and of corporatist state structures, a record of democratic elections much higher-than-average in the region, and a remarkable history of macro stability; all in a polarised context of notable rural violence. The choice of case study surely seems to have paid off, as the findings reported in the dissertation confirm Colombia's uniqueness is not confined to politics, but can now be extended to its economic trajectory, as a middle-sized economy that avoided embarking on the fashionable development strategy of the day. The point of departure, 1940, was chosen for both substantive and practical reasons. It is in this year that the government rolled out the first comprehensive economic plan with a view to rationalise the country's resources, and in which a specific path was delineated for the manufacturing sector. It was also at this juncture that the Institute for Industrial Development was founded. In this sense, a landmark was set insofar as planning and industrial development concerned. The fact that critical pieces of data, such as the distribution of banking loans across economic activities, were available from this year onward also pressed the case for starting at this point. Ending the study in 1967 was motivated by two considerations. First, managing the amount of variables studied, for after this year, there is an increase in the number of agents acquiring growing importance within the financial system, such as mutual funds, development banks and investment funds; as well as more financial schemes or arrangements like the Central Bank's administered funds for exports, urban development and private investments. A comprehensive picture of the financial system after 1967 ought to include all of the above. Desirable as it was to further this enquiry, it would not have been feasible to do it in the detailed manner required. In this sense, depth prevailed over scope, in what was an already 'big picture' dissertation. Secondly, 1967 marks the year when under the government of Lleras Restrepo reforms in the exchange regime re-direct the economy even more towards a potential export-led growth path, serving as closure for the alleged ISI attempts. In short, mid-twentieth century Colombia offers a distinctive period and an opportunity for a new periodisation of its political-economic history, as defined by its variety of industrialisation. Colombia is different, as is already known amongst Latin American experts, but it seems to be different in a different way.

The methods of research chosen to answer the questions posed were largely defined by two guiding practices: historical research and the need for benchmarking. Awareness of the need to draw constant comparisons with other Latin American nations pursuing ISI was deemed vital, for the only sensible way to establish whether or not (or to what extent) Colombian governments pushed for industrialisation could only be answered with a mirror in sight — what other ISI-states have done. Though desirable, fieldwork conducted in Bogota would not have been possible to replicate in Buenos Aires, Santiago, and Sao Paulo and for these reasons a strict comparative study was not attempted. However, continuous comparisons serving as benchmarks and counterpoints, reliant on secondary literature, were instrumental in reaching the conclusions presented below. The choice of 'thick' historical and empirical approach was largely defined by the purpose of this study. Unlike neo-classical methodological individualism, which adjudicates economic agents (public and private) rational-maximising behaviour seeking to explain aggregate outcomes, the approach privileged in this thesis aims at understanding the *intentionality* of governments. Departing from the assumption that institutional and other structures in place are key factors in shaping the preferences of decision-makers — particularly in the public sphere — necessitates a type of inquiry that does not easily lend itself to econometric testing. Though plenty of quantitative evidence (new and existing) is deployed to substantiate the claims advanced, the label that best describes the approach employed is the 'state-in-society' approximation. Efforts at tracing policy to its roots encountered towering difficulties (unavailability of evidence), therefore, triangulations of evidence were made wherever relevant and possible.

The thesis utilised a wide range of primary sources whose vast majority is of public access in principle. In Bogota, archival work focused at first on the minutes of the Institute for Industrial Development and of the Banco de la República (Central Bank), as well as on legislation — both decrees and laws — by parliament and the executive office, available at the respective institutional libraries. The presidential library, as expected, was a useful supplier of ministerial *memoirs*, presidential speeches and other official documents and publications. The *Archivo General de la Nación* complemented these materials, particularly, with governmental non-published pieces. Trawling through the archives of the Finance Ministry for executive decree-drafts yielded a poor catch, as did visits to the Colombian banking association when searching for lobbying evidence. Despite the existence (at least nominally) of a network of archivists aimed at facilitating research in private-bank archives, access to the two most important organisations was denied on confidentiality grounds in 2010. Insights into private banking came through the official organ, the banking association bi-monthly bulletin, held at the Luis Ángel Arango public library. Other journals held there allowed the reconstruction of the balance sheets of national manufacturing firms (limited-liability companies). Statistical series displayed in the appendix support the figures presented in the main text. The accompanying notes explain to the reader how the material was assembled and assist in understanding the more dense and slightly technical calculations (especially in Chapter 6) backing the arguments therein.

In London, data on national accounts for Colombia and Latin America were retrieved from the IMF's International Statistics series at the British Library of Economics & Political Science (LSE library). There, the monthly and annual publications of the Banco de la República, as well as of other financial institutions, such as the Central Mortgage Bank (BCH), permitted the compilation of various series on the sectoral distribution of loans and discounts, of differentiated discounting by the Central Bank (CB), and of the proportions of subsidised lending by public banks, to name a few examples. A generous invitation to use international press-cuts once collected by Chatham House on Colombian affairs was extended by a scholar of Latin American history at UCL. Findings from this source assisted the arguments in chapter four. A small number of interviews with first-hand protagonists or well-positioned witnesses of the events of the time, such as Minister of Finance, Luis Morales Gómez, and Julio Manuel Ayerbe, Intern/Assistant to the general manager at IFI in 1966/67, offered insights into policy-making decisions that the official sources simply do not. In short, new and existing archival as well as secondary sources, of both quantitative and qualitative material, have been combined in novel ways to advance the revisionist interpretations presented in the dissertation.

The thesis is structured along seven chapters. The first reviews the relevant literature on late-industrialisation and the state, and the importance of finance for economic growth/development. The aim of the chapter is twofold: first, to note the political economies of industrial-transformation successes and failures to provide a frame with which to proceed with the actual case study; and secondly, by reiterating the importance of financing and funding for industrialisation to explore the politics surrounding preferential credit schemes, and the nature of the institutions involved. Chapter two provides the historical background and the contexts in which the Colombian state sought to promote (or not) industrialisation. The next chapter, the first substantive research piece, places the case study in regional context and sets out to examine the first components of ISI. Underscoring the problems policy-makers faced with the external variables, as well as the absence of the typical macro imbalances and inflationary spirals that ISI-strategies are well-known for, the piece seeks to crack the prevailing consensus by re-interpreting the intentionality behind fiscal and foreign exchange measures and their effects on the trade profile of the country. Chapter four traces the hitherto untold history of the Institute for Industrial Development (IFI) between 1940 and 1964. Revelations about its organisational weakness and its financial muscle place a decisive challenge to conventional views about the role of this agency on industrialisation. A close examination of the structure of the financial system along with the identification of the winners in the creation of public banks and of legislated credit, as well as of the direct operations of the CB, is the substance of chapter five. This helps to establish the new fact: industrialists were not preferred over agrarian interests when it came to borrowing from public sources. Qualitative evidence from various corners confirms that inadequate financing was a serious concern for industry and that it possibly retarded its development. Chapter six offers a political economy explanation of why industry was not the favoured economic sector when it came to credit/financial policy. It also refines the findings of the previous section by assessing the investment needs of several economic activities, according to fixed investment criteria. The last section concludes with a review and discussion of the findings and a wider consideration of the implications for the relevant area of knowledge.

1 Relevant Literature Review

"For real and sustained development there is no substitute for industrialisation".[1] The statement by O'Brien gathers what the historical record shows: for most developed nations, wealth has been attained via industrialisation. Ever since England's first spontaneous Industrial Revolution brought about modern economic growth the rest followed. Industrial expansion was seen to equate economic growth and many nations forewent their natural comparative advantages to foster industrialisation, albeit with mixed results. Industrialisation as an object of study became popular, justifications for it abounded, models inspired in England were sketched for others to replicate. As the spontaneity of the first industrial nation did not realise in the followers' economies, governmental and other institutional arrangements were put in place to nurture industrial transformation. Thus, a great part of the scholarly effort has focused on the protagonism of the state in promoting (or hindering) development and on the mechanisms utilised towards it. Closely related to this have been studies dedicated to the politics underlying industrial growth, such as the relationships between state and business, and the political conditions for effective industrial policy. A preferred comparative path of enquiry has evolved around the economic 'miracles' of East Asia implementing export-oriented industrialisation (EOI) and the less fruitful attempts by Latin Americans with the ISI variety. This review assesses these branches of the literature.

Industrialisation is characterised as a process in which the proportion of national income derived from manufacturing activities increases, as does the proportion of the working population engaged in the secondary sector, leading to a structural change in the economy from agriculture to industry.[2] The process entails sustained investment and continuous

[1] O'Brien, P. K. (Ed) 'Industrialisation: Critical Perspectives on the World Economy' (1998) Vol. 1, p. xiv.
[2] Eatwell, J. (Ed) 'The New Palgrave: A Dictionary of Economics' (1987) Vol. 2, p. 797.

improvements in production technologies.[3] Schematically, industrialisation can take place in three broad ways: as by-product of wealth in a dynamic primary sector, via ISI, or through EOI. The first kind, as modelled by Murphy, Schleifer and Vishny, is caused by increases in agricultural productivity or by an export boom that raises income generating demand for domestic manufacturing.[4] The second, ISI, aims at reducing imports in order to promote the production of domestic substitutes. The ISI path, if pursued fully, is said to consist of two parts; primary ISI, entailing the shift from imports to the local manufacture of basic consumer goods, and; secondary ISI, involving the domestic production of capital- and technology-intensive manufactures: consumer durables, intermediate and capital goods.[5] Lastly, EOI concentrates on speeding up the process of industrialisation through exporting manufactured goods for which the economy in question has (or develops) a comparative advantage. It often involves a relatively more open economy (than that of ISI) and relies heavily on foreign markets.

The chapter comprises three parts. The first segment starts examining the logics for state action in latecomers. Attention then turns to the political-economy conditions helping to explain success or failure at industrial transformation, at which point emphasis is given to the nature and the kinds of states pushing for industrialisation, their structures of power, and the choices of industrial regime made (ISI or EOI). The next part focuses on ISI, assessing its critics and the accuracy of alternative conceptualisations, namely state-led industrialisation. The last sub-section identifies scholarly works on Latin America's industrialisation that offer approximations closer to the one offered in this dissertation and maps the potential for the historiographical contribution of the thesis advanced here. Part two, on the finance-growth/development link, focuses on the aspects of this relation relevant for economic history. Three core bodies of literature are reviewed: the pioneering works by Gerschenkron and Cameron recognising the importance of finance, the effects of financial development and of certain financial structures upon growth and industrialisation, especially the role and relevance of external finance; and the politics of financial-resources mobilisation and allocation. Last part concludes.

[3] D' Costa, A. 'Industrialization' in O' Hara, P. *Encyclopaedia of Political Economy* (1999) Vol. 1, p. 499.
[4] Murphy, K., Shleifer, A. and Vishny, R. 'Income Distribution, Market Size, and Industrialization' in *Quarterly Journal of Economics* (1989) Vol. 104, No. 3, p. 537.
[5] Gereffi, G. 'Paths of Industrialization: An Overview' (1990) p. 17.

Late-Industrialisation and the State

In exploring the benefits of relative economic backwardness, Gerschenkron proposed that states in late-industrialisers intervene to substitute for missing 'prerequisites'.[6] The state's role, given the patterns of late-industrialisation stress by Gerschenkron, was likely to loom large: the more backward a country's economy, the more likely its industrialisation will come as a sudden spurt, the greater the emphasis on producers' goods, the more pronounced the stress on bigness of both plant and enterprise, the greater the part played by special institutional factors designed to increase the supply of capital to nascent industries.[7] Because interventions have been extensive, analyses of late-industrialisation have examined the actions and motivations of state action in successful and failed instances.

A prominent stream of this literature confers the state a pivotal role in the compressed late-industrialisation of East Asia, a view challenging opinions that emphasise the operations of free markets as the sole responsible for their economic 'miracles'.[8] The justifications for state action vary. Amsden highlights the absence of pioneering technology in latecomers, as the fundamental constraint leaving developing countries with no other option than to force lower real wages to be able to compete in world markets.[9] In the long-run, however, low wages might not be low enough to compete against products embodying productivity-based gains. This inadequacy of low wages as a competitive asset prompts states to influence the other factor in the production function: capital.[10] Hence, and "*a fortiori,* in industries requiring greater skills and capital investments, governments have to intervene and prices deliberately distort to stimulate investment and trade. Otherwise, industrialization won't germinate".[11] As said earlier, the market to be intervened in is that of capital, and the price to be distorted, or 'got wrong', is the interest rate, i.e. credit has to be subsidised. By means

[6] Gerschenkron contested the theory of economic growth by Rostow, which argued that for the 'take-off into self-sustained growth' a series of 'prerequisites', such as social overhead investment, institutions mobilising capital and entrepreneurship, and a dynamic agricultural sector, were necessary; see Rostow, W. W. 'The Stages of Economic Growth: A Non-Communist Manifesto' (1960) Ch. 1.

[7] Gerschenkron, A. 'Economic Backwardness in Historical Perspective' (1962) pp. 343–44.

[8] See for the latter; Chen, E. K. 'Hyper-growth in Asian Economies: A Comparative Study of Hong-Kong, Japan, Korea, Singapore, and Taiwan' (1979) and Aikman, D. 'The Pacific Rim: Area of Change, Area of Opportunity' (1986).

[9] Amsden, A. 'A Theory of Government Intervention in Late Industrialization' in Putterman, L. and Rueschemeyer, D. (Eds) *State and Market in Development: Synergy or Rivalry?* (1999) pp. 53–55.

[10] Amsden, A. 'A Theory...' p. 54.

[11] Amsden, A. 'A Theory...' p 53.

of a reciprocity mechanism, state intervention in the allocation of subsidies is critical in preventing the subsidies turning into give-aways. In exchange for intermediate assets, the state imposes upon business recipients performance targets in relation to exports, output, product quality, and investment in research and development. In other words, the state acts as a disciplinarian for capital. Here, according to Amsden, is where the key to the successful industrialisation lies.

The call for state intervention has different roots for Rodrik. He argues the presence of a coordination failure consisting of huge inequalities in the rates of return to investment. That is to say, while investment returns to individual firms are low, returns to coordinated investments are extremely high.[12] State involvement is required to alleviate such failure and subsidise investment through negative interest rates for business, tax exemptions, and selective investments in industries with significant linkages.[13] Ultimately, Rodrik asserts, the removal of the coordination failure by the state in East Asia made capital expenditure profitable, prompting a boom in investment, which underlay the rapid growth of economies, such as South Korea and Taiwan. In short, it was investment-led growth the factor driving their performances.

A third author, Wade, claims, that the superiority of economic performances was due to a combination of: 1) very high investment levels that allowed for fast technological transfer, more investments in key industries than would have occurred in the absence of government intervention; 2) a set of government economic policies — incentives, controls, and risk-spreading mechanisms — that enabled the state to govern the market process of resource allocation, generating different production and investment levels than would have occurred with free market policies, and; 3) policies that were supported by a certain kind of state organisation and private sector (often a corporatist state keen on authoritarian political arrangements).[14] Thus, Wade legitimises state intervention (not the nature of the regimes) with a counterfactual: had the government not intervened investments in

[12] Rodrik, D. 'Getting Interventions Right: How South Korea and Taiwan Grew Rich' in *Economic Policy* (1995) Vol. 20, No. 10, p. 57. The idea behind coordination failure is that many projects require simultaneous investments to be viable, and if these investments are made by independent agents, there is little guarantee that each agent, acting in its own self-interest, would choose to invest; see Pack, H. and Saggi, K. 'Is There a Case for Industrial Policy? A Critical Survey' in *The World Bank Research Observer* (2006) Vol. 21, No. 2, p. 274.
[13] Rodrik, D. 'Getting...' pp. 78–91.
[14] Wade, R. 'Governing the Market' (1990) pp. 26–27.

key industries and production outcomes would have been inferior, and economic growth slower. His emphasis is placed upon the specific industries or sectoral policies where government intervention acted as a 'big leader', namely plastic, metals, artificial fibres, shipbuilding, automobiles, machine tools, and semiconductors.[15]

Amsden, Rodrik, and Wade all three assign the state a major role in the successful industrialisation of East Asia. Although the logics behind state intervention differ among them — lack of pioneering technology, coordination failure, and need for industry-specific leadership, respectively — their accounts share one key thing in common: the absolute importance of high investment levels. This defining characteristic, which can be said to describe their interpretations as 'capital-centred', reflects in Amsden's reciprocity principle aimed at disciplining capital;[16] Rodrik's requirements to make aggregated investment profitable; Wade's necessity to elevate investment in certain key industries beyond that of what free markets would dictate. The three explanations are not mutually exclusive at all, but rather complementary.

Accounting for the diverging trajectories of Latin America and East Asia, Taylor also stresses the role of investment. Differences in physical capital accumulation, resulting from high investment levels in East Asia vs. lower levels in Latin America, explain the gap in economic performance.[17] Taylor notes the damaging interventionist policies of Latin American governments, and that, he argues, distorting prices hindered growth; yet he fails to acknowledge that similar interventions in East Asia underpinned their investment-led growth path. Fortunately, Akyüz and Gore, balance out interpretations on the protagonism of the state, uncovering the 'investment-profit nexus'. They sustain that corporate profits and other profit-related incomes were the main source of investment in most East Asian economies, and critically, that governments played a major role in promoting capital

[15] Wade, R. 'Governing...' p. 111.

[16] In addition to Amsden, it is possible to identify a distinctive sub-branch of the literature on late-industrialisation highlighting the critical role of *discipline* in the catching-up process. Chapter 7 will consider some of the most illuminating insights. Important works are those by Chibber, V. 'Locked In Place: State-Building and Late Industrialization in India' (2006) which prioritises industrial planning discipline; Davis, D. 'Discipline and Development: Middle Classes and Prosperity in East Asia and Latin America'(2004), which stresses the social origins of disciplinary capacity; and Kahn, M. and Blankenburg, S. 'The Political Economy of Industrial Policy in Asia and Latin America' in Cimoli, M., Dosi, G. and Stiglitz, J. (Eds) *Industrial Policy and Development* (2009), which emphasise compatibilities between systems of institutional compulsion and development strategies.

[17] Taylor, A. 'On the Costs...' pp. 19–20.

accumulation.[18] The 'nexus' consisted of high profits increasing the incentives of firms to invest and their capacity to finance new investment; higher investment in turn raised profits by enhancing rates of capital utilisation and productivity.[19] The specific mechanisms used to animate the 'nexus' will be discussed below, for now what needs to be addressed are the conditions under which states intervene. In other words, the particular political economy arrangements under which states intervene.

What are the political-economy conditions for successful industrialisation? Amsden provides a bold answer connecting the issue of income distribution with that of the quality of state intervention, declaring: "a more equal distribution of income raises the probability of industrial success for a host of reasons related to class struggle, worker motivation, expected returns to investments in education, and other micro and macro variables".[20] Crucially, she goes on, "a relatively equal income distribution is a necessary condition for late-industrialisation because it empowers the state to discipline business and facilitates the state bureaucracy's monitoring of the disciplinary process".[21] Although Amsden supports this statistically with a regression of income distribution on the growth rate of manufacturing labour productivity,[22] she fails to specify the mechanisms by which more equal income distribution increase the quality of government intervention, which in turn accelerates industrial growth. Rodrik, advancing a similar argument fills in the void, arguing that high degrees of income equality and wealth were important because it meant governments needed not to contend with either powerful industrialists or landlords, in turn insulating the policy-making process from vested interests. This dispensed the state from undertaking redistributive policies (usually growth-retarding) and it also freed political leaders to focus on economic goals and to supervise the bureaucracy closely.[23] The Rodrik's and Amsden's complementary take on equity and distribution and quality of state intervention is not problem-free. First, the picture of all insulated policy-making state agencies is difficult to accept given the presence, from early days, of large business

[18] Akyüz, Y. and Gore, C. 'The Investment-Profit Nexus in East Asian Industrialization' (1996) in *World Development* (1996) Vol. 24, No. 3, p. 461.
[19] Akyüz, Y. and Gore, C. 'The Investment...' p. 464.
[20] Amsden, A. 'A Theory...' p. 73.
[21] Amsden, A. 'A Theory...' p. 73.
[22] Amsden, A. 'A Theory...' p. 78.
[23] Rodrik, A. 'Getting...' p. 92. Rodrik also adds the pool of educated workforce as an important factor increasing state effective intervention.

conglomerates in South Korea (their case study), which grew from large to gigantic as industrialisation deepened. Second, close relationships between Park Chung Hee and the heads of some of the largest groups, suggest influences on policy from businesses took place at the highest of levels.[24] Third, Rodrik neglects the highly repressive and labour-excluding policies practiced throughout; policies which may well have incurred costs that had not been considered in terms of growth, let alone democratic concerns. In this aspect of the political economy of East Asia, Wade is clearer, as he states: "... government actions to constrain and accelerate the competitive process ... were carried out by a relatively authoritarian and corporatist state."[25] He acknowledges that these regimes often declared unions illegal, managed strikes heavy-handedly, and provided very incipient or no social security or safety nets to workers until the arrival of democratisation. Although Wade does not elaborate this point, there should be little doubt that this tough approach to labour, repressed when not co-opted, meant more profits to industrialists.

Kohli zooms in on the state and the structure of power. He argues that the way state power is organised and used decisively influences rates and patterns of industrialisation, and distinguishes three ideal types of states: cohesive-capitalist or developmentalist states, characterised by centralised and purposive authority, a competent bureaucracy with tight links with producer groups, and a solid commitment to economic growth; neopatrimonial states, with weakly centralised and barely legitimate authority structures, personalistic leaders, and bureaucrats that treat public resources as their personal patrimony; and fragmented-multiclass states, where power is diffused, policy formulation and implementation is politicised, yet which command some authority and whose leaders are held accountable for poor public policies and performances.[26] Now, state intervention in rapid industrialisers is often market reinforcing in the sense of supporting profitability for private investors. For Kohli, the setting most conducive to rapid industrial growth is one in which the state's near-exclusive commitment to high economic growth coincides with the profit-maximising needs of private entrepreneurs; a 'marriage of profits and repression' aimed at growth.[27] It is

[24]Kohli, A. 'State-Directed Development' (2004) p. 97. For a stimulating study on corruption in South Korea, that further challenges the 'autonomous-policy' view; see Kang, D. 'Crony Capitalism: Corruption and Development in South Korea and the Philippines' (2002).
[25]Wade, R. 'Governing...' p. 297.
[26]Kohli, A. 'State...' pp. 6–7 and 9–11.
[27]Kohli, A. 'State...' pp. 12–13.

precisely cohesive-capitalist states, like South Korea under Park or Brazil under Vargas, the kind of public apparatuses that can create such political economies. Kohli's basic concern, thus, is with the state, and how can states be developmentally effective.

In answering this he examines states in the long-run, their patterns of construction and development. His is a quest for continuity, continuities that characterise some states and the relations of those states with their societies. For example, when explaining how South Korea devised its high growth post-war political economy, Kohli goes back to the Japanese rule to trace historical patterns. He finds that a highly authoritarian and penetrating state, a brutal, repressive and systematic control of the lower classes, and a state-dominated alliance of state and property owners for production and profits were all key legacies from colonial days, that helped shaping the more contemporary political economy of rapid industrialisation.[28] Kohli's account for the less than impressive performance of Brazil also stresses the state. This time, the fact that Brazil had not been a fully developmentalist state throughout, and had often exhibited fragmented-multiclass and neopatrimonial features, explains its long cycles of stop-and-go economic growth. As a cohesive-capitalist state the regimes of Vargas and Kubitschek pursued ISI effectively by boosting public investment, welcoming foreign capital, maintaining labour discipline, creating demand for consumer durables and subsidising private investments.[29] The downsides, such as the inability to expand the tax base, increasing dependence on foreign resources, continuous fiscal and balance of payments crises, reflected the non-developmentalist characteristics and limitations of that same state.[30] Kohli's analysis is original, insofar as it downplays the orientation of the industrialisation processes (inward-looking or export-oriented), which have dominated many an interpretation, and instead focus on the nature of state-directed

[28]Kohli, A. 'State...' pp. 26–27, 39–40, 56–61.
[29]Kohli, A. 'State...' p. 213.
[30]The ability to erect a modern fiscal state has been associated with growth via the provision of economically significant public goods in the English case. O'Brien states: "Revenues... sustained protection for property rights, and above all funding for the pursuit of an effective mercantilist strategy that provided a commercialising economy with extraordinary shares of the gains from servicing an expanding global economy. This might be the single most important of several factors that led over time to the jack up of English wages to levels that induced technological progress." See O'Brien, P. K. 'The Nature and Historical Evolution of an Exceptional Fiscal State and its Possible Significance for the Precocious Commercialization and Industrialization of the British Economy from Cromwell to Nelson' in *Economic History Review* (2011) Vol. 64, No. 2, p. 439. For an account of why Latin American states failed to construct solid fiscal states; see Centeno, M. A. 'Blood and Debt: War and Taxation in Nineteenth Latin America' in *American Journal of Sociology* (1997) Vol. 102, No. 6.

development as the main component of the success or failure of each experience. Even more importantly, his approach is neither society- nor state-centred, but a carefully balanced 'state-in-society' approximation, which also inspires this thesis.[31]

In similar fashion, Evans contends that in a world of constructed comparative advantage, differences in economic performance are connected to differences in state structures.[32] His taxonomy of states divides in two: predatory and developmental. States that extract large amounts of otherwise investable resources and provide little in the way of collective goods, thus actually impeding economic transformation belong to the former; those able to foster long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investments are of the second kind.[33] He selects Zaire and Japan to illustrate the above categories and an intermediate case through the experience of Brazil. Zaire's is labelled predatory as result of its incapacity to formulate and implement goals independently. It lacks autonomy because public decisions are 'up for sale' to private interests.[34] Japan, on the other end, is a fully developmental state. A highly trained and meritocratic bureaucracy with effective capacity to intervene, autonomous from vested interests, yet embedded with private, especially industrial, capital provided the basis for the type of state involvement that led to the rapid industrialisation of Japan's economy. So-called 'embedded autonomy', that "apparently contradictory combination of corporate coherence and connectedness" is, according to Evans, the basic state structure that sustains successful industrial transformation.[35] From this ideal type, however, most developing countries deviate or only approximate it feebly. Brazil is a case in point. With a relatively fragmented bureaucracy but with 'pockets of efficiency' in certain state agencies, and with personalised and informal links between small numbers of industrialists and state officials, Brazil's capacity to construct global embedded autonomy was limited. However, as Evans

[31] For a discussion of the benefits and drawbacks of state- or society-approaches and state-in-society methodologies; see Evans, P., Rueschemeyer, D. and Skocpol T. (Eds) 'Bringing the State Back In' (1985) and Migdal, J., Kohli, A. and Shue, V. (Eds) 'State Power and Social Forces: Domination and Transformation in the Third World' (1994).
[32] Evans, P. 'Predatory, Developmental, and Other State Apparatuses: A Comparative Political Economy Perspective on the Third World State' in *Sociological Forum* (1989) Vol. 4, No. 4, pp. 561–587.
[33] Evans, P. 'Predatory...' pp. 562–63.
[34] Evans, P. 'Predatory...' p. 571.
[35] Evans, P. 'Embedded Autonomy' (1995) p. 12.

has pointed out, there were a number of areas where state industrial interventions proved successful (steel and automobiles for example).[36]

In both Kohli's and Evans' analyses, the drive towards industrialisation is 'state-led' or 'state-directed', yet despite this fundamental similarity an important difference in their approaches is notable. Evans emphasises the close relationship between the Weber-like bureaucracy and private industrial capital as the key bond between state and society underlying success. For him, this state-industrial capital link is pivotal. Kohli, for his part, concedes that such a bond matters, but stresses another equally significant relationship, that of state and labour. For him, a high-growth political economy is grounded on the 'marriage of repression and profits'. Controlled, malleable, and cheap labour matters more. Thus, two and not one, are the crucial relationships underpinning rapid industrialisation, that, highlighted by Evans, state-industrial capital, and the one added by Kohli, state-labour. Both acknowledge instances of policy coherence, successful industrialisation, and accelerated economic growth, for instance in Brazil, despite having pursued ISI sequencing for most of its recent history. This is telling for none take the differences in industrial strategy or orientation (import-substitution or export-led) to be crucial. Others, however, emphasise precisely this distinction.

In this respect the literature has tended to make a regional distinction: East Asia followed EOI, whilst Latin America pursued ISI. The differentiation in the 'broad' strategy or orientation of industrialisation is said to account for the divergence in performance. A key representative of this literature is Haggard, who brings forward a complex explanation including international factors, social forces (be it classes, interest groups, or economic sectors), political elites' preferences, the state's own structures, and ideas and ideologies.[37] The argument is ordered and sophisticated and not a mere mixture of the latter. For instance, his account of Korea's adoption of EOI starts with a decline in US aid and a growing awareness of the benefits of self-sufficiency on the part of state officials. However, the response to the new situation and objectives rest on the delivery of new institutional and political arrangements.[38] Key among them are a strengthened executive branch, a more

[36]Evans, P. 'Embedded...' pp. 579–80.
[37]Haggard, S. 'Pathways from the Periphery' (1990) pp. 3–5.
[38]Haggard, S. 'Pathways...' p. 254.

centralised process of economic decision-making, and the display of new economic policy tools for steering investment and promoting exports, such as short-term export loans, long-term and foreign currency loans, and industry targeted support.[39] The account for Brazil and Mexico in pursuing secondary ISI also begins with international factors and ideologies at play: import disruptions during World War II and balance of payments problems during the 1950s, combined with the ascent of structuralist ideas to legitimise wider state economic involvement and the need for deepening industrialisation.[40] However, the most important factor here is the ability of ruling political elites in integrating a distributional coalition made out of manufacturing capital, labour movement and middle classes to their political domain and to use secondary ISI to their political advantage. Thus, Haggard is concerned with change, transition, and economic policy reform from ISI to EOI in East Asia and from primary to secondary ISI in Latin America. Institutions are ultimately at the core of his explanation because it is thanks to the development of new institutional arrangements that South Korea successfully embarked on EOI. Political elites and their coalition-building abilities, on the other hand, account for ISI sequencing in Brazil and Mexico. In other words, for Haggard, although international factors may ignite or prompt policy change, it is the political and/or institutional responses of the state and its political elites that define the industrial trajectory to be adopted, which can be either more ISI or a switch to EOI.

The work of Kaufman, who covers Latin America's largest economies and examines how countries change or retain developmental models, follows a similar line of thought. In explaining the different strategies chosen (ISI or EOI), Kaufman emphasises the patterns of alliance and conflict amongst critical sets of actors: agricultural-mercantile exporters, 'anti-oligarchical' coalitions, state elites, and domestic and foreign industrial-capitalists.[41] Like Haggard, Kaufman advances insights to the debate on the role of the state; and most relevant for this dissertation are two: the recognition that the industrial path chosen might not necessarily have been the result of 'grand design' but rather of "too much pragmatism

[39] Haggard, S. 'Pathways...' pp. 65–67.
[40] Haggard, S. 'Pathways...' pp. 171–172.
[41] Kaufman, R. 'How Societies Change Developmental Models or Keep Them: Reflections on the Latin American Experience in the 1930s and the Postwar World' in Gereffi, G. and Wyman, D. (Eds) *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (1990) p.111.

in selecting policies that most clearly reflected the converging short-term interests of state officials themselves and of their key constituencies";[42] and identifying Colombia as distinct in its developmental path, for implementing more cautious fiscal and monetary policies than other ISI nations.[43] Whilst the frameworks and arguments of both Haggard and Kaufman are instructive (the factors shaping the orientation of industrial policy), this dissertation takes issue with the left-hand side of their equation, that is, with the very outcome they intend to explain. Their independent variable, the choice of sustaining ISI or shifting to EOI, has been either under-examined or taken for granted. The oft-repeated assumption of works examining ISI is that this strategy was pursued throughout, sometimes deliberately, at other times as the result of improvisations and political expediency, but ultimately implemented by successive governments — to the extent of tolerating the broad characterisation and the label that makes it a regular object of study.

Just as much as the experience of East Asia with EOI has been widely praised, that of Latin America with ISI has received harsh criticisms. Taylor, as noted above, exemplifies this approach. He explains the slow economic growth of Latin America in the latter part of the twentieth century 'in the classic tradition'; that is to say, as obstacles to the process of physical capital accumulation.[44] The main argument is that the strategy of ISI generated profound and economy-wide distortions. Among the most prominent ones are those in foreign exchange and financial markets, and in the prices of investment goods. He claims to capture the effect of distortions on growth by regressing three variables — black-market premium, relative price of capital, and rate of devaluation — on growth.[45] The logic behind it is clear-cut. Policies adopted during ISI generated distortions that affected negatively the rate of accumulation, which in turn translated into lower rates of economic growth for the region — this is particularly striking when compared to the rates exhibited by East Asian latecomers. In other words, policy-induced distortions of market prices meant lower investment levels. "The distortions were 'legendary', if judged by endurance", according to Taylor.[46]

[42] Kaufman, R. 'How Societies...' p. 133.
[43] Kaufman, R. 'How Societies...' p. 122. Mexico is also singled out in this respect.
[44] Taylor, A. 'On the Costs...' p. 2.
[45] Taylor, A. 'On the Costs...' p. 8.
[46] Taylor, A. 'On the Costs...' p. 8.

Following this view that ISI was too costly, are Chong and Zanforlin, who wonder why Latin American countries "not only kept pursuing old inward-looking industrialization projects but also kept investing in new ones even when it was quite clear that such policies were not sustainable."[47] 'Market critics' of ISI like the above abound.[48] They stress the costs of foregoing one's own comparative advantage and underline the inefficiencies incurred in the breeding of domestic manufacturing sectors.[49] Critics from the left, or 'Structural critics', for their part, highlight the low levels of labour absorption created by ISI and the related adverse effects this created on the distribution of income and wealth.[50] Few comments need be made at this point. First, inevitably, when compared with the record of the East Asia, Latin America's performance looks humble. However, when judged against its own history, the ISI period has been the one with the highest and more or less sustained rates of economic growth. Secondly, this era exhibits absolute improvements in a wide range of socio-economic indicators, such as literacy rates, life expectancy and infant mortality rates.[51] Lastly, for all the virtues and opportunities that EOI brought about in East Asia, not all countries could have simultaneously adopted EOI and reaped the benefits to the extent that South Korea and Taiwan did. There is a limit to the demand capacity of foreign markets. Market share would have diminished had Latin American economies successfully competed in world markets, which in turn would have decelerated the pace of export-led growth followers. Because Latin America's experience with industrialisation was not as dismal as has often been judged by ISI critics, more balanced views of these decades have started to emerge.

[47] Chong, A. and Zanforlin, L. 'Inward-Looking Policies, Institutions, Autocrats and Economic Growth in Latin America: An Empirical Exploration' in *Public Choice* (2004) Vol. 121, No. 3, p. 350. Further to the explanations discussed above, Galiani and Somaini sustain that ISI policies exhibit strong path dependence; see Galiani, S. and Somaini, P. 'Path-Dependent Import-Substitution Policies: The Case of Argentina in the 20th Century' (2010) unpublished manuscript. Alternatively, Galiani et al. propose, that in natural resource abundant economies, with a significant import-competing industrial sector and diverging political parties, trade policy tends to be protectionist and unstable; see Galiani, S., Schofield, N. and Torrens, G. 'Factor Endowments, Democracy and Trade Policy Divergence' (2010) unpublished manuscript.

[48] This label is part of a grouping of ISI-critics by Baer, who distinguishes between 'market' and 'structural' critics; see Baer, W. 'Import-Substitution and Industrialization in Latin America: Experiences and Interpretations' in *Latin American Research Review* (1972) Vol. 7, No. 1, p. 101.

[49] See for instance; Bulmer-Thomas, V. 'The Economic History of Latin America since Independence' (1994) Ch. 9; and Haber, S. 'The Political Economy of Industrialization' in Bulmer-Thomas, V., Coatsworth, J. and Cortés-Conde, R. (Eds) *The Cambridge Economic History of Latin America* (2006) Vol. 2.

[50] Baer, W. 'Import...' pp. 106–08. For a devastating critic of ISI outside of Latin America; see Lal, D. 'The Hindu Equilibrium' (1989) Vol. 1, Part 3.

[51] Astorga, P., Berges, A. and Fitzgerald, V. 'The Standard of Living in Latin America during the Twentieth Century' (2005) in *Economic History Review* (2005) Vol. 58, No. 4.

Successfully attempting to reverse the *leyenda negra* of post-war development in the region, Cárdenas et al. propose the rejection of the ISI label altogether, and its replacement with the concept of 'state-led industrialisation', which, they argue, captures best the essence of the period.[52] Solid grounds to drop ISI as a guiding framework to examine this era are: first, the substitution of imports in many instances was not the main driver of industrialisation; secondly, industrialisation did not start after WWII (or after the Great Depression); thirdly, in several countries the 'strategy' was 'mixed', combining domestic manufacturing growth with export promotion. At the core, however, lies a new and expanded role of the state, which explains the adoption of the label 'state-led industrialisation'.[53] In attaching the state the role of leading industrialisation, Cárdenas et al. make explicit the assumptions of 'ISI', that is, that industrialisation was the outcome of state policy. The case study examined in this dissertation gives strong reasons to challenge the alternative label.

Insights from prominent scholars indicate that the possibility of industrialisation occurring largely unassisted by public policy or indifferently of the preferences of policy elites is plausible. Hirschman sustains that it was possible for "industrialisation to penetrate into Latin America and elsewhere among the latecomers without requiring the fundamental political and social changes which wrought about among the pioneer industrial countries", resulting amongst other things, in the lack of political power by the new industrialists.[54] Similarly, Ocampo notes: "Socio-political elites did not quit their primary-exporting calling ... the dominant idea continued to be that industrialisation and export-led development were not antagonistic ... the facts more than industrialist ideology dominated the process."[55] Finally, Haber offers a reinterpretation of Latin American industrialisation, advancing three arguments: first, there is no neat divide between the export-led growth and the ISI periods; secondly, industrialisation began as an endogenous outcome of the growth of the export sector; finally, once it got underway, governments enacted protectionist

[52] Cárdenas, E., Ocampo, J. A. and Thorp, R. 'Introduction' in Cárdenas, E. et al. *An Economic...* p. 3.
[53] Cárdenas, E. et al. 'Introduction' p. 2.
[54] Hirschman, A. 'The Political Economy of Import-Substituting Industrialization in Latin America' in *Quarterly Journal of Economics* (1968)Vol. 82, No. 1, p. 31.
[55] Ocampo, J. A. 'Hirschman, La Industrialización y la Teoría del Desarrollo' in *Desarrollo y Sociedad* (2008) No. 62, pp. 47–48.

policies at the behest of manufacturers.[56] This study aligns itself more closely with these interpretations, but it aims to make clear contributions on two fronts. It will go beyond reinterpretation, substantiating with empirical evidence why economic-policy making efforts were not directed at industry and where (and how) these efforts went. It will also challenge Haber's view that trade protectionist policies were the prize of industrialists and industrial unions — going further, it will also question the very notion of 'trade protectionism'.[57] In doing so, the dissertation presents the case for a political economy of non-state-led industrialisation or non-ISI, an approach previously unexplored.

Finance and Economic Development

That there is a relationship between finance and economic growth and development is not controversial. On the contrary, there is a near consensus amongst academics that finance matters — and for this reason deserves to be studied. Nevertheless, it is not so clear-cut how. Thus, the obvious questions are how and why these relationships emerge, how finance affects growth and vice versa, and how the structure of a financial system promotes or retards growth. Before starting with the literature review it is necessary to explain briefly why financial systems arise and what their core economic functions are. Levine's comprehensive review provides sound definitions. Following in North's steps, he sustains that financial markets and institutions emerge to ameliorate transaction and information costs in uncertain environments (the real world).[58] Financial systems fulfil five key economic functions: mobilise resources for investment by agglomerating capital from disparate savers; two, allocate these resources; three, exert corporate control and monitor managers; four, facilitate the exchange of goods and services; five, ease the trading, hedging, pooling, and diversification of risk.[59] The efficient functioning of the financial

[56] Haber, S. 'Development Strategy or Endogenous Process? The Industrialization of Latin America' (2005) *SCID Working Paper,* No. 269, p. 2.
[57] Haber, S. 'Development...' p. 62.
[58] North, D. 'Institutions, Institutional Change and Economic Development' (1990).
[59] Levine, R. 'Financial Development and Economic Growth: Views and Agenda' in *Journal of Economic Literature* (1997) Vol. 35, p. 691.

system in turn promotes economic growth by increasing the rate of capital accumulation and via the encouragement of technological innovations.[60]

Gerschenkron was not the first to suggest that finance matters, but as noted above, he was a pioneer in highlighting the problem of finance — that is of providing capital to industry — as a critical condition for backward economies to catch up and in including it in a theory of development. It was Cameron and Patrick, however, who theorise or schematise some of the important interactions between finance and industrialisation. These authors suggest three type-cases: "(1) the case in which inadequate finance restricts or hinders industrial and commercial development; (2) the case in which the financial system is purely permissive and accommodates all 'credit-worthy' borrowers; and finally (3) the case in which financial institutions either actively promote new investment opportunities or encourage applicant for finance to come forward, provide them with advice and extra services, etc."[61] Clearly, financial institutions matter for economic development, potentially affecting the pace and progress (or not) of industrialisation. The advantages of a type (3) financial system are evident, but the concrete problems that inadequate financing brings about to manufacturing are not so straightforward, and the cited authors do not hypothesise much on this.

Fortunately, Schwarz traces some generalisations about the consequences of inadequacies in both the availability and the terms of industrial financing, drawing on extensive empirical knowledge from developing countries. The first failing, insufficient access to financing unsurprisingly generates the most obvious adverse downside: the formation of a reduced and suboptimal level of industrial development.[62] Also important are recurrent episodes of boom-and-bust cycles of growth — resembling the effects caused by shortages of foreign exchange. Further problems come in the form of discrimination against small enterprises and new undertakings, plant-operations inefficiencies, working-capital bottlenecks, and as result of reliance upon foreign funds, country-tied aid that create biases against labour-

[60] Levine, R. 'Financial...' p. 691.
[61] Cameron, R. and Patrick, H. 'Introduction' in Cameron, R. (Ed) *Banking in the Early Stages of Industrialization* (1967) p. 2.
[62] Schwarz, H. 'Problems of Industrial Financing in Latin America' in García-Zamor, J. and Sutin, S. (Eds) *Financing Development in Latin America* (1980) p. 123.

using technologies — where there might be natural comparative advantages.[63] Outgrowths of the second kind, particularly conditionalities attached to the interest rate and/or the repayment timeframe, are likely to impact the choice of technology, the optimality of the production-factors 'mix', and the structure of incentives to which industrial entrepreneurs respond.[64] It is through the study of actual historical experiences, that the insights offered are grounded.

Gerschenkron presents valuable insights on how England financed its Industrial Revolution and how economically backward nations overcame the problem of providing capital for industrialisation. On this case Gerschenkron stated: "the industrialisation in England had proceeded without any substantial utilisation of banking for long-term investment purposes. The more gradual character of the industrialisation process and the more considerable accumulation of capital, first from earnings in trade and modernised agriculture, and later from industry itself, obviated the pressure for developing any special institutional devices for provision of long-term capital to industry..."[65] For England, following this line of reasoning, capital came largely from ploughed-back profits and unfettered financial markets. Cameron, however, noted the role of country banks, arguing that "the statistics on the growth of country banking provide circumstantial evidence bearing on the relationship between banking and industrialization."[66] These organisations did play a role by means of transfers through the banking system, from areas with surplus savings to areas with savings deficits. Still, these organisations were relatively untouched by state intervention.[67]

The case for Continental Europe was different. The less gradual industrialisation and the relatively more scarce the capital, sustains Gerschenkron, were key in pressuring for the practices of industrial investment activities there. In mid-nineteenth century France, *Crédit Mobilier* was the forerunner of the great 'mixed banks', authorised to accept deposits on current accounts for twice its paid capital and to issue both short-term obligations and

[63] Schwarz, H. 'Problems...' pp. 124–26.
[64] Schwarz, H. 'Problems...' pp. 126–27.
[65] Gerschenkron, A. 'Economic...' p.14.
[66] Cameron, R. 'England, 1750–1844' in Cameron, R. (Ed) *Banking...* p. 23.
[67] A useful review of the financial agents in the English case is Neal, L. 'The Finance of Business during the Industrial Revolution' in Floud, R. and McCloskey, D. (Eds) *The Economic History of Britain since 1700* (1994) Vol. 1.

long-term bonds.[68] The ability to borrow short and lend long made this bank to specialise in big financial projects both at home and beyond, critically, in railways and public works. Alas, the prominence of *Crédit Mobilier* was fleeting. Immersed in the boom-and-bust of a real-estate bubble, the entity was forced into liquidation in 1867. The return of the monopolistic position of the Bank of France in financial markets and of the restrictive banking legislation and practices it fathered, according to Cameron, had the most damaging effects on the French economy. The progress of France's industrialisation continued to be stunted because of its banking system: an inadequate number and distribution of bank offices, little financial specialisation, artificial constraints on credit, and an inelastic and expensive stock of money.[69] *Crédit Mobilier* faded away without materialising a concrete finance-industry link.

It was the emergence of German 'universal' or 'mixed' banks, combining short-term commercial financing with long-term industrial investment what turned to be the key and lasting institutional device substituting for missing prerequisites, which latecomers needed to spur industrial growth. Banks substituted for missing efficient capital markets. According to Tilly, there were two dimensions to the banking functions of these organisations: first, the entrepreneurial or promotional aspect, by which banks organise new enterprises, and identifying them with their own credit standing, succeeded in attracting savings to these ventures directly; and secondly, the funding side, by which short-term financing created by the bankers was converted into long-term investment.[70] Like *Credit Mobilier*, the German banks had extensive deals in infrastructure investments, but unlike the former, notable associations with manufacturing firms also evolved, particularly in North Rhine-Westphalia and Silesia.[71] It is from these cases that the reputation of German banks as the financiers of industry came to prominence. In short, though the institutional innovation of the 'mixed' bank was not pioneered in Germany, banks there were first to channel significant financial resources and entrepreneurship to support industrial development.

[68] Cameron, R. 'France, 1800–1870' in Cameron, R. (Ed) *Banking...* , p. 108. A well-documented and powerful critique to Cameron has been advanced by Hoffman et al. who demonstrate that impersonal lending was abundant in late 18th-century Paris (through the mediation of notaries); and in doing so, also challenging the view that industrialisation was necessarily linked to the rise of capital markets or banking systems; see Hoffman, P., Postel-Vinay, G. and Rosenthal, J. L. 'Priceless Markets: The Political Economy of Credit in Paris, 1660–1780' (2000).
[69] Cameron, R. 'France...' p. 127.
[70] Tilly, R. 'Germany, 1815–1870' in Cameron, R. (Ed) *Banking* ... , p. 181.
[71] Tilly, R. 'Germany...' p. 179.

The Russian case for providing capital for industrialisation is distinct from that of Continental Europe. This time the degree of economic backwardness was so accentuated and the scarcity of capital of such magnitude that Gerschenkron pointed out: "no banking system could conceivably succeed in attracting sufficient funds to finance a large-scale industrialisation; the standards of honesty in business were so disastrously low, the general distrust of the public so great, that no bank could have hoped to attract even such small capital funds as were available, and no bank could have successfully engaged in long-term credit policies..."[72] Russia's backwardness made the Continental European institutional arrangements that substituted for capital markets unworkable. In Russia, a different device was tried, namely direct state intervention. Remarkable success in directing incomes from consumption to investment was achieved through severe governmental exactions from an already impoverished population.[73]

To summarise, in Gerschenkron's view, different degrees of economic backwardness called for diverse institutional arrangements in the methods with which each nation tried to provide capital for industry. Previously accumulated surpluses and market forces in England needed to be replaced by development banks that supplied long-term borrowing in Continental Europe, and onerous tax efforts that allowed direct state intervention in Russia. Now, in Latin America, and more specifically in Colombia as will be seen later, distinct institutional arrangements were made, combining the direct entrepreneurial qualities of universal banks with the subscription of venture or equity capital for industrial undertakings, as illustrated and examined in chapter four, where the history of the Colombian Institute for Industrial Development is reconstructed.

The approach and findings of Gerschenkron did not go unchallenged. Sylla's compilation of criticisms include: the view that banks mattered only in countries with moderate economic backwardness (they mattered everywhere), the lack of evidence linking only spurts in industrial growth with the appearance of banks, and the timing of the emergence of banks with industrialisation itself.[74] More recently, Edwards and Ogilvie pose a head-on challenge to the view that the relationship between universal banks and industrial

[72] Gerschenkron, A. 'Economic...' p. 14.
[73] Gerschenkron, A. 'Economic...' p. 20.
[74] Sylla, R. 'The Role of Banks' in Sylla, R. and Toniolo, G. (Eds) *Patterns of European Industrialisation* (1991) pp. 49–50.

companies was pivotal in Germany's late-nineteenth century rapid industrialisation by analysing the empirical evidence of that relationship.[75] Their challenge is grounded on three findings. First, universal banks accounted for a relatively small proportion of the total assets of financial institutions; second, the industrial firms on which universal banks concentrated were joint-stock companies, but their contribution to their financing was much more limited than previously thought; third, industrial joint-stock firms accounted only for a small share of overall industrial activity.[76] From the above follows that other financial institutions, such as savings banks, mortgage banks, and credit cooperatives supplied external finance to the industrial firms which were not joint-stock companies, but which accounted for most of the industrial capital stock in Germany.[77] In other words, the role of universal banks in the industrialisation spurt of pre-war Germany has been over-estimated, in turn, raising doubts about the conventionally-held belief that a bank-based system of investment finance is superior to a market-based one.[78] The criticisms are relevant for this study, insofar as they call for the need to go beyond the actions of private commercial banks in identifying the suppliers of industrial finance. This is particularly relevant with respect to the contributions of semi-private institutions, such as the CB and the biggest mortgage institutions, as well as the role of the largest financial institution in the Colombian banking system, the Agrarian, Mining and Industrial Bank, a fully, publicly-owned intermediary.

Despite the valid criticisms, the work of Gerschenkron has been enormously influential on how economic historians think about the relationship between finance and economic development. The most evident signal of this is the avalanche of studies directed at supporting, challenging or extending his hypotheses and findings.[79] Doubtless, his most significant contribution to economic history remains that of the provision of a framework to analyse the process of economic development in general. For the purpose of this review,

[75] Edwards, J. Ogilvie, S. 'Universal Banks and German Industrialisation: A Reappraisal' in *Economic History Review* (1996) Vol. 49, No. 3.
[76] Edwards, J. Ogilvie, S. 'Universal...' pp. 437, 442–43.
[77] Edwards, J. Ogilvie, S. 'Universal...' p. 443.
[78] See for example Frydman, R. (Ed) 'Needed Mechanisms of Corporate Governance and Finance in Eastern Europe' in *Economic Transition* (1993) Vol. 1, No. 2.
[79] See for example Good, D. 'Backwardness and the Role of Banking in Nineteenth-century European Industrialisation' in *Journal of Economic History* (1973) Vol. 33, No. 4; and Davis, J. and Mathias, P. (Eds) 'The First Industrial Revolutions' (1989).

his identification of the need for capital investment and its institutional substitutes in the process of rapid late-industrialisation is a key insight. A field of significant importance that Gerschenkron neglected, however, was that of the environment in which banking institutions operate; that is to say, the laws, regulations, and customs governing the financial system. This historiographical void drew the scholarly attention of Cameron.

Like Gerschenkron, Cameron utilised a historical, comparative analysis to approach the finance-growth relationship. His broadest preoccupation was that of how the structure of the financial system, and the way in which it operated, contributed (or retarded) the process of industrialisation. Cameron acknowledged the existence of various factors at play in determining the efficiency of that system, such as legal, institutional, administrative and even geographical.[80] Chief among them, however, was the legislation that governed it.[81] Cameron also recognised that the most relevant function of the financial system for the purpose of industrialisation was the mobilisation of capital — a system typically dominated by banks.[82] Hence, banking legislation concerning the mobilisation of capital lay at the core of his study. The structural features of the financial system were defined by the legal status of banking regarding freedom of note issue, freedom of incorporation, legal recognition of financial assets, and obstacles to the formation of companies coupled with state actions shifting resources from consumption to production, and in the form of the size of government deposits in banks.[83] The capacity of any banking system to contribute to industrialisation depended, in turn, on the density of banks, their size, and the concentration and level of competition amongst them.[84] In a stylised way, the higher the density, the larger the size, and the more competitive the banking system, the more likely that banks would serve industrial growth.

In short, Cameron accounted for the determinants of the structure of the banking system, stressing the system's features and linking them to its capacity to contribute to industrialisation. Two consequences derived from this analytical approach. The first was thematic. His pioneering effort at unearthing the determinants of the structure of the

[80] Cameron, R. 'Banking...' p. 2.
[81] Cameron, R. 'Banking...' p. 5.
[82] Cameron, R. 'Banking...' p. 292.
[83] Cameron, R. 'Banking...' pp. 293–94, 305.
[84] Cameron, R. 'Banking...' pp. 296–313.

banking system and its relationship with industrialisation inspired a growing number of scholars to further that line of research.[85] The second was interpretative. By assigning banks an active role in the process of industrialisation and the acceleration of economic growth, he revised the entrenched view that took banking as a passive and mechanically-driven supplier of funds. A group of scholars that has followed closely the lead of Cameron in studying the legal framework of banking and its impact on economic growth has made a noticeable contribution, which is assessed next.

La Porta et al. seek to establish whether laws pertaining to investor protection and their enforcement differ across countries and whether these differences have consequences upon corporate finance and hence on economic performance.[86] The authors divide a sample of 49 countries into four broad legal families based on their historical background, sources of law, and jurists' methodology amongst other features. The four legal families broadly speaking are: one, common law countries (UK, US, and former British colonies); two, French civil law countries (France, Italy, Spain and its former colonies); three, German civil law countries (Germany, Austria, Switzerland, Japan, South Korea, and Taiwan); and last, the Nordic civil law countries. Focusing first on shareholder and creditor rights, the authors find that common law countries protect investors the most, French civil law the least, and Nordic and German civil law ones do so somewhere in between.[87] They further argue that in response to such relatively investor-unfriendly laws, countries with French legal tradition might practice strict enforcement of law and exhibit high levels of ownership concentration of shares.[88] Regression analyses and means tests suggest that, indeed French civil law countries have the highest levels of ownership concentration, but fail to confirm the assumption about strict enforcement. Thus, an investor in a French civil law nation is neither protected by the laws nor the system enforcing them. The opposite is true in common law nations, whilst in German and Nordic law ones concentration of ownership is less acute and enforcement sound.

[85] For a review of this literature, see Levine, R. 'Financial...'
[86] La Porta, R., López-de-Silanes, F., Shleifer, A. and Vishny, R. 'Law and Finance' (1996) *NBER Working Paper*, No. 5661.
[87] La Porta et al. 'Law...' p. 28.
[88] La Porta et al. 'Law...' p. 27.

Why do these findings matter? Essentially, La Porta et al. hold the view that investor protection contributes to the external financing of firms, which in turn enhances economic efficiency. So, poor enforcement of law and inadequate protection of shareholders and creditors rights in French civil law countries should translate into fewer opportunities in these countries for firms to access external financing. In other words, the kind of legal family a country develops (or inherits) is likely to determine a central characteristic of corporate finance, i.e. external financing. But does external finance matter for growth? Before providing an answer to this question three criticism can be levelled at La Porta et al. study. First, the importance the authors attach to company and bankruptcy laws and their impact on growth via external financing might be overestimated. This is so because other sets of laws, for instance those affecting the banking and other financial institutions or those concerning disclosure rules, may well have bigger impacts on the relationship between financial structure and economic performance, than the one the authors concentrate on. In other words, laws on other aspects governing the financial system may overshadow the effects of company and bankruptcy laws. Second, their focus on publicly listed companies to account for the concentration of ownership and of poorly functioning capital markets might fit better the actual structure of ownership in developed nations than in developing ones. This is due to the fact that the number of publicly traded firms in the latter is substantially smaller. The number of family-owned companies in developing nations is large, hence their sample might not be representative for these countries. Third, it is reasonable to argue that despite belonging to different kinds of legal families, all Western European nations have, broadly speaking, attained the status of developed economies, which minimises the significance of legal family as independent variable. Having made these qualifications it is time to return to the above question: does external finance really matter? This is a critical question for this thesis.

Rajan and Zingales hint at answers. They examine whether financial development facilitates economic growth with the following logic in mind: nations with developed financial systems are capable of reducing the costs of external finance to firms, especially for capital-intensive sectors. This contributes significantly to these firms' faster growth.[89]

[89] Rajan, R. Zingales, L. 'Financial Dependence and Growth' in *American Economic Review* (1998) Vol. 88, No. 3.

Thus, firms in industries such as pharmaceuticals, plastics, electric machinery, ships, and computing, when operating in economies where financial development is deep[90] grow comparatively faster than the same industries in countries where the financial systems are less developed.[91] Thus, external finance matters for growth, at least in the context of firms with substantial needs of capital and technological innovation. Similarly, research by Demirguc-Kunt and Maksimovic find that firms with access to more developed stock markets grow at faster rates than they would have without such access.[92] But do these cross sectional studies based on regression analyses establish clear cut causality? Levine argues that they do not because financial development may predict growth simply because financial systems develop in anticipation of economic growth.[93] A richer basis to establish causality may come from country-case studies and historical approaches. Haber's and Hanley's studies represent this stream of the literature.

Haber researches the links between capital market development and degrees of intra-industry concentration.[94] Significant differences in capital access for textile industries between Brazil, Mexico and the US help to account for their differences in structure, namely levels of concentration. Whilst in the US, access to institutional finance was never a major obstacle, in Mexico and Brazil, for most of the nineteenth century, the majority of cotton textile industrialists had to rely on kinship networks for credit.[95] Only at the end of the century, liberalisation of financial market regulations in Brazil gave firms easier access to external finance.[96] What were the consequences of differential access to external finance? Haber argues, first, that the problems of capital mobilisation in Brazil and Mexico explained the relatively slow development of textile manufacturing in particular, and of industry in general. Secondly, the existence of highly imperfect capital markets in these countries translated into higher levels of industrial concentration than in the US. Thirdly, the empirical finding of fallen rates of industrial concentration and a parallel boom in production in the Brazilian textile sector after the liberalisation of financial markets in

[90] As measured by domestic credit to private sector over GDP and total capitalisation over GDP.
[91] Rajan, R. Zingales, L. 'Financial...' pp. 567–68, 574–77.
[92] Cited in Levine, R. 'Financial...' p. 708.
[93] Levine, R. 'Financial...' p. 708.
[94] Haber, S. 'Industrial Concentration and the Capital Markets: A Comparative Study of Brazil, Mexico, and the United States, 1830–1930' in *Journal of Economic History* (1991) Vol. 51 No. 3.
[95] Haber, S. 'Industrial...' pp. 564, 568.
[96] Haber, S. 'Industrial...' pp. 571–72.

the late 1890s, suggests the role of external, impersonal finance in a country's industrial structure and its growth rate is rather important.[97]

Another work by Haber adds to the list of virtues that freer and developed capital markets generate for industry via increases in firm size and productivity.[98] This time reforms in the regulation of financial markets, more specifically shareholders' limited liability and mandatory disclosure laws, are said to have encouraged the spurt in industrial growth.[99] Likewise, Hanley's study of the Sao Paulo stock-exchange in the late-nineteenth and early-twentieth centuries broaden the positive effects of well-functioning capital markets on economic growth.[100] Again, focusing on reforms to legislation regarding investors' liability, and on lowering the minimum thresholds for the formation of joint-stock companies, the 1890s saw a transformation in the Sao Paulo stock-exchange, a period known as *Enchilamento*. Outstanding features of this change were: the emergence of new urban and industrial firms, a dramatic growth in shareholding, and the appearance of markets for bonded debt.[101] Hanley argues that despite the ensuing stagnation of the stock market after 1914, the most significant effects of its thriving years were not macro, but micro and institutional. That is, the exchange funded large firms that survived the decline of the stock exchange and some of them turned into larger industrial conglomerates. Moreover, it broadened its reach beyond traditional sectors, and introduced financial innovations.[102] Finally, this was essentially a domestic phenomenon independent of the whims of foreign capital flows. To be fair, Haber's and Hanley's studies represent substantial contributions to the relationship between finance, industrialisation and economic growth well embedded in the territory of New Institutional Economic History. Haber does it by looking at the impact of the institution of capital markets and its regulations, and Hanley by concentrating on the laws governing investor and firms behaviours. Returning to the question of whether or not external finance matters for industrial and wide-economy growth; the answers from

[97] Haber, S. 'Industrial...' pp. 572–74.
[98] Haber, S. 'The Political Economy of Financial Market Regulation and Industrial Productivity Growth in Brazil, 1866–1934' in Haber, S. (Ed) *Political Institutions and Economic Growth in Latin America: Essays in Policy, History and Political Economy* (2000) pp. 92–96.
[99] Haber, S. 'The Political...' p. 112.
[100] Hanley, A. 'Business Finance and the Sao Paulo Bolsa, 1886–1917' in Coatsworth, J. and Taylor, A. (Eds) *Latin America and the World Economy since 1800* (1998).
[101] Hanley, A. 'Business...' p. 118.
[102] Hanley, A. 'Business...' pp. 130–31.

both cross-sectional and case-specific and comparative studies is that it does, and to a significant extent.

Brazil's short-lived *Enchilamento*, however, came to be neither representative nor replicated to any significant and lasting extent in Latin America. Dynamic stock exchanges, as characterised by liquid, deep and wide markets for securities (both in shares and in bonds) did not emerge. Basch and Kybal succinctly describe the state of these markets in the late 1960s: "... generally speaking, stock exchanges in Latin America do not yet play an important role as instrument for increasing the liquidity of the capital market and for facilitating the mobilization and channeling of financial resources."[103] The situation seems not to differ from the norm in other less developed regions, where, as McKinnon notes, the prime role in financing development falls to banking organisations: "The absence of open markets in primary securities means that the monetary system has a much more important role as intermediary between savers and investors."[104] The fact that banking, in particular private commercial banks, represented the most important component of the financial system had also been the historical experience of the early- and late-industrialisers in Europe, as Cameron highlights.[105] Therefore, banks are given extensive attention in this dissertation.

A first glance at the regional picture in banking would suggest that the state of industrial financing in Latin America was complicated. The Economic Commission for Latin America (CEPAL) reports in the 1960s, according to Schwartz, give reason to doubt financing was adequate. Rehearsing the findings of the UN body, that author indicates: "... prevalence of short-term credit, high interest rates, and loans with little or no foreign exchange content led CEPAL to conclude that conditions for industrial financing in Latin America were highly unfavourable..."[106] The latter may have been the case for private credit, but not necessarily for public lending. In the absence of comprehensive comparative studies dealing with the evolution of banking in Latin America, brief individual snapshots of the largest

[103]Basch, A. and Kybal, M. 'Capital Markets in Latin America: A General Survey and Six Country Studies' (1970) pp. 82–83.
[104]McKinnon, R. I. 'Financial Policies' in O'Brien, P. (Ed) 'Industrialisation: Critical Perspectives on the World Economy' (1998) Vol. 2, p. 263.
[105]Cameron, R. and Patrick, H. 'Introduction' p. 6.
[106]Schwartz, H. 'Problems...' p. 113.

economies, certainly ISI-nations, help in putting this dissertation's case study in context, as well as supplying another justification for the endeavour.[107] Schwartz recognises the major role of state-owned financial institutions in supplying manufacturing credit in Argentina and Mexico, where the ratio of publicly financed industrial credit to GDP rose above the ratio of all bank credit to GDP in some of the most developed economies.[108] In the case of Argentina, a recent revisionist trend questions the traditionally-held view of an alleged anti-industrial bias of financing institutions before 1940.[109] For later periods, the evidence indicating that industry was a net winner in terms of ordinary and preferential financing is solid. Rougier's data show that loans advanced by the Industrial Bank during the late 1940s and until the mid-1950s, entailed annual implicit subsidies ranging from moderate 9% to a substantial 42%.[110] Under Peronism, in the words of Barbero and Rocchi: "the financial environment could not have been better for industry."[111] This tendency did not seem to have been seriously reversed following Peron's fall, and by the late 1960s and early 1970s subsidised credit for very large domestic industrial firms or sectors were deemed crucial to compensate for high wages and diminishing profitability.[112]

The Mexican case appears not to have been different. First, a gigantic public developmentalist agency, Nacional Financiera S.A. (NAFINSA), who for long monopolised the right to contract foreign debt, directed substantial amounts of subsidised resources to industrialists.[113] The accomplishments of NAFINSA at promoting economic development have been also noted by Marichal.[114] Secondly, a discrimination of loans and securities held by public and private intermediaries (including private and government banks, common

[107] Notable exceptions are studies on central banking; see for instance Tamagna, F. 'Central Banking in Latin America' (1965).
[108] Schwartz, H. 'Problems...' p. 113.
[109] Barbero, M. and Rocchi, F. 'Industry' in della Paolera, G. and Taylor, A. (Eds) *A New Economic History of Argentina* (2003) p. 269.
[110] Rougier, M. 'La Política Crediticia del Banco Industrial durante el Primer Peronismo, 1944–1955' (2001) *CEEED Documento de Trabajo*, No. 5, p. 156.
[111] Barbero, M. and Rocchi, F, 'Industria' p. 281.
[112] Rougier, M. 'Estado, Empresas y Crédito en la Argentina. Los Orígenes del Banco Nacional de Desarrollo, 1967–1973' in *Desarrollo Económico* (2004) Vol. 43, No. 172, p. 516.
[113] For a comparison of the balance sheets of Latin America's largest developmental institutions in the 1960s; see Bach, A. and Kybal, M. 'Capital...' p. 50. For works on NAFINSA; see Ramirez, M. 'Development Banking in Mexico: The Case of Nacional Financiera, S.A.' (1985) and Blair, C. 'Nacional Financiera: Entrepreneurship in a Mixed Economy' in Vernon, R. (Ed) *Public Policy and Private Enterprise in Mexico* (1964).
[114] Marichal, C. 'El Papel de la Banca de Desarrollo en México' in *Comercio Exterior, Revista de Análisis Económico*' (2004) Vol. 54.

trusts and NAFINSA), indicates that between 1952 and 1967, on average, a stunning 50% of the resources allocated flowed to industry.[115] Del Angel Mobarak, in regards to the role of finance in economic development, remarks: "Between 1940 and 1982 Mexico fashioned a financial system that spurred its economy to unprecedented and sustained growth levels and earned it high praise from US and Mexican scholars of that time."[116]

Evidence of financial support for Brazil's industry comes from Leff, who demonstrates that between the late 1940s and the mid-1960s allocation policies strongly favoured a heavily-influenced and government owned public industrial sector — and not only in terms of preferential credit.[117] The work of Tyler corroborates these findings, emphasising that large subsidies flowed to big private and public enterprises, as well as to transnational corporations.[118] In short, Brazil too seems to have escaped from serious industrial financing constraints. This very brief review of the Argentinian, Brazilian and Mexican cases, suggests that manufacturing in general enjoyed wide access to credit and that it often did so on privileged terms, especially from public sources. The question then is: How was the situation of industrial financing like in Colombia? No study known to this author has comprehensively examined both private and public credit suppliers for the 1940–67 period, and perhaps even more critically, no efforts at disentangling the political economy motivations underlying the arrangements in place have been made. This latter point is a weakness plaguing several of the works cited here. Thus, having put the case study in the regional context and having identified the potential area for this thesis' contribution, the turn is to analyse the literature on the politics behind the allocation of financial resources.

Most of the literature dealing with the politics of finance revolves around the state and the power of interest groups. The state's actions and omissions, and its role as an arena where different sectors of the society and the economy compete for resources and push for their interests stand out as main research topics. Rajan and Zingales are among those who favour political theory to account for the differences in financial development across

[115] Calculations by this author based on the study by Del Angel Mobarak, G. 'Paradoxes of Financial Development: The Construction of the Mexican Banking System, 1941–82' (2002) Table 2.8, p. 53.
[116] Del Angel Mobarak, G. 'Paradoxes...' p. 42.
[117] Leff, N. 'Economic Policy-Making and Development in Brazil, 1947–1964' (1968) Ch. 3.
[118] Tyler, W. 'The Development and Financing of Small-Scale Industry in Brazil' in García-Zamor, J. and Sutin, S. (Eds) *Financing...* pp. 166–67.

countries and over time.[119] Their main argument holds that it is the strength of political forces in the form of interest groups what effectively blocks financial development. More specifically, they claim, it is vested interests in finance and industry standing to lose from increases in competition that wide and open access to financial resources breed, what makes these groups hostile to arm's length markets.[120] Essentially, a more efficient financial system is likely to facilitate entry of new firms in markets where incumbents prevail This in turn lowers the latter's profit margins and consequently generates an urgent interest in preventing financial development. In other words, it is against the competition-enhancing effects of financial development that industrial and financial incumbents mobilise. The logic underlying this ambitious theory of financial underdevelopment does not exhibit major shortcomings. The formidable challenge consists of capturing a variable that can represent the enormous diversity of interest groups (both from finance and from industry) across countries and throughout the twentieth century that the authors need to fit in their theory. Not surprisingly, they do not select one that directly represents the strength, power, or political clout of industry-finance interests. Instead, openness to trade in product and capital markets is said to represent such interests.[121] With this proxy for interest groups the authors regress openness to trade (trade volume over GDP) on the dependent variable, financial development (captured by equity market capitalisation over GDP) and find it to be positively correlated and statistically significant.[122] Ultimately, what Rajan and Zingales argue is that financial and industrial vested interests determine the levels of financial development by mounting barriers to trade and capital flows between nations.

There are three major problems with this approach. First, the heroic underlying assumption is that a country's commercial code regime depends exclusively on the monopoly of political power held by a narrow coalition of finance and industry. However, there is a wide range of other factors that can alter such grip, including political institutions, development ideologies, and international wars to name the most obvious. Second, the premise that financiers could only oppose financial development for fears of competition

[119] Rajan, G. and Zingales, L. 'The Great Reversals: The Politics of Financial Development in the 20th Century' (2001) *NBER Working Paper,* No. 8178.
[120] Rajan, G. and Zingales, L. 'The Great...' p. 4.
[121] Rajan, G. and Zingales, L. 'The Great...' pp. 4–5.
[122] Rajan, G. and Zingales, L. 'The Great...' pp. 5, 57.

from abroad neglects the possibility that they themselves can make profits. Free international flows of financial resources increase their opportunities for arbitrage and from fees earned arranging international transactions.[123] The need of Rajan and Zingales to find a proxy capturing differences in interest group strengths across time and space to fit in their model is understandable; however, this also leads them to make the highly reductionist claims on behaviour which very much undermines the explanatory power of their analysis. Third, their approach leaves virtually no room for agency on the part of the state. A historical reappraisal of views that see states as mere instruments of certain social groups, together with views that states are structurally constrained by economic conditions to act independently, suggests flaws in these conceptions. In sum, a thin and sophisticated statistical quest for patterns in the politics of finance does not replace thick history.

A less ambitious yet more insightful approach to the subject is offered by Sikkink, who does not focus on the role of interest groups preventing financial development, but rather highlights one key aspect of the state involved in financing developmental objectives: the capacity to achieve them.[124] Sikkink selects two historical cases, Brazil under Kubitschek and Argentina under Frondizi, to compare their respective state's capacities in the context of developmentalist politics. The question is about the performance of two key organisations designed to promote economic development, as represented by two state-owned banks, The *Banco Nacional de Desenvolvimento Econômico* (BNDE) in Brazil and the *Banco Industrial Argentino* (BIA). Sikkink notices that even though the responsibilities of both institutions were similar, their actual contribution to the process of economic development was very different.[125] The BIA failed to become a vehicle for developmentalism in terms of long-term credit support to transport and energy infrastructure and the promotion of new, and expansion of existing, basic industries. Sikkink draws this conclusion from looking at the patterns of the composition of loans granted by BIA during the 1950s. The absence of a shift in credit away from light industries into the production of capital and basic goods, coupled with the fact that interest rates were often negative due to high inflation

[123] Maxfield, S. 'Bankers' Alliances and Economic Policy Patterns: Evidence from Mexico and Brazil' in *Comparative Political Studies* (1991) Vol. 23, No. 4, p. 426.
[124] Sikkink, K. 'Las Capacidades y la Autonomía del Estado en Brazil y la Argentina: Un Enfoque Neoinstitucionalista' in *Desarrollo Económico* (1993) Vol. 32, No. 128.
[125] Sikkink, K. 'Brazil...' p. 564.

leads her to argue, that what the BIA did was to subsidise indiscriminately horizontal industrialisation.[126] Though some of Sikkink's conclusions are debatable, a common denominator in the literature is the existence of a gap between the operations on the ground of the bank and the missions trusted in its mandate.

The BNDE fared better, as the bulk of its portfolio exhibits concentration in three main areas: electric energy, railways and basic industries.[127] In this sense the BNDE, unlike BIA, is said to have fulfilled its role within the context of developmentalism. Yet, what explains the differences in performance between BNDE and BIA? In one word: politics. BIA lacked institutional autonomy. First, its directorship was stacked with representatives of industry, agriculture, and others directly appointed by the president. This wrested autonomy from the institution in the process of credit allocation. Second, dependence on the CBs' resources for its operations made it even more vulnerable to government political requirements that needed not be economically sound. Although BNDE directors were also appointed by the president there was no requisite to include representatives of producer groups, and often its staff were recruited from a pool of technocrats formed in the civil service body. In short, the BNDE enjoyed more relative autonomy when it came to pursuing its developmental purposes; this in turn made it more effective. To sum up, unlike Rajan and Zingales, Sikkink does not claim that interest group politics prevented financial development in Argentina or Brazil. Instead, she suggests, that the lack of institutional autonomy from government politics and producer interests affected the direction of the flow of financial resources. This insight will resurface when the historical examination of the Colombian BNDE and BIA equivalent is conducted.

Lukauskas follows Sikkink's line of thought (examining the Spaniard case), but exaggerates the purposiveness of the state in the utilisation of finance for political aims. Lukauskas contends that public officials intervene in financial markets to advance their own self-interest, not to promote aggregate social welfare.[128] Specifically, he asserts: "self-interested public officials implement financial restriction to further their personal goals."[129] The key

[126] Sikkink, K. 'Brazil...' p. 568.
[127] Sikkink, K. 'Brazil...' pp. 568–69.
[128] Lukauskas, A. 'The Political Economy of Financial Restriction: The Case of Spain' in *Comparative Politics* (1994) Vol. 27, No.1, p. 67.
[129] Lukauskas, A. 'The Political...' p. 72.

question is: what are the characteristics of financial repression and why do governments pursue them? Among the most important features are: First, controls on deposit and loan interest rates; second, selective credit policies; third, subsidised credit to favoured sectors; finally, imposition upon banks of heavy reserve requirements and asset restrictions.[130] Governments seek to implement these measures, Lukauskas claims, because it allows them to solve two serious problems facing all regimes; revenue generation and the buying of political support from strategically important constituencies.[131] For the purpose of this review the chief outcome of financial restriction is the capacity it gives state officials to politicise the allocation of credit through its allocation. Although Lukauskas does not specify which particular sectors enjoyed the benefits of subsidised credit, he asserts, that among the winners of privileged credit circuits were the domestic banks, large industrial companies, firms owned by friends and relatives of Franco and its allies, and the regime itself, which regularly accounted for around a third of the credit allocated through the banking system.[132] In short, Lukauskas advances an explanation of the politics of financial restriction decisively led by state officials with the purpose of remaining in power. A repressed financial system allows the regime to finance itself, and also gains the support of the economic groups that benefit from directed programs of credit, which offer resources at heavily subsidised rates.

Logical and well argued, the study by Lukauskas ignores three issues that make his explanation incomplete. First, because of his emphasis on how the Franco regime uses the banking system to buy support and retain political power he neglects the issue of whether or not, taken as a whole, Franco's financial policies enhanced dynamic industrial development and rapid economic growth. This is important because one of his opening premises is that intervention in financial markets not only served the purposes of personal interests, but that they do so at the expenses of aggregate welfare. There is plenty of evidence and discussion about the first part of this claim, but nothing about the latter in his analysis. Second, Lukauskas relies too much on the political supply-side of financial repression, i.e. the Franco regime, but fails to mention its demand-side, namely, the

[130] Lukauskas, A. 'The Political...' p. 68.
[131] Lukauskas, A. 'The Political...' pp. 71–72.
[132] Lukauskas, A. 'The Political...' pp. 77–80.

proactive role of industrialists and groups with vested interests in pushing for such an arrangement. Finally, Lukauskas underestimates the potential benefits of interventions in financial markets. There is an important body of literature arguing that the experiences of late-industrialisers with credit-control policies and other heterodox interventions in the financial system positively affected the performance of their industrialisation processes and quickened the paces of their economic growth.[133] Woo offers a critical study on the subject.

Woo examines the interrelations between finance, industrialisation, and the state in the context of the successful industrial transformation of South Korea.[134] She argues that South Korea's position in the global geopolitical system of the Cold War era put it in a privileged position, as security concerns permitted the Rhee and Park regimes to mobilise financial resources for economic development with Japan and the US acting as guarantors.[135] The most important characteristics of the Korean financial system were that it was bank-based and state-owned. The implication of being bank-based was that firms had to rely heavily on credit from banks only if new investments were to go beyond what retained earnings permitted them. Since banks were state-owned and the regime promoted policies of industrial upgrading, the state was interested in lending private businesses profusely and at subsidised rates. The commitment of the state to industry is best captured in the unprecedented, towering levels of leverage that Korean firms reached around the 1970s. By one account, the debt-to-equity ratio of firms oscillated between 300% and 400%, double those of Taiwan and Japan, and surpassing four times that of firms in Mexico and Brazil, who were already borrowing heftily in international markets.[136]

There were downsides to such largesse. First, firms had to conform to macroeconomic policies as minor changes in discount rates or changes in the terms of preferential credit had magnifying effects on their financial flows. Second, efforts to maintain good relations with the regime were crucial to avert chances of credit severance.[137] Third, sectors and

[133] See for instance; Amsden, A. 'The Rise of the Rest: Challenges to the West from Late-Industrializing Economies' (2001); Johnson, C. 'MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975' (1982).
[134] Woo, J. 'Race to the Swift: State and Finance in Korean Industrialisation' (1991).
[135] Woo, J. 'Race...' p. 8.
[136] Woo, J. 'Race...' pp. 11–12.
[137] Woo, J. 'Race...' p. 9.

firms not prioritised by the state found it harder and dearer to access credit. Fourth, state mobilisation of credit on preferential terms drove down bank interest rates, which had a direct effect on household savings, causing them to flee to the curb market.[138] Fifth, when non-performing loans originated in a conglomerate, the need to avoid huge bankruptcy often implied that the state had to bail them out.[139] So, what was the political pact behind the state-led policies of industrial financing in Korea? In one word: coalition. The success of Korean business in upgrading their industries would not have been possible without the ample and deep commitment that the Park regime offered them through the state-owned credit-based support of the banking system. This conditional support, ensuring that businesses conformed to state policies, cemented a tight coalition between business and state, which was largely responsible for the Korean economic 'miracle'. Briefly, the South Korean case provides an example to counter Lukauskas' pessimism in which state-induced repression of the financial system positively served the wider goal of economic growth. These illustrations for and against successful state interventionism in industrial funding serve as references in which to place the Colombian historical experience.

The literature reviewed so far has shown insights and problems accounting for the politics underlying the mobilisation and allocation of financial resources for economic growth. Rajan and Zingales are over-ambitious with their model of interest groups preventing the development of financial markets throughout time and across space. They neglect international factors and confined the state to a passive role as victim at the hands of financial-industrial incumbents. Sikkink brings the state back in, highlighting differences in public developmental institutions and their performances due to issues of state capacity and autonomy. Lukauskas also privileges the role of the state, and pushes further by contending that practices of financial restriction only serve the personal interest of state officials to retain political power and buy off strategic constituencies. Woo demonstrates that those same practices of financial repression can be directed to good purpose and fuel the process of industrial upgrade and rapid economic growth. These contributions can be seen in terms of political demand and supply determining the nature and kind of financial system an economy develops. Rajan and Zingales offered as demand-side

[138] Woo, J. 'Race...' p. 10.
[139] Woo, J. 'Race...' p. 12.

based explanation an all-powerful incumbent alliance of finance and industry perpetuating financial underdevelopment. Sikkink is first to include the key actor in supply-side accounts, the state, but portrays it with potentially serious deficiencies. Lukauskas also prefers the supply-side explanation, but goes to the other extreme in that state officials' greediness explain all outcomes in a financially repressed system, muting the voice and power of economic groups demanding credit. Woo strikes a balance, by acknowledging the existence of a coalition between business and the state, but in her analysis the state is all pervasive and finance *demandeurs* remain silent. What is missing is a framework that offers both the political demand-and-supply sides of the story, and also recognises the influences of international factors in determining the structures and functioning of financial systems and the consumers of their services. Such framework has been devised.

Haggard and Maxfield starting point is the consideration of international factors. More precisely, they are concerned with the (non)availability of external financial resources. Access to foreign resources enhances the opportunities of governments to expand their role as intermediaries with concomitant chances to extend support to preferred sectors.[140] Once international factors are considered, they move on to find the political equilibrium that shapes the financial system. On the political demand-side lies the political power of credit *demandeurs*, which depends on the relative size of industry in the economy, its organisational strength and financial needs.[141] The power of other groups competing for resources, especially agriculture, and of those bearing the costs of cheap credits — e.g. savers facing low deposit rates — is also likely to counter the strength of industrialists appetite for finance.[142] On the supply-side, the authors identify the intentions and interests of ruling politicians and the structure of government institutions.[143] The former concerns the degree of insulation of the policy-making processes of key public institutions, such as central banks and finance ministries. The latter allows for agency. Politicians mostly concerned with macroeconomic stability, i.e. tamed inflation, are less likely to interfere in the financial system, whereas leaders whose top priority is growth intervene by supporting

[140] Haggard, S. and Maxfield, S. 'Political Explanations of Financial Policy in Developing Countries' in Haggard, S., Lee, C. and Maxfield, S. (Eds) *The Politics of Finance in Developing Countries* (1993) p. 296.
[141] Haggard, S. and Lee, C. 'The Political Dimension of Finance in Economic Development' in Haggard, S. et al. *The Politics...* pp. 12–13.
[142] Haggard, S. and Maxfield, S. 'Political...' pp. 299–300.
[143] Haggard, S. and Lee, C 'The Political...' p. 12.

preferential credit schemes.[144] In other words, Haggard and Maxfield bring forward a more complete and sophisticated theory to explain the politics underlying the functioning of financial systems that features three broad elements: international conditions, a political demand-side, and a political supply-side. On the demand-side argument, the political clout of interest groups is taken into consideration, whilst on the supply-side the agency of politicians and the structure of institutions in charge of monetary and financial policies is also included. The dynamism and the flexibility of this framework to account for variations in the functioning of different financial systems and the patterns of industrial financing make this approach most useful when conducting research on the political aspects of finance; hence the Haggard/Maxfield scheme will guide the empirical research of chapter six.

Conclusions

The examination of the bodies of literature conducted above offers different paths and lessons for research in the field of finance and growth. This review should conclude by recalling the most important issues brought forward by the scholars of late-industrialisation. First, it is clear from the experience of East Asia that high levels of investment are a necessary condition for successful late-industrialisation. Second, it is the appropriate political and institutional environment or a certain political economy, that guarantees that these necessary investment levels are reached and that the resources are utilised productively. Among the characteristics of this particular setting, a relatively equal distribution of income, a competent and meritocratic bureaucracy, and a close relationship between state and industrial capital are important. Historically, the constant repression of labour under fairly authoritarian regimes seems to have served the purpose of inflating private profits; naturally, the desirability of this condition in democratic environments is more than questionable. Third, differences in economic performance among latecomers have frequently been associated with variations in the type and quality of state intervention. A growing taxonomy of states indicates that authoritative, purposive, and centralised states exhibiting Weberian-like bureaucracies are more likely to be effective at economically

[144] Haggard, S. and Maxfield, S. 'Political...' pp. 305–08.

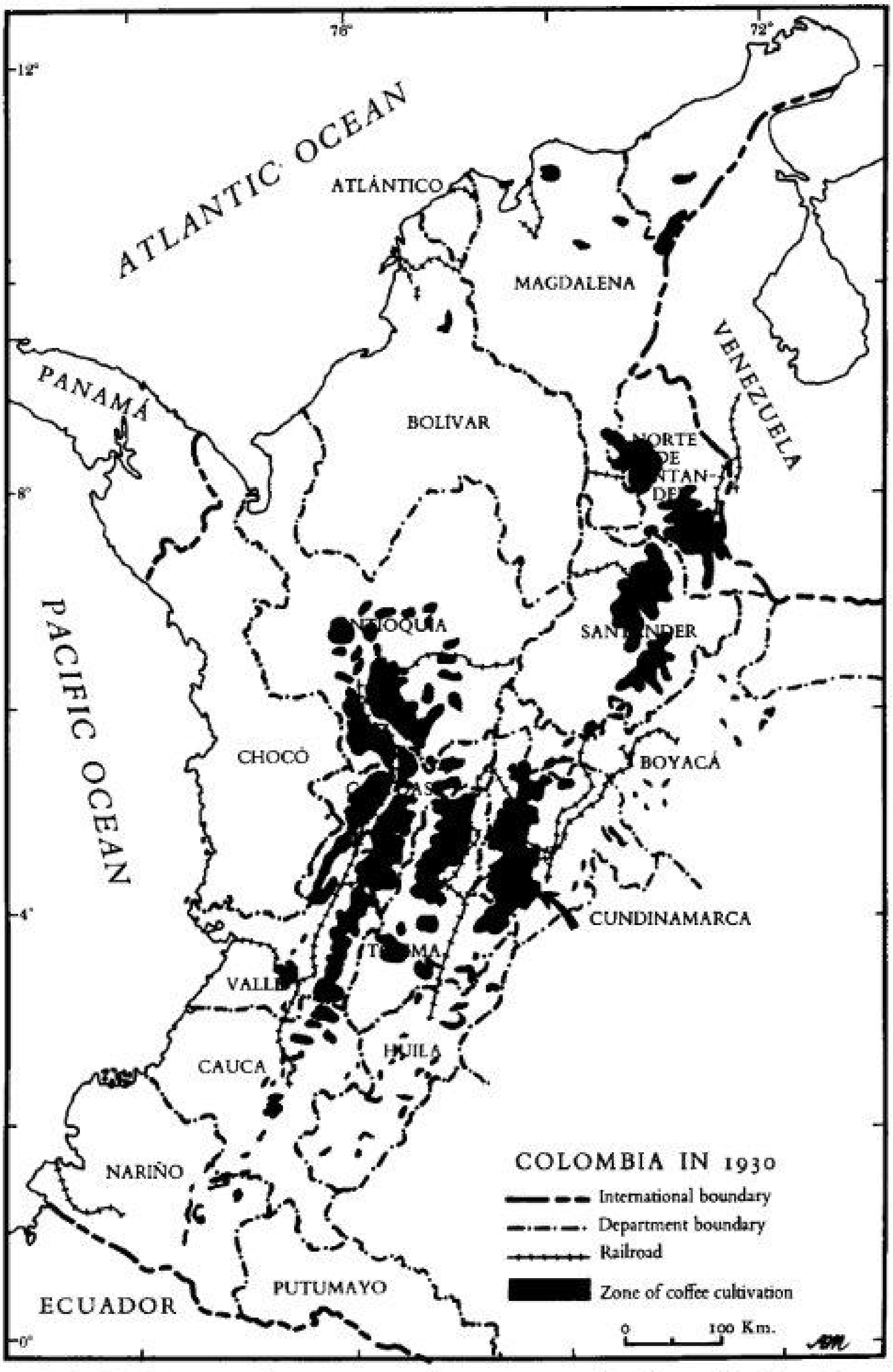
developmental tasks. Finally, when comparing East Asia and Latin America, critics of ISI tend to minimise the achievements of the latter and often reduce the problem to a matter of development-strategy selection between ISI and EOI. The distinction is useful but not particularly suitable for the purposes of this dissertation. Retaining a political economy approach to explain Colombia's experiences of industrialisation and of industrial policy, a framework favouring both political supply- and demand-side variables with a clear institutionalist bias will be applied.

Finance matters for growth, as pointed out early by the works of Gerschenkron and Cameron. As both these authors suggest, the historical experiences of rich Western European countries show that there is no one way or model of financial system that fits all sizes. Economies struggling to provide capital for industry must not copy others uncritically. On the contrary, success with a wide range of institutional arrangements across nations hints at the fact that each nation has to devise a model of its own, one that takes into account its own political institutions, legal frameworks and culture. Equally, researchers working on these topics must be careful with overstressing similarities among economies, and also look for the distinctiveness and unique aspects of each financial system, the politics underlying it, and its relationships with economic growth. Second, there are limits to what can be said on the causality between finance and economic growth. As suggested by Levine, one needs to be sceptical when faced with statistical accounts claiming causality between finance and growth, whatever its kind, external finance and growth, capital markets access and growth, or universal banks development and growth. Detailed historical accounts registering changes in the structure, determinants, and functioning of financial systems and their relationships with economic growth, à *la Haber* or à *la Hanley*, have more powerful explanatory bases than regression analyses. Third, the politics surrounding the emergence and functioning of financial systems remains fundamental. Haggard and Maxfield present a framework that allows for agency of actors, such as politicians, a sectoral logic explaining the behaviour of industrialists and their demands for financial resources, and an institutional setting that mediates the clash of interests between the state and private interests. In sum, one promising way to approach the field seems to be through an historical account that allows for agency mediated by institutions, and is not immune to the events of the international context.

2 Colombia Since 1850: Endowments, Economics and Politics

This chapter provides the historical background for the substantive research chapters of the dissertation and locates these in the wider political, economic and social context of mid-twentieth century Colombia. To achieve this objective it offers a stylised history of the most relevant processes and events influencing the dependent variables of study: state and industry. The task implies relying extensively on secondary literatures, although occasionally, primary sources valued for their 'first-handedness', illustrate and complement the arguments. The chapter is divided in six sections. It opens with a general picture of the physical traits of the country and discusses how these have influenced broad social processes from colonial times. Particular importance is given to the challenges that geography has posed to market integration and economic development. The second part reviews the roles foreign capital and labour, violence, the colonial legacy and international trade played in the decades preceding the period of analysis, assisting in the characterisation of the broad political economy of the country. Section three describes fleeting attempts at economic integration with world markets, until the exportation of coffee. Assessments of the most important impacts of the coffee-boom are also offered, stressing its effects on manufacturing. The next section concentrates on industrial growth and development from the 'take-off' of the 1920s to the late 1960s. Emphasis is given to the Great Depression and the policy responses it provoked. Section five concerns the nature of the Colombian state, its political parties, regimes and the powers and limitations of the presidency with a view to understand the polity in which industrial policies take place. The last section concludes.

Colombia



2 Colombia in 1930: departments, railways, zones of coffee cultivation. *Source:* Federation of Coffee Growers, *Coffee Map of the Republic of Colombia* (Bogotá 1933).

Basics: Geography and Transportation

Geography has played a central role in Colombia's economic and political history.[1] Though there is no consensus about how and to what extent climatic, topographic and hydrological characteristics have affected wider political and socio-economic patterns, a point of convergence in the literature is that Colombia has always been a divided nation. Romoli points at the most obvious: "All Colombia is divided into two parts, the mountainous and the flat."[2] The division refers to the flat east and south east parts of the territory and the mountainous parts to the west. The mountainous territory comprises the *Andes* range that north of Ecuador and into Colombian territory break up in the Pasto knot, branching out into three *cordilleras* running south to north — eastern, central and western. The topography has set the pace for the pattern of settlements, for it is there, in the mountains, or the hinterland highlands, that most of the country's population settled during colonial times and continues to live to the present day. The tropical lowlands, which account for over 80% of the territory, have been sparsely populated.[3]

Palacios and Safford divide the nation since pre-Columbian times into three main regions: the East, including the intermontane valleys and the flanks and immediate watershed regions of the Eastern Cordillera, plus the upper Magdalena Valley; the West, consisting of the Central and Western Cordilleras and the Cauca Valley between them; and the Caribbean coast.[4] They argue that Spanish conquest and settlement only served to reinforce these regional divisions, so that the three zones developed their own particular economies, distinct racial and cultural features, and characterised by political antagonism and commercial competition between them.[5] The forested lands of Choco and the Pacific coast along with the Putumayo constitute a fourth physical region, yet scantly populated. In ecozone terms, the country exhibits humid tropics, dry winter tropics, steppe/desert and

[1] Bushnell, D. 'Colombia: Una Nación a Pesar de Sí Misma' (1996) p. 21.

[2] Romoli, K. 'Colombia: Gateway to South America' (1953) cited in Fluharty, V. 'Dance of the Millions: Military Rule and the Social Revolution in Colombia, 1930–56 ' (1957) p. 5.

[3] Palacios, M. and Safford, F. 'Colombia: Fragmented Land, Divided Society' (2002) pp. 1–5. According to census data, the country's population, increased from 4.7 million in 1905 to 23 million by 1973, having experience a 'demographic explosion' during the 1950s and 1960s; see GRECO. 'El Crecimiento Económico Colombiano en el Siglo XX' (2002) pp. 6–12.

[4] Palacios, M. and Safford, F. 'Colombia...' pp. 5–7.

[5] Palacios, M. and Safford, F. 'Colombia...' pp. 7–8.

humid temperate regions; whilst in geographical zones it contains Amazonian, lowland Atlantic coast, lowland Pacific coast and tropical highlands varieties.[6]

Located close to the equator and fully in the tropics, the mountains generate a wide gamut of climates. In the words of Bell: "climate is a matter of elevation, and, where elevations vary from sea level to the snow line at 16,000 feet, all varieties of climatic conditions are encountered."[7] This fact has important economic consequences. First, since colonial times Spaniards searching for cooler lands in the altitudes of the hinterland — avoiding hot, damp weather and tropical diseases — set a pattern of settlement in reverse: from the interior to the lowlands.[8] Crucially, such a colonisation model located the largest urban centres away from coastal ports, and thus further away from trade opportunities with the outside world. Secondly, in the absence of seasons a wide range of thermal climate floors — warm, temperate, cold and *páramo* — create so-called 'vertical' climates.[9] In relatively small pieces of territory different climatic conditions, at significantly diverse elevations, prevail. This type of climate facilitates the production of a wide range of crops in zones that are not far apart from each other, allowing for a sufficient availability of diverse agricultural produce within relatively close distances, that made for moderately rich diets and rendered long-distance interregional and international trade less urgent. Economic fragmentation has been a long-standing national trait.

Bell's handbook considered Colombia as a group of nine commercial districts, "each different from the other and each possessing its distinct features with respect to climate, transportation, living conditions, character of the people, and other economic and social factors."[10] Thirty years later, another foreigner, Lauchlin Currie, distinguished four main economic zones: Atlantic littoral, Eastern cordillera, Cauca Valley and Antioquia.[11] It is difficult to know if the reduction in economic zones, from nine to four, that exists between the two observations is the result of integration between certain regional markets or if it is

[6]Gallup, J., Gaviria, A. and Lora, E. 'Is Geography Destiny? Lessons from Latin America' (2003) pp. 19–20.
[7]Bell, P. L. 'Colombia: A Commercial and Industrial Handbook' (1921) p. 30.
[8]Jaramillo, J. 'La Personalidad Histórica de Colombia' (1994) p. 45.
[9]Lafond, G. 'Geographie Économique de I'Amerique' (1947) p. 90.
[10]Bell, P. L. 'Colombia...' p. 185. His division of Colombia by commercial districts includes: Santa Marta, Barranquilla and Magdalena, Cartagena, Bogota, Cali, Medellin, Bucaramanga, Cucuta and Manizales. For a detailed account of each district; see pp. 185–294.
[11]Currie, L. 'Bases de un Programa de Fomento para Colombia' (1951) p. 4 cited in Fluharty, V. 'Dance...' p. 22.

down simply to non-comparable approaches. What is certain is that the twentieth century saw processes of regional market integration, yet not of national markets. This was true for both product markets and for factor markets. What caused this economic fragmentation? Was it all down to topographical and climatic characteristics? Were other factors at play?

Given high levels of geographical fragmentation and the great distances between main ports and large population centres, Colombia faced serious challenges if it were to attain economies of scale, mass markets, regional specialisation and vibrant internal and external trade. Significant improvements in transportation were indispensable to overcome geography. How was transportation like in the nineteenth and early-twentieth century? "Transportation is made extremely difficult and costly"[12] and it was time-consuming and unreliable. Bell, advised: "As in the case of all other journeys... time is the main factor, and the trip from Medellin to Bogota is subject to many conditions and circumstances, all making for delay en route."[13] Of particular concern for most journeys to and from the interior, was the condition of the Magdalena River, "the main highway of traffic..." — well into the twentieth century. The amount of water in the river during the dry season made navigation obstacles, such as sand bars, mud banks and snags more frequent. From March to April, navigation was practically suspended. If the picture of river transportation was discouraging, terrestrial communication was not much better. According to McGreevy: "At mid-century many of the principal overland routes had to be traversed by human carriers because the poor quality of the ways prevented passage by mules or other beasts of burden."[14] Pack mules were the preferred and most appropriate means to carry freight in the interior, but this was neither safe nor quick. And the costs of such transportation were very high. Safford estimates that from the 1820s to 1860s, the rate was between 35 and 65 cents per tonne-mile, rising up to 95 cents during the rainy season; meanwhile, overland freight costs over wagon in the US averaged 12 to 17 cents per tonne mile.[15] As for speed, a British consul noted in 1889: "The time occupied in transporting the goods over that short distance [Honda-Bogota] has been greater than that taken from Europe to

[12] Bell, P. L. 'Colombia...' p. 24.
[13] Bell, P. L. 'Colombia...' p. 401.
[14] McGreevy, W. 'An Economic History of Colombia, 1845–1930' (1971) p. 245.
[15] Safford, F. 'The Emergence of Economic Liberalism in Colombia' in Love, J. and Jacobsen, N. (Eds) *Guiding the Invisible Hand* (1988) p. 36.

Honda."[16] There is no reason to believe that the Bogota-Honda road was atypical, most likely, other interior routes faced similar conditions.[17] Within this context of transportation backwardness, the advent of railways was a more than promissory development.

Construction of the first railway took place in the early 1850s connecting the Atlantic and the Pacific oceans. Despite the early start, progress was slow. The number of railway-kilometres in use grew from around 200 in 1885 to 565 in 1904 to 1,166 ten years later and peaked around 3,300 in 1934.[18] Certain railways had large socio-economic impacts. For example, the Pacific line had a tremendous impact reducing transportation costs for coffee exporters — connecting Cali and the Cauca Valley with the Pacific coast and its port in Buenaventura.[19] There is little doubt that the expansion of railways facilitated the growth of coffee exports, via 'coffee-lines' in Antioquia, Cucuta, and Tolima. McGreevy estimates that the social savings accruing to the economy from transportation improvements amounted to 3.2% of GDP by 1924.[20] Ramirez's calculations for all railways in 1927 suggest higher savings: between 3.4% and 7.9% of GDP.[21] Synthesising, the introduction of railways had a number of positive effects on the economy of the early-twentieth century. Railways reduced not only the transportation costs of coffee exports, but also of imports and of domestic trade. They also connected regions internally, made certain journeys faster, and most probably facilitated the movement of labour for economic and leisure reasons.

Despite progress in the expansion of railways there were important shortcomings. Railways clearly lagged behind developments elsewhere in Latin America.[22] In terms of social savings, they were far below the savings attained by countries such as Brazil and Mexico.[23] Therefore, for authors like Ramirez, as a means of transportation that communicated

[16] Quoted in McGreevy, W. 'An Economic...' pp. 245–46.
[17] See Palacios, M. and Safford, F. 'Colombia...' p. 5.
[18] McGreevy, W. 'An Economic...' p. 256.
[19] Bushnell, D. 'Colombia...' p. 235.
[20] McGreevy, W. 'An Economic...' pp. 267–68.
[21] Ramírez, M. T. 'Efectos del Eslabonamiento de la Infraestrucutra de Transporte sobre la Economía Colombiana, 1900–1950' in Robinson, J. and Urrutia, M. (Eds) *Economía Colombiana del Siglo XX: Un Analisis Cuantitativo* (2007) p. 416.
[22] Ramírez, M. T. 'Efectos...' pp. 402–04. For example, in 1925 Colombia exhibited the lowest length of open railway lines, expressed in kilometres, among eleven countries.
[23] See for Mexico, Coatsworth, J. 'El Impacto de los Ferrocarriles en el Porfiriato: Crecimiento Contra Desarrollo' (1984); and for Brazil, Summerhill, W. 'Transportation and Economic Growth in Brazil and Mexico' in Haber, S. (Ed) *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800–1914* (1997).

rapidly and at low cost the country's regions, railways constituted failure.[24] Amongst several reasons for such failure, lack of capital, doubtful profitability, political meddling and poor efforts at coordinating and connecting a railway grid seem to stand out.[25] In short, railways, the most important transport innovation of the time, failed to overcome the biggest obstacle to economic development in the late-nineteenth and early-twentieth century: high transportation costs. And it was not the only one.

Further Obstacles to Growth

Factor flows, the colonial legacy, violence, and weak international trade links constituted other causes arresting growth. The impression that Colombia had been neglected by foreign capital and immigration was for some one of the reasons why development did not materialise.[26] The observation was accurate for the country did not see anything similar in kind or magnitude to the flows of labour that flowed to the US or Argentina.[27] Nor was it an important recipient of large amounts of capital in direct or indirect form. Among the strongest deterrents for immigrants figured the equatorial climate and plenty of tropical diseases. As for capital, geography did not favour railway ventures; a backward economy and low income levels for the majority of the population made for unattractive markets. It was in mining, and in the way of government loans, that small amounts of foreign capital entered the country.

History, too, supplied obstacles to economic development. The economic legacy of colonial times did not alter dramatically with independence. The country inherited a predominantly agricultural non-export economy with extremely low levels of productivity that continued well into the twentieth century.[28] The governing structure of production, traditional haciendas[29] and small-scale subsistence farming retarded the spread of waged

[24] Ramirez, M. T. 'Efectos...' p. 451.
[25] See for instance; McGreevy, W. 'An Economic...' pp. 253–54; Póveda, G. 'El Primer...' pp. 64–66; and Palacios, M. and Safford, F. 'Colombia...' p. 5.
[26] Bell, P. L. 'Colombia...' p. 15.
[27] For a review of migration trends in Latin America, see; Sánchez-Alonso, B. 'Labour and Immigration' in Bulmer-Thomas, V., Coatsworth, J. and Cortés-Conde, R. (Eds) *The Cambridge...* Vol. 2.
[28] For a regional perspective; see Bulmer-Thomas, V. 'The Economic...' (1994) pp. 39–43 and Ch. 5.
[29] For a description of the haciendas and its regional differences; see Kalmanovitz, S. 'Economía y Nación: Una Breve Historia de Colombia' (2003) pp. 148–76.

Table 2.1: Colombia–Latin America: Integration to the World Economy

Exports Per Head (US Dollars)				
Country	Circa 1850	Circa 1870	Circa 1870	Circa 1912
Argentina	10.3	16.5	32.4	62
Bolivia	5.5	8.6	12.4	18.6
Brazil	5	8.6	9.6	14.2
Chile	7.8	14.2	20.3	44.7
Colombia	1.9	6.6	5.7	6.4
Costa Rica	11.4	21.2	37.9	27.1
Cuba	22.2	44.3	55.7	64.7
Ecuador	2	4.1	4.6	7.9
Mexico	3.2	2.3	4.4	10.7
Peru	3.7	10.1	3.3	9.4
Uruguay	54.9	46.4	44.6	50.3
Venezuela	3.3	6.8	8.3	10.5
Latin America	5.2	8.9	11.7	20.4
Australia	16.5	63.3	52.8	87
United States	7	10	13.7	24.4

Source & Note: Bulmer-Thomas, V. (1994) p. 69. Three-year averages.

labour,[30] the stimuli for regional product-specialisation and trade, and the introduction of modern machinery and technologies to agricultural enterprise. On this last point, Bell, commented: "With two or three notable exceptions, agriculture is carried on in Colombia in the most primitive manner. Modern machinery and implements are almost unknown, and there are entire regions without a steel plow of modern make, the only implement being the universal machete."[31] To the picture of technological backwardness had to be added the widespread use of slash and burn techniques. Other problems, however, were man-made.

Diverse manifestations of social conflict and their effects on economic growth have recently become a subject study in the Latin American context.[32] North et al. argue

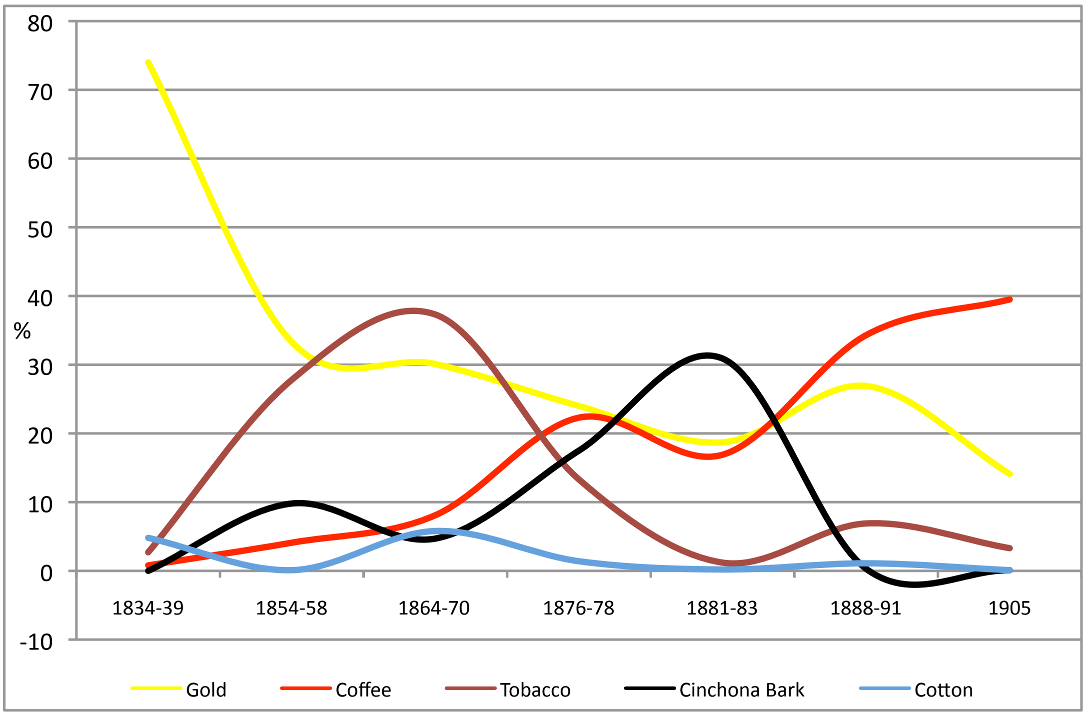
[30] For a brief discussion of types of work and labour regimes in the second half of the nineteenth century; see Melo, J. 'Las Vicisitudes del Modelo Liberal, 1859–1899' in Ocampo, J. A. (Ed) *Historia...* pp. 135–39.

[31] Bell, P. L. 'Colombia...' p. 73.

[32] For a sample of this literature; see Dye, A. 'The Institutional Framework' and Prados de la Escosura, L. 'The Economic Impact of Independence in Latin America' both in Bulmer-Thomas, V., Coatsworth, J. and Cortés-Conde, R. (Eds) *The*

that political order is a public good and a necessary condition for economic and political development.[33] They sustain further, that the 50 years of widespread political instability and violence that followed independence in Spanish America was the result of the inability of these societies to establish institutions that provided credible commitments to rights and property, and their absence to share a belief system about the role of government, the state, corporate privilege, and citizenship.[34] Following this line of argument, Bértola and Williamson, stress that: "Latin America experienced almost continuous war and civil strife between 1820s and the 1870s… practically all experienced episodes of massive and prolonged civil strife. In six countries, internal civil wars raged more or less continuously for decades after independence."[35]

Figure 2.1: Colombia: Evolution of Main Exports, 1834–1905 (percentages)



Source: Adapted from Ocampo, J. A. (1984) pp. 100–01.

Cambridge… Vol. 2; and North, D., Summerhill, W. and Weingast, B. 'Order, Disorder and Economic Change: Latin America Versus North America' in Bueno de Mesquita, B. and Root, H. (Eds) *Governing for Prosperity* (2000).

[33] North, D., et al. 'Order…' p. 1.

[34] North, D. et al. 'Order…' pp. 28–30 and 37–9.

[35] Cited in Deas, M. 'Inseguridad y Desarrollo Económico en Colombia en el Primer Siglo de Vida Republicana Independiente: Unas Consideraciones Preliminares' Unpublished manuscript, p. 4.

It is necessary to check Colombia's own record of political disorder: rebellions, civil wars, coups, external conflicts and levels of violence for the nineteenth and early-twentieth centuries. The 1000 Days War, the Melo coup of 1854 and the War of the Supremes are well known. A more thorough review offered by Tirado Mejía, argues: "the real fact is that of permanent violence expressed in eight great civil wars, two international wars with Ecuador and dozens of regional revolts".[36] Gustavo Arboleda, a contemporary historian in 1907, counted nine national wars and 54 local revolts. On the basis of these facts it is reasonable to expect disorder and violence to have produced negative effects on the economy. Kalmanovitz associates the poor economic performance during the nineteenth century with political anarchy and civil wars.[37] At a more specific level, Palacios notes the effect of the 1000 Days War and the disastrous consequences it brought about on the production of coffee.[38] A similar study by Sánchez et al. quantifies the costs of insecure property rights, as result of land conflicts in agricultural frontier zones, to conclude that export production could have doubled in the absence of conflict.[39] Notwithstanding the formidable critiques of new institutionalist interpretations[40] and the well-targeted qualifications on views that equate the political past with one of endemic and perpetual violence,[41] it is still sensible to argue that the relatively high incidence of episodes of political disorder and insecurity affected actual and potential economic performance.

Last, and perhaps the most convincing argument about obstacles to economic growth and development, is failed integration with the world economy. In the words of Ocampo: "The greatest hindrance to economic development was the inability to develop a stable and sizable export sector."[42] The colonial legacy in terms of exports basically came down to gold, which in the immediate post-independence decades amounted to 75% of total

[36]Quoted in Posada-Carbó, E. 'La Nación Soñada' (2006) p. 57.
[37]Kalmanovitz, S. 'La Evolución Económica de la Segunda Mitad del Siglo XIX y las Condiciones Políticas del Crecimiento Moderno' in Kalmanovitz, S. (Ed) *Nueva Historia Económica de Colombia* (2010).
[38]Palacios, M. and Safford, F. 'Colombia...' pp. 40, 50, 123.
[39]Sánchez, F., Fazio, A. and López, M. 'Conflictos de Tierras, Derechos de Propiedad y el Surgimiento de la Economía Exportadora en el Siglo XIX en Colombia' (2007) *Documentos CEDE*, No. 9, pp. 52–59.
[40]The most incisive is by Deas; see Deas, M. 'Inseguridad...'
[41]A stimulating work is Posada-Carbó, E. 'La Nación...' especially Chs. 2 and 3.
[42]Ocampo, J. A. 'The Transition from Primary Exports to Industrial Development in Colombia' in Blomström, M. and Meller, P. (Eds) *Diverging Paths: Comparing a Century of Scandinavian and Latin American Economic Development* (1991) p. 215.

exports (see Figure 2.1).[43] Declining gold exports since the late 1840s left the country in relative isolation from international trade until well into the twentieth century. As seen from Table 2.1, Colombia consistently ranked bottom among Latin American exporters throughout the nineteenth century and well below the region's average, as compared to the US and Western offshoots. A poorly developed export base, unsurprisingly, translated into limited import capacity.

Relative failures at economic integration with the world economy did not preclude Colombia from experiencing export booms, however. The nation's entrepreneurs at one time or another engaged in the production and/or exploitation of a wide range of agricultural, mineral and forest products with different degrees of success and durations. Opportunities via the opening of new international markets, the qualities of natural endowments and geography, as much as sudden shifts in the then emerging global supply-chain of commodities created prospects for exports and wealth. The underlying causes of the growth of the international economy were the twin effects of significant reductions in transportation costs and the impulse of the industrialisation process of the Western European and US economies, in terms of both the inputs industry demanded and the higher disposable incomes it generated for mass consumption of products from overseas.[44] Colombians responded partially to these opportunities.

Trade and Growth

A series of export-growth episodes took place from the 1840s until the early-twentieth century in products varying from tobacco to cinchona bark, from cotton to indigo and coffee (see Figure 2.1). Despite the fact that these items made a significant contribution to the export matrix and each, if in different magnitudes, generated foreign exchange for imports and some revenue for the state from trade duties, none of these products put the economy on an export-led growth path.[45] The booms were relatively short-lived

[43] For reliable statistics on Colombia's nineteenth century external trade; see Ocampo, J. A. 'Colombia y la Economia Mundial, 1830–1910' (1984).
[44] The expansion of the world economy since the early-nineteenth century and its determinants can be studied in Kenwood, A. and Lougheed, A. 'The Growth of the International Economy, 1820–1990: An Introductory Text' (1992).
[45] The exception is coffee, which will receive separate treatment below.

and were followed by busts; making more for volatile export cycles than for a sustained, upward growth pattern. Equally important, these episodes had relatively circumscribed impacts in terms of linkages and multipliers. Further features of these exporting experiences have been examined by McGreevy, and Ocampo. The former points out that the leading sector (say, tobacco) did not perform well beyond an initial spurt, and that the failure to sustain the growth rate related to the character of the production process.[46] Ocampo adds three features to the limits of the expansion: the lack of capital and financing/funding means for domestic entrepreneurs, the tendency of Colombian capitalists to behave as 'producer-speculators' (lacking commitment to productive investment), and inappropriate forms of production resulting in poor-quality products.[47]

The trajectory of the different products confirms the validity of such insights. The tobacco boom of the 1850s and late 1860s constituted the first experience of the post-independence economy at economic integration with the world. The opportunity arose from the rise in the global consumption of cigars to which domestic entrepreneurs, mainly in the Ambalema and Carmen de Bolivar regions along the Magdalena River, responded swiftly.[48] The decline that ensued was the result of a combination of land exhaustion and poor processing and packaging, which made tobacco exports vulnerable to competitors. New producers from East Asia priced out domestic efforts. Cotton and cinchona bark underwent similar cycles of rise and fall. In the case of cotton, the American Civil War caused disruptions in production and a disequilibrium of prices in world markets; whilst a hike in demand of quinine from Europe in tandem with a reduction in its supply by Bolivian sources, opened the way for Colombian producers to seize opportunities in both these export markets. A short-lived success for cotton exports in the mid-1860s was ended by the recovery of US suppliers post-bellum, and complaints about the quality of the fibre — its short length and poor cleanliness.[49] For cinchona bark, where the country enjoyed a longer boom and for a few years held the dominant position as one of the world's main suppliers, decline came at the hands of more competitive production in Java and the British

[46] McGreevy, W. 'An Economic...' pp. 157–64.
[47] Ocampo, J. A. 'Export Growth and Capitalist Development in Colombia in the Nineteenth Century' in Bairoch, P. and Levy-Leboyer, M. (Eds) *Disparities in Economic Development since the Industrial Revolution* (1981) pp. 104–08.
[48] See Ocampo, J. A. 'Colombia . . . ' pp. 203–54.
[49] Ocampo, J. A. 'Colombia...' pp. 359–75.

East Indies, where alkaloid content was increased and prices cut.[50] Minor export booms with rubber and indigo suffered a similar fate, as primitive and inadequate production and extraction methods made for fleeting positions in world markets.[51]

Export booms did not amount to export-led development. A strong and dynamic sector capable of leading the economy by delivering high and sustained rates of growth over the long-run was not present before the rise of coffee exports at the turn of the twentieth century. An export sector that could transform a relatively backward and little developed market-economy through the transfer of productivity gains to the non-export sector, the establishment of backward and forward linkages, and the generation of a notable fiscal linkage that could strengthen the abilities of the state to intervene in the economy effectively was a process that very few Latin American nations managed to attain.[52] Though Colombia's historical experience was far from the targets the export-led growth model prescribed, the booms had significant economic and political effects. A visible one constituted improvements in physical infrastructure, such as steamship transportation on the Magdalena River, port improvements in Barranquilla and the construction of small single carriageways and of short railroad stretches.[53] A stimulus to market production and relations, the fiscal strengthening of the state, some accumulation of capital that paved the way for the development of banking organisations, and the rise of a of a social class that identified itself with capitalism are characteristics considered to be related to the export experience of the period between 1850 to the 1900s.[54] In short, even if these export experiences did not amount to export-led development, they did have significant effects. More importantly, out of these experiences Colombia propelled itself toward becoming more of an export economy in the twentieth century, via the most important of all developments in her history: the rise and ascendancy of coffee.[55]

[50] Bell, P. L. 'Colombia...' p. 77.

[51] See Ocampo, J. A. 'Colombia...' Ch. 8.

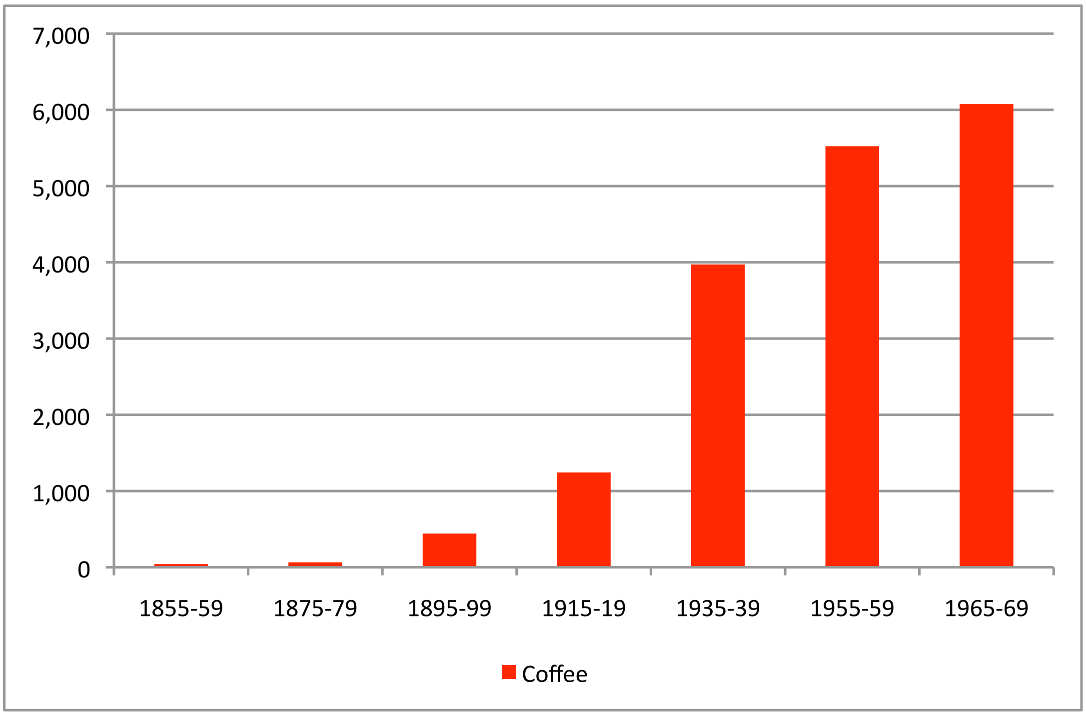
[52] For Bulmer-Thomas only Argentina and Chile exhibited the rates of export growth deemed required to fit in the export-led growth model; see Bulmer-Thomas, V. 'The Economic...' pp. 57–68.

[53] Palacios, M. and Safford, F. 'Colombia...' pp. 195–97.

[54] For an overview of the effects of export growth on the economy see Ocampo, J. A. 'Colombia...' pp.71–7.

[55] Kalmanovitz discusses how nineteenth-century export experiences laid the basis for the integration of the national economy to the world economy; see Kalmanovitz, S. 'Economía...' p. 185.

Figure 2.2: Coffee Exports, 1855–1969 (thousands of 60-kg bags)



Source: Palacios, M. (1980) p. 19 and Ocampo, J. A. (1990) p. 218.

The importance of the coffee expansion after the end of the 1000 Days War is well acknowledged in the literature. In essence, the coffee-led export growth can be seen as a structural break that put Colombia on the path to economic growth. This process allowed the transition from a largely subsistence-production based economy without much specialisation and exchange to one of market-oriented agriculture with greater division of labour and more extensive network trade.[56] It laid the basis for the 'original accumulation of capital', the rise of agrarian capitalism,[57] and acted as the 'leading sector', at least until 1940.[58] The US trade commissioner saw in the expansion of coffee of the 1920s the "economic salvation of this mountainous country".[59] Urrutia goes further, considering that: "prior to the coffee era, Colombia was not yet a nation".[60] Even though this may be an

[56] McGreevy, W. 'An Economic...' pp. 10–13.
[57] Kalmanovitz, S. 'Economía...' p. 147.
[58] Palacios, M. 'Coffee...' p. 198.
[59] Bell, P. L. 'Colombia...' p. 151.
[60] Quoted in GRECO. 'El Crecimiento...' p. 225.

overstatement, there is little disagreement on the view that the growth of coffee production during the first half of the twentieth century was "the most decisive phenomenon in the recent economic history of Colombia."[61] How did such expansion take place and what consequences did it bring about?

The rise of coffee exports was possible thanks to two processes: first, the expansion of production in large estates in well-established coffee regions, such as Santander and Norte de Santander; secondly, and crucially, the emergence of new and dynamic centres of production towards the west in Antioquia, Viejo Caldas, Tolima, Valle and Cundinamarca. The so-called *antioqueño* colonisation featured the massive private appropriation of public lands through four mechanisms: a) gaining title to public lands via legal processes of adjudication; b) special concessions; c) transfer of titles, and; d) extra-legal occupation.[62] The actual land-tenure pattern that resulted does not support completely some of the *leyenda rosa* interpretations surrounding the issue, namely that it was predominantly, a process of small, independent property-owners and producers. However, this was admittedly one of its most significant characteristics. The key point is that the expansion of cultivation in existing coffee zones and the introduction and widespread plantation of the crop in new regions underlay the accelerated growth in exports after 1905. The construction of the Antioquia and Pacific railways, the inauguration of the aerial cableway between Manizales and Mariquita, and the opening of the Panama Canal, all constituted important transportation improvements that saved time and money and contributed to increasing exports. Export production effectively surged: from around 50,000 bags in the 1850s to more than 500,000 at the turn of the century and to more than five million by the mid-twentieth century (Figure 2.2). Between 1905 and 1929 — the decades of fastest growth — the average growth per annum was around seven percent. This coffee production record placed coffee firmly as the leading export item and made Colombia one of the largest exporters in the world. Such events generated important economic and socio-political effects.

In the economic sphere, the most cited effect is the way the coffee expansion accentuated further the foundations of capitalist development and sustained economic growth, which

[61] Palacios, M. 'Coffee...' p. 198.
[62] For a detailed study of the relationship between *antioqueño* colonisation and coffee; see Palacios, M. 'Coffee...' Ch. 8.

occurred through various mechanisms. First, the increase in demand for free labour in coffee areas and the use of wages to remunerate it hastened the emergence of a mobile, waged working class.[63] Secondly, the atomisation of a part of the production in tens of thousands of small-scale coffee-farmers receiving cash for their crops created another independent social class with disposable incomes and purchasing power.[64] Thirdly, the export boom pulled the modernisation of transport infrastructure, which brought prices down, and by physically connecting regions encouraged regional specialisation and the expansion of internal markets.[65] Fourthly, taxation on rising external trade strengthened the fiscal capacity of a centralising state that began to intervene and to spend more on public works. Finally, and most importantly, coffee generated the largest economic surplus Colombia had known until then; that is to say, coffee exports had laid the basis of the country's first significant experience of capital accumulation.[66] This surplus is said to have been crucial in accounting for the origins of industrialisation,[67] for the development of a modern banking system[68] and quite possibly, for the rapid growth of commercial enterprises and the diversification and specialisation of other agrarian sectors, such as livestock farming.

From Coffee to Industry: Origins, 'Take-Off' and Development

Colombia's industrialisation was delayed — even by the standards of other Latin American latecomers. Nineteenth-century economy-wide stagnation, resulting from regional physical isolation, low external payment capacity, little foreign investment and a large subsistence-agricultural sector, all caused the development of modern manufacturing to be

[63] See Kalmanovitz, S. 'Economía...' Chs. 2 and 4.
[64] Colombia's experience with coffee as a most successful case of an export boom leading to industrialisation is formally modelled and discussed in Murphy, K. et al. 'Income...' See also McGreevy, W. op. 'An Economic...' pp. 235–36.
[65] See Ocampo, J. A. 'Colombia...' pp. 71–77; and Bejarano, J. 'El Despegue Cafetero, 1900–1928' in Ocampo, J. (Ed) *Historia...* pp. 181–82.
[66] See Kalmanovitz, S. "La Evolución Económica de 1886 a 1905 y las Condiciones Políticas del Crecimiento Moderno' in Kalmanovitz, S. (Ed) *Nueva Historia Económica de Colombia* (2010) p. 122; and Bejarano, J. 'El Despegue...' p. 182.
[67] Kalmanovitz, S. 'Los Orígenes de la Industrialización en Colombia' in *Cuadernos de Economía* (1983) Vol. 5, No. 5, pp. 79–91.
[68] See for instance Ocampo, J. A. 'Colombia...' p. 72.

very limited.[69] Not until the advent of coffee and the financial and foreign exchange means to import and effect a transfer of resources across economic sectors did industry begin to flourish. In the words of Harbison: "There can be no doubt, that the initial stages of industrialization in Colombia... were a response to the early coffee-export expansion..."[70] Representative of manufacturing ventures that were financed by coffee capital were the sector-dominant textile companies of Coltejer and Fabricato, Cervunión in beer, Coltabaco in cigars and the machinery and equipment of the Taller Industrial.[71] Export-led industrialisation also encouraged the development of a few sub-sectors: coffee packing incentivised the domestic manufacturing of bags and sacks from native *fique* and different species of henequen and defiberating machines.[72] Similarly, coffee processing included threshing, toasting and de-pulping; all of them demanded machinery, a small part of which was domestically produced.[73] The same was the case for some tools and basic equipment. A less tangible effect, for some allegedly very important, was that coffee introduced the "Industrial Revolution to the nation in mass form... since it took the Machine to farms and towns."[74] Yet for all the forward/backward linkages, demonstration effects and inter-sectoral transfer of resources that the coffee expansion could have induced, it was in its sustained ability to generate foreign exchange to buy and import raw materials, machinery and equipment that its largest contribution to industrialisation materialised. The origins of industry did lie with coffee, but industrial development rapidly displayed a dynamic of its own.

A number of factors converged to make the 1920s an age of prosperity for the economy as a whole, and the ensuing 1930s for manufacturing in particular. The three decades of internal stability and largely non-violent politics following the civil war of the 1000 Days provided the framework for a "new era of peace and coffee".[75] Continuous and rapid expansion of coffee production came with a sustained recovery in international prices

[69] For a discussion of the causes of the delay of industrialisation; see Berry, A. 'A Descriptive History of Colombian Industrial Development in the Twentieth Century ' in Berry, A. (Ed) *Essays on Industrialization in Colombia* (1983) especially pp. 7–9 .

[70] Harbison, R. 'Colombia' in Lewis, A. W. (Ed) *Tropical Development, 1880–1913. Studies in Economic Progress* (1970) p. 88.

[71] For arguments about the coffee-industry link in general; see Bejarano, J. 'El Despegue...' p. 189.

[72] Bell, P. L. 'Colombia...' p. 182.

[73] Berry, A. 'A Descriptive...' p. 28.

[74] Urrutia, M. 'La Creación de las Condiciones para el Desarrollo: El Café' in Revéiz, E. (Ed) *La Cuestión Cafetera* (1980) p. 57.

[75] Bushnell, D. 'Colombia...' p. 217.

Table 2.2: Industrial Ascendancy

Sectoral & Total GDP Growth, 1940–69 (5-Year Averages)			
Period	Agrarian	Industrial	GDP
1940–44	2	5.8	1.7
1945–49	4.2	8.1	6.3
1950–54	0.6	8.3	4.7
1955–59	4	6.2	4
1960–64	2.8	5.9	5.1
1965–69	4.1	6.4	4.6

Source: Calculations based on Londoño, J. L. (1995) p. 207.

— courtesy of Brazil's harvest-withholding schemes. Export growth was led by coffee, but was also accompanied by the rise of new products such as oil and the recovery of traditional ones, such as gold. A solid export performance underpinned the country's recent creditworthy status in world financial markets and underwrote unprecedented levels of public debt. Export growth and foreign loans, in addition to US$25 million received in compensation by the US for the loss of Panamá, made the 1920s a decade of accelerated economic growth, expansion of public works and the monetisation of the economy.[76]

Although modern manufacturing firms were scarce their numbers were on the rise. According to Echavarría and Villamizar, the creation of modern industrial plants went from a mere 8 in the 1900s to 27 in the 1910s, 54 in the 1920s and 132 in the following decade.[77] No reliable estimates are available for the growth of manufacturing before the mid-1920s, but it is well accepted that these years saw the real first boom of the non-agricultural economy.[78] CEPAL's calculations for manufacturing-output growth in the period 1925–29 show an annual average of 4.5%,[79] the leading sub-sectors being foodstuffs,

[76]For an overview of the period; see Bejarano, J. A. 'El Despegue...' pp. 173–207. For a detailed examination of government expenditure level and its composition, see Avella, M. 'El Crecimiento del Gasto Público en Colombia, 1925–2003. Una Visión à la Wagner o à la Peacock y Wiseman?' in *Revista de Economía Institucional* (2009) Vol. 11, No. 20.

[77]Echavarría, J. J. and Villamizar, M. 'El Proceso Colombiano de Desindustrialización' in Robinson, J. and Urrutia, M. (Eds) *Economía...* p. 175.

[78]Berry, A. 'A Descriptive...' p. 22. Berry accepts guesstimates by McGreevy, suggesting that manufacturing output remained roughly constant between 1870 and 1925.

[79]Calculated from CEPAL. 'El Desarrollo Económico de Colombia. Anexo Estadístico' (1957) Table No. 1

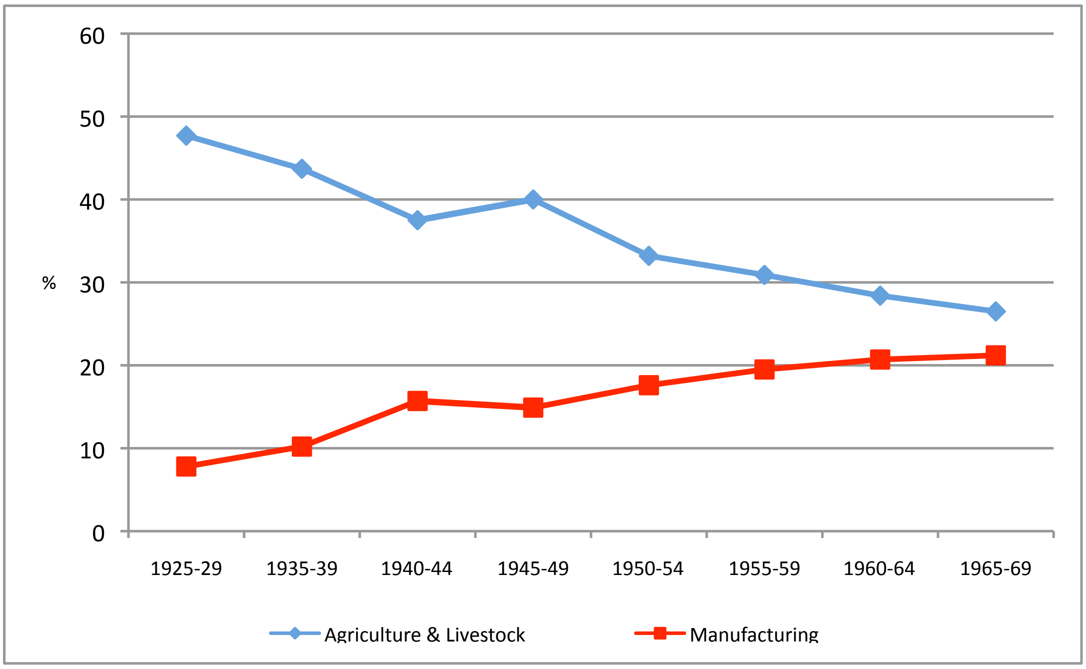
beverages, wood products, wooden furniture, and clothing and footwear.[80] The main source of the expansion in manufacture was the growth in total domestic demand, though substitution of cottage production for home consumption and import substitution also occurred on a minor scale. In sum, the 1920s were extraordinary years for primary exports and positive for manufacturing. The Great Depression of the 1930s shifted this scenario.

The global slump first affected the external sector.[81] As capital inflows stopped and foreign credit was suspended (loans were re-called), the international price of coffee collapsed, causing a significant worsening of the terms of trade. This in turn forced a sharp decline in imports. The then obliging rules of the gold standard meant the adjustment was felt via a fall in international reserves and a strong monetary contraction that resulted in deflation from 1930 to 1932.[82] A need to re-balance the fiscal accounts to attain a surplus and thus hope to re-access external loans meant ruling out government spending as tool for reactivation. Overall, the years of full-blown crisis were not as severe as for other Latin American countries but GDP fell by 5% from the beginning of the depression to the lowest point in 1931.[83] Recovery came after 1932. Aided by anti-cyclical policies, economic growth resumed; this time, however, it was domestic manufacturing, which acted as 'engine of growth'.

As shown in Table 2.2, impressive manufacturing growth, well above both agrarian and total GDP, suggests the sector was becoming the leading activity in the economy. What factors account for this 'take-off' of Colombian industrialisation in the 1930s? Explanations abound and the debate is still open. Interpretations from a neoclassical angle emphasise the role of relative prices and exogenous forces. Chu, for instance, claims that 'depression industrialisation' in non-traditional manufactures is explained by changes in relative prices.[84] As prices of industrial imports rose relative to both export prices and to prices of non-traded and import-competing goods, the domestic production of manufactured items received a great impulse. For Chu, the devaluation of the peso raised

[80] Berry, A. 'A Descriptive...' p. 31.
[81] For a detailed analysis of this period see Ocampo, J. A. and Montenegro, S. 'Crisis Mundial, Protección e Industrialización' (2007) especially Chs. 1 and 2.
[82] See Caballero, C. and Urrutia, M. 'Historia del Sector Financiero Colombiano en el Siglo XX' (2006) pp. 81–92.
[83] Berry, A. 'A Descriptive...' p. 30.
[84] Chu, D. 'The Great Depression and Industrialization in Colombia' in Berry, A. (Ed) *Essays on Industrialization in Colombia* (1983).

Figure 2.3: GDP Composition: Structural Change Underway 1940–69 (percentages)



Source & Note: Calculations based on Londoño, J. L. (1995) p. 207. Prices of 1975.

the prices of all imports, sending a general signal from the international marketplace to which industrialists responded effectively by substituting imports.[85] Similarly, stressing the role of external events, Berry suggests, that the sharp decline in import capacity prompted by the 1929 Crisis left no option but to increase the opportunity costs of imports relative to home goods through a combination of devaluation, tariff increases and quantitative restrictions.[86] Prioritising exogenous events, Echavarría also favours a market-based explanation demonstrating how the negative external shock, in the absence of price controls and quantitative restrictions, determined a new configuration of relative prices.[87] Industrial prices tripled between 1929 and 1937 making for high returns, encouraging production and stimulating investment. Devaluations were key in that they affected directly the shift in relative prices.

[85] Chu, D. 'The Great...' pp. 124–25.
[86] Berry, A. 'A Descriptive...' p. 32.
[87] Echavarría, J. J. 'Crisis e Industrialización: Las Lecciones de los Treintas' (1999) pp. 8–28, 179–216.

Table 2.3: On Track to Industrial Sequencing, 1945–67

Composition of Industrial Value-Added by Goods (Percentages)			
Year	Non-Durable	Intermediate	Capital & Durable
1945	61.7	35.1	3.2
1953	57.9	37.1	5
1958	50.6	41.4	8
1967	44.9	43.6	11.5

Source: Ocampo, J. A. (1987) p. 274.

Challenges to the views attaching prime roles to the market and relative prices have been effectively posed by more Keynesian interpretations that assign a pro-active role to the state in the industrial 'take off'. Ocampo and Montenegro sustain that there were four interacting factors at play: first; a condition of under-expansion of manufacturing — the potential advantage of being a latecomer in a Gerschenkronian framework — and the presence of the prerequisites for industrialisation, namely, expanding internal markets, experience of previous industrial growth and installed capacity; secondly, a shift in the pattern of demand associated with the urbanisation process, which favoured manufactured goods; thirdly, the impact of foreign exchange constraints on industrial imports;[88] and finally; the effective reorientation by government of domestic production via trade and exchange rate policies.[89] According to this version, devaluation was central to the industrial spurt since it expanded exports and internal demand.[90] Finally, Kalmanovitz, in a Marxist approach, prefers to embed the juncture of the Great Depression and the policies it stimulated in the wider process of the consolidation of capitalist development. In this context, the industrial acceleration of the 1930s is only the outcome of an adjustment between demand and a market fuelled by the expansion of new social relationships in western Colombia — previously met with imports and now increasingly supplied by domestic capitalists.[91] Summing up, with the exception of Marxist analyses, the 1929 Crisis is rightly seen as a major watershed in the industrial trajectory and the decade that follows it one where

[88]The studies by Berry, Chu, and Echavarría also take into account these three factors, but do not give them equal value or emphasis.
[89]Ocampo, J. A. and Montenegro, S. 'Crisis...' pp. 50–54 and 121–25.
[90]Echavarría, J. J. 'Crisis...' p. 207.
[91]Kalmanovitz, S. 'Economía...' p. 306.

industrialisation finally 'takes off'. The crisis induced industrialisation via the interaction of market forces. Critical policies enacted by government, such as the devaluations of the early 1930s, were reactive in nature, and following market-led adjustments aided the process further. Industrialisation proceeded apace.

Growth rates in industry from 1940 to 1945 were more than three times those of total GDP, led by cotton and rayon textiles, beer, sugar and cement (Table 2.2).[92] During the export bonanza of the mid-1940s and mid-1950s industrial growth experienced a gilded age and annual average growth rose above 8%. It slowed down the following decade to 6% due to external constraints; but then climbed back to 8%, as the foreign exchange constraint eased. Throughout the post-war period, industrial production outpaced the rest of the economy averaging growth rates that double those of agriculture. Effectively, this was the period when the economy underwent structural change at the hands of industry, which became the leading sector in terms of output growth, productivity, technology and generation of employment. Structural change took place as the share of manufacturing in total GDP increased and that of agriculture shrunk. Figure 2.3 shows how from the early 1930s to 1960s the share of industry doubled from 10% to 20% of GDP, whilst that of agriculture lost 20 percentage points from roughly 45% to 25%. The proportion of mining and construction remained roughly constant at 4% each and that of utilities and services (not in the figure) passed from 40% to 50% of GDP.

Within industry itself, significant changes occurred as the sector's structure grew more complex and diversified. The industrial base of the 1940s, dominated by non-durable consumer goods, gradually lost ground to intermediate goods (Table 2.3). Equally important is to stress the development since the mid-1950s, if substantially more limited, of the capital and consumer-durable goods sector, pulled by metallic products, transport equipment and electric and non-electric machinery. As Colombia attempted transiting from the 'easy' ISI phase of non-consumer durables and light industries to the 'hard' stage of capital goods and consumer durables, the requirements became more demanding in terms of bulkier imports, more sophisticated technologies, and most importantly, larger capital investments. Not surprisingly, foreign capital, which had until the 1940s mainly been limited to mining,

[92] For a detailed discussion see Ocampo, J. A. and Montenegro, S. 'Crisis...' pp. 121–37.

oil and railways, begun to participate in heavy industry projects.[93] Notwithstanding the development of a more complex industrial base displaying capital-intensive lines and the entry of foreign capital, one fact remained: an underdeveloped industrial sector. According to CEPAL, controlling for income, market size and levels of urbanisation, the sector's output was more than 20% below the predicted value on the basis of the experience of other Latin American economies.[94]

The role of the state and of public policy in industrial development is subject of extensive analysis in chapters 4, 5 and 6; yet to understand the origins and features of industrial policy in mid-twentieth century Colombia one has to examine the kind of state that designed and implemented it and the polity context in which it was embedded. The formation of the state, its key features, the role of political parties, the presidentialist nature of the political system and the context of sustained political violence that took place during most of the period under consideration are a necessary background to understand industrial policy-making and are treated next.

The State and Politics

The Constitution adopted in 1886 — and one lasting a century — permits identifying the winners from Independence's internal conflicts. Catholics restored their ascendancy. The new charter opened up with the epigraph: "In the Name of God, Supreme Source of all Authority"; the antipode of the previous: "In the name and by the authority of the People of the United Colombian States..."[95] Likewise, centralists claimed victory over federalists. Article 1 read: "The Nation is reconstituted a unitary Republic" as opposed to the previous: "The Sovereign States of Antioquia, Bolívar,... unite and confederate... to form a free, sovereign, and independent nation."[96] However, concessions to the departments and municipalities were made in terms of how national legislation and policy should be locally implemented. In practice, the centralist-federalist dispute in the 1886 Constitution

[93] See Berry, A. 'A Descriptive...' p. 43.
[94] CEPAL. 'The Process of Industrial Development in Latin America' (1966) p. 53.
[95] For an account of constitutional changes from 1811 to 1945; see Gibson, W. M. 'The Constitutions of Colombia' (1947). The comparison is between the 1886 Constitution with that of 1863.
[96] Gibson, W. M. 'The Constitutions...' pp. 273, 314.

contained a principle of agreement between the two sides, synthesised by contemporaries as "political centralisation and administrative decentralisation."[97] Thus, the lack of separation between state and church and a tendency towards centralisation[98] were two important features of the organisation of public power since the late-nineteenth century.

More critically, the state that formed was fiscally feeble. This was due in part to design and in part to circumstance. Governing elites adopted economic liberalism from the 1840s to the mid-1880s continuously and dogmatically. Safford declares: "...they [the elites] went extremely far in giving expression to the tenets of free market liberalism in domestic institutional arrangements and policies, deliberately restricting the fiscal capacity and policy purview of the national state. Indeed, between 1850 and 1880, Colombian elites probably were unequalled in the Western world in the extent to which they intentionally fragmented and minimized the power of the national state."[99] Liberal party leaders, such as Florentino González, Miguel Samper and Jose Hilario López endorsed policies inspired by the principles of economic liberalism during the hegemony of the party. Notwithstanding the role of economic policy, there were more structural reasons to explain fiscal weaknesses.[100] First, relative isolation from the international economy until the early-twentieth century made for meagre custom duties. Secondly, revenue generated from this source suffered from acute fluctuations and from extensive illicit trade or contraband.[101] Thirdly, the ability to levy taxes on internal commerce in a geographically fragmented economy with poor physical transportation was limited — and counter to liberal tenets. Finally, as highlighted by Deas, regional geographic fragmentation was compounded by people's resistance to taxation. Ever since the colonial period, tax evasion was considered a civic duty.[102] In short, the roots of a weak fiscal state were the outcome of policy design

[97] Gibson, W. M. 'The Constitutions...' p. 306.
[98] The trend towards centralisation is supported with evidence on the state's bureaucracy. Uricoechea shows that central bureaucrats started to catch up with departmental and municipal equivalents since the 1950s and eventually outsized them in 1971; see; Uricoechea, F. 'Estado y Burocracia en Colombia' (1986) Table No. 8.
[99] Safford, F. 'The Emergence...' p. 37. From a sociological perspective, traits of the laissez-faire tradition of the state can be examined in Uricoechea, F. 'Estado...' Ch. 3.
[100] A qualitative survey of the sources of revenue of the Colombian state in the nineteen century is offered by Deas, M. 'The Fiscal Problems of Nineteenth-Century Colombia' in *Journal of Latin American Studies* (1982) Vol. 14, No. 2.
[101] Detailed historical studies on contraband on nineteenth century are rare; a notable exception emphasising legal and social perspectives is the work by Laurent, M. 'Contrabando en Colombia en el Siglo XIX. Prácticas y Discursos de Resistencia y Reproducción' (2008).
[102] Deas, M. 'The Fiscal...' p. 293.

on the one hand, and of the relative backwardness of the economy and the difficulties inherent to any government lacking legitimacy to tax its citizens, on the other.

Around 1870 government tax revenue was approximately 2% of GDP.[103] Some sixty years later, in the 1930s, the proportion was still only 4%. At least until the 1920s, the state apparatus was rudimentary and public administration fragile. Bureaucratically, internal differentiation among administrative agencies was embryonic and public functions were limited to guarantee — by means of judicial legitimacy — the material transactions of the private sphere, as well as providing the minimum of indispensable services required for them to take place.[104] Thus, the state of the late-nineteenth and early-twentieth century did show a remarkable resemblance to the laissez-faire, minimalist state of the ideal versions theorised by Smith and Ricardo. This legacy survived well into the twentieth century. Fiscal reforms in the 1950s and 1960s established taxes on corporate dividends and created the sales tax, increasing the tax take to roughly 8% of GDP.[105] In terms of tax collection, Colombia was close to neither the international nor the Latin American median, as reports by foreign missions noted in the 1960s and early 1980s. The consequence of a narrow fiscal base ought to be structural: a weak state. This became a key and permanent feature of the state throughout the twentieth-century — one that exhibited many faces.

An idea of the ability that any state possesses to administer the subject population can be obtained by examining the size of its public sector. As crude a measure as it is, for it does not say anything about its efficacy/efficiency, the share of aggregate public employment to total employment hints the state's administrative capacity. Whitehead's data shows that amongst 11 Latin American nations, in 1950 Colombia ranked along with Bolivia, Brazil, Costa Rica and Peru in the group showing low ranges of public to total employment — between 1.5% and 3%.[106] By 1965, it exhibited the lowest percentage of all countries, a mere 4%, followed by Chile with 5% and Peru with 6%.[107] Similarly, the shares of output and investment of non-financial public enterprises in GDP and gross fixed capital

[103] Deas, M. 'The Fiscal...' p. 326.
[104] Uricoechea, F. 'Estado...' p. 79.
[105] Junguito, R. and Rincón, H. 'La Política Fiscal en el Siglo XX en Colombia' in Robinson, J. and Urrutia, M. (Eds) *Economía...* pp. 280. This study offers a comprehensive account of the evolution of taxation during the twentieth-century.
[106] Whitehead, L. 'State Organisation in Latin America since 1930' in Bethell, L. (Ed) *Latin America: Economy and Society since 1930* (1998) p. 398.
[107] Whitehead, L. 'State...' p. 398.

formation, respectively, serve to gauge the extent to which states exert command over their own resources. According to these indicators, Colombia confirmed its status as one of the smallest Latin American states, exceeding only Guatemala in the public share of total output — far below the region's average.[108] In this respect, a report published in 1964 by the US National Planning Association[109] illustrates further the relative position of the Colombian state in Latin America. On the issue of public versus private in the ownership of productive enterprise, the report stated: "Government ownership is highest in Mexico, lowest in Chile and Colombia. Private ownership is highest in Colombia, lowest in Mexico."[110] In summary, the Colombian state, in the wider regional picture, was a small state; wielding less command over resources than its regional neighbours.

The boom of the 1920s, the slump that followed it in the 1930s and the disruptions caused by World War II, all prompted wider and deeper state intervention in the economy. The well-known role of public capital, financing transportation infrastructure expanded in the 1920s, mainly through the construction of railways. Probably as important was the establishment in 1923 of the Banco de la República, the CB, which as a semi-autonomous entity was designed to limit speculative banking, anchored the country to the rules of the gold standard, and served as the government's chief tool in monetary-policy matters.[111] But it was the reaction to the Great Depression that propelled state action into new policy areas and by way of novel instruments. Macroeconomic regulation in the external sector saw the introduction of exchange controls, the creation of differential exchange-rates, and the design of import-deposit schemes.[112] On the credit front, the foundation of public financial institutions took the centre stage along with ceilings on interest rates and reserve requirements. Coffee regulation took on new forms too, as taxes on exports were imposed once international prices recovered, financial assistance was provided for coffee growers to

[108] Whitehead, L. 'State...' p. 410. The output share of non-financial public enterprises in GDP at factor cost for Latin America (excluding Venezuela) was 6.6% against 2.6% for Colombia. The share in gross fixed capital formation was 22.5% for the region and only 5.6% for Colombia.

[109] By their own standards an independent, non-political, and non-profit organisation aimed at maintaining and strengthening private initiative and enterprise.

[110] Brandenburg, F. 'The Development of Latin American Enterprise' (1964) p. 64.

[111] Abel, C. 'Política, Iglesia y Partidos en Colombia' (1987) p. 24; and Ocampo, J. A. 'Crisis Mundial y Cambio Estructural, 1929–45' in Ocampo, J. A. (Ed) *Historia...* p. 217.

[112] This section draws heavily from Ocampo. J. A. 'Crisis...' pp. 217–29.

set up and run general-deposit warehouses to intervene in the domestic market, and the country participated in the first international coffee agreement.

The rise of modern state interventionism consolidated in the 1950s and 1960s.[113] Three processes underpinned this; first, the institutionalised legitimacy of state actions in the economy, as enshrined in the national constitution since 1936 and subsequent codifications in 1945 and 1968. Secondly, the establishment of ad-hoc planning bodies and more formal organisations charged with the elaboration of plans with a view to rationalising economic processes, amongst which the most important became the National Planning Department (DNP) and the National Council of Economic and Social Policy (CONPES). Lastly, the accelerating growth of both state-owned enterprises and of decentralised public institutes, which increased from around an average of 7 per decade the 1910s to the 1930s, to 18 in the 1940s, 32 in the following decade and peaked at 43 during the 60s.[114] The latter implied state action expanded to areas previously untouched by public interest, ranging from oil to rural housing, social security and agricultural technology and research. In short, the Colombian state of the mid-twentieth century grew in size, functions and complexity, and its rising interventionism in the economy suggested the state's eagerness to actively participate as an agent for economic development.

Along with the size of the state, the power of presidents grew. Within the realm of constitutional systems world-wide, Latin America had been dubbed "the continent of presidentialism"[115], in turn, Colombia was classified as a "pure presidentialist" regime in the 1940s.[116] The formal powers of the president were impressive, so much that some authors see the president as a 'demi-God'[117] representing "almost the totality of the state".[118] Though this is an exaggeration, under the Constitution of 1886 — in force until 1991 — the

[113]For a detailed discussion see Avella, M. et al. 'La Consolidación...' pp. 299–318.
[114]Avella, M. et al. 'La Consolidación...' pp. 304.
[115]Hartlyn, J and Valenzuela, A. 'Democracy in Latin America since 1930' in Bethell, L. (Ed) *Latin America: Politics and Society since 1930* (1998) p. 13. Authors, such as Dix, suggest it would be more appropriate to classify Latin American polities in a third category, that of "presidential dominance", given that "... in practice they eschew the sort of balance of power among the three separate branches of government that characterise the archetypical case of presidentialism, that of the United States." See Dix, R. 'The Colombian Presidency: Continuities and Change' in DiBacco, T. (Ed) *Presidential Power in Latin American Politics* (1977) p. 72.
[116]Colombia was not alone in this group; other countries included Argentina and Brazil.
[117]Cited in Archer, P. and Shugart, M. 'The Unrealized Potential of Presidential Dominance in Colombia' in Mainwaring, S. and Shugart, M. (Eds) *Presidentialism and Democracy in Latin America* (1997) p. 116.
[118]Vásquez, A. 'El Poder Presidencial en Colombia' (1979) p. 15.

executive's appointive, fiscal, legislative and emergency powers were formidable. Pertaining to appointive powers, the chief executive enjoyed ample prerogatives, freely appointing and dismissing cabinet ministers, other medium-and-top-level officials, ambassadors and directors of decentralised institutions and of various financial institutions. Further, given the unitary government structure, the president named the departmental governors, who in turn appointed the mayors of the municipalities, "thus giving direct and indirect control over positions high and low throughout the national, departmental, and even municipal bureaucracies."[119]

Regarding legislative capacity, Kline notes: "An important actor, if not the most important in the Colombian congress, is the president of the republic. It is in the presidency where most of the law projects originate."[120] Constitutional arrangements granted congress the ability to delegate to the president the authority to issue decrees with the force of law and decree-laws, along with the executive's own right to issue regulatory decrees.[121] That the president ended up legislating on a wide range of economic, financial and social areas, at first not of intended competence, was largely the outgrowth of broader changing political conditions. For instance, the aforementioned codifications of the constitution in 1936 and 1945 granted the powers to intervene by means of legislation "in the exploitation of public and private business and industries for the purpose of rationalizing production, distribution and consumption of goods, or to give labour the just protection to which it has a right"[122] and "to draw up plans and programs for the improvement of the national economy as well as plans and programs for all public works."[123]

[119]Dix, R. 'The Politics of Colombia' (1987) p. 158.
[120]Kline, H. 'Orientación hacia el Ejecutivo' in Hoskin, G. (Ed) *Estudio del Comportamiento Legislativo en Colombia* (1975) Vol. 2, p. 349. Congressmen themselves accepted that ministerial interventions and messages of urgency represented the two main mechanisms by which the executive influenced congress; see Dix, R, 'The Politics...' p. 93, fn. 2. Kline sustains that this was key among the factors making congress be orientated towards the executive power; see Kline, H 'Orientación...' passim; pp. 357–63. Leal also identifies a growing trend of predominance of the executive branch over congress in terms of political power throughout the second half of the twentieth century; see Leal, F. 'Estudio del Comportamiento Legislativo en Colombia' (1973) Vol. 1, pp. 283–85.
[121]Kline argues that the importance of Congress upon policy-making was mainly negative, as laws there were either changed significantly or simply not acted upon at all; see Kline, H. 'Interest Groups in the Colombian Congress: Group Behaviour in a Centralized Patrimonial Political System' in *Journal of Inter-American Studies and World Affairs* (1974) Vol. 16, No. 3, p. 275.
[122]Gibson, W. M. 'The Constitutions...' p. 368.
[123]Gibson, W. M. 'The Constitutions...' p. 401.

Though at the time the Supreme Court made clear congress and not government had the powers to intervene, shifts in the political arena rendered this setup ineffective. President Ospina dissolved congress in November 1949 and remained closed for two years until his successor re-opened it. Soon after, however, in 1953, the Rojas regime closed it again and it did not resume proper functions until the National Front in 1958.[124] Further, the president's faculties to declare states of *siege* and of economic emergency (the latter since 1956)[125] and use the extraordinary powers that these junctures provided him with, often meant presidents ruled by decree. According to Findley, among the first to govern by decree was Ospina Pérez (who declared a state of *siege* in 1949),[126] but given the state of exception lasted until 1958, he was not alone in using this tool as governing technique.[127] During the National Front (1958–74) and until 1987, the state of *siege* was invoked in all or in parts of the territory for about 75% of the time and the powers it conferred were increasingly used as a policy-making tool to bypass congressional opposition on matters other than the 'restoring order' clause for which it was originally intended.[128] Some authors sustain that states of exception, from the late 1940s onward, became not the exception, but the regular and daily course of action.[129] This aggravated further the absolute discretion and lack of control with which the president could order (and terminate) the *siege* without being subject to judicial review.[130] Summarising, both constitutional arrangements and political

[124]During the Rojas regime functioned the National Constituent Assembly; however due to its *sui generis* organisation is not considered a substitute for congress; see Leal, F. 'Estudio...' p. 291.
[125]For a historical study on the rise of presidential interventions on the economy from a law perspective; see Findley, R. 'Presidential Intervention in the Economy and the Rule of Law in Colombia" in *American Journal of Comparative Law* (1980) Vol. 28, No. 3. The state of economic emergency was a legal figure granting the president extraordinary power to issue decrees with the force of law to restore 'economic order. Though only until 1968 was the state of economic emergency enshrined in the constitution it had antecedents worth mentioning, for it was under these conditions that substantial pieces of legislation affecting industry, banking and agriculture were issued. In 1956, the Supreme Court upheld one of Rojas' decrees and decided that Article 121 of the constitution empowered him to attack economic as well as political causes of public disorder. [This article founded the legality of many a government actions since 1949; see Dix, R. 'Colombia: The Political Dimensions of Change' (1967) p. 173.] Following the legislative paralysis that the consociational regime of the National Front fostered, presidents resorted to extended states of *siege* to deal with long-term economic problems and refused to terminate them unless congress enacted as permanent law the decrees they considered essential. For detailed review of this subject; see Findley, R. 'Presidential...' especially pp. 423–30
[126]Findley, R. 'Presidential...' p. 426.
[127]A discussion about the normative and deviance of states of exception with references to Colombia is offered by Barreto Rozo, A. 'Normalidad y Excepcionalidad: La Indescifrable Regularidad Contemporánea de la Excepción' in *Poder Ejecutivo* (2006). For the use of states of exception as an increasingly authoritarian feature of the Colombian polity; see Iturralde, M. 'Guerra y Derecho en Colombia: El Decisionismo Político y los Estados de Excepción como Respuesta a la Crisis de la Democracia' in *Revista de Estudios Sociales* (2003) No. 15.
[128]Dix, R. 'The Politics...' p. 173, fn. 5.
[129]Ariza, L., Cammaert, F. and Iturralde, M. 'Estados de Excepción y Razón de Estado en Colombia' (1997).
[130]Iturralde, M. 'Guerra...' p. 39; and Findley, R. 'The Presidential...' p. 426.

junctures allowed for presidents to intervene in nearly all areas of legislation, including the rationalisation and planning of the economy — and so they did.

A last formidable power of the presidency, for some the most decisive in sustaining political dominance, is control over the national budget and the jobs governments can provide.[131] Without a comprehensive civil service program to staff the state bureaucracy in meritocratic form, the presidents' highly partisan recruitment practices for public office gave them the power to place thousands of people in and out of employment.[132] In 1955, one academic memorably remarked: "the budget is the only industry in a country without industries"[133], a decade later a foreign scholar wrote: "The parties have treated government as an objective to be seized and, once won, as a bastion in which to entrench themselves like armies of occupation, subsisting on the bureaucratic booty of battle."[134] Though the metaphor overstates the issue, it reveals the significance of state funds and jobs for politicians and supporters. State spoils empowered the presidency; in fact, some sustain that this was especially the case for building coalitions in support of executive policies.[135] In short, the patronage powers that the president enjoyed through the nation's budget might well have turned into his most effective political tool.

Notwithstanding the fiscal, legislative, appointive and extraordinary prerogatives of presidents, they did not exercise absolute power, quite the contrary; their powers encountered very finite limits.[136] First, constitutional and other institutional constraints played a role. Presidential terms were kept at four years and immediate re-election was

[131]This is a point emphasised by various authors; see Payne, J. 'Patterns of Conflict in Colombia' (1968) Ch. 3; Hartlyn, H. and Dugas, J. 'Colombia: The Politics of Violence and Democratic Transformation' in Diamond, L., Hartlyn, J. and Linz, J. (Eds) *Democracy in Developing Countries: Latin America* 1999) p. 289; Dix, R. 'The Colombian...' pp. 74–75; and Archer, R. and Shugart, M. 'The Unrealized...' pp. 124–125. Obviously, this is not a feature unique to Colombian politics. Geddes, for instance, argues that "[p]atronage is the glue that holds [government] coalitions together in Latin America..." see Geddes, B. 'Politician's Dilemma: Building State Capacity in Latin America' (1994) p. 152. However, the extent to which the budget and public jobs can be used for patronage purposes by the president seems to be particularly pervasive in Colombia — and despite it being a relatively small state.

[132]Despite the fact that the constitution provided for an "adequate and equitable" distribution of public jobs amongst parties and most of the times this rule was abided, it was not uncommon to see partisan violence during inter-party transfers of power; see Bushnell, D. 'Colombia...' Ch. 8–9.

[133]Santa, E. 'Sociología Política de Colombia' (1955) p. 73; quoted in Wilde, A. 'Conversations Among Gentlemen: Oligarchical Democracy in Colombia' in Linz, J. and Stepan, A. (Ed) *The Breakdown of Democratic Regimes: Crisis, Breakdown and Reequilibration* (1978) p. 36.

[134]Quoted in Geddes, B. 'Politician's...' p. 106.

[135]Hartlyn, J. and Dugas, J. 'Colombia: The Politics...' p. 289.

[136]For a historical perspective on the limits to presidential power; see Posada-Carbó, E. 'La Nación...' Ch. 3

not permitted. Moreover, compared to most of Latin America, absence of recurring, long-lived dictatorships meant the leeway of presidents to govern was kept within a system of checks and balances, if far from perfect.[137] For the most part, congress remained a check on the executive, performing at least three sizeable tasks: scrutinising the president and cabinet ministers, redistributing power (and resources) from the centre to the regions and, providing (subtracting) political legitimacy for a regime. Further, congress could block or modify legislation. Secondly, the very weakness of the Colombian state stressed above constituted another limit to the president's execution of policy. Chief among these were a poor, if improving, provision of public goods (physical infrastructure, communications, education system, internal security and order) along with a fiscal system that extracted few economic and financial resources from its citizens.

Thirdly, despite the clear supremacy of two main traditional parties throughout the twentieth-century, factions within Conservatives and Liberals placed gruelling demands on the executive in exchange for support. This was so acute as to consider the legislature as one resembling more the structure of a multiparty parliamentary system.[138] In this respect, the partisan powers of the president were rather low.[139] Moreover, a highly legalistic and red-tape immersed bureaucratic culture synthesised in the "*se obedece pero no se cumple*" [obey but do not comply] motto served to slow down government operations and render technical decisions cumbersome.[140] Partly as result of this, decentralised institutes could slack, shirk and slip away from both presidential and ministerial instructions. Lastly, the power of any president was checked by the strength and multiplicity of local actors.[141] As said earlier, Colombia was a country of regions and even as presidents appointed regional governors, appointments represented local political bosses, as much as they reflected the correlation of forces both in congress and in departmental assemblies. As Posada-Carbó, succinctly puts it: "governors were never exclusive agents of the national executive".[142] The

[137] For the absence of strong-men/*caudillos* in Colombia's history; see Jaramillo Uribe, J. ''La Personalidad...' pp. 40–47.
[138] Dix, R. 'The Politics...' p. 167.
[139] Cárdenas, M., Junguito, R. and Pachón, M. 'Political Institutions and Political Outcomes in Colombia' in Stein, E. and Tommasi, M. (Eds) *Policymaking in Latin America: How Politics Shapes Policies* (2008) p. 205; and Archer, R. and Shugart, M. 'The Unrealized...' p. 110.
[140] For a characterisation of the Colombian bureaucracy; see Dix, R. 'The Politics...' pp. 167–71. For a brief discussion of bureaucratic reform; see Geddes, B. 'Politician's...' pp. 106–08.
[141] This argument is well explained in Posada-Carbó, E. 'La Nación...' pp. 112–15.
[142] Posada-Carbó, E. 'La Nación...' p. 114.

ways in which local powers have participated in central clientelistic practices, is the subject of the next section, for now it suffices to say that the regions effectively fragmented further the powers of presidents. In sum, presidential power was far from absolute and this can probably best be seen in the few successful instances where heads of state have achieved radical shifts in policy.[143] Also as result of this, the country avoided the economic and political extremisms of other Latin American nations.

What kind of political regimes have Colombians lived under and what constituted the key characteristics of the polity during the second third of the twentieth century? Hartlyn and Valenzuela classify the regimes from 1930 to 1949 and from 1958 onwards as semi-democratic.[144] By this definition they mean there were constitutional restrictions on contestation, on suffrage, or *de facto* restrictions, such as the clientelist manipulation of electorates and fraud, but generally competitive and open elections. Democratic breakdown, however, came in 1949, as the political struggle between the main parties became a clash between a majoritarian-liberal congress and a conservative president. A process of impeachment prompted a reaction by which the president declared state of siege, closed congress, banned public meetings and censored media.[145] Despite this, much of Colombian politics, according to Wilde, continued as usual: "...the system remained oligarchical, the economy capitalist, the institutions republican, the military civilianist, [a]bove all, party politicians continued to reign."[146] This soon changed. The election of the divisive Laureano Gómez as president polarised politics further, and with violence spiralling out of control, a solution came from the barracks.[147] A military coup ousted Gómez in June 1953 and General Rojas governed until May 1957, when a military *junta* eased the transition to civilian government a year later.

[143] Archer and Shugart suggest that presidential power has been potential more than realised; see Archer, R. and Shugart, M. 'The Unrealized...'

[144] Hartlyn, J. and Valenzuela, A. 'Democracy...' p. 41.

[145] There are various accounts explaining the breakdown and there is no consensus. One attaching failure to cope with social revolution is, Fluharty, V. 'Dance...'; others stressing the malevolent intentions of the parties are, Arciniegas, G. 'State of Latin America' (1952) and Martz, J. 'The Politics of Clientelism: Democracy and the State in Colombia' (1997). For the most authoritative accounts emphasising political factors; see Hartlyn, J. 'The Politics of Coalition Rule in Colombia' (1988); Wilde, A. 'Conversations...'; and Hartlyn, J. and Dugas, J. 'Colombia...'

[146] Wilde, A. 'Conversations...' pp. 32–33.

[147] It is worth noting that the coup and military rule that followed was endorsed by various political figures and a large segment of public opinion as the ultimate way to curb violence. Indeed, some authors recall that at the time it was not uncommon to hear of an 'opinion coup' rather than a military one; see for instance Sánchez, G. and Meertens, D. 'Bandoleros, Gamonales y Campesinos: El Caso de la Violencia en Colombia' (1983) p. 41

The return of professional politicians to government did not mean the establishment of democracy, broadly defined,[148] but by the standards of the region the political arrangement that followed the Rojas regime may be seen as benevolent. In essence, the National Front was a limited democratic consociational regime by which two parties agreed to alternate the presidency, and declared parity between them for all elective and appointive posts. A requirement of a two-thirds majority to approve legislation in all decision-making bodies from congress to municipal councils increased both political immobilism and the need for an ever stronger and pro-active executive. No doubt, the consociational basis of the National Front accentuated further the moderate nature and relatively continuous characteristics of economic and social policy.[149] Indeed, Colombia did not seriously practice populism like Argentina nor did it shift radically toward neoliberalism prematurely, as Chile did. This is important and needs be explained.

The conditions for populism to dominate politics were largely absent.[150] The most serious contender for the kind of charismatic leader whose rhetoric connects with labour and the urban masses, so as to lead a populist movement, Jorge Eliécer Gaitán, was assassinated in April 1948. No political heir managed to take on Gaitán's movement. Further, the environment for an alliance between industrialists, labour and the state — that would have resembled populist movements in the region — did not flourish in the Colombia of the 1940s or 1950s, let alone after. Palacios argues that the junctures were not favourable: "the displacement of the old alliance of the export-import economy integrated by landowners, bankers and merchants seemed implausible during the administrations of Ospina and Gómez, the coffee bonanza and the post-war era of cheap U.S. dollars."[151] Urrutia resorts to more structural causes to account for the absence of economic populism. He stresses the concentration of political power at the local level, the well-established presence of political

[148]Adjectives for the kind of democratic regime that the National Front represented abound. A synthesis by Hartlyn and Dugas featured the following: 'controlled', 'oligarchical', 'restricted', 'traditional bipartisan elitist', and 'near polyarchy'. For others it was 'inclusionary authoritarian' or just 'authoritarian'; see Hartlyn, J and Dugas, J. 'Colombia...' pp. 251–52.
[149]A point also made in Hartlyn, J. and Dugas, J. 'The Politics...' pp. 268–73.
[150]Nor were conditions sound for the rise of corporatism either. Bailey has provided a well-informed interpretation for it, emphasising three factors: the ideological 'liberalisation' of Colombian conservatism; the rather pluralist nature of state policies toward the formation of interest associations and the characteristics of the administrative apparatus of the central government and regional autonomous agencies. See Bailey, J. 'Pluralist and Corporatist Dimensions of Interest Representation in Colombia' in Malloy, J. (Ed) *Authoritarianism and Corporatism in Colombia* (1977).
[151]Palacios, M. 'Entre la Legitimidad y la Violencia, 1875–1994' (1995) p. 184.

parties, the rather technocratic appointments of well-trained economists or businessmen at the Finance Ministry, and the existence of a free press eager and ready to criticise populist ideas.[152] Most importantly, Urrutia notes, instead of attempting to redistribute income and power via macroeconomic-management tools, such as the exchange rate, wage, price and credit policies, the Colombian political class preferred redistribution at the microeconomic level through the budget.[153] In other words, the absence of populism is due to the presence of a formidable substitute: clientelism.

One way to define clientelism is as the instrumental use of positions of power to distribute jobs, goods, and public decisions to partisan supporters in order to maintain and strengthen positions of political power.[154] That relationship by which a *patron* (often a local political boss) provides his *client* with a favour, or provides him with a service in exchange for his vote is not unique to this case. However, what some authors sustain is atypical, is its intensity, scope and durability. For instance, Archer and Shugart propose that within Latin America and along with Brazil, Colombia exhibits the strongest traditional clientelistic brokering in congressional elections.[155] Further, Carey and Shugart rank it as the nation whose electoral system and institutions cultivate personal (as opposed to party) reputation the most — a proxy for *clientele*-based politics.[156] Finally, that clientelism has deep historical roots is evident from the fact that there are several studies examining the evolution of the phenomena from its so-called 'traditional' variety in the nineteenth-century to the more recent 'broker' or 'party-directed' type that emerged in the 1920s and consolidated during the National Front years.[157] Patronage, thus, is fundamental to any understanding of Colombian politics for two reasons: first; it played a key role in maintaining the political dominance of the Liberal and Conservative political parties — or of a rather homogenous

[152] Urrutia, M. 'On the Absence of Economic Populism in Colombia' in Dornbusch, R. and Edwards, S. (Eds) *The Macroeconomics of Populism in Latin America* (1991).
[153] Urrutia, M. 'On the Absence...' pp. 375–82.
[154] This definition is drawn from Piattoni, S. 'Clientelism, Interests and Democratic Representation: The European Experience in Historical and Comparative Perspective' (2001) p. 6. In this text the term clientelism is interchangeable with 'spoils system' and 'patronage'.
[155] Archer, R. and Shugart, M. 'The Unrealized...' p. 131.
[156] Carey, J. and Shugart, M. 'Incentives to Cultivate a Personal Vote: A Rank Ordering of Electoral Formulas' in *Electoral Studies* (1995) Vol. 14, No. 4, pp. 417–39. Note that their survey covers countries from Europe, Asia and North and Latin America.
[157] For a history of clientelism in Colombia; see Archer, R. 'The Transition from Traditional to Broker Clientelism in Colombia: Political Stability and Social Unrest' (1990); Martz, J. 'The Politics of Clientelism: Democracy and the State in Colombia' (1997); and Schmidt, W. 'Political Clientelism in Colombia' (1972).

bipartisan elite — for over a century.[158] Secondly, it effectively, if not in a socially efficient manner,[159] brought the lower class strata of the population into the national political arena.[160] In the absence of corporatism, militarism and populism, the country's political development in the twentieth-century evolved around complex and sophisticated networks of patrons and clients (rural and urban). Allegedly, the local political bosses operated in the nodes of the networks and ensured the more high-profile national politicians sliced the budget and directed other sources of state patronage to the bases. Indeed, a tangible 'trickle-down effect' was carried out and it befell to the two traditional parties to perform it. Hence the need to examine the political parties in the last section.

Often and not without some justification, the long dominance of both the Liberal and the Conservative parties has been blamed for most of the nation's many ills. Peeler's review of the literature on the subject concludes, that there is "a high degree of consensus... in evaluating the Colombian parties as instruments of a narrow and exploitative elite, which have failed to adapt to the demands of modernization..."[161] Irrespective of the verdict the hard fact is that the party system has been pivotal in the country's political history.[162] Wilde insightfully puts it: "Liberals and Conservatives... were the most fundamental national institutions... [and] possessed the greatest range of 'power capabilities,' including symbols, violence, electoral mobilization and economic resources (patronage)."[163] In historical perspective, this may well have been the case. Founded in the mid-nineteenth century these political parties feature among the oldest in the world and consolidated themselves before the nation did.[164] And yet old age is not their most remarkable achievement. It is

[158] See Archer, R. 'The Transition...' ; Leal, F. 'Un Bipartidismo en Crisis' in Meyer, L. and Reyna, J. L. (Eds) *Los Sistemas Políticos en América Latina* (1989); Schmidt, W. 'Bureaucrats as Modernizing Brokers?' in *Comparative Politics* (1974) Vol. 6, No. 3, pp. 425–50; and Cepeda, F. 'Factores que Contribuyen al Mantenimiento del Sistema Político Colombiano' (1985).

[159] In a stimulating interpretative essay Robinson argues, that though neither populism nor clientelism are economically efficient systems of redistribution for society as a whole; political elites in Colombia found that either clientelist practices were cheaper or populist ones more costly, to buy political support; therefore the prevalence of the former. See; Robinson, J. 'Un Típico País Latinoamericano? Una Perspectiva sobre el Desarrollo' in Robinson, J. and Urrutia, M. (Eds) *Economía...* especially pp. 648–57.

[160] Urrutia, M. 'On the Absence...' p. 376.

[161] Peeler, J. 'Colombian Parties and Political Development: A Reassessment' in *Journal of Inter-American Studies and World Affairs* (1976) Vol. 18, No. 2 p. 222. Peeler himself is of the view that though indeed *c*orrupt, the party system is viable, stable and framed the survival of the political order.

[162] For a political history emphasising the role of the party system, see; Dugas, J. and Hartlyn, J. 'Colombia...'

[163] Wilde, A. 'Conversations...' p. 35.

[164] Dix, R. 'The Politics...' p. 88.

their prevailing role ever since that stands out.[165] Reds and blues, as the parties are known, have overwhelmingly dominated legislature seats[166] and no other political party has ever come close to winning a presidential election.[167]

What explains this extraordinary characteristic of the political system? First, the absence of strong third parties, especially of labour-based socialism, resulting from the multi-class composition of the Liberal and Conservative parties, which cuts across all social strata, offered representation within the established framework.[168] This also prevented the kind of class polarisation that in other countries gave movements of the Left the vigour to mobilise and turn into large and organised parties. Secondly, the incorporation of labour along partisan lines — and not by the state — through the foundation of two major labour federations, the Liberal Confederation Workers in 1936, and the Conservative Jesuit Union of Workers ten years later, divided and weakened the non-radical base of the Left significantly.[169] At a more structural level, certain conditions of society did not favour the rise of the Left. Angell notes that the major belief system in Latin America — Catholicism and the fierce hostility of the Church to Marxism — limited the appeal of radicalism among popular sectors and women.[170] In addition to this, there was a very low level of European immigrants who could have brought with them radical and novel ideas and political activism. On the economic side, the status of late-latecomer to industrialisation, the failure to develop a broad industrial base, and the fact that the most dynamic sector constituted the production and exportation of coffee, were all factors that hardly aided the cause of Left.

165 Tirado Mejía notes, that Colombia's political two-party system along conservative-liberal lines has been among very few, if not the only case in the Latin American context, to have survived the twentieth century; see; Tirado Mejía, A. 'Colombia: Siglo y Medio de Bipartidismo' en Arrubla, M. (Ed) *Colombia Hoy* (1978)p. 3.

166 For statistics on the distribution of congressional seats from 1945 to 1986 — chamber of representatives — see; Cepeda, F. 'The Colombian Elections of 1986' in *Electoral Studies* (1987) Vol. 6, No. 1, p. 77. For electoral results for the presidency since 1930; see Dugas, J. and Hartlyn, J. 'Colombia...' pp. 258–59.

167 A notable exception for the presidential race constitutes the challenge posed by Gustavo Rojas and his party Alianza Nacional Popular (ANAPO) to the conservative candidate Misael Pastrana in the elections of 1970, in which the margin of victory for the latter was slim and in which allegations of fraud are not completely unfounded.

168 For a quantitative exercise on the social bases of the traditional political parties; see Sanín, F., Viatela, J. M. and Acevedo, T. 'Olivos y Aceitunos? Los Partidos Políticos Colombianos y sus Bases Sociales en la Primera Mitad del Siglo XX' in *Análisis Político* (2008) Vol. 21, No. 62.

169 For a comparative perspective on the incorporation of labour in Latin America; see the work of Collier, D. and Collier, R. 'Shaping the Political Arena: Critical Junctures, The Labor Movement and Regime Dynamics in Latin America' (2002).

170 Angell, A. 'The Left in Latin America since 1920' in Bethell, L. (Ed) *Latin America: Politics and Society* (1998) p. 82.

A third factor relates to the great ability of the two main parties to contain within their own ranks dissident movements. This was the case of López Michelsen's Revolutionary Liberal Movement in the 1960s or the previous Independent National Revolutionary Union of Gaitán during the 1930s. Similarly, the skills party leaders demonstrated during critical junctures to form coalition governments, such as in the 1930s, 1940s and the National Front governments, explain the resilience of bipartisan power.[171] Further, despite the ideological differences that have existed between the main parties, prominently on the role of religion and education, recurrent coalitions indicate that the ideological divide did not cut deep, and that pragmatism and accommodation often prevailed. Conversely, however, when party elites were fragmented and failed to reach political agreements, partisan violence spiralled out of control, turning especially acute in the countryside, as during the years of *La Violencia* between 1946 to 1958.[172]

Fourthly, and as said earlier, the development of extensive clientelist practices played a role in the lasting two-party dominance. Martz sustains: "that Colombia's traditional party survives essentially because of its regionally distributive policy-making style — that is, its ability to allocate jobs, goods, and services to regional elites and supporters in a reasonably equitable manner."[173] More important than redistribution, however, is the legitimacy that both parties enjoyed, as demonstrated by a long electoral tradition in which they dominate. Posada-Carbó leads a revisionist[174] argument that the electoral tradition lies at the cornerstone of the nation's representative democracy, even if admittedly, elections have not always been free and fair — corruption, ballot stuffing, coercion and violence all have been practiced.[175] If not ideal, in the main, elections have been regular, competitive and have mobilised large segments of the population at the local, regional and national levels. The parties provided the political system with the legitimacy it required to be respected through the ballot-box.[176] In sum, the fortitude of the traditional parties

[171] Tirado Mejía, A. 'Colombia...' p. 3; Angell, A. 'Cooperation and Conflict in Colombian Party Politics' in *Political Studies* (1966) Vol. XIV, No. 1, pp. 53–71; Robinson, J. 'Un Típico...' p. 660.

[172] This is a central argument for Wilde, A. op. cit; Hartlyn, J. "The Politics..."; and Dugas, J. and Hartlyn, J. 'Colombia...'

[173] Martz, J. 'The Politics...' p. 40.

[174] Posada-Carbó, E. 'Limits of Power: Elections under the Conservative Hegemony in Colombia, 1886–1930' in *Hispanic American Historical Review* (1997) Vol. 77, No. 2; and 'La Nación...' Ch. 4.

[175] For a detailed paper on ballot stuffing; see Chaves, I., Fergusson, L. and Robinson, J. 'He Who Counts Elects: Determinants of Fraud in the 1922 Colombian Presidential Election' (2008).

[176] An interesting paper by Mazzuca and Robinson argues that a complement to the electoral tradition has been competition regarding electoral rules. They argue, that the power-sharing institutions arranged between Liberals and

was a function of the economic and social milieu in which they operated, the persistent weakness of the labour movement, the often formidable political skills of the parties' leaders at coalition-building and dissidence-containing, the patronage capabilities that being in power granted them, and the legitimacy with which each regime accessed power, thanks to regular and largely competitive elections.

Conclusions

This chapter provided the basic historical background and contexts in which the state of the mid-twentieth century sought to foster (or not) industrial development. The opening section stressed the geographical fragmentation and diversity of the nation, which for generations made domestic and international trade difficult and expensive, mainly due to prohibitive transportation costs. History, through the persistence of colonial economic institutions, along with the inability of the newly independent *neogranadians* to agree on governance structures, ensured continuous political instability that diminished the opportunities to reap trade gains from the boom in commodities of the international economy of the late-nineteenth century. Only when the production of coffee for exports took hold, these obstacles to economic development began to be removed.

Since the 1920s, as improvements in physical infrastructure accelerated, the foreign exchange resources expanded and regional markets integrated, industry begun to flourish. Rapid industrial growth rates during the 1930s competed with coffee as the leading sector and from then on, industry exhibited a dynamic of its own. The process concentrated in the Antioquia region at first, though soon after, Bogota and other regions with relatively large markets built up their own sectors. During the mid-twentieth century the structure of manufacturing changed gradually, from an emphasis on consumer non-durables to more intermediate goods, the development of consumer-durable sectors and to a lesser extent of capital goods. At times and only in part, was import-substitution the main source of manufacturing growth. By and large, industrialisation was a domestic effort.

Conservatives made for more legitimate regimes via more balanced political representation. See Mazzuca, S. and Robinson, J. 'Political Conflict and Power-Sharing in the Origins of Modern Colombia' (2006) *NBER Working Paper*, No. 12099.

Most industrial start-ups at the beginning of the century belonged to Colombians and this remained largely so thereafter, though foreign resources in certain technology and capital intensive sectors played a role later. With regards to policy, as will be argued in substantive research chapters, the industrialisation of the economy was a fact to which the contribution of the state was modest. Unlike other medium and large economies in Latin America, industrialisation in Colombia from 1940 to 1967 was not to be state-led.

The key characteristics of the polity constitute the substance of the closing section. A politically centralised but administratively decentralised constitutional framework from 1886 guaranteed Colombia was for the practice of politics a nation of regions. This influenced that the main political mechanism to incorporate the population into politics became a sophisticated type of clientelism — which rendered other political developments, such as corporatism and populism non-appealing. Perhaps the most important of all the characteristics of the state was its weakness. Fiscal weakness implied a small state, and one that commanded fewer economic resources than its regional equivalents. Nevertheless, as the state grew in size and modernised itself to intervene in the economy its capacity grew — and so did the powers of the presidents of the republic. Whether or not the presidents/governments emerging from the two traditional political parties displayed these powers to effect serious changes in economic-development policy, i.e. whether they 'pushed' for industrialisation, concerns the core research of this thesis. And so is the question of whether political and economic limits to presidentialism prevented them to carry out a full-blown pro-industry policy.

3 Colombia in Latin America: Import Substitution and the State

Colombia is different from other middle- and large-sized nations in Latin America. In some respects, this is hardly news. It is well recognized that its polity diverged markedly from those of the region during the twentieth century. The extant literature, however, has failed to examine the wider implications of such distinct a polity; therefore, it has failed to notice that the nation's economic development trajectory has been different too. Current interpretations of the country's modern economic history assert that it evolved along the same lines as the large Latin American nations, that is, following a pattern that can be broadly summarised as: a) export-led growth from mid-nineteenth century to the Great Depression, b) import-substitution industrialisation (ISI) from the 1930s/40s to the late 1960s and early 1970s, c) a neoliberal economic model from then onwards. This study realises the implications that the nation's unique political development caused on its economic development between 1940 and 1967 — that is, during the alleged golden age of ISI. It will be argued that the typical characteristics of ISI applying to other economies in the region were either absent or not intended by governments. Neither in terms of the policies more commonly associated with ISI nor in their macroeconomic manifestations does Colombia's experience fit the traditional template. The notion that the ISI label does not adequately capture this historical experience — or for that matter the Latin American one — is not new. Cárdenas et al. offer an alternative to ISI: state-led industrialisation.[1] The issue, however, is that the essence of this approach, the pro-active leadership attached to the state in directing the pro-industrial strategy, is not borne out by the Colombian

[1] Cárdenas, E. et al. 'Introduction'.

experience. Consequently, not only is Colombia different from other Latin American countries in its politics but also in its economics.

The current (mis)understanding about the role of the state in Colombia's industrialisation, namely, the conviction that an ISI strategy was attempted and, indeed, was directed by the state, is based on shaky foundations. Succinctly put, the current view holds that trade, exchange rate, monetary and credit, and direct pro-developmentalist policies followed the practically unchanging preferences of successive governments in the second third of the twentieth century, which were fixated with the idea of fostering a domestic manufacturing sector at any cost. As a result, the state enacted protectionist tariffs, endowed public agencies with resources to engage in direct industrial promotion, skewed the exchange rate towards appreciation to facilitate strategic industrial imports, and ensured that manufacturing firms enjoyed extensive access to credit at preferential rates. The thrust of this dissertation is to challenge these claims. This chapter, specifically, by addressing the central policy areas of trade and exchange rate, aims at fracturing the dominant, misconstrued consensus.

The piece contests conventional wisdom and proposes that commercial policy did not reflect the abrupt willingness of governments to raise trade barriers in order to protect the domestic industry. Rather, trade measures followed the logic imposed by a previous set of multiple concerns: fiscal revenue, pressures in the balance of payments and the challenges that the economic management of very volatile external accounts posed to the authorities. In this context, protecting manufacturers was at best another variable to be dealt with. Consistent with this interpretation, empirical data show that the 'apparent closure' of the economy was marginal during the late 1930s to the 1960s period, even more so, when compared to the trajectories of the external sectors of other large Latin American economies. Further, it is argued that if there were any concessions given to industry, these were in no way systematic or substantial. Secondly, regarding the issue of exchange rate policy, the chapter confronts important questions directed at establishing the role of government in the trajectory of the Colombian peso: Did government policy cause the peso to appreciate, and if so, to what extent? Was the exchange rate appreciation, instead, the product of economic forces beyond the control of public authorities? Moreover, what was the actual overvaluation of the Colombian currency in comparative perspective? In what kind of international and political-economic setting were governments operating, and how could this have affected decision-making on exchange-rate systems? As will be shown below, the evidence point at answers in favour of a non-dominant role for government policy, exchange rates that were not far from their equilibrium, and external and internal contexts that made the deliberate overvaluation of the Colombian peso a hard policy to be tried. The findings in this chapter and the interpretations constructed upon them, further the revisionist take of this dissertation on the intentionality and concrete protagonism of the state in Colombia's late-industrialisation.

Before continuing, a comment on the sources and methods used in this chapter is in order. In pursuing the vast task of establishing the appropriate role of the state in the various arenas of economic policy, this author has been forced to find benchmarks against which to assess the Colombian performance, to obtain more robust objectivity in the judgements and interpretations issued. Thus, although the dissertation is not comparative in nature, it constantly seeks for comparisons with the middle- and large-sized economies of Latin America (Argentina, Brazil, Chile, Mexico and Venezuela), which have frequently been considered as having opted for ISI policies. Similarly, the scale of the challenge has dictated the need to combine extensively, and particularly in this chapter, secondary literature with primary sources. Although the chapter does not apply econometric exercises to the raw data gathered by this author, both sub-sections on exchange rates and tariffs, use the works and findings of others applying such advanced quantitative analysis, to defend and support the original theses advanced therein.

This chapter is organised in five sections. It opens up with a stylised description of Colombia's unique 'broad distinctness' and the political economy underpinning its singularity. This aims at familiarising the reader with the wider political and economic context in which concrete policies areas are examined in later parts. The second section critically reviews the existing literature and offers a new classification of the literature that focuses on Colombia's industrialisation, highlighting the common underlying failure of current studies: the assumption that the state pro-actively, decisively and deliberately led or directed the process of industrialisation — through import substitution or otherwise. The following chapters deal with two of the central fields of economic policy in which, if conventional wisdom is right, ISI-policies should have been apparent: trade and foreign-exchange. The last section concludes.

Colombia's 'Broad Distinctness'

Historically, high and persistent levels of socio-economic inequality, pervasive poverty and extensive political violence would suggest at first that Colombia is like any other Latin American nation. A closer look at her political and economic characteristics and long-run trends hints that it is not. In political terms the differences are salient. Many of the nation's democratic traits in the twentieth century have been rare in the region: extensive civilian rule, vibrant electoral traditions, and a flair for constitutionalism (if compounded by political violence). Other aspects, like the long bipartisan dominance of elections and government is also atypical and is best explained by the ability of the Conservative and Liberal leaders to convert their organisations into multi-class parties by skilfully co-opting other popular movements, particularly labour forces. The absence of *caudillos* in power, populism and corporatism suffice to make the Colombian polity distinct. The presence of clientelistic politics, on the other hand, though certainly not unknown in other Latin American countries, seems to have been particularly strong, notwithstanding the small size of its public sector.

On the side of the economy, there have also been notable differences. To start with, the country shows a remarkable record of macroeconomic stability, possibly best evidenced by relatively low levels of inflation over time. The fact that the currency, the Colombian peso, has been kept unchanged, also testifies to unusual stability. Similarly, avoidance of large fiscal deficits, prudence in public accounts and pragmatism in economic policies and management spared it the heavy external borrowing that characterised the region in the 1970s and its dire consequences; Colombia did not suffer from the 'debt crisis' that affected Latin America in the 1980s. In fact, sound economic management on the part of monetary authorities was recognised well back in the 1930s by the likes of Robert Triffin.[2] At a more structural level, the country differs from the rest in the way

[2] Thorp, R. 'Economic Management and Economic Development in Peru and Colombia' (1991) p. 17.

in which it integrated into the world economy with long-lasting consequences. It was coffee what turned out to fit best the tropical climate, topography and rain patterns that characterised a great part of the country's geography. Naturally, the characteristics of a crop that required little capital, employed cheap family labour and permitted the cultivation of other subsistence foods in the same plot of land made it a popular way of making a living. In short, coffee became a 'democratic commodity'. The fact is that it was through coffee exports that the nation decisively incorporated itself into world trade. Coffee became the most important export by the 1920s, dominating the export matrix for the next half century. The production features of the bean made for a singular political economy that shaped its broad distinctness. Atomised into several tens of thousands of small-scale producers, and generating the majority of foreign exchange, coffee growers constituted an important electoral mass that evolved into a powerfully organised political actor.[3] Further, most of coffee marketing remained in national hands giving the sector even more sway. Coffee interests centred on defending favourable exchange rate levels, seeking generous credit access and terms, and watching over the maintenance of coffee's good internal prices.[4] To summarise, in Diaz-Alejandro's 'commodity lottery'[5] terms, coffee proved a relatively benign draw: democratic in its production, Colombian in its commercialisation, empowering in the domestic politics.

ISI: Definitions, Features and Literature

ISI is conceived of as a long-run model of accumulation,[6] a development strategy[7] or a path to attain socio-economic modernisation.[8] As a development strategy, i.e. "as a

[3] See for instance, Bates, R. 'Open-Economy Politics: The Political Economy of the World Coffee Trade' (1999) Ch. 3; Palacios, M. 'Coffee in Colombia, 1850–1970' (1980); Hartlyn, J. 'The Impact of Patterns of Industrialization and of Popular Sector Incorporation on Political Regime Type: A Case Study of Colombia' in *Studies in Comparative International Development* (1984) Vol. 19, No. 1.

[4] See; Palacios, M. 'Coffee...' pp. 214–26, 248–58.

[5] See Diaz-Alejandro, C. 'Latin America in the 1930s' in Thorp, R. (Ed) *Latin America in the 1930s: The Role of the Periphery in World Crisis* (1984).

[6] Fitzgerald, V. 'ECLA and the Theory of Import Substituting Industrialization in Latin America' in Cárdenas, E. et al. (Eds) *An Economic...* Vol. 3.

[7] See for example Gereffi, G. 'Paths... '; Haggard, S. 'Pathways...'; Solimano, A. 'Economic Growth under Alternative Development Strategies: Latin America from the 1940s to the 1990s' in Solimano, A. (Ed) *Roadmaps to Prosperity: Essays on Growth and Development"* (1996); and Felix, D. 'Import Substitution and Late Industrialization: Latin America and Asia Compared' in *World Development* (1989) Vol. 17, No. 9.

[8] See Baer, W. 'Import...' pp. 95–122.

set of government policies that shape the country's relationship to the global economy and that affect the domestic allocation of resources among industries and major social groups",[9] ISI was expected to deliver increases in economy-wide productivity, technological upgrading, improvements in the terms of trade, positive spill-overs or linkage effects and growing manufacturing employment.[10] At its core, ISI intended to substitute with domestic production industrial goods that were imported, and for doing so a number of tools or policy instruments, according to the extant literature, were designed. Franko distinguishes an 'ISI toolbox' comprised of three broad types of measures: active industrial policy, international instruments, and fiscal and monetary policy.[11] Active industrial policy, according to this interpretation, seeks to form mixed- and state-owned enterprises, requires governments to make purchases from national firms and pressures foreign firms to establish joint ventures and increase local content. The imposition of tariffs on final goods, quotas on imports, as well as the rationing of foreign exchange, the licensing of imports and the overvaluation of the exchange rate constitute the international tools of ISI. Finally, subsidies for cheap industrial inputs, tax breaks, preferential interest rates and accommodating monetary measures represent the fiscal and monetary policies of the 'ISI toolbox'.[12] To these measures others added price ceilings on wage goods[13] — especially on foodstuffs — and the construction of government-funded infrastructure especially to complement industries.[14] This was the arsenal of policies intended to make of industry the 'engine' of growth of a new kind of economy, one in which manufacturing became the leading sector in an 'inward-looking' path, a strategy that was to lift out of poverty and underdevelopment the countries that embarked on it. Via industrialisation poor countries were to catch up with rich ones. Alas, for most nations, ISI did not match expectations.

The extant literature has produced a long list of the adverse consequences attributed to ISI. In a general sense, Bruton argued, ISI generated three kinds of unwelcoming outcomes: distortions on the economy, the creation of activities alien to the economic and

[9] Gereffi, G. 'Paths...' p. 23.
[10] The theory, historical context and rationale for ISI and the benefits it should bring about can be reviewed in Love, J. 'The Rise and Decline of Economic Structuralism in Latin America' in *Latin American Research Review* (2005) Vol. 40, No. 3, pp. 103–08; and Fitzgerald, E. V. K. 'ECLA...' pp. 60–68.
[11] Franko, P. 'The Puzzle of Latin American Development' (2007) pp. 61–69.
[12] Franko, P. 'The Puzzle...' p. 68.
[13] Cardoso, E. and Helwege, A. 'Latin America's Economy: Diversity, Trends and Conflicts' (1992) p. 90.
[14] Baer, W. 'Import...' p. 98.

social environment, and the creation of conditions which dampened productivity.[15] In a seminal paper, Taylor made a systematic effort to calibrate the 'legendary' distortions of the 'inward-looking model', concentrating on currency depreciation, the black market premium for foreign exchange and the price of capital.[16] The combination of overvalued exchange rates with high industrial prices and controls on agricultural items is said to have harmed agriculture both domestically and in terms of exports.[17] This export pessimism and anti-export bias did at times force the curtailment of imports, which were required for industrialisation to advance. Further, subsidies to invest in industrial projects put pressure on government budgets, causing fiscal deficits, which were often monetised and at other times financed with unsustainable external debt, in turn generating high and persistent rates of inflation, and macroeconomic instability.[18] But the negative effects of ISI are not confined to the sectoral and macro-economic imbalances. The discretionary methods by which protectionist measures were enacted, import licenses granted and credit and intermediate assets allocated made corruption economically expedient, exacerbated inequality and coddled business culture.[19] Lastly, the maintenance of artificially low interest rates in highly intervened financial systems is also said to have forced repression and rationing in the markets for money and capital.[20] In short, ISI-inspired policies bred chronic macroeconomic disequilibria — high inflation, overvalued currencies, budget deficits — sectoral imbalances — the accelerated growth of industry at the expense of exports and domestic agriculture — and wide opportunities for rent-seeking and crony capitalism.

The inward-looking model that ISI came to epitomise is seen by Bulmer-Thomas as an aberration. A missed opportunity whose timing could not have been worse, given that the

[15] Bruton, J. 'The Import-Substitution Strategy of Economic Development: A Survey' in *Pakistan Development Review* (1970) Vol. 10, No. 2, pp. 137–42.

[16] Taylor, A. 'On the Costs...' p. 1.

[17] See for example Cardoso, E. and Fishlow, A. 'Latin American Economic Development: 1950–80' in *Journal of Latin American Studies* (1992) Supplement Vol. 24; Baer, W. 'Import...'; Cardoso, E. and Helwege, A. 'Latin America's...' Ch. 4.

[18] Waterbury, J. 'The Long Gestation and Brief Triumph of Import-Substituting Industrialization' in *World Development* (1997) Vol. 27, No. 2. p. 324; Cardoso, E. and Fishlow, 'Latin American...' p. 201; Cardoso, E. and Helwege, A. 'Latin America's...' pp. 91–3.

[19] Franko, P. 'The Puzzle...' p. 71.

[20] Ranis, G. 'Contrasts in the Political Economy of Development Policy' in Gereffi, G. and Wyman, D. (Eds) *Manufacturing Miracles* (1990).

global economy experienced its fastest rates of growth during these decades while Latin American governments opted, instead, to retreat from world markets.[21] But just as much as the negative consequences of the ISI model have been overstated, its achievements have been underrated. A recent literature however, has begun to straighten up the balance of judgements. Cárdenas et al. re-established common sense in assessments over the ISI era: "Latin American economic performance during the three decades that followed the Second World War was remarkable, inducing a widespread transformation of society."[22] The authors note the fact that the region experienced the highest rates of GDP per capita growth ever, that manufacturing, as intended, served as the 'engine' of economic growth, and that labour productivity gains translated into higher real wages. Moreover, they argue, Latin American economies underwent significant transformations in their productive structures, as technological capabilities were built, and entrepreneurial, managerial and labour skills developed.[23] Other benefits from ISI, difficult to quantify yet without doubt important, came in the form of the economic diversification and institution-building, of which development banks, social security schemes and modern labour relations were just a few.[24] Perhaps the most convincing evidence to challenge ISI-critics comes from the tangible and measurable changes that Latin Americans experienced in their own lives. Astorga et al. demonstrate that standards of living increased substantially between 1940–70, as captured by longer life expectancies, higher literacy rates and increases in income per capita.[25] These authors dare relating this progress with industrialisation of the day.[26]

Regardless of the views over the excesses and virtues of ISI, whether ISI-policies were 'opted', 'imposed', 'adopted', 'pursued' or 'followed', as the overwhelming majority of the literature recognises, the underlying logic is that ISI was not a market-driven process. On the contrary, as the language indicates, ISI is assumed to be a quintessentially government- or state-sponsored affair. This is so much the case, that Cárdenas et al. challenge conventional wisdom labelling the Latin American experience from the 1930s to the 1970s

[21] Bulmer-Thomas, V. 'The Economic . . . ' p. 288.
[22] Cárdenas, E. et al. 'Introduction' p. 16.
[23] Cárdenas, E. et al. 'Introduction' pp. 16–22.
[24] See Thorp, R. 'Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century' (1998) Chs. 5 and 6.
[25] Astorga, P. et al. 'The Standard...'
[26] Love, J. 'The Rise...' p. 107.

as ISI and described as "state-led industrialisation".[27] They argue that the term ISI is imperfect on the grounds that modern manufacturing appeared in several countries before the 1930s, because in many instances import substitution was far from being a leading source of growth for industry, and finally because in some places import substitution was accompanied with export promotion.[28] Thus, 'state-led industrialisation' captures best the essence of the period, one in which there was a greater and more ubiquitous role for the state. Harsh critics of the ISI model, like Edwards, also describe the era as one of "government-led industrialisation".[29] In similar fashion, Franko argues that Latin American states acted as developmental actors during ISI and others complement that view sustaining that governments followed ISI consciously or deliberately.[30] In short, the conventional literature disagrees about the merits and horrors of ISI, but converges on the fundamental role that governments played in the pursuit of that model of economic development. Indeed, the state became the key force in interpretations about the industrialisation processes in Latin America and elsewhere. But does the role of Colombian governments and their economic policies fit in adequately in such state-led ISI stories? In most accounts, Colombia has so far been customarily included among the nations that in the region attempted ISI or 'stated-led industrialisation'.

This chapter classifies four distinguishable interpretations of ISI in Colombia: 'big-picture' scholars, 'discontinuists', 'transitionists' and 'moderates'. A wide range of studies dealing with Latin America as a region, often synthesising historical experiences of industrialisation and/or of economic development, and identifying Colombia as another 'average' ISI nation, constitute the first group. An authoritative study by Cardoso and Helwege listed it along with Argentina, Brazil, Chile and Mexico as one of the economies where from the "1930s to the early 1960s ISI dominated economic planning."[31] Kaufman adds Uruguay to this group, but notes a distinct periodisation for Colombia — which along with Mexico — saw ISI becoming "an official component of governmental policy" in the 1940s.[32] Similarly,

[27] Munck also prefers this label. See Munck, R. 'Contemporary Latin America' (2003) Ch. 3.
[28] Cárdenas, E. et al. 'Introduction...' p. 3.
[29] Edwards, S. 'Crisis...' (1995) p. 1.
[30] Franko, P. 'The Puzzle...' p. 56.
[31] Cardoso, E. and Helwege, A. 'Latin America's...' Ch. 4; Munck, R. 'Contemporary...' Ch. 3; and Diaz-Alejandro, C. 'The 1940s in Latin America' in Syrquin, M., Taylor, L. and Westphal, L. *Economic Structure and Performance: Essays in Honor of Hollis B. Chenery* (1984).
[32] Kaufman, R. 'How...' pp. 110–111, 118. This view is shared by Waterbury, J. 'The Long ...' p. 327.

Solimano characterises the 1940s-1980s as a period in which the development model was "state dirigisme-cum-import substitution".[33] For Dietz and Street, ISI turned into the new model of expansion for the larger countries with some existing industry; Colombia, having the region's fourth largest population and total GDP by 1950,[34] and with manufacturing experience dating from the turn of the twentieth century, makes it comfortably in their classification.[35] Ffrench-Davis et al., referring to the larger economies state: "...practically the whole orientation of economic policy and an inordinate amount of new resources were directed towards ISI..."[36] Likewise, Ranis, in a comparative study between Mexico and Colombia with Korea and Taiwan suggests that the Latin American cases represent the examples where policy moved from primary to secondary ISI with the maintenance of prior protection controls, the prevalence of substantial subsidies and the harmful effects that these brought about.[37] Lastly, in more geographically encompassing fashion, Edwards sustains: "since the 1940s every country in Latin America had shunned free markets and relied on massive tariff walls to protect domestic industries".[38] Thus, in this strand of the literature Colombia, is typically integrated in the group of Latin American economies that during the mid-twentieth century tried inward-looking development. This equates with Colombia having implemented policies of the 'ISI toolbox' and having had a state-led industrialisation project.[39] This literature is not alone in its claims, however.

[33]Solimano, A. 'Economic...' p. 135.

[34]From Cardoso, E. and Fishlow, A. 'Latin American...' p. 198.

[35]Dietz, J. and Street, J 'Latin America's Economic Development: Institutionalist and Structuralist Perspectives' (1987) pp. 7–8.

[36]Ffrench-Davis, R., Muñoz, O. and Palma, G. 'The Latin American Economies, 1950–90' in Bethell, L. (Ed) *Latin America: Economy and Society since 1930* (1998) p. 166.

[37]Ranis, G. 'Contrasts...' pp. 211–29.

[38]Edwards, S. 'Left Behind: Latin America and the False Promise of Populism' (2010) p. 6.

[39]There are more nuanced views, however. Bulmer-Thomas' classical study recognises differences between the Latin American countries. That is Argentina, Brazil, Chile and Uruguay adopted the ISI model "consistently and enthusiastically", whilst the other two — Colombia and Mexico — were more cautious, combining ISI with export promotion. See Bulmer-Thomas, V. 'The Economic...' pp. 257–65. Sheahan also pairs Colombia with Mexico and adds Costa Rica to distinguish a group he calls the "middle-road market economies". These were in between the aggressive protectionism and state action that promoted industrialisation in Argentina, Brazil and Chile, on the hand; and the continued reliance of primary exports and free trade-model of the Central American republics, on the other. See Sheahan, J. 'Patterns of Development in Latin America: Poverty, Repression and Economic Strategy' (1987) Ch. 11. Lewis notes, that Colombia along with Cuba were latecomers in adopting fully the developmentalist ideology of *cepalismo* — only in the 1960s, precisely when the paradigm was being challenged. See Lewis, C. 'States and Markets in Latin America: The Rise and Decline of Economic Interventionism' (2004) p. 59. Liang, working with a wider sample of countries, suggests Colombia does not fit in well in ISI-trade typologies and proposes the label of "De Facto Import Promotion", in which there is a bias against import substitution as well as a bias against export promotion. His argument, that this leads to unsustainable 'debt-led' growth, however, does not match the Colombian experience. See Liang, N. 'Beyond Import

Among the 'discontinuists' it is common to find studies arguing that successive Colombian governments since the 1930s pro-actively promoted industrial development. A respected work by Avella et al. sustains that industrialisation triggered by external shocks in the 1930s came to be seen as the only viable alternative for development at the time, turning into a "truly national ideology" by the end of the Liberal administrations in 1946.[40] According to this view, the ISI strategy featured three distinctive elements: the channelling of more credit resources to industry, direct investments by the state in the sector, and growing protectionism.[41] In the rapid industrialisation of the post-war period a central role is given to the state by Vejarano, who argues, that: "...the third industrialization phase [1945–67] ...relied on protection and state promotion..." as well as on domestic credit and foreign investment.[42] Equally, Valderrama claims, that to talk about economic policy in Colombia between the 1940s and the 1980s amounts "to talk about the different attempts of the government to accelerate economic growth, particularly by encouraging the industrialization process" — using mainly two instruments: trade policy and financial policy.[43] A similar interpretation is offered by Misas, who reduces the basis of ISI to high protectionism and subsidised credit, as the state of the post-war period, he asserts, "decided to deepen industrialisation via import substitution".[44] To complement these views, perhaps more radically, Fajardo and Rodríguez declare that, in these years, the nation adopted the strategy of "industrialisation at any cost".[45] Thus, in addition to the 'broad Latin America' literature that places Colombia along with the other large- and middle-sized economies that tried state-led ISI, there is a second body of 'Colombia-focus' works that recognise the 1930s/40s as years of discontinuity, as years when in a break with previous experiences

Substitution and Export Promotion: A New Typology of Trade Strategies' in *Journal of Development Studies* (1992) Vol. 28, No. 3, pp. 447–72.

[40] Avella, M. et al. 'La Consolidación...' p. 260. They also claimed that "industry was the centre of attention of policy" from 1945 to 1974; p. 272. For a long list of authors claiming that the Colombian state of the 1930s and 1940s promoted industrialisation; see Sáenz Rovner, E. 'Élites, Estado y Política Económica en Colombia Durante el Segundo Tercio del Siglo XX' in *Análisis Político* (1997) No. 32, fn. 38.

[41] Avella, M. et al. 'La Consolidación...' pp. 260–61.

[42] Vejarano, C. 'Industrialization...' pp. 11–12.

[43] Valderrama, M. T. 'Three Essays on the Relationship between Financial Regime, Trade Regime and Industrial Sector in Colombia' (1996) p. 1.

[44] Misas, G. 'La Ruptura de los Noventa: del Gradualismo al Colapso' (2002) pp. 72–73.

[45] Fajardo, C. and Rodríguez, N. 'Tres...' pp. 29, 32.

and policies the state committed forcefully to industrialisation and ISI and promoted it wholeheartedly.[46]'

Transitionists', for their part, concentrate the analyses on a later period, namely, the late-1960s and seek to explain an alleged transition in development policy: from ISI to export promotion or export-led growth. Representatives of this stream of the literature, such as Júarez, maintain: "Colombia was one of the first countries in Latin America to begin a major reorientation away from full dependence on ISI as a strategy of development" to promote export diversification and outward orientation.[47] In a similar fashion, Mares argues, that "... the shift in trade and development strategy, from inward to outward, was relatively unique in Latin America at the time...[and that] Colombia underwent a transition similar to the East Asian with very positive, though less spectacular, results."[48] The authors' strong emphasis on the discontinuities and changes that the economic reforms of the 1966–68 period brought about, most notably regarding exchange rates and the introduction of tax and credit incentives to accelerate the growth of new export products, constitute convincing evidence for these authors that a truly different development path was taking shape. That is, a different model than the previous ISI one. Under these interpretations, however, both development strategies are understood to have been initiated and directed by government. Therefore they do not dissent in the conception of the role of the state in the economic development of the nation with the views of the 'big-picture' analysts or the 'discontinuists'.

[46]See for example the works by Escorcia, J. 'Historia de Colombia Siglo XX' (1983) pp. 112–32; Arrubla, M. 'Síntesis de Historia Política Contemporánea' in Arrubla, M. (Ed) *Colombia Hoy* (1978) p. 188; and Mayor Mora, A. 'Historia...' pp. 333–42.
[47]Juárez, C. 'Trade and Development Policies in Colombia: Export Promotion and Outward Orientation, 1967–1992' in *Studies in Comparative International Development* (1993) Vol. 28, No. 3, p. 67.
[48]Mares, D. 'Domestic Institutions and Shifts in Trade and Development Policy: Colombia, 1951–68' in Odell, J. and Willet, J. (Eds) *International Trade Policies: Gains from Exchange between Economics and Political Science* (1990) pp. 193–94. For more studies stressing the ISI-EOI shift see; Hartlyn, J. 'The Impact...' pp. 29–60. See also; Diaz-Alejandro, C. 'Foreign Trade Regimes and Economic Development: Colombia' (1976) pp. 3, 208, 224; and Morawetz, D. 'Why the Emperor's New Clothes are not Made in Colombia: A Case Study in Latin American and East Asian Manufactured Exports' (1981) p. 39; both cited in Mares, D. 'Domestic...' p. 205, fn. 40. García also subscribes to the ISI-export promotion characterisation of Colombia's successive economic development models; see García, J. 'Ensayos sobre Comercio Exterior y Desarrollo Colombiano' (2008) p. 13. An exception to this kind of interpretations is offered by Thoumi, who sustains that "...the policy change [of 1967] was not a clear shift from import substitution industrialization to export oriented industrialization"; see Thoumi, F. 'International Trade Strategies, Employment and Income Distribution in Colombia' in Krueger, A., Lary, H., Monson, T. and Akrasanee, N. (Eds) *Trade and Employment in Developing Countries* (1982) p.144.

The shortcomings of the three groups of literature are noticeable. In the haste to include Colombia in the club of Latin American countries that pursued ISI, 'big-picture' scholars extend and apply to Colombia judgements reached on the characterisation of economies that in more decisive fashion implemented ISI policies, such as Brazil and Argentina. Drawing on partial evidence about ISI manifestations, such as the prevalence of tariffs, these studies are too quick to assume that sustained and comprehensive pro-industry policies were standard practice in exchange rates, fiscal and credit matters. By this token, a misleading picture of Colombia as an ISI-follower is offered. As will be shown below, when examining the central features of state-led ISI in comparative perspective, Colombia exhibits few of the ISI characteristics of its regional neighbours. Thus, its labelling as another Latin American ISI-nation is built on shaky ground. The flaws of the 'discontinuists' are more serious, however, and emerge from two issues. First, a tendency to overstate the features of ISI that is easily disproved when set against the historical experience. On themes like the direct action of the state to promote industry via developmentalist agencies, such as the Institute for Industrial Development, mistaken judgements about its financial strength and the scope of its activities are made (Chapter 4). Similar interpretations regarding developmentalist or subsidised credit, of which industry is assumed to have been a major recipient, are equally erroneous (Chapters 5 and 6). Secondly, these studies say next to nothing about the intentionality of state policy. This is key, for policies typically associated with state-led industrialisation, such as the adoption of protectionist measures, may well be rooted in other contextual or ad hoc considerations, like crises in balance of payments, as will be discussed later. The works of 'Discontinuists' tend to confuse the fact of a growing role of the state in the economy with it having a skewed pro-developmentalist/industrialist stance. The historical record simply does not bear out these interpretations. Finally, 'transitionists' by focusing on and explaining the shift to export promotion neglect the characteristics of what was in place before and end up assuming it was an ISI strategy. These studies do not delve into the ISI period; instead, it is taken as given. But, by emphasising the alleged shift in development strategy, they helped further in disseminating misconstrued views about the actual features of the industrialisation process, about the role of the state in it, and about the historical preferences of governments in regards to growth and development options.

To reiterate, central to the literature so far is an underlying assumption: that ISI, as a development strategy, was state-led. Neither the policies of the 'ISI toolbox', nor the excesses typically associated with ISI, took hold in Colombia. More interestingly, policies that superficially seemed to have been implemented to foster industrial development were more often than not the result of exogenous pressures. The myth the extant literature has spread is that the Colombian state of the mid-twentieth century decisively promoted industrialisation. Therefore, the questions to be asked are: Did the Colombian state *really* intervene as widely and deeply argued to decisively promote the industrialisation project? Did the Colombian state possess the capacity required to design and implement industrial policies that threatened other influential and well-established economic sectors? At a more basic level: Is it correct to start with the presumption that governments since the 1930s unequivocally saw ISI as the preferred development option? This thesis provides answers to these key questions. In doing so it challenges the conventional wisdom on the role of the state in the country's late-industrialisation and on the preferences of Colombian rulers regarding such a project, as evinced forcefully by the analysis of credit and promotional policies between 1940 and 1967. The Colombian state, contrary to what the existing literature holds, did not promote industrialisation. Further, it is not clear at all that the industrialisation project had been an apparent preference of governments in the first place.

In contrast to the aforementioned strands of literature, there are more carefully crafted interpretations. 'Moderates', like Berry, argue that state support for industrialisation merely became relatively more pro-active. He states: "The postwar period saw a more conscious pursuit of industrialization in Colombia... [as the] government's desire to industrialize for its own sake appears to have been stronger..."[49] Berry and Thoumi add that as in most of Latin America, industrialisation became "a goal to which more policy instruments were applied."[50] Qualifications follow these remarks. For example, they go on to state that while ISI was partly deliberate, it was also partly a reaction to the periodic balance of payments crises... [and]... [w]hether the continuing expansion of industry received more impulse from government policy in this period [1945 to late 1960s] than in the

[49] Berry, A. 'A Descriptive...' p. 36.
[50] Berry, A. and Thoumi, F. 'Import...' p. 93.

previous one [1930–45] is a matter for analysis".[51] They also recognised limitations to their assertions: "It is difficult, if not impossible, to disengage the deliberate from the unplanned in retrospect."[52] It is the awareness with which they approach the issue of state and public policy toward industrialisation, and the resistance to assume that the undeniable rise of state interventionism of the post-war period was inextricably linked to, or at the service of, manufacturing interests, that earns them the label of 'moderates'. More decisively, others, such as Ocampo and Tovar, argue that: "...the usual description of the development model that prevailed during these years as 'inward-looking' or 'import-substitution' does not reflect its global features."[53] Consequently, these authors appear to describe Colombia's industrialisation as accelerated rather than 'state-led'[54] and propose to characterise economic policy as one reflecting a mixed model, with export promotion measures and plans shaping it as early as 1957.[55] The view of a balanced growth strategy as a more accurate description of the economic model is equally shared by Berry and Thoumi — albeit at a slightly later time. Further de-emphasising the role of the state during the alleged ISI-era, Ocampo sustains: "...while economic policy did play a role in the structural transformation, it was not the determining factor, nor was it always based on the abrogation of price signals."[56] In other words, industrial policy played a subsidiary role in industrialistion.

Notwithstanding the above more balanced and mixed views, it is perhaps Kalmanovitz's succinct judgement, that challenging the very notion of 'a model' of capital accumulation at all, which is closest to the historical record. Capital intensitivity, according to him, took place "without the spurts that accompany complex industrial processes and large production scales... accumulation then, received little state support: for its own sake, an 'industrialising' will within the local dominant class has not existed."[57] However, Kalmanovitz leaves the issue unresolved. Neither he nor the literature have dug deeper to

[51] Berry, A. and Thoumi, F. 'Import...' p. 93.

[52] Berry, A. and Thoumi, F. 'Import...' p. 84, fn. 105; and Berry, A. 'A Descriptive...' fn. 8.

[53] Ocampo, J. A. and Tovar, C. 'Colombia in the Classical Era of 'Inward-Looking Development', 1930–74' in Cárdenas, E. et al. (Eds) *An Economic ...* p. 263.

[54] Contributors in the same edited volume use the 'state-led industrialisation' label freely to describe the essence of the period for Chile, Mexico and Brazil; see Cárdenas, E., et al. 'An Economic...' Ch. 5, 7 and 8.

[55] Ocampo, J. A. and Tovar, C. 'Colombia...' pp. 261–63. Ocampo also notes that the first time preferential exchange rates were offered for non-traditional exports dates 1948; see Ocampo, J. A. 'The Transition...' p. 236

[56] Ocampo, J. A. 'The Transition...' p. 232.

[57] Kalmanovitz, S. 'La Industrialización...' p. 71.

explain why Colombian governments decided not to pursue decisively an industrialisation strategy that, at the time, promised to lift the country out of poverty and underdevelopment. In short, what the existing literature has misconstrued, though 'moderates' have partially admitted, is that neither the intentions nor the actions of state policies from 1940 to 1967 suggest that Colombian political leaders committed themselves and public institutions to installing a developmental state with a pro-ISI strategy geared towards long-run economic development. Through a review and an assessment of the key components — trade, credit, exchange and promotional policies — of the typical 'ISI-toolbox' and its expected outcomes, the thesis demonstrates that in Colombia the state did not push for ISI. The next section surveys the kind and magnitude of state support to industry through an analysis of policies in different fields.

Alleged Commercial Protectionism

The theoretical foundation for commercial protectionism under the ISI framework is well-known and is synthesised in the so-called infant industry argument. Its economic rationale holds that the unrealised potential of profitable domestic manufacturing sectors might materialise if barriers to foreign competition are erected (temporarily), to allow industrial firms to attain large-scale production and lower costs. Eventually, protective walls are removed, as firms 'learn the business' and, having 'grown up', become capable of competing in world markets. Another element in the argument is that as imports are substituted with domestic products, pressures in the balance of payments ease.[58] Leaving aside the debate over the merits and misfortunes of the theory and practice of ISI and infant industry,[59] it is useful to map the mechanisms designed by policy-makers when pursuing trade-protectionist policies. Standard classifications identify two sets of mechanisms in

[58]Todaro, M. 'Economics for a Developing World' (1992) p. 375.

[59]Assiduous critics of ISI and associated protectionism in both theory and in practice have pointed out multiple harmful effects on the economies and societies pursuing such path: anti agriculture- and export-bias, excessive price distortions, the skewing of production towards capital-intensive sectors, worsening income distribution, and the generation of extensive rent-seeking opportunities; see for instance Balassa, B. and Associates. 'The Structure of Protection in Developing Countries' (1971), Krueger, A. 'The Political...' and Bhagwati, J. 'Protectionism' (1998). There are also authors stressing the notable achievements of protectionist policies, namely the attainment of industrial-exporter status and developed economy, thanks to the application of the infant industry formula; see for example, Amsden, A. 'Escape from Empire: The Developing World's Journey Through Heaven and Hell" (2007) p. 91, and Chang, H-J. 'Kicking Away the Ladder: Development Strategy in Historical Perspective (2003) p. 2.

commercial policy: tariff and non-tariff barriers. Tariffs are divided into specific ones, *aforos*, and *ad valorem*. The first, which levy a set monetary amount on a given quantity of goods (e.g. $20 on a ton of steel), are subject to serious erosion if domestic prices increase steeply; whereas the second, which specify a percentage of the imported price on the commodity in question, are not. The concept of nominal protection rate, arising from the application of tariffs and other import or customs duties, of a particular commodity or a group of goods, refers to the percentage excess of the domestic price over the world price. The related effective protection rate expresses the margin of protection on value added. Consequently, this is defined as the percentage excess of domestic value added, calculated by reason of the imposition of tariffs and other measures on the product and its inputs, over the world market value added.[60]

As for non-tariff barriers, the use of import quotas, licenses and foreign exchange controls are amongst the quantitative restrictions that are easiest to identify — and probably easiest to measure. Quotas have often been preferred over tariffs, according to Dye, because they can be increased without abrogating existing trade treaties.[61] Other charges, such as variable levies, and particularly advance deposit requirements, are known to have become powerful import deterrents, because they escalate in value, and also are used to attain other policy goals.[62] Government enterprise regulations and legal interventions are perhaps harder to track, and it is conceivable that exemptions made when dealing with public bodies partly account for the divergence between the 'theoretical' or 'expected' incidence of custom duties and other charges, and the actual amounts collected. Although there is well-known recognition of the difficulties in measuring non-tariff barriers to trade,[63] a study by CEPAL cited below, serves as a good example of an attempt to estimate the effects of both tariff and non-tariff barriers on the trading profile of a country.

As indicated in the previous sub-section, it is commonplace to argue that the foundation of the state-led ISI strategy of twentieth-century Colombia lies in the strong and intentionally 'inward-looking' protectionist turn of its economy in the aftermath of trade

[60] Balassa, B. and Associates, 'The Structure...' p. 4.
[61] Dye, A. 'Commercial Policy' in Mokyr, J. (Ed) *The Oxford Encyclopaedia of Economic History* (2003) Vol. 1, p. 489.
[62] For instance, as will be discussed below, prior deposits can serve for monetary control.
[63] Dye, A. 'Commercial...' p. 488.

disruptions caused by the Great Depression of the 1930s and World War II.[64] The problem with this view is that the historical record confirms that neither was there a state-led ISI strategy, nor was trade-protectionism a preference of state policy, nor did it begin then. Colombia did not adopt such type of protectionism in the 1930s: tariffs had been a central feature of commercial policy since the nineteenth century. According to Coatsworth and Williamson, Latin America was the region in the world with the highest tariffs during the 'first globalisation',[65] and as Colombia in turn possessed the highest tariffs in the area, it follows that the country was the most closed economy on the planet. Does this mean that the origins of Colombia's weak insertion into the world economy lie with self-consciously seclusive and pro-autarkic politicians that favoured strong protectionist policies early on? This is difficult to sustain. Safford has argued that economic liberalism was an unchallenged economic doctrine from around 1840 to the 1880s and that it remained "an important force ... well into the twentieth century."[66]

Moreover, that Colombia had a protectionist economy by the early-twentieth century is not surprising. As Esguerra and Villar note, to a large extent such policies resulted from the lack of a developed export base.[67] The country lacked rich and diversified foundations for exports. According to Bulmer-Thomas, on the eve of WWI, Colombia exhibited the lowest level of exports per head of the region.[68] To a weak import capacity owing to low exports, structural fiscal penury rendered high tariffs necessary at a time when access to external financing was intermittent and limited. Protectionist policies, thus, were not exogenous, neither the product of politics nor of ideologies; on the contrary, commercial policy was endogenous — import liberalisation coinciding with export booms and foreign exchange

[64]Notable exceptions are studies by Montenegro, and Abel and Palacios, who rightly sustain that the Liberal administrations of the 1930s and 1940s did not promote industrialisation. So does Sáenz Rovner, claiming, that only until the presidency of Laureano Gómez in 1950 did the alliance of industrialists and politicians arrive in power; see respectively, Ocampo, J. A. and Montenegro, S. 'Crisis...' pp. 310–11; Abel, C. and Palacios, M. 'Colombia, 1930–1958' in Bethell, L (Ed) *The Cambridge History of Latin America* (1991) Vol. 8; and Sáenz Rovner, E. 'Industriales, Proteccionismo y Política en Colombia: Intereses, Conflctos y Violencia' in *Historia Crítica* (1990) No. 3, p. 98.

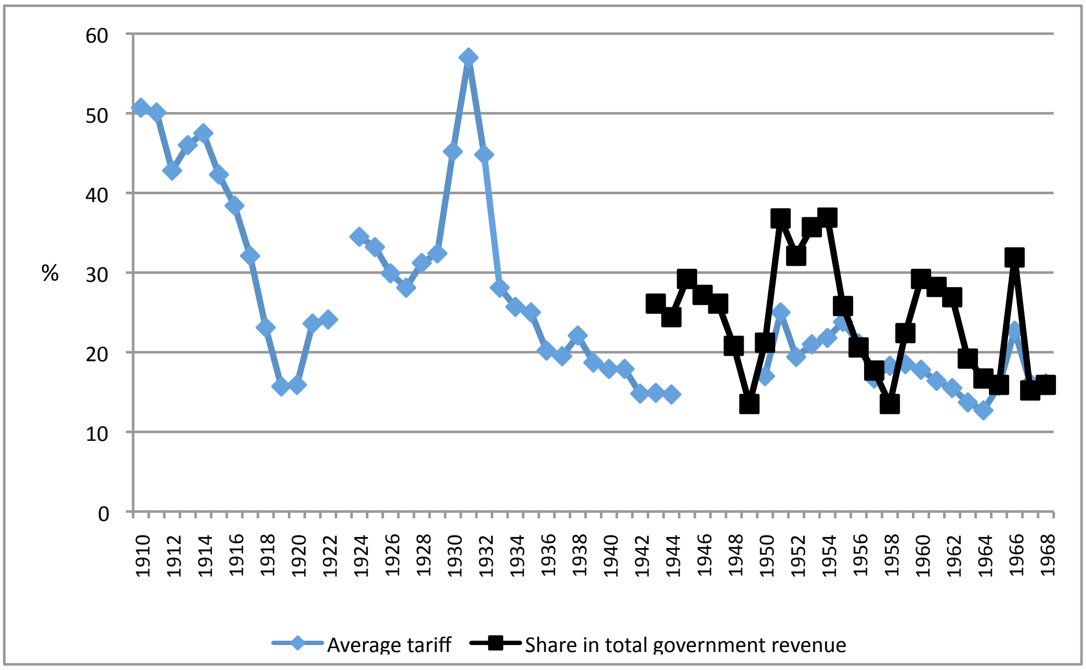
[65]Coatsworth, J. and Williamson, J. 'Always Protectionist? Latin American Tariffs from Independence to the Great Depression' in *Journal of Latin American Studies* (2004) Vol. 36, No. 2, p. 211; and Coatsworth, J. and Williamson, J. 'The Roots of Latin American Protectionism: Looking Before the Great Depression' in Estevadeordal, A., Rodrik, D., Taylor, A. and Velasco, A. *Integrating the Americas: FTAA and Beyond* (2004) p. 42.

[66]Safford, J. 'The Emergence...' p. 59.

[67]Esguerra, P. and Villar, L. 'El Comercio Exterior Colombiano en el Siglo XX' (2005) pp. 4–5.

[68]Bulmer-Thomas, V. 'The Economic...' p. 69. In fact, only second to Haiti by a small difference, but far from the levels of similar-sized economies.

Figure 3.1: Colombia: Evolution of Tariff Rates & Fiscal Yields, 1924–68 (percentages)



Source & Note: Data for series on government revenue from Perry, G. (1978) Table IX-1. Data for average tariff rates from Cárdenas, M. (1997) Statistical appendix 2, and Montenegro, S. and Ocampo, J.A. (2007) p. 359. Share of government revenue is the ratio of import duties collected as percentage of central government tax revenues.

surpluses.[69] In other words, Colombia's apparent commercial-protectionist profile emerged out of necessity rather than volition. Free trade, in circumstances like those of the late-nineteenth century- and large part of the twentieth — was a luxury that could not be afforded.[70]

As stated above, enduring high tariffs were not first introduced after the Great Depression or some time thereafter. Historically, the high tariff levels of the nineteenth century continued up until the early 1910s, and on average stood at 50% of the total value of imports. During WWI, the rates declined massively and though by the mid-1920s they rose up again, they stabilised significantly below their pre-war levels. The Depression only forced a temporary peak in rates, but did nothing to counter the most important trend of

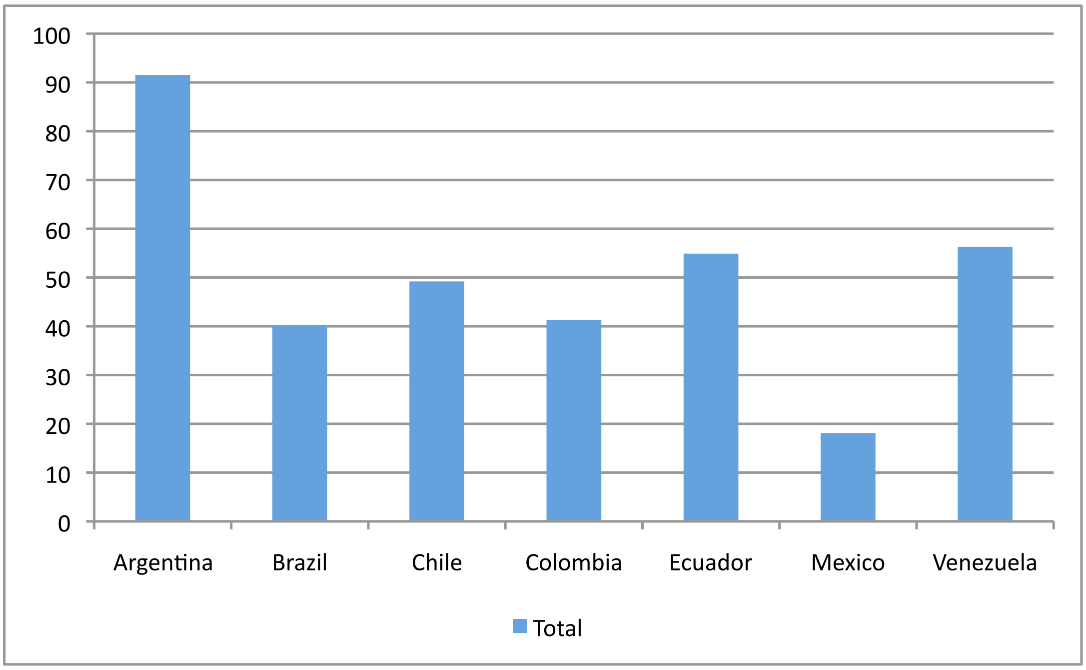
[69] Esguerra, P. and Villar, L. 'El Comercio...' pp. 3–5.
[70] For a good study on free trade as a policy that poor nations cannot afford, see; Reinert, E. 'How Rich Countries Got Rich and Why Poor Countries Stay Poor' (2007).

the whole period, a gradual reduction that by the mid-1960s was less than half the rate of the 1920s (see Figure 3.1).[71] Further, effective protection, which takes into account the effects of tariffs levied on raw materials and intermediate goods, suggest Colombia was a moderately 'protected' economy. According to Wogart, manufacturing effective protection rates for the late 1960s stood at 29.2%, which is well below the Argentinian (162%) and Brazilian (118%) levels.[72] Ocampo reinforces this view, stating: "... effective protection in Colombian manufacturing was, in fact, relatively low by Third World standards...[the] structure was more akin to that of a small open economy than to a large import-substituting country."[73] It is undeniable that fiscal tariffs can have a protectionist impact even if this is not the objective; but that tariff rates were driven by fiscal imperatives is substantiated by the evident association between the major recalibrations the rates underwent in 1950, 1959 and 1964, and the concomitant spikes in their share of total government revenue, as observed in Figure 3.1. A more comprehensive assessment of the extent to which Colombia was a protected economy demands regional comparisons.

A study conducted by CEPAL allows tentative comparisons regarding restrictions of imports across Latin America for the late 1950s. Specifically, the incidence of import duties and other duties or charges of equivalent effect on the value of imports, including prior deposits,[74] were calculated. The results (Figure 3.2) suggest different groupings. In a class of its own is Argentina with a total arithmetic mean averaging 91.5%, followed by Ecuador and Venezuela with incidences of around 55%. Chile, Colombia and Brazil constitute a third group in the 40% to 50% range, and last is Mexico exhibiting a remarkably low rate of 18.1%. Does this mean that Argentina's economy was the most protectionist, Mexico's the least, whilst Colombia's was somewhere in the middle? Definitively not. Aspects such as the level of exemptions and difficult to quantify mechanisms to check imports, such as bans and prior permits, as well as the effects of over- and under-valued exchange rates must be taken into consideration for a comprehensive assessment. CEPAL calculated the scale of exemptions from custom duties for 1959 by obtaining the proportion between the weighted average of theoretical incidence of duties and the approximate average of

[71] This not to say, that overall, protectionism declined concomitantly, for this says nothing about non-tariff barriers.
[72] Wogart, J. 'Industrialization in Colombia' (1978) p. 32.
[73] Ocampo, J. A. 'The Transition...' (1991) p. 236.
[74] Except for the Chilean case.

Figure 3.2: Latin America: Incidence of Custom Duties & Other Charges, 1956–59 (On Import values, c.i.f. — Percentages)



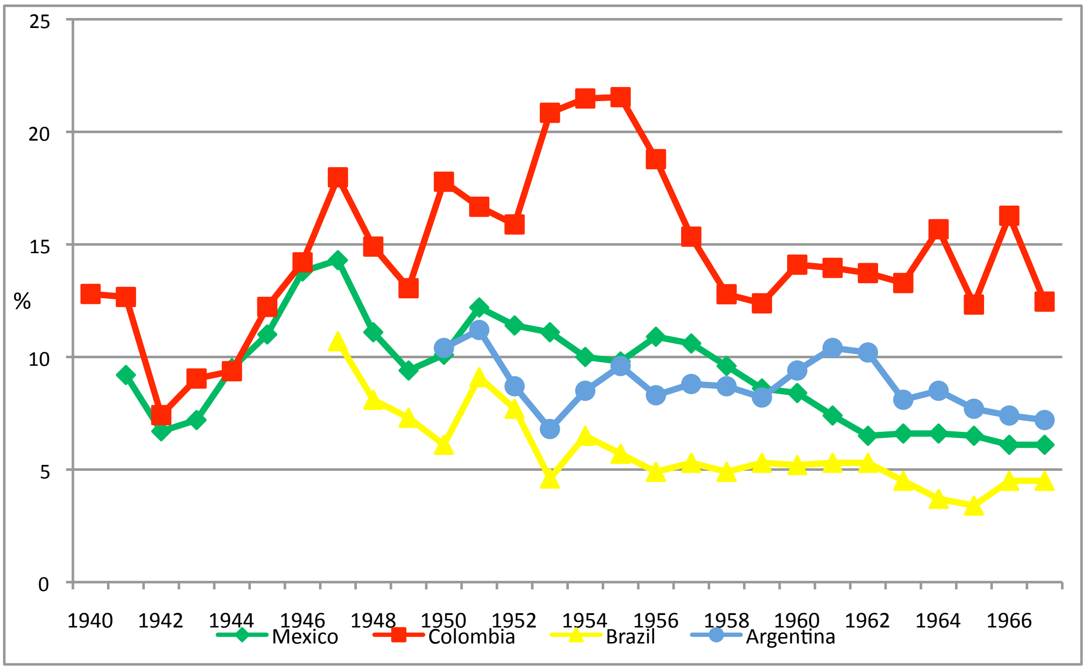
Source: United Nations (1962) p. 117. See more details in Table A.3.2.

their actual incidence. In this respect, Ecuador appears as an effective enforcer with 90% as the proportion between the actual and theoretical incidence, followed by Mexico (70%), Argentina (61%) and Venezuela (55–60%). Brazil and Colombia had less than half of the expected revenue (48%), whilst Chile exhibits the lowest actual incidence (39%).[75] Further, given that Mexico preferred the extensive use of permits over tariffs as a means of controlling imports[76] and Chile imposed prohibitive demands on imports via prior deposits and additional taxes[77]; Colombia's protectionist profile looks rather moderate.[78] Though the issue of exchange rates is dealt with below, it is worth noting that adjustments on the level of import duties due to this variable entailed significant increases for Argentina and modest ones for Brazil.[79] Summarising, in a regional perspective, Colombia's relatively

[75] United Nations. 'Multinational Economic Cooperation in Latin America' (1962) p. 120.
[76] Applied to some 60% of imports; see United Nations. 'Multinational...' p. 115.
[77] United Nations. 'Multinational...' p. 115.
[78] Brazil, for its part, prominently favoured the system of exchange controls as a brake on imports; see United Nations. 'Multinational...' p. 115.
[79] United Nations. 'Multinational...' pp. 112, 115.

moderate use of both quantitative and qualitative barriers to imports, combined with generous exemptions on her import duties and apparently modest distortions in the exchange rate point to a reasonably open economy. More comparisons are needed to corroborate this interpretation, however.

Figure 3.3: Colombia in Latin America: Economic Openness, 1940–67 (Imports as Percentage of GDP — Constant Prices)



Sources: For Argentina data from CEPAL (2009), Brazil from Studart, R. (1995), Colombia from GRECO (2002), and Mexico from Moreno-Brid, J. C. and Ros , J. (2009). See more details in Table A.3.3.

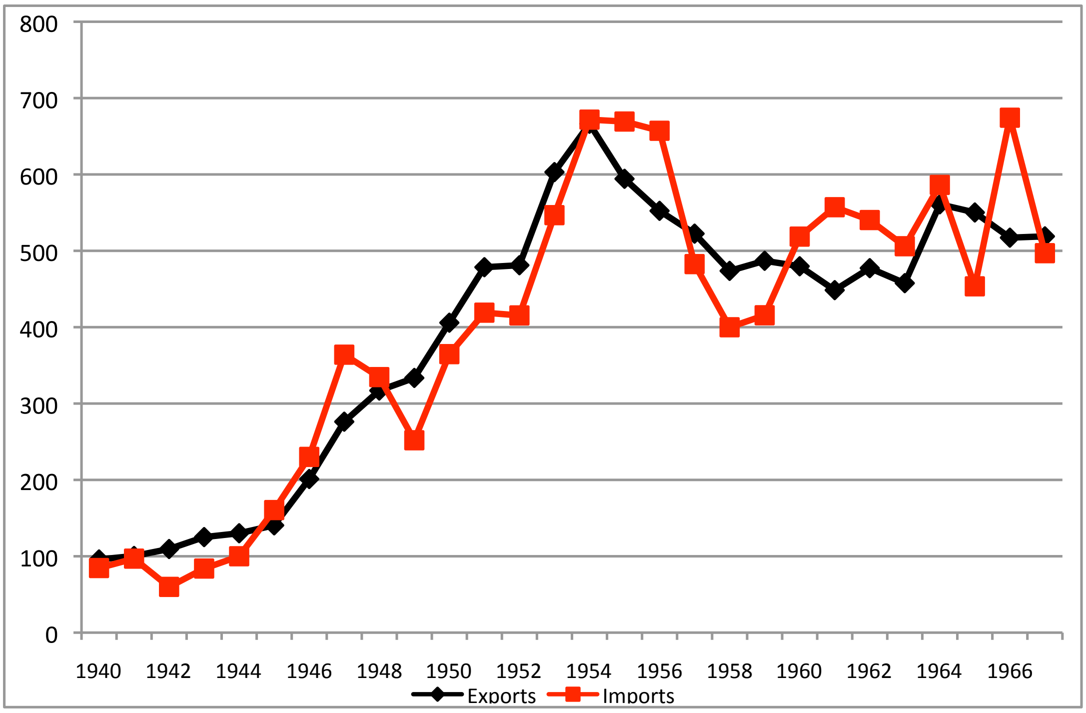
A comparative exercise throughout the 'classical' ISI period, say from the late 1930s to the late 1960s, rather than the snapshot of the late 1950s offered above, informs best the attitudes of different nations regarding their relation to the world economy. Given data limitations and the scope of this study, attempts to cover each and every mechanism used as barrier to importing are not made. Instead, an aggregate indicator, real imports to GDP, is used. An important advantage of this indicator is that it captures, indirectly, the effects of all the aforementioned tariff and non-tariff barriers to trade by presenting the outcomes or results of using such mechanisms. Utilising this indicator as a proxy for economic openness, the Colombian experience should be considered as distinct from that of other large countries more committed to ISI, namely, Argentina, Brazil and Mexico.[80]

Figure 3.3 invites three observations. First, in absolute terms, with imports representing nearly 15% of GDP, Colombia was the most open economy for the period as a whole. With imports/GDP proportions of 9.9%, 8.7% and 6.3% respectively, Mexico, Argentina and Brazil were considerably less 'open'. Secondly, for the period as a whole, the imports to GDP coefficient shows basically a trendless pattern, or at best, a very marginal upward tendency — if one is to compare the 1940–41 levels with the mid-1960s ones, of 13% and 14%, respectively. The stories for Mexico and Brazil are starkly different, since they show a clear downward trend from around 14% and 7% in the post war years to around 10% and 5% by 1967–68, respectively. Argentina, in turn, though less clearly, also sees its pre-war levels of 15% slashed to 7% by the end of the period. That is to say, whilst Argentina, Brazil and Mexico 'closed' their economies by some 50% Colombia did so by only 20%, despite remaining in absolute terms the most open to foreign goods and services. Lastly, Colombia displays the most volatility of the series, suggesting it could have been most prone to having to curtail imports to alleviate balance of payments problems. In short, Colombia did not close its economy to the same extent as other ISI-followers. Even more, it is likely that apparent economic closure, when it occurred in the case of Colombia, was more due to necessity than political choice or ideology, as will be shown below.

The post-war era is well known for being characterised by a 'dollar shortage' for many countries: Colombia was no exception. There was no 'Marshall Plan' for Latin America. International finance flowed mainly to Europe, and Latin American governments and firms had to wait until the 1970s boom for substantial access to world capital markets. Multilateral banking institutions, especially the International Bank for Reconstruction and Development (IBRD), and from the late 1950s the Inter-American Development Bank (IDB), provided loans to Latin American governments — mainly for targeted infrastructure projects, however. In this context, Colombia's external indebtedness (the majority of which

[80] Data for a larger sample and the representativeness of other cases render the use of these three countries the most appropriate comparison. Complete series for Chile and Uruguay since the late 1930s were not found, for instance. Peru, a good case for comparison given similarities in geography, size, population and stage of economic development pursued export-led growth, at least until the late 1960s. Venezuela's unique position, as an oil-rent economy also makes the comparison problematic.

Figure 3.4: Colombia: Evolution of Foreign Trade, 1940–67 (Current US$ Millions)



Source: GRECO (2002).

was public debt), measured as a percentage of GDP, declined markedly from around 30% in the late 1930s to about 6% in the mid-1940s and remained below 10% up until 1961, when it picked up again, but remained far below pre-war levels.[81] With only limited recourse to financing abroad, Colombia could only import what her export capacity allowed. As seen from Figure 3.4, exports and imports expanded unprecedentedly from 1940 to 1954; an expansion underwritten by the phenomenal increase of coffee prices in world markets — which peaked on 1954 — and gradual growth in the export quantum.[82] When the price of coffee dropped later that year, so did trade levels, which by 1959 meant exports had fallen by around 30% and imports by 40%. Import levels were a mirror of export performance, particularly in a country in which like nowhere else, a single commodity made for more

[81] See Avella, M. 'El Acceso de Colombia al Financiamiento Externo en el Siglo XX' in Robinson , J. and Urrutia, M. (Eds) *Economía Colombiana del Siglo XX* (2007) p. 528, Figure 3.5.
[82] See Figure A.3.1 and Table A.3.5.

than 75% of total exports.[83] Over-reliance on coffee made the evolution of the price of the bean in foreign markets central to the economy. If coffee prices collapsed, with a small time lag, so did imports and with it customs revenue declined. Internal demand also suffered from a fall in coffee incomes and naturally, foreign exchange ran short.[84] The reverse effects occurred with hikes in prices. A major issue of this structural dependence on coffee was potential macroeconomic volatility and reactive and remedial policy responses.

Examining the relationship between commodities and economic growth between 1870 and 1939, Blattman et al. found that Colombia exhibited the highest volatility of terms of trade among a sample of 35 countries and that the commodity with the maximum price volatility was coffee.[85] Though the period addressed in this chapter falls outside the one just featured, it is reasonable to sustain that a marked departure from that pattern was unlikely for the 1940–64 period for two reasons. First, between 1920 and 1939, which borders the start of this thesis, coffee remained a volatile commodity, ranking third behind only tobacco and wool,[86] and in Colombia the share of coffee exports in the total grew further still, rendering the country more exposed. Secondly, the structure of world supply did not alter significantly with Brazil's production and management of stocks having a major impact on international prices. Colombia remained a price-taker; at least until the establishment of the International Coffee Organisation in 1963 and the emergence of coffee agreements, which were designed to reduce volatility. Colombia's terms of trade experienced two clear trends in the period: an upward trend between 1940 and 1954 and a descent one from then on up to 1966.[87] Year-to-year there were abrupt fluctuations, such as the hikes of 1941, 1950, 1954 and 1964 when prices increased by more than 20%; often followed by plunges of similar proportions, as registered in 1952, 1958–59 and 1966. Policy could only react to such fluctuations, which given the economy's strong commitment to coffee exports, amounted to economic shocks. In short, volatility in coffee

[83] Colombia's dependence on coffee in its export matrix compared only to the levels exhibited by Venezuela's oil. See Figure A.3.2 for the export matrix.

[84] For an excellent review of the transmission mechanisms of coffee cycles on the economy; see Ocampo, J. A. 'Ciclo Cafetero y Comportamiento Macroeconómico en Colombia, 1940–87' in *Coyuntura Económica* (1989) Vol. 19, No. 3, and No. 4.

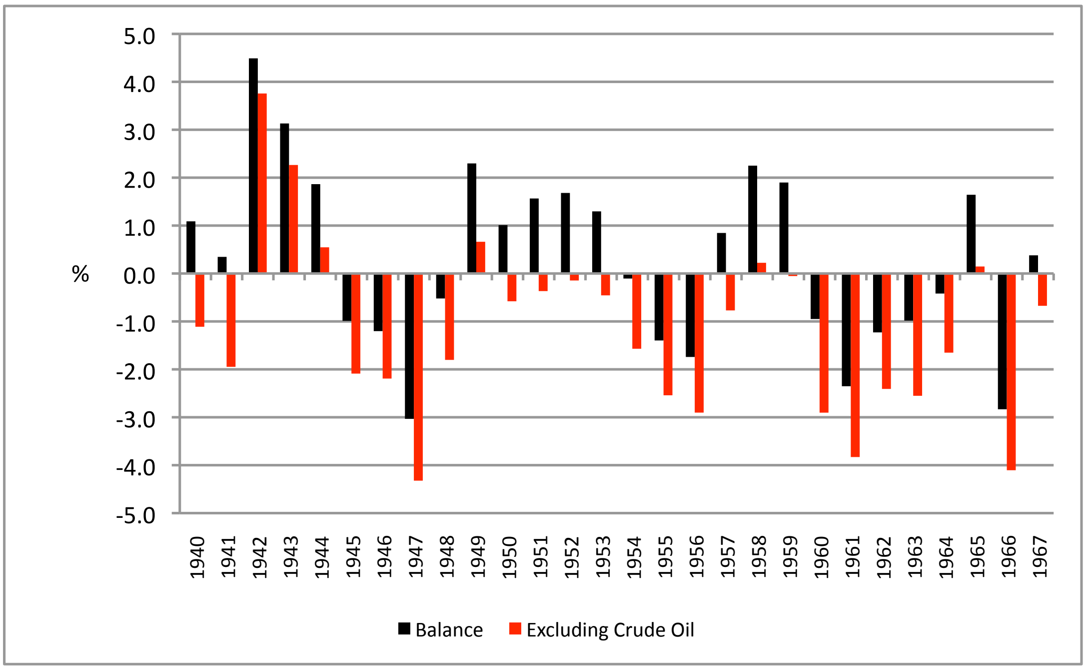
[85] Other commodities include: tobacco, wool, cotton, rubber, iron, wheat and sugar. See Blattman, C., Hwang, J. and Williamson, J. 'Winners and Losers in the Commodity Lottery: The Impact of Terms of Trade Growth and Volatility in the Periphery, 1870–1939' in *Journal of Development Economics* (2007) No. 82.

[86] Blattman, C. and Hwang, J. 'Winners...' p. 164.

[87] See Table A.3.7.

prices made the economy ever more vulnerable in the context of a 'dollar-shortage' era with limited access to foreign borrowing.

Figure 3.5: Colombia: Foreign trade, 1940–67 (Trade balances as percentage of GDP)



Source: Banco de la República (BRep). Informe Anual del Gerente a la Junta Directiva [IAGJD] and GRECO (2002) various years. Calculations based on nominal US $ dollars.

This fundamental trait of foreign trade and its direct effects on the domestic economy made policy-makers aware of the situation in the balance of payments and inspired a wide range of mechanisms to address it. Yet the above-mentioned increases in both the price and the volume of coffee exports from 1940 to 1954 did not make for a comfortable position in the trade balance. Data collected by the CB, which until 1955 made a distinction on the balance of foreign trade with and without crude oil (which was foreign and so required large sums of hard currency), reveals a weak position. As seen in Figure 3.5, trade deficits, as proportion of GDP, surpassed two percentage points in 1945–47, 1955–56, 1960–63 and 1966; displaying negative signs for another 11 years. This quasi-chronic difficulty in the balance of payments drove the imposition of restrictions to imports, not the intrinsic desire of policy-makers to protect and promote national industry, as alleged by most conventional interpretations.

The general manager of the Banco de la República noted in his Annual Report to the Board of Directors in 1949: "...with a view to counter the large decline in international reserves, the monetary authorities have given special attention to external trade... resorting to severe measures on imports, limiting them to the essentials..."[88] Measures were taken to harmonise import necessities with possible foreign exchange inflows, he added.[89] Restating the obvious amidst the crisis of 1955–56, another manager wrote: "the dive in coffee quotes affected our import capacity that so much depends upon the relation of trade prices."[90] Conversely, in the peak year of the coffee boom (1954) a favourable environment was captured: "truly notable has been the improvement in the value of exports and the consequent rise of our imports. As a result the measures that regulate foreign commerce passed from the rigid import controls of 1950 to the liberty decreed on February 1954, by which the list of articles of prohibited importation was suppressed, a vestige of old norms enacted to defend balance of payments."[91] Accordingly, years of modest surpluses, such as 1950, also called for caution: "after periods of adverse trade balances... this positive figure is the result of healthy commerce, like the one an increase in exports and a prudent policy of imports, taken the country to reach relative largesse in trade balance."[92]

The foreign press noted and commented these movements. Evidence of a rather liberal stance to foreign products in good times is provided by the New York Times: "last summer [1954] with coffee prices high and dollars flooding in, virtually all restrictions on imports were removed..."[93] "An analysis of last year's economy must look back to May 1954, when Government opened the door to all sorts of imports."[94] Coffee prices collapsed soon after, as reported by the same daily on October 1954: "The Council of Ministers met today to approve an executive decree restricting imports to save dollar reserves in the light of

[88] Banco de la República. (BRep) 'Informe del Gerente a la Junta Directiva'[IAGJD] 1948–49, p. 53.
[89] BRep. IAGJD, 1948–49, p. 57.
[90] BRep. IAGJD, 1955–56, p. 108.
[91] BRep. IAGJD, 1953–54, p. 112.
[92] BRep. IAGJD, 1949–50, p. 76.
[93] New York Times, 2 February, 1955.
[94] New York Times, 5 January, 1956.

dropping coffee prices."[95] The newspaper also noted the transitory nature of the measures: "Foreign exchange control officials said the ban was a result of a temporary shortage of dollar exchange... they said that as dollars became available again the ban would be eased..."[96] So were government's intentions to end restrictions whenever possible, quoting the Treasury Minister on December that year: "...the Colombian Exchange Office had been directed to proceed at once approving all pending applications for dollar exchange licenses... [and] to continue granting new applications for such licenses without any delay whatsoever..."[97] Official will notwithstanding, adverse conditions prevailing in coffee markets and conditionalities on foreign loans advanced to Colombia to pay off a backlog of unpaid accumulated bills on exported goods from the US, made further curbs on imports necessary. The measures, as reported by the New York Times, included limiting imports from the US to a specific monthly amount,[98] reclassifying imports into more or less expensive dollar brackets, placing surcharges on some items, [99] declaring prohibition on hundreds of imports[100] and increasing the deposits on import licenses.[101]

To reiterate, qualitative evidence coming from the official views of the directorship of the CB (endowed with substantial autonomy from government up until 1963) and from the coverage of the US press, do not indicate that Colombia's commercial policy was inherently protectionist, nor that the prime aim was to promote the development of national industries at the expense of imports. On the contrary, and in line with the quantitative evidence presented above, the chronic position of the external accounts — defined largely by the fate of coffee in world markets — dictated the general economic context and external constraints that governments had to deal with. In this environment, policy-makers made pragmatic choices about how to deal with crises and about what mechanisms to deploy to address them. In other words, the political choices relating to 'protectionism' in this period seemed to be about the ways of handling crises that made import curtailments essential, rather than a preference for autarky per se. The intentions

[95]New York Times, 22 October, 1954.
[96]New York Times, 22 October, 1954.
[97]New York Times, 23 December, 1954.
[98]New York Times, 28 June, 1956.
[99]New York Times, 24 March, 1956.
[100]New York Times, 2 November, 1956.
[101]New York Times, 16 April, 1956.

of the state in these years tipped more towards liberalising trade, but its praxis became more how best to curb imports.

Colombian authorities, then, repressed imports using a variety of means amongst which four prevailed: tariffs, prior deposits, the import exchange-rate, and import licensing. A respected scholar, Diaz-Alejandro, studied the issue and noted the reasons why the authorities did not rely on just one mechanism, putting the instability of the world coffee market and the consequent burden of the adjustments at the centre of the explanation.[102] For instance, relying on a flexible exchange rate without a licensing mechanism would have meant sharp sudden drops in coffee prices leading to devaluation and hikes to appreciation. Further, "the shifting of resources in and out of the import-competing and export sectors would have unfavourable effects on welfare... and asymmetrical reactions to devaluation and appreciation would also impart an inflationary basis to the economy."[103] Therefore, the apparent 'activism' of the authorities to restrict imports was the result of a pressing need to spread the adjustment of volatile and uncertain export markets, not eagerness to protect domestic producers from external competition by all means imaginable. A series of studies on foreign trade and economic development by the National Bureau of Economic Research, comparing ten developing countries from the late 1940s to the early 1970s confirms Colombia's singular economic-policy instability, as reflected in the number of exchange control regimes it underwent.[104] In a twenty-year period running from 1948 to 1968 Colombia exhibits 10 regimes. In similar time frames, Turkey[105] and the Philippines[106] displayed seven each, India[107] six, and Chile,[108] Ghana[109] and South Korea[110] five.

More tellingly, serious attempts made at liberalising trade materialised late in 1953 and early 1954,[111] for example, the prohibited import list was eliminated. However, these

[102] Diaz-Alejandro, C. 'Foreign Trade...' p. 97.
[103] Diaz-Alejandro, C. 'Foreign Trade...' p. 97.
[104] For the classification of exchange regimes and the features that define them, see for instance; Bhagwati, J. and Srinivasan, T. N. 'India: Foreign Trade Regimes and Economic Development' (1975).
[105] Krueger, A. 'Foreign Trade Regimes and Economic Development: Turkey' (1974).
[106] Baldwin, R. 'Foreign Trade Regimes and Economic Development: The Philippines' (1975).
[107] Bhagwati, J. And Srinivasan, T. N. 'India...' (1975).
[108] Behrman, J. 'Foreign Trade Regimes and Economic Development: Chile' (1976).
[109] Clark, L. 'Foreign Trade Regimes and Economic Development: Ghana' (1974).
[110] Frank, C. 'Foreign Trade Regimes and Economic Development: South Korea' (1975).
[111] Díaz-Alejandro, C. 'Foreign Trade...' p. 18.

were short-lived, as the collapse in coffee prices that ensued forced the reversal of the measures later on that year. Similarly, the full liberalisation of the trade regime pursued by León Valencia at the end of his administration in 1965–66 and which was at first continued under the presidency of Lleras Restrepo, came to a crashing end in November 1966, as foreign exchange reserves declined in the context of a very unfavourable position in the trade account and the reluctance of the new government to devaluate the currency. Efforts at trade liberalisation in the 1950s and 1960s constitute sound evidence for the proposition that the role and intentions of the state in Colombia's late-industrialisation, was substantially different from the standard accounts, which emphasise governments committed to a state-led ISI, and which place protectionism as a preferred political choice. Instead, the newly emerging picture is one of governments resorting to 'protectionist' measures as a way to counter external shocks.

According to Martínez there were three key tariff reforms during the period: those of 1950, 1959 and 1964.[112] Not one of the reforms seems to have been carried out for the sole purpose of sheltering targeted industrial sectors in the wider framework of an ISI strategy. The first reform roughly doubled effective rates of protection, making for a mixed system of ad valorem and specific duties and revising exchange restrictions, but the motivation behind it was far from being unambiguously a pro-protectionist stance of manufacturing from government: there were competing considerations, as noted by Banco de la República's general manager. He highlighted the precarious support that the tariff offered to domestic industry, given that since 1931 price increases had eroded the protectionist power of tariffs, and a notable reduction in the ordinary revenues of the state by means of customs, which had declined from 42% in 1931 to 22% in 1949 (as share of total government income); an outdated nomenclature that lacked precision and remained incomplete, and finally; the convenience of raising tariffs with a view to improving bargaining positions in trade agreements, especially relevant since the Annecy Agreement had ended the previous commercial accord between Colombia and the US.[113] Of these alternative causes, the deleterious consequences of inflation on tariffs had been noticed by Hernán Jaramillo Ocampo, the Minister of Finance implementing the reform,

[112] Martínez, A. 'La Estructura Arancelaria y las Estrategias de Industrialización en Colombia, 1950–82' (1986).
[113] BRep. 'IAGJD' (1950–51) pp. 186–87.

who argued: "[its] negative effect is easier to appreciate if we consider that custom duties representing 22.3% of the value of imports in 1936 had declined to 10.3 by 1947; a loss in protectionist power of more than 50%."[114]

Similarly, Bejarano calculated that owing to inflation the effective average level of protection that the 1931 tariff reform had bestowed industry with, had been trimmed from 30% in that year to 8% in 1948.[115] On the issue of customs and public revenue, Antonio García, a prominent economist, declared: "[the tariff system] is not a system for the promotion of development but a mechanism of providing the state with fiscal powers and undeserved profits to a group of entrepreneurs."[116] Reinforcing this link, a foreign mission to Colombia in the early 1960s, noted at a more general level, that: "When revenues fall, drastic revisions in the tariff schedules are often enacted to restore the yield, but usually after a considerable time lag."[117] Interestingly, Ocampo too observes the recurrence of time lags, between the reform of the tariff system of 1950 and the 1948 foreign exchange crisis (see above), which "was only decreed two years later in 1950".[118] Referring to the tariff reform of 1959, Martínez stresses that, though President Lleras Camargo sought to apportion for tariffs a stronger role in protectionist goals, the policy ultimately aimed at the control and rationing of foreign exchange and only in subsidiary manner at industrial sheltering.[119] In short, the tariff reforms that Colombia implemented during the 1950s and 1960s were hardly the product of a distinct and resolute state-led strategy of ISI. On the contrary, on the main, they seem to be a reaction to various pressing circumstances, such as tax collection, foreign exchange scarcity and related balance of payments crises.

Beyond tariffs, other tools that were utilised to deal with adverse internal and external conditions, whilst directly affecting the trade regime, often ended up having little to do with protecting manufacturing interests. For example, Wogart sustains, that: "... the frequent changes in relaxing and introducing [import] controls seem to indicate that the primary nature of policy actions lay more in adjusting demand for foreign goods

[114] Jaramillo Ocampo, H. 'De la Unidad Nacional a la Hegemonía Conservadora, 1946–1950' (1980) p. 361.
[115] Cited in GRECO. 'El Crecimiento...' p. 391, fn. 27
[116] Cited in Sáenz-Rovner, E. 'Colombia Años 50: Industriales Política y Diplomacia' (2002) pp. 157–58.
[117] Organization of American States. Fiscal Survey of Colombia: A Report Prepared under the Direction of the Joint Tax Program OAS/IDB, 1965, p. 148.
[118] Ocampo, J.A. 'Ciclo...' p. 157.
[119] Martinez, A. 'La Estructura...' pp. 31–33, 89.

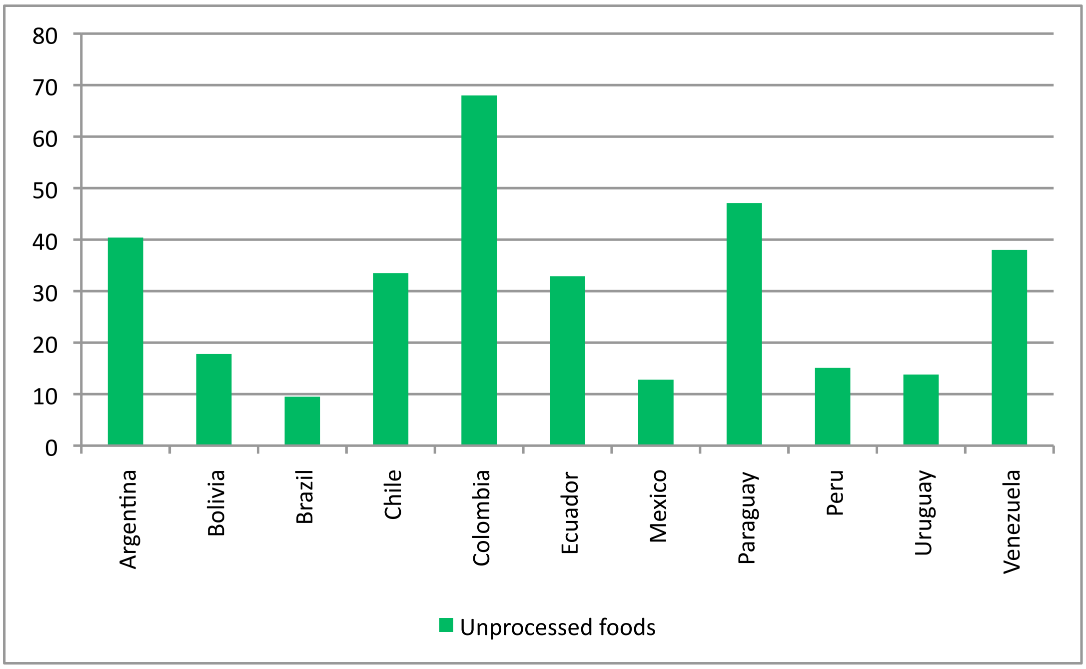
to the limited and fluctuating capacity to import, which was determined by Colombia's export performance and the inflow of foreign private and (especially) public capital."[120] Likewise, prior deposit for imports, which are often described as another weapon in the arsenal of pro-ISI measures aimed at repressing imports, initiated in 1951 at the modest rate of 10% of the declared import value, became after 1957 a de facto tool of monetary policy.[121] Diaz-Alejandro shows that expressed as a proportion of total domestic credit, sums advanced as prior deposits rose from 2.9% in 1952 to 16% in 1960.[122]

Summarising and related to the point on tariff reforms, it is reasonable to argue that the use of a wide range of policy instruments to curb and/or liberalise foreign trade in mid-twentieth century Colombia owed little to the will or strategic economic preferences of policy-making elites, and more to the shifts in fiscal, external and internal economic circumstances of a relatively poor developing country. In this context, policies designed to manage foreign trade cannot possibly be interpreted as serving the goal of industrialisation via the substitution of imports under the aegis of the state. At best, these policies constituted a varied and often contradictory set of broader motivations. The Fiscal Mission to Colombia puts it like this: "Control over foreign trade is exercised by means of import and export prohibitions, quotas, advance licensing requirements and various other foreign exchange and administrative regulations. These are motivated by the following *explicit* goals: to provide revenues, to protect and develop domestic industry, to conserve foreign exchange and to promote domestic price stability [italics added]."[123]

Another significant issue derived from this last point is that several motivations implied various policy mechanisms, and clashes among institutional actors, all of which would have further constrained efforts to implement a full-scale ISI strategy. An insight worth quoting at length, presented by the Fiscal Mission, which reported: "Conflict between these various goals necessary results... Many agencies other than the Customs Division have responsibilities for administering various aspects of tariff policy. These include the

[120] Wogart, J. 'Industrialization...' p. 28.
[121] Alviar, O. 'Instrumentos de Dirección Monetaria en Colombia' (1967) p. 127. For a complete discussion of the mechanism and its evolution see the same work pp. 127–37. Alviar treats prior deposits for imports as a standard tool of monetary and credit polices at the disposal of the authorities.
[122] Diaz-Alejandro, C. 'Foreign...' p. 113.
[123] Organization of American States. Fiscal Survey of Colombia: A Report Prepared under the Direction of the Joint Tax Program OAS/IDB, 1965, p. 148.

Figure 3.6: Latin America: Agricultural Protectionism, 1940–67 (Total Value of Imports — Percentages)



Source and Note: UN (1962) p. 117. Value of custom duties & other duties on value of imports (c.i.f.) See also Table A.3.6.

Council on Tariff Policy, the Import Control Agency, the consulates abroad and the Office of Exchange Registry. In addition, in the broader framework of foreign trade policy, there are the Ministries of Agriculture and Development, and The Council on Economic Policy and Planning. The Colombian Ports Authority administers the taxes on navigation and shipping... The administration of foreign trade policy, including customs, appears exceedingly complex. There are multiple duties on single items in the tariff list, and the import and export regulations include import licensing, import prohibitions, quotas, exemptions and exchange regulations. There are many agencies not counting legislative committees, which make and administer tariffs and trade policies."[124] Such administrative decentralisation and fragmentation must have hindered the state's capacity to execute and achieve any intended policy goals.[125]

[124]Organization of American States. Fiscal Survey of Colombia: A Report Prepared under the Direction of the Joint Tax Program OAS/IDB, 1965, pp. 149–50.
[125]The Fiscal Mission also observed that economic effects of tariffs were not the intended ones in terms of regressiveness, interpersonal equity, contraband and overall levels.

Finally, a vital yet completely overlooked issue in the political economy of protectionism, which the traditional literature exclusively associates with manufacturing, is the use of tariffs to protect agricultural producers. Tariff-based sheltering of agriculture in Colombia was distinct: first because agricultural protection rates were conspicuously high and because these made the country in comparative terms a much smaller importer of agricultural products than the rest of the region. As seen in Figure 3.6, Colombia's incidence of custom duties and charges of equivalent effects on unprocessed foodstuffs was the highest among the 11 economies surveyed, with 68% imposed on the value of imports. A distant second place for another 'ISI nation' was Argentina, which levied duties at 40.4%, whilst Brazil, Mexico and Uruguay imposed substantially lower rates — 9.5%, 12.8% and 13.8% respectively. The CEPAL study, calculating these data concluded: "Only one of the countries under discussion — Colombia — levies on its imports of unprocessed foodstuffs duties and charges that are high in comparison with those levied on nearly all other groups of products, as part of a protectionist policy and as an incentive to domestic production."[126] Such policy practices of import-substituting agriculture for mid-twentieth century Colombia, which is mostly unheard of in the literature, should have had negative effects on manufacturing, for high food prices limited the demand for industrial goods. This in stark contrast with other nations that favoured cheap food policies in order to broaden the market for manufactures.

Government publications, *memoir*s of key policy-makers and national development plans, hinted that, if the Colombian state was to intervene in the economy to promote economic growth, it would do so in a balanced or integrated manner.[127] That is, it would be for the benefit of the major economic sectors, in a rather distinct political economy. It was in this spirit that the National Plan of 1940 of President Santos was launched to tackle the problems of agriculture and livestock-farming as well as manufacturing.[128] Further, the enactment of policies geared specifically at promoting import substitution agriculture was well reflected in presidential speeches. For example, in his message to Congress in 1942, Santos stated: "...lacking, as we do, high purchasing power in external markets... it is imperative that we allocate ever lower shares of our foreign exchange to buy articles for

[126] United Nations. 'Multilateral...' p. 121.
[127] This point is discussed in Ch. 7.
[128] Ministerio de Economía Nacional. Informe, 1940, Vol. 1, pp. 45–50.

direct consumption, such as agricultural and manufacturing ones [that would be produced in the country. It is with this criterion in mind that government actions... established decreasing shares for the importation of certain agricultural products."[129] In similar tone, Mariano Ospina's Finance Minister explained to the press the scope of a set of economic measures enacted on 1950: "... the only appropriate treatment, stimulate the sources of production, developing vigorously industry and agriculture."[130] He justified the more protectionist regime created by the tariff reform of 1950 with the following statement: "We are protectionists to integrate and harmonise the apparently antagonistic interests of the two great sources of wealth on which the country splits: agriculture and industry."[131] Few in the existing literature have noticed this peculiarity of Colombia's political economy. Sáenz-Rovner is one of the exceptions, who writes: "he [President Ospina] conditioned protection to industrialists in so far as it did not affect the interest of agriculturalists and providing manufacturers were willing to utilise national raw materials in the making of their products."[132] The same author added: "Jaramillo Ocampo on his part ... reluctantly accepted the increase of tariffs for industrial products in 1950, a campaign in which ANDI had engaged for years."[133]

In light of the quantitative and qualitative evidence displayed above, and the country's particular political economy, it is only reasonable to see the pro-industry features of the 1950 tariff reform as a mere concession to the sector. It was not, however, one of many policies directed at promoting ISI. Neither the Conservative government of Ospina nor the Liberal administrations that preceded him or those that followed, supported industrialists in any systematic fashion. One concession to industry under the presidency of Ospina does not amount to, nor is it representative of, a long-lasting, serious commitment on the part of the Colombian state to ISI. Concession does not equal commitment. State support in other supposedly pro-manufacturing policy fields was equally timid, for example in such areas as, foreign exchange, direct pro-development policies and credit.

[129] Presidencia de la República. Declaraciones Presidenciales: Mensaje del Presidente de la República de Colombia al Congreso Nacional en sus Sesiones de 1941, 1942, Vol. 2, p. 143.
[130] Jaramillo Ocampo, H. 'De La Unidad...' p. 351.
[131] Jaramillo Ocampo, H. 'De La Unidad...' p. 362.
[132] Sáenz-Rovner, E. 'Industriales...' p. 94.
[133] Sáenz-Rovner, E. 'Colombia...' p. 141.

Exchange Rate and Inflation

Besides trade protectionism, the conventional literature singles out the pursuit of low exchange-rate levels as another fundamental in the state-led ISI strategy of the post war era. It is argued that the governments of ISI nations committed strongly to a policy of overvaluing their currencies to support domestic industrial development by means of cheaper imports of manufacturing inputs and capital goods.[134] Franko, for example, lists exchange rate overvaluation as a standard element in the 'ISI toolbox'.[135] In the Colombian case, representative of this literature is García, who sustains that: "Since the 1930s Colombia has tried to promote the industrial sector through tariffs, severe import restrictions or import prohibitions of certain goods, and an overvalued national currency. This policy continued until the late 1960s when exports were promoted and the overvaluation of the currency was reduced."[136] To accept this view in the Colombian experience, however, is misleading from a historical perspective. Four questions need be dealt with satisfactorily if interpretations like these are to be accepted. First, to what extent was currency appreciation a 'policy choice', that is, to what extent did government intervention effectively cause the peso to become stronger, or to what extent was currency appreciation due to factors beyond government control? Secondly, is there evidence to prove that appreciation was the intended policy of the governing elites? Is there evidence to the contrary? Thirdly, in comparative perspective with other 'ISI nations', by how much was Colombia's currency overvalued? Lastly, is it necessary to contextualise the policies adopted?

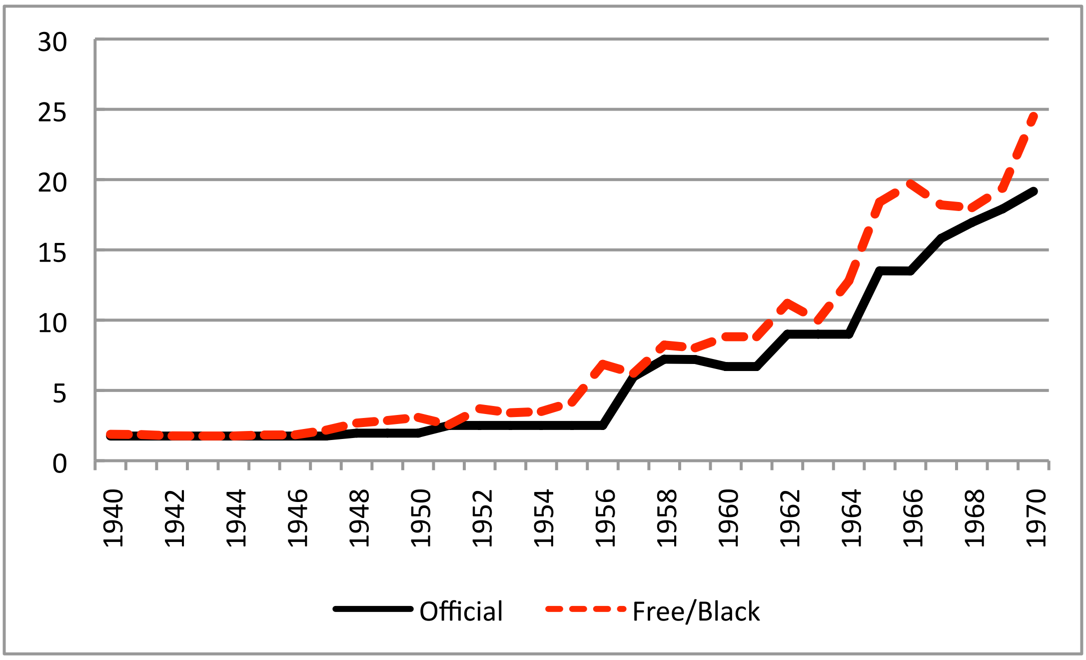
The starting point for answering these questions is to trace and examine the trajectory of exchange rates and exchange systems. With the abandonment of the gold standard, and the massive devaluation that accompanied it in the early 1930s, Colombia adopted a fixed exchange system until 1947. For the following two decades mixed multiple fixed rates and fluctuating rates for trade transactions and a fluctuating rate for financial transactions

[134]See Fishlow, A. 'Some Reflections on Comparative Latin American Economic Performance and Policy' (1987) p. 2, 11; and Cardoso, E. and Helwege, A. 'Latin America's...' p. 90.

[135]Franko, P. 'The Puzzle...' p. 68.

[136]García, J. 'The Effects of Exchange Rates and Commercial Policy on Agricultural Incentives in Colombia, 1953–78' (1981) p. 12; and García, J. and Montes, G. 'Trade, Exchange Rate and Agricultural Pricing Policies in Colombia' (1989) passim.

Figure 3.7: Nominal Exchange Rates: Colombia, 1940–67 (Pesos)



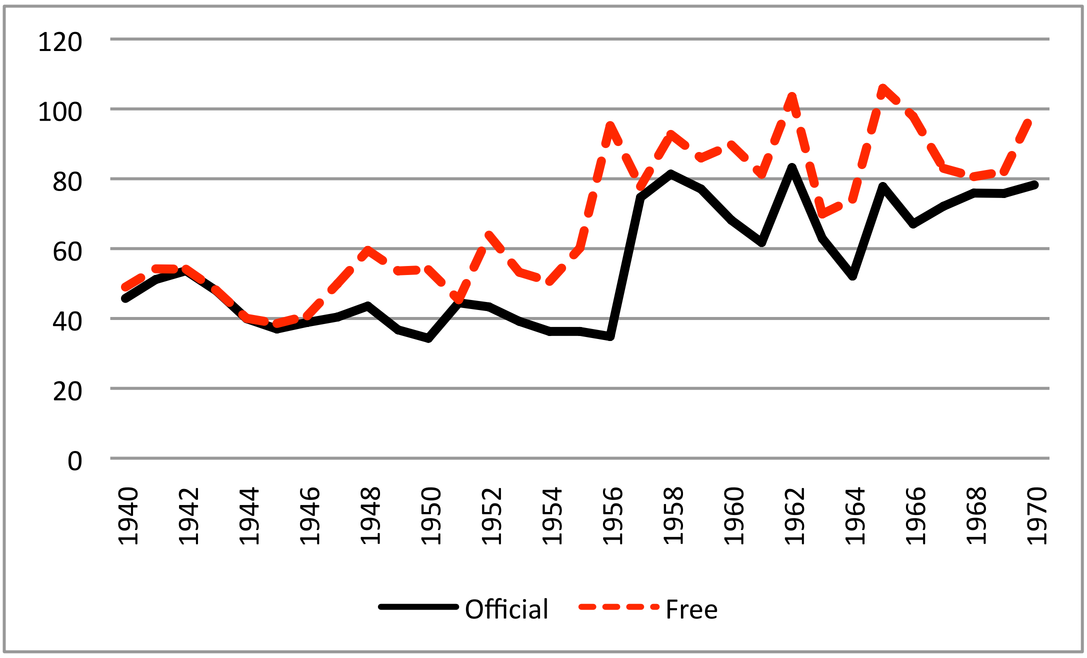
Sources: IMF. (1940–1970); Pick's Publishing Corporation (1963, 1971).

applied.[137] During this period maxi-devaluations were not uncommon. Generally, there were four rates of exchange: a basic rate for most imports and some exports, a freely fluctuating rate for capital transactions and non-traditional exports, and two rates for coffee and oil.[138] After 1967 these rates were combined with a crawling peg system with regular mini-devaluations, returning to the principle of a unique rate. Other 'ISI nations', such as Argentina, Brazil and Chile followed similar arrangements. A notable exception, however, was Mexico, which sustained a single fixed rate regime throughout the period. In general, a trend moving away from multiple fixed rates to single fluctuating ones began to take place after the late 1950s and early 1960s.[139] According to Thorp, "... the exchange rate was never overvalued to the degree it was elsewhere, and Colombia moved before

[137] Classification used in Schott, F. 'The Evolution of Latin American Exchange Rate Policies since World War II' (1959) p. 4.
[138] Ocampo, J. A. 'The Transition...' pp. 233–34.
[139] See Schott, F. 'The Evolution...' passim; and Konig, W. 'Multiple Exchange Rate Policies in Latin America' *Journal of Interamerican Studies* (1968) Vol. 10, pp. 35–52.

other countries in the direction of more reasonable and coherent foreign trade policies."[140] Yet an early move did not exempt it from the fact of currency appreciation.

Figure 3.8: Colombia Real Exchange Rates: Official & Free (Index of Rates — Free 1970=100)



Sources: Own calculations based on data from IMF (1940–1970); Pick's Publishing Corporation (1963, 1971) and OXLAD.

Most evidently, and as captured by the spread between the free and the official exchange rates, the overvaluation of the peso is indisputable. The difference between the basic selling rate and the black and/or fluctuating free rate widened decisively with the adoption of the multiple-fixed rates system in 1948, and reached particularly worrisome levels of 50% and above in the years 1950, 1955–56 and 1966. After the implementation of the crawling peg system in 1967, the spread tended to diminish but did not stabilise entirely as the last observation of the series shows in Figure 3.7. Further, the evolution of the real official exchange rate itself seems to confirm the case for overvaluation. From 1942 to 1956 this rate appreciated by about 30% (see Figure 3.8) and despite the correction of the maxi-devaluation of 1957, the peso regained strength and set another tendency towards

[140] Thorp, R. 'A Reappraisal...' p. 194.

appreciation for the 1958–64 period — with the exception of the year 1962. By 1964 the real official exchange level was virtually the same as that prevailing in 1942. This, in addition to the persistence of the above-mentioned spread and the use of differential rates, appears to support the argument that the state implemented a deliberate and conscious policy of currency overvaluation that created serious distortions in the external sector, which in turn harmed exports and the agrarian sector, all in its efforts to pursue ISI. Feasible, appealing and reasonable as they seem, these interpretations are short-sighted and historically misconstrued, as will be shown below.

By how much was the Colombian peso overvalued during the 'classic' period of ISI? The average of the spread between the official and the free exchange rates for the period 1940 to 1967 was 29%. This seems high, but when appropriate comparisons are made, and the peculiar circumstances of Colombia are considered, this degree of overvaluation in fact is rather modest. For example, Argentina's average for the same period stood well above Colombia's, at 42%, and that of Chile more than doubled at 62.6%. Brazil, on the other hand, which from 1953 to 1961 applied an auction rate system that practically eliminated the spreads, saw a not so dissimilar mean of 25% (see Figure A.3.3). These three countries, like Colombia, suffered repetitively from balance of payments problems, driving them to modify their exchange regimes and to carry out frequent devaluations. Unlike Colombia, however, all others experienced serious inflationary pressures. Further comparisons are complicated but illuminating. Venezuela, enjoying the foreign exchange abundance that oil exports provided, successfully maintained a system of multiple fixed rates with only one major devaluation. Mexico, benefiting handsomely from tourism receipts,[141] did not experience serious balance of payments problems and managed to maintain a single fixed rate system without resorting to major devaluations.[142] Relishing almost complete freedom of monetary transfers and convertibility into gold-backed US dollars, the Mexican system knew no black markets for foreign exchange.[143] Yet the Mexican peso is considered to have been overvalued. Villa-Issa sustains that by 1955 overvaluation stood at 33% and that the

[141] Konig, W. 'Multiple...' p. 49.
[142] Mexico carried out a large devaluation of her currency once between 1950 and 1976. It is also important to note that Mexico and Venezuela were the only countries discussed here that up to 1970 had inflation rates at world level.
[143] See Pick's Currency Yearbook (1963, 1971).

average for the 1954–72 period was 22%.[144] The Mexican case then, seems to be one in which, in the absence of chronic balance of payments problems, the path of sticking to the single fixed exchange rate system, and the overvaluation this entailed was the result of policy by choice. This was not something Colombian governments could replicate nor did they attempt to.

The special character of Colombia's position with regards exchange rate evolution is consistent with the findings offered by other authors. Astorga, for instance, finds that for the 1930–1970 period an appreciating trend in real exchange rates is the dominating trend in Argentina, Brazil and Chile, whilst rates remained flat for Colombia, Mexico and Venezuela.[145] Jorgensen and Paldam discern no long-run trend for any of the eight largest economies, except for Brazil and Venezuela — where it is upward sloping — between 1946 and 1985.[146] These authors also find Colombia's average size of fluctuations around the real long-run exchange rate to be the largest, even if it did not suffer the widest swings, a distinction earned by Chile.[147] Astorga's findings reaffirm this. Using a multilateral index for import prices, he identifies Colombia and Brazil as those countries with the highest exchange rate volatility — defined as the coefficient of variation — whereas Venezuela and Argentina exhibit the lowest.[148] A feasible explanation of the unpredictability and volatility of the exchange rate for Colombia was the reluctance of its economic policy-making authorities to seek an equilibrium rate. Instead, as Díaz-Alejandro puts it: "world coffee prices... provided a major rationalization for import and exchange control."[149] Summing up, among the middle- and large-sized nations of Latin America, Colombia's currency overvaluation ranked low. Moreover, unlike such countries as Mexico and Venezuela, the volatile international prices of Colombia's main export combined with moderate levels of inflation and recurrent balance of payments crises suggest that the use of fixed multiple

[144]Villa-Issa, M. 'Performance of Mexican Agriculture: The Effects of Economic and Agricultural Policies' (1990). Other calculations by Reynolds show that by 1965 the margin of overvaluation of the Mexican peso was 18.7%, and that it had climbed to 20.6% by 1971. See Reynolds, C. 'Why Mexico's 'Stabilizing Development was Actually Destabilizing' in *World Development* (1978) No. 6/7, pp. 1005–18.
[145]Astorga, P. 'Real Exchange Rates in Latin America: What does the 20th Century Reveal?' (2007) *Universidad Carlos III: Working Papers in Economic History*, *WP07*-03, p. 16.
[146]Jorgensen, S. and Paldam, M. 'The Real Exchange Rates of Eight Latin American Countries 1946–1985: An Interpretation' in *Geld und Währung/Monetary Affairs* (1988) No. 3, pp. 5–27 p. 16.
[147]Jorgensen, S. and Paldam, M. 'The Real...' p. 17.
[148]Astorga, P. 'Real Exchange...' pp. 16–17.
[149]Diaz-Alejandro, C. 'Foreign Trade...' p. 15.

exchange rates and controls, and the overvaluation that the system entailed, was more the outgrowth of circumstance than the result of pre-conceived policy efforts.

A closer examination of the literature for the Colombian case is necessary to settle the matter of policy or contingency. Nelson, Schultz and Slighton published a comprehensive study of the Colombian development process in which particular attention was given to foreign exchange policy. They stated: "In the short-run, the excess demand for foreign exchange has been controlled by the more or less coordinated implementation of a variety of policy instruments... shift of commodities to the prohibited or prior license list, a slowdown in the rate of approval of import licenses, an increase in import deposit requirements, adjustment of the differential between the effective rates on imports and exports, direct controls on capital exports, restrictions on credit creation by the banking system, and in periods of great stress, an increase in the nominal exchange rate or rates (devaluation). It is not clear, however, whether there has been a conscious long-run exchange rate policy."[150] Further, they argued that exchange rate policy was part an extension of the measures adopted to deal with immediate exchange crises and part a reflection of the autarkic strategy of Raúl Prebisch and CEPAL.[151] Eduardo Wiesner, formerly at the CB in Bogota, agreed on the first part: "The synthesis is that the short-run has not permitted us to act in the long-run. Our short-run policies combined are the ones that have determined the long-run."[152] As for the autarkic intent of policy, Wiesner disagrees profoundly. He sustains, that "... the Exchange Certificates [1948] constituted a first step towards a free market... and that it reveals a preoccupation for achieving an exchange target less full of controls and restrictions. It could almost be said, that this has been the *aspiration* of the exchange and monetary authorities for decades. But it has never been possible to attain it [italics added]."[153]

A plausible way out of the choice-versus-contingency conundrum has been indicated by Esguerra and Villar. These authors, as stated above in this chapter, argued that the

[150]Nelson, R. , Shultz, P. and Slighton, R. 'Structural Change in a Developing Economy: Colombia's Problems and Prospects' (1971) p. 207.
[151]Nelson, R. et al. 'Structural...' p. 215.
[152]Wiesner, E. 'Devaluación y Mecanismo de Ajuste en Colombia' in Wienser, E. (Ed) *Política Externa de Colombia* (1978) p. 161.
[153]Wiesner, E. 'Devaluación...' p. 148.

protectionist policies of Colombia were the result, and not the cause, of a modest and poorly diversified export sector. By treating the exchange rate variable in particular, and trade policy in general, as endogenous, they explain best why periods in which protectionism was relaxed coincided with real currency appreciation.[154] In the long-run, they continue: "...the evolution of the real exchange rate can hardly be explained by monetary or foreign exchange policy decisions."[155] This interpretation is consistent with the view of Ocampo, who examining the role of economic policy in the structural transformation between 1929 and 1974, concludes: "In both cases, [that is, during coffee-price booms and in times of foreign exchange shortages] economic policy has followed signals in the foreign exchange market."[156] In short, economic policy making regarding foreign exchange has followed rather than directed the market.

Further examination of the devaluation carried out in 1951 supports the view that the intent of exchange-rate policy was not to increase the value of the peso. The 28% devaluation of the nominal exchange rate carried out in March of 1951 is particularly telling because of the context in which it was decreed. Unlike the devaluation of 1948, which was marked by an acute crisis in foreign reserves, or the maxi-devaluation of 1957, surrounded by the continuing collapse of international coffee prices and the rapid expansion of the monetary base, or that of 1962, preceded by the largest fiscal deficit under the fixed exchange rate system,[157] the 1951 devaluation lacked a context of immediate crisis. As recalled by Lauchlin Currie, leading economist of one economic mission advising government at the time: "There was no exchange crisis and no pressure for devaluation at the time, but I was fairly confident that once the issue was raised in the [Economic Development] committee, a 'crisis' would be created and an action of some sort would result."[158] Sheahan supports this account providing more detail. He writes: "At the time there was no crisis at all. Prices were stable, balance of payments was not under pressure and devaluation was undertaken calmly as a discretionary device to stimulate growth. In the words of one of the architects of that operation: "I was sitting on the beach one day thinking how calm the economy

[154]Esguerra, P. and Villar, L. 'El Comercio...' pp. 82–86.
[155]Esguerra, P. and Villar, L. 'El Comercio...' p. 118.
[156]Ocampo, J. A. 'The Transition...' pp. 233–34.
[157]See for foreign exchange crises; Sánchez, F., Fernández, A. and Armenta, A. 'Crisis Cambiarias en Colombia Bajo Tipo de Cambio Fijo: 1938–67' (2005).
[158]Currie, L. 'The Role of Economic Advisers in Developing Countries' (1981) p. 90.

Table 3.1: Colombia in Latin America: Exchange-Rate Systems

Categories	1947	1952	1957
Single fixed rate	Mexico	Mexico	Mexico
Fixed multiple rates	Venezuela Brazil Bolivia Colombia Uruguay	Venezuela	Venezuela
Fixed multiple rates for trade transactions and fluctuating rates for financial transactions	Argentina Chile	Uruguay Bolivia Paraguay	Uruguay
Fixed multiple rates and fluctuating rates for trade transactions, and fluctuating rates for financial transactions	Paraguay Peru	Paraguay Argentina Chile Colombia	Argentina Brazil
Fluctuating multiple rates for trade transactions and fluctuating rates for financial transactions			Colombia
Single fluctuating rate for trade transactions and fluctuating rates for financial transactions		Peru	Peru Chile (Argentina 1958) (Uruguay 1959)
Single fluctuating rate			Bolivia Paraguay

Source: Taken from Schott (1959) adjusted by the author as suggested by Schott and based on Konig (1960).

was, and it occurred to me that if we ever wanted to devalue, now would be the time to do it".[159]

Making this point with even greater force, Arango assures, that there is no evidence of coffee producers having pressured for the devaluation — for the real exchange rate had recovered in the third quarter of 1950 and costs had stabilised.[160] In other words, the devaluation of 1951 was implemented not as a response to either an external or an internal fundamental crisis or imbalance, nor was it the outcome of political pressure exerted by powerful exporting interests, nor did it come as an attached conditionality of the IMF. The

[159] Sheahan, J. 'Import, Investment and Growth — Colombia' in Papanek, G. (Ed) *Development Policy: Theory and Practice* (1968) p. 106.
[160] Arango, M. 'El Café en Colombia: Producción, Circulación y Política, 1930–1958' (1982) p. 253.

episode described can be said to be representative of the intent of Colombian policy-makers towards liberal trade regimes -positive economic and financial circumstances allowing.[161]

Another persuasive argument to show that the decision of adopting a certain type of foreign exchange regime often lay beyond the alleged will and policy domain of protectionist pro-ISI governments is illustrated through a classification of the region's exchange systems and a look at the consequences of shifts in exchange systems on other areas of trade. Once again, it will be seen that Colombia represents a distinct case. Table 3.1 shows that as the post war era unfolded, Latin American nations with the exception of Mexico and Venezuela moved unequivocally away from fixed, and consequently complex fixed rate systems towards more flexible and simplified regimes, that is a 'south-eastwards' move in the table.[162] The significance of this trend lies in the reasons behind it and the consequences shifts in systems entailed. First, exchange reforms leading to the elimination of multiple rates were part and parcel of stabilisation programmes negotiated with the IMF in the cases of Chile and Bolivia in 1956, Paraguay in 1957, Argentina in 1958 and Uruguay in 1959 (the last two not shown in the table). This was a time when the Fund started to reconsider its position on the advisability of sustaining fixed exchange systems in developing countries.[163] Colombia's reform of 1957 does not seem to have been enacted at the request of any multilateral institution. Secondly, and more importantly, as countries abandoned the multiple exchange rate system, external pressures forced them to implement measures to substitute for these shortly after. To sustain liberal, unified exchange-rate regimes an arsenal of restrictions was put in place, including import surcharges, export taxes, steep increases in import deposit advances and retentions.[164] When pressures proved unbearable, as in Uruguay and Chile, policy reversals became the ultimate solution. Evidently, attempts at exchange-rate reform were often incompatible with the underlying external position of Latin American economies. The use of multiple rates was to a large extent conditioned, in

[161] In this line of argument, a quote by Diaz-Alejandro is relevant: "The export-led or coffee-fuelled prosperity, aided by the quietest and least expected post-war devaluation in March 1951, was accompanied by a relaxation of exchange and import controls inherited from the war and the Great Depression. Consequently, in the first half of 1954, in spite of an import exchange rate which in purchasing-power-parity terms was still substantially cheaper than the rates of the 1930s, the prohibited import list was eliminated and the most liberal import regime witnessed since 1929 was instituted." See Diaz-Alejandro, C. 'Foreign Trade...' p. 20.

[162] For a detailed discussion of each category and their associated problems; see Schott, F. 'The Evolution...'

[163] Konig, W. 'Multiple Exchange...' p. 41.

[164] Konig, W. 'Multiple Exchange...' pp. 42–9.

the words of a contemporary academic: "by the adverse external impacts that continue to operate and that are expressed by a fundamental imbalance of the foreign sector and by general exchange and monetary weakness..."[165]

Nevertheless, the reform of 1957 sought to eliminate exchange controls in a gradual fashion. As explained by Romero, in the most thorough study of the history of Colombia's exchange rate, the road to free convertibility began with the CB's closed auctions, external debt payments and capital repatriation, leaving all other transactions to the market of exchange certificates.[166] Subsequently, as import restrictions were relaxed, an increasing number of transactions migrated to the free market. In the last stage, a unified exchange rate was attained in the market for certificates. The clout of coffee interests, however, ensured the stalling of the reform, and by 1958, a retreat to the old ways had been effectively accomplished. Coffee growers preferred a devalued and a unified exchange rate, and above all a stable one.[167] Most interestingly, according to Romero, the inequities of the multiple, fixed exchange-rate system notwithstanding, the system "was vital in avoiding higher levels of real overvaluation".[168] This audacious claim is supported further when a comparison with Peru is made. Between 1950 and 1965, that is when Peru was on a semi-floating system pursuing an export-led strategy, and Colombia was mostly on a fixed multiple-rates regime, the peso depreciated in real terms by about 50%, whilst the Peruvian sol appreciated roughly by the same proportion.[169] Thus, amongst the Latin American nations that faced serious balance of payments crises, Colombia adopted the most liberal exchange-rate system that external circumstances permitted, and even tried to go further in the way of flexible rates. In short, if there was a persistent overvaluation of the currency, as for most of the period of study, this was not the result of state policy. If anything, policy-makers tried to implement exchange regimes that reflected market forces, so long as external pressures allowed. So, what non-policy forces shaped the exchange-rate system?

[165] Konig, W. 'Multiple Exchange...' p. 43.
[166] Romero, C. 'El Tipo de Cambio en Colombia, 1923–74' (2005) pp. 153–55.
[167] Romero, C. 'El Tipo...' pp. 154–55.
[168] Romero, C. 'El Tipo...' p. 249.
[169] See Thorp, R. 'Economic Management...' p. 53.

The existing literature on the exchange rate is extensive and a review of it is not necessary here.[170] The standard variables affecting the certificates-exchange rate, which is the closest resembling a market-based rate, are public expenditure, terms of trade, productivity levels, trade openness and external financing. As indicated by Astorga, in mainstream economic theory, lasting improvements in the terms of trade, productivity gains and net inflows of capital are expected to cause a currency to appreciate, whereas large fiscal deficits, deterioration of the terms of trade and higher levels of economic openness tend to generate the contrary effect.[171] The empirical findings in the Colombian case largely corroborate economic intuition. The most powerful influence on the exchange rate has been the terms of trade. Ocampo's econometric findings reveal that a trend over time and the terms of trade explain half the variance of the exchange rate between 1923 and 1987; even more interestingly, he detects a cyclical pattern of the exchange rate opposite to that of the terms of trade, "regardless of variable regimes".[172] For example, the steep increase in the terms of trade registered from the early 1940s to 1954, owing to a sustained boom in the international prices of coffee, was accompanied by a decline in the real exchange rate — an overvaluation of the currency. In line with this pattern, as coffee prices fell from 1956 onwards, the exchange rate depreciated acutely. The puzzling fact in these events is that, contrary to economic theory, the appreciation of the peso occurred at a period in which policy-makers, on the whole, relaxed exchange controls and liberalised imports[173] (see Figure 3.3). And subsequent depreciations ensued, as severe quantitative import restrictions were imposed and exchange controls revived after 1956. The apparent contradiction with the tenets of the theory has been satisfactorily dealt with, as mentioned above, by Esguerra and Villar, arguing the endogeneity of Colombia's trade policy in regards to the availability of foreign exchange.

Regarding the productivity variable, Esguerra and Villar, find that Colombia's relative labour productivity vis-à-vis the US is not a statistically significant determinant of the exchange rate. A lasting force towards depreciation because of slacking productivity seems

[170] For a study focusing on developing countries; see Taylor, A. 'A Century of Purchasing-Power Parity' in *Review of Economics and Statistics* (2002) Vol. 84, No. 1, pp. 139–50; for Colombia; see Cárdenas, M. 'La Tasa de Cambio en Colombia' in *Cuadernos de Fedesarrollo* (1997) No. 1.

[171] Astorga, P. 'Real Exchange...' pp. 6–7.

[172] Ocampo, J. A. 'The Transition...' p. 233.

[173] Esguerra. P. and Villar, L. 'El Comercio...' pp. 102–03.

not to be the case for most of the century.[174] On the contrary, from circa 1940 and until the mid-1950s, Colombian productivity increased in relation to that of the US, probably causing some currency appreciation. This could be explained by the twin processes of industrialisation and agricultural modernisation the country underwent at that point. From then onward productivity levels tended to even, hence productivity forced neither depreciation nor appreciation.[175] As far as public expenditure concerns, the findings are mixed. Romero sustains it is a significant factor, especially between the mid-1950s and 1962, partly as result of the surge in military spending, whilst Esguerra and Villar's findings indicate no significance.[176] Siding with the former, who breaks up the study into sub-periods, increasing functioning costs as percentage of GDP may have contributed further to the peso appreciation of these years. Given the low and relatively stable levels of access to foreign financing in the period covered in this study, capital flows are not considered to affect exchange rates.

Summarising, the prime determinant of the Colombian exchange rate was the terms of trade variable; a sustained increase in real coffee prices after 1941, which peaked in 1955, created a strong pressure for the peso to overvalue. This arguably amounted to a negative external shock. which domestic policy could have done little to offset. The fall in the terms of trade that followed forced a correction through the maxi-devaluation of 1957. Further, Colombia's industrialisation (state-led or not) and agricultural modernisation, sustained relative productivity levels vis-à-vis the US, which suggests at least this was not a constant toward real depreciation. Evidence on the impact of government spending is inconclusive. A final point to note, related to the impact of coffee prices, has been noted by Edwards, who claims, that real appreciation resulting from these have been accommodated, partially by money creation and inflation, and partially by adjustments in the nominal rate.[177] In other words, the policy space for deciding the real exchange rate seems to have been minimal. Ergo, in the medium-run, that is, during Colombia's accelerated industrialisation, a conscious policy of peso overvaluation must have been impracticable.

[174] Esguerra, P. and Villar, L. 'El Comercio...' p. 118.
[175] Romero finds productivity levels to be statistically significant in determining the real exchange rate; however, the proxy used is too raw (GDP p/c) not as reliable as the one utilised by Esguerra and Villar.
[176] Romero, C. 'El Tipo...' p. 229, 235; and Esguerra, P. and Villar, L. 'El Comercio...' p. 117.
[177] Edwards, S. 'Commodity Export Prices and the Real Exchange Rate in Developing Countries: Coffee in Colombia' (1987) p. 32.

A final challenge to interpretations that claim that Colombia deliberately and persistently overvalued their peso to promote ISI pertains to the historical context in which it would have occurred. At the international level two aspects are worth highlighting. First, immediately after WWII, the world trade and monetary systems that emerged discouraged the flexible exchange-rate regimes that the literature praises so much — in rather ahistorical fashion. Frenkel and Rapetti, rightly point out: "The main characteristics of the international conditions that Latin America faced during the post-war period remained virtually unchanged up until the late 1960s. The international monetary system followed the Bretton-Woods rules, which established that countries had to maintain fixed exchange rates against the US dollar... Given the virtual absence of private sources of international finance, the only substantial source of external finance for the region came from the IMF. In order to get financial assistance, countries had to negotiate their exchange rate policy with the institution."[178] Secondly, contrary to more recent policy stances, during the 1950s and 1960s such multilateral financial institutions, as the World Bank were not against industrialisation projects in developing countries. In fact, Webb's study suggests the exact opposite, noting that the Bank on occasions found itself lending to ISI-related projects.[179] Moreover, he argues, a "pro-ISI bias was created by changes in the Bank's project selection and procurement procedures".[180] The above international context notwithstanding, national concerns tipped the balance in favour of the exchange systems and policies observed.

Frenkel and Rapetti, again, provide a framework to think about this. In their view, "the choice of exchange rate regimes in Latin America has been influenced by the historically specific degrees of freedom (or urgency) with which countries addressed concerns about: a) price stability, b) domestic financial stability, c) external and internal imbalances, and d) economic growth and development. "[181] In the Colombian case, according to Wiesner, the

[178] Frenkel, R. and Rapetti, M. 'A Concise History of Exchange Rate Regimes in Latin America' (2010) p. 9.
[179] Webb, R. 'The Influence of International Financial Institutions on ISI' in Cárdenas, E. et al. (Eds) *An Economic...* pp. 104–05.
[180] Webb, R. 'The Influence...' p. 105. The changes refer, first; to a sort of institutionalisation of protection of local capital goods when the Bank opted for a preference rule for domestic suppliers of Bank projects, and, secondly; to modifications in the projects' appraisal methods, that included economic rates of return (instead of solely financial ones) and the use of shadow exchange rates and wages, which justified ISI projects.
[181] Frenkel, R. and Rapetti, M. 'A Concise...' pp. 5–6.

Table 3.2: Colombia in Latin America: Average Rates of Inflation, 1940–68

Annual Change in CPI (Percentages)						
Period	Argentina	Brazil	Chile	Colombia	Mexico	Venezuela
1940–51	33.6	13.3	17.8	11.1	10.4	6.9
1952–64	25.8	26.7	32.3	8	5.1	1.2
1965–68	26.5	39.9	24.3	9.4	3.3	1.4
Average	29.8	26.6	26.7	9.9	7	3.1

Source: Hofman (2000).

commitment to price stability was strong and clear.[182] He argues that the exchange-rate authorities worried about inflation, and attempted to achieve the goal of a unified exchange rate in equilibrium without suddenly increasing the income of the coffee sector, which was considered to generate inflation.[183] Meisel agrees with this view up to a certain point, claiming, that an independent and autonomous CB, whose principal mandate consisted of ensuring price stability, clearly committed to this goal until 1951.[184] The commitment weakened as the mandate combined price stability with economic development. The data, as shown in Table 3.2, question this judgement, however. The decade preceding the 1951 reform of the CB saw higher, not lower, rates of inflation than the period following it, and moderate price increases continued for a few years after the nationalisation and loss of autonomy of the CB in 1963.

A contemporary academic, Schott, examined in 1959 the reasons why Latin American governments remained reluctant to adopt flexible, unified exchange regimes. He wrote: "...in several of the largest countries — Argentina, Brazil and Colombia — it continues to be deemed unacceptable to expose 'basic' import items such as food staples and fuels to the immediate price increase and future fluctuations that their integration into a unified fluctuating-rate system would entail."[185] As seen above, Colombia was a much more of an open economy than other Latin American countries, and also faced higher instability in the external sector due to the exceedingly volatile prices of coffee in world markets. Thus,

[182] See also Ch. 7 this dissertation.
[183] Wiesner, E. 'Devaluación...' pp. 151–52.
[184] Mesiel, A. 'Autonomía de la Banca Central e Inflación: La Experiencia Colombiana, 1923–1995' (1996) p. 7.
[185] Schott, F. 'The Evolution...' p. 20.

in principle it seemed reasonable for the monetary and exchange authorities to concern themselves with inflation as seriously as they did. Recently, Romero's econometric exercises confirm the fears of economic policy-makers regarding the exchange-rate-inflation link. Her estimates show that the transmission effect of the exchange rate on prices existed as eventual depreciations caused increases in the prices of imports, which translated into cost inflation for producers and ultimately higher prices for the final consumer.[186] Tellingly, Romero also finds, contrary to the tenets of the conventional literature, that the exchange-rate regime did not unambiguously favour the kind of imports that would have delivered a spurt to industrialisation via imports substitution, declaring: "It is curious that the higher elasticities of long-run exchange-rate transmissions are concentrated in the capital as well as in the intermediate good sectors, which allows one to argue that depreciations of the exchange rate generated price increases in the imports of intermediate goods and of raw materials that were key for certain industrialising sectors between 1948 and 1974."[187] Romero, therefore concludes that the fixed exchange-rate system influenced the industrialisation process in a negative manner.

As seen from Table 3.2, Colombia, unlike Argentina, Brazil and Chile managed to sustain moderate rates of inflation during the period — exhibiting single-digit numbers for the 1950s and 1960s. Given the external economic conditions, this was a considerable achievement. The 9.9% average rate of inflation for the 1940–68 period is sensible when compared to the 7% attained by Mexico, at the time said to have been riding a golden era of 'stabilising development'. Venezuela's performance is remarkable: levels of inflation were similar to those that advanced market economies experienced. Yet the Venezuelan record might not look as solid when it is remembered that in seven out of these 28 years the country suffered deflationary pressures.

Conclusions

This chapter has sought to crack the current consensus on Colombia's industrialisation experience. To do this, initially a mapping of the different streams of the literature

[186] Romero, C. 'El Tipo...' pp. 277–78.
[187] Romero, C. 'El Tipo...' p. 278.

was offered and the common flaw amongst them highlighted: the assumptions that governments since the 1930s/40s deliberately pursued economic policies geared towards ISI. An examination of commercial policy showed that the country's industrial-protectionist profile of the mid-twentieth century is alleged more than real. First, average tariff rates were higher before the 1930s than during the intervening period. Secondly, the country's trading profile is distinct from those of similar Latin American economies. A snapshot of the incidence of tariffs and an appraisal based on a proxy for trade-openness (over time), made clear that Colombia had a much more open economy than those of Argentina, Brazil and Mexico. Thirdly, the tariff reforms enacted in 1950, 1959 and 1964 were far from being unambiguously protective of manufacturing in intent. Historical, qualitative evidence emerging from official agencies, the international press and foreign economic missions confirm the above characterisation of Colombia's efforts and policies on the trade arena.

The ultimate forces driving trade and tariff policy were certainly not the autarkic aspirations of those heading the government, as many authors implied. Likelier culprits, as the evidence displayed above indicates, were pressures in the balance of payments resulting from over-reliance on a single export, and the need to raise revenue for the fiscal coffers - which had deep historical roots going back to the nineteenth century. On occasions, more discrete reasons, like the betterment of strategic positioning over future trade agreements might have also been taken into consideration. The argument that manufacturing tariffs and other protectionist measures were deployed by governments at the behest of industrialists can only be considered within the range of factors just mentioned. Single concessions did not amount to state commitment in this area in any form.

The other substantial part of the chapter concentrated on the exchange rate. A most effective way to approach this issue was to look for clear answers to the following questions: Was the Colombian peso overvalued? If it was, by how much, both in absolute and in comparative terms? To what extent was the trajectory of the exchange rate dictated by policy? What was the role of non-policy forces? Lastly, does taking into consideration the contexts in which exchange-rate policy was carried out add value towards its understanding? Answers: First, as captured by the spread between the official and the free exchange rates, the peso was overvalued by 29% between 1940 and 1967. Comparatively speaking, this degree of appreciation was well below that experienced by the monetary units of countries like Argentina and Chile. Secondly, the appreciation of the peso, though historical fact, was not the result of deliberate policy. Several factors explained this. Paramount amongst them was the evolution of the terms of trade, over which national authorities had practically no control. Thirdly, given the quasi-chronic problems in the external sector, especially in balance of payments, the exchange-rate systems adopted tended to follow, not substitute, the forces of the market. Fourthly, there is significant evidence, for example the devaluation episode of 1951, to argue that at times when the authorities thought a more liberal and flexible exchange regime could be afforded, such a path was pursued. Fifthly, the intent of exchange rate policy seemed not have been skewed towards protectionism, but towards the attainment of relative stability in the external sector, even if the price to be paid was moderate but tolerable levels of overvaluation. Sixthly, the adoption of a fixed exchange-rate system in the 1940s, and its maintenance at least until the late 1950s, can be partly attributed to Colombia's willingness to participate in the world monetary system and to observe the rules of Bretton-Woods. Lastly, domestic concerns reflected the view that the exchange rate drove inflation, a concern that played a dominant role in exchange-rate policy. Ex-post, this view seems valid. In light of the revision and empirical findings made, the dictum of Diaz-Alejandro on exchange rates is now more relevant than ever: "The adjective 'overvalued' is one to be used with care at all times, but particularly so in Colombia."[188]

A wider consideration arising from this chapter belongs to the general/thematic literature on commercial policy. If Capie's review of these works is accurate, and as he sustains "... most analyses of protection in recent decades have been carried out within a public-choice framework... examining the costs and benefits to different groups... [in which] gainers generate a demand for protection, and the government is the source of supply... [and] lobbying alone cannot explain all the protectionism that exists";[189] then, a 'thick' historical

[188]Diaz-Alejandro, C. 'Foreign Trade...' p. 15.
[189]Capie, F. 'Commercial Policy: Tariffs' in Mokyr, J. (Ed) *The Oxford Encyclopaedia of Economic History*(2003) Vol. 1, p. 487.

approach exploring and emphasising the various intentions of government - like the one presented here - constitutes an interesting, alternative research avenue.

Having examined developments in the fields of trade and the exchange rate that point at the problems of labelling the Colombian experience of industrialisation as ISI or as a state-led process, another important area of action, equally associated with ISI, is assessed in the following chapter: direct promotion of industry.

4 The Institute of Industrial Development: Its History as Direct Industrial Promoter

Colombia's Institute of Industrial Development (Instituto de Fomento Industrial — henceforth IFI), is regarded as having been a decisive player in the country's industrialisation strategy. Since its foundation, IFI was the only state agency in charge of assisting manufacturing firms, thus it can be said to epitomise the commitment of the state to the industrialising project. An examination of IFI's role is important because it sheds light on the broader issue of the role of the state in late development. More precisely, by analysing and assessing the trajectory and contribution of the institute during its life as direct industrial promoter, new interpretations can be drawn regarding the effective commitment, nature and capacity of the Colombian state to advance industrialisation. The existing literature on IFI and its contribution to late-industrialisation is unsatisfactory for three reasons. First, previous works have failed to distinguish between IFI as a direct industrial promoter (1940–64) and IFI as a development bank (1965–2002). Moreover, the vast majority of the literature has focused on IFI as lender, neglecting its entrepreneurial and risk-taking activities. Secondly, a serious shortfall is the lack of substantive primary-evidence supporting the conventional interpretations about IFI. A corollary of previous problems is a resultant historiographical vacuum in terms of an assessment of IFI as direct industrial promoter; and concomitantly, of the effective commitment of the Colombian state to the industrial endeavour. This chapter addresses these problems. Based on solid empirical evidence it is argued, contrary to the existing literature, that the contribution of IFI towards Colombia's industrialisation was not important, at least when the institute acted as a direct provider of equity capital to industrial firms (1940–64). Board memoranda, balance sheets and annual reports offer a picture of the institute from 'within' that reveals a chronically precarious financial situation and also allow for the construction of basic time series to assess and issue new judgements on its impact throughout the period of study. A hypothesis to account for the rather discreet performance/contribution of the institute along the following lines is advanced: IFI's funding model was inappropriate and made the institute overwhelmingly dependent on the government. This dependency translated into lack of autonomy when taking large investment decisions; which in turn led to poor investments worsening further its already fragile financial position and diminishing its potential contribution to the project of industrialisation.

The chapter is organised in eight sections. Section one reviews the literature on IFI and challenges some of the traditional views. Section two introduces the reader to IFI: its mission and the instruments for the promotion of industrial firms, and explores the finances of IFI from 'within', supplying primary evidence on its frail financial position. A preliminary assessment of the contribution of the institute to industrialisation is the subject of section three. Sections four and five attempt to explain the pattern of investments of the institute considering as key factors: the funding sources of IFI and the level of autonomy in investment decision-making, respectively. Section six illustrates with a case study the points made in sections four and five. Section seven supports through previously unknown historical evidence claims of government intervention on IFI's decision-making processes. Last section concludes.

Historiography on IFI

The historiography on the financing of Colombia's substitutive industrialisation process is thin.[1] Even thinner, however, is that on the country's most emblematic agency for its industrial development: IFI. The existing literature can be divided into two categories: first; those broad works on Colombia's twentieth century economic history in which discussions about IFI are included and, second; a small number of articles in books, and papers primarily concerned with IFI.[2] The historiography may be characterised as being

[1] Bejarano, J. A. 'Historia Económica y Desarrollo: La Historiografía Económica sobre los Siglos XIX y XX en Colombia' (1994) pp. 133–35, 229–89.

[2] The only book dedicated to IFI by authors other than IFI is Lopera, M. T., López, R. and Peláez, S. 'Política de Fomento, Industrialización e Internacionalización del Capital: Un Estudio Crítico del IFI' (1979).

comprised of two groups. On one side are IFI's staff, collaborators, the institute's official historians, and independent researchers offering, in general terms, a very sanguine history of the institute, stressing its achievements, often neglecting its failures, and failing to assess its performance rigorously.[3] On the other side are a handful of IFI's critics arguing for a more balanced assessment of its overall proceedings, prominently among them those advancing functionalist-Marxist perspectives contending that IFI was an instrument of the ruling bourgeoisie.[4]

Assessments from the general literature on the role of IFI in Colombia's industrialisation start with Berry.[5] He points at the significant function IFI played in the technical and financial support given toward the development of specific basic industries, such as cement, steel and chemicals.[6] Avella et al. have gone further, highlighting IFI's direct investments as one of the three pillars by which the strategy of industrial modernisation via import substitution took off after 1945 — the two other pillars were, according to them, increasing protectionism and the channelling of growing amounts of credit to industry.[7] They emphasise the diversity of enterprises IFI fostered in intermediate and late industries as much as its ability to associate with both foreign and domestic partners. Avella et al. also underscore the rapid growth of its assets up until 1958 and the then ensuing "spectacular expansion during the National Front years", presumably as signals indicating the financial and economic strength of the entity.[8]

From a political angle, Revéiz has taken the evolution of IFI from 1940 to 1985 to illustrate how changes in the country's development strategy caused concomitant alterations in state institutions.[9] Under his view, "the institute's early years were characterised by large scale direct investments in industries where the country had no antecedents (chemical, metallurgy, non-metallic minerals), and its actions directed toward the production of

[3] For IFI and IFI's staff and collaborators literature; see Lleras, C. 'El IFI ante el Desarrollo Colombiano' in IFI. *El IFI y el Desarrollo Industrial, 1940–80* (1980); IFI. 'IFI: 40 Años de Desarrollo Industrial' (1980) and Durana, G. 'Realizaciones y Perspectivas del Instituto de Fomento Industrial' in *Colombia en Cifras* (1944).
[4] Lopera, M. T. et al. 'Política...' Ch. 1.
[5] Berry, A. 'A Descriptive...' pp. 37–39.
[6] Berry, A. 'A Descriptive...' pp. 35–39.
[7] Avella, M. et al. 'La Consolidación...' pp. 260–61.
[8] Avella, M. et al. 'La Consolidación...' p. 277.
[9] Reveiz, E. 'Evolución de las Formas de Intervención del Estado en la Economía en América Latina: El Caso Colombiano' in Bejarano, J. A. (Ed) *Lecturas sobre Economía Colombiana* (1985).

intermediate goods; so as to subsidise the sectors consuming IFI products".[10] This interpretation fits neatly the economic model of import substitution, state-led or state-sponsored industrialisation, indicative planning and deep state intervention. From 1964 on the nature of the promotional activities of IFI shifted from direct investments via capital contributions to financial intermediation in long-term capital markets; suggesting a move away from subsidies, closer to real prices and more efficient allocation of resources.[11] This change would mark the beginning of a new paradigm typified by financial liberalisation, reduced state intervention and market-driven development. Within his politics-based approach toward IFI's evolution, Revéiz also conceives of IFI as a propeller of industrialisation thanks to the scale and diversity of the enterprises it promotes. A similar political approach has been taken by Wright, who argues that: "the closest the Liberals came to establishing an embryo for more extensive state intervention was the founding of IFI in 1941".[12] For him, IFI is one of the few, if not the only, exception by which the state intervenes through a publicly-formed organisation to pull industrial progress amidst a wider political context that is hostile to state meddling in economic issues.[13] Mora, for his part, has related the strengthening of Colombia's state capitalism of WWII with the foundation of IFI under the leadership of President Santos and Finance Minister Lleras.[14] Mora also stresses the post-war era as one which sees the beginnings of the Colombian state as entrepreneur, and points out the involvement of IFI in the production of chemical and steel plants as illustrations.[15]

This chapter challenges these interpretations. Though at first glance they offer different angles on IFI, a closer look reveals a fundamental and flawed denominator. Avella et al. and Berry privilege the functions and apparently great impact of IFI on the economy; Revéiz and Wright emphasise IFI politically as standard-bearer of an interventionist and possibly developmentalist state; so does Mora identifying IFI's actions as traits of state capitalism. However, there is a basic underlying assumption to all, namely, that IFI became a key

[10] Revéiz, E. 'Evolución...' p. 257. The argument is shared by Isaza; see, Isaza. J. F. 'La Empresa Mixta y el IFI' in IFI. *IFI: 40 Años de Desarrollo Industrial* (1980) p. 76.
[11] Revéiz, E. 'Evolución...' p. 257.
[12] Wright, P. 'The Role of the State and the Politics of Capital Accumulation in Colombia' in *Development and Change* (1980) Vol. 11, p. 244.
[13] Wright, P. 'The Role...' p. 231.
[14] Mora, A. 'Historia...' p. 341.
[15] Mora, A. 'Historia...' p. 345.

agent in a Colombian state-led ISI strategy. The former observe this in the contributions of IFI toward such strategy; the latter presume that the ISI strategy was, effectively, state-led; thus IFI came to represent it. This study will argue that for both strands of the literature their initial premise — that there was a state-led ISI strategy — does not hold, as it came to be seen through IFI and its contribution to it.

The technological perspective of IFI's impact on industrialisation is the subject of Poveda's study.[16] This author is concerned with the contributions IFI made in terms of technological innovations and the introduction of new industrial processes. Poveda states: "up to these days [1976] the management and actions of IFI had been one of the factors that considered on its own have contributed the most toward the implantation of new technological innovations in the country".[17] He singles out the integrated steel plant with Thomas converter of Paz del Río steel works, the electrolysis of salt for chlorine production, and the extraction of tannins from mangrove trees amongst others.[18] It is worth noting that this way to assess the performance of the institute in the industrialisation effort is not unique. Lopera et al. adopted these technology-based criteria when determining whether or not IFI had fulfilled its foundational duties.[19] In this chapter no effort is made to address the validity of the assessments and conclusions based on technological criteria. To do so requires an examination of the learning effects and technological spillovers that IFI encouraged, which falls beyond the scope of this study.

The literature on IFI by IFI is, not surprisingly, more partisan. Forero, for instance, is keen on retrieving from history IFI's early prolific times at breeding enterprise.[20] She draws attention to the number of firms that IFI promoted through foundation and/or restructuring in the immediate years following the economic disruptions of WWII. The emphasis she places on the great productivity of IFI at firm creation, which "entering into its fourth year had helped founding 25 companies",[21] contrasts strikingly with the longer and highly unfertile period that followed it, and of which Forero says nothing. Others

[16] Poveda, G. 'Políticas Económicas, Desarrollo Industrial y Tecnología en Colombia, 1927–75' (1976).
[17] Poveda, G. 'Políticas...' p. 64.
[18] Poveda, G. 'Políticas...' p. 64.
[19] Lopera, M. T. 'Política...' pp. 16–20.
[20] Forero, C. 'El IFI. La Fuerza de un País' in IFI. *IFI: Desarrollo Empresarial Para Todos* (1995).
[21] Forero, C. 'El IFI...' p. 42.

like Prieto attach to IFI unique attributions.[22] According to this author: "the presence of IFI in the national development was of special importance because it identified domestic production opportunities, supported them either financially or with its own capital, and oft assumed the risks entirely on its own at a time, when practically the spirit of association did not exist".[23] This is certainly not the case. By 1940, the comptroller's office reported over a thousand public limited corporations. Furthermore, the one occasion in which IFI alone faced the entirety of the risks and financing of an industrial venture was in 1941 when it supplied all of the capital for the Colombian Yeast Co., however, this intervention did not start from scratch, since this company was the outgrowth of an already existing venture.

Similarly, Isaza contends that: "in the near-total absence of an urban bourgeoisie with investment capacity in basic industries, such as tires, steel, and iron; it was only natural for IFI to concentrate its actions in these sectors".[24] Again, the statement is plagued with problems. For instance, steel and iron producers existed long before IFI's foundation; the most important plants located in Tabio, Samaca, and Pacho.[25] As for the derisive size and role of the Colombian bourgeoisie Isaza insists on, he ignores not only the acknowledged impetus of entrepreneurial *Antioqueños* in commerce, manufactures and mining in the early-twentieth century and before,[26] but also the appearance of groups of industrialists in urban centres like the capital city, and also in smaller ones, such as Barranquilla, Cali and Bucaramanga.[27]

Thus, the key question concerning the current historiography is whether or not the authors cited above have given an accurate vision of both the magnitude and the significance of the actions of IFI in Colombia's industrialisation process. In other words, has IFI's role been misconstrued? Did IFI become the supreme agency for industrial progress the literature claims it was? This chapter will argue that at least from the time IFI was founded up to the year it turned into a development bank (1964) IFI did not play such decisive

[22] Prieto, L. 'Proyección del IFI y Desarrollo en Colombia' in IFI. *IFI: Desarrollo Empresarial Para Todos* (1995) pp. 71–73.
[23] Prieto, L. 'Proyección...' p. 72.
[24] Isaza, J. F. 'La Empresa Mixta y el IFI' in IFI. *IFI...* pp. 75–78.
[25] See for example; Wiesner, E. 'Paz del Río' (1963).
[26] Brew, R. 'El Desarrollo Económico de Antioquia desde la Independencia hasta 1920' (2000).
[27] See Sáenz-Rovner, E. 'La Ofensiva Empresarial' (1992) Ch. 2.

role. This view will be supported by compelling evidence. The working hypothesis is divided into two parts. First, the magnitude of the financial resources IFI handled during its first 25 years of existence did not allow it to play the critical role that the conventional historiography states it did. A perspective on IFI's funds is offered through the eyes of IFI's directives, which, contrary to what is often implied, suggests fund starvation. Second, an analysis of its resources by origin permits this author to advance the complementary assertion: given the origins of IFI's resources the institute failed to govern its investment decisions by purely technical, financial, and economic principles. Instead, decision-making was dominated by governmental, conjunctural and political concerns that prevented IFI to operate autonomously. This was particularly so, in the cases of large industrial investments, as will be seen later.

IFI: Mission, Modus Operandi and Finances

As indicated by its organic law IFI was created in September 1940 to fulfil a major task: to promote the foundation and enlargement of enterprises that exploit basic industries and the primary-transformation of domestic raw materials that the initiative and capital of the private sector have not been able to develop satisfactorily.[28] As established by law, these industries were:[29]

[28] IFI. Estatutos Orgánicos, 1942, p. 5.
[29] IFI. Estatutos Orgánicos, 1942, p. 28.

Steel	Tannin Extract
Metallurgy	Pita and Ramie
Coal	Oily Nuts
Ceramics	Tagua wood
Soda	Coffee Vellum
Sulphuric Acid and Chemical Products	Maize
Fertilisers	Canned Fruits and Vegetables
Salt for Cattle	Fishing
Animal Feed	Wool
Insecticides and Fungicides	Hides
Cellulose	Milk Pasteurisation

In addition to these 22 industries, government had a right to include any other industry, basic or of primary-transformation, whenever it saw fit.[30] Another article allowed for its participation in secondary-transformation industries, if it was deemed necessary to create the consumption required to guarantee the economic viability of basic and first-transformation businesses.[31] In other words, IFI could promote any of the 22 sectors listed above at will, but could also provide assistance to firms outside these if governments so wanted it. In this way its mandate had been made broader and flexible, so as to enable it to switch on to any industrial sector promising rapid growth, but at the same time made the institute prone to politically-driven needs. It is unclear, either from the indicative listed sectors or from the actual investments, whether the institute had been expressly created to promote industry through import-substitution, as some have suggested.[32] For certain, there was no such claim in IFI's foundational charter and a brief review of its intended and actual investments does not support that view either. The exploitation of coal (Valle & Cauca Plant) and tagua wood, like the processing of coffee vellum projects, were all geared toward exporting purposes. That is not to say, however, that there were no intentions to substitute imports. This was indeed the case for steel products with steelworks Paz del Río, cellulose through Propal, and soda ash by means of the Zipaquirá Soda Plant, amongst

[30] IFI. Estatutos Orgánicos, 1942, p. 32.
[31] IFI. Estatutos Orgánicos, 1942, p. 32.
[32] Garay, J. L. 'Colombia: Estructura Industrial e Industrialización (1998) cited in Rettberg, A. 'The Political Preferences of Diversified Business Groups: Lessons from Colombia' in *Business and Politics* (2003) Vol. 3, Issue 1, p. 58.

others. It is also the case that IFI was involved in ventures where there were hardly any grounds for it to do so, such as its incursion in tourism with Hotel San Diego in Bogota, and its shares in the river transport company, Shipyard Union. That investments like these were clearly out of line with its mission and foundational objectives was so evident that the directors recognised it behind closed doors.[33]

It is worth noting three distinctive features of IFI, which reveal the nature and limits of state interventionism. The first is the condition of complementarity that the institute was to hold in the industrialising project. As stated earlier, IFI will only promote industries that "the initiative and capital of the private sector have not been able to develop satisfactorily."[34] What constituted the 'satisfactory development' of an industrial sector was never established, but with the benefit of hindsight, it is possible to sustain that the purpose of this private initiative clause in the mandate of IFI aimed at keeping the institute's role — and that of the state- in check; in addition to avoiding public crowding out effects and official competition. To maintain the state as junior partner a second condition was included: the temporary nature of IFI's ownership in the firms it promoted.[35] According to the organic law that governed the institute, IFI was in the obligation of selling the shares in the enterprises it fostered at the earliest possible opportunity. There are three interesting points to make of this requirement. First, by forcing IFI to sell its stakes the size and influence of the state in would-be state-owned enterprises was severed. Secondly, the requirement to transfer to the private sector successfully-promoted enterprises amounted to the privatisation of public gains. Whether IFI might have benefited more from keeping and running these successfully-promoted ventures than from selling them remains to be established; however, the issue is important and the fact that the state had forsaken such an opportunity is telling of its position vis-à-vis private enterprise. The third point refers to the fact that IFI was the only official agency charged with the task of industrial development. As the Institute's 'father', Carlos Lleras, noted, before the creation of IFI and until the arrival of development banks in 1960, Colombia lacked a specialised entity that dealt with medium-

[33] IFI. Acts of the Board of Directors (AoBD), Microfilm No. 3472, 14 October 1948, Act No. 369, unmarked page, AIFI.
[34] IFI. Estatutos Orgánicos, 1942, p. 41.
[35] IFI. Estatutos Orgánicos, 1942, p. 8.

and long-term industrial financing.[36] Thus, IFI faced a monumental assignment in terms of both the diversity of the expertise and technical knowledge it would have to count on to promote those industries, but above all, in terms of the financial muscle it would have to develop to realise them. Summarising, IFI had a broad and at times ambiguous mandate subject to sudden governmental modifications, which in practice promoted both import substitution and export diversification, and whose scope from the start became circumscribed to the deeds and behaviour of private initiative.

IFI could assist in the foundation of new companies or in the restructuring of existing ones through various mechanisms; capital contributions, that is, through the subscription of shares in publicly limited corporations. It also acted as lender advancing short-term loans to firms that found access to finance from banks closed; although its credit activities remained small. Underwriting was permitted but not much practiced.[37] As for the financing of IFI itself, several mechanisms were attempted. The start-up capital came mainly from government and the Central Mortgage Bank (BCH), a mixed mortgage agency.[38] Thereafter, irregular capital contributions from governments accounted for most of IFI's resources. Furthermore, IFI was authorised to obtain credit both at home and abroad; from the former it borrowed if not heavily at least regularly, whilst from the latter no attempts were made until the early 1960s. IFI also resorted to the capital markets during its initial years, particularly when looking for funds for the steelworks project; however, even these early placements met sceptical private investors and this financing option was discarded subsequently. Unlike other similar industrial-development agencies in the region, IFI does not seem to have aimed at the twin objective of promoting industry and fostering the development of capital markets through the introduction and widespread use of financial instruments: which might also help to explain its lack of concern with capital markets.

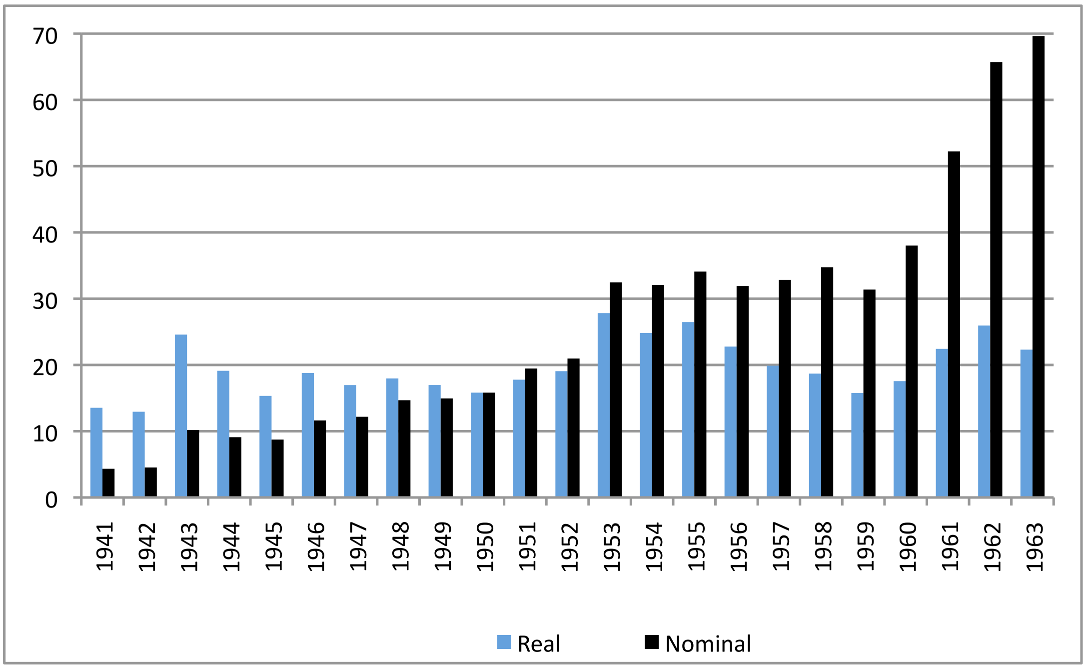
What does the literature say on the magnitude and origins of IFI's financial resources when operating as direct investor? Given the above-reviewed statements, surprisingly

[36] Lleras, C. 'El IFI...' p. 46.

[37] IFI. Estatutos Orgánicos, 1942 p. 8; and IFI. Balance e Informe, 1941, p. 7.

[38] IFI. Balance e Informes, 1943, p. 5–6. Of an initial capital of $4 million government subscribed $3 million and BCH the rest.

Figure 4.1: IFI: Evolution of Assets — Real vs. Nominal (Millions of Pesos)



Sources: IFI. Informe; IFI. Informe del Gerente; IFI. Balance e Informe (all various years); and Superintendencia Bancaria. Informe, various years. Real series in 1950 pesos.

little. The pattern found is one limited to the enumeration of the industrial sectors and/or the companies in which it partook. No systematic efforts have been made either to calculate the share of IFI in each sector or company or to estimate the total of its investments, guarantees and credits as percentages of aggregate indicators.[39] For Avella et al. it suffices to say, that IFI's investments were diversified, that it partnered up with domestic and foreign entrepreneurs, that despite having started activities right after its foundation in 1940 it had accumulated assets worth $34.9 million pesos by 1958, and that it underwent spectacular growth during the National Front (1958–74).[40] Similarly, Mora offers no data to support his argument that the arrival of IFI strengthened Colombia's state capitalism; instead he describes some of the industries promoted: steel, tyres, and chemical products.[41] Revéiz's emphasis on the unprecedented scale of large investments in

[39] Partial exceptions discussed; Lopera, M. T. et al. 'Política...' (1979); and Contraloría General de la República. 'Aporte del IFI al Proceso de Desarrollo Industrial' in *Informe Financiero* (1986) Issue November. 69–84.
[40] Avella et al. 'La Consolidación...' p. 277.
[41] Mora, A. 'Historia' p. 341.

non-metallic minerals and chemicals, for instance, is not illustrated with a comparison of investments in these areas prior to 1940. The deepest he delves into IFI's resource-analysis is through a breakdown of its investments by sectors, as allocated to a number of firms.[42] Though this constitutes an improvement it is ambiguous, since obviously the allocation of investments was not symmetrical. In short, the literature that has so much celebrated IFI's investments and has heightened the role and status of this institution in the Colombian substitutive-industrialisation process has failed to endorse its arguments with empirical evidence.

What was the real state of IFI's finances? A glance at the annual and bi-annual balance sheets and reports offer first-hand, reliable sources to explore the matter. According to the evolution of nominal assets in Figure 4.1, not only do IFI's assets show a clear increasing trend from 1940 to 1964 (exception years 1944/45, 1956, and 1959), but exhibit three periods of remarkable growth: 1942/43, 1952/53, and 1959/61. The spurt in total assets during the first period is accounted for by a doubling of industrial shares and investments in various negotiable securities; and to an increase of $3,000,000 in its social capital.[43] The leap during 1952–53 is mostly explained by the doubling of its capital from $10,000,000 to $20,000,000.[44] The last soar, again, is mainly the result of substantial increases in paid capital.[45] Despite marked differences in year-to-year increases the average for the entire period 1940–64 is a respectable 15.6%. Assets multiplied nearly twenty-fold throughout the whole period. At first sight, the review of IFI's assets evolution hints that its financial position was sound. By the same token, it suggests that the general literature on IFI, and the study by Avella et al. in particular, were right in pointing at this indicator to shore up the critical function of IFI in the industrialisation of the country. Once the nominal series is deflated, however, the picture is bleaker. The yearly average growth of assets drops significantly when measured in real terms. The trend in real terms reflects much more accurately the actual state of IFI's finances coinciding with the contemporary views of its staff, as will be shown below.

[42] Revéiz, E. 'Evolución...' pp. 258–61.
[43] IFI. Balance e Informe, 1942, 1943.
[44] IFI. Informe del Gerente, 1952–1953.
[45] IFI. Consolidated Balance on 31 December 1959, Microfilm No. 481, AIFI; and IFI. Consolidated Balance on 31 December 1961, Microfilm No. 482, unmarked page, AIFI.

A comparative exercise between the arguments the recent literature has advanced on the magnitude of IFI's financial strength and the great scope of its actions, on the one hand; and the statements and actual position of IFI's finances as declared by its own directives, on the other, offers strikingly different views. A survey through the institute's minutes of the board of directors and the prose of the annual reports provide the best first-hand historical evidence against the former view.

Early signs of financial problems at IFI were recorded in the minutes of the meeting celebrated in early March 1945. The general manager, Gabriel Durana, explained: "the lack of immediate liquidity of the bulk of assets will produce a shortage of funds for ordinary expenses that is already being felt".[46] A few months later, there was a similar pronouncement: "available funds for the most urgent expenses of the institute have been petering out and it has become necessary to think of selling securities of the portfolio."[47] The point here is that the selling of stock was more the result of financial necessity rather than business sense. By 1950 the institute acknowledged failure at paying out dividends to its shareholders. "At the present time it is not possible to guarantee the BCH the 5% annual payment over its capital contribution to IFI... given the institute is not yielding any profits."[48] Liquidity problems in the mid-1940s partly had their origins in the nature of the investments IFI undertook, particularly the long maturation of projects, such as the development of metallurgy in Tolima, the Industrial Consortium of Santander, and the contributions of capital and credit advances made to the pasteurisation of milk plant in Bogota. Slow returns to capital investments forced IFI to sell its most valuable securities at times when the quotations were not best; preventing optimal realisations. The joint effects of these situations in addition to the large number of liquidations of companies it promoted in its early years thwarted efforts at meeting obligations with its shareholders, as noted above.

Not only did IFI fail to pay out its shareholders, it also failed to meet its credit-based obligations. A petition to cancel the debt requested by IFI in 1961 was registered in the

[46] IFI. AoBD, Microfilm No. 3472, Act No. 223, 8 March 1945, p. 346, AIFI.
[47] IFI. AoBD, Microfilm No. 3472, Act No. 258, 17 January 1946, p. 399, AIFI.
[48] IFI. AoBD, Microfilm No. 3472, Act No. 197 of the Advisory Committee to the Board, 13 June 1950, unmarked page, AIFI.

board's minutes: "as a consequence of a contract celebrated in 1946 between IFI and the Nation, which authorised the institute to issue $10,000,000 in Bonds for Industrial Development at 6% [annual] and 20 year gradual amortisation, IFI has a liability that will reach $10,500,000... In order to clean up the balance sheets IFI asks for the sum owed to the Nation to be written off."[49] It has not been possible to establish whether or not the debt was written off; but as of June 30th 1964 the requirement neared $9,000,000.[50] The important issue here is that for nearly twenty years, IFI failed to service this obligation and this should have tarnished its reputation undermining any later efforts to capturing resources in capital markets.

In 1951 the future economic viability of IFI was being pondered for the first time. Juan de Dios Ceballos, general manager, stated: "liquid assets in easily negotiable bonds and stocks hardly suffice to cover the institute's commitments of the second semester... it is considered that if IFI is not granted immediate and significant support it will be forced to reduce its activities a great deal; and it would not be worth keeping it to attend duties of purely administrative nature."[51] Four months later, Ceballos manifested that no reply had been received from government to his request for $3,000,000; and that given the urgency imposed by pressing expenses, he was authorised to sell securities of Icollantas — IFI's most valuable stock.[52] By January 1952 drastic measures were put forward. The manager expressed his view "that if the government did not increase the capital of the institute, IFI would have to continue selling its most tradeable stocks to meets its obligations, and in that case it would be better to liquidate the institute."[53]

Dire financial conditions did not improve in 1954; on the contrary, that year led the general manager to conclude the annual report with these words: "a cold-headed analysis of the economic situation of the institute yields three main conclusions: 1- Paid up capital is insufficient to accomplish the vast industrial-promotion task assigned. 2- The total amount of IFI's resources are at present committed to enterprises of which IFI cannot rid itself of.

[49] IFI. AoBD, Microfilm No. 3474, Act No. 803, 8 February 1961, p. 1606, AIFI.
[50] IFI. Consolidated Balance on 30 June 1964, Microfilm No. 481, AIFI.
[51] IFI. AoBD, Microfilm No. 3472, Act No. 441, 26 July 1951, p. 908, AIFI.
[52] IFI. AoBD, Microfilm No. 3472, Act No. 208 of the Advisory Committee to the Board, 28 November 1951, p. 930. AIFI.
[53] IFI. AoBD, Microfilm No. 3472, Act No. 451, 17 January 1952, p. 934, AIFI.

Hence, with its own resources the institute cannot undertake any new ventures. 3- For an organisation such as IFI to fully perform one of its principal functions, that of industrial research, it needs to count on a fixed annual allotment from the national government. Otherwise, the large costs involved in this activity gradually deplete the available capital."[54]

In the following three years IFI received enough capital contributions to continue its operations, but around 1957 its own existence as an entity seemed to come to an end. A customary request for urgent funds by the deputy manager to the government met a disquieting reply, as the manager manifested: "it was not possible to obtain resources from government because the Finance Minister considers it is not the case to fix IFI's situation in view of the establishment of the National Corporation Production."[55] Two months later, a discussion among the directors of the institute revealed IFI had no resources with which to pay its own staff: "the serious economic position of the institute and the necessity of funds to pay the personnel and meet its obligations, forces to decide if under the current circumstances IFI is sumptuary, useful or necessary; in the first case it must be shut down, in the second case, must be sustained; in the last, must be financed by government".[56]

Fortunately for IFI, the project concerning the National Corporation vanished and a new source of income was designed to alleviate the institute's chronic economic troubles. The mechanism consisted of granting it the right to authorise exports, other than coffee and bananas, and charge for this service a fee equivalent to 2% of the value of the exported item. Forecasts by IFI on the revenues this would generate in 1959 rounded to $1,200,000.[57] Though the percentage to be charged turned out to be lower, the export fee generated income alleviating some of the most urgent financial troubles. It did not solve, however, its long-standing economic requirements. In the following years, directors and annual reports continued to register the lack of adequate funds for IFI to achieve its goals.[58]

The empirical evidence gathered from the board of directors' minutes and the annual reports of IFI demonstrate that the financial position of the institute during most of its life

[54]IFI. Informe del Gerente, 1954, pp. 25–26.
[55]IFI. AoBD, Microfilm No. 3474, Act No. 645, 3 April 1957, unmarked page, AIFI.
[56]IFI. AoBD, Microfilm No. 3474, Act No., 653, 8 July 1957, pp. 1323–24, AIFI.
[57]IFI. AoBD, Microfilm No. 3474, Act No. 715, 9 February 1959, p. 1455, AIFI.
[58]IFI. Informe del Gerente, 1959; IFI. Informe, 1961; and AoBD, Microfilm No. 3474, Act No. 884, 30 July 1962, p. 1840, AIFI; and AoBD, Microfilm No. 3474, Act No. 907, 10 June 1963, p. 1862, AIFI.

as direct investor in industrial ventures was precarious. Contrary to the pictures offered by most of the literature, IFI did not enjoy a comfortable financial situation. So dire were its finances that the institute failed to meet obligations both with its shareholders and its creditors. Furthermore, dire financial straits led both IFI's own staff and state officials to consider the liquidation of the institute at various opportunities, as shown above, in 1951, 1952, 1957, and the early 1960s. Finally, efforts to clean up the finances of the institute in the late 1950s and early 1960s via an export fee for non-traditional exports and the allocation of a yearly item from the national budget alleviated but did not solve IFI's problems. To sum up, from its foundation in 1940 up to its transformation into a development bank in 1964, the financial position of IFI was fragile. Constant liquidity problems, claims about insufficient capital to operate, frequent doubts on its economic viability, and failure to honour its contracts are clear-cut illustrations of this. Given all of this, it is reasonable to argue that the financial position of IFI has been misconstrued by the conventional literature.

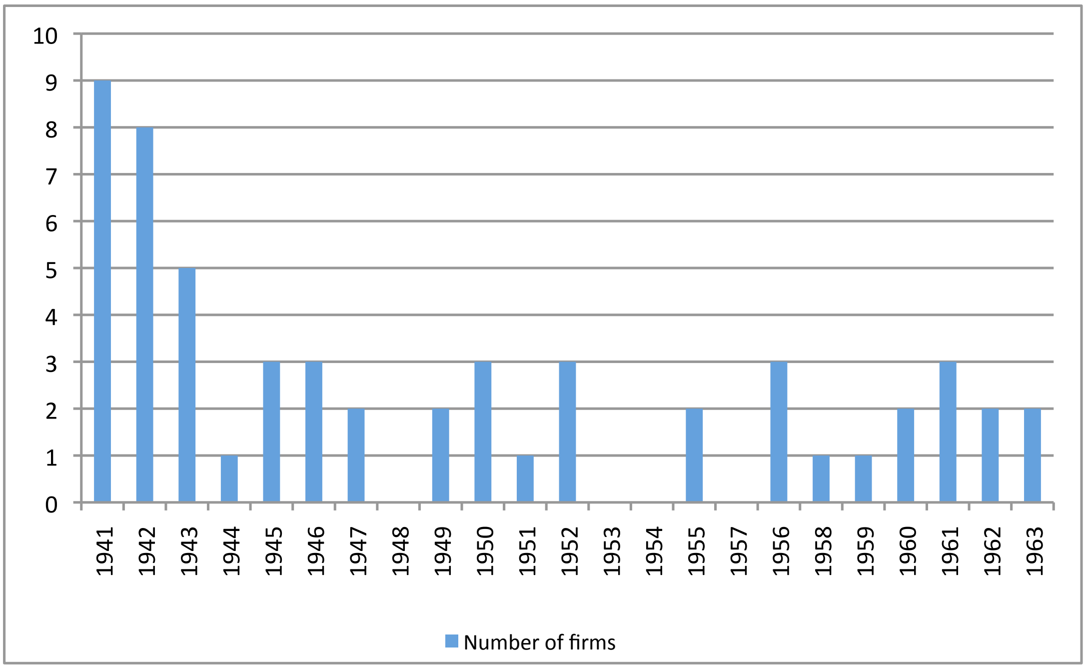
So far, the quantitative evidence put forward in the first section to illustrate the economic health of IFI consisted of a review of IFI's growth of total assets over time. The qualitative evidence offered against its financial soundness was based on statements and discussions recorded in the minutes of the board of directors and fragments of the annual reports. It is time to scrutinise IFI's performance more closely.

Towards a Preliminary Assessment of IFI

How does the record of IFI at industrial promotion look like? As can be seen from Figure 4.2 the institute's promotional history can be broken into two distinctive periods. A first phase starting from its foundation up to 1952 was characterised by hyper-activism in the creation and nurturing of industrial firms. In these years a total of 40 ventures were promoted out of which 29 companies were founded and 11 existing ones received injections of equity capital. Within this period the first five years right after IFI's creation proved the more dynamic. From 1953 to 1964, the record is more lacklustre. On four occasions (1953/54, 1957 and 1964) firms were neither founded nor funded and only

16 ventures obtained support of which 13 were newly constituted firms and three were already existing. Throughout the whole period, IFI promoted a total of 56 companies or an average of 2.2 firms per year.[59] Naturally, to assess better the role of the institute in harnessing industrial development via its actions on these firms a distinction needs to be made between 'successful' and 'failed' ventures.

Figure 4.2: IFI: Developmental Activities, 1940–63



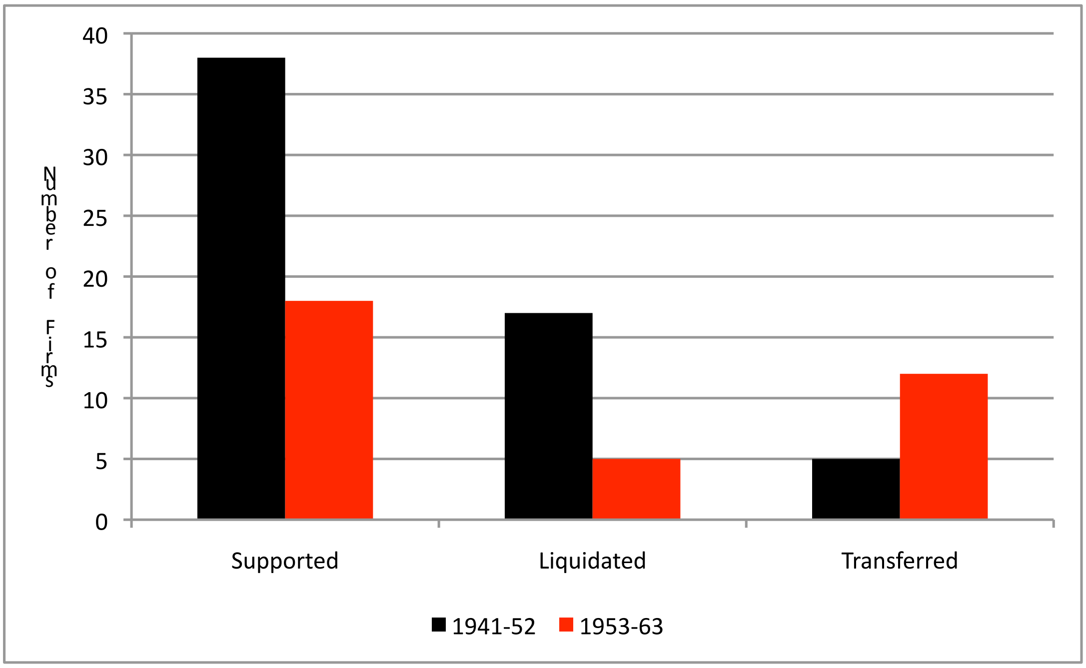
Sources: IFI. Informe; IFI. Informe del Gerente; IFI. Balance e Informe (all various years). See Table A.4.1.

The first step is to examine the rate of 'failure' among IFI-firms. That is, the incidence of liquidations among industrial companies promoted by the institute. As Figure 4.4 helps to illustrate, out of 55 firms sponsored 22 ended up in liquidation. In other words, 40% of IFI-firms were not competitive in the market or were simply non-profitable for other reasons. Especially during the first decade of operations the institute's record of 'firm survival' was relatively low, as 17 out of 39 of its investments went bust. For the second period the ratio improved somewhat and only five out of 16 followed the liquidation path. A high number of these 'failed' firms (17) exited the market within five years of them

[59]Includes support to the Institute for Water and Electrical Energy Exploitation.

being created or financially supported by IFI; thus, leaving little chances for a long-lasting contribution towards Colombia's industrialisation. Five remaining firms lived longer than six years, but none did for more than 10 years and it was often the case that liquidation processes were protracted due to bitter disputes among shareholders. Uncompromising positions between IFI, other shareholders and external creditors frequently led to court procedures that extended the life of some firms formally, even though these had ceased operating long before their legal demises.[60]

Figure 4.3: IFI's Performance at Enterprise Promotion, 1940–64



Sources: IFI. Informe; IFI. Informe del Gerente; IFI. Balance e Informe (all various years); and IFI. Reseña, (1968); Lleras, C. (1980) and Lopera, M. T. et al. (1979).

It is in the 'successful' cases — and measured by IFI's own mandate-standards — that the contribution of IFI is best examined. As said earlier, according to the institute's foundational charter, IFI's mission was to transfer to the private sector the firms it supported once these had matured and proved to be financially sound. As shown in Figure 4.3, the number of firms that IFI promoted and later transferred was five between 1941 and 1953 and 12 for

[60]Illustrations of these are the Agrarian & Sugar Company of Urabá and the Mining & Metallurgic Industry of Colombia.

1953–63, adding up to a total of 17. However, not all of these were successful transfers in the sense that its ownership passed from public to private hands, nor did this occur on a permanent basis. In 1958 IFI's shares in Hotel San Diego of Bogota were bought up by another official agency, the army's retirement fund.[61] Similarly, Paipa Chemicals, involved in the production of sodium sulphates, was acquired by the state of Boyacá in 1950.[62] Another firm recorded as being successfully transferred in 1959 is the National Company of Fertilisers,[63] only to be recapitalised a year later with a massive injection of equity capital provided by IFI and further public funds, to be finally liquidated in 1965.[64] Summarising, only about a fourth of all of IFI's ventures followed the original IFI-charter's trajectory of firm promotion, maturation and transfer to the private sector it set out.

Independent of the performances of industrial firms promoted by IFI, the role played by the institute can be gauged by looking at the financial resources it put into them, as measured by the share of equity capital it provided as part of the total of paid up capital of each firm. Table 4.1 offers interesting insights into this matter. First, early on IFI contravened the regulation that prevented it from taking up more than 50% of the shares of any promoted firm by subscribing more than half of total shares of Colombian Milk Industries and assuming full ownership of the yeast business, albeit this proved an exception. Secondly, IFI's most important investments in the 1940s flowed to the rubber tyre and steel industries, as represented in the large portions of equity capital provided to Colombian Tyre Industries and Steelworks Paz del Rio, which made the institute owner of around 75% of these two corporations. For the 1950s the largest outlay of the institute constituted its stake in the Cauca & Valle Coal Plant (not on the table), and other large investments were made in the non-metallic and printing and paper sectors. During the early 1960s metal products became important for IFI through heavy involvement in Metalworks Colombia, though it did not make it a majority shareholder. Throughout the period chemicals and agricultural industries were also well cared for. Finally, and perhaps more importantly, as seen from the large sample gathered on the table, on average, IFI's shares in the firms it promoted represented around a fifth or 21.5% of their paid up capital.

[61] IFI. AoBD, Microfilm No. 3454, Act No. 691, 7 July 1958, p. 1398, AIFI.
[62] IFI. AoBD, Microfilm No. 3454, Act No. 421, 23 November 1950, p. 861, AIFI.
[63] Lleras, C. 'El IFI...' p. 13.
[64] IFI. Informe y Balance, 1965, pp. 29–30.

Table 4.1: IFI's Participation in Industrial Companies, 1940–65 (Thousands of nominal Pesos)

Year	Industrial Venture	Initial Paid Up Capital	IFI's Contribution	IFI' Share (%)
1941	Mangrove Industries	400	200	50.0
1941	Colombian Milk Industry	440	224	50.9
1941	Uraba Agrarian & Sugar Co.	300	60	20.0
1941	'Sulfacido' Chemical Products	150	20	13.3
1941	Colombian Tannins Co.	250	75	30.0
1941	'El Papagayo' Foodstuffs	135	59	43.7
1941	Medellin Siderurgy	1,146	229	20.0
1941	Colombian Yeast Co.	80	80	99.5
1941	National Vegetable Fats Co.	150	40	26.7
1942	Wool Spinning of Colombia	400	160	40.0
1942	'La Industria' Woods	612	75	12.3
1942	Chlorine National Co.	200	100	50.0
1942	Colombian Tyre Industry	1,500	1,090	72.7
1942	Colombian Glass Co	500	143	28.6
1942	Colombian Fibres Co.	176	50	28.4
1943	Colombian Central Metallurgy	350	150	42.9
1943	Industrial Shipyards Union	1,000	176	17.6
1943	Mining & Metals Industry	91	46	50.5
1943	Alcaloids Co.	49	40	81.6
1944	Colombian Zinc Co.	150	50	33.3
1945	Santander Industrial Consortium	500	250	50.0
1945	Colombian Manure Industry	500	250	50.0
1946	Caldas Industrial Co.	100	50	50.0
1946	Paipa Chemicals	728	426	58.5
1948	Colombian Fishing Industry	1,020	150	14.7
1950	Paz del Rio Steelworks	8,500	6,516	76.7
1950	Villavicencio Meat Plant	775	35	4.5
1950	Wood Suppliers	105	36	34.3
1950	Colombian Coal Co.	299	100	33.4
1951	Colombian Asbestos	1,000	240	24.0
1952	Colombian Fertilisers	2,150	30	1.4
1952	'Granites & Marble'	500	150	30.0
1958	Valle & Cauca Coal Plant		10,220	
1965	'Forjas' Metalworks	65,000	10,000	15.4
1965	National Cables Co.	4,700	2,540	54.0
1965	'Sucroquímica'	25,100	1,000	4.0
1965	'Pulpapel'	6,700	2,233	33.3
Total		125,756	37,293	29.7

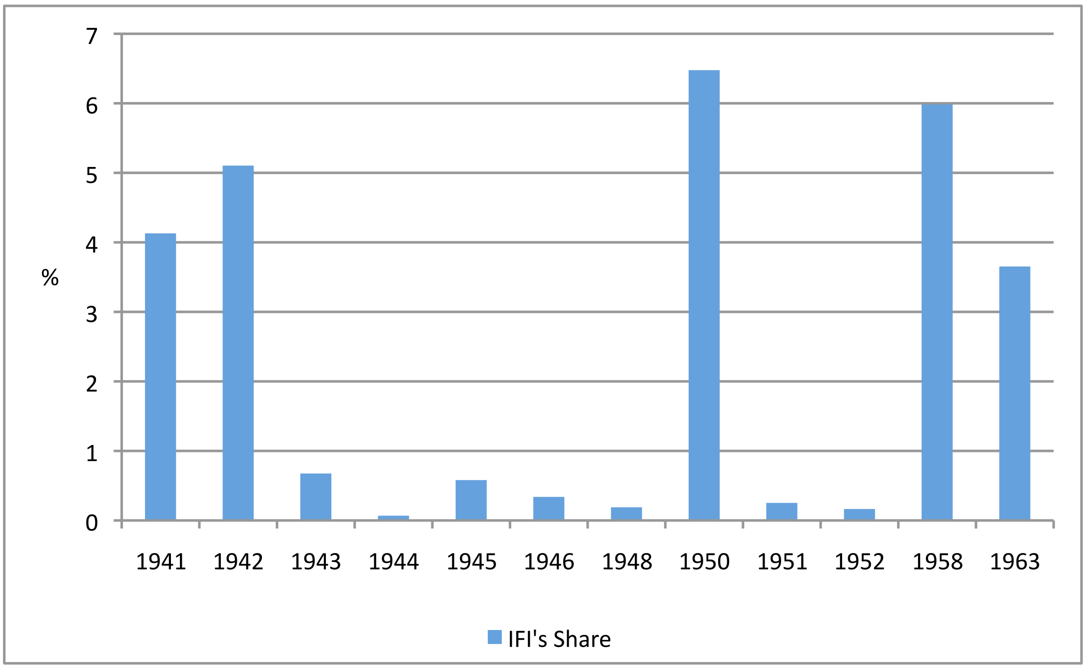
Sources: IFI. Informe; IFI. Informe del Gerente; IFI. Balance e Informe (all various years) and IFI. Reseña (1968). Valle & Cauca Plant not included in total calculations. Percentages do not always match because of rounding.

The fact that IFI was more often than not the junior partner in the associations with private capital helps challenging the commonly held view that assumes that IFI-firms producing intermediate and/or raw material goods ought to sell their output for prices that carried an implicit and important subsidised element in it.[65] The fact that IFI was on average a minor shareholder suggests the presence of two unlikely assumptions in such a view. First, that IFI was capable of imposing its will upon the management and ownership structures of the firms it supported, as to define their pricing policies. Secondly, that IFI itself was uninterested in making its firms profitable enough to attract private buyers. Even though it is certain that IFI itself needed not be lucrative, this did not necessarily apply to its industrial ventures. Moreover, even if IFI had been the major shareholder it is very difficult to believe that its associates, be it other official entities, foreign investors or domestic entrepreneurs, would have supported such non-sense attitude from a business point of view. Only more research into this issue can seriously confirm or reject the view in question; however, the fact that IFI's shares in the firms it promoted was far from majoritarian makes it scarcely plausible.

Probably the most direct way to assess the impact and contribution of IFI towards Colombia's industrialisation is to estimate the share of the institute's investments within the larger picture of total industrial investments. If the institute was becoming a tool of growing importance, as some authors claim, a tendency upwards of that share should be expected, as IFI invested more financial resources in industrial ventures. However, as Figure 4.4 shows, this was not the case. IFI's investments, proxied by the subscriptions of capital in the firms it promoted, represented up to 5% of all the stocks issued in the Bogota Exchange in 1941–42, a period of hyper-activism of the institute and of one large outlay in the rubber tyre industry. From then on its proportion in the total surpasses that in the foundational years in only two years (1950 and 1958). These are years in which the data captured — with a lag — IFI's biggest individual projects, namely, Paz del Río steelworks and the Valle & Cauca coal-washing plant. The average for the years displayed in Figure 4.4 is a modest 2.6% of all stocks issued. This relatively small contribution needs to be placed in context. First, as noted earlier, IFI was not capable of promoting new or existing

[65] Isaza, J. F. 'La Empresa...' p. 76; and Revéiz, E. 'Evolución...' p. 247.

Figure 4.4: IFI's Contribution to Industrialisation, 1940–64 (Share in All Stocks Issued)



Sources & Note: For data and methodology on total stocks see Table A.5.1. For IFI's share data from Table 4.1 (above). Data for 1965 included in 1963. See also Table A.4.2.

companies in all years. Secondly, IFI's share was small within a financial system in which the role of capital markets was a minoritarian one, as will be discussed in the next chapter, for Colombia's financial system was overwhelmingly credit-based. Lastly, the proxy used above, that is, IFI's share in all stock issued magnifies the institute's contribution, for this only captures a fraction of the actual industrial investments.

Summarising, a preliminary assessment of IFI's achievements and contributions to Colombia's industrialisation process was made through a brief overview of the total number of IFI's 'successfully' promoted enterprises, its participation in a large sample of the firms it assisted, and the calculation of the institute's share in the larger picture of the country's total industrial share investments. The purpose of the first evaluation was to appraise the effectiveness of IFI at industrial promotion by looking at the number of firms it transferred to the private sector. Not only is this 'yardstick' the one IFI tacitly set itself in its foundational charter, but it is also one that evaluates the work done by IFI, as private business were most likely to purchase firms with black ink balance sheets and solid growth prospects. In this respect, simply put, IFI transferred a total of 15 firms. The second exercise sought to gauge the 'depth' of IFI's involvement in the ventures it promoted, as measured by the funds it invested in them. The outcome is a rather surprising average share of 21%. Given that IFI was the only public agency charged with industrial promotion this percentage can be seen as low and an interesting interpretative implication can be drawn from it. Namely, that IFI's role, as a potential incubator of industrial state-owned enterprises was modest. Nor is it the case that the firms it fostered were, on average, of majoritarian public ownership. On the contrary, IFI seemed to have been the junior partner in the private-public associations. The third check aimed at measuring the scope of IFI's contribution to industrial development through the investment variable. On this front too, its contribution seemed small. On average, IFI's investments represented less than 3% of the industrial total, and this is only for the years in which it made any. These preliminary ways of assessing IFI should suffice to challenge the predominant views of the literature, which attached to it an all-powerful role. It also suggests there is a need to distinguish the history of the institute before 1964, i.e. when the institute turned into a development bank. At the same time, however, this is not a sufficiently thorough survey to make hard statements about IFI's performances and some qualifications are in place. The first is that some IFI firms that were not transferred to the private sector did remain in the market providing key basic and intermediate inputs for other industries, such as steelworks Paz del Rio. Individual enterprise histories need to be written to define their precise contributions. Secondly, in a few instances, firms originally promoted by IFI and liquidated under its management later made 'comebacks' under private/foreign ownership, such as Colombian Metalworks. The next sections look to explain the causes underlying IFI's modest contribution to industrialisation.

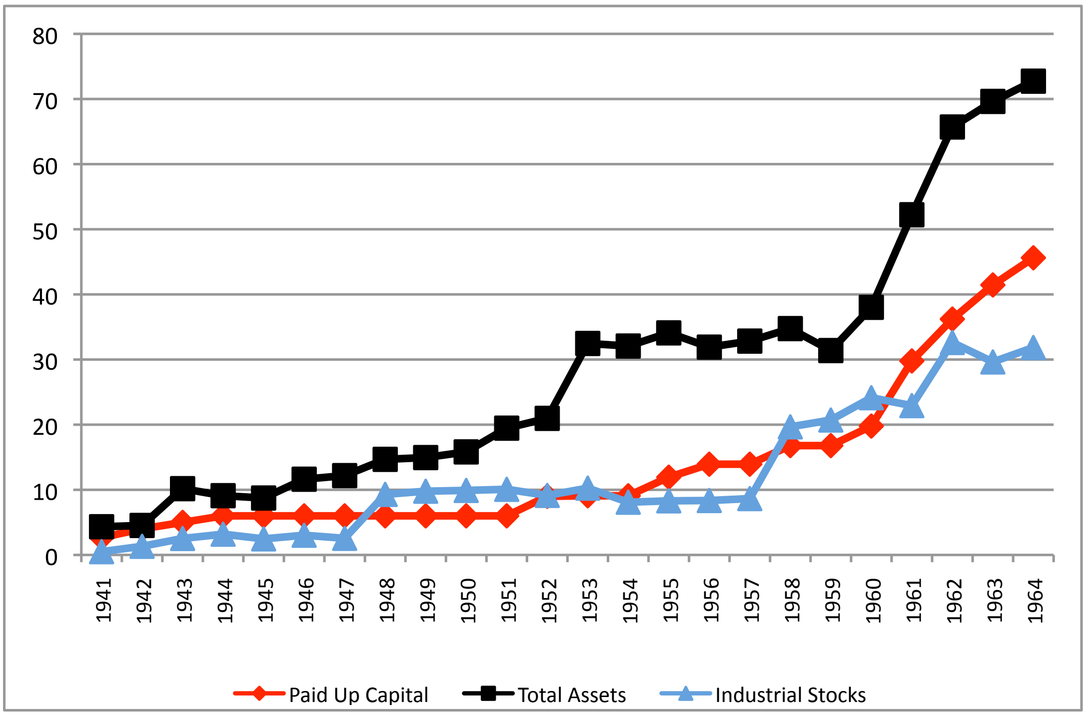
Pattern of Investment: Funding

IFI's chief task was to promote industry and this was essentially done via investments in the form of capital contributions in public limited companies. Hence the need to look at IFI's stocks. As Figure 4.5 shows, the evolution of IFI's industrial stocks is far from being a duplicate of its total assets. Moderate growth after 1940 is followed by minor slips in 1945 for both items. But from then on they performed rather differently. Total assets underwent a steady increase from 1945 until 1955, and then stabilised for the next four years. The value of total assets multiplied three-fold during this time. Stocks grow steeply in 1948, but then stagnated for ten years. A wedge of more than $20,000,000 between them started to close as stocks began to recover in the early 1960s. A new gap widened thereafter. The point to make here is that industrial stocks have their own dynamic. Whilst total assets exhibit an overall rising tendency, industrial stocks show a stepped-like pattern. Obvious questions arise: what explains the difference? What determines stocks' behaviour? Regarding the first question, it has already been mentioned that unpaid capital inflated total asset numbers. Moreover, plants in installation phases along with large expenses in studies, which not necessarily always turned into realisable stocks and/or remained only paper firms, also added to total assets. To explain the evolution of IFI's industrial stocks on its own merit one must explore the institute's funding sources.

Obviously, the institute's investment capabilities depended on its funding sources. Figure 4.6 shows that there was a tight correlation between paid up capital, which was the institute's most important supply of financial resources, and IFI's investments, as represented by its industrial stocks. Both lines grew from 1941 to 1944 and then stagnated until 1947. That year, industrial stocks skyrocketed and then stabilised at around $10,000,000 for nearly ten years until 1957. Had it not been for the 1947 leap in industrial assets a close co-evolution between the two entries would have stretched until 1955. The sudden jump in stocks is explained by the constitution of Paz del Río Siderurgy in 1947, of which IFI subscribed $6,500,000, and for which the institute had resorted to a different funding source than capital contributions from government. Another steep rise in stocks occurred in 1958 when more than $10,000,000 flowed to the coal company Carbones del Valle & Cauca, in which the institute had been investing for years with resources largely obtained from increases in paid capital. A similar behaviour for the two items follows until 1962, when stocks start to lag behind the explosion of funds of the mid-1960s. Still, substantial increases in stocks took place as IFI invested heavily in cement, fertilisers and metal works. These numbers then beg the questions: What was the driving-force behind this stepped-like pattern of investment? Who supplied the paid up capital of the institute? Who discounted its bonds and held its debts? How important were foreign loans? Did it generate sufficient internal resources as to re-invest them? Table 4.2 helps to clarify these queries.

Of the institute's initial paid up capital of $4,000,000, 75% was subscribed by government and the rest by the BCH. Other official entities, private commercial banks, both foreign and domestic, and the general public were invited to partake in this and in all other capital increases IFI authorised throughout the years. To attract potential investors, seats on IFI's board of directors were offered. Private bankers were entitled to elect up to two representatives on the board, whilst the general public and other state agencies could appoint another, depending on who subscribed the shares.[66] However, these and other fiscal incentives worked to no avail; throughout IFI's life it was the national government

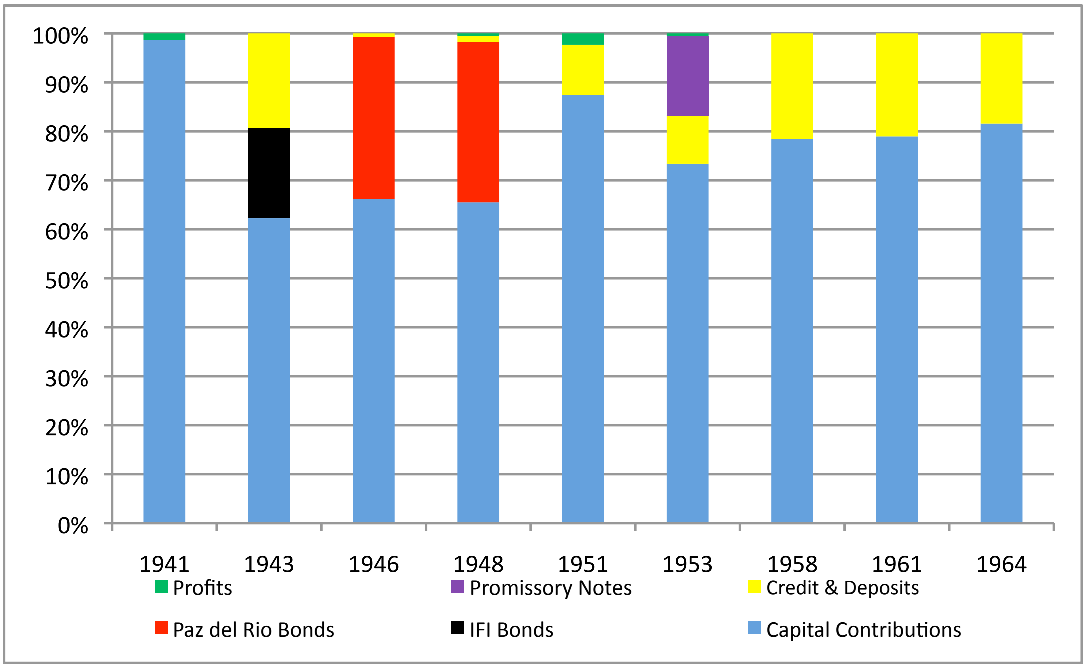
Figure 4.5: IFI: Investment Pattern and Financing, 1940–64 (millions of pesos)



Sources: For 1940–47 Superintendecia Bancaria. Informe, various years. For 1948–64 IFI. Consolidated Balance Sheets, as of December 31; exceptions 1963–64, as of June 30. All in nominal pesos.

[66] IFI. Estatutos Orgánicos, 1942, pp. 6–8.

Figure 4.6: IFI Resources by Origins, Selected Years 1940–64 (percentages)



Sources: Author's own calculations. Superintendencia Bancaria. Informe, various years and IFI. Consolidated Balance Sheets, various years. From calculations in nominal pesos.

who remained the major shareholder. There is no clear-cut evidence to explain this generalised apathy, but it is reasonable to sustain that poor returns, low expectations, the long-maturation nature of its businesses, and customary reluctance to invest in public securities kept investors at bay. As illustrated in Figure 4.6, the contributions of capital made by successive governments from 1941 until 1964 constituted the majority share of the institute's resources. From an obvious peak of 98% at the time of foundation to a low of 62% two years later, capital contributions maintained an average for these selected years of over 75% of all financial means.

An early initiative to raise funds was through the issuance of securities, 'IFI Industrial Promotion Bonds'. In 1942 the directors conceived the idea and issued $1,500,000 worth in 30-year bonds earning 4% interest, with the national government as guarantor and the CB as fideicommissioner.[67] The latter also discounted the bonds. Indirectly, it was the

[67] IFI. Balance e Informe, 1942, p. 18; IFI. Estatutos Orgánicos, 1942, pp. 56–58.

government who via the CB funded IFI under the bonds modality. There is no doubt that these funds constituted an important share of total resources in the early 1940s (Figure 4.6), helping IFI with the main projects of the time: tyres, shipyards and the pasteurisation of milk project, amongst others.[68] As indicated by its balance sheets, IFI made use of this method of financing only on this occasion. There is neither apparent reason nor evidence, as to why IFI relinquished such a convenient form of financing, although an only limited potential for successful placements might have acted as deterrent.

Bonds were also employed to build up funds for IFI's largest project: steelworks Paz del Rio. In 1945 the government of Alberto Lleras authorised IFI to issue up to $10,000,000 in bonds at 6%, amortisable in 20 years.[69] IFI only realised two issuances worth $3,000,000, each in 1946 and 1948.[70] These placements were different from the previous one, however. The money raised was earmarked, which meant it could only be destined to the financing of the initial expenses of Paz del Rio.[71] In other words, though important as they were in terms of the amount these resources represented for IFI (a third of total resources for 1946 and 1948), the exclusiveness of its use prevented IFI to dispose of them for other purposes. It is worth noting that it was the national government who, once more, emerged as bond holder.

The absence of foreign credit as a supplier of finance in IFI's accounts is rather puzzling. Even after acknowledging the scarce possibilities of finding credit in good terms in international markets in the context of the war and post-war years, IFI appeared to have done little to obtain any. Unlike IFI, industrial development corporations and banks of the region, such as the above-mentioned NAFINSA and BNDE, and the Corporación de Fomento de la Producción (CORFO) from Chile, got hold of generous amounts of credit from US and multilateral organisations in the 1940s and 1950s; and especially for the first two, these funds became a substantial share of their investable funds.[72] Not only did IFI

[68] Ministerio de Hacienda. Memorias de Hacienda, 1942, Vol. 2, p. 123.
[69] Wiesner, E. 'Paz...' pp. 13–15.
[70] Superintendencia Bancaria. Informe, 1949, p. LV.
[71] Wiesner, E. 'Paz...' p. 14.
[72] For Chile; see, Mamalakis, M. 'An Analysis of the Financial Investments of the Chilean Development Corporation: 1939–64' in *Journal of Development Studies* (1967) Vol. 5, No. 2, pp. 122–26. For Mexico; see, Blair, C. 'Nacional Financiera. Entrepreneurship in a Mixed Economy' in Vernon, R. *Public Policy and Private Enterprise in Mexico* (1964) pp. 201–04.

fail to use credit from abroad as a source of funds, but it also failed to apply for it until the early 1960s,[73] despite legal authorisation that would have allowed it. The institute's own performance and its ways of doing business, as suggested by a member of the directorship, might have influenced this attitude. As Hugo Ferreira declared in a meeting of the board in 1961: "possible financing by international organisations is scared away with balance sheets where businesses such as the collieries of Timba and San Francisco where the institute has been making losses without obtaining any benefits continue; or with ventures like that of Cementos Boyacá, where the directorship is only persuaded through official or regional intervention".[74] There is good reason to believe, that the first-hand statements of an 'insider' of the highest rank accurately explain IFI's dearth of foreign borrowing.

Domestic credit became the sole source of funds that neither originated in the state (at least not exclusively) nor obeyed the sponsoring of specifically targeted projects of ephemeral duration. Credit from private and public commercial banks, the BCH, the CB, the Agrarian Bank and from other entities of the financial sector turned into a growingly important and regular source of resources. Taking the years 1946 and 1948 as outliers, the proportion of total resources that the domestic money markets supplied to IFI oscillated around 20%. Promissory notes, such as that pictured in Figure 4.7, occasionally entered the list of financiers and in no small amounts. The holders of these papers were likely to be the same entities that acted as creditors. Now, the fact that the banking system provided an important share of IFI's resources does not conflict with the view that the institute was still under-funded. Banking-originated funds were important, but within the low levels of overall financing of the institute.

Internally generated resources constitute the last item in the list, as measured by IFI's profits. Any analysis or mere consideration of IFI's profitability faces an insurmountable problem: its promotional nature. The institute's take on profits seems to be resolved against it from the available evidence. Pedro Vicente Ortiz, general manageri, wrote in June 1955: "...**precisely, the characteristic of the institute is that it is not a lucrative organisation**, but instead, and as its statutory function dictates: "its objective is to promote the foundation

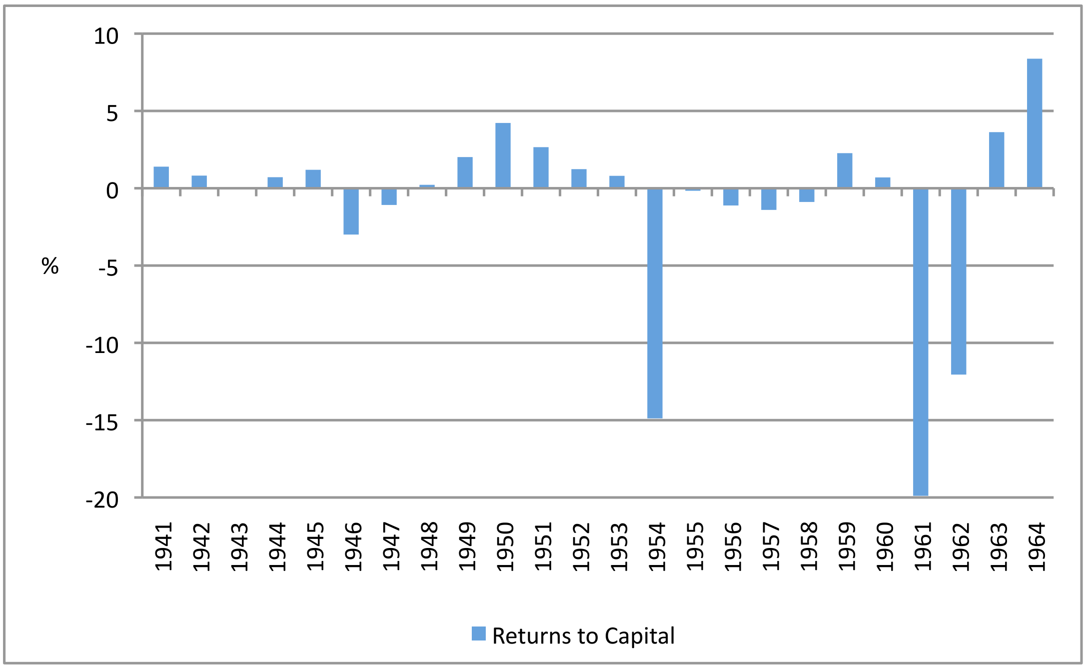
[73]The first request for funds from abroad registered in the Acts dated 30 May 1962, when IFI started negotiations over a loan for US $10,000,000 with the IDB.
[74]IFI. AoBD, Microfilm No. 3474, Act No. 803, 8 February 1961, p. 1668, AIFI.

and enlargement of enterprises exploiting basic and primary-transformation of national raw materials industries..."[75] [bold in the original]. This is the standard and frequently cited viewpoint, not only of the institute, but also from the banking superintendence: "... an institution destined to promote industrial ventures... should not take into consideration making large profits, but the encouragement of those sectors of industry not being exploited by private initiative."[76] The criteria also applied to IFI's credit activities: "... regarding loans, IFI cannot impose strict banking criteria of rigidity in collections and so forth; loans are facilitated to assist companies in getting out of difficulties and not to obtain profits from the credit itself."[77] Despite the unequivocal tendency toward a not-for-profit IFI from its foundational charter, directorship, and its regulator, for the purpose of this section IFI's profits had the potential capability of generating own internal profits and be turned into a source of funding. In turn, this could have enhanced its autonomy at decision-making.

As can be seen from Figure 4.7, in the first thirteen years of operations IFI yielded very modest profits ranging from 0.1 to 4.2 percentage points, and was in the red in only three years.[78] A huge loss in 1954 nearing 15% of its paid up capital was the product of writing off the Industria Colombiana de Pesca, a fishery, IFI had heavily committed to with more than $1,200,000 in shares. The following years are marked by moderate losses and two profitable years. The years 1961–62 turned critical as the consecutive cumulative losses surpassed 30%. This time the poor performance was due to the joint effects of massive writing down of some of the institute's industrial shares and heavy losses inflicted by the coal-mining operations of Valle & Cauca plant. The recovery of the ensuing years did not prevent IFI from averaging a return to capital representing a loss of 1.1% throughout its 25 years of life as a direct industrial investor. In other words, as analysed from its income statements from 1940 to 1964, IFI was incapable of generating a sustained flow of profits that could have been reinvested in its own projects and might have empowered it with financial autonomy.

[75] IFI. Informe del Gerente, 1955, p. 61.
[76] Superintendencia Bancaria. Informe, 1946, p. XXX.
[77] IFI. AoBD, Microfilm No. 3472, Act No. 12 of the Advisory Committee to the Board, 3 April 1946, p. 415, AIFI.
[78] Value for 1943 is unknown in magnitude, but is negative, as captured from the balance sheet of the annual report of 1943 from Superintendencia Bancaria.

Figure 4.7: IFI's Performance: Returns to Capital, 1940–64 (percentages)



Sources & Note: Superintendencia Bancaria. Informe, various years; and IFI. IFI. Informe; IFI. Informe del Gerente; IFI. Balance e Informe (all various years); and IFI. Income Statements, various years. Calculations in nominal pesos. See also Table A.4.4.

The outcome of the analysis of the structure of the origins of IFI's resources points at an overwhelming dependence of the institute upon government. An average for the above selected years of the resources, which originated in government — capital contributions, IFI Industrial Development Bonds, and Paz del Rio debentures — shows that 86% of IFI's funds came from state sources and only the remaining 14% could be said to pertain to the institute's funds, as represented by its own obligations with other financial and banking entities, promissory notes, and eventually, minor profits in good years. This last item was negligible in practice, however. In short, IFI became over-dependent on government capital contributions for the running of many of its running projects and for the provision of fresh funding for embarking on new ventures. Such conditions, as will be seen in the following section, hindered the institute's ability to take its investment decisions in autonomous fashion.

Pattern of Investment: Autonomy

This section will argue that dependence on government funds undermined the capacity of IFI to take investment decisions in an autonomous fashion. But how exactly were successive governments influencing IFI's decision-making process? The answer has a clear-cut relationship with the precarious financial situation of the institute described above. The relation was simple and direct: by making capital contributions to IFI, and by subscribing debentures from IFI, government opened up the opportunity to 'attach strings' to its disbursements. Attaching strings meant that the government channelled resources to IFI on condition that, for instance, the funds in question were spent exclusively on projects which the government preferred. By this means IFI's independent decision-making processes were hampered. A funds-starving entity in the mid-1940s and 1950s saw the direction of its activities being defined by governments, as the latter ruled over the financial possibilities of IFI's investment plans. This is most visible in the selection and promotion of IFI's macro-projects. In other words, the overwhelming dependence of IFI on government funds combined with its chronic state of financial weakness rendered its decision-making process vulnerable to governmental will.

Framed as a question: would it be realistic to expect total independence for IFI? No. To expect absolute independence would be naïve, yet to attain some level of relative independence, as to enable the agency to carry out is investment decisions on technical and economic grounds, and free of official patronage and pressure from private interests prone to rent-seeking, was highly desirable. The fiscal empowerment of developmentalist agencies along with corresponding bureaucratic autonomy are often listed among the prerequisites for successful industrialisation of latecomers. For example, Johnson emphasizes these in his account of the thriving industrial catch-up of Japan, South Korea and Taiwan.[79] Yet, Colombia is not South Korea or Taiwan, let alone Japan. Closer, geographically, and most crucially, historically, are Brazil and Mexico. These two countries designed IFI-like developmentalist agencies. Though neither Mexico's NAFINSA nor Brazil's BNDE

[79] Johnson, C. 'Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea and Taiwan' in Deyo, F. (Ed) *The Political Economy of the New Asian Industrialism* (1987). See also for South Korea; Amsden, A. 'Asia's Next Giant: South Korea and Late Industrialisation' (1989).

concerned themselves exclusively with industry, both promoted the sector in similar ways to IFI, and to a larger extent, in relative financial terms.[80] The point for bringing these cases here, is that, unlike IFI, NAFINSA and BNDE seemed to have attained such relative autonomy; and this impacted favourably on their performance and thus on their respective contributions to industrialisation. Empirical studies on both these agencies suggest this was the case. For instance, Blair makes reference to this point neatly: "Within limits, Nacional Financiera is a body of competent *técnicos* making microeconomic decisions on the basis of criteria familiar to any lending institution in the private sector: market potential, debt-service capacity, managerial talent, past performance [italics in the original]."[81] The case of Brazil's BNDE has been so distinctive as to attract serious academic attention. Geddes,[82] Sikkink,[83] and Willis[84] have all looked at BNDE's 'bureaucratic independence', 'insulation' and 'institutional capacity' in different attempts to explain the bank's relative effectiveness and contribution to state-sponsored developmentalism. In short, Latin American states similar to Colombia, that had designed IFI-like agencies to assist and promote industrial development have gone further in attaining this goal, partly by granting these agencies the autonomy required to do so. IFI, in various instances, lacked such autonomy. This was more evident in the cases of large projects.

[80]For numbers on this see; Amsden, A. 'The Rise...' Ch. 6.
[81]Blair, C. 'Nacional...' p. 198.
[82]Geddes, B. 'Building State Autonomy in Brazil, 1930–64' in *Comparative Politics* Vol. 22, No. 2.
[83]Sikkink, K. 'Brazil and Argentina: Un Enfoque Neoinstitucionalista' in *Desarrollo Económico* (1993) Vol. 32, No. 128.
[84]Willis, E. 'Explaining Bureaucratic Independence in Brazil: The Experience of the National Economic Development Bank' in *Journal of Latin American Studies* (1995) Vol. 27, No. 3.

Table 4.2: Presidential Decrees, 1940–58

Date	Decree	Firms/Industry	Value (Million Pesos)	Purpose
17 May 1941	923	Uraba Agrarian & Sugar Co.		Manufacturing Plan
19 June 1942	591	Industrial Shipyards Union		Acquisition
1945	2995	Steelworks Paz del Rio	10	Financing
1 December 1945	3580	Coal	3	Studies
6 February 1951	248	Coal	3	Plant installation
18 June 1952	1414	Colombian Fertilisers	3	Capital contribution
6 October 1953	2600	Coal	5	Plant installation
9 September 1954	2674	Boyaca Cements	2	Capital contribution
9 September 1954	2674	Pulp & Paper	1.5	Studies & Plant
9 September 1954	2674	Coal	1	Plant completion
11 December 1957	364	Coal	1	Studies
28 May 1958	168	Coal	7	Capital contribution
27 June 1958	227	Boyaca Cements	1.1	Debt-equity swap

Sources: IFI. Estatutos Orgánicos, 1958.

A list of IFI's largest ventures has been compiled based on the following criteria: Share of resources of each venture in the total amount of IFI's assets at the time of the constitution of the company or its reorganisation; secondly, amount of credit advanced, in addition to shares subscribed; third, time and effort dedicated to each project, as registered in the minutes of the board of directors, according to frequency and length of it being discussed.

The more resources and time devoted to a large venture, the more likely it will make it into the top of the list. A plausible ranking looks like this: Paz del Río steelworks (1948), Cauca & Valle plant (1958), Colombian Rubber Tyres (1942), Forjas metalworks (1962), Boyacá Cements (1955) and Colombian Milk Industry (1945).

The standard procedure by which governments meddled in IFI's projects consisted of executive decrees. Presidential decrees, based on faculties given by the constitutional charter and extraordinary legal provisions, roughly followed this order.[85] First, they described the considerations that prompted government to act; secondly, they indicated the concrete

[85] Article No. 121 of the National Constitutional Charter of 1886 and Law 54 of 1939.

industry or company to which assistance should flow to; thirdly, they attached an exclusivity string; and finally, they provided a sum to be allocated to that industry or firm through IFI. As will be seen, also by decree, IFI acquired or managed companies, usually beyond its initial remit. The following is an illustrative sample of the decrees, by no means exhaustive, by which consecutive governments set the pace and path IFI was to tag along (Table 4.2).

Few words need be said about this list. First, as can easily be inferred from the numbers, when made effective, the amounts contained in the capital contributions and debentures of these various decrees were so large, that they defined the stepped-like patterns of investment of the institute, as represented in its industrial shares. Time-lags between inflows of money and the funds being displayed in the total of IFI's shares are due to the timing involved in the study, preparation, and execution of the projects in question. Secondly, the frequency with which presidential decrees mediated to carry out IFI's ventures is high: 1941, 1942, 1945, 1950, 1951, 1952, 1953, 1954, 1957, and 1958 are all years where intervention occurred. From 1958 onward, decrees are most likely to have played a similar role. Thirdly, governmental meddling was not confined to a specific venture or industry. As seen from the list, intervention occurred in sectors, as diverse as cement, steel, fertilisers, sugar mills, paper, shipyards, and coal; this last item, receiving most attention, however. Lastly, with the exceptions of the sugar mill and the pulp and paper cases, all of the decrees listed supplied finance to the biggest of IFI's ventures. From all this, it is reasonable to conclude, that as far as IFI's largest projects is concerned, the institute enjoyed little autonomy to decide over their implementation because the agenda was set by government. This was particularly so due to IFI's financial vulnerability, as has been discussed and shown above.

Two more comments need to be made. First, critics of the view that IFI lacked institutional autonomy might argue that the direction of the causality could have flown the other way around. That is, governments did not set the path for IFI to follow. Instead, the supply of state funding was the result of effective IFI advocacy to 'bringing government on board' when embarking upon large ventures. The institute's successful fund-raising, thus, was nothing but the outcome of full governmental support. Such reverse causation is plausible. However, three caveats arise from this perspective. One, evidence pointed at in an earlier section, highlights IFI's constant liquidity problems, claims about capital insufficiency to operate, iterative doubts about its economic viability, and repeated failure to honour contracts, suggesting that what IFI lacked throughout these years was precisely government financial and political support. Secondly, even if such evidence is neglected, and the view of government support sustained, it makes more sense to claim that government acted not so much as full-time sponsor of IFI, but rather as the ultimate veto player. The denial, retention, and delaying of funding embodied ways to veto plans of IFI which governments did not share. And three, there is reason to believe that governments preferred to hold the last word in regards to the financial viability of the institute's large projects. Counterfactual questions help clarifying this. How autonomous IFI would have become, had it been endowed with a permanent annually-based allowance of funds from the national budget? Or with a legal monopoly over foreign borrowing, as NAFINSA? Or with regular resource injections from earmarked taxes, as BNDE? Would governments have lost their veto power and sway over the institute had IFI received a constant and ample flow of funds? IFI was only granted an entry from the national budget late in 1961, when plans to turn it into a development bank had already been put forward. So, why did this take so long? The answer, as suggested from the above evidence, is that it was not in the governments' interest to do so. Politicians, as will be shown below, preferred to count on a kind of IFI malleable to their interests, subject to their financial largesse.

As argued above, overwhelming fund-dependence of IFI on government implied the latter was capable of forcing or influencing projects. This was especially so with large investments. To illustrate how this took place, an analysis of one of the institute's most important ventures was carried out: the Valle & Cauca Coal Plant. It is an interesting case because there is empirical evidence around this project to illustrate and support claims about governmental pressure on IFI to promote the venture, and discharges from the institute about its responsibilities. Although illustrative of how political pressure was applied, the study of Valle & Cauca is not meant to be representative of all of IFI's ventures nor is it selected with a view to indicate a trend. It is solely on the basis of its magnitude, in terms of financial resources and time and effort of IFI, that its study is justified.

Case Study: Valle & Cauca Coal Plant

That coal turned into one of IFI's major concerns is beyond doubt. In 1958, IFI possessed shares in Valle & Cauca worth $10,220,140, which represented more than half of the Institute's total investments in industrial stocks in all companies, on top of at least another million being spent on coal studies.[86] The means of financing differed from IFI's previous large projects, since this time most of the funds had been allocated by the government via capital contributions, and not through IFI Industrial Bonds (as for Icollantas) nor by means of debentures (as for Paz del Rio). The concentration of resources was not only financial, however. To accomplish the coal project, IFI implemented organisational changes creating a Coal unit to deal with all aspects related to this industry within IFI and engaging in collaboration with other agencies.[87] IFI's auditors recorded the effort: "at present, the institute is fully devoted to the establishment of the **washing plant of Carbones del Valle** [bold in the original]"[88]; a statement corroborated by the frequency and length with which issues around coal are registered in the directors meetings. In other words, if Paz del Rio steelworks had been IFI's emblematic venture during the 1940s, during the 1950s the turn had come to Valle & Cauca coal plant.

It is not obvious, however, why IFI got involved in a coal plant in the first place. Coal exploitation, classification, transporting, and storage, when primarily aimed at export markets amounted to a 'basic industry' under the Manufacturing Plan of 1940.[89] As the Plan was indicative to IFI, its directorship was compelled to promote industries within the range of industries covered by it, the institute found no obstacles in this sense. Moreover, IFI had antecedents in the coal business. In 1943 it acquired a right to exploit the mines of San Jorge near Zipaquirá, with a view to integrate them in a soda plant, which demanded significant coal inputs. The sums involved were slight and the main project was not coal-based; instead, coal was incorporated as a component in the supply-chain of a larger plant. Thus, IFI only began to take coal seriously in the 1950s.

[86]IFI. AoBD, Microfilm No. 481, Consolidated Balance on 31 December 1958, AIFI.
[87]IFI. AoBD, Microfilm No. 3473, Act No. 196 of the Advisory Committee to the Board , 9 May 1950, p. 834, AIFI.
[88]IFI. Informe del Gerente, 1954, p. 61.
[89]IFI. Estatutos Orgánicos, 1942, p. 29.

During this decade the country's public opinion and its political leadership began to look for alternatives to coffee exports. Contemporary official publications and press commentators offered insights into the increasing expectations and speculation that started to surround the production and export potential of coal around the 1950s. With this in mind, rather than with the purpose of assessing the accuracy of the content and forecasts back then, some illustrative evidence emerges. A message from the chamber of commerce of Cali to President Gómez, himself an advocate of coal, celebrated the enormous coal potential of the region and the facilities that the coal from Valle offered for its economic exploitation. There was no shortage of exaggeration in the missive: "Cali rests on a huge carboniferous deposit, well-known for its size and quality, as one of the richest on earth. This gigantic basin, of perturbing opulence, assures indefinite exports of this black gold. It is one of the most important reserves, if not the most important of all, for the world's future. A millenary enclosed treasure."[90] Another coal-advocate referred to the layers present in Valle del Cauca, as 'the Colombian Ruhr', pointing at the equivalency to Western Germany's massive deposits.[91] Similar tones described access facilities to coal seams and their economic capabilities. A vast potential of coal for exporting became a generalised phenomenon among opinion makers, government, and coal entrepreneurs.

Amidst the euphoria international markets were said to spring up everywhere. Cali's chamber of commerce listed Argentina, Ecuador, Peru, Chile, Uruguay, Paraguay, Brazil and several Central American nations as firm clients.[92] Others added Japan.[93] IFI did seem to escape the frenzy at first. One of its directors requested: "more information on the studies that have verified the possible markets for Valle & Cauca; so far information is based on general statistics, but there is no first-hand research... a situation might arise in which the plant is working and the production for exporting lacks markets."[94] Later however, IFI joined the optimistic trend including Germany, Italy, Mexico, Costa Rica, and many others as possible exporting destinations.[95] The enumeration of buying nations was often

[90] Cámara de Comercio de Cali. Mensaje de la Cámara de Comercio de Cali al Excelentísimo Sr. Dr. Laureano Gómez, Presidente de la República, 1951, pp. 1–5.

[91] De la Espriella, R. 'Posibilidades del Carbón Colombiano' in *Economía Colombiana* (1957) Vol. 15, No. 44, p. 530.

[92] De la Espriella, R. 'Posibilidades...' p. 7.

[93] Departamento de Investigaciones Económicas de Industria Colombiana. 'El Carbón: Clave del Futuro Económico de Colombia' in *Industria Colombiana* (1954) No. 11, p. 26.

[94] IFI. AoBD, Microfilm No. 3473, Act No. 521, 26 August 1953, pp. 1053–54, AIFI.

[95] IFI. Informe del Gerente, 1956, p. 22.

accompanied by concrete numbers in exporting incomes, coke and other coal-derived products in actual tons, and potential and actual reserves in billions. In short, a wave of expectations based on coal cropped up with a view to make the national economy less dependent on coffee, and to exploit a vast natural resource hitherto forgotten.

To be fair, expectations about bright prospects for coal in the post-war period were not unjustified. First, Europe's and Japan's reconstruction efforts were deemed to require a strong demand for energy, which by the 1950s essentially meant coal. According to Yergin's estimates, by 1955 coal provided 75% of total energy use in Western Europe, and more than half of that in Japan.[96] Secondly, energy-supply in Europe faced serious problems: not enough coal capacity and low productivity.[97] In 1946, Europe suffered its first post-war energy crisis, as the result of the combined effects of roaring demand, a terrible shortage of coal, and a very cold winter. Thirdly, prospects of finding cheap coal-substitutes for industrial boilers and power plants along with hopes of converting the West's economies to oil faltered at first, as oil prices stayed relatively high and ensuring supply from international supplies proved risky as the Suez crisis of 1956 unfolded. In short, public and private optimism with regards to potential Colombian coal exports in the post-war years were well warranted. Export potential, however, was not sufficient to turn coal into a real and lasting alternative to coffee, as will be shown later.

It was within this international context of a global energy crisis and a national opinion climate willing to exploit the opportunities that emerged from it, that IFI received substantial funding from government for the coal venture. The first presidential decree in the series promoting coal dated December 1950. The measure provided funds to IFI and other entities to conduct studies on coal reserves and prospect the mines whose economic viability seemed promising. It authorised the Agrarian Bank to advance subsidised credit for purchase of machinery and equipment for coal exploitation, and made an explicit emphasis on the production of coal for exporting purposes.[98] The inflows, however, had strings attached. The resources could only be directed towards the exploitation and exportation of coal projects; concretely, to the Valle & Cauca plant. Executive decrees throughout

[96] Yergin, D. 'The Prize: The Epic Quest for Oil, Money and Power' (1990) pp. 544–45.
[97] Yergin, D. 'The Prize...' pp. 423–24.
[98] IFI. Estatutos Orgánicos, 1959, pp. 65–68.

the 1950s transferred funds to IFI on condition that these were exclusively destined to the study, installation, construction, and conclusion of the coal washing plant and related matters.[99] There is no evidence of fund diversion within IFI once funding for this purpose was received. On the contrary, IFI's minutes of directors meetings often indicate clear-cut observance of the letter and spirit of those dispositions.[100] By supplying IFI with earmarked funds only (or mostly), governments were effectively fixing the agenda of the institute. In this case it occurred with the development of the Valle & Cauca washing plant.

And yet, what was the Valle & Cauca venture about? As gathered from above, at its core was an effort to exploit a domestic natural resource in order to industrialise it and to export it. However, given the mineral characteristics of most of the coal deposits found in Valle and Cauca, for it to be exported the coal needed to be washed, classified and blended.[101] It was out of this requirement that IFI entered the project. Its main task was to construct the washing plant that made coal exportable. As the project grew more complex it encompassed three main parts: washing plant construction, mines' mechanisation, and port railways facilities.[102] IFI executed the first in its entirety, acted as comptroller in the second, and left the third to the national railways company. A strong interest in IFI arose regarding the mechanisation of the mines for the plant to be economically viable it needed to operate at a certain minimum of its capacity, and to guarantee sufficient inputs, coal production had to increase.

IFI ignored its own early warnings on the technical and economic feasibility of the coal project. A 1953 report by foreign expert and consultant Mehwirter noted: "Reserves: The quantities of reserves are sufficient, but the quality of these need be determined. As coke is one of the key points in the project the large investment of capital required is being based on a sample without confirmation and there is no available information as to whether or not other layers are susceptible of being coked. This is the scheme's fundamental

[99] For full decree contents see Decree No. 3580 of 1950 pp. 63–65; Decree No. 248 of 1951 pp. 68–70; Decree No. 2600 of 1953 pp. 75–78; Decree No. 2674 of 1954 pp. 81–82; Decree No. 364 of 1957 pp. 90–92; Decree No. 163 of 1958 pp. 93–95 in IFI. Estatutos Orgánicos, 1959. In some of these decrees earmarked funds to other ventures were included, as was the case for Cementos Boyacá, and Industria Colombiana de Fertilizantes and coal studies for the El Cerrejón deposits in Magdalena.

[100] IFI. AoBD, Microfilm No. 3473, Act No. 478, 14 August 1952, p. 994, AIFI; and IFI. AoBD, Microfilm No. 439, 14 June 1951, pp. 900–01, AIFI.

[101] High sulphur and ash contents made coal difficult to sell in world markets.

[102] IFI. Informe del Gerente, 1956, p. 17.

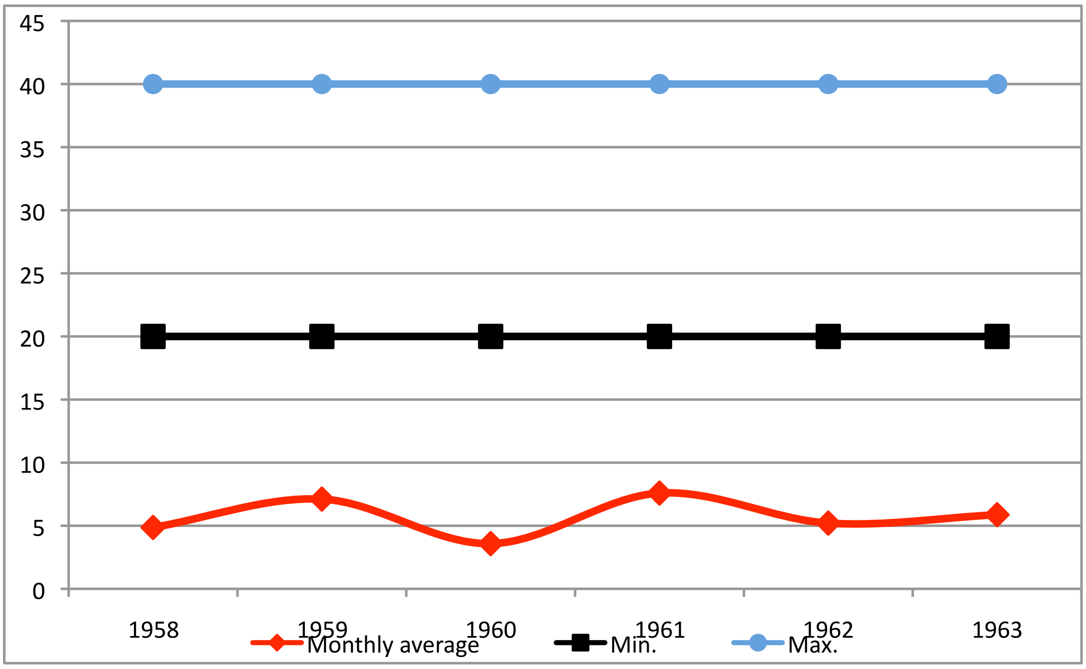
weakness. More coking trials are imperative. Production: Due to high financing costs it will not be profitable to operate the plant with production levels below 20,000 tons per month... Markets: It is not expected for the domestic market to grow strongly. The only additional market is to export. The quantities in which can be sold are unknown. The varieties of which can be sold are unknown. The sizes of which can be sold are unknown. Effectively, nothing is known about the possibilities or requirements of the market. Have the producers of coal understood that for two years they will have neither profits nor markets; but only expenses. I DOUBT IT [Capitals in the original]."[103] In other words, given the fact that the whole edifice of the coal project was based on its production being exported, the Mehwirter report suggested, at least, structural negligence and demanded immediate action for the sake of the viability of the plant.

Despite the serious recommendations noted above, Mauricio Archila, general manager of IFI stated, on the very same day the report was published: "the project of the washing plant and the exploitation of coal for exporting had been exhaustively studied by IFI and other entities... [and] the institute is prepared to verify the purchase of the equipment for the plant."[104] The investment on the coal venture went ahead and it is not possible to demonstrate with historical evidence that this decision was, or was not, justified. An unsupported assertion is that total disregard of the expert advice hints that the criteria governing this particular project appeared to be other than technical, financial or economic.

The Valle & Cauca business turned into failure early on. After more than a year of delays and significantly over budget the washing plant began making losses in 1957. A glance at its performance explains why. As seen from Figure 4.8, the plant never got close to processing the minimum of 20,000 thousand tonnes per month deemed necessary for it to achieve economic viability. Production reached its peak in 1961 when 7,588 tonnes went through, but the average during its short life-time was 5,704 tonnes. In this 6-year period it utilised only between 12% and 25% of its installed capacity. Thus, the plant drowned in losses from its onset and affected negatively IFI's own financial accounts. By the first semester of 1961, the institute recorded the largest accounting loss of its history.

[103] IFI. AoBD, Microfilm No. 3473, Act No. 522, 9 September 1953, p. 1056, AIFI.
[104] IFI. AoBD, Microfilm No. 3473, Act No. 522, 9 September 1953, p. 1056, AIFI.

Figure 4.8: Coal Plant: Capacities & Actual Processing, 1958–63 (thousands of tons)



Sources: Corporación Autónoma Regional del Cauca (1965) and IFI. Informe; IFI. Informe del Gerente; IFI. Balance e Informe (all various years. See Table A.4.5.)

The balance of its income statement showed a total loss of $10,261,604.[105] Around 90% of it was due to industrial stocks devaluation, i.e. the collapse of Valle & Cauca's market value. This should have brought IFI to the brink of extinction. The loss represented 42% of the institute's total capital and its organic law dictated automatic liquidation if loses reached 50%.[106] Losses on the ground were also important. For 1961 the annual report exhibited losses of $1,139,994 for Valle & Cauca,[107] and $1,441,033 in the related development of the Timba and San Francisco collieries, which supplied feedstock to the washing plant.[108] Faced with this situation, a report by the auditor encouraged IFI to look for the termination of the contract between the collieries and the institute, ruling out any realistic prospects of recovering $5,000,000 worth in investments; and hinting at the beginning of the end of the project, as this meant reducing further coal-processing

[105] IFI. AoBD, Microfilm No. 482, Consolidated Balance and Income Statement on 30 June 1961, AIFI.
[106] IFI. Estatutos Orgánicos, 1942, p. 14.
[107] IFI. Informe, 1961, pp. 41–43.
[108] IFI. Informe, 1961, pp. 52–54.

levels.[109] A couple of years later, IFI shut down the washing plant dismissing some 300 workers, and leaving several coal producers, which required their anthracite coal to be processed, in an uncertain situation.[110]

With the benefit of hindsight, IFI and others have examined more closely what went wrong. "The strong desire to supply the domestic coal market, and to open up a new exportation item, has not been accomplished due to the lack of complete studies about the characteristics of the deposits, the markets, and the economic conditions of its production, transportation, and distribution", wrote the general manager in 1961.[111] A Belgian mission in the early 1960s arrived to Cali to look for the roots of the washing plant failure and a study commissioned by Valle's Regional Corporation prepared a report to establish the causes of the crisis of the coal industry there, the main factors behind the closure of the plant, and prospects toward its re-opening.[112]

The investigations concluded: first, that markets for production were local, since it was not possible to compete either in the national markets or in the international ones. Secondly, that most of the extractive processes were conducted in a rudimentary manner, wasting valuable reserves and making the extraction non-economic. Thirdly, that supply did not meet demand. Fourthly, that the operation of the washing plant was un-economic. This was due to the joint effect of producers' unwillingness to process their coal and consumers' resistance to buy washed coal, alleging high humidity levels. Processed coal was 25% higher in price than crude coal, hence it was not competitive. Fifth, the investigations found that the coal of the region was not exportable because of both its uncompetitive price and its failure to meet international standards of quality. And finally, that the washing plant should definitively terminate its operations.[113]

As had been indicated by the Mehwirter report, lack of accurate knowledge of the deposits proved a crucial deficiency. At least so, argued articles and studies by foreign experts, such as Edward Roesler, who stated, that: "among the most fundamental aspects of

[109] IFI. AoBD, Microfilm No. 3474, Act No. 808, 6 March 1961, pp. 1680–81, AIFI.
[110] Corporación Autónoma Regional Del Cauca (CARC). Investigación sobre la Industria del Carbón en el Valle del Cauca' (1965) p. 1.
[111] IFI. Informe, 1961, p. 33.
[112] CARC. Investigación sobre la Industria del Carbón en el Valle del Cauca, 1965, p. 1.
[113] CARC. Investigación sobre la Industria del Carbón en el Valle del Cauca, 1965, pp. 4–18.

coal exploitation figures knowing seam thickness."[114] Mid-twentieth century assessments proved to be right, as more contemporary studies, such as that of De la Pedraja, suggest. He sustains that although there were plenty of coal reserves, as forecast by everyone, seams were thin and irregular, widely scattered and often vertical.[115] Summarising, the impossibility of realising economically productive extraction in the Valle & Cauca coal mines originated in the nature of the coal seams themselves. This vital aspect was left out on any considerations about the levels of output necessary for the washing plant to operate economically. This disregard determined to a large extent the ultimate fate of the plant. Is it possible that this neglect for the technical aspects in the conception of the project was the consequence of political intervention in IFI's investment decisions? The next section aims to answering this question on the basis of empirical evidence.

Government Intervention on IFI's Decision-Making: Historical Evidence

Can it be shown that it was government meddling in the Valle & Cauca project what led to its demise? The quest for hard evidence on political pressure and/or political criteria governing the viability of economic ventures is an elusive one. The following is probably the most clear-cut available historical evidence insofar as governmental intervention in the institute's selection and management of its investment projects is concerned. As mentioned in the introduction of this chapter, several of the directors' remarks that originate in the minutes of the board — then confidential — hinted that due to government meddling its financial performance had been damaged. In this respect, Álvaro Hernán Mejia, general manager, wrote: "The financial problem of IFI has been aggravated in previous years due to the fact that to its care were trusted enterprises initiated by other official sectors, — which for lack of technical planning or fault in their financial system — came to constitute a heavy burden and with few chances of this situation being rectified."[116] This is a reference

[114]Roesler, E. 'La Economía Minera de la Industria del Carbón en la Región Caleña' in *Industria Colombiana* (1954) No. 11. pp. 29–30; and Banco de la Republica. 'La Producción de Carbón en Colombia' in *Revista del Banco de la Republica* (1957) Vol. XXXI, No. 365, pp. 285–86.
[115]De la Pedraja, R. 'Electricidad, Carbón y Política en Colombia' (1993) pp. 350–51.
[116]IFI. Informe del Gerente, 1959, p. 14.

to the collieries of Timba and San Francisco, that were initially assisted by the Agrarian Bank, and whose businesses were transferred to IFI, in view of the construction of the washing plant. More specific complaints were voiced by Jorge Miller in IFI's meeting of directors in February 1959, who then stated: "it must be included in the memorandum the issue concerning the companies that the institute has been forced to continuing promoting, such as Cauca & Valle plant..."[117] The quote is more telling because Miller himself, was one of two presidential appointees in the board. The point to make here is that, as follows from these two pieces of evidence, IFI had both to enter into the project and to stay in it, due to government decisions.

In similar fashion, Ángel Echeverri, representative of the BCH in the board of directors, raised questions about the overall purpose of IFI's intervention in those ventures and about their role in the broader development strategy. He declared: "government must be notified that the capital contributions of IFI in these enterprises cannot exhibit any satisfactory outcomes, for these do not belong to any general plan that aims at a clear-cut objective."[118] A similar opinion was expressed by the other government representative in the board, General Alfonso Ahumada, who declared: "the problems in the coal industry and Cementos Boyacá were not possible to foresee, as these were ventures that originally lay outside the institute's action range."[119] Strictly speaking, and as noted earlier, contrary to Echeverri's and Ahumada's comments, coal was an initial part of the developmental plans of IFI, as stated by its foundational charter, whilst cement probably classified as basic industry. Nevertheless, their discharges seemed to suggest that governmental rulings that decreed that IFI had to promote these industries were not consistent with IFI's plans at the time of their administration, and that were not considered thoroughly as immediate prospects.

A third director, Ernesto Vasco, added a dose of regional politics was present in the coal plant case, as he stated: "IFI's actions regarding these companies [referring to Valle & Cauca and Timba and San Francisco collieries] have been surrounded by very complicated situations: in the case of Carbones del Valle, an offer [to purchase the company] by Dade

[117] IFI. AoBD, Microfilm No. 3474, Act No. 715, 9 February 1959, pp. 1954–57, AIFI.
[118] IFI. AoBD, Microfilm No. 3474, Act No. 715, 9 February 1959, pp. 1954–57, AIFI.
[119] IFI. AoBD, Microfilm No. 3474, Act No. 723, n.d., pp. 1480–81, AIFI.

Petroleum Company was presented to IFI; but *Vallecaucanos* manifested that neither the plant could be sold to Dade nor the mines transferred, because this represented a threat against the national sovereignty; thus they offered to financing the industry; however, at the time of reckoning no contributions were made..."[120] Effectively, what Vasco denounced was a palpable exercise in nationalistic politics, by which IFI was compelled to forsake a good opportunity to recover some of the inflicted losses in that company through its sale. Instead was tied to it and forced to delay its exit from the market. In the collieries case, Vasco expressed his uneasiness about the fact that the transferral of this business from the Agrarian Bank to IFI meant, that the obligations to attend their liabilities had also been transferred with them, troubling further IFI's own finances.[121]

The displayed evidence points, at the very least, to governmental co-responsibility in the failure of Cauca & Valle project. First, IFI seemed not to have enjoyed freedom to select and fund the entirety of the venture, as the Timba and San Francisco administrations were apportioned to IFI, with all the technical and financial inconveniences they entailed. Second, IFI was prevented from realising a seemingly advantageous sale of the company when the opportunity arose, because of nationalistic waiving. Thus, IFI was forced to delaying the company's market exit. Third, it is not clear that governmental support of the coal venture fitted in any cohesive and imminent manner within the wider goals of economic planning and development of the institute at the time. In sum, government set the target, brought IFI into the project and prevented the institute from exiting it. In other words, as far as Valle & Cauca is concerned, the institute was unable to apply technical and economic criteria in the assessments of the viability of the investment. Instead, the government did it on IFI's behalf and the consequences of such interfering proved disastrous.

Conclusions

The main sections of this chapter have offered a revisionist view on the role of IFI in the industrialisation of Colombia. The challenge to the conventional literature originates in

[120] IFI. AoBD, Microfilm No. 3474, Act No. 715, 9 February 1959, pp. 1954–57, AIFI.
[121] IFI. AoBD, Microfilm No. 3474, Act No. 715, 9 February 1959, pp. 1954–57, AIFI.

two shortfalls of the historiography. The first consists of the treatment commonly given to IFI as an organisation that promoted industrial development through the same mechanisms and with same intensity throughout its life. Hitherto, the vast majority of the literature had failed to appraise IFI in its role as direct industrial promoter; that is, as entrepreneur and provider of venture capital. The period 1940–64 is a distinctive one for IFI and its contribution to industrialisation needs be assessed separately from that when acting as a development bank — post 1964. In this sense, an initial contribution of this study to the historiography is that of delineating a new periodisation in the history of the institute.

The second problem with the current literature relates to the frequently portrayed picture of IFI as a key player and contributor to industrial development. A preliminary assessment of the actual contribution of the institute suggests that such a view has been misconstrued, at least for the period 1940–64. In absolute terms, the number of firms successfully promoted and transferred to the private sector hardly surpassed a dozen, the share of IFI in the total of industrial investment averaged a modest 2.5% (as captured by its proportion in the total of stocks issued in the Bogota stock exchange), and the evidence on the participation of IFI in publicly limited manufacturing companies indicates that the institute was more often than not the junior partner in these private-public joint ventures. Implications from this latter point suggest that, contrary to what authors such as Revéiz propose, IFI must have faced difficulties in influencing the pricing policies of the firms it promoted. In short, the very modest financial contributions of IFI to its industrial firms, which constituted IFI's chief mechanism to promote industry in this period, substantiate the claim proposed in this study, namely that IFI was not an increasingly important tool for industrialisation.

The underlying reason why IFI's role was not the one the literature claims, is that the strong financial muscle that it was assumed that IFI possessed was not so strong in reality. On the contrary, and as demonstrated with primary evidence from the directorship — or in other words, from 'within' — the institute suffered from chronic and severe financial problems. This financial fragility, combined with an overwhelming funding dependence upon government and its own inability to generate a regular stream of resources out of its investment projects undermined the capacity of IFI to perform a significant task in industrial development. Moreover, under these conditions IFI lost the ability to take its investment decisions in an independent fashion. Successive public capital contributions to the institute with strings attached meant that politics came into play when deciding upon the selection of large projects, as illustrated with Cauca & Valle coal plant. The largest of IFI's projects often ended in company liquidations that caused massive losses for the institute, affecting further its own performance and the capacity to contribute more decisively to Colombia's industrialisation.

A logical corollary of the revisionist role played by IFI necessarily has implications on broader explanations about Colombia's economic development. More explicitly, a downgrade on the role played by IFI weakens interpretations that assume that industrialisation took place under the guidance, leadership, or a sponsoring role of the state. State-led and ISI-based interpretations that work on the assumption that IFI had been an important pro-industrialising agent must be reconsidered on two grounds. First, on the obvious point that the contribution was, and could have never been, as decisive as implied until now. Secondly, that the state actually committed itself whole-heartedly to the industrialising project via the political and financial support of developmentalist agencies, such as IFI. There is a new and compelling need to question the effective commitment and the preferences of the governments towards industrialisation. Precisely, these variables can be examined through an analysis of the developments in the credit-policy field to which attentions turns next.

5 Industrial Credit, the State, and the Financial System

It is important to set the historical record straight. Colombia's industrialists are said to have enjoyed an ample and cheap supply of financing during the state-led and/or ISI era circa 1940–67. Several assumptions underlie this view. First, that the Colombian state was deeply committed to industrialisation at any cost. Second, that the state was capable of channelling ever increasing financial resources to manufacturing at the expense of other economic sectors. Third, that the state was willing to do so. Fourth, that industrialists had the political clout and influence to force the financial system to lend to them at subsidised prices. These postulates are often supported with evidence leading one to believe that financing was not a real problem for manufacturers. This chapter challenges the assumptions and evidence supporting this interpretation. It sustains that such view is misconstrued and the empirical evidence used to support it is only partial. The arguments goes as follows: the relative share of institutionalised credit flowing to manufacturing was significantly lower than assumed by proponents of the above view, when the sectoral allocation considers the financial system as a whole. In fact, it is argued that industrialists came to represent the losers in a financial system whose structure was bank-based and in which key players — CB and the biggest publicly-owned bank — represented competing interests, those of agriculturalists in general and coffee growers and cattle farmers in particular. The state, contrary to what the literature claims, utilised its political power to advocate chiefly for the financial interests of primary producers and only in a marginal sense catered to those of manufacturers, at least until 1967.

The chapter divides in five sections. The first section reviews the current literature on the issue of industrial credit in Colombia. The second provides historical evidence by industrialists indicating that both short- and long-term credit availability were sources of concern for the sector — and deemed insufficient. This is validated by the display of further primary evidence from the CB, government sources and foreign experts coinciding with the assessments of industry. The next section characterises the Colombian financial system as a credit-based one, dominated by private commercial banks with an increasing role for public financial institutions. It also reviews and analyses the legislation shaping the flows of credit. The fourth part offers new calculations of the sectoral shares of credit by commercial banks, the CB, and public institutions, such as the Agrarian Bank, demonstrating that state support in financing matters was largely directed at agrarian, not industrial interests. The last section concludes.

Credit to Industry: the Colombia Literature

Most of the literature dealing primarily or marginally with industrial credit has framed the issue on the basic assumption that the Colombian experience fits neatly in the context of import-substituting or state-led industrialisation. Berry and Thoumi outline the country's post-war economic policy as one following a "fairly standard import-substitution" strategy until the mid-1960s.[1] Avella et al. characterise the deliberate development strategy that emerged after 1945 — that of ISI — as exhibiting three distinctive elements: the channelling of major resources to industry, direct state investments in the sector, and rising protectionism.[2] Misas, in a similar vein, narrows the bases of ISI in Colombia to two factors: high protectionism and promotional credit.[3] Other authors, such as Rettberg[4] and Hallberg[5] expressly emphasise the role of subsidised industrial credit that originated in state institutions since the 1940s — also subscribing to the ISI account.[6] So does the work

[1] Berry, A. and Thoumi, F. 'Post-War and Post-National Front Economic Development of Colombia' in Herman, D, (Ed) *Democracy in Latin America: Colombia and Venezuela* (1988) pp. 65–66.
[2] Avella, M. et al. 'La Consolidación...' pp. 260–61.
[3] Misas, G. 'La Ruptura...' pp. 72–76.
[4] Rettberg, A. 'The Political...' p. 58.
[5] Hallberg, K. 'Colombia. Industrial Competition and Performance' (1991) pp. 111–12.
[6] These studies concern mainly with the formation of economic groups and the development of (non)competitive industrial practices.

by Muñoz and Bolívar who see the state as a new player in the financial markets acting with the aim of favouring the development of the productive sectors following CEPAL-inspired ideas at a time "when the problems of industrial financing were seen through structuralist lenses" and offered solutions accordingly.[7] From a conceptually slightly different angle, Ocampo and Tovar stress governmental policies of the post-war period to redirect credit to strategic sectors, such as manufacturing, in a state-led or accelerated strategy of industrialisation.[8] They illustrate their point by examining the evolution of industrial financing from the 1940s to the early 1970s. The emerging pattern, according to their study, is that of external financing or loans replacing new equity as the main source of funding, thanks largely to state policies of development credit.[9] The underlying thread of this branch of the literature is the pro-active role they all assign to the state in supporting industrial development in the framework of an ISI or state-led strategy. The use of these concepts to understand the industrial trajectory of Colombia in the mid-twentieth century seems to put a straitjacket to these analyses forcing the authors to extend to the area of industrial credit insights and/or conclusions reached in other policy areas, i.e. trade policy. This section argues that the utility of ISI premises in accounting for industrial credit policies is deceptive. State actions to support industry in the trade-policy field, if only partially, as discussed in Chapter 3, did not replicate in the financial arena. Below, it will be shown that the empirical evidence regarding state policies and industrial credit makes the application of these frameworks inappropriate to explain the Colombian experience, at least in this specific policy field.

Another stream of authors that address the issue of industrial financing more directly also draw similar conclusions; namely, that industry received plentiful and increasing amounts of ordinary and subsidised resources from the financial system as industrialisation progressed during the post-war years. One of the most authoritative studies on the issue is that of Castro and Junguito. They argue that financial resources were not a constraint on industrial growth, neither in the 1940s nor especially the 1950s and 1960s, thanks

[7]Muñoz, C. and Bolívar, A. 'Una Visión Historiográfica del Sistema Financiero Colombiano, 1923–2001' (2002) pp. 90, 122–23.
[8]Ocampo, J. A. and Tovar, C. 'Colombia...' p. 246.
[9]Ocampo, J. A. and Tovar, C. 'Colombia...' p. 254.

to official policies that had started to direct credit towards industry.[10] The favourable evolution of institutionalised credit is reflected in the increasing share of loans allocated by the commercial banks to industry relative to other sectors; and through an upward trend identified in new loans to the sector measured against industrial GDP, which seems to confirm the new direction of financial resources.[11] Ultimately, Castro and Junguito sustain that the rising levels of corporate indebtedness of the early 1970s and the recurrence of industrial firms to the curb and foreign markets for credit was the outcome of public policies that subsidised interest rates and led to credit rationing.[12]

Fajardo and Rodríguez explore in more detail the ways by which state policies were designed to supply the industrialists' rising demands for credit, as Colombia embarked upon the "industrialising strategy at any cost".[13] They emphasise the new role of the CB as a key decision-maker regarding credit policy and the rediscounting mechanism as the preferred monetary instrument for preferential credit allocation.[14] Others, like Salazar, highlight the adoption of forced investments upon commercial banks and the possibilities of manipulating their reserve requirements, as measures aimed at redirecting credit to priority sectors — of which industry was one.[15] The common denominator in these interpretations is one that argues the existence and intensification of financial repression. State intervention in the financial system through the rediscounting mechanism, the manipulation of reserve requirements and the enactment of obligatory investments encouraged interest rates rigidities that distorted the markets for money and capital. Lower than market-determined interest rates led to excesses in the demand forcing the banks to ration credit. Ultimately, this prevented the financial system to operate at full capacity and the system remained shallow. The most important implication of that view to this study is that industry did not really seem to suffer from credit scarcity because industry was one of the sectors prioritised by government measures. Consequently, this was reflected in the portfolios of the commercial banks. From the empirical viewpoint these authors frequently

[10] Castro, Y. and Junguito, R. 'La Financiación de la Industria Manufacturera Colombiana' (1977) pp. 12–16, 65.
[11] Castro, Y. and Junguito, R. 'La Financiación...' p. 13.
[12] Castro, Y. and Junguito, R. 'La Financiación...' p. 68.
[13] Faiardo, J. and Rodriguez, N. 'Tres...' pp. 29–30.
[14] Faiardo, J. and Rodriguez, N. 'Tres ...' p. 30; see also Urdinola, A. 'El Crédito de Fomento y la Banca Comercial' in Fedesarrollo (Ed) *Lecturas sobre Moneda y Banca* (1976) and González, M. 'El Crédito de Fomento a la Industria en Colombia' in ASOBANCARIA. *El Mercado de Capitales en Colombia* (1974).
[15] Salazar, N. 'Historia Monetaria y Financiera de Colombia, 1940–70' (1996) pp. 79–81.

show how changes in the structure of credit length terms from a predominantly short-term basis to a more medium-and long-term lending pattern indicate that industry was receiving ever larger shares of financial resources relative to other sectors.[16] Also, reviews of the decrees, laws, and CB resolutions illustrating official policies along with industry's growing share of loans in the portfolios of private commercial banks suggest their interpretations match the evidence; hence their conclusions are definitive. This is not the case, however. This branch of the literature fails to grasp the issue of industrial credit on two accounts: first, by emphasising the portfolio of the private banks they leave out of the picture increasingly important players in the financial system: public lending institutions. Not only were official institutions expanding in size, but they were also specialising in meeting the financial needs of certain sectors, i.e. coffee growers, cattle farmers, agriculturalists, and housing — as will be discussed below. The obvious implication of this is that focusing on the private commercial banks introduces a bias toward industry and its share of credit. The way to rectify this is by examining the distribution of credits by sectors across of the entire financial system. Secondly, it is often assumed that the decrees and laws that favoured the allocation of credit to the so-called 'productive' sectors was symmetrical and did not discriminate between industry and agriculture. This, again, is not so clear. More often than not, as will be shown below, industry was a relative loser from such legislative acts.

A third stream of authors, converging somewhat with the previous literatures, centres on the rent-seeking capabilities of industrialists to benefit from credit allocation. This gradually started to take place, according to Kalmanovitz and Avella, after the reform of the CB in 1951, which centralised financial decision-making and strengthened promotional credit policies. They argue that both industrialists and agrarians managed to advance their corporative interests in capturing the rents originating in the seignorage of the CB.[17] An active and direct policy of promotion to industry and agriculture materialised through differential rediscounting rates, the creation of *bancos del gremio* - producer-association banks — during the 1950s, and the operation of rediscounting funds administered by the CB since the mid-1960s.[18] An identical claim emerges from the study by Armenta

[16]See for example Salazar, N. ' Historia Monetaria...' p. 84.
[17]Avella, M. and Kalmanovitz, S. 'Barreras del Desarrollo Financiero: Instituciones Monetarias Colombianas en la Década de 1950' (1998) *Borradores de Economía*, No. 104, pp. 2–4.
[18]Avella, M. and Kalmanovitz, S. 'Barreras...' pp. 23–27.

et al. They assert from an analysis of the CB's minutes of the board that: "it is visible how much terrain developmental credit has gained on the industrial and agricultural sectors, especially during the 1950s, with such an intensity that in occasions control of the monetary expansion is sacrificed at the expense of this type of credit".[19] Following the same line of thought are Revéiz and Pérez, who advance a hypothesis which argues that it was the capacity of industrial leaders to successfully influence the state in general aspects of economic policy and in particular in the growing control over credit between 1950 and 1974, which permitted them to flourish.[20] It is critical to note here that the stress in these accounts is placed upon the ability of industry as a sector or industrialists as key agents to capture the state (or part of it) to extract rents that facilitated their survival or development. The initiative rests with the economic group demanding credit and not so much with the preferences of the state. Thus, although the direction of the impulse for industrial credit from this branch of the literature is the reverse from that of the previous two, the outcome is the same: an ample supply of subsidised and ordinary credit flowing to the industrial sector. This study partially agrees with the statements of Avella and Kalmanovitz and Armenta et al. to the extent that agricultural interests successfully captured rents from the financial system thanks to their powerful influence on different governments well before 1950. However, it rejects the part of the thesis in which industrialists too seemed to have participated in this process. The nature of the aggregated indicators they used as evidence to prove their point, such as changes in total internal credit as percentage of GDP, makes it very difficult to establish the relative share allocated or captured by each sector, and especially so for industry since it lacks the kind of sector-specific *banco gremial* from which other economic groups benefitted.

A few important clarifications need to be made. First, the vast majority of the above-reviewed literature does not deal directly with the issue of industrial credit. The subject often simply falls within broader works tracing the evolution of the financial system, the trajectory of industrial development, the forms of state intervention in the economy, and particularly, the contradictions between price stability and economic growth as well as

[19] Armenta, A., Fernandez, A. and Sánchez, F. 'Historia Monetaria de Colombia en el Siglo XX' in Robinson, J. and Urrutia, M. (Eds) *Economía...* p. 339.

[20] Revéiz, E. and Pérez, M. 'Algunas Hipótesis sobre las Formas de Regulación de la Economía y la Estabilidad Política Colombiana entre 1950 y 1982' in *Desarrollo y Sociedad* (1984) No. 14, pp. 42.

long-term monetary-history reviews.[21] Secondly, several of these studies focus on a period that does not fully match the one examined here. Whilst this author draws special attention to the period from 1940 to 1967 most of the cited works concentrate on the 1960s and even more so on the 1970s. Frequently, their focus on the earlier decades is a rapid flypast setting the stage for the full development of their arguments about a later historical time. This acknowledgement has an important implication: that this thesis does not necessarily disagree with the broad arguments and theses of the above-cited literature. In a sense, the disagreements and challenges posed by this chapter refer to general assumptions and statements about industrial credit. Historiographically, the problem is one of a near-void of literature on the topic of industrial financing rather than one of a hotly contested debate with a myriad of interpretations in which another competing explanation is offered.[22] Thus, the purpose of this chapter insofar as the literature on Colombian industrial financing is concerned is threefold. First, to set the record straight that credit to industry was neither substantial nor largely subsidised when the financial system as a whole is considered. Secondly, that the timing of significant state support to industry from the financial point of view is misplaced when located in the 1940s or 1950s. This only starts to materialise in the following decade. Thirdly, to note that extending notions and assumptions based on ISI and state-led industrialisation frameworks to the Colombian experience may obscure rather than better our understanding of industrialisation and the role of the state in it.

The prevailing literature has unapologetically failed on two important fronts. One is that of providing primary evidence on the situation of industrialists regarding credit shortages (or lack of it). Financial repression, rent-seeking and ISI-centred accounts all neglect the actual evidence of industrialists and other contemporary sources, placing financing difficulties as regular, serious and unsolved problems affecting the performance of the sector. The other relates to the absence in these studies of aggregate data on sectoral credit from the financial system as a whole.[23] Castro and Junguito, like Fajardo and Rodríguez, and Salazar, refer strictly to the evolution of industrial credit and its generally growing

[21] The notable exceptions, that is, works primarily concerned with industrial financing, are the studies by Junguito, R. and Castro, Y. 'La Financiación...'; Junguito, R. 'Financiación de la Industria Manufacturera en los Años Ochenta: Aspectos Crediticios y Tributarios' in Caballero, C. (Ed) *El Sector Financiero en los Años Ochenta* (1979); and González, M. 'El Crédito...'

[22] For more on this see Bejarano, J. A. 'Historia...' pp. 133–34.

[23] Berry was first to raise this issue; Berry, A. 'A Descriptive...' p. 39.

share in the total of loans advanced by the private commercial banks to support the view that financial resources available to the sector are on the rise as the mid-twentieth century unfolds. From a different angle, Ocampo and Tovar, like Sándoval, Kalmanovitz and Avella, and Echavarría focus on the behaviour of publicly limited manufacturing corporations and the shift in their financing sources occurring between the mid-1940s and the 1960s: the displacement of equity issues for institutionalised banking loans.[24] The limitations in each of these approaches are evident. They are concerned only with private commercial banks and leave out of the picture increasingly important lending institutions in terms of their sheer size and sectoral preferences. The most important amongst these institutions being the Agrarian, Industrial & Mining Bank — henceforth Agrarian Bank — but also relevant, though smaller, the Central Mortgage Bank — BCH. Any complete examination of the allocation of resources of the Colombian financial system must take into account the operations of these two agencies. A third, if less evident component, are the loans facilitated by the CB to the public without the intermediation of any other financial institution. In other words, direct operations of the CB with private economic agents and organisations, such as the National Federation of Coffee Growers (FNC) and the provincial Cattle Funds, which also involve significant amounts of resources, and perhaps more critically, were subject to preferential terms and conditions, need be included in a more comprehensive exercise.

Those addressing the issue of funding sources have different problems. Their accounts relate exclusively to publicly limited manufacturing corporations, which depending on the year, may account for up to two thirds of the sector's total output, but still leave out the majority of firms whose legal form is different. Although the literature has routinely made recourse to data that does not discriminate between the categories of 'credit' or 'external sources' (beyond paid up capital), they assume that the largest share of this financing was shouldered by banks. This, as will be shown below, was not the case. Moreover, the share of output accounted for by industrial publicly limited corporations shows an ever-increasing trend as we near the mid-1960s. However when the focus is on the 1940s they explain far less limiting their relative weight in the aggregate exercise. Lastly, these approaches fail to

[24] Sándoval, D. 'Política Económica y Financiación Industrial' in *Deslinde* (1983) Vol. 1, No. 1.

put the changes in the relative shares of funding sources in the wider context of financing needs of industry as a whole. It is unknown if the shares are changing in a context of shrinking or of growing lending activities. These shortcomings of the prevailing literature justify a study of industrial credit and its share in the financial system as a whole on the following grounds. First, amidst a supposed strategy of ISI, the economic effort of the nation in general and of the state in particular in regards to such a process is best tested and illustrated when the trends in lending practices from both private commercial banks and state financial institutions are examined. Secondly, because both private and official lending entities competed for resources (rediscount) in the CB, it is reasonable to include the latter in the analysis. An economic group or agency's gains are the other's losses, whether private or public. Finally, because the credit activities of both sets of institutions can ultimately affect the growth and stability of domestic prices, or merely the government's perception of it. The state's measures reacting to inflationary pressures or threats of it can trigger actions and policies that affect all financial intermediaries independently of ownership and purpose. In other words, tight monetary policies deployed to fight off inflation may affect financial institutions indiscriminately and independently of which type of entities are responsible for being too aggressive in their credit expansion. Now is the turn to examine the actual situation of industrial credit in the mid-twentieth century.

Credit to Industry: The Voice of the Sector and Beyond

As said earlier, ANDI (National Association of Industrialists) had formed the largest and most important association of the sector. Its membership, a mixture of individuals, associations and firms stood at 540 by 1963 and reached 600 in 1967.[25] At first, representing large textile, beer, cement, tobacco, food and beverage producers from the Antioquia region, it gradually became more encompassing and geographically diverse to include entrepreneurship from Bogota, Cali and Barranquilla.[26] By some accounts ANDI is said to have represented between 65% and 90% of industrial output, others put estimations

[25] Schneider, R. 'Business Politics and the State in Twentieth-Century Latin America' (2004) p. 270.
[26] Schneider, R. 'Business Politics...' pp. 139–45.

significantly lower.[27] Regardless of the exact figures it is well accepted that ANDI was the chief organisation of the country's industrial interests [28] (especially of large-sized manufacturers), and therefore the concerns regarding their demands for industrial financing can be taken to be representative of the sector.[29]

Difficulties in industrial financing from the 1940s until the mid-1960s referred mainly to: first, long-term capital investment and short-term working capital needs; secondly, contractionary monetary policies; lastly, the operation of a financial system whose inadequate institutional structure made it harder to meet industry's demands. For the early 1940s there is no lasting ANDI-equivalent organisation to resort to in order to display evidence about industrial financing problems and to assess their demands. Other sources need be used. A government publication, *Anales de Economía y Estadística,* stressed in its 1940 editorial the first of these problems by pointing at "the insufficiency of private resources to cope with the requirements of both industry and agriculture and the central function of appropriate credit flows to these sectors, so as to meet national necessities..."[30] A study by the IBRD, carried out in 1950 by Lauchlin Currie, also highlighted capital scarcity as a barrier to industrial development. Currie stated: "It is very likely that difficulties in mobilising capital funds has more than retarded initiatives in new [industrial] sectors".[31] These timely perceptions of government officials and outsiders at the time coincide with the wider views of the secondary literature. Chu sustains that: "the real value of commercial bank loans to the private sector remained depressed throughout the period 1930–45, and loans to industry seemed to conform to this general pattern. Moreover, the marginal share of industrial loans was relatively stable".[32] Urdinola explains that the closure of private mortgage banks in the 1930s in addition to the non-operative scheme of credit directed to industry by the BCH "had brought industry to the point of asphyxiation owing to the

[27] Osterling, J. P. 'Democracy in Colombia: Clientelistic Politics and Guerrilla Warfare' (1989) p. 209.
[28] See for instance; Urrutia, M. 'Gremios, Política Económica y Democracia' (1983).
[29] The interests of small manufacturers were hardly represented by ANDI. In 1951 they created the Colombian Association of Small Industrialists (ACOPI).
[30] DANE. Anales de Economía y Estadística, 1940, No. 3, p. 1.
[31] Currie, L. 'Bases...' p.143. Perry also notes the emphasis in various parts of the report about capital scarcity and the need for external assistance and the need to raise public and private savings; see Perry, G. 'Introducción al Estudio de los Planes de Desarrollo en Colombia' in Gómez, H. and Wiesner, E. (Eds) *Lecturas sobre Desarrollo Económico Colombiano* (1974).
[32] Chu, D. 'The Great Depression and Industrialization in Colombia' in Berry, A. (Ed) *Essays on...* p. 118.

lack of working capital".[33] For the 1950s the evidence came directly form industrialists themselves.

Long-term capital funding however was not the only type of financial difficulty faced by industry in the late 1940s and following years. ANDI's Assembly in 1951 reported a list of the factors affecting the sector and among them short-term credit seemed to top their concerns. Their weekly bulletin stated: "purchase of equipment and raw materials, delays in the absorption of new products, and above all and with worrying justification, the scarcity of working capital, is one of the most salient deficiencies in our economic organisation."[34] A few months later the association stressed the combination of both working and fixed capital requirements of industry and the insufficient supply of resources from the banks for these purposes, resulting in a concomitantly tight financial position of the productive enterprises it represented.[35] Similar statements regarding industry's financial shortages and demands from the sector and the association directed at government and the CB to act upon them are regularly found in the minutes of CB, the minutes of ANDI's annual assemblies, and its internal weekly, all reporting on the credit shortages that industrialists from different regions, such as Santander,[36] and industrial cities like Bogota, Medellin, Cali and Manizales suffered throughout the 1950s and early 1960s.[37] The severity and unremitting shortage of industrial credit of the 1950s led ANDI's president to address a letter to the president of the Republic, Alberto Lleras — and his cabinet ministers — which, if well dramatised the situation also signalled the significance of the issue for contemporary manufacturers.[38]

Short-term financing was identified as a barrier to domestic investment in industry and was closely linked to the underutilisation of plant capacity. A 1959 study by the Centre for Economic Development from the University of the Andes found that in a sample of incorporated companies, restrictions of credit, in relation to their increasing working

[33] Urdinola, A. 'El Crédito...' p. 470.
[34] ANDI, Boletín, 1 August 1951, No. 413, p. 1.
[35] ANDI, Boletín, 30 April 1952, No. 514, pp. 1–2.
[36] BRep. Minutes of the Board of Directors, (MoBD) Act No 2064, 30 October 1951, p. 5825, Archivo del Banco de la República (ABRep).
[37] See for instance BRep. MoBD, 28 September 1951, Act No. 2062, p. 5793, ABRep; and BRep. MoBD, 11 June 1952, Act No. 2129, pp. 6102–03, ABRep; also, ANDI, Boletín, 21 July 1956, No. 1066, pp. 3–4; and ANDI, Boletín, 13 August 1957, No. 1217, pp. 18–19; ANDI, Boletín, 18 June 1960, No. 1578, pp. 2–5.
[38] ANDI, Boletín, 7 November 1958, No. 1401, pp. 1–2.

capital needs, were a problem for 29.6% of manufacturing firms.[39] That study also found that lack of medium- and long-term credit was a problem for 25.6% of firms. A larger study carried out two years later revealed that 187 firms declared financing difficulties amongst the causes that explained plant underutilisation. Of these, some 73 companies mentioned working-capital credit as the only cause.[40]

Industrialists were quick to identify the barriers preventing them to obtain the necessary financial resources they needed. These obstacles can be classified into two: government's search for macro-economic stability and the persistence of an inadequate financial-institutional framework. On the first issue, stability meant controlling the growth level of general prices. This often implied reining in the expansion of credit of the banks. A neat illustration of this situation is found in the above-cited letter of the ANDI to president Lleras: "Firms in financial distress are finding it ever more difficult to obtain funding due the harsh restrictions imposed on the lending capacities of banks in order to compensate for the growth in the means of payment generated by Banco de la República..."[41] ANDI was not altogether indifferent to the stability of prices: "Industry recognises the government's efforts to ensure monetary stability and observes favourably the healthy expansion of credit ... nevertheless, regarding manufacturing credit, it consider[ed] necessary a more generous flows in accordance with the growth of production and the financial requirements of development projects..."[42] It also suggested to shift the burden of the squeeze more evenly, i.e. away from private commercial banks and into more specialised and possibly state-run development institutions. In this respect, at the 1958 Annual Assembly, ANDI issued the following statement: "considering the critical circumstances that have led to the current regime of restrictive credit...[ANDI] declares it essential to adopt measures aimed at a more uniformly distribution of the anti-inflationary controls, without these focusing uniquely and exclusively on the banking system."[43] Indeed, the CB was fully aware of the economic sectors that felt more the contraction of credit: "due to the curtailment of the means of

[39] Wiesner, E. 'Barreras Artificiales a la Inversión Doméstica en la Industria Nacional' in BRep. *Revista del Banco de la República,* 1959, No. 383, p. 1066.

[40] Cited in Thoumi, F. 'La Utilización del Capital Fijo en la Industria Manufacturera Colombiana' in *Planeación y Desarrollo* (1978) Vol. 10, pp. 37–38. In this 1961 survey a total of 342 firms participated, representing two thirds of total industrial value added.

[41] ANDI, Boletín, 7 November 1958, No. 1401, 7, pp. 1–2.

[42] ANDI, Boletín, 18 June 1960, No. 1578, pp. 2–5.

[43] ANDI, Boletín, 18 June 1958, No. 1331, p. 3.

payment, loans to finance manufacturers and merchants have reduced, at times when they must pay income taxes, advance sums for *a priori* import deposits, and sustain the movement of business in general."[44] Despite the fact that industrialists' concern about credit being restricted due to monetary stability was not a permanent issue, it seemed to be one occasionally aggravating an already difficult situation.

On the second issue, awareness of the institutional shortfalls of the financial system in its ability to supply industry with the financial resources deemed essential for its growth and development came at early dates and are well documented. The fundamental concern lay in the lack of long-term credit for capital investments. Currie's analysis of the 1940s noticed the small contribution of commercial banks in this field and recommended the creation of an entity entrusted with supplying industrial credit.[45] He was not alone. The CB's board received requests from ANDI in 1947 and 1951 asking it to take actions to alleviate the problems of the sector regarding long-term borrowing. Specifically, ANDI appealed to the CB to act as guarantor of industrial companies taking on loans with the IBRD,[46] and also asked for its support toward the creation of a financial corporation designed to fund investments geared to improve production capabilities.[47] Petitions did not stop there. ANDI pleaded to promote the development of a larger capital market to facilitate the placement of industrial bonds and shares,[48] to intensify credit to small industrialists through the Agrarian Bank, and to expand the issuing capacity of BCH's industrial debentures.[49] The poor service that the Agrarian Bank provided to industrialists was perceived early on by government. A draft of the 1940 General Plan of Eduardo Santos stated: "Despite the full title of this entity, namely, Agrarian, Industrial & Mining Bank, and notwithstanding the creation of industrial bonds... credit for industrialists is poorly developed compared to that for agriculturalists."[50]

[44] BRep. MoBD, Act No. 2000, 14 February 1951, pp. 5520–21, ABRep.
[45] Cited in Perry, G. 'Introducción...' pp. 293, 311.
[46] BRep. MoBD, Act No. 1741, 26 May of 1948, p. 4379, ABRep.
[47] BRep. MoBD, Act No. 2046, 27 July of 1951, pp. 5727–28, ABRep.
[48] ANDI, Boletín, 21 October 1954, No. 832, p. 4.
[49] ANDI, Boletín, 30 April 1952, No. 514, pp. 1–2.
[50] Presidencia de la República. Plan General: Medidas de Fomento de la Economía Nacional en Desarrollo de las Facultades Extraordinarias, 18 June 1940, p. 8, [Unpublished draft] Archivo General de la Nación (AGN). On the inadequacy of industrial bonds by the BCH; see Ministerio de Hacienda. Exposición del Ministro de Hacienda, 1951, p. 55; who labelled the possibilities of financing via this mechanism as "paltry".

The manufacturers' association continued to demand the founding and operation of development banks throughout the 1950s,[51] to increase the paid capital of IFI,[52] and to arrange the setting up of mutual investment funds.[53]

ANDI was not alone in recognising the problem of long-term financing. An early yet comprehensive assessment of this issue was provided by Antonio Ordoñez Ceballos, fiscal auditor, who in 1947 sustained that the industrial loans from the Agrarian Bank were "practically stagnant", that medium-sized firms, whose legal form was other than limited-liability, had been "abandoned from state tutelage" and that the industrial bonds issued by the BCH were "paralysed".[54] His successor echoed these views, declaring that the medium- and long-term credit for industry was practically non-existent and that this was especially problematic for small- and medium-sized firms.[55] Similarly, a prominent Liberal politician and banker, Augusto Espinosa Valderrama, noted in 1948 that the current arrangements for industrial financing of 90-day loans were not suitable for investment purposes and advocated for the reform of the banking system.[56] A consultative body, the Committee for Economic Development, put numbers to the investment deficit of the sector, claiming in its 1951 Final Report that the unsatisfied, long-term capital investments of industrial firms stood between 25 and 30 million pesos per year and that recent government measures to alleviate this situation had been ineffective.[57] The development economist, then consultant for the government, Albert Hirschman, put it bluntly in 1955: "The most serious gap in the Colombian financial structure remains the lack of a sufficiently ample capital market

[51] See for instance, in addition to previous references, ANDI, Boletín, 21 July 1956, No. 1066, pp. 3–4; and ANDI, Boletín, 15 July 1959, No. 1493, pp. 2–3.
[52] ANDI, Boletín, 21 May 1954, No. 787, p. 4.
[53] ANDI, Boletín, 13 August 1957, No. 1217, p. 14.
[54] Revisoría Fiscal de Instituciones Oficiales de Crédito. El Banco Emisor, El Crédito, La Moneda y Algunas Consideraciones Generales sobre la Reforma Bancaria en Colombia, 1947, pp. 95–97.
[55] Revisoría Fiscal de Instituciones Oficiales de Crédito.'El Crédito del Estado en la Economía Colombiana, 1949, p. 39. Recent studies on the origins of ACOPI found that in the early 1950s the "lack of credit was the principal problem of small industry". In fact, they argue that one of the main motives for the organisation of the association was to work for the development of credit at a national scale for the sector — and this aim is indeed listed in ACOPI's foundational statements. See Pallares, Z. 'ACOPI: El Gremio de la PYME. Cincuenta Años de Historia, 1951–2001' in Dávila, C. (Ed) *Empresas y Empresarios de la Historia de Colombia* (2002) pp. 1054–56; and Dávila, C. and Pallares, Z. 'Empresariado Medio, Proteccionismo y Política Pública: La Asociación Colombiana de Pequeña y Mediana Industria (1952–1980)' in Cerruti, M. (Ed) *Empresas y Grupos Empresariales en América Latina, Espana y Portugal* (2006) pp. 201–02.
[56] Espinosa Valderrama, A. 'La Reforma Bancaria en el Congreso' in *El Mes Económico y Financiero* (1948) No. 111, p. 23.
[57] Cited in Manero, A. Informe Presentado al Banco Internacional de Reconstrucción y Fomento sobre el Mercado Colombiano de Capitales, 1952, p. 49. The sum amounted roughly to 10% of the industrial investments actually made in the sector.

to provide funds for industrial expansion."[58] But the problem seemed to have been a protracted one. As late as 1966, a survey conducted by the National Planning Department showed that 51% of firms flagged the availability of domestic credit as a major problem in carrying out expansion plans.[59] Alas, for industrialists, according to Póveda, the solution for the development of the sector came largely from non-institutionalised sources of financing, the curb market, and as expected, at high costs.[60] Various solutions to the problem of long-term financing for investment were thought of at the time, however.

The Committee for Economic Development suggested that to support industrial expansion, the creation of a credit institution with access to foreign funds was required.[61] The organisation succeeding this committee, the National Planning Council, led the way for slightly more concrete actions, proposing in 1953 the "foundation of a financial institution, the Development Corporation or Bank, with a mission to supply financial assistance in the medium- and long-term to the most attractive of private initiatives in industry and agriculture."[62] The most detailed of schemes, however, originated in a study commissioned jointly by the Colombian government and the IBRD to a New York-based investment bank, Glore, Forgan & Co. Alfonso Manero, partner and author of the report concluded in his recommendations: "A Financial Society should be established to fund new or existing industrial firms with long-term financing... whose capital may be subscribed by commercial banks, insurance companies, private savings institutions and wherever possible with securities from private individuals and industrial companies. If necessary, government could supply 20 million pesos from the treasury... to manage total initial resources ranging from 50 to 70 million..."[63] This proposal, however, failed to materialise.

But one idea that became law was that of Finance Minister Luis Morales. Morales, who had founded the Banco Popular in 1950, left the management of that bank to join Rojas

[58] Hirschman, A. 'Colombia: Highlights of a Developing Country' (1955) pp. 33–34.
[59] Cited in Billsborrow, R. 'The Determinants of Fixed Investments by Manufacturing Firms in a Developing Country' in *International Economic Review* (1977) Vol. 18, No. 3, p. 703, fn. 18.
[60] Póveda, G. Informe sobre Inversiones y Financiamiento de la Industria, 1965, p. 15. The Final Report of the Committee for Economic Development also stressed the high costs of capital; see Comité de Desarrollo Económico. Informe Final, 1951, p. 96.
[61] Comité de Desarrollo Económico. Informe Final, 1951, p. 19.
[62] Consejo Nacional de Planificación. Informe Annual, 1953, p. 23.
[63] Manero, A. Informe Presentado al Banco Internacional de Reconstrucción y Fomento sobre el Mercado Colombiano de Capitales, 1952, pp. 48–49.

Pinilla's cabinet in 1956, and in his new position he drafted the project that later became Decrees 3141 of 1956 and 739 of 1957, by which the National Production Corporation was created and its statutes conceived.[64] The entity's authorised capital were a stunning 500 million pesos, to be subscribed by government and private sector for the development of basic industries, preferably, steel, metallurgy, textiles, sugar, oil and derivatives, electrical equipment, coal, drugs, and pulp and paper amongst others.[65] Notwithstanding legal status, it did not materialise either. According to his creator, "the Corporation was killed off by political circumstance, neither the National Front nor Álvarez Restrepo [succeeding minister] showed interest in it."[66]

The purpose of this section has been threefold. First, to present primary-based historical evidence to demonstrate, from the standpoint of industry, that industrial credit constituted a permanent source of preoccupation for the sector, since the resources made available to it were deemed insufficient to satisfy industrial demand. Secondly, to note the importance of the implications of these credit constraints. Shortages of credit to finance working capital affected negatively, according to manufacturers themselves, levels of industrial capacity utilisation. Difficulties in obtaining long-term capital could have hindered the development of new industrial sectors and the expansion of industrial capacity. Lastly, raising the question of the perception of industrialists on the institutional suitability of the financial system serves as a sound introduction to the next section.

The Institutional Financial Framework

Whether financial systems should be market- or bank-based has been the subject of great debate in finance literature. The critical disagreements are over the respective effects that one system or the other had on economic growth. Advocates of bank-based systems stress information advantages, superior capital mobilisation for exploitation of scale economies and more effective debt repayments; whilst supporters of market-based systems highlight risk management facilities and the betterment of corporate governance amongst other

[64] Author's interview with Luis Morales, Bogota, August 26 and September 2, 2008 (recorded).
[65] Legislación Económica, 1957, Vol. X, No. 108, pp. 82.
[66] Author's interview with Luis Morales, Bogota, August 26 and September 2, 2008.

merits.[67] Levine settled the matter demonstrating that the most robust links to economic growth came from overall financial development, irrespective of its organisation or structure.[68] Though this may suffice for a certain part of the literature it opens up another debate in political economy and development policy.

This is because financial system structures are critical determinants of the abilities states possess (or lack) to effect selective industrial policy. Zysman distinguishes three models of finance: first, capital market-based, in which bonds and stocks dominate long-term industrial funding, with central banks committed to controlling monetary aggregates and where prices are determined freely by competitive markets and financial resources are allocated accordingly. Secondly, credit-based models, in which few financial institutions dominate the system without being themselves dependent on the state, with market power translating directly into influence on clients, and where prices are also heavily influenced by these institutions. Lastly, government-administered credit-based ones, in which governments fix prices in several markets, leading to demand-supply disequilibria where financial resources are consequently allocated through administrative discretion.[69] Each model entails distinctive political implications. In the first model, governments, banks and firms are in distinct spheres and meet as autonomous bargaining partners, concomitantly, the capacity of the state to direct financial flows is limited. In the second model, though governments lack the apparatus to dictate the direction of flows, they can build up alliances with the dominant financial institutions and negotiate the terms/recipients of lending, while in the third the distinctions between public and private spheres blurred: "the state's entanglement with industry becomes part and parcel of the financial system."[70] The key point, therefore, is that the structure of a financial system defines different ranges of state capacities, it endows or deprives the state of the capacity to intervene in credit markets, and in doing so it also builds or denies states political capacity. Though Zysman's study deals with advanced economies his insights can effectively be applied to late-developers. In fact, Woo has done precisely that, and

[67] For a useful literature review of the bank- vs. market-based systems; see Levine, R. 'Bank-Based or Market-Based Financial Systems: Which is Better?' in *Journal of Financial Intermediation* (2002) Vol. 11, No. 4.

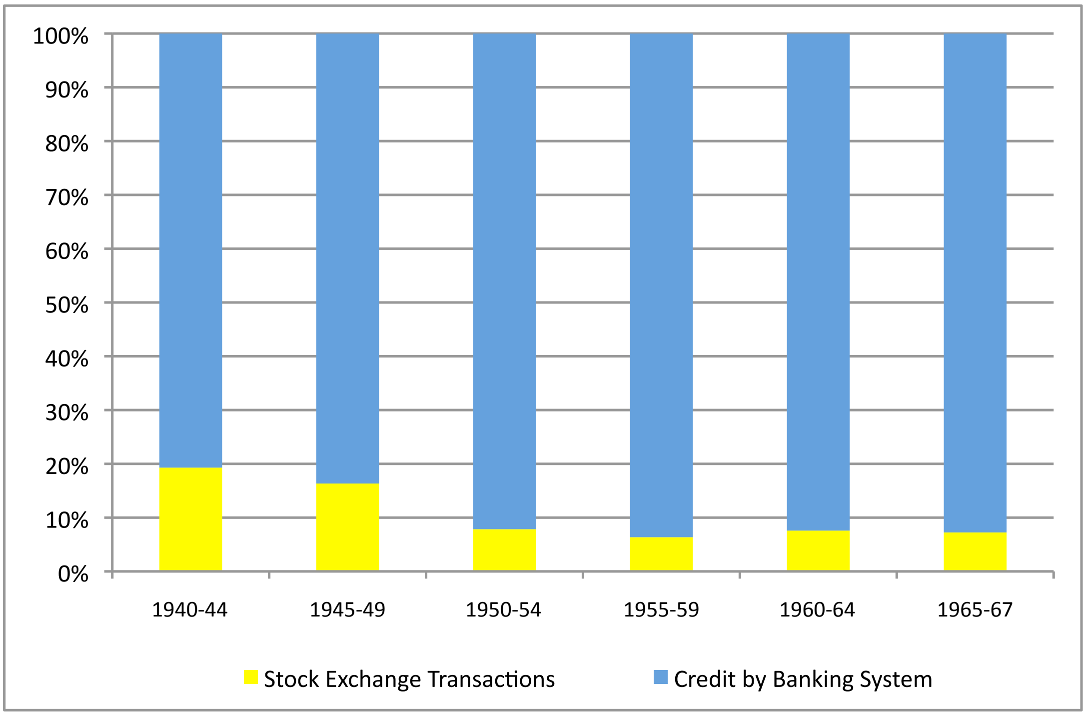
[68] Levine, R. 'Bank-Based...'

[69] Zysman, J. 'Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change' (1983) Ch. 2.

[70] Zysman, J. 'Governments...' p. 72.

has pushed the argument further. She argues that: "... financial structure can be used to test state efficacy because it is the overarching mechanism guiding the flow of savings and investment, delimiting the options of industrial policy... it is this that makes all states potentially 'developmental', whether they exist in Europe, Latin America or East Asia."[71] The need, then, to characterise and place the Colombian financial system in the above framework is apparent.

Figure 5.1: Financial System Structure: Credit-Based, 1940–67 (5-year averages)



Sources & Methodology: See Table A.5.1.

As seen from Figure 5.1, throughout the period the financial system was credit-based. From 1940 to 1961 only Bogota had a stock exchange, then Medellin, an industrial centre, opened another. Relative to banking, credit exchange transactions peaked during WWII thanks to a combined hike in government bonds, which quadrupled between 1942 and 1943 and the more sustained increase in stock issuances of private companies.[72] The decade-long decline that ensued is partly explained, according to Manero, by inflationary

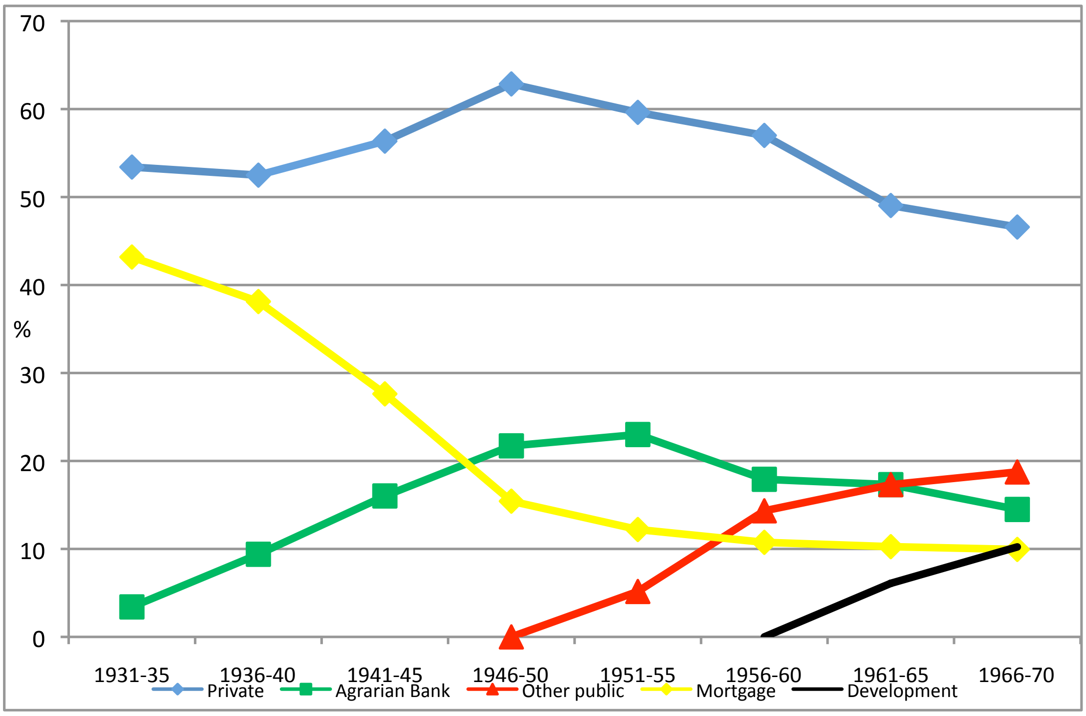
[71] Woo, J. 'Race...' p. 6.
[72] See Table A.5.1.

pressures that put investors off fixed-income securities, and more probably, by the return of economic normality and the preferences for real estate investments in expanding cities and in land and farms in the countryside.[73] Rapid growth in the financial assets of private banks also played a role. Relative stagnation during the 1950s and 1960s is said to have been the result of 'double-taxation' introduced by the government of Rojas, by which profits as well as shareholders' dividends were subjected to taxation.[74] Government policies aimed at directing credit to targeted sectors, have been another oft-cited factor to account for the underdevelopment of the country's capital markets.[75] Finally, it is worth noting that within these modest markets, concentration amongst a handful of companies was high. For instance, in 1951, Bavaria and Coltejer accounted for two thirds of all the volume of stocks traded; and out of 17 bond emissions carried out 13 corresponded to government securities and only two were industry issuances — the other two obligations emitted by the Country Club of Bogota.[76]

The credit-based financial system was not static, however. Two aspects are central in accounting for the transformations of the financial structure and how these influenced industrial credit availability: the rise and decline of different types of financial institutions and a long sequence of legal dispositions affecting the terms, conditions, and balance sheets of both public and private commercial lending entities. These institutional changes in the financial system dating from the 1930s determined, to a significant extent, the patterns of industrial credit. On the first aspect, as illustrated in Figure 5.2, the most important shift at the organisational level during the 1930s and 1940s was the collapse of private mortgage banks, whose share of assets in the total of the financial system reduced by a factor of three from 45% in 1931 to 15% in the mid-1940s.[77] This was the result of the Great Depression, which on the one hand had cut the sources of foreign credit — on which mortgage banks relied heavily; and on the other, worsened the capacities of payment of mortgage debtors, which in turn translated into ever growing levels of bad debts in these banks' portfolios.[78]

[73] Manero, A. Informe Presentado al Banco Internacional de Reconstrucción y Fomento sobre el Mercado Colombiano de Capitales, 1952, p. 14.
[74] Sáenz-Rovner, E. 'Colombia ...' pp. 144–45.
[75] Urdinola, 'El Credito...' p. 465.
[76] Manero, A. Informe Presentado al Banco Internacional de Reconstrucción y Fomento sobre el Mercado Colombiano de Capitales, 1952, p. 24.
[77] See also Muñoz, C, and Bolívar, A, 'Una Visión...' p. 81.
[78] See Muñoz, C, and Bolívar, A, 'Una Visión...' pp. 81–84 and Urdinola, A. 'El Crédito...' pp. 466–70.

Figure 5.2: Credit-Based Financial System by Types of Banks (percentage of total assets)



Source: Calculations based on Kalmanovitz, S. and Avella, M. (1998) p. 17.

To compensate for the losses made by these institutions, Olaya Herrera's government reacted with legislation creating new official agencies: the Agrarian Bank in 1931, and the BCH, a year later. Both became important agents in the financial structure, the first one turning into the single largest provider of finance to agriculturalists, saw its share of assets rise from zero in 1931 to more than 20% by the late 1940s. Meanwhile, BCH became one of the largest players in the mortgage sector; supplying resources mainly to construction and agriculture, the joint assets of mortgage banks fluctuated moderately from 1940 onwards around 11% of the total of the financial sector. In stark contrast to what occurred with the mortgage sector, private commercial banks suffered moderately during the crisis and recovered swiftly during the 1940s to become the dominant agents in the financial business representing over 60% of all assets.

This wave of institutional rearrangements left industry a net loser. Private commercial banks whose mortgage sections had been supplying medium and long-term capital to manufacturers stopped this line of business because of legislation that made this a privilege of mortgage banks. The Agrarian Bank's rise served well the short-term needs of coffee growers, cattle farmers and other agriculturalists. Mortgage banks, as said above, satisfied the requirements of construction and agriculture, specialising on gradual amortizations. Requests from commerce, mainly of short-term nature, were well catered-for by the private banks. Industrialists' short-term loans were supplied by commercial banks but no lending institution catered for their medium- and long-term needs. In the words of Urdinola: "industry was orphan".[79] For industrialists this situation did not change for the better in the 1950s.

A second round of institutional innovations in the early and mid-1950s marked decisively the growing pattern of sector-orientated credit initiated in the previous decade. The lead was, again, taken by the state through the creation of the so-called *bancos gremiales*: sector-targeted institutions with promotional purposes. This trend towards 'developmental' banking started in 1950 with the foundation of the Popular Bank, aimed at advancing the twin-goals of credit democratisation and support of small urban artisans.[80] Three years later, another intermediary arrived with the creation of the Coffee Bank, designed to finance the production, transportation, and exporting of coffee and other agricultural products.[81] In 1956 the turn was for the Livestock Bank to serve the needs of that sector.[82] The promotional nature of these institutions meant they frequently enjoyed various types of privileged treatment, be it access to CB's funding without being a shareholder, preferential rediscounting facilities, relaxation of reserve requirements, and/or lower interest rates.[83]

Despite vocal opposition from private bankers against 'unfair' public competition the new banks had come to stay.[84] As Figure 5.2 shows, in relative terms, public banks' assets

[79] Urdinola, A. 'El Crédito...' p. 468
[80] See Muñoz, C. y Bolívar, A. 'Una Visión...' pp. 112–13.
[81] Franco, J. 'Evolución de las Instituciones Financieras en Colombia' (1966) p. 206.
[82] Franco, J. 'Evolución...' p. 205.
[83] Muñoz, C. and Bolívar, A. 'Una Visión...' p. 112.
[84] To see how private Bankers perceived the arrival of these new Banks and voiced their concerns; see, Michelsen, E. and Merchán , R. 'Contra la Competencia Oficial se pronuncia la Asociación Bancaria' in *Bancaria* No. 64 (1958) and Venegas, J. 'El 60 por ciento de la Cartera Bancaria para Crédito de Fomento' in *Bancaria* No. 64 (1958).

grew in sustained manner and by the end of the 1960s accounted for about a fifth of the total assets of the financial system. Whether the rise of these banks reflected the power of coffee growers, agriculturalists and cattle farmers and their ability to capture rents or whether it was a more state-led initiative is unclear.[85] Official documents, such as the *Memorias de Hacienda*, suggest that at least there was a confluence of interests and offer insights into the process dynamics. On the one hand, Finance Minister, Carlos Villaveces, announced in 1954 that government intended to continue the strengthening of credit institutions facilitating resources for the expansion of both agriculture and cattle farming.[86] On the other, he acknowledged "that on several occasions distinguished cattle ranchers and cattle-raising assemblies had requested from the government the establishment of a bank that met their needs and that government pay due attention to these recurring demands which had stipulated the formation of the Livestock Bank".[87] Luis Morales, who succeeded Villaveces in the ministry, recalls the creation of the Livestock Bank emerging from a conversation sustained with President Rojas in the context of the II International Fair of Bogota, in which the former proposed the idea to Rojas, knowing all too well about the General's "certain inclinations for cattle-ranching".[88] The president is said to have thought of it as "excellent" and prompted Morales to consult the president of that association to materialise it. At first, the Livestock Bank's management was entrusted to the Popular Bank, but in 1959 was re-fashioned as an autonomous incorporated company. The foundation of two public banks in addition to the growth of the Popular Bank and the relative stagnation of the Agrarian Bank, all during the Rojas' administration suggest the consideration of a hypothesis: whether the financial rearrangements carried out under Rojas were conceived of to build new constituencies or clienteles — independent of those already associated with the state prior to his government. Testing this claim is beyond the scope of this thesis, but considering the facts discussed above it seems plausible.

The salient fact is that neither the first wave nor the second round of financial-institutional rearrangements that took place circa 1930s-50s favoured manufacturing with the creation

[85] For an interpretation emphasising the former; see Kalmanovitz, S. and Avella, M. 'Barreras...' pp. 2–9.
[86] Ministerio de Hacienda. Memorias de Hacienda, 1954, pp. 5–6.
[87] Ministerio de Hacienda. Memorias de Hacienda, 1956, pp. 16–17.
[88] Author's interview with Luis Morales, Bogota, August 26 and September 2, 2008.

of a sector-targeted institution; public, mixed or private.[89] Broadly speaking, during the late 1950s coffee growers and other agriculturalists were served by the Agrarian Bank and the Coffee Bank; cattle farmers by the former and the Livestock Bank; construction by BCH; and artisans and consumers by the Popular Bank. Commerce was the natural main client of private commercial banks, but all sectors, except for construction, also competed for the resources of the remainder of the private-banks' portfolios. To sum up, official attention was being directed at the rural sector but not manufacturing. Industry was the only economic sector lacking a bank of its own and industrialists had to compete with all other sectors for a residual share of the credit that commercial banks could supply. This situation seemed to change in the next decade with the creation of the *corporaciones financieras* or development banks, however.

Legal regulations authorising the formation of a new kind of financial intermediaries, the development banks long-awaited by the industry, came in 1957. These were designed to promote through medium- and long-term credit facilities the creation and expansion of manufacturing industries, preferably, but not exclusively.[90] However, a proper statutory framework defining their *modus operandi* was only streamlined in 1960. Further, great difficulties in raising funds via deposits from the public and unsuccessful placements of bonds in the capital markets made them largely inoperative until the CB started to provide them with growing resources in the early 1960s, as it opened lines of credit for them and began buying their bonds.[91] Only when development banks enjoyed the full support of the CB was their importance as both direct investor and creditor of industry realised fully. Sustained growth in their assets from the mid-1960s turned them into an important type of institution in the financial system, but it is necessary to note that the timing of this take-off of development banks meant manufacturing was the last economic sector to find a specialised type of financial intermediary that supplied it with resources it needed, especially for medium- and long-term investment purposes.

[89] IFI was a direct state promoter of industries whose main goal was to provide equity capital in association with private initiatives, but it was not a lending organisation.

[90] Urdinola, A. 'El Crédito...' pp. 473–74.

[91] Urdinola, A. 'El Crédito...' 474; and Muñoz, C. and Bolívar, A. 'Una Visión...' pp.120–32.

The second aspect in the transformation of the financial structure was that relating to the laws, decrees, and resolutions from the legislature, the executive, and the CB that incentivised, and/or imposed measures on, the financial agents to allocate a portion of their resources to economic sectors prioritised by government. It has become a commonplace in the literature to depict the 1940s as the prelude that lay the basis for the repressed financial system that emerged in the 1950s and consolidated in the next decade. That is, a banking system in which government affected financial intermediaries' balance sheets directly through legislation that obliged them to invest in, and lend to, economic sectors deemed to be a priority. Or one in which the government influenced them indirectly via access to rediscount, attractive rediscounting conditions, and/or the manipulation of banks' reserve requirements. The literature has rightly described the period as one of 'centralised'[92], 'directed'[93], or 'selective'[94] promotional credit, but has failed in identifying industry as one of the main sectors supposedly benefiting from it. For instance, Fajardo and Rodríguez, argue that: "obviously, banking and credit policies were part of the strategy of import substitution industrialisation ... as this required a consequential financial effort, and one in which the Central Bank was essential..."[95] For their part, Kalmanovitz and Avella, state: "the reform of 1950 signalled the turn towards a more active monetary policy, one of direct promotion of industry and agriculture..."[96] Lastly, Urdinola claims that "the truth behind the surge in the new monetary theory [promotional credit] was that productive sectors, mainly industry, wanted cheap medium- and long-term credit..."[97] But did the legislative and executive decrees of the 1950s and early 1960s actually prioritise credit to industry? Did industrialists really become recipients of subsidised credit? A closer look at the most important decrees, often cited to support the above claims reveals this was simply not the case; at least not until 1967.

Pro-ISI or developmentalist policies in the financial field are often said to have started with legislation that in 1950 authorised private commercial banks to lend for developmental purposes for periods of over one year, thus eliminating the 'self-liquidating principle' —

[92] Kalmanovitz, S. and Avella, M. 'Barreras...' pp. 21–30.
[93] Muñoz, C. and Bolivar, A. 'Una Visión...' pp. 101–03; and Urdinola, A. 'El Crédito...' p. 465.
[94] Salazar, N. 'Historia Monetaria... ' p. 81.
[95] Faiardo, J. and Rodríguez, N. 'Tres...' p. 30.
[96] Kalmanovitz, S. and Avella, M. 'Barreras...' p. 2.
[97] Urdinola, A. 'El Crédito...' p. 471.

a practice that tied the terms of deposits to those of loans to guarantee the liquidity of the system — which had regulated the way banks had organised their lending terms since 1923.[98] Decree 384 of 1950 also served to mark the beginning of an era of legislation that "classified as productive certain economic activities and made credit available to these sectors rediscountable at preferential interest rates".[99] For industry, however, the decree was not as beneficial as has been suggested.

First, and as seen in Table A.5.2, Decree 384 of 1950 did not single out manufacturing as recipient. Agribusinesses were listed along with irrigation works, deep wells and other similar works for water provision, electrical pants, distribution networks, extractive industries and urban construction. Other transformative industries only came to be added 18 months later.[100] Secondly, industrialists regarded the measure as being largely unsuccessful. ANDI's IX Assembly issued the following statement in April 1952: "Government's sanction concerning medium-and long-term credit at the hands of commercial banks has been insufficient, not only because of its theoretical quantities, but also because some banks did not make the measure effective..."[101] The reason why bankers did so was simple, as the Finance Minister explained the scope of decrees 384 and 3416 of 1950 to the board of directors of the CB: "the measure[s] are purely discretionary, thus do not oblige saving sections or banks to make those investments nor to concede the developmental loans referred to in the decree...[102] To repeat, banks did not make the measure fully effective because they did not have to. Thirdly, the regulation of the decree that came in 1952 (see Table A.5.2, Decree 2482) rendered the potentially favourable effects it had on industrialists ineffective. On the one hand, its bylaws included cattle farmers in the list of economic sectors benefiting from the decree — a sector that was also granted direct access to CB funds in the same year — consequently reducing the relative share of the promotional

[98] Avella, M. and Caballero, C. 'La Economía Política de la Reforma Financiera' in Bejarano, J. A. (Ed) *Lecturas sobre Economía Colombiana* (1985) p. 121; and Urdinola, A. 'El Crédito...' p. 473. That is not to say that banks were not rolling over short-term credit, however.

[99] Hernández, A. 'Política de Redescuento, 1950–70' in Gómez Otálora, H., Ortega, F. and Sanclemente, P. (Eds) *Lecturas sobre Moneda y Banca* (1976) p. 325.

[100] See Table A.5.2 Decree 1760 of 1951.

[101] ANDI, Boletín, 30 April 1952, No. 514, pp. 1–2. Further, ANDI requested government to authorise the Agrarian Bank to intensify its loans to small industrialists and for the BCH to issue more reasonable amounts of industrial bonds, so as to meet the demand from manufacturers.

[102] BRep. MoBD, 22 November 1950, Act No. 1981, pp. 5436–37, ABRep.

loans of all other groups, industry included; and on the other, the provision that allowed for transformation industries to obtain credit to pay off immediate liabilities was abolished.

If there ever was a piece of legislation that forced banks to lend specifically and exclusively to industry it was the Decree 1564 of 1955 (Table A.5.2). The decree authorised the fiduciary sections of commercial banks to issue industrial bonds with maturation of up to 5 years and most crucially obliged the banks to buy and hold the bonds in proportion of 5% of their deposits at sight or at term. The literature rightly portrays this measure as the first law by which banks were obliged to allocate a certain percentage of their deposits to an economic activity previously determined by government.[103] In a way, this signalled, in addition to initiatives put in place to incentivise banks to lend to certain sectors, the arrival of measures that forced financial intermediaries to lend to government-targeted activities. However, the literature has exaggerated the impact of this decree upon industrial financing for three reasons. First, the measure was short-lived. Passed in June 1955 and derogated by August 1957 it had a lifetime of about two years only. This rather important fact has not been noticed by the same authors that flag it as a landmark in the history of industrial credit nor for those stressing it as the emergence of forced-investment practices in the financial system. Secondly, the quantities involved were relatively small compared to measures that followed for other targeted sectors. Unlike the measure of 1955 that forced banks to allocate 5% of either their term or at sight deposits to industry, Decree 198 of 1957 obliged banks to dedicate 14% of both at sight and term liabilities to cattle farming and agriculture. Law 26 of 1959 increased this requirement by another percentage point making it three times as large as that made for industry and including both and not only one type of the banks' deposits. Thirdly, a difference between the resources made available to industry and those to agriculture was that only the latter were rediscountable in the CB and at preferential interest rates, so as to encourage banks to lend more freely to these activities. Summarising, up to 1960 — and contrary to what the conventional literature sustains, legislation tailored to meet the credit demands of industry has been scarce and short-lived. Moreover, and as will be shown below, only a small portion of it

[103] Urdinola, A. 'El Crédito...' p. 472; Fajardo, C. and Rodríguez, N. 'Tres...' p. 31; Bolívar, A. Muñoz, C. 'Una Visión...' pp. 118–119; Salazar, N. 'Historia Monetaria...' p. 82. Note that in 1948 Law 90 had obliged private banks to hold 5% of their additional reserve requirements in bonds of the Agrarian Bank.

was subsidised, especially when compared to other activities, such as cattle farming and other agricultural sectors.

In addition to the employment of incentives through the mechanism of rediscount and legally-grounded obligations upon banks to advance credit to certain economic agents, rulings in the early 1960s, usually made by the board of directors of the CB, were designed to determine the sectoral allocation of new deposits entering the banking system. This was the case of Resolutions No. 34 and No. 44 of 1960, by which caps to the increases in the banks' assets were accompanied with mandatory instructions as to how these new resources should be allocated. As with other schemes, industry did not emerge a distinct winner from this: for purchases of pledge bonds 30% (mostly agricultural), to satisfy demands from Decrees 385/50, 1790/60 and Law 26/59 went 50% (all agrarian), and the remaining 20% for ordinary operations. In other words, the bulk of new deposits was channelled to financing agriculture and facilitating 'popular credit'. Subsequent modifications of the ways banks had to allocate incoming deposits, such as those dictated by Resolutions No. 9 and 16 of 1961, did not single out or earmark new resources for industry in any kind or form until 1963.

In this context of neglect of industrial credit, however, two measures could have had mild but positive effects on manufacturers; first, the above-mentioned 'popular credit', and; secondly, the creation of the Private Investments Fund (FIP). Following Law 49 of 1959 and Decree 1790 of 1960, the Popular Bank and the commercial banks were authorised to advance subsidised long-term credit to co-operative societies, mutual-aid funds, industrialists, artisans, workers and employees with modest liquid assets — hence 'popular credit'. Similarly, the FIP was a fund ascribed to the CB that channeled credit through the banking system. At first endowed with external resources, later also resorting to primary emissions, the FIP was designed to foster sectors that could strengthen the nation's balance of payments account, and since this could be attained either through the exporting of new products or via the substitution of imports, industrial firms benefited from it.[104] These arrangements represent two instances in which industrialists were indirectly favoured via preferential lending conditions, but in none of these arrangements had they

[104]For a brief review of the different funds ascribed to the CB in the 1960s and 1970s; see, Gaviria-Cadavid, F. 'Moneda, Banca y Teoría Monetaria' (2006) pp. 141–45.

been explicitly targeted; this was rather an indirect result or side-effect of broader policies. Industrialists benefited amongst various other economic groups or activities. Moreover, the Fund for Agrarian Financing (FAF) created in 1966, rapidly came to dwarf in resources the FIP.[105] To examine the actual patterns of credit allocation from private banks and from public institutions the evident next step is to assess the impact of the credit legislation just revised.

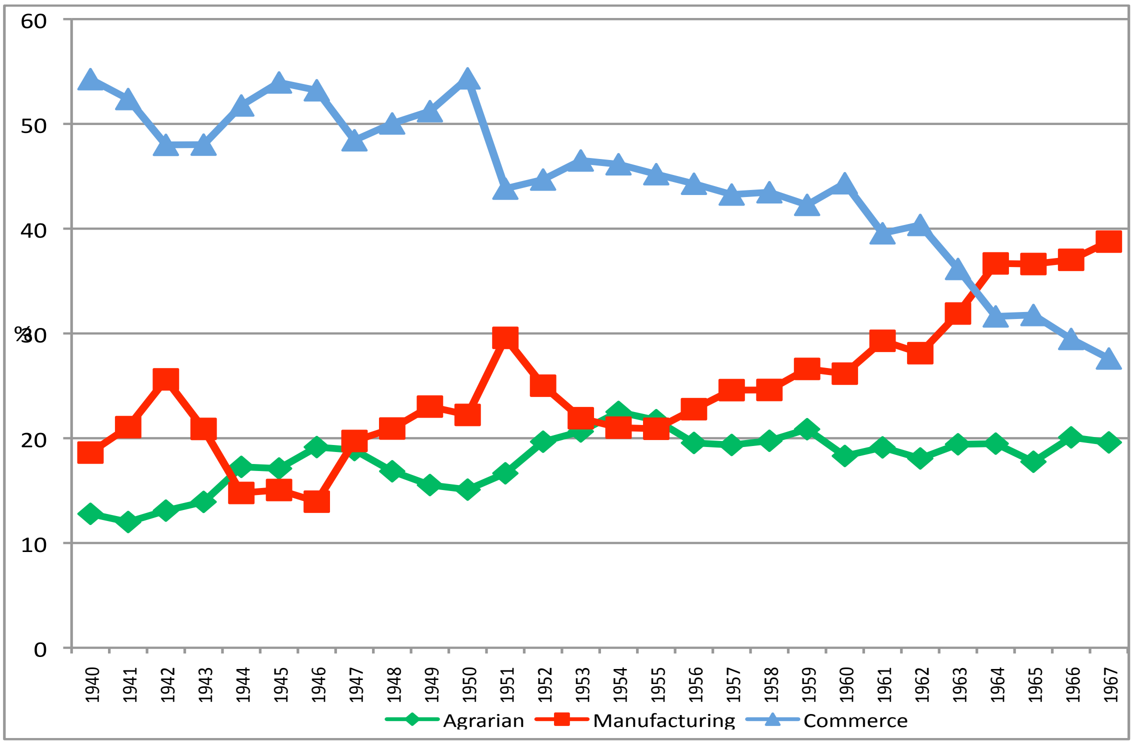
The Sectoral Allocation of Credit

This section presents different data containing sectoral allocations of credit gathered from primary sources, such as the CB's annual reports and its monthly review; reports from the private association of commercial banks, ASOBANCARIA, reports from the Agrarian Bank and the BCH and data published monthly by the banking regulatory agency. It argues that in order to measure and assess the commitment of the state toward the industrialising project, efforts at examining the share of credit — both ordinary and subsidised — that flowed to industry, the activities of all lending institutions in the financial system need to be accounted for. As will be shown, the Colombian state, contrary to what the conventional literature sustains, did not prioritise industrial credit — at least not until 1967. Priority, instead, was given to coffee growers and cattle farmers. The first calculations exhibit the sectoral allocation of credit of commercial banks.[106] The next integrates the resources advanced by the state-owned Agrarian Bank and BCH. Then all other financial institutions are included. Lastly, the credit advanced directly by the CB to the private sector, by-passing the financial intermediaries completes the wider picture. Efforts at estimating the subsidies entailed in CB's operations and evidence on the actual impact of credit flows and legislation on the balance sheets of manufacturing firms is also provided.

Figure 5.3 exhibits a few important trends. First, commerce, which had been the leading sector in terms of shares of total credit allocation, declines markedly from more than half of the total new loans received in 1950 to less than 30% by 1967; losing its status to industry. For manufacturing the pattern is not so clear-cut at first. Its early 1940s level of 20%

[105] By the mid-1970s FAF nearly quadrupled FIP in total credits made; Gaviria-Cadavid, F. 'Moneda...' p. 142.
[106] Nearly identical to the estimates used by Castro and Junguito for industry, but for all sectors.

Figure 5.3: Credit Allocation by Commercial Banks, 1940–67 (New Loans — Percentages)

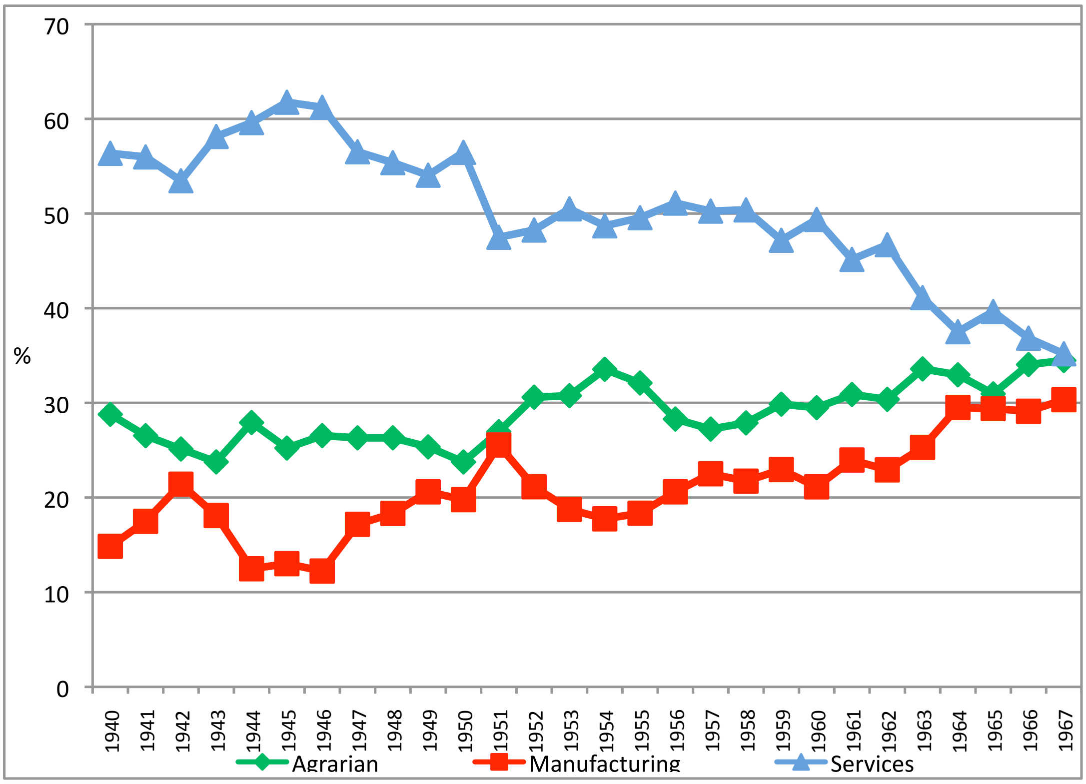


Source & Note: Author's own calculations. Data from BRep. IAGJD, various years and BRep. Revista, various issues. Numbers converted into real pesos. See Table A.5.3.

slumps to 13.9% in 1946 and only surpasses its 1942 peak of more than 25% in 1951 when it nears 30%. Then it drops and is overtaken by agrarian loans in 1954/55. From then on, however, industry's share grows gradually and widens the gap with agriculture decisively. Recalling the legislative acts of the previous section it is reasonable to argue that the initial impact of Decree 384 (on developmental 5-year loans) and its ensuing additions was noticeable. A drop of more than 10% is recorded in commerce and a hike of 7% occurs in industry in the following year (1951); however, industry's share then declines to its pre-decree level.

The agrarian sector benefits in a more lasting fashion, with an increase of more than 7% spread over 4 years and stabilises since at around 20% of total allocated loans. This rise is largely driven by new loans advanced to livestock, though coffee also adds to it. It is

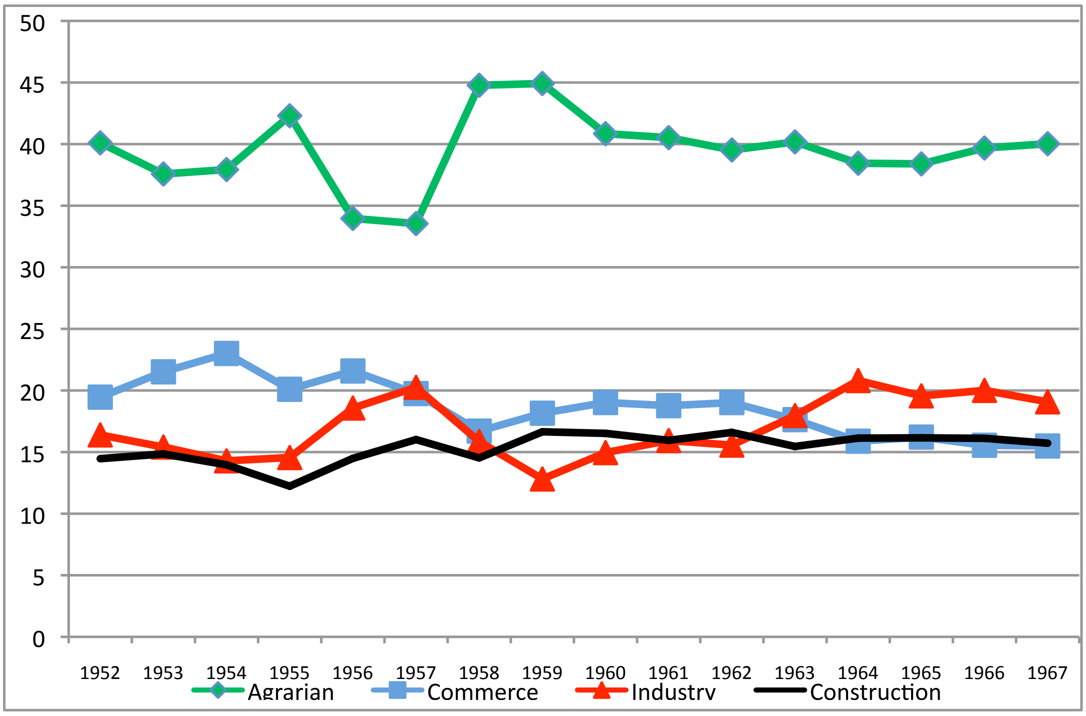
Figure 5.4: Credit Allocation: Commercial Banks, Agrarian Bank and BCH, 1940–67 (New Loans — Percentages)



Sources: Author's own calculations. Data for commercial banks from BRep. IAGJD, 1968–1969 and BRep. Revista, various issues. For Agrarian Bank data from DANE. Anuario General de Estadística, various years. For BCH, data from BCH. Informe y Balance, various issues complemented with BRep. Revista, various issues. See more details in Tables A.5.4 and A.5.5.

difficult to discern from this figure any significant and lasting effects from the 1957 and 1959 legislation favouring agriculture and livestock, other than for maintaining its share relatively constant. As for the short-lived 1955 pro-industry decree, it is plausible that it accounted for a few percentage points in the early escalation of 1956–57; yet despite the derogation of the law, industry's share kept on rising. The key points to take from here are: that as late as 1955 it was not clear at all that private commercial banks were directing ever-growing financial resources to industry. Secondly, it is only from 1956 onward that the share of industrial credit rises steadily. However, as noted in the previous section, this was not necessarily the result of legislation prioritising the channelling of financing to the sector. Lastly, given there was no equivalent of *banco gremial* for industrialists — along the lines of the Coffee Bank and the Livestock Bank for coffee growers and cattle farmers; commercial banks turned out to be the main providers of financing for industry. The critical question then arises: where did the state financial effort amidst a supposed ISI or state-led industrialisation strategy go to?

Figure 5.5: Credit Allocation by the Entire Banking System, 1952–67 (Outstanding Loans — Percentages)



Sources: BRep. IAGJA, various years and BRep. Revista, various issues. See further details in Table A.5.6.

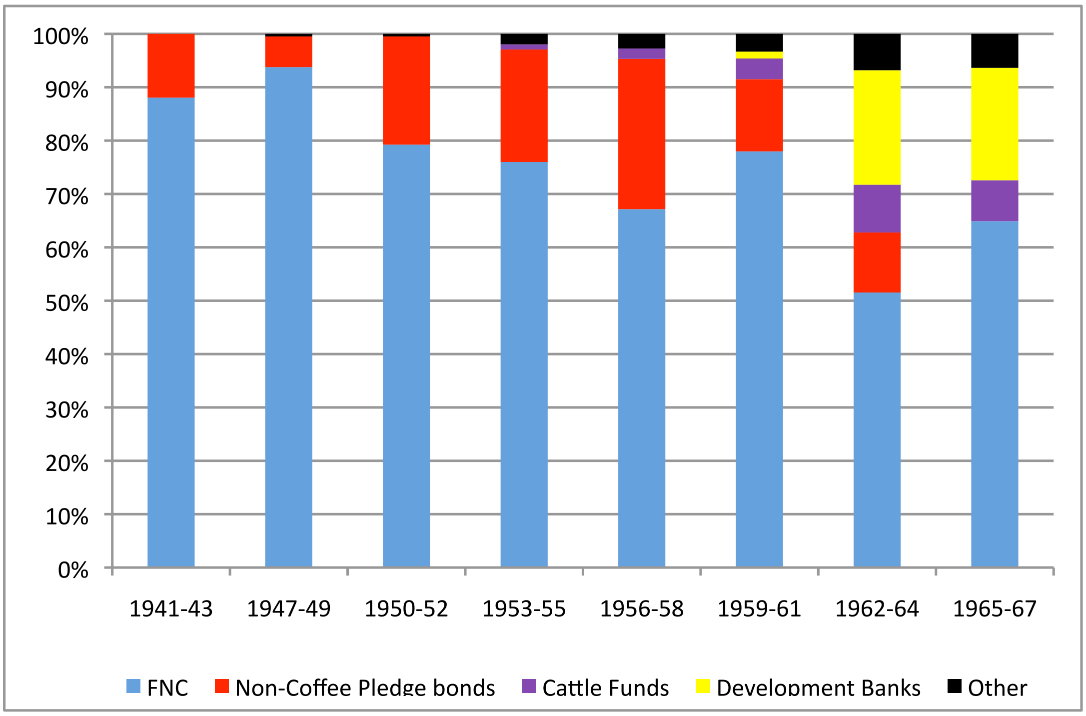
As said earlier, the financial system was by and large privately owned but since the 1930s a state-owned agency, the Agrarian Bank (full title: Agrarian, Mining & Industrial Bank), was becoming ever more important. Despite claims in its very title and mandate to serve the three sectors, this bank, for all practical purposes, lent primarily to crop growers and cattle farmers. In this respect, the official institution represented more accurately the economic interests and strategy of the state. The integration of the credit allocated by the Agrarian Bank and the BCH, which was the only entity authorised to issue industrial bonds until the early 1950s, to each economic activity alters the financial picture — when only the commercial banks are taken into account. Figure 5.4 shows that the declining trend in commerce still holds, but it is now the agrarian sector which comes second opening a gap with industry of more than 10% in the mid-1950s and equalising the credit advanced to the services sector in 1967. The increase of agrarian credit from 1950 to 1955 — and consequent wedge created with industry — is explained chiefly by the joint-effects of a larger incidence of Agrarian Bank's new loans relative to commercial banks, and the drop in industrial loans facilitated by the these banks, noted in Figure 5.3. As for industry, its share averages roughly 19% until 1955; then it catches up steadily and nearly closes the gap with agriculture and livestock, as it reaches 29% of new loans in 1964. Summarising, when the credit originated in state-owned financial institutions, such as the Agrarian Bank, is taken into account in the sectoral allocation of loans of the financial system, industrialists' share reduces substantially and it becomes clear that it was not only far behind commerce but it also lagged behind agribusiness. It is also worth noting that there seems to be a direct inverse correlation between the industrial and agrarian credit shares, visualised in two marked 'wedges': the first one starting in 1943 and finishing in 1950; the second one opening up in 1950/51 and closing down again in 1957; suggesting that the losses of one sector represented the gains of the other. Returning to the question posed above, the bulk of the state's financial effort seemed to have been directed toward agriculture and livestock and not to industry.

The sectoral allocation of credit changes even more when the entire banking system, i.e. commercial banks, *bancos gremiales,* the Agrarian Bank, mortgage banks, the CB and the *bancos prendarios* (pledging banks) are included. This paints an even bleaker picture of resources flowing to industry. From 1952, the year from which data for all agents are available, the largest receivers were agrarian interests with an average of 40% of all loans advanced by the financial system between 1952 and 1967 (see Figure 5.5). Commerce followed with nearly 19%; even livestock, when considered as a sector on its own outdid industry taken 18.2% of the total.[107] Industrialists obtained on average 17% of all outstanding loans facilitated by financial intermediaries, the smallest share of credit any sector received — safe for construction. Two important implications arise from these numbers on the sectoral allocation of credit; one empirical, the other interpretative. The

[107] See Table A.5.6.

first is that empirical evidence demonstrates that industry did not become a privileged receiver of credit in terms of having been allocated larger shares of it than other sectors. The erratic pattern or no pattern at all of industrial credit relative to other sectors confirms this. The second point is that interpretations that stress the role of the state in promoting and financing industrialisation via credit/financial policies, that is those of ISI and/or state-led industrialisation frameworks do not fit the empirical evidence. On the contrary, the state on the credit front promoted agriculture first and foremost and industry only marginally. This is illustrated further when an examination of the direct operations of discounts and loans from the CB is made.

Figure 5.6: Loans and Discounts by the Central Bank, 1940–67 (3-Year Averages of Year-End Balances — Percentages)



Sources: Author's own calculations. Data from BRep. IAGJD, various years. Further details and the series in Table A.5.7.

Further to the loans facilitated by public and private financial intermediaries, Banco de la República was authorised to carry direct transactions with the public, in addition to those it carried out with its main clients, affiliated banks and government. The extent of resources in question was not insignificant and once again, the share of these flowing to industry was rather modest. Relatively speaking, industry was a loser in the credit allocated directly by the CB to private agents. That this type of directly-administered credits mattered was evident from the importance that CB directors assigned to it as a potential source of monetary expansion and instability. In October of 1958, as a response to claims that inflationary pressures originated in the CB's credit facilities to the coffee sector (via the FNC) and in the discounting operations it carried out with pledge bonds, the board of directors commissioned a study to look into the determinants of the country's economic instability and asked to examine carefully the role played by these elements in it.[108] In various years, for instance, 1940, 1941, 1942, 1954, 1959, 1961, 1966 and 1967, the amounts received by so-called *particulares* - non-bank private agents — ranged between half and two thirds or more of the resources advanced to CB's most important clients, its affiliated banks.[109] And in 1958, private agents received even more credit from the CB than its affiliated banks. In the early 1940s private agents received on average 33% of the loans and discounts advanced by Banco de la República.[110] During the second part of WWII and in the immediate post-war years, credit to private agents was severely tightened, but relaxed again in the early 1950s to attain high levels in the late 1950s and 1960s when the international prices of coffee faltered and the CB provided sustained and generous financing support. Between 1957 and 1967 the proportion of relative credit advanced to private agents returned to its prewar levels. In other words, around a third of CB's lending facilities were directed to private non-financial agents. Given the visible importance of these resources it is crucial to examine which economic sectors benefit from these direct lines of credit.

Since the 1930s coffee growers, mostly represented by the association of coffee producers, had gained access to the funds of the CB for the purposes of financing the harvest, sustaining the internal price of the bean, and exporting. As seen in Figure 5.6, coffee rapidly came to dominate the credit to private agents, as the sector absorbed roughly 90% of all loans and discounts during the 1940s.[111] Although its share declined from then on, it remained

[108] For the claims see; BRep MoBD, 14 February 1958, Act No. 2648, pp. 8739- 41, ABRep; and for the commission see BRep. MoBD, 28 October 1958, Act No. 2689, pp. 9095–96, ABRep.
[109] Data on the allocation of credit by the CB is displayed in Tables A.5.7 and A.5.8.
[110] Credit to the national government not included. See Table A.5.8.
[111] Complete data are not available for 1943–46 for coffee or any other group; however, qualitative evidence based on the editorials and comments made by the general manager of the CB in his yearly reports serve to confirm the view that

well above 60% until the early 1960s. Credit advanced to the FNC by the CB in the 1940–67 period averaged a very substantial 75% of all resources lent to private agents. Operations with pledge bonds came in second place with an average of 14%, also for the whole period.[112] These corresponded to the discounting of bonds issued by warehouses upon merchandise or commodities used as collateral. Until 1951 it is clear that the large majority of products that qualified for discounting in the CB were agricultural, including among others: rice, sesame, wheat, cotton, timber, and soybean. The preference of the CB in discounting pledge bonds for agricultural funding is illustrated, for instance, in its rejection to discount malted barley, which considered it to be a raw material for beer brewing — an industrial activity. This highlights further that the aim of the pledge-bond discounting was conceived, instead, to foster agricultural production.[113] This bias towards agricultural financing in regards to pledge bonds was reversed somewhat after 1951, however. Industrialists' requests to the CB for it to authorize the discounting of bonds guaranteed with domestic and foreign raw materials and inputs for further industrial processing started to be accepted in the late 1940s. Thus, by the late 1950s and early 1960s wool,[114] raw and yarn cotton,[115] rayon fiber [116] leaf tobacco, [117] soy flour,[118] Paz del Rio-steel-products,[119] and canned goods,[120] amongst others, were incorporated in a growing list of commodities, raw materials, and a few finished goods that through pledge bonds financed not only agriculturalists but also industrialists. This move seemed to have alleviated industrialist's financial needs in certain situations, as the Finance Minister reported on a trip made to Medellin in July 1951: "enthusiastic and optimistic feelings prevailed in the business climate among industrialists thanks to the efficacious assistance provided through the financial mechanism of pledge bonds, which has aided enterprises in

coffee was by far the sector receiving the majority of financial resources originated directly in the CB. See BRep. IAGJD, 1943–1946.

[112] Pledge bonds are titles of credit issued (along with warehouse receipts) by general-deposit warehouses that are immediately negotiable. They serve as collateral with commercial banks for short-term credit. The CB rediscounted these credits from at least 1940. This financing mechanism is common in rural economies where capital is scarce.

[113] BRep. MoBD, 18 February 1949, Act No. 1816, p. 4676, ABRep.

[114] BRep. MoBD, 10 October 1958, Act No. 2685, p. 9067, ABRep.

[115] BRep. MoBD, 4 July 1951, Act No. 2043, p. 5694, ABRep.

[116] BRep. MoBD, 18 July 1951, Act No. 2044, pp. 5716–17, ABRep.

[117] BRep. MoBD, 29 October 1948, Act No. 1788, p. 4540, ABRep.

[118] BRep. MoBD, 8 November 1957, Act No. 2628, pp. 8571–72, ABRep.

[119] BRep. MoBD, 23 February 1955, Act No. 2380, p. 7277, ABRep.

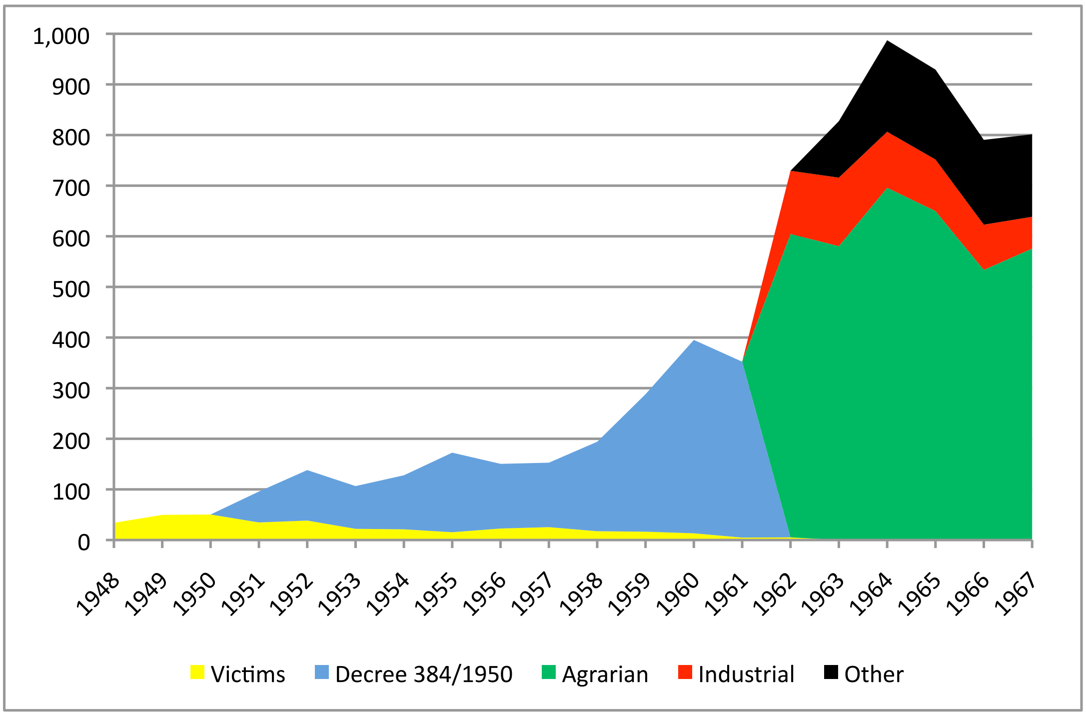
[120] BRep. MoBD, 26 October 1960, Act No. 2975, pp. 10013–14, ABRep.

dealing successfully with thence dire circumstances..."[121] Despite the broader acceptance of non-agricultural items in the financing scheme with pledge bonds two hard facts about credit allocation remained still.

First, that it was coffee above all, and other crops in second place, that benefited from this method of funding. Secondly, industrialists did not enjoy either a special or a separate line of direct credit with the CB in the way coffee growers or cattle farmers did. This last group, cattle farmers, formed the other economic sector — apart from coffee — receiving direct credit from Banco de la República. Evidence from the minutes of the board of the CB shows that from the late 1940s, sustained efforts from these business groups to gain access gradually paid off. The CB opened lines of credit via Cattle Funds to the provinces of Atlantico,[122] Bolivar,[123] Caqueta,[124] Cordoba,[125] Magdalena[126] and Valle[127] amongst others. Although their share in the resources allocated by the CB never came close to that of coffee producers or the financing through pledge bonds, the average of funds granted to cattle farmers peaked at 9% in 1962–64 and amounted to nearly 5% of the total from the year that the first Cattle Fund started operating these resources. To sum up, industrialists did not come to represent a privileged economic sector in the directly-allocated credit originating in the CB. Preferential treatment was instead enjoyed by coffee growers first and foremost, followed distantly by cattle ranchers. Other agriculturalists and industrialists only came to benefit indirectly through the rediscounting of pledge bonds guaranteed with agricultural produce, raw materials and industrial inputs that Banco de la República accepted from commercial banks. In short, industry did not particularly benefit from the credit facilitated directly by the CB. Since the resources that the CB facilitated — through the direct operations it authorised with private agents or via the rediscounting of funds to financial intermediaries to the final borrowers — were made at preferential rates, it is integral to this examination to attempt the identification the economic activities that benefited from it and an estimation of the size of the subsidies involved.

[121] BRep. MoBD, 4 July 1951, Act No. 2040, p. 5694, ABRep.
[122] BRep. MoBD, 8 February 1956, Act No. 2466, p. 7488, ABRep.
[123] BRep. MoBD, 24 August 1956, Act No. 2512, 7887, ABRep.
[124] BRep. MoBD, 28 May 1958, Act No. 2663, p. 8895, ABRep.
[125] BRep. MoBD, 18 July 1956, Act No. 2503, p. 7845, ABRep.
[126] BRep. MoBD, 8 July 1955, Act No. 2413, p. 7423, ABRep.
[127] BRep. MoBD, 10 March 1954, Act No. 2297, p. 6901, ABRep.

Figure 5.7: Allocation of Subsidised Credit: Re/Discounts by CB (millions of 1958 Pesos)



Sources: Author's own calculations. Data from BRep. Revista, various issues; and BRep. IAGJD, various years, 1968–69.

The balance sheets of the CB provide enough synthesised data to compile a full series of subsidised credit at its source. An entry in the assets-side contains the values of the loans and discounts that Banco de la República advanced to both affiliate and non-affiliate financial institutions. The sums amount to subsidies because they were intended to be, and effectively were officially labeled, *de fomento*, 'developmental' resources, implying that the CB carried out these operations at lower interest rates than those for normal, commercial transactions. The exact differentials are difficult to capture. These often they varied in one, two or up to three percentage points, but since they started from very low bases, were significant. Though the classification of the loans is not consistent throughout, some inferences can be made from the available evidence. The CB started to subsidise credit in 1948 following decrees issued by Ospina's administration in order to compensate the victims of the violence that deepened across the country after the assassination of Gaitán in April 1948 (Figure 5.7). The funds were intended for the rural victims. Agriculturalists and cattle farmers from Boyacá and the Eastern plains seemed to have received large parts of these credit lines, which though subsidised, overwhelmingly became unrecoverable loans.[128] The first hike in cheap credit came in 1951 when the effects of Decree 384 of 1950, or so-called 'developmental' credit, were first registered. As discussed above, this measure and related dispositions (1760 of 1951, 2482 of 1952, 198 of 1957, 26 of 1959) did not target manufacturing single-handedly at all. Unfortunately a break-down by economic activities of the loans contained in these measures is not possible from the CB's data.[129] The changes in the classification used by the CB from 1961, however, permit informed guesses.

Given the absence of major pieces of legislation on developmental credit between 1958 and 1964 the classification offered for 1962 and 1963 is most valuable. In it, the CB distinguishes between agrarian, industrial and other developmental loans. The shares are far from proportional, in line with the arguments and findings advanced so far, for cheap credit to agriculture and livestock amounted to 600 of a total of 730 million pesos or 83%, whilst the share allocated to industry pales at a residual of 130 million or 17% in 1962. The shares the following year are 70% vs. 16%, respectively.[130] Because the classification changed in these years but the sources (that is the legislation that largely determined this allocation) did not, or at best only marginally, it is plausible to argue that at least as far back as 1958 the relative distribution of cheap financing between these two sectors was similar to that shown in the early 1960s. It is also clear from the layer chart that the bulk of the subsidies flowed to agrarian activities in the mid-1960s, when new legislation was passed. It is worth noting that despite the overwhelming disproportion of subsidised credit flowing to agrarian ventures, compared to industrialists, the above data underreports the total of cheap credit advanced. This is because the CB's balance-sheets only covered 'legislated developmental' credit, that is, the credit determined by the decrees/laws reviewed earlier, but it did not single-out, nor quantify, the funds facilitated to the Agrarian Bank, which were substantial and made at lower rates than resources supplied to private commercial

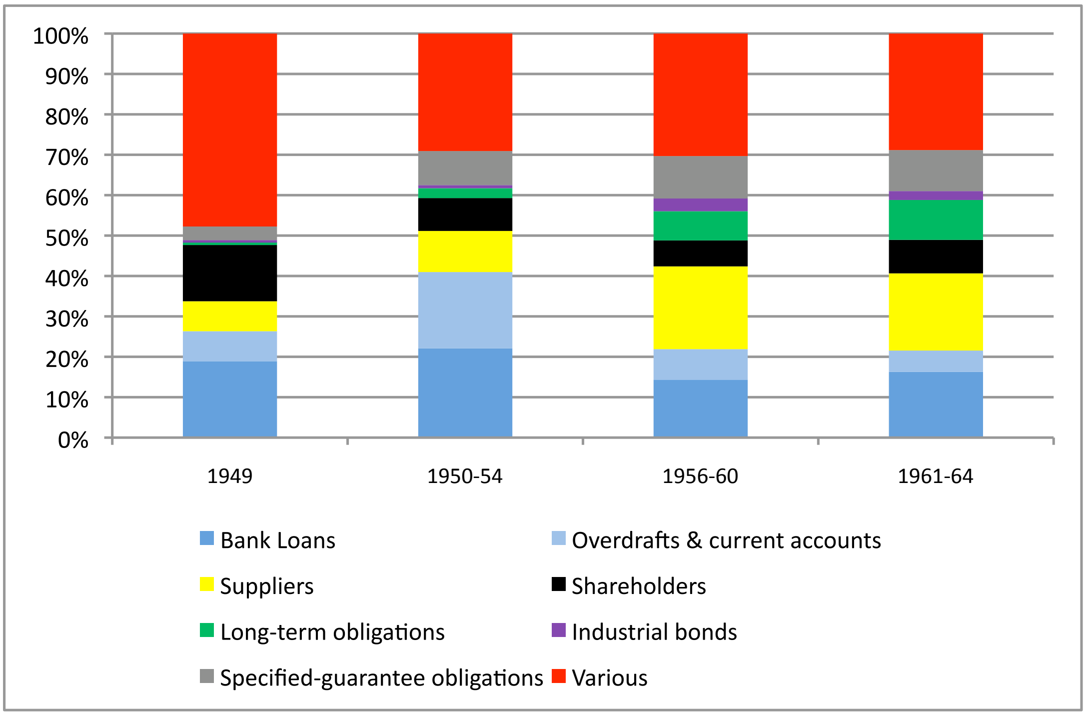
[128] References to the exact percentages are made in Chapter 7. See BRep. MoBD, 3 June 1959, Act No. 2725, pp. 9423–24, ABRep.

[129] This author approached archivists at Banco de Bogotá and Banco de Colombia to examine the distribution of the loans by economic activities from Decree 384; both organisations refused access on confidentiality grounds.

[130] See Table A.5.9 for the series underlying the percentages cited. The increase that takes place between 1961 and 1962 is difficult to explain, though at least part of it could be compensating for the real decline suffered in 1961 vis-à-vis 1960.

banks. Rounding and simplifying, rediscountable resources for commercial banks had to be lent by these to the final users at subsidised rates, data captured in Figure 5.7. But cheap credit advanced by the Agrarian Bank, which also (re)discounted heavily in the CB was not registered, or more precisely only a small fraction. In short, agribusinesses and not industrialists enjoyed extensive privileges when it came to financing in terms of access to subsidised credit.

Figure 5.8: Liabilities by Types of Creditors: National Limited-Liability Manufacturing Companies (Percentages)



Sources: Superintendencia de Sociedades Anónimas. Revista, various issues.

However small the volumes of cheap institutionalised credit to industry were, potential doubts over the evolution of the total volume of resources (subsidised and ordinary) can be dissipated further by shifting the focus away from the suppliers of funds and into the actual recipients. Reliable, aggregated evidence emerging from manufacturing firms gathered by the regulator of limited-liability companies provide enough evidence to construct a series showing the composition of liabilities. If empirical reality is in line with the conventional views of the literature, this demand-side approach should reveal an increasing role for banking obligations and facilities in proportion to total creditor's liabilities. This should be potentially and especially so after 1950 (following Decree 394) and 1955 (decree 1564). If on the contrary, as argued in this dissertation, no distinctive increase or upward trend is found, there will be even stronger grounds to sustain that manufacturing was not favoured by banking — irrespective of legislation on credit, the returns or profitability of the sector, or the risk profile associated with it.[131] A few notes on the dataset are necessary before commenting the findings. Data were only obtainable in aggregated fashion from 1949 onwards. Although this leaves a substantial part of the period studied here unexamined, it is encouraging that at least there is one full observation available pre-1950, for this allows a benchmark, however isolated, to assess the effects of the legislation of the 1950s. The series runs until 1964 because it is up to this year that most individual entries within the liabilities side of the balance sheets are consistent and/or can be identified, integrated and grouped by origins without serious distortions. Finally, the break-up of the liabilities by types of creditors offered here is new. This author does not know of any study that has attempted the disaggregation for these years. The literature has divided the sources of corporate financing into two broad categories (reserves and retained profits on the internal side, and loans and increases of share capital in the external part) but no detailing of the 'loans' entry had been done. This in not problematic in itself, but the issue arising from it is that often such loans are considered to amount to credit originating in banks — and in legislation forcing banks to direct it to government-prioritised activities, such as industry.[132] This, as will be clear by now, has been misconstrued, as argued throughout this chapter, and will be further challenged with the piece of empirical evidence displayed above — that breaks down of the category in question.

From the bar chart it can be discerned that the key component (see Figure 5.8), bank loans, underwent rather minor alterations, increasing a marginal 3 percentage points between 1949 and 1950–54, only to decline thereafter to an average of 15%. It is plausible to argue that the rise was the result of Decree 385 of 1950, but if this was the case the

[131] A comparative exercise over time between the composition of creditor's liabilities of industry and agrarian firms is desirable but from this dataset is not sensible. Whilst a large and an increasing number of manufacturing firms over the period of concern had the legal form examined here, this is certainly not the case for the vast majority of agricultural and livestock businesses.

[132] See for instance; Ocampo, J. A. and Tovar, C. 'Colombia...' p. 254; and Sándoval, D. 'Política...' p. 156.

effects were certainly short-lived. The proportions are in relative terms and it does not add much to provide the absolute figures, for the data are based on different samples of incorporated companies that vary at times largely in the numbers of firms covered.[133] The banks, however, provided a helpful service to the sector in the 1950–54 *lustrum* via overdrafts and red numbers in the credit-balances of current accounts, which escalated a significant 12% compared to 1949. This feature, however, did not last long either, as the relative proportions of this liability decreased to their previous level in the 1955–64 period. The process that really stands out from the figure is the more enduring substitutive effect that took place between other types of liabilities, namely, trade credit and the 'various' entry. The first category is captured in the chart as 'suppliers' and it comprised both domestic and international ones; the second is a more complex one, whose elements are difficult to identify, but that contained, amongst other things, promissory notes, bills, and 'various creditors' and 'various others', which hint at this largely being in effect, the curb market. The encompassing 'various' passed from accounting for half of all liabilities of national manufacturing corporations in 1949 to explain 30% of liabilities from 1950 onward. The compensating force, as noted, was the credit offered by suppliers, which nearly tripled from 7% to an average of 20% over the same time. Though at a minor scale, another interesting observation is the decline in financing/funding originated with 'shareholders', comprised by loans and dividends overdue, which also halved between 1949 and 1955–64 from 14% to 7%. This in turn seems to have been offset by the combined rise of 'specified-guarantee obligations' (mortgage- and pledge-based credit) and non-mortgage, long-term obligations. In short, demand-side empirical evidence surfacing from the creditors' liabilities of national manufacturing corporations indicates, again, that the role by banking credit in financing the growth of industry was limited or unchanging. This stands in stark contrast to claims by the existing literature of an excessive surge in cheap and ample credit to the sector originating in incentives and legislation directed by the state to promote and support industrialisation.

[133] See Table A.5.10.

Conclusions

This chapter started pointing at the various shortcomings of the extant literature on industrial financing in mid-twentieth century Colombia. Conventional wisdom has approached the issue using a theoretical framework that has run its course: ISI. Under these lenses manufacturers are believed to have been the beneficiaries of credit policies that forced the banking system to direct ample and subsidised resources to the sector. Industry is considered to be one of the 'productive' sectors for which successive governments prioritised the allocation of financial resources as part of an alleged wider economic strategy aimed at industrialising the nation via substitution of imports. This chapter challenges such interpretations. And it does it on empirical grounds. First; primary historical evidence shows that industrialists considered short-term credit scarcity a grave problem, for example, leading to underutilization of plant-capacity. Similarly, inadequate longer-term financing, it was claimed, hindered expansion plans. Primary evidence from other agents/institutions, namely, foreign missions/experts, such as those of the IBRD, complements and confirms the allegations of manufacturers. So does further qualitative material originating in public/governmental agencies, such as the fiscal auditor and the CB. The compilation of this variety of sources aims at a triangulation of evidence that substantiates and gives strong support to the claims of the industrial sector, which on their own, should be taken skeptically.

Secondly, an examination of the financial system and of the decrees, laws and resolutions issued on the allocation of its resources demonstrates that so-called 'legislated-credit' did not single out industrialists as privileged targets of any one government's financial policies. Moreover, it is shown that industry was left institutionally 'orphaned' when it came to matching the needs of specific economic activities with a financial institution especially designed for each, as it occurred with for instance with the Coffee, and Livestock banks founded in the 1950s. Attempts to create similar organisations to serve industry were not seriously considered.[134] Thirdly, first-hand evidence on the allocation of new and outstanding loans covering the entire banking system, i.e. private commercial banks, the Agrarian Bank and other *bancos gremiales,* as well as the mixed BCH and the Banco de

[134] Or were very poorly endowed. The best example of this is IFI; see chapter 5 of this dissertation.

la República, shows that the relative share of credit allocated to industry was far from being extraordinary. Not only were other sectors receiving larger proportions, such as agribusinesses, but there was no clear-cut upward trend found, as should be expected, if the ISI or state-led industrialisation interpretations were to hold. Further, fragmentary but valuable evidence on the proportions of subsidised lending also indicate that industry was a relative loser.

Establishing the relative sectoral shares of credit allocated by the entire banking system is a significant and long overdue contribution that provides material for new, revisionist interpretations. The one advanced here is that the Colombian state, via credit policies at least, delivered only limited support to industry during the alleged era of state-led ISI. Instead, it has been shown, agrarian ventures, and particularly coffee growers and cattle ranchers, received preferential financing incentivised by and/or ordered directly from government heights. Having demonstrated that the allocation of credit by the banking system failed to make industry a privileged recipient, the critical pending question is why. Why did credit legislation and more generally its allocation benefit other economic activities? Why were governments disinclined to assist manufacturing with ample and cheap credit? The most relevant insights to these questions come from an examination of the wider political economy that underpinned the financial system and that determined the flows of ordinary and subsidised financing. This is the subject of the next chapter.

6 The Political Economy of Banking-Credit Allocation

"No one really believes that this country is governed by senators and representatives elected by popular vote. The real power, the economic power, resides in other visible institutions, in the Monetary Junta, the Banco de la República, the Agrarian Bank..."

Alfonso López Michelsen, 1973

"The coffee industry... could scream at the four winds:
I am the fiscal equilibrium; because on coffee exports depend the custom revenues, which constitute the bases of our budgets;
I am the external credit of both nation and provinces; because over coffee levies external public and private debts are served, and because if coffee exports stopped the Banco de la República would go bust in less than three months...
In one word, I represent Colombia's material civilisation, and from me it depends."

Mariano Ospina Pérez, 1937

This chapter offers a political-economy explanation of why credit was not directed to manufacturing enterprises either in large volumes or at subsidised prices during the alleged era of state-led ISI. The main hypothesis holds that a growing incompatibility emerged between the financial requirements intrinsic to the advanced stages of industrialisation and the clientelistic demands of the Colombian polity. This claim is examined through a theoretical framework that treats the preferential allocation of credit as the outcome of a political equilibrium.[1] On the demand-side lies the political power of credit *demandeurs*, which depends on the relative size of industry in the economy, its organisational strength and financial needs. The power of other groups competing for resources, especially of

[1] Haggard, S. and Lee, C. 'The Political...' pp.12–13. This section borrows freely from their ideas, and from Haggard, S. 'Pathways...' pp. 42–46.

agriculture, and of those bearing the costs of cheap credits, is likely to counter the strength of industrialists' appetite for finance. On the supply-side, the intentions/interests and the power of ruling politicians, as well as the structure of government institutions, are critical. The latter concerns the degree of insulation of the policy-making processes of key public institutions, such as the CB. The former allows for agency: politicians mostly concerned with macroeconomic stability, i.e. taming inflation, are less likely to interfere in the financial system, whereas leaders whose top priority is growth are more likely to intervene and support preferential credit schemes. As the elements of the theoretical framework are substantiated with a combination of primary evidence and arguments from the existing literatures, indications as to what to expect in the allocation of preferential credit among economic sectors shall become apparent.

The chapter is structured in eight parts. The first section presents historical evidence on the interests and preferences of politicians in government regarding the broad economic strategy, to show that across political parties and throughout the period there was little appetite for a full-fledged pro-industrialisation programme. It argues that the label 'balanced growth across sectors' describes best the macro policies of the time, which exhibited remarkable continuity. The second section considers the political aspects of industrial policy and examines the necessary conditions for states to design and implement successful industrial transformations. The role of the CB is considered next, where new evidence, for instance arising from its rediscounting lines and interest rates, demonstrates that industry was not privileged. Part four of the chapter surveys the political clout and economic relevance of industry vis-à-vis coffee and other agrarian interests to gauge their respective power and 'predict' the direction elected politicians would give to credit flows under the aegis of the state. The narrative proceeds claiming that the largest publicly-owned bank, the Agrarian Bank, served clientelistic purposes, based on the patterns of credit allocation and the nature of the loans it advanced in the countryside. Section six considers whether or not the demand and supply of credit met the needs of different economic activities, according to fixed-capital requirements. New calculations of marginal capital-output ratios, cross-checked with loans-to-output data establish which sectors were prioritised. A plausible counterfactual exploring the likelihood of a pro-ISI political coalition and assessing the chances of a successful industrialisation strategy consolidating in the political agenda of the time is the subject of part seven. The last section concludes.

Interests and Preferences of Elected Politicians

The starting point on the supply-side of the political equilibrium of preferential credit is the identification of the interests and preferences of governments. A representative and indicative set of documents to review are the so-called Government Plans (*planes de gobierno*) often unveiled at the start of the presidential terms. *Planes de gobierno* offer a glimpse into the macro interests of ruling politicians. Indeed, Bruton suggests, that "the most formal policy instrument [for ISI] was the national plan, and many countries spent substantial resources in drawing up a comprehensive plan... Plan documents reflected the initial conditions and government objectives... In particular, plans concentrated heavily on manufacturing..."[2] The building of institutions and the drafting of plans around the goal of accelerated industrialisation in several latecomers is also noted by Amsden. She highlights, amongst others, the arch-developmentalist drive of Park Chung Hee in Korea around 1961, the early-1960s Third Development Plan of Taiwan (promoting heavy industry), and the Pioneer Industry Ordinance of Malaysia in 1958.[3] In India, state commitment for a 'push' to industrialisation came earlier. According to Chibber, between 1947 and 1951 Nehru and the Indian National Congress made "the path to development virtually synonymous with industrialisation".[4] That developmentalism was strongly placed on the political agenda since, is confirmed through the passing by the Indian Parliament of the Industrial Policy Resolution aimed at diversifying into basic sectors. In Latin America, similar trends are observed in Brazil, where modernising ideology influenced governments from the late 1940s, portraying industrial development as the "hallmark of modernity".[5] A decisive spurt took concrete form a decade later with the Targets Plan, implemented under the presidency of Kubitschek (1956–61) — a 'push' that was long-lasting. Lastly, in Mexico,

[2] Bruton, H. 'Import Substitution' in Chenery, H and Srinivasan, T. N. (Eds) *Handbook of Development Economics* (1989) p. 1618.
[3] Amsden, A. 'The Rise...' pp. 19–21.
[4] Chibber, V. 'Locked...' p. 4.
[5] Leff, N. "Economic...' p. 46.

as early as 1946 President Miguel Aleman, in office until 1952, "made industrialisation his *only* economic goal [italics in the original]".[6] This review prompts the question: what were Colombia's economic plans?

Reacting to the disruptions that WWII was causing for the Colombian economy, in June 1940, Liberal President Eduardo Santos launched his General Plan designed to promote national development and to give the economy a more rational orientation.[7] The Plan, the first of its kind, considered that: "development demands an equilibrium or equivalence between agrarian and mining exploitations on the one hand, and industrial evolution, on the other".[8] Perhaps because of this it consisted of three individual sub-plans: one for agriculture, another for livestock, and a third for manufacturing. Unlike in Mexico under Aleman or Brazil under Kubitschek, Colombia's plans never equated economic development or modernity with industrialisation, hence, its strategies did not concentrate the energy of policy-makers or the financial resources of the economy on it at any point. Santos' economic plan set a trend best characterised, nominally at least, as 'balanced growth across sectors'. In practice, however, more often than not the most favoured sectors were livestock and agricultural interests, particularly coffee producers.

In the absence of similar plans by the government of Santos's successor and party-fellow, López Pumarejo, annual reports by the Ministry of the National Economy provide a sense of government actions and intentions. The 1944 report of this ministry suggested that: "...the country should orientate its financial efforts to increase the production of meat, wheat, potatoes, fish, maize, lard, fruits, vegetables and other basic items, as well as that of transforming industries."[9] The following year the ministry produced a detailed five-year plan for the development of agriculture, but no equivalent for manufacturing.[10] In explaining the industrial dynamism of these years, Abel and Palacios, state: "Industrial growth and initiative were not the direct effect of planned policy but the unintended

[6] Amsden, A. 'Escape ...' p. 80. For further references on ISI in Latin America, see Thorp, R. 'A Reappraisal...' and chapter 5 of this thesis.

[7] Presidencia de la República. Plan General: Medidas de Fomento de la Economía Nacional en Desarrollo de las Facultades Extraordinarias, 18 June 1940, p. 1, [Unpublished draft], AGN.

[8] Presidencia de la República. Plan General: Medidas de Fomento de la Economía Nacional en Desarrollo de las Facultades Extraordinarias, 18 June 1940, p. 2, AGN.

[9] Ministerio de la Economía Nacional. Informe, 1944, p. 7.

[10] Ministerio de la Economía Nacional. Plan Quinquenal de Fomento Agrícola, 1945.

Table 6.1: Presidential Succesion, 1930-74

Period in Office	President	Political Party	Observation
1930-34	Enrique Olaya Herrera	Liberal	
1934–38	Alfonso López Pumarejo	Liberal	
1938–42	Eduardo Santos Montejo	Liberal	
1942–45	Alfonso López Pumarejo	Liberal	Resigns (political pressure and personal reasons)
1945–46	Alberto Lleras Camargo	Liberal	
1946–50	Mariano Ospina Pérez	Conservative	Political violence spirals
1950–51	Laureano Gómez Castro	Conservative	Resigns (illness)
1951–53	Roberto Urdaneta Arbeláez	Conservative	
1953–57	Gustavo Rojas Pinilla	Military coup d'etat	Supported by Conservative/Liberal factions
1957–58	Military Junta		Transitional government
1958–62	Alberto Lleras Camargo	Liberal	National Front, coalition rule
1962–66	Guillermo León Valencia	Conservative	National Front, coalition rule
1966–70	Carlos Lleras Restrepo	Liberal	National Front, coalition rule
1970–74	Misael Pastrana Borrero	Conservative	National Front, coalition rule

Sources: Bushnell, D. (1993) and Hartlyn, J. and Dugas, J. (1999).

and fortuitous consequences of measures designed to strengthen the balance of payments, restore public finance and revive domestic foods production... [E]rroneous conclusions about the pro-industrialist aims of economic policy should not be derived from the industrialization of the 1930s and 1940s."[11] Liberal politicians, thus, were not strong advocates of industrialism.

Ospina Pérez's presidency implied party change at the top of the executive branch but not a transformation in the general framework of economic policies. In his Politics of the National Union, Ospina stressed as one of the bases of his administration the stimulation and promotion of agriculture via scientific systems of land cultivation, provision of fertilisers, water irrigation and cheap credit, as well as the protection of industry.[12] The variety of protectionism promoted by this government, however, was that of 'integral

[11] Abel, C. and Palacios, M. 'Colombia...' p. 599.
[12] Ospina Pérez, M. La Política de Unión Nacional, 1946, Vol. 1, pp. 4–5.

protection', that is, one that stimulated both agriculture and industry. As Thorp explains it: "Purchasing local materials was, needless to say, unpopular with industry — but a solution was worked out: in 1948 import quotas begun to be allocated *conditional* on purchases of local raw materials, and other measures of support to agriculture [italics in the original]."[13] The multifaceted and strong links of presidents, such as Ospina's, with agrarian interests could explain the rural bias of policy. Before the presidency, Ospina was senator for Antioquia, a position from which he boosted the creation of the Agricultural Mortgage Bank and the foundation of the Agrarian Bank, and formed the legal bases of the general-deposit warehouses that also served crop growers.[14] Further, he was appointed general manager of the FNC from 1930 to 1934, earning him the '*hombre del gremio*' (coffee-growers' man) label henceforth. Abel notes Ospina's early recognition amongst national political circles as "the champion of rural interests".[15] Notwithstanding the above, the fact that other presidents and political leaders of the period, lacking Ospina's wide range and depth of countryside links, also opted for balanced-growth policies serves to recognise the great political significance of this sector and the politicians' awareness of this fact. Elite consensus over the broad economic strategy remained constant even amongst the most politically radical of presidents: Laureano Gómez.

During his administration the Ministry of Finance's *Memoir* of 1951 envisaged the economic orientation of government, indicating that "to reduce Colombia's economic dependency on the price of coffee in the US an intense promotion of the national production, both agrarian and industrial, was required".[16] Allegations about industrial favouritism, which had emerged early during his administration, were emphatically denied by minister Álvarez Restrepo: "It is not as it has been said, that under the current government manufacturing enjoys privilege or exceptional conditions or discriminatory advantage. No: the government's position is one of fair equilibrium toward all productive forces. Manufacturing, commerce, agrarian; all economic activities must be served."[17] The same message was reiterated the following year by a different finance minister.[18] The lukewarm commitment

[13] Thorp, R. 'A Reappraisal...' p. 194; and Jaramillo Ocampo, H. 'De la Unidad...' p. 363.
[14] Perry, O. 'Quién es Quién en Colombia' (1948) pp. 324–26.
[15] Abel, C. 'Política...' p. 144.
[16] Ministerio de Hacienda. Memoria de Hacienda, 1951, p. 14.
[17] Ministerio de Hacienda, Exposición del Ministro de Hacienda, 1951, p. 53.
[18] Ministerio de Fomento. Una Política de Fomento, 1952, p. 17.

of this government, as much as that of its predecessors, toward industrialisation was best summarised in the concluding remarks of an independent consultative body modelled on the British Royal Commission,[19] the Committee for Economic Development, whose final report admonished: "More important that any one concrete suggestion is the adoption of a defined attitude... government and people shall not fear industrial development."[20] The committee's observation constitutes further evidence of the irresolute stance of governments to industrialise the Colombian economy.

Under the military rule of Gustavo Rojas, regime change opened up opportunities for change. As a non-professional politician and as 'outsider' to the electorate, the General could have shifted the economic strategy by favouring industrial development with clear policies, as the Committee had recently recommended. Rojas chose not to, however. His broad economic strategy consisted of ten fundamental points, summarised as: promoting private enterprise, welcoming foreign investment, stimulating the oil sector, maintaining monetary stability, continuing the strengthening of financial institutions for agriculture and livestock, housing planning, balancing the exchange rate and external accounts, keeping tariff protection for manufacturing and ensuring equilibrium in the budget.[21] This can hardly be interpreted as state-led industrialisation. Rather, the economic course during military rule explicitly followed the path taken by the previous democratic government: "continuity with the economic management of Urdaneta's administration [the vice-president who replaced Gómez after falling ill], with a view towards the orderly development of the economy" read the Finance Minister's *memoir*.[22] Similarly, trade protectionism closely echoed the 'integral' approach of the Ospina years: "Government will continue the protectionist policies of national work and production. Agriculturalists and industrialists can be assured that the products of their lands and factories will be defended..."[23] In practice, however, and as will be shown below, the agrarian sectors received a level of support unmatched by manufacturing.

[19] Alacevich, M. 'The Political Economy of the World Bank: The Early Years' (2009) pp. 46–47.
[20] Comité de Desarrollo Económico. Informe Final, 1951, p. 101.
[21] Ministerio de Hacienda. Memoria, 1954, pp. 5–6.
[22] Ministerio de Hacienda. Memoria, 1954, p. 8.
[23] Ministerio de Hacienda. Memoria, 1954, p. 11.

The nature of the coalition rule following the dictatorship, in the context of a conciliatory political environment, secured changes in economic strategy which were only marginal — at least until 1967. The Economic Platform of the National Front, presented to the public in August 1958, pursued the following objectives: First; to conduct strict stabilisation policies in the monetary, fiscal and exchange fields, secondly; to attempt an equitable distribution of national income; thirdly, to promote a policy of economic development and rehabilitation that would increase agrarian and industrial production and would permit an intense substitution of imports; and fourthly, to unite the public and private sectors towards austerity in spending and priority in investment.[24] The import-substituting process highlighted in point three refers to both agriculture and manufacturing; the sub-sectors singled out included vegetable oils, cocoa, wheat and wool; and metal-mechanics, metallurgy, chemical and pulp paper, respectively.[25] Further, the 1959 *Memoir* of the Ministry of Finance explained that the government's plan for the stimulation of production covered all sectors.[26] One document that decidedly favoured the industrial sector as part of wider economic development strategy, providing studies and projections for its long-term planning, was the *Plan General de Desarrollo Económico y Social*. The *plan* had been elaborated by the Planning Department with the aid of CEPAL and was adopted by President Lleras as the official manifesto of his government's economic policy.[27] Since Lleras's term was nearing its end when the plan became public, its execution came to depend on the willingness of his successor, León Valencia, who decided to brush it aside.[28] A review of the National Front's major policy steps in economic development supports further the primary evidence presented here. Berry, for instance, singles out the institutionalisation of planning, the adoption of floating exchange rates, the Andean trade scheme and monetary reform; but above all agrarian reforms and agricultural development.[29] His interpretations

[24] Ministerio de Fomento. Memoria, 1959, Annex, p. xxiii.
[25] Ministerio de Relaciones Exteriores. Memoradum de Trabajo sobre Información Básica para la Plataforma Económica, 1960, p. 4, AGN.
[26] Ministerio de Hacienda. Memoria, 1959, Annex, p. 19.
[27] Perry, G. 'Introducción...' p. 280.
[28] Kalmanovitz, S. and López, E. 'La Agricultura Colombiana en el Siglo XX' (2006) p. 173. According to these authors, the disregard of León Valencia for the plan was coherent with his short-sightedness on economic affairs.
[29] Berry, A. 'The National Front and Colombia's Economic Development' in Berry, A., Hellman, R. and Solaún, M. (Eds) Politics of Compromise: Coalition Government in Colombia (1980) pp. 296–304.

are in line with others, such as Hartlyn, who contends that economic policy-making during this period was 'moderate' and 'eclectic' with several elements of continuity.[30]

In sum, unlike several neighbouring countries, Colombia did not prioritise manufacturing over this period. Irrespective of the political hue of the administration — Conservative or Liberal, democratic or military — there was broad policy continuity.[31] For reasons that will become clear later, industrialism did not take hold in Colombia's political-ruling elites. Therefore, economic development plans lacked serious commitment to industrialisation. The kind of institution-building that underpinned industrialisation in other latecomers was mostly absent. The corollary of this is that the process of industrialisation in mid-twentieth century Colombia, like its prior development, was not led by a state pursuing a conscious strategy of ISI. Instead it was the result of an endogenous process. In the Colombian case at least, Haber's dictum that Latin American states were autonomous entities capable of framing development strategies like ISI is social science fiction, resonates justly.[32] That industrialisation then was largely a private/market-led process and that ruling politicians did not conceive it as a path for economic development needs to be explained. The nature and organisational structure of domestic politics is a useful pointer.

The Political Nature of Economic Policy

Industrial policy, as any economic policy that aims at promoting or favouring one economic sector or group over another, is ultimately redistributive in nature. Whether through tariffs, subsidised loans, preferential exchange rates or fiscal exemptions, a 'push' for

[30] See Hartlyn, J. 'The Politics...' pp. 103–112. Concrete support for manufacturing took place with the transformation of IFI from direct industrial promoter into a public development bank in 1964. From then on IFI's financial muscle developed strongly and several manufacturing firms received generous support; see Lopera, M. T. and Peláez, S. 'Política...' Simultaneously, however, this financial support — typically associated with ISI deepening — contrasted with the wider movement of the framework of economic policy-making towards export-led growth, as evidenced by the reforms accomplished in 1967; on this see for instance, Ocampo, J. 'The Transition...' and Hartlyn, J. 'The Politics...' pp. 124–31. The last administration of the coalition government (1970–74), came closest to implementing a strategy in which one preferred economic activity, namely construction/housing (not manufacturing) acted as a 'leading' sector.

[31] Buendia agrees with this view: "none of the ten development plans the country had seen has made of the industrial sector, the leading sector." See Buendia, H. G. 'Los Grupos Industriales y el Desarrollo Colombiano: Conjeturas e Interpretaciones' in *Coyuntura Económica* (1976) No. 4, p. 108.

[32] Haber, S. 'The Political...' p. 539. Similarly, Griffin remarks: "...one cannot say that economic planning has failed in Colombia; it has never been tried." See, Griffin, K. 'Coffee and the Economic Development of Colombia' in *Bulletin of the Oxford University Institute of Economics & Statistics* (1968) Vol. 30, No. 2, p. 109.

industrialisation is bound to lead to winners and losers in the short- and long-run. Given that such policies originate in the public realm, it is naïve to assume that politicians neglect the redistributive impact, and thus the electoral costs of the policies they design and implement. The policy instruments and the organisational power of the state are also essential to the achievement of the proposed policies. The combination of these two factors is the critical determinant of policy-making success or failure.

The literature on policy formulation and the roles of politics and the state in economic development is vast. This section concentrates on examining the variables that constrain/enable policy elites in their attempts to industrialise their societies as well as on the factors shaping the broad economic goals themselves. First, insights as to why policy elites oppose economic development are examined. Then a review of arguments emphasising various broad characteristics of the states implementing development strategies is offered. A more nuanced view of the political determinants of state preferences and the influence of key economic groups on policy-making clarifies why policy elites choose certain policies over others. Explanations as to why certain policies are pursued are complemented with why distinct mechanisms to achieve them are preferred. Finally, the particular case of Colombia's non-attempts at state-led ISI are framed and accounted for.

In a theoretical paper Acemoglu and Robinson suggest that political elites in economically backward countries block technological and institutional development, because they dread to lose political power, they are unwilling to initiate change.[33] The 'political loser hypothesis' emphasises that if the losers are economic (i.e. not political) agents they cannot prevent technological and institutional progress. Thus there is a need to examine the role of political institutions and power in economic development.[34] In their owns words: "... the problem of understanding why industrialization was rapid in some countries, whereas in others it did not get off the ground, is closely related to understanding why in some countries the state encouraged industrialization, whereas in others it did not."[35] The mathematical model by

[33]Acemoglu, D. and Robinson, J. 'Economic Backwardness in Political Perspective' in *American Political Science Review* (2006) Vol. 100, No. 1, p. 115. See also, Robinson, J. 'Theories of "Bad Policy"' in *Policy Reform* (1998) Vol. 1, No. 2, pp. 1–46.

[34]Acemoglu, D. and Robinson, J. 'Political Losers as Barriers to Economic Development' (2000) Unpublished manuscript, p. 2.

[35]Acemoglu, D. and Robinson, J. 'Economic...' p. 115.

which elites running backward states fail to promote industrialisation is new, but the insight is not. In 1971 Griffin et al. proposed that economic development was not an objective of Latin American governments because growth undermined the monopoly over power that the dominant economic group enjoyed.[36] Griffin and collaborators substantiated their claims with empirical evidence on the structure, incidence and levels of taxation as well as data on the patterns of expenditure and the size of governments.

Debates over the rapid industrialisation of latecomers concomitantly have noted the importance of the commitment of public powers around a pro-manufacturing strategy. In examining successful cases, Zhu emphasises the "cohesiveness and *consistent commitment to industrialisation* [italics added]" of Northeast Asian states.[37] The pioneering work of Johnson on the role of the state in the Japanese economic 'miracle' illustrates this point: "[A] state's first priority will define its essence... For more than fifty years the Japanese state has given its first priority to economic development."[38] By 'economic development' Johnson means industrialisation.[39] As does Koo discussing Japan's neighbours: "In South Korea Park Chung-Hee was very different from Syngman Rhee in his strong commitment to economic growth. Whereas Rhee had been preoccupied with political concerns, Park gave highest priority to economic development. In Taiwan, too, Chiang Kai-shek concentrated on economic development from the 1950s on."[40] Similarly, Kohli indicates that states that define their goals narrowly and clearly, like South Korea did under Chung-Hee — rapid industrialisation — are important factors in explaining the effectiveness of state interventions.[41] The experiences of East Asia hint that a strong and clear political commitment to manufacturing is a necessary condition for economic development in

[36]Griffin, K. 'Monopoly Power, Material Progress and Economic Surplus' in Griffin, K. (Ed) *Financing Development in Latin America* (1971) pp. 14–15.

[37]Zhu, T. 'Threat Perception and Developmental States in Northeast Asia' (2001) *Australian National University: Department of International Relations Working Paper*, No. 3, p. 6.

[38]Johnson, C. 'The Developmental State: Odyssey of a Concept' in Woo-Cumings, M. (Ed) *The Developmental State* (1999) p. 37.

[39]Woo-Cumings, M. 'Introduction: Chalmers Johnson and the Politics of Nationalism and Development' in Woo-Cumings, M. (Ed) *The Developmental State* (1999) p. 1.

[40]Koo, H. 'The Interplay of State, Social Class and World System in East Asian Development: The Cases of South Korea and Taiwan' in Deyo, F. (Ed) *The Political...* pp. 173–74. Robinson also notes the compromise of South Korean governments as they "overtly committed themselves to industrialization"; see Robinson, J. 'Industrial Policy and Development: A Political Economy Perspective' (2009) p. 3.

[41]Kohli, A. 'State...' p. 384. Wade has also noted the relevance of political commitment to industrialisation in his account of Taiwan's successful industrialisation; see Wade, R. 'Governing...' pp. 33, 77–81.

late industrialising economies. The insights from the formal models on obstacles to it are telling, yet both Acemoglu and Robinson and Griffin et al., perhaps by necessity, reduce the composition of the forces blocking economic upgrading to a unitary, homogenous group or class. From a historical point of view, however, this does not suffice. A more nuanced account is required to explain why political elites fail to push for decisive industrialisation. The political environment in which presidents operate, and the characteristics of the state they run are relevant variables deserving closer examination.

Since Evans, Rueschemeyer and Skocpol 'brought the state back in' to the comparative and historical analyses of social change, widening the ways in which states are examined both as organisations through which collectivities pursue distinct goals as well as the result of configurations influencing political groups and classes in society, the number of studies adopting state-centred approaches examining industrialisation-themes has risen sharply.[42] Evans for instance, draws a distinction between successful and unsuccessful late-industrialisers according to the types of states attempting the transformation. Developmental states, like the Japanese, relying on a highly trained, meritocratic and competent bureaucracy with effective capacity to intervene, autonomous from vested interests, yet embedded with private, industrial capital provided the basis for the type of state involvement that led to rapid industrialisation.[43] So-called 'embedded autonomy', that "apparently contradictory combination of corporate coherence and connectedness" is, according to Evans, the basic state structure that can sustain successful industrialisation. Predatory states impede it, as they provide little in the way of public goods and lacking autonomy from private interests have their public decisions "up for sale".[44] In addition to autonomous states with competent bureaucracies other authors stress that states attempting industrial upgrading must display qualities such as strength,[45] internal cohesiveness[46] and capitalist ethos.[47]

[42] Skocpol, T. 'Bringing the State Back In: Strategies of Analyses in Current Research' in Evans, P., Rueschemeyer, D. and Skocpol, T. (Eds) *Bringing...* p. 28.
[43] Evans, P. 'Predatory...' pp. 562–63.
[44] Evans, P. 'Predatory...' p. 571.
[45] Chang, H-J. 'The Political Economy of Industrial Policy' (1994) p. 123.
[46] Kohli, A. 'State...' p. 9–12.
[47] Haggard, S. 'Pathways...' p. 43.

The underlying logic behind the characterisation of a state that successfully fosters industrialisation is that strength, autonomy and cohesion are required for it to be able to discipline the firms receiving assistance. The beneficiaries of industrial policies must be disciplined and compelled to meet targets and performances.[48] Key is state capacity. Only states with effective capacity can impose discipline on firms and can design and implement the mechanisms by which government failure is minimised. Elements affecting such capacity are the political power of landed elites, the industrial bourgeoisie and the working class.[49] For example, Kay suggests that Latin America's deficiencies at 'statecraft' are linked to its "more polarised and entrenched class structure."[50] In accounting for the failure of Indian developmentalist forays Chibber focuses on the weak capacities of the Indian state vis-à-vis organised business, especially when planners demanded the latter to conform to policy priorities.[51] Indian public officials proved incapable of disciplining the capitalist class because they lacked the institutions that could have empowered them to do so. Under that logic, the same author attributes the success of Korea's industrial 'push', amongst others, to the patterns of authority set within the state. Under Chung Hee's presidency, Chibber argues, one state agency became the apex body for economic policy and planning, centralising decisions and disciplining both private firms and other state agencies.[52] To others, this effectively amounted to a super-ministry.[53] This kind of institutionalisation of authority and power provided the Korean state with the capacity to design and implement effective industrial policy that its Indian equivalent lacked.

An underestimated aspect in the politics of late-industrialisation is the countryside. Perhaps because industrialisation is associated with factories, workers and consumers in urban centres it is often assumed that rural groups are politically negligible. Moreover, agriculture under the ISI framework is more often than not the 'victim' of overvalued exchange rates, price controls and the general anti-export bias that this model generates.

48 See for instance, Amsden, A. 'The Rise...' pp. 8–13.

49 Jenkins, R. 'The Political Economy of Industrialization: A Comparison of Latin American and East Asian Newly Industrializing Countries' in *Development and Change* (1991) Vol. 22.

50 Kay, C. 'Why East Asia Overtook Latin America: Agrarian Reform, Industrialisation and Development' in *Third World Quarterly* (2002) Vol. 23, No. 6, p. 1087.

51 Chibber, V. 'Locked...' pp. 25–26.

52 Chibber, V. "Bureaucratic Rationality and the Developmental State' in *American Journal of Sociology* (2002) Vol. 107, No. 4, pp. 951–89.

53 Chang, H-J. 'The Political...' p. 126.

The transfers made from agriculture to industry represent the 'plundering of agriculture', that Valdés and Schiff argue, could only have negative effects on economic growth.[54] The transfers of surpluses, however, were pivotal to the industrial upgrading of Korea and Taiwan.[55] Further, Kay argues that what is remarkable is that East Asian states managed to squeeze agriculture ensuring its sustained growth — partly because of inflows to the sector that Valdés and Schiff fail to consider.[56] Davis offers an original interpretation of the relation between the rural sector, the state and successful late-industrialisation that informs the Latin American cases in general, and the Colombian one in particular.

Davis's intention is 'bringing the rural perspective back in' to studies of industrial policy. She sustains that the rural middle-class endows the state with the will and capacity to discipline capital and labour.[57] Specifically, if small agricultural producers wield political influence within the state, the *disciplinary regime* that emerges takes shape in the form of both macro- and micro-economic constraints and regulations. At the micro level, performance standards and control mechanisms *a la* Amsden, complemented with government control over banks and the flows of finance stand out as effective devices. At the macro level, policies intending to set realistic food prices and favourable exchange rates for agriculture with a view to bolstering aggregate demand are key.[58] In short, the rural influence is considered to have tipped the balance against inflationary ISI regimes in late late-industrialisers like South Korea and Taiwan, but not so in early late-industrialisers such as Argentina and Brazil.[59] Within this framework, Colombian late-late-industrialisation, with salient political forces rooted in agriculture, is a puzzling case.

Why did a 'late-latecomer' to industrialisation with a distinctively powerful rural constituency connected to the external economy fail to construct a *disciplinary regime* that spurred rapid and successful industrialisation? The immediate response, as discussed above,

[54]Valdés, A. and Schiff, M. 'The Plundering of Agriculture in Developing Countries' (1992).
[55]Amsden, A. 'The State and Taiwan's Economic Development' in Evans, P., Rueschemeyer, D. and Skocpol, T. (Eds) *Bringing...* ; Kay, C. 'Why East Asia...' p. 1092; Jenkins, R. 'The Political...' pp. 214–15.
[56]Kay, C. 'Why East Asia...' pp. 1091–92.
[57]Davis, D. 'Discipline...' pp. 5–11. Though Davis also includes urban middle classes in her analyses it is the rural middle class that is critical.
[58]Davis, D. 'Discipline...' p. 8.
[59]Davis's differentiation between 'early and late late-industrialisers' is not so much chronological as it seeks to underscore the extent to which industrial manufacturing and production are under way, as opposed to the weight of agriculture, at the moment of industrial take-off, and the likelihood that the balance between these would engender a rural middle-class embedded state; see pp. 60–61.

is that Colombian ruling elites did not exhibit preferences or interests to effect a 'push' for industrialisation. This argument is insufficient, for in turn what begs explanation is why politicians were not inclined to pursue strong pro-industrial policies. The thesis advanced here is that the political regime, broadly speaking, whether authoritarian or democratic, and the particular redistributive mechanisms by which politicians hold onto power are decisive in shaping the micro- and macro-economic policies that set the path for state- or market-led industrialisation. Concretely, in the (mostly) democratic and electorally competitive environment of Colombia, politicians seeking and retaining power relied extensively on clientelistic practices.[60] In a country where the majority of the population still lived in the countryside, the agrarian clientele represented a crucial constituency. This had distinctive implications for the variety of disciplinary regime that formed. At the macroeconomic level, as set out by Davis, policies by and large did not harm agrarian interests and were in no way systematically geared towards promoting industrial development. At the microeconomic level, however, rural-clientelistic imperatives prevented the building of institutions and mechanisms designed to financially assist manufacturing firms — consequently, the need for disciplinary devices was muted.[61] Unlike other early- and late-industrialisers, Colombia's public sources of credit between 1940 and 1967 were overwhelmingly channelled to agrarian ventures. Loans to agriculturalists, especially to coffee growers and to livestock farmers, flowed in large quantities and at subsidised prices. To reiterate, preferential financing was not advanced to industry because political clientelism forced the channelling of resources towards the countryside.

[60] Though several criticisms can be made to labelling the political system and experience of Colombia as democratic, this author considers the well-documented arguments by Posada-Carbó on this issue adequate. Briefly summarised, he sustains that Colombia, in line with liberal democratic traditions, has effectively fragmented and limited public power. The system of checks and balances, if far from perfect, has by and large functioned: congress, the courts, civil society and local forces have been instrumental on this. Further, despite fraud, manipulation and violence, Colombia's electoral history is not to be discarded: early incorporation of popular sectors, prevalence of elections to form government and their relatively high competitiveness, as well as respect for the terms set in office, stand out as extraordinary attainments in the region. Finally, most citizens have considered elected governments legitimate; see Posada-Carbó, E. 'La Nación...' Chs. 3 and 4.

[61] Thorp has argued that "there was substantial institutional building, based more in the rural sector than in industry. The institutional development covered technology, irrigation and credit... From the 1940s, policies embraced the rural sector." See Thorp, R. 'Progress...' p. 182. In line with this argument, Grindle selected Brazil, Colombia and Mexico as case studies that substantiate the major role of the state in seeking to stimulate a more productive and modern agricultural sector in Latin America; see Grindle, M. 'State and Countryside: Development Policy and Agrarian Politics in Latin America' (1986) p. 6. Grindle's data show that Colombia's government expenditure on agriculture as percentage of total government spending between 1950 and 1970 was well above other regional economies pursuing ISI, such as Argentina, Brazil, Chile and Venezuela; see Grindle, M. 'State...' p. 51.

Robinson argues that notwithstanding their political dominance, political elites ought to provide something to their citizens to hold on to power; basically, elites have two ways of doing this: clientelism or populism — two forms of redistribution that though socially inefficient are politically attractive.[62] Clientelism implies micro-level distortions best represented in the selective allocation of favours or rents (subsidised credit, for example). Populist policies lead to macroeconomic imbalances, say in exchange rates and the level of prices, through wage hikes and price controls. Critically, Robinson also sustains that for historical reasons,[63] Colombian politicians used clientelism as the mechanism for redistribution and that they have made it more efficient than populism.[64] Further, theories of clientelism in democratic polities predict that a group like the coffee producers would be a target of redistributive policies.[65] Similarly, Rius and van de Walle argue that political clientelism represents the primary source of opposition to economic-policy reform: here a policy-reform path is understood to be a shift to a strong and comprehensive pro-industrial policy regime. Specifically on the issue of financing, Rius and van de Walle state: "Given clientelistic concerns... the government continues to regulate interest rates and credit to the agricultural sector, even though the government credit agency runs a big deficit, repayments rates are low and the poorest peasants do not have access to the credit system."[66] Is such characterisation of the credit system close to the historical experience of Colombia? Is there empirical evidence to substantiate the view that governments and politicians were aware of the importance of the agrarian constituencies?

Antonio García Cadena, a prominent economist of the time and later adviser to the Minister of the Economy, prophesised in 1939: "For all the sex-appeal expressions of

[62] Robinson, J. 'Un Típico...' pp. 649–50.
[63] A survey of the literature on clientelism lies beyond the scope of this study. For Colombia's long history of clientelistic practices and the causes behind them; see for instance Martz, J. 'The Politics...'; Archer, R. 'The Transition...'; and Carey, J. M. and Shugart, M. S. 'Incentives...' pp. 417–39.
[64] Robinson, J. 'Un Típico...' p. 656.
[65] A review of the literature by Robinson suggests that this group meets at least five or six of eight features that make for likely recipients, namely: relatively numerous, capable of solving collective action problems, vote in high numbers. Coffee growers did not form a political party and for various reasons it would be difficult to say that the average coffee-producer was unideological when it came to politics or that it belonged to the same social network that politicians did (other three conditions making for clientelistic candidates). However, and this is relevant, the representatives of the sector, who were more often than not part of the political elite themselves, were also highly pragmatic when it came to political settlements (a proxy for "swinging" voters) and were rather important in the electoral map. See Robinson, J. 'The Political Economy of Redistributive Policies' (2008) pp. 6–10.
[66] Rius, A. and van de Walle, N. 'Political Institutions and Economic Policy Reform' (2003) p. 6.

industrial civilization offer urban- and ruling-classes' imagination; for many years, this nation will remain dependent on its land produce for its living."[67] President López seemed to agree: "The future of Colombia is linked to its countryside; agrarian issues of all kinds have foremost importance."[68] The relevance of the countryside, however, was more targeted or localised: activities/regions connecting Colombia to the world economy conferred it its pre-eminence. When in 1939 legislators considered bestowing the executive with extraordinary powers to face the economic crisis unleashed by WWII, they approved this delegation of powers with a view "to defend and promote the national industries, especially the coffee sector."[69] Referring to the string of decrees that followed, a presidential discourse read: "Government did not hesitate to defend the coffee industry, the most important of the country and the one most worthy of support, for it provides sustenance to an infinity of small-owners..."[70] Concretely, reflecting on the support President López provided the Agrarian Bank during his administration, which concerns this study the most, he wrote: "It was a reason of great satisfaction and pride to have strengthened an institution exclusively dedicated to serve country people; to show that it was possible to achieve for them much of what I considered to be my mission when leading the fate of the Republic."[71] The evidence displayed above suggests that at least during the late 1930s and early 1940s, that is, at the start of the period under examination, politicians and Liberal administrations considered specific groups within the agrarian sector politically important and aimed at catering for their needs.

Unsurprisingly, Conservatives were also aware of the relevance of coffee for the economy. Finance Minister Álvarez Restrepo recounted in 1951: "[T]he supreme index of our economy is the price of coffee. If it goes up, the prices of the goods people buy go up. It if goes down, all prices — housing, merchandise and cattle — rapidly adjust accordingly."[72] On the issue of financing, President Gómez too was an advocate of extensive facilities to agriculturalists. His Agriculture Minister stated: "The president is convinced that the

[67] García Cadena, A. Unas Ideas Elementales sobre Problemas Colombianos, 1943, p. 350.
[68] Presidencia de la República. Declaraciones Presidenciales: Mensaje del Presidente de la República al Congreso Nacional en sus Sesiones de 1939, 1939, p. 67.
[69] Senado de la República de Colombia. Anales del Senado, Proyecto de Ley, 11 December 1939, p. 1655.
[70] El Tiempo, 21 July 1940.
[71] Presidencia de la República. Declaraciones Presidenciales: Mensaje del Presidente de la República al Congreso Nacional, 1942, Vol. 4, pp. 162–63.
[72] Ministerio de Hacienda, Exposición del Ministro de Hacienda, 1951, pp. 56–57.

foundation of a prosperous and productive agriculture is abundant credit."[73] That the interests of the rural sector were well looked-after in this administration is also evident from the minister's *memoir*, who added: "The Finance Minister, Álvarez Restrepo, has been the minister of agriculturalists, not only on credit matters, where he excelled, but also on other aspects such as the creation of the Provincial Cattle Funds, freedom to export, etc..."[74] But it is on the specific aspect of the sectoral allocation of loans where the defence of agrarian interests by Angel Escobar, Agriculture Minister, is more forceful. Considering that the share of loans allocated to agrarian ventures by the banking system was disproportionately low and deeming that the distribution of credit was simply wrong, the minister proclaimed: "...for a social class representing more than 40% of the economy, which is 70% of the social fabric ... the overwhelming majority of the credit that corresponds, once the values are twisted, is only 25%."[75] Escobar proposed to rectify this unfair situation without delay. Qualitative evidence stemming from cabinet offices like this one, in addition to the previous impressionistic remarks by presidents and their close collaborators, suggest that Colombian ruling elites regarded rural populations and voters as important constituencies. In line with the arguments rehearsed above, state support for the rural economies was critical in attaining and retaining political power.

As mentioned above, the mechanism through which this support (or redistribution) took place was clientelism. Thus, rural clientelism provided a central feature of the political context in which Colombia's industrialisation occurred. According to Kahn and Blankenburg, whether a country implements weak or strong industrial policies depends considerably on the country's internal distribution of power.[76] The presence or absence of compatibilities between political settlements and rent-management systems define the success or failure of industrial strategies. What the distinctively clientelistic practices of the Colombian polity point at, is that the numerous and widely-dispersed constituency that the countryside represented necessarily diffused and fragmented political power. Politicians and state officials faced a formidable challenge in making their case for a strong pro-industry regime amidst a large, well-organised and vocal agricultural group, such as that of the

[73] Ministerio de Agricultura. Memoria, 1951, p. 50.
[74] Ministerio de Agricultura. Memoria, 1951, p. 50.
[75] Ministerio de Agricultura. Memoria, 1951, p. 60.
[76] Kahn, M. and Blankenburg, S. 'The Political...' pp. 337–38.

coffee growers. Supporting this view and focusing on Colombia, Di John argues that, in a consolidated state with fragmented and clientelistic political institutions (including political parties), a development strategy aimed at advanced ISI was unlikely; consequently, the country opted for relatively decentralised, small-scale production structure.[77] In other words, the extended practice of clientelism linking politicians and rural producers/suppliers fragmented power in a way that made the commitment for a 'push' for industrialisation non-viable. For this reason, Colombian politicians did not essay it — at least not hard enough. Industrialism did not imbue elites owing to the agrarian roots of their political bases.

Summarising, development strategies emphasising industrial 'push' cannot be taken as given. Political economies mediate the potential commitments of ruling elites to lead their economies down the road of advanced industrialisation, provided that internal distributions of political power allow for these intentions to turn into authoritative actions. States attempting industrial upgrading can be expected to display a set of characteristics, such as cohesiveness, strength and autonomy, to develop the kind of institutionalised capacity required to discipline the firms/sectors benefiting from generous support. Rural middle-classes wielding considerable political power are critical in bestowing the state with disciplinary capabilities at both the macro- and the micro-economic level: the discipline necessary for industrialisation to become efficient and for the overall strategy to succeed. Notwithstanding the presence of a politically influential rural-middle class in Colombian politics, epitomised by the exporting coffee-growers, that shaped a disciplined macro environment, at the micro-level, the state failed to support manufacturing with ample and subsidised financing. Clientelistic-political imperatives directed public credit towards agricultural and livestock farming interests. In this context Colombian political elites could not afford to prioritise industrial upgrading via cheap financing. An incompatibility between internal political powers and the resolute commitment required for deepening industrialisation prevented the emergence of a state-led ISI strategy.

[77] Di John, J. 'From Windfall to Curse: Oil and Industrialization in Venezuela: 1920 to the Present' (2009) pp. 164–65.

The Central Bank

The way institutions essential to the orientation of financial flows and monetary stability, such as the CB, are structured is vital in explaining why (and how) different economic sectors/groups manage or fail to obtain preferential treatment in the form of subsidised and/or ample credit from the financial system. The ability of rent-seeking groups to extract rents partly depends on the preferences of ruling politicians over the trade-off between price stability and rapid economic growth.[78] In places where previous macroeconomic instability has represented a damaging political liability, governments are less likely to intervene in financial markets; in countries where the top political priority is rapid growth compounded with the need to pay-off particular sectors, financial policy might be used extensively for political ends. The extent to which any of these stylised scenarios occurs also hinges on the level of insulation of the CB and allied 'control ministries', and whether or not these are well institutionalised and autonomous from government.[79] Maxfield emphasises three determinants of policy patterns in finance, namely: a) the timing and actors involved in the formation of the CB, b) the relationship between the CB and other state agencies, and c) the extent of conglomeration between industrial and financial capital.[80] Fearing inflation, cheap credit, controls on international capital flows and heavy regulation, bankers are likely to impose their policy preferences — tight monetary policy and liberal financial regimes — if the CB is private and independent and works in alliance with a hegemonic Ministry of Finance.[81] In short, institutions such as the CB and the Ministry of Finance and the relationships between them and government are pivotal in the shaping of financial policy: if founded on solid autonomous bases, CBs are likelier to remain so.[82]

Calomiris and Haber argue that banking arrangements are subject to opportunistic behaviour by rulers, however. Hence, agreements over financial property rights are fragile.[83]

[78] Haggard, S and Lee, C. 'The Political Dimension...' p. 12.
[79] Haggard, S. and Maxfield, S. 'Political...' p. 305.
[80] Maxfield, S. 'Bankers'...' p. 420.
[81] Maxfield, S. 'Bankers...' pp. 422–27.
[82] On the first of the determinants, the fiscal auditor of public financial institutions remarked in his report of 1944: "Our Banco de la República was born strongly influenced by the stark reaction against the political interference of governments, which in lieu of resolving fiscal emergencies ruin the sound structure of money — and with it the public's confidence. Therefore, private capital was entrusted with inordinate representation..." in Revisoría Fiscal de Instituciones Oficiales de Crédito, La Institución Bancaria Colombiana, 1944, p. 12.
[83] Calomiris, C. and Haber, S. 'Why Banking is All About Politics and Always Has Been' (Forthcoming) Ch. 2.

The inherent conflicts governments face both as regulators of, and as borrowers from, banks — given their position as contract enforcers against debtors and their dependence on these very debtors for political support — underscores this opportunism. Insightfully, these authors treat the property-rights system structuring banking not as the result of an anonymous 'market' for institutions, but rather as "the product of political deals hammered out by coalitions of market participants, which are intended to improve the welfare of the members of those coalitions, not the society at large."[84] Further, they state: "The allocation of political power determines... the distribution of the burden of taxation, the allocation of public spending, the regulation of entry, the licensing of banks, the supervision of publicly traded companies and the flow of credit and its terms. These bargains are exceptionally complex but at root they are about the creation and distribution of economic rents and the maintenance of political power."[85] It follows from the above that banking policy will differ significantly in authoritarian polities from democratic ones,[86] but also within democracies. Thus, one can expect to find considerable variation, defined, for instance, by whether redistribution is effected through clientelistic or populist politics. As discussed above, politicians in Colombia opted for the former, and this is reflected in the structures characterising the country's CB and the banking system.

One study of Colombia's CB distinguishes three main periods in its history.[87] From its foundation in 1923 until 1951, the Banco de la República is said to have been a private and autonomous entity whose chief objective was to maintain price stability, showing a clear commitment to this goal. A second period from 1951 to 1963 sees the maintenance of its private status and independence but adds to its mandate the task of ensuring the "accelerated development of the economy".[88] As a result, the CB allegedly abandoned the commitment to price stability of the previous era. In the third period, 1963–1991, the Monetary Junta, a state entity, possessed no independence from government and had as its main function the management of the monetary, financial and foreign exchange variables of the economy — with a distinctive lack of commitment to price stability. Following

[84] Calomiris, C. and Haber, S. 'Why ...' p. 30.
[85] Calomiris, C. and Haber, S. 'Why ...' p. 31.
[86] The distinction between them is discussed at length by Calomiris, C. and Haber, S. 'Why ...' pp. 34–50.
[87] Meisel, A. 'Autonomía...' p. 7.
[88] The legal disposition ordering the new mandate of the CB did not state, as Meisel claims, "the accelerated development of the economy" but "the ordered development of the economy"; Alviar, O. 'Instrumentos...' p. 39.

Maxfield, the early foundation of the Colombian CB, the second oldest institution of its kind in Latin America, and the private and independent status granted in its origins, arguably made for firm foundations of the Bank's ability to commit to price stability. The very mild industrialism of political elites throughout the mid-twentieth century probably eased the CB's commitment in that respect too.

The independence of the CB seems not to have been as fragile as the framework of Calomiris and Haber indicate. According to Cárdenas and Partow: "the degree of independence of Colombia's CB has been strongly path dependent, mainly because institutional change has arisen from within the bank, rather than imposed by outside pressures."[89] Certainly, the juridical arrangements contained in the organic law governing the CB explained this to no small extent, particularly the clause referring to the composition of its directorship. A legal concept by the Bank itself recorded in the minutes of the board in 1947 assured the directors: "the contractual stipulation on the composition of the board of directors is one of private law, and one that cannot be modified by Congress through any imperative law..."[90] On this issue, the fiscal auditor pointed out: "The Bank's system of elevating to contract the composition of the board represents a barrier to parliamentary incursions... any planned reforms to the organic law of the Bank will be purposeless without changing the board."[91] The independent and private nature of the CB at this time was in no doubt, as he added: "First, we encounter the problem of the formation of the board, where the interests of the private institutions and of private agents form the majority... With the Bank's current composition it will be impossible to direct any monetary policy for the general interest."[92] Thus, the 1923–51 period can certainly be classified as one in which the autonomy of the CB rested on strong legal foundations, and presumably, as Meisel suggests, one in which its commitment to price stability was relentless.

[89] Cárdenas, M. and Partow, Z. 'Does Independence Matter: Case Studies from Colombia' (1998) *Inter-American Development Bank: Documento de Trabajo, No* 341, p. 9.
[90] BRep. MoBD, 22 October 1947,[Act No. not retrieved] p. 4231, ABRep.
[91] Revisoria Fiscal de Instituciones Oficiales de Crédito, El Banco Emisor, El Crédito, La Moneda: Y Algunas Consideraciones Generales Sobre La Reforma Bancaria en Colombia, 1947, pp. 7–9.
[92] Revisoria Fiscal de Instituciones Oficiales de Crédito, El Banco Emisor, El Crédito, La Moneda: Y Algunas Consideraciones Generales Sobre La Reforma Bancaria en Colombia, 1947, pp. 6–7.

Meisel's case for the CB's lack of commitment to price stability following the reform of 1951 is, however, debatable on two grounds. First, the actual increases in the level of prices between symmetric periods of time (say, 1938–1950 and 1951–63) reveal that inflation rates were actually higher in the dozen years preceding the reform than in the same number of years following it. From Meisel's own data, the average annual rise in prices for the 1938–50 period is 10.7%, whereas that for 1951–63 is 9.3%.[93] Secondly, as noted by Oscar Alviar, then advisor and high ranking official at the CB, the directors adopted a pragmatic approach to monetary management that synthesised the monetarist and the structuralist theories of inflation with a view to attain the satisfactory development of the economy.[94] This implied that moderately high levels of inflation were tolerable for the Bank, given the relatively high rates of economic growth the economy exhibited. Alviar sustained: "...if Colombian GDP grows at between 6%-7% per year the growth of its means of payment ought to be between 17% and 18%, deeming as acceptable concomitant price increases around 7%."[95] What this quote intends to consider is the possibility that in the context of the time the levels of inflation seen, say between 1952 and 1967, of around 9% a year, though high were tolerable for some of the members of the CB charged with monetary stability. For Alviar's standards, it seems, the average rate of inflation appeared not to have gone unmet by wide margins, given the respectable rates of economic growth displayed. Having briefly reviewed the nature and main features of the CB, the examination of its actions informs the politics affecting it.

Most studies examining the measures implemented by the CB since the late 1940s, but especially after 1951, tend to summarise its causes and effects in the framework of an overarching policy-regime: financial repression.[96] In a financially repressed system, measures such as ceilings on interest rates, high reserve requirements and forced investments discourage the efficient allocation of capital by the financial system.[97] The artificially, non-market determined prices of money and capital generate excess demand that forces the

[93] This same calculation for the periods 1936–51 and 1952–67 confirms the post-1951 era saw lower inflation: 10.6% and 8.8% respectively. Naturally, this does not say anything about the causes behind inflationary pressures in any period, but given that Meisel uses inflation rates to support his claims it is only valid to use the same data to counter him.

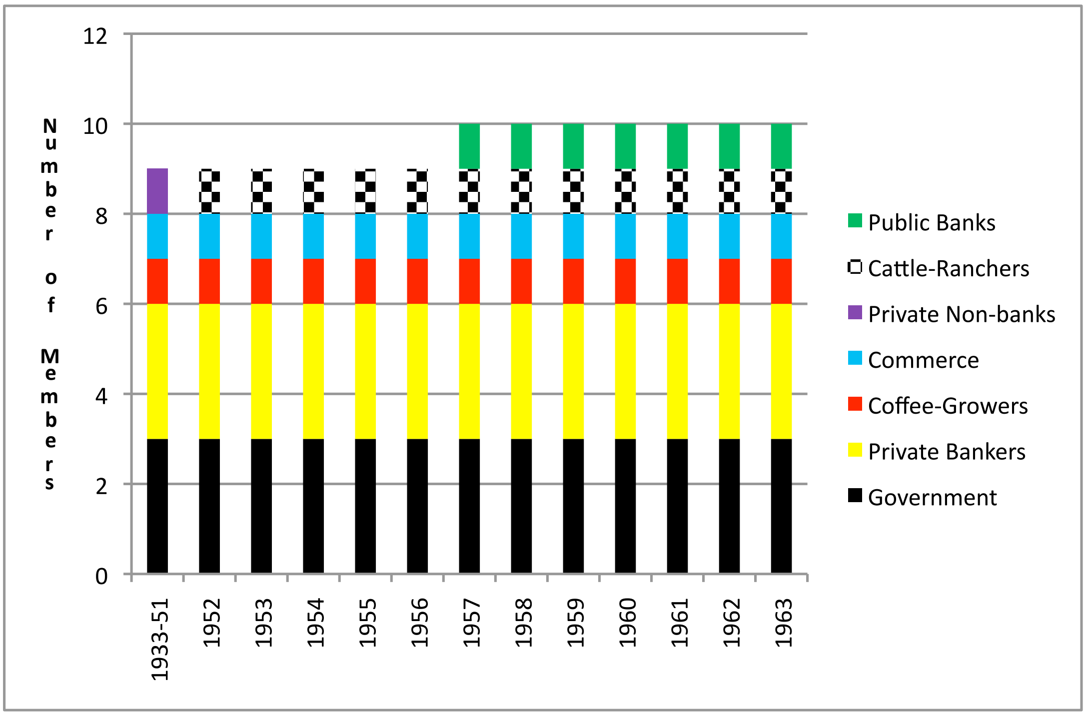
[94] Alviar, O. 'Instrumentos...' p. 46.

[95] Alviar, O. 'Instrumentos...' p. 46.

[96] See for instance Avella, M. and Kalmanovitz, S. 'Barreras...'; Salazar, N. 'Historia...' ; Muñoz, C. and Bolivar, A. 'Una Visión...' and Sánchez, F., Fernández, A. and Armenta, A. 'Historia...'

[97] The seminal work is that by Shaw, E. 'Financial Deepening in Economic Development' (1973).

Figure 6.1: Representation in the Central Bank



Source: Adapted from Alviar, O. (1967) pp. 230–31.

rationing of credit. In addition, to enable government to channel financial resources to itself (at cheaper rates than under a free-market situation), the rationing takes place amongst economic agents/sectors: firms and households, manufacturing, agriculture and services. Under the financial repression logic, then, the politically favoured sectors are those who not only gain access to financing but also obtain credit at cheaper rates and under better conditions than other sectors. The question is who represented these privileged sectors and what mechanisms were utilised to prioritise them.

In the context of a private and autonomous CB, it is reasonable to expect economic groups with institutionalised representation on the Bank's board of directors would have been first to benefit from generous terms and conditions for credit — given their position as 'insiders'. As illustrated in Figure 6.1, the composition of the board was as follows: government had three representatives throughout the period, one of whom was the Finance Minister, and after 1957 a fourth member was appointed representing the public and semi-public financial institutions — such as the Agrarian Bank. Private bankers permanently appointed three members whilst another ex officio member originated from the coffee producers, the general manager of the FNC. Merchant interests were also represented throughout but it must be noted that from 1933 to 1951 the 'commercial' seat was shared with the Colombian Association of Agriculturalists (SAC), which from 1952 to 1957, in turn, co-elected its representative along with that of the cattle ranchers. This last group also shared with SAC a seat from 1957 to 1963. During 1933–51 one position was held by *particulares*, namely, the representative of the general-deposit warehouse businesses. Several of these companies were in turn owned and run by the FNC. The apparent absence of manufacturing representatives in this picture is misleading, however. The ANDI got to co-designate one member after 1957. However, this was in conjunction with another two corporate interests, the National Federation of Merchants and the Association of Chambers of Commerce. Effectively, industrialists were not only the last to gain formal representation on the board of the CB, but they were given the least chance to place their preferred representative on it. This pattern of power distribution within the CB was reflected in both the access and the conditions under which the institution facilitated financing, as will be seen in the next section.

Direct credit from the CB in the form of discounts or rediscounts was until the early 1930s kept as the prerogative of affiliated institutions (private commercial banks) and the government. After 1932, coffee, represented by the FNC, started to receive direct financing through the discount of bonds of general-deposit warehouses guaranteed by the Federation. Additionally, in 1940 the National Coffee Fund was created and funded, amongst other means, with $10 million pesos issued by the CB.[98] Though coffee growers obtained early access to CB's funding they were not the only group to do so. Pledge bonds benefiting other agricultural producers, such as those of rice, sesame, wheat, cotton, timber and soybean were also being rediscounted. It is clear that the purpose of this particular financing mechanism was to promote agricultural production, at least until the late 1940s. A discussion inside the board of the CB on February 1949 revealed this intention, as the directors considered rejecting the request from a manufacturing firm to discount bonds on its raw materials: "...Malterías of Colombia Inc. has requested the possibility of considering

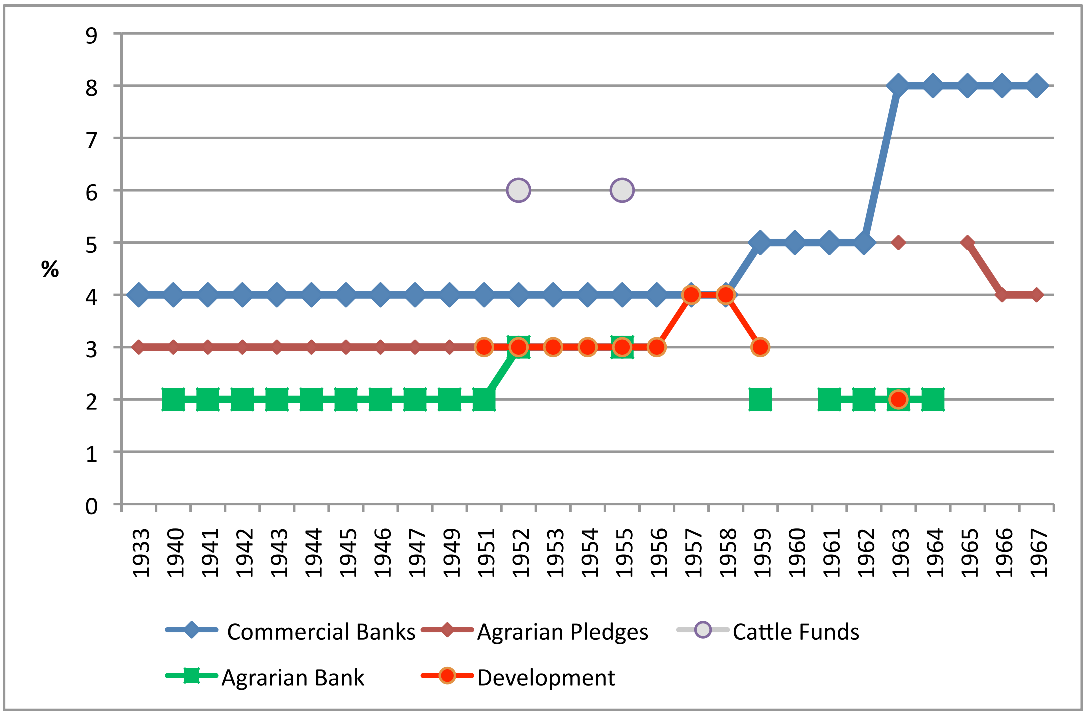
[98] BRep. 'El Banco de la República: Antecedentes, Evolución y Estructura' (1990) pp. 380–81.

that the Bank carry through the discount of pledge bonds guaranteed with malted barley... the board does not accept it for it believes that malted barley is a raw material for the elaboration of beer and the aim of the authorised operations is to promote the production of agriculture."[99] By the late 1950s and early 1960s, nonetheless, several raw materials and finished products, such as wool,[100] raw and yarn cotton,[101] rayon fiber,[102] leaf tobacco,[103] soy flour,[104] Paz del Río-steel-products[105] and canned goods[106] had made it to the list of pledge-bond items the CB was willing to discount; accordingly, this should have eased financing conditions to manufacturers in these sectors.

Apart from access to CB's funds through the discounting of pledge bonds initiated by the FNC, direct lines of credit were granted to certain associations. Through legislative decree in 1951 the CB established direct financing for livestock farmers through the Provincial Cattle Funds. The first to obtain direct loans was the livestock association of Antioquia; quickly followed by the equivalents of Atlantico,[107] Bolivar,[108] Caqueta,[109] Cordoba,[110] Magdalena[111] and Valle[112] amongst others. A new kind of financial institution, the development bank, was also given the privilege of accessing CB's funds in 1960 and co-operatives obtained similar treatment in 1963.[113] The benefits of direct access to the CB via credit lines or through pledge bonds were not small since by-passing the financial system, i.e. private commercial banks, meant that the costs of loans were reduced significantly, as the intermediation margin of banks was avoided. Further, the rate of interest at which these loans were made could be the same or even lower than the rediscount rate applied by the CB to its affiliated financial institutions. This is examined next.

[99] BRep. MoBD, 18 February, 1949, Act No. 1816, p. 4676, ABRep.
[100] BRep. MoBD, 10 October 1958, Act No. 2685, p. 9067, ABRep.
[101] BRep. MoBD, 4 July 1951, Act No. 2043, p. 5694, ABRep.
[102] BRep. MoBD, 18 July 1951, Act No. 2044, pp. 5716–17, ABRep.
[103] BRep. MoBD, 29 October 1948, Act No. 1788, p. 4540, ABRep.
[104] BRep. MoBD, 8 November 1957, Act No. 2628, pp. 8571–72, ABRep.
[105] BRep. MoBD, 23 February 1955, Act No. 2380, p. 7277, ABRep.
[106] BRep. MoBD, 26 October 1960, Act No. 2975, pp. 10013–14, ABRep.
[107] BRep. MoBD, 8 February 1956, Act No. 2466, p. 7488, ABRep.
[108] BRep. MoBD, 24 August 1956, Act No. 2512, 7887, ABRep.
[109] BRep. MoBD, 28 May 1958, Act No. 2663, p. 8895, ABRep.
[110] BRep. MoBD, 18 July 1956, Act No. 2503, p. 7845, ABRep.
[111] BRep. MoBD, 8 July 1955, Act No. 2413, p. 7423, ABRep.
[112] BRep. MoBD, 10 March 1954, Act No. 2297, p. 6901, ABRep.
[113] Alviar, O. 'Instrumentos...' pp.94–5.

Figure 6.2: CB's Rediscount Rates



Source: BRep. Revista, various issues; and Botero de los Ríos, G. (1963).

As captured by the different rates of interest used for rediscount by the CB (see Figure 6.2), it is clear that a privileged client was the publicly-owned Agrarian Bank. Since its foundation in 1931, this bank enjoyed the lowest interest rate amongst those with access to the CB. Borrowing rates of 2% were the norm throughout the 1940s; an extra point was added in 1951, remaining at 3% until 1956. Incomplete data show that the rate had returned to 2% by the early 1960s. The preferential status of the Agrarian Bank in the CB was well recognised at the time, but it also became a source of criticism. A parliamentarian scrutinising operations circa 1940 noted that rediscounts in the CB from that institution more than tripled its paid capital, and consequently violated the established norms.[114] The politician angrily concluded: "thus, we have got: the Agrarian Bank perfectly outlawed... the Banco de la República has broken the law."[115] Charges against the CB may be true, in so far as institutions such as the Agrarian Bank were given resources beyond the legal

[114]Senado de la República, Anales del Senado, 24 November 1939, pp. 1640–41.
[115]Senado de la República, Anales del Senado, 24 November 1939, pp. 1640–41.

limits — according to criteria based on the reserve and capital profile of the borrower. This practice was likely to be the outcome of strong government pressures on the CB. For example, in one meeting held with President-elect Ospina Pérez in 1946, the board of the CB reported that having proposed to the president the idea of stabilising credit lines to contain the expansion of the means of payment no agreement was reached; however, the minutes of the CB recorded: "The president manifested that what is of most pressing urgency is to increase the capital of the Agrarian Bank to serve the peasantry..."[116] The CB also mentioned requests by the banking regulator to apply differential interest rates favouring agrarian operations.[117] It must be to these types of actions shaping the relations between these entities that the fiscal auditor referred to in his report of 1947, stating: "It is true that public banks have special treatment at the Central Bank, to this situation we have arrived not as the result of policy, but due to isolated interventions aimed at obtaining a reduction in the rates of rediscount."[118]

Not only the Agrarian Bank saw favourable borrowing terms from the CB. Coffee growers, via the FNC, accounted for the lion's share of agrarian pledges, obtaining lower interest rates than the commercial banks (used as the reference rate, given they were the CB's main clients).[119] Scant observations for the rates at which the CB lent to the Provincial Cattle Funds suggest they were not favoured relative to other groups or types of operations — two percentage points above private banks' rates. This, however, must take into consideration that simply by obtaining credit directly from the CB, their rates were lower than those for borrowers going through the commercial banking system. The 'development'-labelled item in Figure 6.2, commencing in 1951, represents loans advanced by private banks rediscounted in the CB under a special credit line for economic development. The number of measures covering this type of funds was extensive. The terms varied and so did the recipients. From 1951 to 1956 these loans were granted at a percentage point below those for affiliated banks. Then at the latter rates. After 1963 all

[116] BRep. MoBD, 17 July 1946, Act No. 1593, pp. 3920–21, ABRep.
[117] BRep. MoBD, 6 April 1946, Act No. 1575, pp. 3864–66, ABRep.
[118] Revisoría Fiscal de Instituciones Oficiales de Crédito, El Banco Emisor, El Crédito, La Moneda: Y Algunas Consideraciones Generales Sobre La Reforma Bancaria en Colombia, 1947, p. 43.
[119] The reference rate remained fixed for over twenty years thanks to the abandonment of the authorities of the interest rate as instrument of monetary control. This because of the evident failure at monetary control during the Great Depression; see Alviar, O. 'Instrumentos...' p. 88, and Kalmanovitz, S. and Avella, M. 'Barreras...' p. 23.

'developmental' loans were advanced at two percentage points below the rates stipulated in each contractual obligation. The sectors benefiting from these operations varied from cattle-ranching stockbreeders and farmers engaged in late-yield cropping to urban housing for the middle classes. The ambition of any producer-association since 1950, according to Urdinola, was reduced to getting access to that special credit line providing subsidised, long-term financing.[120] In sum, the identifiable winners in the credit granted directly from the CB were agrarian borrowers via the Agrarian Bank, Provincial Cattle Funds, and coffee growers and other agriculturalists (to a lesser extent) through the discount of pledge bonds. Another set of favoured recipients were those accessing 'developmental' loans through the private commercial banks. In no distinctive way, were manufacturing firms singled out as preferred borrowers.

Power of Credit Demandeurs and Suppliers

As a late-latecomer to industrialisation, Colombia experienced its industrial 'take-off' during the 1920s and 1930s. As discussed in Chapter 2, during this period the country saw the so-called 'easy' part of ISI being completed. Roughly from the mid-1940s on, the challenge turned to carrying through industrial 'sequencing', that is, to move vertically in the production of light manufactured goods to producing intermediate and capital goods (machinery and equipment), the advanced or 'big push' sectors. As explained by Di John, the differences between the two phases are enormous in terms of the economic and financial requirements that attempting the transition demands. Di John sustains, that whereas in the 'early ISI' phase technology is simpler, scale economies, investment requirements (at firm level and in physical infrastructure) and learning costs are low; in the advanced stage, technology grows complex and learning costs climb higher, as well as investment requirements do.[121] In short, given the nature of the economic demands that industrial upgrading imposes, in the absence of deep/thick and efficient capital markets, a

[120] Urdinola, A. 'El Crédito...' p. 471. For a break-down of developmental and subsidised credit, see this dissertation Ch. 5.
[121] Di John, J. 'Oil...' p. 154.

Table 6.2: Role of Economic Activities, 1940–67 (as a Percentage of GDP)

Period	Coffee	Non-Coffee Agriculture	Livestock	Industry
1940–44	7.3	24.6	9.3	17.5
1945–49	8	21.6	10.5	19.1
1950–54	7.4	16.9	10.5	17.2
1955–59	7.5	14.5	10.8	17.8
1960–64	4.7	13.5	10.3	20
1965–67	3.7	12.9	9.7	19.9

Source: See Tables A.6.1 and A.6.2.

large part of the financial effort supplying investable resources is likely to originate in the banking system.

Though easy access to credit as well as subsidised loans have been distinct features of many a late-industrialiser,[122] given the features of advanced industrialisation and the fact that resources are limited and capital in countries like Colombia scarce, a need for condensing funds is practically inevitable. Amsden, in this respect points out: "intermediate assets may be allocated by government to either a relatively large number of firms (*diffusion*) or to a relatively small number of 'national leaders' (*concentration*)."[123] Although she refers to allocation patterns within the industrial sector itself, this insight is applied here to the more general allocation of loans by the banking system across economic sectors. The trade-off Colombian policy-makers faced in the 1940s regarding the allocation of loanable funds was whether to concentrate financial resources amongst the *few* for advanced industrialisation or to maximise the diffusion of credit recipients amongst the *many* in agriculture, particularly the coffee-sector, and livestock farming. How this dilemma resolved is demonstrated below through quantitative evidence on the sectoral distribution of loans that takes into consideration the physical requirements of each economic sector. First, however, is necessary to assess the economic and political power of the sectors competing for resources.

[122] See for instance; Woo, J. 'Race...' ; Armijo, L. 'Brazilian Politics and Patterns of Financial Regulation' in Haggard, S., Lee, C. and Maxfield, S. (Eds) *The Politics... ;* and Willis, E. 'The State as Banker: The Expansion of the Public Sector in Brazil' (1986).
[123] Amsden, A. 'The Rise...' p. 19.

Evaluating the importance of individual economic sectors, their financial needs, organisational strengths and their respective bases of social support shall serve as a guide to predict the direction politicians will give to financial resources. A rough proxy for the economic weight of each activity comes from its respective share in total output. Table 6.2 confirms that the economy was undergoing structural change by the mid-century, as the contribution of manufacturing to GDP increased; whereas the share of non-coffee agriculture halved during the same period.[124] Whilst, respectively, these are clear-cut upward and downward trends, livestock-farming's share remained steady throughout at around 10%, as did coffee's at between 7% and 8%, until the 1960s, when external prices faltered and the sector entered into crisis. Following these data, intuitively one could expect that as the agrarian sector shrinks and the industrial expands, financial resources would tend to flow increasingly to the latter. Relative shares of sectoral GDP data, however, are simply too broad as proxy for assessing the economic significance of different activities. The unique characteristics of certain sectors must be taken into consideration, particularly, of agrarian activities, which represented manufacturers' main competitors for scarce resources.

For example, although coffee did not reach even half of industry's contribution to GDP, it accounted for a stunning 78% of the country's exports.[125] This meant it generated the overwhelming majority of the foreign exchange with which imports of all kinds were made. No other single product dominated the export matrix in the twentieth century to the same or remotely similar extent, as coffee.[126] At their peak, gold, oil and coal, and other primary commodities individually explained less than a fifth of all exports. Manufactured exports accounted for less than 7% for the period under study. Coffee's importance, beyond exporting, deserves closer inspection.

First, coffee cultivation was geographically widespread — more so when compared to Brazil's.[127] Seven departments (Quindio, Risaralda, Caldas, Tolima, Antioquia, Valle and Cundinamarca) located in the slopes of the central valleys constituted the principal coffee

[124] The share of industry in the post-war *lustrum* can be considered atypical, and explained by a compensatory boom in repressed consumption and investment.
[125] See A.3.2 for the export matrix.
[126] Koffman argues that no other coffee-exporting country was so dependent upon this single crop; see Koffman, B. 'The National Federation of Coffee growers of Colombia' (1969) p. 47.
[127] For comparisons of production structures between the two countries; see Bates, R. 'Open-Economy...' p. 79.

zone — representing about a fourth of the country's area and 60% of its population,[128] and yet some 20% of coffee production came from other departments in the east, such as the Santanderes and even the Caribbean (Magdalena).[129] Secondly, coffee was the most important commercial crop. At its peak in 1957, it accounted for 48% of agricultural production (value), at a trough in 1965 — when world prices collapsed — it still explained a substantial 28%.[130] In employment terms, it generated "more than 25% of the gainfully employed agricultural workers"[131] or 8% of country's labour force, in addition to many other direct and indirect jobs in commercial and transport-related activities.[132] Lastly, and most importantly, coffee cultivation was atomised amongst a majority of small-producers. According to Koffman, in 1965 there were 396,835 farm units under coffee plantings, of which some 87% had a size smaller than 5 hectares.[133] This *minifundista* structure was vital, not as much for production itself as for domestic politics.[134]

The atomisation of coffee growers into tens of thousands mattered politically. Most obviously, their sheer numbers made them an important electoral constituency. In fact, Bates argues that more than the portion of the electorate it represented, which was significant, the coffee sector enjoyed unrivalled power thanks to its strategic location in the country's structure of political competition.[135] He sustains that: "By being willing to pivot between the two parties, or to broker a coalition between their moderate factions, the coffee sector could make — or unmake — national governments."[136] Moreover, at the institutional level, and somewhat irrespective of their political location, coffee-growers' large numbers

[128]Griffin K. 'Coffee...' p.118. According to Kalmanoff, the number of farm families engaged in coffee production (300,000) comprise close to 2 million people or slightly more than 10% of the total population; see Kalmanoff, G. 'The Coffee Economy of Colombia' (1968) p. 17.
[129]Koffman, B. 'The National...' pp. 59–60. According to Thorp and Durand, "Even in non-coffee departments, the role of coffee in the business of the ports and financial institutions was crucial." See, Thorp, R. and Durand, F. 'A Historical View of Business-State Relations: Colombia, Peru and Venezuela Compared' in Maxfield, S. and Schneider, B. (Eds) *Business and the State in Developing Countries* (1997) p. 219.
[130]Koffman, M. 'The National...' p. 46.
[131]Griffin, K. 'Coffee...' p. 118. Data are for the late 1960s.
[132]Koffman, B. 'The National...' p. 46. Data are for 1953.
[133]Koffman, B. 'The National...' p. 57.
[134]An arduous debate emerged in the 1970s and 1980s surrounding the structure of coffee production. Revisionists, such as Arango, Palacios, and Le Grand challenged effectively interpretations about the myth of the overwhelmingly democratic nature of coffee growers as a group, demonstrating that its composition was much more heterogeneous; particularly, that large *hacendados* accounted for substantial shares of total production. See Arango, M. 'El Café...'; Palacios, M. 'Coffee in...' and Le Grand, C. 'Frontier Expansion and Peasant Protest in Colombia,1830–1936' (1986).
[135]Bates, R. 'Open ...' p. 82.
[136]Bates, R. 'Open ...' p. 86.

infused with political legitimacy the organisation representing them to an extent that no other interest group could aspire to.[137] And indeed, the FNC was remarkably influential. According to one source, it counted 185,000 members, total personnel of 1,905 and financial resources that dwarfed those of similar associations.[138] The power of the FNC and its ability to shape policy is well-known and needs not be rehearsed here.[139] Suffice to note that FNC's political power and organisational capacity was unmatched by any other interest group; that it made significant efforts to remain above the two main political parties, or rather, close to both Liberals and Conservatives, that it had extensive links to elected politicians in Congress and that it enjoyed direct access to the presidency.[140] Some analysts, such as Kalmanovitz and López, have gone as far as suggesting that the FNC constituted itself as "a state within the state".[141] It is reasonable to make this argument because: "... politicians of every political persuasion defend[ed] coffee-grower interests. 'Official' Liberals, members of the MRL [dissident faction from the Liberal party], ospinista Conservatives, laureanista Conservatives and anapistas... [Anapo was the party led by General Rojas Pinilla]."[142] In short, the economic and political significance of the coffee sector was indisputable and growing — and the sources of its ascendancy multiple. The situation for the rest of the agrarian sector, however, was different.

Politically, until the 1930s, non-coffee agriculture and livestock-farming interests were represented by the encompassing Agrarian Society of Colombia (SAC). Because of its confederative nature, membership is hard to discern, but Bejarano sees as credible reports from the SAC counting over 400 agrarian *juntas* with more than 150,000 affiliates.[143] What is clearer from the budget accounts, however, is that its financial muscle was very

[137]For a similar view see; Kalmanovitz, S. and López, E. 'La Agricultura...' pp. 81–83.
[138]Data are for 1967; from Koffman, B. 'The National...' pp. 35 and 42. Personnel numbers do not include businesses and organisations were the FNC's stakes/interests were dominant, such as the Coffee Bank, National Merchant Navy and Almacafé general-deposit warehouses.
[139]For analyses on this; see, Palacios, M. 'El Café...' Chs. 9 and 10; Schneider, B. 'Business Politics...' Ch. 5; Arango, M. 'El café...'; Thorp, R. and Durand, F. 'A Historical...'; and Thorp, R. 'Has the Coffee Federation Become Redundant? Collective Action and the Market in Colombian Development' (2000).
[140]Koffman's research revealed that in the 1960s at least a third of the members of Congress represented, "what are, broadly-speaking, coffee-growing departments", which entitles them to serious consideration; see Koffman, 'The National...' p. 209. At least seven presidents during the twentieth century either came from the coffee sector or had close personal/professional associations with it.
[141]Kalmanovitz, S. and López, E. 'La Agricultura...' p. 83.
[142]Koffman, B. 'The National...' p. 206.
[143]Bejarano, J. A. 'Economía y Poder: La SAC y el Desarrollo Agropecuario Colombiano, 1871–1984' (1985) p. 229.

limited.[144] The golden age of SAC's influence and prestige peaked in the early-twentieth century, though several of the privileges gained then remained in place for longer. For example, laws from 1909 and 1926 awarding SAC at regional and national level the role of official consultative body of government, earned them representation in a wide range of institutions, such as the CB, the Institute of Territorial Credit, the Agrarian Bank, the Institute of Social Security and the National Railways.[145] Institutionalised representation in state agencies and bodies was coupled with cabinet appointments. For instance, between 1914 and 1951, prominent members of the SAC became, quasi-customarily, ministers of agriculture.[146] Notwithstanding the above, the fact is that by 1950 the SAC was in frank political decline due to a combination of factors, of which the prominence of the FNC, the explosion of non-agrarian associations, and disputes amongst different sections of agrarian producers within SAC stood out. The political decline of non-coffee-agricultural interests was not countered by a sudden boom in new exporting products that could have raised its profile. And as shown earlier, the weight of this sector in the economy was shrinking — if only gradually. The key to the sector's leverage, when it came to demanding preferential credit, ought to lie elsewhere.

Despite the growing importance of manufacturing output in the economy, Colombian society remained largely agrarian. From a total population of 17.5 million in 1964, over 8 million depended on agriculture.[147] Excluding coffee farms, the number of agrarian smallholdings neared 600,000.[148] Further, the occupational structure in 1951 showed that 55.5% of the employed population laboured in the primary sector, whilst only 15.8% worked in the secondary.[149] Though this relation was changing, by 1964, the former still

[144] Koffman, B. 'The National...' p. 35.
[145] Bejarano, J. A. 'Economía...' pp. 144, 215–16.
[146] Bejarano, J. A. 'Economía...' pp. 232–33 and Annex II. On the special relation between countryside and politics, Hartlyn states: "In a complex *pas de deux,* more common in the agricultural sector than elsewhere, political figures have sometimes been appointed as managers of producer associations and previously non-political managers of these associations have occasionally been selected as cabinet ministers or for other high government posts." See Hartlyn, J. 'The Politics...' pp. 81–82.
[147] Population numbers from Avella, M. et al. 'La Consolidación...' p. 244; agricultural-dependents data from Koffman, B. 'The National...' p. 43.
[148] By smallholding is meant units whose size was less than 9.9 hectares. Data from Tinnermeier, R. 'Small Farmer Credit Activities of the Colombian Agricultural Bank' (1972) in *AID Spring Review of Small Farmer Credit* (1972) Vol. 5, No. 105, p. 13.
[149] Avella, M. et al. 'La Consolidación...' p. 247.

employed roughly three times as much labour as the latter (48.9% vs. 17.1%).[150] That the majority of the economically active population was engaged in agrarian activities, could be expected to be a force demanding financing for this sector; but more critical, perhaps, was the fact that "most of the food produced in Colombia [was] provided by a large number of small farmers using labour-intensive techniques who between them own only a fraction of the agricultural land."[151] According to Griffin, in 1960 62.5% of the cultivated surface took the form of *minifundia*, whilst only 5.7% constituted *latifundia*.[152] In short, that a large number of agrarian *minifundistas* supplied Colombia and its growing cities with foodstuffs meant that electorally, this group had to be reckoned with — even if their organisational capacity as an interest/producer-association group was not as great. The existence of both a large number of small coffee growers, politically influential and well-organised, and of another even larger body of small agricultural-producers, that nourished the nation, raises the possibility to consider that financial resources were more likely to be distributed sparsely amongst the largest possible quantity of recipients, than concentrated amongst a few.

The political clout of industrialists is the next concern. In 1967 Robert Dix listed ANDI - along with the FNC and FENALCO - as one of the most powerful interest groups.[153] In a study evaluating which associations were most influential in congress (for the early 1970s), Kline ranked ANDI first, though he also recognised that the presidency had greater relevance when it came to political decisions than the national congress.[154] Similarly, research by Rivera-Ortíz calibrating interest-group influence on planning, as perceived by the planners themselves at DNP, indicated that ANDI's degree of influence was "great" (12%) and "considerable" (36%); whereas that of the FNC was "great" and "considerable" in equal but lower magnitudes (16%).[155] The most influential group, however, was not ANDI but ASOBANCARIA.[156] Two comments need be made regarding these findings. First, when questioned about the perception of influence on economic policy in general,

[150] Avella, M. et al. 'La Consolidación...' p. 247.
[151] Griffin, K. 'Coffee...' p. 113.
[152] Griffin, K. 'Coffee...' p. 113.
[153] Dix, R. 'Colombia...' p. 324.
[154] Kline, H. 'Interest...' Table 4.
[155] Rivera-Ortíz, I. 'The Politics of Development Planning in Colombia' (1980) Table 5.
[156] Rivera-Ortíz, I. 'The Politics...' p. 254.

the responses rankings change and the lead corresponds to the FNC, closely followed by ANDI. Secondly, Rivera-Ortíz notes that interest associations "prefer to channel influences and complaints through institutions dealing directly with specific economic policies rather than through the national planning agency.[157] Finally, in a series of interviews conducted by Hartlyn in the mid/late-1970s with elite politicians, businessmen and others, he asked about views on the power capabilities of major groups and organisations to act or to negotiate during the National Front.[158] Respondents indicated that for the FNC power capabilities increased 36% and decreased 19%, whereas for ANDI and FENALCO, they increased 30% and 31%, and decreased 45% and 37%, respectively. It is unwise to draw conclusive interpretations from these studies, yet evidence and expertise from these scholars allows a tenable remark: that in ANDI industrialists had a powerful representative of their interests in the national political arenas, but that these spaces were shared with other important organisations that aggregated interests from other economic sectors. This seems so to be particularly the case for the late 1960s and 1970s.

However, this may not have been so in the 1940s and even during the 1950s. In fact, the organisational strength of industrialists was rather weak at the beginning of the period examined here. To start with, in the early 1940s there was no association representing the interest of manufacturers, and during the 1930s rivalries between the entrepreneurs of Medellin and Bogota led to the creation of parallel organisations: the Colombian National Industry and the National Federation of Industrialists, respectively. Both had fizzled by the end of the decade.[159] The fleeting nature of these entities prompted the state to organise an association. On 18 June 1940 Eduardo Santos issued Decree 1454, by which the National Association of Manufacturers was created to act as consultative body of the government, studying the problems that affect the sector and formulating the necessary recommendations.[160] Blocked by the Supreme Court, a lasting association of industrialists had to wait until 1944, when the privately-organised ANDI was founded. Sáenz-Rovner, a scholar that analysed ANDI's trajectory in its early years, sustains that given the rapid industrial expansion of the pre-WWII years, industrialists had to be eventually reckoned

[157] Rivera-Ortíz, I. 'The Politics...' pp. 261-62.
[158] Hartlyn, J. 'The Politics...' Appendix Table A.1
[159] Schneider, B. 'Business...' p. 39, fn. 15.
[160] Articles 1, 7 and 8 of Decree 1454 of 1940.

with, however, he continues: "... the economic power of the manufacturing sector was not automatically matched by proportional political influence on the executive and legislative bodies."[161] Thus, it is reasonable to infer that ANDI's political power grew gradually as it grew in size and developed institutional capacity. The question, however, is how influential did it become regarding credit and financing issues, which as discussed in the previous chapter, constituted a serious and constant concern for manufacturers.

ANDI did not seem to have had much clout in this respect. First, as noted in Chapter 5, throughout the period the sector lacked an Industrial Bank over which to exert influence to extract financing concessions, as there were in other countries (BIA in Argentina for example) or for other sectors in the country (Coffee Bank for instance). Secondly, as shown above, the institutionalised representation of industry in the Banco de la República came late when compared against competing groups and its sway therein was rather modest. Finally, IFI, which had statutory faculties to act as a lending institution, opted to supply equity capital instead, as seen in Chapter 4 - and in rather precarious circumstances. In short, ANDI did not seem to have much of a political scenario on which to act other than directing its requests to government, as to persuade it to force or incentivise private banks to increase their loans to the sector. The legislation on this was reviewed on Chapter 5 - and it suggested that industrialists emerge as relative losers from the so-called 'legislated credit'. The reactions of banks towards government meddling will be treated later on.

The social bases of industrialists' power were not skewed in their favour either. As noted earlier, as late as 1964 employment in the primary sector tripled that of manufacturing. Urrutia briefly puts it in his study on interest groups and economic policy: "No one Colombian minister has dared to state, that what's good for Colmotores [car manufacturer] is good for the country."[162] The unfulfilled analogy with the US Defence Minister's words, Charles Wilson: "What's good for General Motors is good for the country", points at the differences in the electorates between the two countries. A sense of the size and nature of the 'industrial' constituency of the Colombia of the 1950s was offered by Finance Minister, Hernán Jaramillo, who justifying the 1950 tariff reform to the press, declared: "As minister I do not fear to say that I am defending the industries from Antioquia, since

[161] Sáenz-Rovner, E. 'Industriales...' p. 96
[162] Urrutia, M. 'Gremios...' p. 76.

by protecting them I am also trying to guard 300,000 workers; to shelter all raw-material exploitation and all the agrarian labour that comes from industrial processing..."[163] Clearly, it was not enough to stand for industry alone. According to Dix, in 1964, more than 500 member-companies of ANDI employed around 150,000 workers; the issue is that labour did not necessarily align itself politically with industrial capital. In other words, these were not elements of a unified constituency.

Discrete concessions to individual industrial ventures by the CB, however, suggest that there was some effective influence - and at the highest of levels. The opening of direct credit-lines to some of the largest and most prominent manufacturing firms, such as Bavaria,[164] Malterias de Colombia S.A.[165] and Leonidas Lara e Hijos,[166] as well as the granting of loans to Tubos Moore,[167] and the discounting of bonds (over tobacco leaves) to the Compañia Colombiana de Tabaco,[168] all measures recorded in the minutes of the board of directors of the Banco de la República, constitute evidence of this sway. When requests entailed generalised benefits the response from the CB tended to be negative, as was the case with ANDI's demand to extend to 15% of the deposits at sight and term of banks the resources destined to finance 5-year investments.[169] In short, despite industrialists apparently general political might when it came to credit its range seemed rather circumscribed.

In the pursuit for ample and cheap credit by industrialists, agriculturalists and livestock farmers alike, and the financial system, especially private banks, firmly and effectively fought off and checked their demands. This was possible thanks to the combination of a largely autonomous CB, where private bankers provided the leadership, expertise and spokemanship required to design and reform policies; and the effective capacity of the association of bankers, ASOBANCARIA, to defend their interests and advocate for measures they saw fit. It is striking that given the strategic importance of finance on the economy and the influence that bankers have had on the national polity, the literature

[163] Cited in Sáenz-Rovner, E. 'Industriales...' p. 213.
[164] BRep. MoBD, 7 November 1947, Act No. 1690, ABRep.
[165] BRep. MoBD, 7 November 1947, Act No. 1690, ABRep.
[166] BRep. MoBD, 7 November 1947, Act No. 1690, ABRep.
[167] BRep. MoBD, 10 September 1947, Act No. 1672, ABRep.
[168] BRep. MoBD, 29 October 1948, Act No. 1788, ABRep.
[169] BRep. MoBD, 3 October 1951, Act No. 2064.

has failed to examine their lobbying and weight on policy systematically.[170] A thorough examination of the power and influence of banks is beyond the central scope this study, however, to gain insights into it and to gauge their extent, a brief review of steps taken by them to enact, modify and implement some of the most vital pieces of legislation affecting their operations will be offered. These include the above-mentioned substantial reform of 1951 and measures on mandatory lending, as well as on the mechanisms available to the CB to implement monetary policy.

The CB reform of 1951, which is often said distracted the CB from its essential role of controlling the increase of prices by adding to its mandate the mission of promoting economic development, and is associated with the inappropriate meddling of government, was in fact part of a wider trend of what this author calls 'controlled reforms from within'. Reacting to a draft bill proposed in 1947 by senator Jorge E. Gaitán, minutes of the board of directors of the CB revealed that with a view to avoid a reform involving changes to the legislation, the board appointed a commission to study and prepare an alternative bill, that in the words of the Finance Minister, "could be presented at the right time as an initiative from government and not from the Banco de la República".[171] After several amendments, the board approved on 1st February 1950 the draft bill led by Carlos Villaveces from the Monetary Committee, made up by an internal mixture of banking, government and private representatives.[172] A year later, when the 756 Decree-law of 1951 that reformed the CB was issued, the Finance Minister in a habitual meeting with the CB's directors indicated that the decree in question had been structured on the basis of the draft bill studied by the board, with a few modifications.[173]

The forced allocation of loans to activities specified by government was another issue that bankers heavily criticised at the time, and that the current literature has echoed in the framework of financial-repression and excessive government interventionism in

[170] No one comprehensive study on banking- or finance politics is known to this author, as there are for other sectors. See for instance the studies referred to above by Koffman and Palacios on coffee or the seminal study by Sáenz-Rovner on industrialists; Sáenz-Rovner, E. 'La Ofensiva...'; for commerce; see, Rodríguez, O. 'Interés Gremial y Regulación Estatal: La Formación de la Federación Nacional de Comerciantes, 1945–70' (1996).

[171] Minister's words recorded in BRep. MoBD, 29 July 1949, Act No. 1858, pp. 4884–87, ABRep. For details on the commission; see BRep. MoBD, 1 June 1949, Act No. 1843, pp. 4808–10 and June 3, 1949, Act No. 1844, p. 4812.

[172] BRep. MoBD, 1 February 1950, Act No. 1998, pp. 5504–08, ABRep.

[173] BRep. MoBD, 6 April 1951, Act No. 2016, pp. 5576–77, ABRep.

financial markets. Qualitative empirical evidence originating within the banks and their association suggests that, again, regarding some of the most contentious measures on this aspect, private banks either took the lead or reacted with forceful determination. The critical executive decree of 8 February 1950, by which the principle of self-liquidation that had dominated the banking system since 1923 was relaxed, allowing commercial banks to engage in medium- and long-term lending, found its origins in a project presented (and written) by representatives of the national banks and CB's board member.[174] In the document, the specific investment projects/activities, interest rates, maturity of loans and quantity limits that banks could allocate to this modality of credit were remarkably similar to those issued by the government in the official law a fortnight later.

Concerning another measure that obliged commercial banks to allocate a part of their resources to specific economic activities, ASOBANCARIA claimed in its bi-monthly bulletin of early 1958: "Owing to the great preoccupation that banks have to channel developmental financing wherever required, ASOBANCARIA spontaneously presented government a decree draft on agrarian credit that the authorities considered important... the outcome of this was the adoption of Decree 198 of 1957, which, with the exception of its obligatory character that in our judgement is not required, ordered banks to direct 14% of their deposit at sight and at term to agrarian loans..."[175] In truth, ASOBANCARIA did produce a draft of Decree 198, however, it did not do so casually, as suggested. Rather, it was a reaction to an earlier decree passed during Rojas's administration. After his fall, the banks saw the opportunity to draft and to present to the Agriculture Minister, who was also acting Finance Minister, a substitutive decree — and seized it.[176] Though the banks did not manage to reverse the compulsory nature of the measure, they were most effective in making the implementation as cumbersome as possible[177] and in shifting a large part of the monitoring and administrative costs of the potential credits to the Agrarian Bank —

[174]BRep., MoBD, 25 January 1950, Act No. 1902, p. 5095, ABRep.

[175]ASOBANCARIA. Boletín Informativo, 1958, No. 83–84, pp. 11–12.

[176]ASOBANCARIA. Boletín Informativo, 1957, No. 77–78, p.7.

[177]On this issue, a letter from the president of the SAC, Luis José Carvajalino, dated 30 May 1958, addressed to ASOBANCARIA's directors, stated: "Everything suggests that practical difficulties have made the obligations imposed on banks to channel 14% of their deposits to agrarian developmental credit ineffective... bankers argued that requests for such loans have simply not being made... the loan applicant finds the procedure so complex and long that forfeits the operation..."; see ASOBANCARIA. Boletín Informativo, 1957, No. 86–87, p. 35

in addition to getting the latter to also act as guarantor of last resort.[178] Finally, the very effectiveness of the measure was questioned at the time by other financial institutions. The general manager of the publicly owned Livestock Bank, in a memorandum addressed to Ruben Piedrahita, member of the interim military *junta* of 1957, expressed in reference to the decree in question: "The latest measures on agricultural and livestock credit run the risk of being ineffectual, even if implemented, for they fall short of the required resources ... the volume of the operations Commercial Banks must do in line with Decree 198 is inferior to that currently recorded in the statistics of the Banco de la República."[179] Though the claims need validating, they might help to explain why the bankers seemed not to be very concerned with the measure. The set percentage might amount to a floor from which the banks' normal operations were either only marginally different or that was merely occasionally unmet.

The actions of the banking community to pre-empt or to rectify legislation that could harm their interests were frequent, wide-ranging, and above all effective. ASOBANCARIA's bulletin recorded some of these. The mechanisms included lobbying in Congress, meetings with the president of the Republic and/or with cabinet officials, and certainly, resolutions originating in the CB, where they, as indicated earlier, were institutionally represented and therefore very strong. On issues concerning the composition of the board of the CB,[180] commercial-banks' stakes in general-deposit warehouse businesses,[181] the adoption of flexible reserve requirements,[182] rediscounting rates, and on what was considered the disloyal competition of public financial institutions,[183] bankers defended their positions fiercely. Intelligently, and strategically, banks were constantly keen to present themselves as the targets of a long string of non-technical and arbitrary measures by politicians, that typically threatened the stability and liquidity of the financial system. Such attitude was adopted simultaneously, if not coherently, with the primary role bankers took on themselves

[178] For the list of requirements; see, ASOBANCARIA. Boletín Informativo, 1957, No. 77–78, pp. 22–24.
[179] Reyes Gutiérrez, J. Memorandum, p.2, Banco Ganadero, Bancos, Junta Militar de Gobierno, Presidencia de la República, AGN.
[180] ASOBANCARIA. Boletín Informativo, 1956, No. 67, pp. 13–15; ASOBANCARIA. Boletín Informativo, 1956, No. 69, p. 15 and ASOBANCARIA. Boletín Informativo, 1956, No. 63, pp. 19–21.
[181] ASOBANCARIA. Boletín Informativo, 1957, No. 72, pp. 18–19.
[182] Espinosa Valderrama, A. 'La Reforma Bancaria en el Congreso' in *El Mes Económico y Financiero*" (1948) No. 111, p. 21
[183] See Chapter 5.

in carrying and controlling reforms to both the CB and the banking system. The double positioning as detractors and agents of change constituted a remarkable constant throughout the period. Finally, given that private banks were largely successful in containing demands from politicians to offer cheap and ample credit and that no outright expropriations or nationalisations ever took place, the energies of the latter had to be channelled to squeezing the entities over which officials had extensive powers, such as the Agrarian Bank.

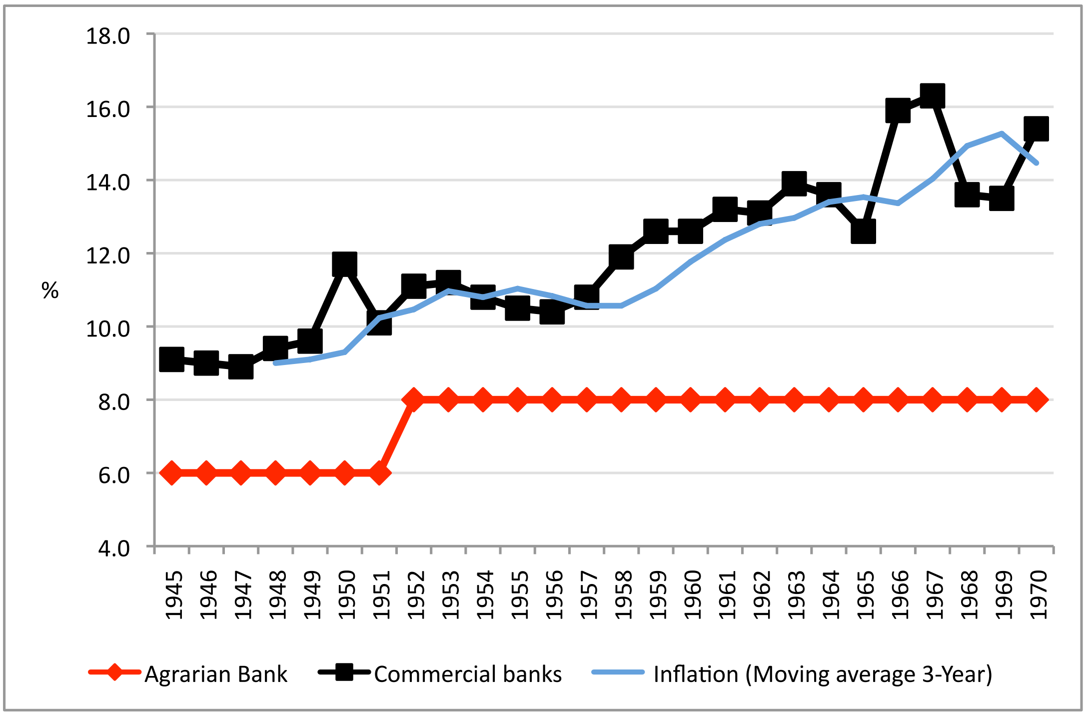
Public Banking for Clientelistic Politics

The Agrarian Bank became the public institution through which successive governments favoured agrarian producers with subsidised credit. The bank's patterns of credit provide evidence to substantiate the claims and interpretation advanced here on the clientelistic nature of credit allocation by this institution, as will be shown next. The number, size, terms and distribution of loans suggest this bank was used to maximise the number of recipients of resources. The widest possible diffusion of credit amongst the overwhelmingly agrarian clientele of the bank shall not be all that surprising, given that, as noted above, mid-twentieth century Colombia remained an agrarian nation; and electorally, the countryside was a critical constituency.

This study considers the pattern of credit allocation by the Agrarian Bank clientelistic not only because its loans were made at below market-determined rates but because the allocation of its loans could have served political purposes. Specifically, this means small-sized, widely spread, subsidised credit for rural areas. The Agrarian Bank's cheap financing could have acted as a major electoral lever. Throughout the period, the bank lent the majority of its resources for short-term operations that were well below the interest rates charged by private commercial banks for often similar economic activities. When adjusted for inflation, the real active rates of the Agrarian Bank were consistently negative, whilst those of private banks were for the most part positive. Figure 6.3 shows this. Undoubtedly, because of this, and unlike most commercial banks, the Agrarian Bank reported regular losses.[184] Certain lines of credit, such as rehabilitation financing, proved to be great loss-

[184]A study by Fainboin showed that, for instance, during the early 1970s bad loans of the Agrarian Bank were between three and four times the levels of those of commercial banks; see Fainboin, I. 'El Rieso y la Política de Crédito de

Figure 6.3: Active Interest Rates & Inflation: Private vs. Public Banking (percentages)



Sources & Methodology: Data for Commercial banks from Salazar, N. (1996) Annex 2. The series is a global rate of all credits. Rates for Agrarian Bank from Revisoría Fiscal de Instituciones Oficiales de Crédito Publico (1950); Caja de Crédito Agrario, Industrial y Minero (1955); and Tinnermeier, R. (1972).

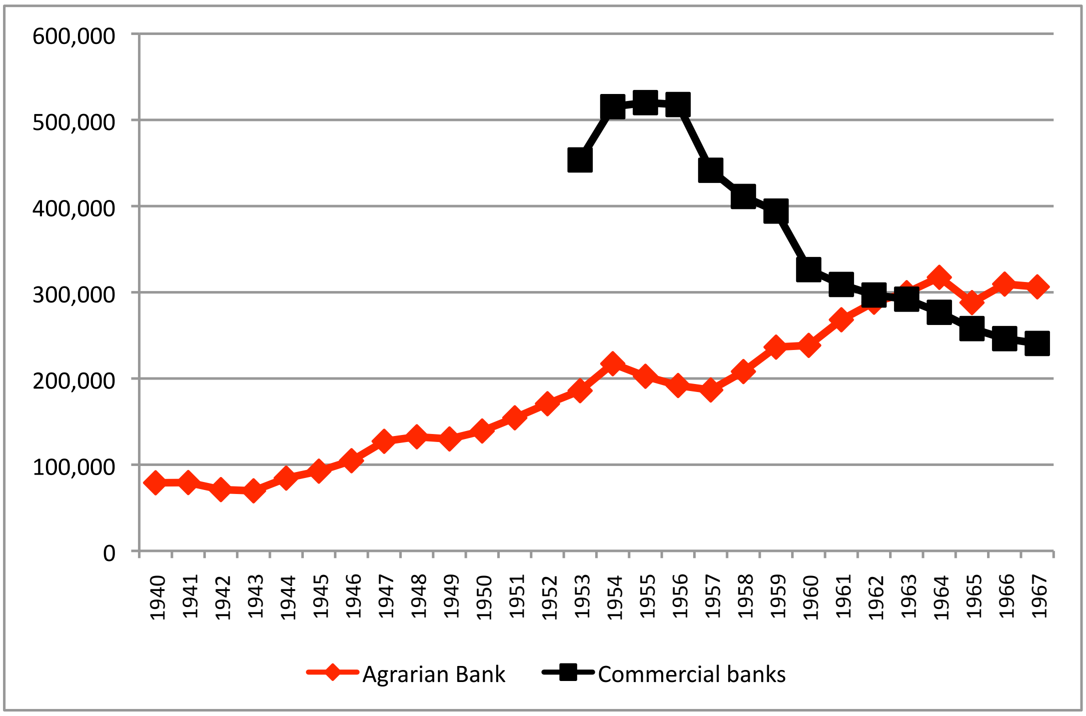
making ventures, as the general manager recounted in 1959: "From the loans advanced for the '9th of April' victims, 87.14% are lost... From those corresponding to rehabilitation made in 1953, some 98.93% will not be recovered."[185] That despite credit modalities like these, the Agrarian Bank managed to survive and expand, was largely thanks to the preferential treatment it received from the CB in terms of the volume of funds it obtained — well beyond the agreed paid up capital and reserve levels that governed all other financial institutions — and, as seen above, relatively low rediscounting rates. Statements from the CB's directors noting the problems that such over-dependency generated and urging

Fomento Agropecuario' (1986) p. 108. But losses had long been in the making before that. A debate in Congress in 1939 revealed that the bank probably had between 3 and 4 million pesos worth of loans written off, which accounted for more than 10% of its new loans; see, Senado de la República, Anales del Senado, November 24, 1939, p. 1646.

[185] BRep. MoBD, 3 June 1959, Act No. 2725, pp. 9423–24, ABRep.

the finding of alternative sources of financing for that institution — that did not cause primary emissions — were regular features in their annual reports.[186]

Figure 6.4: Credit Patterns in Banking: Private vs. Public (number of new loans)



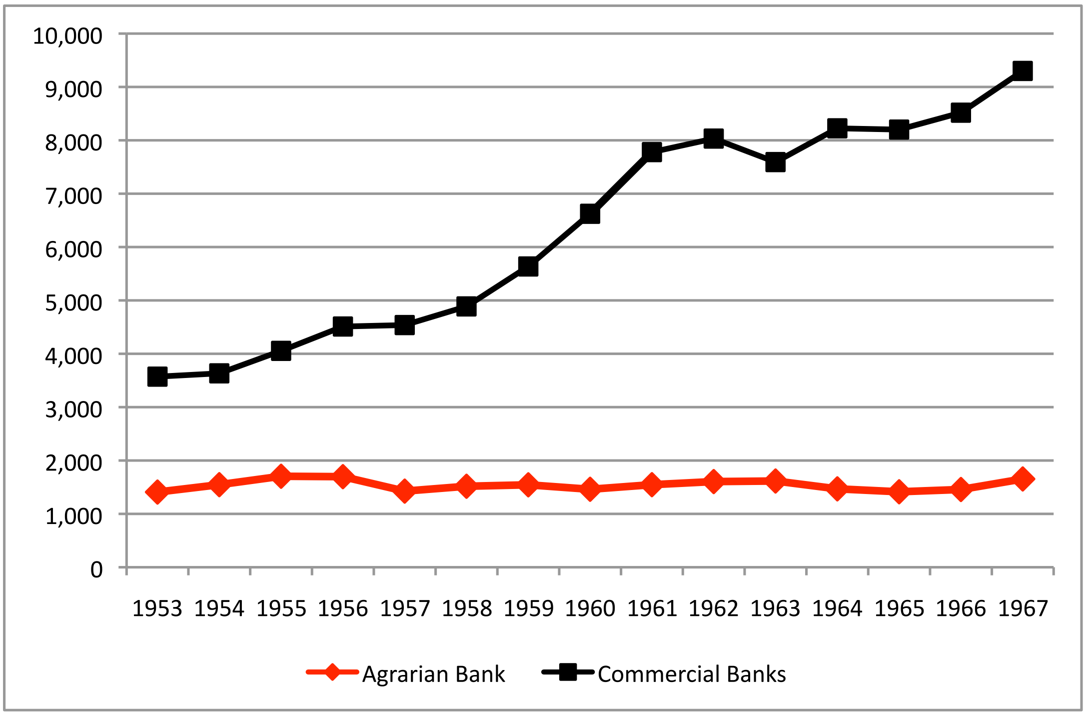
Sources: Data for commercial banks for 1953–57 from Contraloría General de la República. Anuario General de Estadística, various years; and for 1958–67 from BRep. IAGJD, 1968–69, p. 43. Series for Agrarian Bank from BRep. Revista, various issues.

The striking dispersion of the bank's credit concerning both geographical coverage and the sheer number of recipients substantiate the interpretation offered here. The growth of the Agrarian Bank's financial assets, noted in the previous chapter, was matched by its physical expansion. The number of branches and agencies increased from 23 in 1940 to 600 in 1965,[187] which meant that this bank on its own had more branches than all private commercial banks combined.[188] The enlargement process was significantly helped by the

[186]BRep. IAGJD, 1948–1949, p. 14; BRep. IAGJD, 1953–1954, pp. 78, 100; BRep. IAGJD, 1955–1956, p. 93; BRep. IAGJD, 1957- 1958, p. 81; BRep. IAGJD, 1958–1959, p. 120; BRep. IAGJD, 1964, Vol. 1, p. 117; BRep. IAGJD, 1966, p. 65. On the preferential treatment by the CB to this institution; see also, Revisoría Fiscal de Instituciones Oficiales de Crédito, El Banco Emisor, El Crédito, La Moneda: Y Algunas Consideraciones Generales Sobre La Reforma Bancaria en Colombia, 1947, p. 12.
[187]Tinnermeier, R. 'Small...' p. 71.
[188]According to one study, the number of agencies and branches from private banks was 539 on 31 December 1963; see, Holguín Franco, J. 'Evolución...' p. 148.

bank's merger with the Colombian Savings Bank in the mid-1950s, another publicly-owned institution with over 200 branches, but its underlying driver continued to be the creation of credit offices across the country and the countryside in particular — amounting to the establishment of a clientelistic network that covered the national electoral and territorial map. In fact, a report by the fiscal auditor claimed that the bank's operations were benefiting 97.2% of the nation's municipalities.[189] This impressive coverage in financing by the state is striking and possibly unheard of in any other public service.[190]

Figure 6.5: Credit Patterns in Banking: Private vs. Public (Average Loan Size — Pesos)



Sources & Methodology: See Figure 6.3 for sources. The proximate average real size for loans was calculated from data on total value of new loans from BRep. IAGJD, various years; and BRep. Revista, various issues. Missing data complemented with Revisoría Fiscal de Instituciones Oficiales de Crédito Público (1950). The deflator used is a CPI with 1953 as base year from GRECO (2002).

[189] Revisoría Fiscal de Instituciones Oficiales de Crédito y Fomento, El Crédito del Estado en la Economía Colombiana, 1949, p. 121.

[190] The report by the National Planning Council in 1952, noted that the expansion in both offices and financial operations could "become dangerous for monetary stability" and that the rapid growth in branches and agencies had been "carried out lacking proper studies of economic factors."; see Informe Anual del Consejo Nacional de Planificación, 1952, pp. 241–43 in *Desarrollo y Sociedad* (2008) No. 62.

The outgrowth of this overstretching of the Agrarian Bank was maximising the number of loan recipients, whilst fragmenting the size of the credit. Figure 6.4 shows the contrasting trends between the Agrarian Bank and commercial banks regarding the number of loans made. Whilst the Agrarian Bank tripled the number of loans made between 1940 and 1967, all the new loans advanced by private banks combined halved between the mid-1950s and 1967. The 300,000 new loans made by the Agrarian Bank in 1962 were serving somewhere between 11.3% and 18.9% of all farmers.[191] The downward trend seen in commercial banks could be at least partially explained by the new practice of dedicating a growing share of their loanable resources in medium- and long-term credit operations, which presumably involved larger quantities. This is consistent with the changes in legislation of the early 1950s, which allowed for longer-time horizons in lending. The opposing movement on the Agrarian Bank, despite significant increases in its funding, presumably was the combination of ceilings imposed on the size of loans, which artificially fractioned the volumes of credit, and the wider electoral support that arose from diffusing loans in as many recipients as possible. Figure 6.5, showing the striking differences between the proximate average loan size of private banks and the Agrarian Bank, provides further support for the claims made. The evidence of the stagnating size of real loans from the Agrarian Bank vis-à-vis the growing proportions of those from commercial banks, permits to plausibly argue that whilst the latter reflected market-determined loan-sizes, the former had been politically conceived of. And, indeed, the regulator was keen on highlighting that one of the critical problems of the financing supplied by the Agrarian Banks constituted the "truly insignificant quantities involved."[192]

Supply Meets Demand

Table 6.3 shows that relative to output, livestock farming received the highest allocation of credit from the banking system, on average 29%, which was significantly higher than the

[191] Berry, A. 'Agriculture in Colombia' (n.d.) pp. 38–39.

[192] Revisoría Fiscal de Instituciones Oficiales de Crédito y Fomento, El Crédito del Estado en la Economía Colombiana, 1949, p. 214. In 1949 the Senate debated the creation of a bank for livestock-farming because it considered that the loans to the sector made by the Agrarian Bank were too small to be useful; see Senado de la República. Anales del Senado, 30 July 1948, pp. 178–79.

Table 6.3: New Loans to Output by Economic Activities, 1940–67 (ratios)

Year	Coffee	Non-Coffee Agriculture	Livestock	Industry	Services	All Activities
1940–44	0.13	0.06	0.30	0.19	0.27	0.20
1945–49	0.12	0.08	0.33	0.20	0.33	0.24
1950–54	0.11	0.09	0.31	0.22	0.19	0.18
1955–59	0.13	0.11	0.31	0.24	0.21	0.20
1960–64	0.14	0.17	0.26	0.22	0.15	0.18
1965–67	0.16	0.16	0.22	0.22	0.10	0.15

Sources and Methodology: See Tables A.6.1 and A.6.7–6.9. Data includes allocations by private commercial banks, Agrarian Bank and Mortgage Bank. For commercial banks data from BRep. IAGJD, 1968- 69; and BRep. Revista, various issues. For Agrarian Bank, DANE. Anuario General de Estadística, various years. For Mortgage Bank, BCH. Informe y Balance, various years and BRep. IAGJD, various years.

economy's total average, standing at 19%. Industrial activities and the services sector, led by commerce, also obtained higher than all-activities' allocations, though by rather slight margins; 21% and 22%, respectively. The generous treatment given to cattle-ranching and industry emerging from these figures reflects to a large extent the preferences that private commercial banks had in lending to the latter and that both private and public institutions displayed for the former. It is important to note that there is no clear-cut trend for manufacturing. In the context of the alleged state-led ISI that a vast part of the literature argues took place in Colombia at this time, it is unexpected to find that the ratio is trendless; and even more so, if as indicated above, the advanced stage of industrialisation in which the country found itself required larger volumes of resources. Regarding other activities, a marked downward tendency is observed in the numbers for commerce, and for livestock after 1955–59; whilst an upward trend is identifiable for other-than-coffee agriculture throughout the period and for coffee after 1950–54.

The ratio of credit to output for coffee is surprisingly low, given the above-mentioned preferences of politicians and the privileges enjoyed; however, this proportion is misleading. The new-loans data do not capture the considerable amounts of credit facilitated by the CB

Table 6.4: Comaprisons of Credit to ICORS, 1940–67

	Coffee	Livestock	Non-Coffee Agriculture	Industry	Services	All Activities
ICORs [A]	0.37	0.52	0.87	1.19	2.54	1.93
Sector to Overall ICORs [B]	0.19	0.27	0.45	0.62	1.32	1.00
Loans to Output [C]	0.13	0.29	0.11	0.21	0.22	0.19
Sectoral to Overall Loans to Output [D]	0.66	1.52	0.56	1.10	1.12	1.00
D/B	3.39	5.62	1.24	1.79	0.85	

Source: Authors own calculations and sources from Table A.6.1. For the loan to output ratios data are from new loans from private commercial banks, the Agrarian Bank and the Mortgage Bank.

to the FNC through the discount of bonds guaranteed with coffee.[193] If such credit were integrated, the ratio for coffee would increase in not insignificant manner. Differentials between the credit/output ratio for all activities and that for individual sectors shows the largest proportional allocation of credit for livestock, at 1.52 or 152%, whereas that for manufacturing and commerce were 110% and 112%, respectively. The equivalent numbers for coffee and non-coffee agriculture were about half the latter ratios. Thus, in terms of loans per unit of output manufacturing was not the most favoured group, but it received 10% more than what it contributed to the economy's total output. This first proxy, though useful is unsatisfactory, for different economic activities are bound to have different financing requirements.

By comparing the relative loan shares of different economic activities with their sectoral incremental capital-output ratios (ICORs) it is possible to assess whether the loans advanced were proportional, at least, to capital requirements.[194] Though far from perfect, this methodology allows for a more nuanced assessment of the financial needs of these sectors and the extent to which these were met or not, in relation to their investments in fixed capital. Row A in Table 6.4 confirms natural intuitions about the capital intensity of different economic activities in a developing economy, such as Colombia. The low average

[193] See chapter 5 for the allocation of credit by the CB, as captured by loans outstanding.
[194] This methodology is used in a study on Korea by Cole, D. and Park, C. 'Financial Development in Korea, 1945–78' (1983) pp. 171–84.

ICORs registered by coffee[195] and livestock-farming are aligned with the production practices of these activities: the predominance of small-scale, family-based and labour intensive production of coffee-farms in Antioquia, Caldas, Cundinamarca, Valle and Tolima, on the one hand; and the extensive cattle-ranching methods prevailing in practically all areas where this activity was important, such as Córdoba and the Eastern Plains on the other. The higher ICOR for manufacturing ought to indicate the larger value of investments needed in the sector: machinery and equipment of increasing sophistication, as the industrial 'sequencing' takes place. Even higher ICORs for services, are also expected, given the large amounts of capital required for systems of sanitation, electricity and transport to be operational. Row B, in turn, shows the sectoral ratio as compared to the all-activities ratio. For example, the sectoral ratio for manufacturing was 62% the overall one, whereas the sectoral ratio for coffee was only 19%. Finally, comparing rows D and B allows the identification of the activities that obtained a larger than proportionate share of credit, if the benchmark for allocation had been fixed capital-output ratios. As shown in the D/B row, livestock farmers received an inordinately higher proportion of loans than their share suggested (more than five times its investment requirements). Similarly, coffee was highly favoured with more than three times its share; whereas industry and agriculture were only moderately benefited with the allocation of loans. In conclusion, given their investment needs, the country's banking system did not prioritise manufacturers through their credit operations. Instead, cattle ranchers, followed by coffee growers, received the most generous treatment.

Exploring the Road Not Taken: What If

As noted earlier, Colombia's constellation of internal forces engendered a state that though fiscally weak, was capable of imposing macro-economic discipline. The legitimate political power of a large and well-organised number of small agricultural exporters, coffee growers, had bestowed the state with the capacity to maintain key macroeconomic variables such as the exchange rate and the prices of foodstuffs close to their market equilibria or, as

[195] This is also in line with Berry's findings about coffee production being hardly technical; see Berry, A. 'Agriculture ...' Ch. 2.

was the case with moderate inflation rates experienced during the period, checked in line with prudent economic thinking. A disciplined macroeconomic environment, according to Davies, was a critical factor explaining the success of East Asia's late-industrialisers and the relative failure of Latin American countries.[196] The former had it the latter did not. Colombia, then, seems to be a special case within Latin America and this prompts the formulation of conceivable counterfactuals: What if the state had been more interventionist? Would a truly state-led industrialisation strategy have paid off? Could industrial upgrading have been successfully completed? In other words, had the policy elites committed themselves to fully-fledged industrialisation would have Colombia attained riches?

Sound counterfactual reasoning ought to have firm historical and contextual bases to prevent it from being mere fantasising. In this case there are three conditions that seem relevant, and for which there are grounds to believe the counterfactual is probable: first; was the disciplinary macroeconomic regime in place fostering efficient industrialisation? Secondly; was there actual room for industrial development in mid-century Colombia? And lastly; was there a political movement or leader at the time willing or likely to alter the status quo and its remarkable record of continuity in economic policy? Regarding the first issue, evidence from Ocampo and Tovar suggests that despite high theoretical levels of protectionism the country's industrialisation had been relatively efficient. They find that the prices of national, as compared with international, industrial goods fell throughout, and that productivity played a role in this.[197] Concerning the second point, in the 1960s United Nations conducted research on global industrialisation and comparing theoretical or expected levels of industrial development with actual observations. The results of the extensive survey yielded interesting results for Latin America — and for Colombia in particular. The study found that once per capita income, total population, urban population and the import coefficients were controlled for, Colombia showed a strikingly low level of industrial development vis-à-vis its expected value — of over 20%.[198] It was, along with Venezuela, the only middle- and large-sized economy in the region to

[196] The core argument of Davis has been dealt earlier on this chapter.
[197] Ocampo, J. A. and Tovar, C. 'Colombia...' p. 260.
[198] As reported by CEPAL in CEPAL. 'The Process...' pp. 52–53.

exhibit such significant level of industrial underdevelopment. Countries that have been more typically associated with state-led ISI and its excesses, such as Brazil and Argentina, effectively registered industrial outputs whose actual values were between 10% and 20% higher than expected.[199]

The third point has been the subject of debate, primarily surrounding the rise of a controversial, leftist and charismatic politician in the 1940s: Jorge Eliécer Gaitán. Hobsbawm argues that Gaitán could have been the agent of change, the man capable of breaking with the status quo. The author states: "In Colombia the great people's tribune Jorge E. Gaitán so far from choosing the political Right, captured the leadership of the Liberal Party and could have certainly as president have led it in a radical direction, had he not been assassinated."[200] The precise direction towards which an eventual Gaitán presidency would have steered economic-policy has been indicated by Drake, who claims that like Peru's Haya de la Torre, Ecuador's Velasco Ibarra, Venezuela's Betancourt and the Chilean socialist party, Gaitán's political movement, populism, was characterised by "integrationist, reformist, nationalist development programs for the state to promote simultaneously import-substituting industrialization and redistributive measures for populist supporters."[201] Thus, if as alleged by Drake and Hobsbawm, Gaitán embodied the kind of politician required to shift economic-development strategies, the critical question is: had Gaitán not been assassinated would have he pursued as president[202] a state-led ISI strategy, that together with the disciplined macro-economic regime in place mentioned earlier, would have put Colombia on the road to becoming a developed nation?

The short answer is no. It was unlikely that Gaitán would have pursued full-fledged industrialisation. The reason is twofold: first, a significant measure of Gaitán's rise in politics at the national level occurred once he became part of the political establishment, that is, after joining the Liberal party. Arrubla sustains: "...radical populism marked Gaitan's politics when searching for an audience, but distinctive conciliatory inclinations

[199] CEPAL. 'The Process...' p. 53.
[200] Hobsbawm, E. 'The Age of Extremes' (1994) pp. 133–34.
[201] Drake, P. 'Comment' in Dornbusch, R. and Edwards, S. (Eds) *The Macroeconomics of Populism in Latin America*" (1991) pp. 35–36.
[202] An authoritative biography of Gaitán and his *gaitanismo* suggests that had he not been assassinated he would have likely become president in 1950; see Braun, H. 'The Assassination of Gaitán: Public Life and Urban Violence in Colombia' (1986).

prevailed when gaining notoriety... [this] permits to predict that his conduct in the presidency would have been prone to the latter mode..."[203] This in economic policy-making would have probably meant continuing with the 'balanced growth across sectors' path of previous governments. Secondly, the kind of political alliance required to sustain an industrialisation project was simply not viable: on the one hand, because organised labour was not sufficiently large and the middle class was tied to the ruling class through employment. On the other hand, and most critically, because rural voters remained an electoral majority.[204] Further, Hylton claims that the message of class struggle of *gaitanismo* was powerful in the countryside, especially for proletarians, share croppers and tenants excluded from private ownership.[205] Thus, Gaitán's initially radical political movement was partially co-opted by the Liberal party and even then the alliance required for an 'industrial mandate' was not feasible. The missing variable for any strong mandate was the countryside, which would have been excluded or partly discriminated against in any industrial 'push', but *gaitanismo* did not count on it — in fact, what it needed was to court it. It seems Gaitán tried. Evidence from the political thinking of Gaitán recollected in the Anthology of the Liberal Party's Thought and Programmes,[206] said to display the most significant of the programmatic and ideological speeches of the party, contains one speech by the charismatic leader, declaring: "the Liberal Party recognised that agriculture and livestock-farming must have a preferential place in national economic-development plans", adding "*Liberalismo* considers that state-managed financial institutions should have the policy of re-balancing economic inequalities aiding the less privileged classes with personal credit, especially with agrarian credit for those working the land..."[207]

To summarise, the fact that Colombia enjoyed a remarkable record of macroeconomic stability and that the state was capable of imposing macroeconomic discipline opened the way to considering what looks like a rather valid and feasible counterfactual: what if policy elites had pushed for full-fledged industrialisation? Empirical evidence suggesting that the

[203] Arrubla. M. 'Síntesis...' p. 4.
[204] Abel, C. and Palacios, M. 'Colombia...' p. 612. These authors also argue that such populist alliance needed a substantial rural component to achieve power via elections, and Gaitán did not have control over the informal network of Liberal *caciques* — at least not until 1947.
[205] Hylton, F. 'Evil Hour in Colombia' (2006) p. 35.
[206] Jordan, F. (Ed) 'Antología del Pensamiento y Programas del Partido Liberal, 1820–2000' (2000) p. 44.
[207] Jordan, F. (Ed) 'Antología...' p. 308. Speech given in Bogota in 1947, known as 'Plataforma del Teatro Colón'.

country's actual industrialisation was efficient and that the sector remained underdeveloped in regional perspective, coupled with the appearance of a maverick politician that in the 1940s, and with a populist-industrialist agenda, seemed destined for political power, renders the 'what if' reasoning relevant. Wishful thinking about Colombia's probabilities of having turned into a South Korean-miracle like, alas, must be cut short. In a country, where the countryside remained the electoral majority, politicians — even the like of Gaitán — had to keep industrialising visions in check. Mid-century politics made industrialism non-viable. This amounted to a structural obstacle, of which all shrewd politicians were well aware of.

Conclusions

This chapter has argued that in mid-twentieth century Colombia, contrary to what the current literature sustains, the state did not promote industrialisation. This is particularly so in the case of credit and financial policy. The paper's main hypothesis claims that the existence of an incompatibility between the financial requirements of advanced industrialisation and the clientelistic nature of the domestic polity prevented policy elites from adopting a pro-manufacturing economic regime. To substantiate these claims, first, a modelling of qualitative evidence on the preferences and interests of the governments of the period was displayed. The historical record showed that industrialisation, as reflected in the language of national development plans, ministerial statements, cabinet documents and presidential speeches, did not constitute a public preference under any political party or regime. Secondly, a characterisation of the type of state required for developmental interventionism, emphasising the role of the countryside, sought to explain why the Colombian state would fail to provide its manufacturers with large and cheap supplies of credit. Well-entrenched and politically powerful agrarian groups within the state, particularly the export-oriented coffee-growers, guaranteed that no systemic pro-industry bias was created in the macroeconomic policy environment. Meanwhile, at the micro-economic level, these same rural producers would attempt to direct public financing to themselves and away from other credit *demandeurs*. A closer look at the nature of the CB suggests that the kind of CB functioning throughout most of the period, a private and independent bank concerned with monetary stability, did not represent the interests of manufacturers either. Evidence on the institutionalised representation of its board of directors, as well as evidence on the differential rediscounting rates demonstrated this and hinted that the likely winners from preferential-financing schemes originating in the CB would be agrarian interests.

Attention then focused on the power of credit *demandeurs*. It was argued that the relative share of sectoral output in the economy is too raw a proxy to assess the political influence of economic groups. A closer, preliminary look at the organisational strength and social bases of power proved more insightful. The largely democratic structure of coffee-cultivation, in addition to the fact that coffee generated the overwhelming majority of the foreign exchange and that the well-funded FNC enjoyed high levels of legitimacy and remained uniquely entrenched in the political system, suggest that this group were to be the prime beneficiaries of public credit schemes. In contrast — and somewhat surprisingly given generalised perceptions about the economic and political weight of the sector — industrialists appeared to lack effective means over which to influence financial institutions *en masse* to extend credit on favourable terms upon themselves. Punctual concessions by the CB to a few of the largest industrial companies in the country are evidence of the limited range of manufacturers on this area. The well-coordinated actions of private banks via ASOBANCARIA to counter (and pre-empt) potentially damaging legislation were also examined. Their position as 'insiders' in the Banco de la República — at the core of the financial system — and their public scaremongering on the dangerous financial consequences of government intervention in their affairs placed bankers in a privileged position. Consequently, it was argued, bankers often managed to "control reforms from within".

The last section presented quantitative support for the hypothesis that manufacturing, as expected given the insight offered in previous sections, was not favoured by the banking system. Specifically, a new dataset considering marginal capital-output ratios for the main economic sectors, complemented with data on loan allocation, demonstrates that when judged under the strict criteria of fixed investment needs, manufacturing did not receive a substantially larger than proportionate share of loans. Instead, amidst an alleged era of state-led ISI, as the current literature has it, the generously favoured sectors were cattle ranchers and coffee producers. One important implication of this finding relates to the non-critical attachment that large parts of the literature on states and late-industrialisation have with theoretical frameworks that assume state actions and quasi-inevitably prejudged their following failure. An economic strategy of development, such as that of state-led ISI, is a myth that the Colombian historical record does simply not bear. New evidence presented in this chapter, supported by the review of theoretical advances associated with the study of state capacity and state-led development in East Asia, confirm that there was no industrial 'big push' in Colombia.

7 Conclusions

The aim of this dissertation is to enhance the current understanding of the roles of states in late-development. Through the case study of Colombia, primarily via its state actions on the financing and funding dimensions of the catching-up process, empirical findings substantiate a novel and revisionist interpretation about public protagonism at this endeavour. The research strategy involved a 'big picture' view, conducting a comprehensive assessment of the set of elements comprising a development strategy. This intended to permit 'seeing the woods from the trees' whilst examining the most important 'tree varieties'. Concretely, it meant separately examining the central policies that conform the ISI model: direct promotion of industrial ventures (Chapter 4), credit allocation policies (Chapters 5 and 6), and foreign exchange and trade policies (Chapter 3). In doing this and in comparing across the policies, the shortcomings incurred by the existing literature — identifying a single policy or economic manifestation associated with ISI, to be representative of the wider industrialisation orientation led by the state — have been eschewed.

'Getting history right' turned some of the findings into significant empirical contributions, as they clashed with conventional wisdom. In the first instance, the rectification of the historical record is circumscribed to Colombian historiography. Key examples of these evidence-led realisations, which emerged gradually during the primary stage of research, constitute: First, the revelations about the actual state of finances of the country's allegedly most important agency for industrial development, IFI, which contrary to current knowledge was found to be inadequately funded (Chapter 4). Secondly, both the registered intentions and sometimes accomplished attempts (if only briefly) at liberalising trade, along with the recognition that hefty tariff levels were caused by a wide range of factors, of which as the traditional view has it, deliberate commercial protectionism was only a subsidiary element (Chapter 4). Thirdly, and most critically for this thesis perhaps, is the unearthing of evidence pointing at actual credit difficulties faced by industrialists from sources as diverse as studies by Banco de la República, foreign missions, official bodies and manufacturers themselves. Further, demonstrating that, when resources from public and mixed financial institutions are integrated to the aggregate numbers in the allocation of loans to the industrial sector, industry came out a relative loser (Chapters 5 and 6). Individual findings as these have intrinsic value for the reconstruction of history, when put together, however, their significance becomes larger than the sum of the parts.

In the second instance, the assortment of new and/or confronting facts like the above, encouraged and provided grounds for the thesis to question the existing literature on state and late-industrialisation, particularly the ISI and state-led industrialisation branches. It should be made clear that challenging this literature was not and end in and of itself, but more a necessity forced by the piecing together of the empirical findings in the different 'compartments' of policy — referred to above. The consensus on ISI through the case study was first fractured with substantiated arguments (Chapter 3) on the largely non-policy forces determining the trajectory of the Colombian peso (overvalued but not far from the equilibrium) and the well-founded contention that in comparative perspective, Colombia remained as much of an open economy as its foreign-exchange resources allowed it. Further, it was argued, the 'apparent closure', when it happened, was more the result of fiscal- rather than trade-protectionism, and this explained in no small amount the high (yet in a regional comparison relatively modest) levels of tariffs prevailing during the period. Finally, it was contended, that often contrary to the preferences of the authorities, who intended to liberalise the trade regime, external pressures dictated them, in practice, how best to curb imports.

Further undermining of state-led ISI interpretations materialises with the yet untold history of IFI as direct industrial investor. In failing to distinguish the institute's operations and trajectory between 1940 and 1964 from its later role as a development bank, the existing literature conferred to IFI a prominent role in the country's industrialisation that the historical evidence displayed here simply does not match. The preliminary re-assessment of IFI's promotional activities (Chapter 4) portrayed an agency whose financial position was weak and consequently looked poorly positioned to sustain the major contribution the conventional wisdom claims existed. The findings ratified this view: throughout its 25 years as direct promoter, IFI successfully intervened in no more than a dozen ventures; further, the ordinary status in the business associations it realised with private capital was that of junior partner; and more tangibly, the impact of IFI in the total of industrial investment, as proxied by the equity capital it subscribed in the markets for industrial securities, averaged a modest 2.6%. These facts do not lend support to views presenting the planning, entrepreneurial and productive capacities of the Colombian state as developmental, neither in intent nor in outcome.

The next ISI-foundation to be struck is one sustaining that government policies incentivised and/or forced different agents in the financial system to secure wide financing access to industrialists, as well as offering them preferential lending terms and conditions. Carrying out a comprehensive examination of banking, in a financial system that was overwhelmingly credit-based, findings on the patterns of sectoral credit allocation (both ordinary and subsidised), as well as on the organisation of newly created public financial intermediaries, and the directions that 'legislated credit' followed, the above argument was not borne out by the evidence (Chapter 5). Synthesising, the findings reveal, that; first, the macro structure of the financial system did not single out industrial businesses as preferred clients, that is, no specialised bank (either public or private) was founded between 1940 and 1964, to cater for the financing needs of this sector, which contrasts rather starkly with the formation of public producer-association banks or *bancos gremiales* in the 1950s for coffee and livestock-farming interests, as well as the constant support given by governments and the CB to the already established Agrarian Bank. Secondly, within this institutional-financial structure preferential credit schemes targeted agribusinesses in general, and coffee growers and cattle ranchers in particular — from funds that often originated in the Banco de la República. In short, neither extensive access to credit nor subsidised lending to manufacturers in the alleged state-led ISI frameworks characterises the Colombian banking system of mid-twentieth century. This occurred despite first-hand qualitative evidence showing that credit constraints appeared to be a recurrent problem for industrialists, and that the fixed investment requirements of these activities were larger than those of the privileged sectors (Chapter 6).

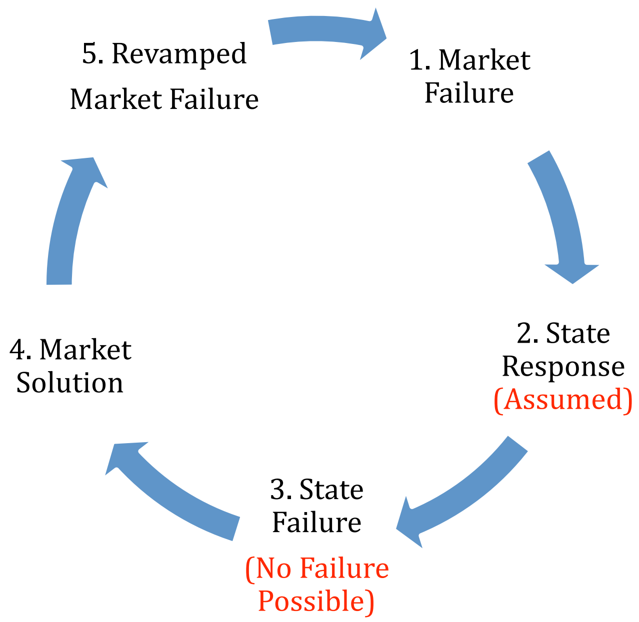
In striking down ISI and state-led industrialisation interpretations about Colombia's own industrialisation, this thesis achieves a punctual contribution to the literature on late-development. By arguing that the state chose not to prioritise manufacturing as recipient of preferential or ordinary financing, that it provided only modest industrial promotional support through IFI, and that in trade and foreign exchange policies external concerns tended to dictate courses of action, the study demonstrates that ISI, as broad economic strategy or development model was not attempted or implemented. This advances knowledge in the field by stripping off Colombia the label of 'failure' that comes attached to those countries that pursued ISI. In the case study examined here, the state could not have failed at industrial transformation because it did not embark on such an endeavour in the first place. In effect, thus, the widespread notion of 'government failure' cannot be applied. Locating this in the wider literature on industrial policy is due, and will be done next in brief manner.

The debate on industrial policy is said to have come full circle, according to Shapiro. During the late 1940s and 1950s Prebisch-Singer's arguments about secular deterioration in terms of trade combined with views about endemic market failure prompted pro-industrialisation policies inspired by theories about a 'big push' and the needs to coordinate investments.[1] A resounding theoretical and empirical backlash quickly followed and was led by the likes of Krueger and Balassa, who — emphasising the macroeconomic imbalances and inefficient distortions and extensive opportunities for rent-seeking behaviour that interventionist industrial policies (particularly guided by import-substitution) generated — shifted the pendulum back to policy prescriptions prioritising free trade and unfettered markets.[2] State failure had proved worse than market failure. More recently, however, a rehabilitation about state activism rolled back the debate, at least half-way, refashioning the justification for intervention in critical areas where markets do not always deliver; mainly,

[1] Shapiro, H. 'Industrial Policy and Growth' (2007) DESA Working Paper, No. 53 pp. 1–2.
[2] Shapiro, H. 'Industrial...' p. 2.

technological capacity, and learning and knowledge accumulation at the firm level.[3] The return of market failure and of the state as the ultimate response squares the circle. So where does the contribution of the dissertation highlighted above fit in here?

Figure 7.1: Theories of Industrialisation: Full Circle



The answer is sketched in the diagram above. The case study examined represents an instance where the literature assumed 'state response', that is, ascribed to the state the role of leading ISI, and in line with the generalisations found in other developing countries, 'state failure' followed. The point is precisely this: A pro-industrialist state has been assumed in this case, thus, this state could not have failed at attempting ISI, for it did not try the strategy in the first place. In other words, this is an instance of alleged ISI and consequently not of state failure. To prescribe policies is considered overstretching at this stage. However, the insight for policy-makers must be: to approach industrial and economic policy where intervention may be needed without the instinctively-neoclassical expectations of failure and inefficiency that surround 'publicness', for the economic history of mid-twentieth century Colombia is one of relative competence in macroeconomic management in the

[3] Bruton, H. 'A Reconsideration of Import Substitution' (1998) Vol. 36, No. 2, p. 933; and Shapiro, H. 'Industrial...' pp. 4–5.

face of volatile external pressures. This message might be more effective if placed in regional comparative perspective.

In explaining the actual path taken by Colombia, private- or market- led industrialisation or endogenous industrialisation; a contribution is also made to theory. The 'state-in-society' approach favoured in the thesis to explain why Colombian governments did not choose ISI offers an insight to industrialisation theory. Concretely, the contribution at this level is about the suitable political-economy conditions for successful industrial transformation. The discussions considered in Chapters 1 and 6 on this theme established that effective developmentalist states exhibit internal cohesion, are staffed by technocratic and meritocratic bureaucracies, and enjoyed of clearly institutionalised purposiveness and power to turn their preferences into authoritative actions. They also sustained that fluent exchanges with private industrial capital, whilst keeping labour militancy checked mattered. A central feature of the relationship between these states and society is the proven capacity they possess to discipline capital, especially, of the recipients of subsidised intermediate assets, which in Amsden's framework are the firms undertaking the industrial upgrade, as these are subject to rigorous performance standards. Davis's approach to effective state intervention underlined the need to ensure that discipline is exerted at both the macro- and the micro levels. In the macro dimension, this means securing an economic environment of realistic food prices and adequate exchange rates that bolster aggregate demand, whereas at the micro level it refers to Amsden's ability to extract high economic performance from firms in exchange for subsidies. They key insight offered is that of the role played by the countryside in achieving this *disciplinary regime*. She argues that the presence of a powerful class of small-agriculturalists entrenched in the state, and wielding substantial political power, was the key factor underpinning both disciplinary dimensions; since they were interested in avoiding subsidies to industry to turn into give-aways, whilst defending a macro environment that is also sound for primary producers. The findings of this case study suggest some tweaking of this theory. Although the macro element of the disciplinary regime was (largely) attained, the theory does not function for the allocation of preferential credit. This is because agriculturalists were powerful enough to prevent the re-allocation of financial resources — away from other sectors and into industrial firms. The very same 'mechanism' that ensured macro-discipline, in other words, precluded the transfer of resources to industry, over which micro-discipline is exercised. Alas, this stage is not reached. The suggestion is to model the preferences of governments or of policy elites to overcome the theoretical problem. The commitment of the state to industrialisation cannot be taken for granted (Chapter 6).

This author identified two lines of future research with potential mileage during the course of research. The first is to frame and to complete analyses of the state according to their various capacities.[4] This was to some extent initiated in the present study. For example, through the assessment of IFI's contribution to industrialisation, the state's *planning* and *productive* capacities were explored and tested. Most evidently, *allocative* capacities were also gauged in the examination of credit sectoral flows and sources. The refashioning or rather update of this approach, in line with the progress of the economic history and development studies disciplines, would include as *facilitative* capacities not only assessing the deeds and policies on the provision of infrastructure, as indicated in the original version, but also the provision of economically significant public goods, such as property rights. The advantage of the 'differentiated capacities' approach lies in the need to recognise that the state is not a unitary entity and that its capacities can vary enormously depending on concrete historical and environmental conditions. The appeal of this kind of analysis is even greater when thinking about the possibilities of comparative studies across states' capacities.

The second path is thematic and somewhat distant from the core topics considered here. This is the study of the role of banking, particularly of the growth of public banks and of the credit these advanced since the 1930s, on the construction of the nation-state. Insights into the development of state- or party-dispensed patronage via the allocation of credit from agrarian banks formulated in Chapter 6, must be considered as one the 'building blocks' in the creation of the extensive and effective clientelistic networks. And this to a certain degree amounts to the construction of the Latin American state. The example surveyed in the dissertation focus on Colombia, but this could have been a generalised

[4]This promising approach was schematised by Gereffi and Wyman, unfortunately, no known works to this author have followed their suggestions; see Gereffi, G. and Wyman, D. 'Determinants of Development Strategies in Latin America and East Asia' in *Pacific Focus* (1987) Vol. 2, No. 1, p. 28.

phenomenon, which remains understudied.[5] Equally interesting remain the links to be established between this type of clientelism and the construction of fragile democratic polities or the praxis of these politics in early-stage democratic polities.

[5]Marichal and Topik represent a partial exception known to this author, though their work concentrates on the nineteenth and early-twentieth centuries; see Marichal , C. and Topik, S. 'The State and Economic Growth in Latin America: Brazil and Mexico, Nineteenth and Early Twentieth Centuries' in Teichova, A. and Matis, H. (Eds) *Nation, State and the Economy in History* (2003).

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A Appendix

Table A.3.1.: Colombia: Tariffs & Fiscal Yields, 1910–68

Evolution of Average Tariff Rates & Government Revenues (Percentages)		
Year	Average Tariff	Share in Total Government Revenue
1910	50.7	
1911	50.1	
1912	42.8	
1913	46	
1914	47.5	
1915	42.3	
1916	38.4	
1917	32.1	
1918	23.1	
1919	15.7	
1920	15.9	
1921	23.6	
1922	24.1	
1923		
1924	34.5	
1925	33.2	
1926	29.9	
1927	28.1	
1928	31.2	
1929	32.4	
1930	45.2	
1931	57	
1932	44.8	
1933	28.1	
1934	25.7	
1935	25	
1936	20.2	
1937	19.5	
1938	22.1	
1939	18.7	

Continued...

Evolution of Average Tariff Rates & Government Revenues (Percentages)

Year	Average Tariff	Share in Total Government Revenue
1940	17.9	
1941	17.9	
1942	14.8	
1943	14.9	26.1
1944	14.7	24.4
1945		29.2
1946		27.2
1947		26.1
1948		20.8
1949		13.5
1950	17	21.2
1951	25	36.8
1952	19.4	32.1
1953	21	35.7
1954	21.8	36.9
1955	23.8	25.8
1956	21.1	20.6
1957	16.7	17.7
1958	18.3	13.5
1959	18.5	22.4
1960	17.8	29.2
1961	16.4	28.2
1962	15.5	26.9
1963	13.7	19.2
1964	12.7	16.7
1965	15.8	15.9
1966	22.7	31.9
1967	16.1	15.2
1968	16.1	15.9

Sources and Methodology: The series on average tariffs used data from Montenegro, S. and Ocampo, J. A. (2007) for 1910–44 and Cárdenas, M. (1997) for 1950–68. No data for this variable was found for 1945–49. Share of total government revenue is the ratio of import duties collected as percentage of central government tax revenues.

Table A.3.2: Latin America: Incidence of Custom Duties & Other Charges

Levied on Import Values, 1956–59 (c.i.f., - Percentages)	
Country	Total
Argentina	91.5
Brazil	40.1
Chile	49.2
Colombia	41.3
Ecuador	54.9
Mexico	18.1
Venezuela	56.3

Sources and Methodology: The total includes the incidence of custom duties and other duties or charges of equivalent effect, such as the cost of financing prior deposits, in countries applying this restriction; except in the case of Chile. The values represent the arithmetic mean averages and cover three broad categories of goods: primary goods; capital, intermediate and durable consumer goods; and manufactured goods for current consumption.

Table A.3.3: Latin America: Economic Openness, 1940–67

Selected Countries: Imports as Percentage of GDP (Constant Prices)				
Year	Mexico	Colombia	Brazil	Argentina
1940		12.8		
1941	9.2	12.7		
1942	6.7	7.4		
1943	7.2	9.0		
1944	9.5	9.4		
1945	11	12.2		
1946	13.8	14.2		
1947	14.3	18.0	10.7	
1948	11.1	14.9	8.1	
1949	9.4	13.1	7.3	
1950	10.1	17.8	6.1	10.4
1951	12.2	16.7	9.1	11.2
1952	11.4	15.9	7.7	8.7
1953	11.1	20.8	4.6	6.8
1954	10	21.5	6.5	8.5
1955	9.8	21.5	5.7	9.6
1956	10.9	18.8	4.9	8.3
1957	10.6	15.3	5.3	8.8
1958	9.6	12.8	4.9	8.7
1959	8.6	12.4	5.3	8.2
1960	8.4	14.1	5.2	9.4
1961	7.4	14.0	5.3	10.4
1962	6.5	13.7	5.3	10.2
1963	6.6	13.3	4.5	8.1
1964	6.6	15.7	3.7	8.5
1965	6.5	12.3	3.4	7.7
1966	6.1	16.3	4.5	7.4
1967	6.1	12.5	4.5	7.2

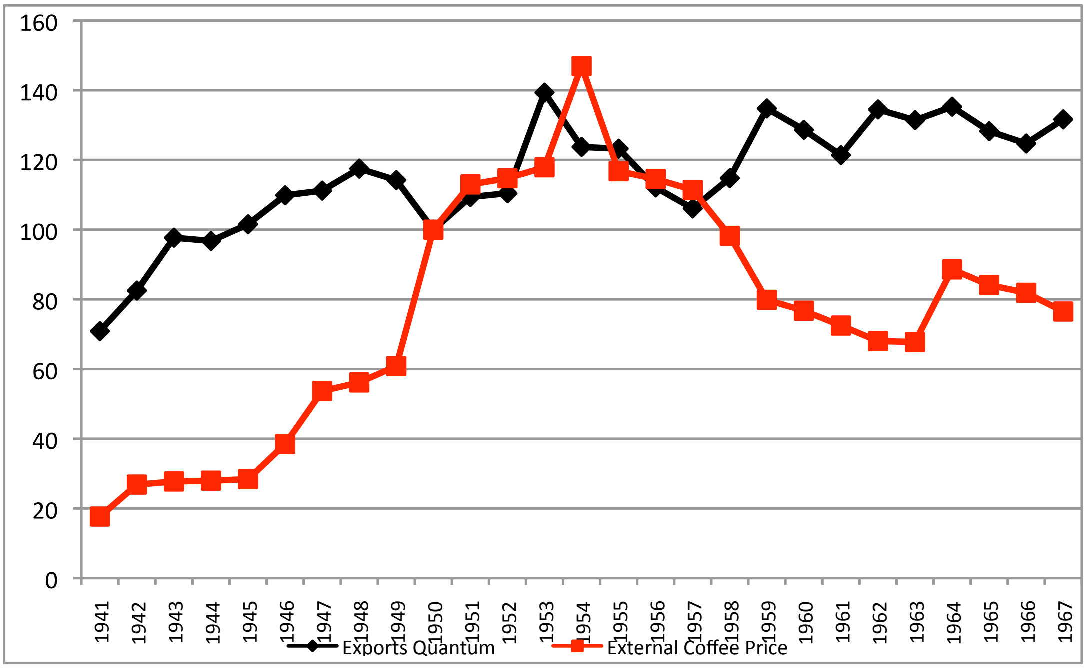
Sources and Methodology: Series for Mexico in constant prices of 1970 from Moreno-Brid, J. C. and Ros, J. (2009) Table A9. For Colombia data are in constant prices of 1975 from GRECO (2002). Brazil's series are in 1987 constant prices, obtained from Studart, R. (1995) Tables A1 and A2. For Argentina no one series was found for the entire period; CEPAL (2009) is used with constant prices of 1970. This is obtainable on-line from http://www.eclac.org/deype/cuaderno37/esp/index.htm. In the series for Argentina and Brazil criterion of precision prevailed over completeness.

Table A.3.4: Colombia: Evolution of Foreign Trade, 1940–67

Exports, f.o.b. & Imports, c.i.f (Current US $ Millions)		
Year	Exports	Imports
1940	95.8	84.6
1941	100.4	96.9
1942	109.5	59.9
1943	125.1	83.9
1944	130.1	100.0
1945	140.5	160.5
1946	201.2	230.1
1947	276.2	364.0
1948	317.0	334.6
1949	333.5	251.9
1950	405.9	364.7
1951	478.5	419.0
1952	481.1	415.4
1953	603.1	546.7
1954	666.4	671.8
1955	594.3	669.3
1956	552.4	657.2
1957	522.5	482.6
1958	473.7	399.9
1959	486.9	415.6
1960	479.8	518.6
1961	448.5	557.1
1962	477.3	540.3
1963	457.6	506.0
1964	560.9	586.3
1965	550.2	453.5
1966	517.2	674.3
1967	518.9	496.9

Sources and Methodology: Data from GRECO (2002). Exports includes goods and gold. Imports of goods only.

Figure A.3.1: Colombian Exports: Volume & Coffee Prices, 1941–67 (Index 1950=100)



Source: see Table A.3.5 below.

Table A.3.5: Colombian Exports: Volume & Coffee Prices, 1941–67

Index 1950=100		
Year	Exports Quantum	External Coffee Price
1941	71	18
1942	83	27
1943	98	28
1944	97	28
1945	102	28
1946	110	38
1947	111	54
1948	118	56
1949	114	61
1950	100	100
1951	109	113
1952	110	115
1953	139	118
1954	124	147
1955	123	117
1956	112	115
1957	106	111
1958	115	98
1959	135	80
1960	129	77
1961	121	72
1962	134	68
1963	131	68
1964	135	89
1965	128	84
1966	125	82
1967	132	77

Sources and Methodology: GRECO (2002). External coffee prices in US dollars. Exports include oil and gold.

Table A.3.6: Latin America: Agricultural Protection, 1940–67

Incidence of Custom Duties on Import Values (Percentages)	
Country	Unprocessed Foods
Argentina	40.4
Bolivia	17.8
Brazil	9.5
Chile	33.5
Colombia	68
Ecuador	32.9
Mexico	12.8
Paraguay	47.1
Peru	15.1
Uruguay	13.8
Venezuela	38

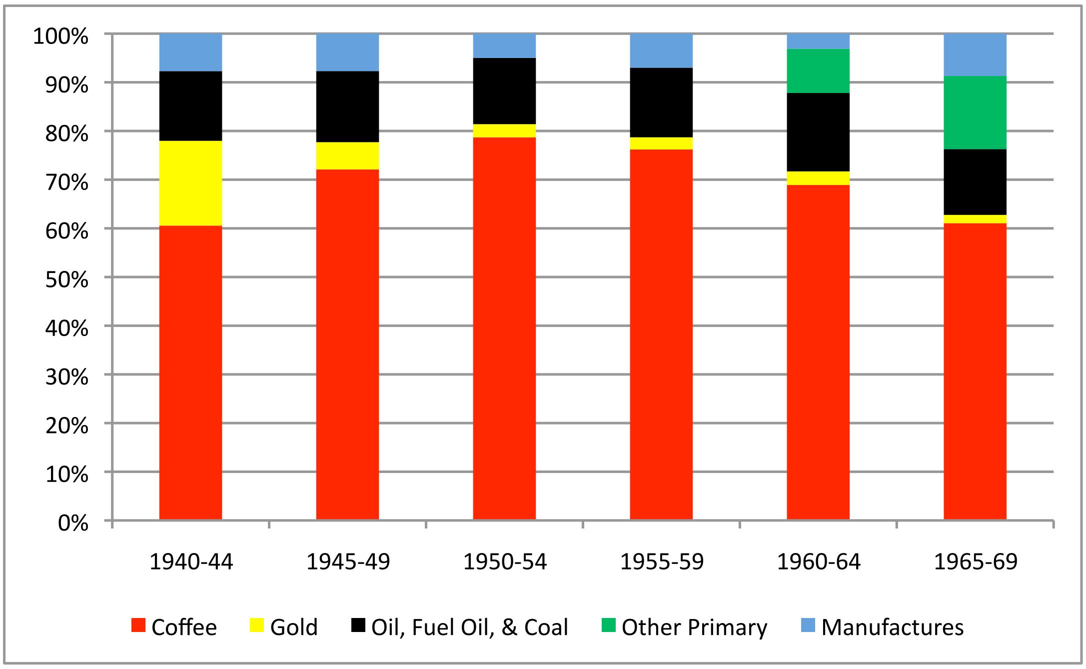
Sources and Methodology: The coefficients are the arithmetic mean averages of the incidence of custom duties and other duties or charges of equivalent effect on the c.i.f. value of imports expressed in percentages.

Table A.3.7: Colombia: Evolution of the Prices of Exchange, 1940–67

Index 1950=100		
Year	Terms of Trade	Annual Change (%)
1940	48	
1941	63	31.3
1942	52	-17.5
1943	48	-7.9
1944	50	5
1945	51	0.6
1946	59	16
1947	65	10.5
1948	65	0.3
1949	74	14
1950	100	34.7
1951	97	-2.7
1952	99	1.5
1953	99	0.8
1954	124	24.2
1955	110	-10.8
1956	109	-1.4
1957	103	-5.2
1958	78	-24.5
1959	66	-15.1
1960	67	2.1
1961	67	-0.6
1962	61	-8.6
1963	54	-12
1964	65	20.5
1965	59	-8.7
1966	46	-21.9
1967	56	20.8

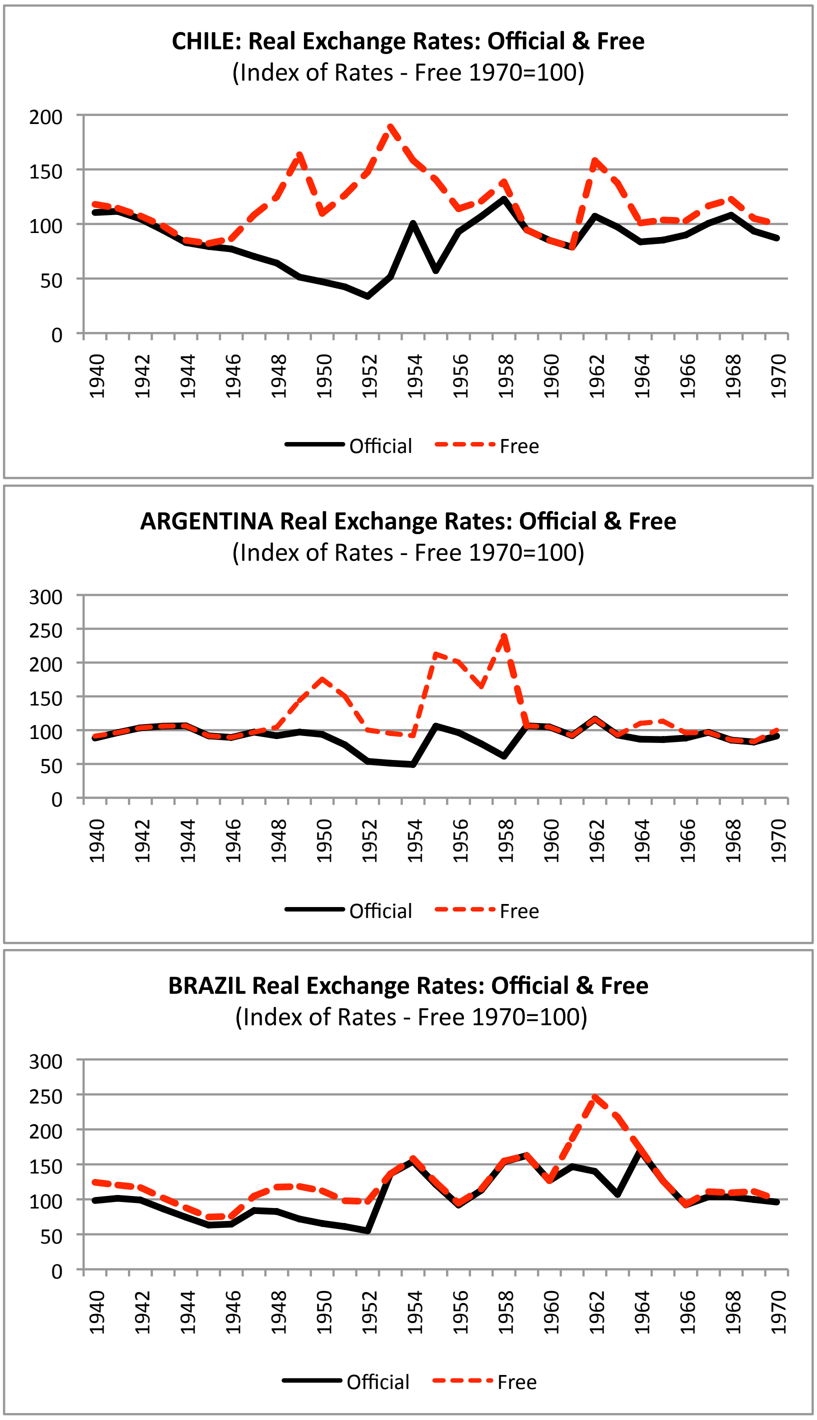
Source: GRECO (2002).

Figure A.3.2: Colombia: Export Matrix, 1940–69



Source: Ocampo, J. A. (1991) p. 221.

Figure A.3.3: Real Exchange Rates



Sources: Own calculations based on data from IMF. International Financial Statistics, various years; Pick's Currency Yearbook (1963, 1971) and OXLAD.

Table A.4.1: IFI: Developmental Activities, 1940–63

Firms Founded And/Or Nurtured With Equity Capital	
Year	Number of Firms
1941	9
1942	8
1943	5
1944	1
1945	3
1946	3
1947	2
1948	0
1949	2
1950	3
1951	1
1952	3
1953	0
1954	0
1955	2
1957	0
1956	3
1958	1
1959	1
1960	2
1961	3
1962	2
1963	2

Source and Methodology: IFI. Informe, various years; and Informe y Balance, various years, except 1940–47 for which Superintendencia Bancaria. Informe, were used. The real series uses 1950 as base year and GDP deflator by Berry (1983).

Table A.4.2: Contribution of IFI to Industrialisation, 1940–63

Share of all Stocks Issued (Millions of Pesos)			
Year	All Stocks	IFI's Stocks	IFI's Share (%)
1941	23.9	0.99	4.1
1942	31.7	1.62	5.1
1943	61.0	0.41	0.7
1944	72.9	0.05	0.1
1945	86.1	0.50	0.6
1946	140.4	0.48	0.3
1948	79.2	0.15	0.2
1950	101.7	6.59	6.5
1951	95.0	0.24	0.3
1952	109.3	0.18	0.2
1958	170.8	10.22	6.0
1963	431.8	15.77	3.7

Sources and Methodology: For data on stocks see Table A.5.1. 1963 includes data from Medellin stock exchange. And IFI. Informe, various years; IFI. Reseña, 1968. Data from firms Pulpapel, Sucroquímica, Forjas and National Cables were included in 1963, though the original source captures them in 1965.

Table A.4.3: IFI's Funding, Selected Years, 1940–64

Resources Gruped by Origin, (Percentages Unless Stated Otherwise)								
Year	All Resources (Millions of Pesos)	Capital Contributions	IFI Bonds	Paz Del Rio Bonds	Credit & Deposits	Promissory Notes	Profits	Total
1941	2.7	98.6	0.0	0.0	0.0	0.0	1.4	100.0
1943	8.0	62.2	18.4	0.0	19.3	0.0		100.0
1946	9.1	66.2	0.0	33.1	0.8	0.0		100.0
1948	9.2	65.5	0.0	32.7	1.6	0.0	0.1	100.0
1951	6.9	87.4	0.0	0.0	10.2	0.0	2.3	100.0
1953	12.4	73.4	0.0	0.0	9.9	16.2	0.6	100.0
1958	17.8	78.5	0.0	0.0	21.5	0.0		100.0
1961	37.7	79.0	0.0	0.0	21.0	0.0		100.0
1964	55.9	81.6	0.0	0.0	18.4	0.0		100.0

Sources and Methodology: Data for years 1941, 1942 and 1946 from Superintendencia Bancaria. Informe. All other years from IFI. Consolidated Balance Sheets. Profits with no values imply years or semesters in which losses were incurred or in which the values were too small.

Table A.4.4: IFI's Performance, 1940–64

Income Statements & Returns to Capital (Nominal Pesos)			
Year	Paid Up Capital	Profits & Losses	Returns to Capital (%)
1941	2,666,000	37,212	1.4
1942	4,000,000	32,661	0.8
1943	5,000,000		0.0
1944	6,000,000	42,830	0.7
1945	6,000,000	71,537	1.2
1946	6,000,000	-179,716	-3.0
1947	6,000,000	-64,885	-1.1
1948	6,000,000	13,250	0.2
1949	6,000,000	120,960	2.0
1950	6,000,000	253,301	4.2
1951	6,000,000	159,392	2.7
1952	9,000,000	111,131	1.2
1953	9,082,000	72,862	0.8
1954	9,082,000	-1,351,679	-14.9
1955	11,940,000	-15,759	-0.1
1956	13,931,000	-155,296	-1.1
1957	13,931,000	-195,231	-1.4
1958	16,786,000	-148,974	-0.9
1959	16,786,000	380,864	2.3
1960	19,786,000	138,493	0.7
1961	29,785,000	-5,924,967	-19.9
1962	36,211,000	-4,364,093	-12.1
1963	41,453,000	1,503,967	3.6
1964	45,620,000	3,821,521	8.4

Sources and Methodology: For years 1940–47 Superintendencia Bancaria. Informe; and IFI. Informe. For 1948–64 IFI. Income Statements. All calculations in nominal pesos. Significant differences between the columns Returns to Capital of this table and the entry Profits on Table A.'4.3 may be due to the use of different bi-annual reports. Data for 1943 unobtainable.

Table A.4.5: Valle & Cauca Coal Plant: Capacities vs. Actual Processing, 1958–63

Volumes of Coal Purchases for Processing (Thousand Tons)			
Year	Monthly Average	Minimum	Maximum
1958	4.9	20	40
1959	7.1	20	40
1960	3.6	20	40
1961	7.6	20	40
1962	5.2	20	40
1963	5.9	20	40

Sources and Methodology: Corporación Autónoma Regional del Cauca (1965) and IFI. Informe, various years.

Table A.5.1: Stock Exchange Transactions, 1940–67

Bogota & Medellin (Millions of Pesos)				
Year	Stocks	Bonds	Other Securities	Total
1940	14.7	1.8	7.2	23.7
1941	23.9	3.6	7.2	34.7
1942	31.7	5.5	5.5	42.7
1943	61.0	20.8	7.4	89.2
1944	72.9	26.7	6.6	106.2
1945	86.1	26.1	12.7	125.0
1946	140.4	23.7	17.2	181.2
1947	100.7	12.1	30.2	143.1
1948	79.2	11.8	23.9	114.9
1949	103.4	12.0	46.1	161.5
1950	101.7	11.6	62.4	175.7
1951	95.0	12.6	17.2	124.8
1952	109.3	11.5	13.4	134.2
1953	123.6	10.8	18.1	152.5
1954	118.8	19.5	29.6	167.9
1955	136.0	10.7	30.3	177.1
1956	188.3	4.2	34.4	226.9
1957	199.5	2.5	34.2	236.2
1958	170.8	14.0	52.3	237.0
1959	199.5	28.3	84.5	312.3
1960	175.2	53.0	97.9	326.1
1961	161.9	57.3	88.7	307.9
1962	363.9	95.1	94.8	553.8
1963	431.8	127.3	108.8	667.9
1964	587.5	95.7	128.3	811.5
1965	492.1	111.6	125.6	729.2
1966	449.3	101.6	113.0	664.0
1967	704.5	153.1	141.0	998.6

Sources and Methodology: Data from BRep. IAGJD, various years. This was cross-checked with data from Contraloría General de la República. Anuario General de Estadística, various years. The values are not exactly the same, but the differences are minor and remain unexplained. Stock exchange transactions consider stocks, bonds (municipal and national) and other securities (mainly mortgage securities and industrial bonds). From 1940 to 1961 the Bogota Exchange was the only one operating, in 1962 the Medellin Exchange opened and data was included. Credit series are new loans from private commercial banks, Agrarian Bank and BCH.

Table A.5.2: Developmental Credit Legislation & Resolutions (1948–68)

Date	Measure	Content	Entities Involved
1948	Law 90	Establishes an additional reserve requirement of 5% in bonds from the Agrarian Bank	Commercial Banks
1950	Decree 384	Authorises 5-year loans for irrigation Works, Wells, electric plants, distribution networks, extractive and agricultural industries, and urban housing	Banks
		CB discounts these loans at a rate of one percentage point lower than those fixed for comercial operations	
		Maximum 10% of sight and term deposits may be invested	
1950	Decree 3416	Authorises 5-year 'developmental' loans (as for Banks under Decree 384)	Banks' saving sections and Saving Banks
		CB discounts these loans at a rate of one percentage point lower than those fixed for comercial operations	
1951	Decree 1760	Authorises 5-year loans to transformation industries (under Decree 384 conditions)	Banks
		Authorises the use of loans under Decree 384 to pay off short-term liabilities	
1951	Decree 1985	Authorises direct credit operations with provincial Cattle Funds	CB
1952	Decree 2482	Adds to Decree 384 5-year loans to cattle-breeding	Banks
1955	Decree 1564	Authorises fiduciary sections to issue 10-year industrial bonds	Banks
		Obliges to purchase and hold industrial bonds for no less than 5% of deposits at sight or term	Banks
		Evaluation and approval by the CB	CB
1957	Decree 198	Obliges allocation of 14% of deposits at sight and term to agriculture and livestock farming	Banks
		Late crops: rubber, olives, cocoa, palm oil, oily nutsand coconut	
		Intermediate crops: sugar-cane and banana	
		Annual crops: maize, beans, wheat, potatoes, corn, rice, tobacco and barley	
		Rediscountable at one percentage point lower than ordinary operations	
		Derogates Decrees 2483 of 1952 and articles 5, 6 and 7 of Decree 1564 of 1955	
1959	Law 26	Obliges allocation of 15% of deposits at sight and term yo agriculture, livestock farming and fishing	Banks
		CB discounts these loans at one percentage point lower than ordinary rediscounting operations	
1960	Decree 1691	Regulates investments of new deposits: 25% mortgage securities, 22% housing and savings bonds, 10% agricultural bonds, 10% public obligations, 10% optional (agricultural or industrial bonds), 20% at will, 3% cash	Banks' saving sections and Saving Banks
1960	CB Resolution No. 33 & 44	Placement of new savings: 35% general-deposit warehouse-bonds, 55% on Decrees 384 & 1790 (popular credit) and Law 26, and 10% ordinary operations	Banks
1961	CB Resolution No. 16	New placements: 25% general-deposit warehouse-bonds, 50% Decrees 384 & 1790 (popular credit) and Law 26, 25% ordinary	Banks
1961	CB Resolution No. 22	Diminishes the rediscounting limits with the CB	Banks, Agrarian Bank exempted

Continued…

Date	Measure	Content	Entities Involved
1963	CB Resolution No. 11	Creates the Private Investments Fund	Commercial and Development Banks
1966	CB Resolution No. 23	Creates the Agrarian Financing Fund	Credit establishments
1966	Decree 444	Creates the Exports Promotion Fund	Export Promotion Agency
1968	CB Resolution No. 54	Creates the Industrial Financing Fund	Credit establishments

Sources: The monthly review by BRep. provides an index and brief synthesis of the executive and legislative measures of economic importance. This was used between 1946 and 1963. To detail some of the measures the full texts were examined using material available in the Diario Oficial. For the 1964–68 period the relevant measures and details were obtained from Muñoz, C. and Bolívar, A. (2002) Annex 1.

Table A.5.3: Allocation of Credit by Economic Activities, 1940–67

New Loans by Commercial Banks (Percentage Shares)										
Year	Non-Coffee Agriculture	Livestock	Coffee	Agrarian	Manufac-turing	Commerce	Construc-tion	Mining	Other	Total
1940	3.5	8.4	0.9	12.8	18.6	54.3	2.5	0.8	11.0	100.0
1941	2.5	8.3	1.2	12.0	21.1	52.4	3.1	0.4	11.1	100.0
1942	2.8	8.8	1.4	13.1	25.6	48.0	3.0	0.8	9.5	100.0
1943	2.8	9.3	1.8	13.9	20.9	48.0	1.9	0.3	15.0	100.0
1944	3.2	11.5	2.6	17.3	14.8	51.8	2.0	0.6	13.6	100.0
1945	3.6	11.8	1.8	17.1	15.1	54.0	2.0	0.3	11.6	100.0
1946	4.1	12.8	2.3	19.2	13.9	53.2	4.8	0.1	8.8	100.0
1947	4.1	12.7	2.1	18.9	19.7	48.4	4.2	0.1	8.7	100.0
1948	3.4	11.6	1.8	16.8	20.9	50.0	2.6	0.0	9.6	100.0
1949	2.8	11.2	1.6	15.5	23.0	51.2	2.2	0.0	8.0	100.0
1950	3.0	10.8	1.4	15.1	22.2	54.3	2.3	0.1	5.9	100.0
1951	4.4	10.1	2.1	16.7	29.6	43.8	2.6	0.0	7.3	100.0
1952	3.7	12.9	3.0	19.7	25.0	44.7	3.3	0.5	6.8	100.0
1953	3.3	14.3	3.0	20.6	21.9	46.5	3.5	0.7	6.7	100.0
1954	3.5	15.3	3.7	22.5	21.0	46.1	2.8	0.6	6.9	100.0
1955	3.5	14.9	3.4	21.7	20.9	45.2	3.2	0.7	8.3	100.0
1956	3.1	12.9	3.5	19.6	22.8	44.3	3.7	1.6	8.2	100.0
1957	3.6	11.7	4.0	19.4	24.6	43.3	3.5	1.6	7.7	100.0
1958	4.0	11.7	4.1	19.8	24.6	43.5	3.0	1.3	7.9	100.0
1959	9.5	9.7	1.6	20.9	26.6	42.3	2.6	0.8	6.8	100.0
1960	6.1	10.1	2.1	18.3	26.2	44.3	2.8	0.6	7.8	100.0
1961	6.0	10.2	2.9	19.1	29.3	39.6	2.8	0.8	8.4	100.0
1962	6.4	9.7	2.0	18.1	28.1	40.4	3.1	0.6	9.7	100.0
1963	8.4	8.9	2.2	19.4	31.9	36.2	3.2	0.4	8.9	100.0
1964	7.3	9.3	2.9	19.5	36.7	31.6	3.6	0.5	8.2	100.0
1965	6.9	8.1	2.8	17.8	36.6	31.8	3.8	0.6	9.5	100.0
1966	9.0	7.9	3.2	20.1	37.0	29.5	4.0	0.5	8.9	100.0
1967	9.1	7.5	3.0	19.6	38.8	27.6	3.1	0.7	10.2	100.0

Sources and Methodology: Data from BRep. IAGJD, various years and BRep. Revista, various issues. Deflated using GDP deflator with 1958 as base year.

Table A.5.4: Allocation of Credit by the Banking System, 1940–67

New Loans: Commercial Banks, Agrarian Bank and BCH (Nominal Pesos, Millions)

Year	Coffee	Non-Coffee Agricul-ture	Livestock	Industry	Construction	Commerce	Services	Total
1940	8.7	17.2	24.0	25.8	9.8	88.0	97.8	173.5
1941	10.7	16.7	27.9	36.4	10.2	106.4	116.6	208.3
1942	9.1	14.4	31.9	47.2	10.8	107.0	117.8	220.4
1943	12.6	19.1	37.9	53.1	10.1	160.4	170.5	293.2
1944	15.8	23.6	56.7	43.0	13.4	191.8	205.2	344.3
1945	18.3	32.9	64.3	59.6	22.3	260.5	282.8	457.9
1946	27.8	46.9	98.5	79.9	44.1	355.6	399.6	652.8
1947	33.8	60.9	105.6	130.8	53.0	377.4	430.4	761.4
1948	36.0	66.8	127.9	160.6	34.8	450.7	485.5	876.8
1949	32.8	60.4	151.7	199.1	25.9	496.5	522.4	966.4
1950	40.3	81.6	193.7	262.7	47.6	702.5	750.1	1,328.4
1951	59.1	119.3	209.4	367.6	59.0	624.4	683.4	1,438.7
1952	85.2	127.6	318.7	367.2	91.8	746.5	838.3	1,737.0
1953	96.5	136.7	360.5	361.9	101.1	873.5	974.6	1,930.1
1954	138.1	188.2	489.7	431.8	92.3	1,092.5	1,184.8	2,432.7
1955	140.2	196.3	559.8	512.2	113.9	1,269.9	1,383.8	2,792.3
1956	161.2	215.1	552.9	676.6	167.3	1,511.2	1,678.5	3,284.2
1957	180.7	226.6	507.6	756.2	171.2	1,517.3	1,688.5	3,359.6
1958	185.7	227.1	598.0	787.7	179.2	1,647.4	1,826.5	3,625.1
1959	140.8	568.0	621.2	1,022.3	240.4	1,860.9	2,101.2	4,453.5
1960	168.0	582.4	670.3	1,017.8	326.2	2,051.9	2,378.2	4,816.6
1961	205.8	695.4	829.3	1,342.8	292.2	2,237.7	2,529.9	5,603.2
1962	188.6	769.1	864.8	1,375.3	352.3	2,450.2	2,802.5	6,000.2
1963	259.0	1,097.8	1,207.0	1,931.2	429.6	2,708.8	3,138.4	7,633.5
1964	327.9	1,116.8	1,328.8	2,483.5	471.8	2,684.9	3,156.7	8,413.8
1965	333.2	1,120.9	1,282.9	2,600.0	535.1	2,971.1	3,506.2	8,843.2
1966	425.1	1,505.0	1,514.5	2,945.6	633.7	3,093.3	3,727.1	10,117.2
1967	481.3	1,779.9	1,751.3	3,530.7	590.2	3,505.3	4,095.4	11,638.7

Sources and Methodology: The 'Services' column includes 'Construction' and 'Commerce' entries. For commercial banks data from BRep. IAGJD, 1968–69 and BRep. Revista, various issues. Data for the Agrarian Bank from DANE. Anuario General de Estadística, various years (see also Table 5.5). Data for the BCH from BCH. Informe y Balance, various years [the 1958 issue was particularly useful] and complemented with BRep. IAGJD, various years. No data on new loans are available for the Central Bank.

Table A.5.5: Allocation of Credit by the Agrarian Bank, 1940–67 (Break-Down of Loans by Economic Activites per Peso)

Year	Coffee	Catte Ranching	Other Live-stock	Industry	Pastures	Other Crops	Agricultural Machinery	Housing	Fencing	Rice	Potatoes	Sugarcane	Sub-Total	Other
1940	0.27	0.46	0	0.06	0	0.05	0	0	0	0.05	0.05	0.03	0.97	0.03
1941	0.29	0.47	0	0.05	0	0.01	0	0	0	0.04	0.03	0.05	0.94	0.06
1942	0.23	0.56	0	0.03	0	0	0	0	0	0.03	0.03	0.04	0.92	0.08
1943	0.29	0.51	0	0.03	0	0.04	0	0	0	0.03	0.03	0.04	0.97	0.03
1944	0.19	0.53	0	0.02	0	0.04	0	0	0	0.02	0.04	0.04	0.88	0.12
1945	0.23	0.3	0	0.01	0.06	0.05	0	0	0	0.03	0.04	0.03	0.75	0.25
1946	0.24	0.28	0.05	0.01	0.06	0	0.02	0.04	0.02	0.03	0.05	0.04	0.84	0.16
1947	0.23	0.12	0.05	0.01	0.06	0.03	0.02	0.06	0.02	0.03	0.05	0.03	0.71	0.29
1948	0.22	0.27	0.04	0.01	0.06	0.04	0.03	0.05	0.03	0.03	0.06	0.03	0.87	0.13
1949	0.17	0.36	0.04	0.01	0.07	0.03	0.03	0.03	0.03	0.02	0.05	0.02	0.86	0.14
1950	0.17	0.35	0.03	0.01	0.07	0.03	0.04	0.03	0.03	0.02	0.05	0.02	0.85	0.15
1951	0.18	0.34	0.03	0.01	0.07	0.02	0.04	0.05	0.03	0.03	0.07	0.02	0.89	0.11
1952	0.17	0.42	0.03	0.01	0.06	0.02	0.02	0.04	0.03	0.02	0.05	0.02	0.89	0.11
1953	0.18	0.39	0.02	0.01	0.06	0.03	0.03	0.04	0.02	0.02	0.04	0.02	0.86	0.14
1954	0.17	0.4	0.02	0.01	0.05	0.03	0.04	0.06	0.02	0.02	0.04	0.02	0.88	0.12
1955	0.16	0.45	0.02	0.01	0.06	0.03	0.04	0.05	0.02	0.02	0.03	0.02	0.91	0.09
1956	0.16	0.38	0.02	0.01	0.07	0.05	0.06	0.11	0.02	0.02	0.03	0.01	0.94	0.06
1957	0.17	0.32	0.02	0.01	0.08	0.04	0.03	0.06	0.02	0.03	0.03	0.02	0.83	0.17
1958	0.12	0.38	0.01	0.01	0.05	0.02	0.01	0.02	0.03	0.02	0.02	0.02	0.71	0.29
1959	0.13	0.32	0.02	0.01	0.07	0.05	0.08	0.03	0.01	0.03	0.04	0.02	0.81	0.19
1960	0.14	0.33	0.02	0.01	0.07	0.06	0.08	0.03	0.02	0.03	0.03	0.02	0.84	0.16
1961	0.09	0.33	0.02	0.01	0.08	0.09	0.07	0.03	0.03	0.05	0.03	0.02	0.85	0.15
1962	0.1	0.36	0	0	0.05	0.05	0.05	0.02	0.02	0.05	0.03	0.02	0.75	0.25
1963	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1964	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1965	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1966	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1967	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29

Sources and Methodology: Data are from DANE. Anuario General de Estadística, various years. Data for 1964–67 were not available; for these years the distributions of 1963 were kept constant. Though the allocation considers short-term new loans only, this type of lending dominated the operations of the bank. These distributions were applied to the entirety of the value of the loans made by this bank.

Table A.5.6: Credit Allocation by the Entire Banking System, 1952–67

Outstanding Loans: Commercial Banks, Agrarian Bank, Mortgage Banks, Other Entities & CB (Percentages)								
Year	Agriculture	Livestock	Agrarian	Commerce	Industry	Construction	Other	Total
1952	24.1	16.0	40.1	19.5	16.4	14.5	9.6	100
1953	19.4	18.2	37.6	21.5	15.4	14.8	10.7	100
1954	17.6	20.3	37.9	23.0	14.3	14.0	10.8	100
1955	23.1	19.2	42.3	20.1	14.6	12.2	10.8	100
1956	14.6	19.4	34.0	21.6	18.6	14.5	11.4	100
1957	15.4	18.2	33.5	19.8	20.3	16.0	10.4	100
1958	29.7	15.1	44.8	16.7	15.9	14.5	8.1	100
1959	28.9	16.0	44.9	18.2	12.8	16.6	7.5	100
1960	24.1	16.7	40.8	19.0	15.0	16.5	8.7	100
1961	21.6	18.9	40.5	18.8	15.9	16.0	8.8	100
1962	19.6	19.9	39.5	19.0	15.6	16.6	9.3	100
1963	19.6	20.6	40.2	17.6	18.0	15.5	8.8	100
1964	18.0	20.4	38.4	15.9	20.8	16.1	8.7	100
1965	20.7	17.7	38.4	16.2	19.6	16.2	9.7	100
1966	22.7	17.0	39.7	15.6	20.0	16.1	8.6	100
1967	23.1	17.0	40.0	15.5	19.1	15.7	9.7	100

Sources & Methodology: BRep. IAGJD, various years and BRep. Revista, various issues. Half of CB's funds from Other entry were added to commerce from 1963 because the CB advanced resources for co-operatives and actual discrimination was not available. The sums involved are small. The loans and discounts from the CB to development banks were added to manufacturing. Reasons for this apparently arbitrary procedure are: first, the majority of the operations carried out by these banks were directed at manufacturing firms, providing medium and long-term credit - and this had not been captured anywhere else; secondly, development banks only took off when CB's funds were facilitated in large amounts from the mid-1960s onwards. This assumption implies that industry's share of total credit has been inflated somewhat. To construction CB's funds in Othe' entry were added, given that credit was advanced to CB's employees for housing. The additions were done until 1963. This might be generous, but the amounts were small. None of the assumptions made alter the results in any significant manner. The Agrarian entry is the sum of Livestock and Agriculture.

Table A.5.7: Central Bank: Sectoral Distribution of Credit, 1940–67

Loans & Discounts to Private Agents (End of Year - Thousands of Pesos)						
Year	FNC	Non-Coffee Pledge Bonds	Cattle Funds	Development Banks	Other	Total
1941–43	7,056	957	0	0	0	8,013
1947–49	37,156	2,450	0	0	19	39,626
1950–52	78,650	20,261	0	0	336	99,247
1953–55	97,753	27,129	1,235	0	2,522	128,639
1956–58	212,224	89,004	6,170	0	8,641	316,039
1959–61	505,359	87,660	25,152	8,323	21,542	648,736
1962–64	321,383	70,164	55,802	133,767	42,485	624,489
1965–67	802,949	0	94,973	260,545	78,780	1,247,173

Sources and Methodology: Other includes credit to co-operatives since the early 1960s, to employees of the CB for housing, and to Paz del Río steelworks in the late 1950s. Cattle Funds gained access to CB's funds by law since 1952 but data were not obtained for this until 1955, therefore for these years the shares of Cattle Funds are part of Other. All data from BRep. IAGJD, various years. Data are incomplete for the early years and the series for some are not always identical. Often the break-downs are inconsistent. To obtain the most complete series possible some years used data from Balances as of June 30 and not year-end.

Table A.5.8: Operations of the Central Bank, 1940–67

Loans & Discounts (End of Year - Millions of Pesos of 1958)							
Year	Affiliated Banks	Non-Affiliated Banks	Private Agents	National Government	Other Official Entities	Total	Public Debt Investments
1940	97.0		45.0	176.5	9.1	327.7	166.4
1941	165.0		102.3	205.5	3.6	476.4	179.4
1942	38.1		27.3	22.5	8.4	96.2	357.3
1943	20.2		0.4	0.7	0.7	21.9	306.8
1944	110.5		0.7	0.6	0.0	111.8	291.6
1945	82.9		0.7	0.5	0.0	84.1	241.0
1946	102.2		1.0	1.9	4.5	109.6	281.0
1947	203.5	76.8	0.2	1.9	61.2	343.6	299.9
1948	256.0	72.4	43.7	26.6	63.8	462.5	303.2
1949	278.8	85.9	45.6	24.7	77.9	512.9	297.0
1950	243.4	54.1	171.0	29.3	1.9	499.6	269.5
1951	392.2	27.8	92.4	0.0	33.1	545.6	280.4
1952	446.8	24.0	207.9	0.0	36.0	714.7	308.0
1953	434.7	19.6	74.3	0.0	0.0	528.6	422.6
1954	430.0	15.7	224.0	45.6	0.0	715.3	447.6
1955	781.7	13.7	94.1	108.2	0.0	997.7	614.4
1956	727.6	38.1	112.2	141.0	29.8	1,048.7	725.0
1957	740.6	55.3	503.9	0.0	379.0	1,678.8	743.2
1958	670.9	83.2	742.0	0.0	366.2	1,862.4	685.8
1959	644.6	13.2	620.7	0.0	318.2	1,596.7	693.6
1960	754.2	0.4	552.6	0.0	268.5	1,575.7	643.7
1961	739.1	19.0	609.3	33.7	224.7	1,625.9	773.7
1962	803.2	32.5	450.8	45.7	209.9	1,542.2	1,595.5
1963	1,014.3	37.5	312.5	34.5	150.4	1,549.3	1,221.5
1964	1,006.9	28.2	424.1	30.0	130.3	1,619.4	1,015.2
1965	969.4	14.0	481.2	96.7	115.7	1,676.9	957.5
1966	836.8	16.6	636.1	63.6	145.1	1,698.1	1,168.8
1967	850.5	20.1	499.9	3.8	169.4	1,543.8	1,081.1

Sources and Methodology: Data are from BRep. IAGJD, various years. In this table Development banks are included in Private agents in the original source from December 1960 onward. Non-affiliated banks include the BCH, the Popular Bank and the Colombian Savings Bank. Other official entities include the Stabilisation Fund. Converted into real pesos of 1958 using GDP deflator from Berry, A. (1983).

Table A.5.9: Subsidised Credit Allocation, 1948–67

Discounts of the CB (Millions of Pesos of 1958)						
Year	Victims	Decree 384/1950	Agrarian	Industrial	Other	Total
1948	33.9					33.9
1949	49.7					49.7
1950	50.4					50.4
1951	34.7	61.0				95.7
1952	38.4	99.7				138.1
1953	22.1	84.4				106.5
1954	21.2	106.7				127.8
1955	15.4	157.2				172.6
1956	22.7	127.7				150.4
1957	25.4	127.3				152.8
1958	17.4	176.7				194.1
1959	16.5	271.6				288.0
1960	13.3	382.0				395.3
1961	4.8	347.5				352.3
1962	5.2		599.3	124.9		729.4
1963	0.3		580.2	135.4	111.5	827.3
1964	0.1		695.8	110.7	180.7	987.3
1965			649.8	101.9	177.6	929.3
1966			533.6	89.4	167.5	790.4
1967			575.8	62.8	162.8	801.4

Sources and Methodology: BRep. IAGJD, various years. The Victims entry merged the Discounts for Victims sub-entries of Decrees 1766 and 2352 of 1948 with the Decree 1932 of 1956. Entry Decree 384/1950 includes related regulations 1760 of 1951, 2482 of 1952, 198 of 1957, 1790 of 1960, and Law 26 of 1959. See Table A.5.2 for further details of these decrees.

Table A.5.10: Financing Industry: National Limited-Liability Manufacturing Companies, 1949–64

Liabilities by Type of Creditors (Thousands of Pesos - Nominal)

Year	Bank Loans	Overdrafts & Current Accounts	Suppliers	Shareholders	Long-Term Obligations	Various	Specified-Guarantee Obligations	Industrial Bonds	Total
1949	48,225	18,925	18,917	35,491	1,806	121,795	8,589	1,306	255,054
1950	59,882	47,884	28,442	23,093	4,497	92,810	9,555		266,163
1951	89,402	44,994	33,015	28,621	10,146	79,769	39,157		325,104
1952	14,448	12,983	8,784	2,677	2,638	22,719	6,459		70,708
1954	17,007	48,472	12,961	12,134	2,626	42,514	13,831	6,279	155,824
1956	65,359	50,166	89,802	54,733	24,209	136,076	40,943	742	462,030
1958	154,801	68,901	167,424	52,798	84,756	216,354	130,035	4,477	879,546
1959	190,565	127,878	263,364	85,932	90,589	333,960	283,465	24,158	1,399,911
1960	255,829	104,342	431,377	105,261	136,251	723,165	33,650	117,150	1,907,025
1961	382,795	109,638	545,024	184,592	201,389	461,258	316,934	111,150	2,312,780
1962	507,750	203,861	660,263	248,550	185,049	680,270	369,179	98,481	2,953,403
1964	860,627	252,617	848,892	458,045	675,372	1,959,624	405,864	26,740	5,487,781

Sources and Methodology: Data from Superintendencia de Sociedades Anónimas. Revista, various issues. Data for missing years (1953, 1955, 1957, and 1963) were not available in the form required to ensure consistency in the series or were simply not found. The Various column includes the sub-entry Accounts payable in the Bills and Promissory notes entry; in addition to entries Various others and Various creditors. Specified-guarantee obligations include from 1949 to 1952 Mortgage creditors and Pledging creditors. For some years Industrial bonds were assumed to be Issued bonds in circulation. The number of firms included varies substantially. Lowest is 1956 with 56 companies, highest is 1964 with 515. Proximate average is over 200 firms. Annual reports exhibited lower number of firms covered, therefore, bi-annual reports, which covered far more firms were used.

Table A.6.1.: Gross Domestic Product by Economic Sectors, 1940–67 (Nominal Prices, Million Pesos)

Year	Agrarian	Agriculture	Coffee	Non-Coffee Agriculture	Livestock Farming	Mining	Industry	Factory	Artisan	Construction	Services	Commerce	Government	Transport	All Sectors
1940	405	310	52	258	95	46	186	133	53	55	341	139	64	54	1,033
1941	396	298	81	217	98	46	201	147	54	60	360	148	63	60	1,063
1942	472	378	97	281	94	34	200	142	58	94	359	141	62	61	1,159
1943	578	448	102	346	130	35	228	166	62	72	426	174	69	75	1,339
1944	757	583	129	454	174	48	272	204	68	67	516	214	85	87	1,660
1945	874	654	142	512	220	47	365	286	79	111	665	281	130	101	2,062
1946	1,010	769	208	561	241	52	459	367	92	154	862	358	156	131	2,537
1947	1,308	909	284	625	399	70	607	494	113	140	1,114	497	200	154	3,239
1948	1,438	1,070	300	770	368	83	755	627	128	162	1,252	552	229	176	3,690
1949	1,683	1,252	351	901	431	97	883	734	150	190	1,465	646	268	206	4,318
1950	2,577	1,670	474	1,196	907	160	1,402	1,058	343	206	3,229	1,055	340	505	7,574
1951	2,908	2,087	548	1,539	821	220	1,485	1,113	372	216	3,764	1,325	401	543	8,593
1952	3,148	2,167	779	1,388	981	241	1,584	1,195	389	237	4,068	1,344	445	640	9,278
1953	3,430	2,371	802	1,569	1,059	257	1,743	1,340	403	306	4,615	1,588	522	709	10,351
1954	4,233	3,020	1,226	1,794	1,213	265	1,981	1,539	442	416	5,405	1,978	620	797	12,300
1955	4,090	2,663	953	1,710	1,427	278	2,253	1,804	449	482	5,658	1,921	684	869	12,761
1956	4,780	3,300	1,162	2,138	1,480	326	2,517	2,016	500	553	6,177	1,981	726	997	14,353
1957	5,938	4,161	1,399	2,762	1,777	482	3,093	2,471	622	605	7,101	2,381	835	1,077	17,219
1958	6,581	4,449	1,675	2,774	2,132	739	3,590	2,848	742	665	8,437	3,045	998	1,131	20,012
1959	7,203	4,608	1,286	3,322	2,595	806	4,152	3,355	797	849	9,871	3,663	1,151	1,271	22,881
1960	7,764	4,722	1,454	3,268	3,042	987	4,939	4,029	910	917	11,271	4,087	1,374	1,448	25,878

Continued...

Year	Agrarian	Agriculture	Coffee	Non-Coffee Agriculture	Livestock Farming	Mining	Industry	Factory	Artisan	Construction	Services	Commerce	Government	Transport	All Sectors
1961	8,529	5,400	1,423	3,977	3,129	991	5,655	4,675	980	1,149	13,001	4,476	1,718	1,653	29,325
1962	9,126	5,743	1,439	4,304	3,383	995	6,708	5,632	1,076	1,429	14,818	4,799	1,992	2,011	33,076
1963	11,243	7,173	1,657	5,516	4,070	1,232	9,050	7,624	1,426	1,624	18,968	5,990	2,690	2,666	42,117
1964	15,170	10,300	2,347	7,953	4,870	1,400	10,320	8,737	1,583	1,841	23,407	8,033	3,026	2,958	52,138
1965	15,854	10,006	2,402	7,604	5,848	1,557	11,966	10,182	1,785	2,094	27,359	9,803	3,395	3,078	58,830
1966	18,614	11,832	2,591	9,241	6,782	1,475	14,213	11,985	2,228	2,854	34,093	12,800	4,299	3,798	71,249
1967	20,704	13,036	2,811	10,225	7,668	1,581	15,662	13,182	2,480	3,820	38,481	13,879	4,893	4,219	80,248

Sources and Methodology: Torfs, J. (1951); BRep. (1998) for 1950–67. For 1949 a proxy was calculated based on the GDP growth rate from GRECO (2002) and applied evenly across economic sectors. Data for coffee from 1950–67 are from Kalmanovitz (1978) converted into nominal pesos. Agrarian includes livestock farming and agriculture, the latter, in turn includes coffee. Livestock farming, for 1940–48, includes dairy products and poultry. Data for 1940–48 are at factor costs, data for 1950–67 are at market values. Services include commerce, government, transport (displayed on the table) and banking/finance, public utilities, rents and communications (not shown). All Sectors values from 1950–67 differ slightly from the original source because Other Productions, Silviculture and Fishing were not included in this table.

Table A.6.2: Gross Domestic Product by Economic Sectors, 1940–67 (Percentages)

Year	Agrarian	Agriculture	Coffee	Non-Coffee Agriculture	Livestock Farming	Mining	Industry	Factory	Artisan	Construction	Services	All Sectors
1940	39.2	30.0	5.0	25.0	9.2	4.5	18.0	12.9	5.1	5.3	33.0	100.0
1941	37.3	28.0	7.6	20.4	9.2	4.3	18.9	13.8	5.1	5.6	33.9	100.0
1942	40.7	32.6	8.4	24.2	8.1	2.9	17.3	12.3	5.0	8.1	31.0	100.0
1943	43.2	33.5	7.6	25.8	9.7	2.6	17.0	12.4	4.6	5.4	31.8	100.0
1944	45.6	35.1	7.8	27.3	10.5	2.9	16.4	12.3	4.1	4.0	31.1	100.0
1945	42.4	31.7	6.9	24.8	10.7	2.3	17.7	13.9	3.8	5.4	32.3	100.0
1946	39.8	30.3	8.2	22.1	9.5	2.0	18.1	14.5	3.6	6.1	34.0	100.0
1947	40.4	28.1	8.8	19.3	12.3	2.2	18.7	15.3	3.5	4.3	34.4	100.0
1948	39.0	29.0	8.1	20.9	10.0	2.2	20.5	17.0	3.5	4.4	33.9	100.0
1949	39.0	29.0	8.1	20.9	10.0	2.2	20.5	17.0	3.5	4.4	33.9	100.0
1950	34.0	22.0	6.3	15.8	12.0	2.1	18.5	14.0	4.5	2.7	42.6	100.0
1951	33.8	24.3	6.4	17.9	9.6	2.6	17.3	13.0	4.3	2.5	43.8	100.0
1952	33.9	23.4	8.4	15.0	10.6	2.6	17.1	12.9	4.2	2.6	43.8	100.0
1953	33.1	22.9	7.7	15.2	10.2	2.5	16.8	12.9	3.9	3.0	44.6	100.0
1954	34.4	24.6	10.0	14.6	9.9	2.2	16.1	12.5	3.6	3.4	43.9	100.0
1955	32.1	20.9	7.5	13.4	11.2	2.2	17.7	14.1	3.5	3.8	44.3	100.0
1956	33.3	23.0	8.1	14.9	10.3	2.3	17.5	14.0	3.5	3.9	43.0	100.0
1957	34.5	24.2	8.1	16.0	10.3	2.8	18.0	14.4	3.6	3.5	41.2	100.0
1958	32.9	22.2	8.4	13.9	10.7	3.7	17.9	14.2	3.7	3.3	42.2	100.0
1959	31.5	20.1	5.6	14.5	11.3	3.5	18.1	14.7	3.5	3.7	43.1	100.0
1960	30.0	18.2	5.6	12.6	11.8	3.8	19.1	15.6	3.5	3.5	43.6	100.0
1961	29.1	18.4	4.9	13.6	10.7	3.4	19.3	15.9	3.3	3.9	44.3	100.0
1962	27.6	17.4	4.4	13.0	10.2	3.0	20.3	17.0	3.3	4.3	44.8	100.0
1963	26.7	17.0	3.9	13.1	9.7	2.9	21.5	18.1	3.4	3.9	45.0	100.0
1964	29.1	19.8	4.5	15.3	9.3	2.7	19.8	16.8	3.0	3.5	44.9	100.0
1965	26.9	17.0	4.1	12.9	9.9	2.6	20.3	17.3	3.0	3.6	46.5	100.0
1966	26.1	16.6	3.6	13.0	9.5	2.1	19.9	16.8	3.1	4.0	47.9	100.0
1967	25.8	16.2	3.5	12.7	9.6	2.0	19.5	16.4	3.1	4.8	48.0	100.0

Sources and Methodology: see Table A.6.1.

Table A.6.3: Gross Fixed Investment, 1940–67 (Nominal Pesos, Millions)

Year	Agrarian	Coffee	Livestock	Non-Coffee Agriculture	Industry	Services	All Sectors
1940	69.3	4.2	9.5	55.6	42.4	180.3	291.9
1941	67.6	4.6	12.0	51.0	32.6	167.4	267.6
1942	83.3	5.1	15.4	62.7	13.4	159.9	256.6
1943	108.6	5.7	15.6	87.2	15.1	205.0	328.7
1944	135.1	6.5	14.8	113.9	28.7	243.5	407.4
1945	150.8	7.4	15.5	127.9	110.1	339.3	600.2
1946	160.7	8.4	23.9	128.5	155.9	465.3	782.0
1947	156.2	9.4	27.1	119.7	273.8	667.1	1,097.1
1948	220.5	10.7	24.3	185.4	287.1	694.3	1,201.9
1949	150.1	12.1	26.4	111.5	268.8	580.4	999.2
1950	177.9	13.6	32.8	131.5	290.1	788.7	1,256.8
1951	181.4	15.5	29.8	136.1	441.4	777.8	1,400.6
1952	168.0	17.6	33.8	116.6	464.3	913.4	1,545.7
1953	160.3	19.4	83.6	57.3	548.7	1,471.8	2,180.9
1954	241.0	21.8	99.0	120.3	557.3	2,014.7	2,813.0
1955	290.6	24.2	135.5	130.8	514.4	2,153.4	2,958.4
1956	279.4	27.2	117.2	135.0	603.2	2,194.0	3,076.5
1957	258.5	31.0	103.5	124.0	777.9	1,733.3	2,769.7
1958	300.3	34.8	98.4	167.1	442.4	2,244.7	2,987.4
1959	399.8	39.0	155.9	204.8	494.7	2,616.3	3,510.8
1960	460.0	43.8	274.8	141.4	655.3	3,263.4	4,378.7
1961	619.7	49.0	256.3	314.4	867.5	3,644.8	5,132.0
1962	639.1	54.9	257.8	326.4	1,269.5	3,575.7	5,484.3
1963	614.3	63.5	190.8	360.1	1,033.9	4,639.1	6,287.3
1964	834.0	71.3	174.8	587.9	1,810.0	5,349.0	7,993.0
1965	929.9	80.8	275.4	573.7	2,268.4	5,038.3	8,236.7
1966	1,289.4	91.3	298.5	899.6	2,657.7	6,803.1	10,750.2
1967	1,472.7	102.3	696.2	674.2	3,033.4	8,296.2	12,802.3

Sources and Methodology: Agrarian, Industrial and Services series are from Londoño, J. L. (1995) converted into nominal pesos. Coffee and livestock-farming series are the author's own calculations; see Tables A.6.4 and A.6.5, respectively.

Table A.6.4: Investments in Coffee, 1940–70

Year	Total Hectares (000)	Added Hectares (000)	Cost of Clearing Land $ (per ha)	Total Cost of Clearing Land $ (Millions)	Investment in Plantation $ (per ha)	Total Investment in Plantation $ (Millions)	Total Investment $ (Millions)
1940	583.9	11.7	57.5	0.67	300.0	3.5	4.2
1941	595.8	11.9	55.8	0.66	331.0	3.9	4.6
1942	608.0	12.2	55.0	0.67	365.2	4.4	5.1
1943	620.4	12.4	59.8	0.74	402.9	5.0	5.7
1944	633.0	12.7	69.3	0.88	444.5	5.6	6.5
1945	645.9	12.9	83.3	1.08	490.4	6.3	7.4
1946	659.1	13.2	92.7	1.22	541.1	7.1	8.4
1947	672.6	13.5	101.4	1.36	597.0	8.0	9.4
1948	686.3	13.7	119.8	1.64	658.6	9.0	10.7
1949	700.3	14.0	139.4	1.95	726.7	10.2	12.1
1950	714.6	14.3	148.8	2.13	801.7	11.5	13.6
1951	729.2	14.6	178.7	2.61	884.5	12.9	15.5
1952	744.1	14.9	204.8	3.05	975.9	14.5	17.6
1953	759.3	15.2	200.0	3.04	1,076.7	16.3	19.4
1954	774.8	15.5	217.4	3.37	1,187.9	18.4	21.8
1955	790.6	15.8	222.2	3.51	1,310.6	20.7	24.2
1956	806.7	16.1	239.5	3.86	1,446.0	23.3	27.2
1957	823.2	16.5	287.9	4.74	1,595.4	26.3	31.0
1958	840.0	16.8	311.2	5.23	1,760.1	29.6	34.8
1959	857.1	17.1	335.8	5.76	1,942.0	33.3	39.0
1960	874.6	17.5	360.0	6.30	2,142.5	37.5	43.8
1961	892.4	17.8	381.2	6.80	2,363.9	42.2	49.0
1962	910.7	18.2	405.6	7.39	2,608.0	47.5	54.9
1963	929.2	18.6	537.8	10.00	2,877.4	53.5	63.5
1964	948.2	19.0	585.7	11.11	3,174.6	60.2	71.3
1965	967.6	19.4	671.2	12.99	3,502.5	67.8	80.8
1966	987.3	19.7	758.5	14.98	3,864.3	76.3	91.3
1967	1,007.5	20.1	813.9	16.40	4,263.5	85.9	102.3
1968	1,028.0	20.6	867.6	17.84	4,703.9	96.7	114.5
1969	1,049.0	21.0	942.2	19.77	5,189.7	108.9	128.6
1970	1070.4	21.4	1006.2	21.54	5,725.8	122.6	144.1

Sources and Methodology: For area under coffee cultivation 1970 was used as base year from Palacios (1980, p. 234); and an annual rate of change was calculated from data on coffee production (area) from Orozco (1977) between 1950 and 1971. That rate of change was assumed for 1940–49. Data from UN/FAO (1958) for 1955 corroborates the area estimates. Total investment was calculated as the cost of clearing new land for cultivation [extrapolating with data from ECLA (1957, Table 103)] and adding the costs of establishing the coffee-crop, for which a compound annual growth rate was calculated based on observations from Arango (1982, p. 41) for Antioquia and from UN/FAO (1958, Table 49). UN/FAO estimated that the costs of establishing the coffee crop amounted to around 40% of the investments of coffee farms.

Table A.6.5.: Investments in Livestock, 1940–67

Year	Total Pasture Lands (Hectares 000)	Added Pasture Lands (Hectares)	Investment in Pastures per ha	Total Investment in Pastures $ (Millions)	Livestock Inventories (Heads, Millions)	Calves - Price per head	Total Cost Inventories in $ (Millions)	Breeding Stock $ (Millions)	Total Investment
1940	14,656	140,987	28.8	4.1	9.1	36.7	5.1	0.3	9.5
1941	14,798	142,356	27.9	4.0	9.3	42.2	7.7	0.3	12.0
1942	14,942	143,739	27.5	4.0	9.5	48.6	10.8	0.7	15.4
1943	15,087	145,135	29.9	4.3	9.7	55.9	11.0	0.3	15.6
1944	15,233	146,545	34.6	5.1	9.8	64.3	9.2	0.5	14.8
1945	15,381	147,968	41.7	6.2	10.0	74.0	8.4	1.0	15.5
1946	15,531	149,406	46.4	6.9	10.1	85.2	16.2	0.7	23.9
1947	15,682	150,857	50.7	7.6	10.3	98.1	18.8	0.7	27.1
1948	15,834	152,322	59.9	9.1	10.5	112.9	14.1	1.1	24.3
1949	15,988	153,802	69.7	10.7	10.6	129.9	15.5	0.3	26.4
1950	16,143	155,396	74.4	11.6	10.7	149.5	20.4	0.8	32.8
1951	16,298	57,000	89.3	5.1	10.9	168.5	24.0	0.7	29.8
1952	16,455	2,400	97.7	0.2	11.0	218.5	31.3	2.3	33.8
1953	16,613	239,800	100	24.0	11.2	281.0	56.2	3.4	83.6
1954	16,773	57,900	108.7	6.3	11.4	338.0	81.4	11.3	99.0
1955	16,935	127,900	111.1	14.2	11.8	307.0	106.9	14.4	135.5
1956	17,097	128,400	119.8	15.4	12.2	259.0	99.3	2.5	117.2
1957	17,262	124,300	143.9	17.9	12.5	284.5	85.4	0.2	103.5
1958	17,428	66,900	155.6	10.4	12.7	370.0	87.7	0.3	98.4
1959	17,596	85,300	167.9	14.3	13.0	555.5	141.5	0.1	155.9
1960	17,765	355,900	180.0	64.1	13.3	591.5	204.8	5.9	274.8

Continued...

Year	Total Pasture Lands (Hectares 000)	Added Pasture Lands (Hectares)	Investment in Pastures per ha	Total Investment in Pastures $ (Millions)	Livestock Inventories (Heads, Millions)	Calves - Price per head	Total Cost Inventories in $ (Millions)	Breeding Stock $ (Millions)	Total Investment
1961	17,936	258,700	190.6	49.3	13.7	552.0	201.3	5.7	256.3
1962	18,108	304,100	202.8	61.7	14.0	530.5	190.7	5.4	257.8
1963	18,283	138,700	268.9	37.3	14.3	498.5	152.4	1.0	190.8
1964	18,458	121,200	292.9	35.5	14.5	670.0	138.3	1.0	174.8
1965	18,636	260,000	335.6	87.3	14.7	936.0	185.3	2.9	275.4
1966	18,815	125,400	379.2	47.6	14.9	1,331.0	249.5	1.5	298.5
1967	18,996	392,300	406.9	159.6	15.3	1,451.0	532.4	4.1	696.2

Sources and Methodology: Livestock refers to cattle only. Data for pasture lands from 1950–67 are from Kalmanovitz (1978, p. 228). 1939–49 estimates are extrapolations based on the arithmetic mean obtained for the 1950–67 period. Investment in pasture lands refers to the investment required to convert dense forest land into pastures, including clearing the land of scrubs (but not trees), the cost of reproduction materials, and the sowing and care of the pastures during early months. This series uses data from ECLA (1957, Table 103) for 1953 and projects it forwards and backwards, assuming the costs remained constant. Total investment is the sum of investment in pastures, changes in inventories and breeding-stock imports. Data for annual variations in inventories are from Kalmanovitz, S., López, E. and Romero, A. (1999, Table 10). Data on calves' prices are from Kalmanovitz (1978, p. 235) for 1950–67 and extrapolations by the author for 1940–49. The breeding-stock series for 1940–47 uses data from Torf, J. (n.d., Table A-25) that treats 50% of imports of cattle as considered for reproduction. For 1948–67 data from DANE. Anuario General de Estadística and Anuario de Comercio Exterior - usually including bulls for reproduction, breeding cows, young bulls/cows and semen for the later years.

Table A.6.6: Allocation of Credit by the Banking System, 1940–67

New Loans: Commercial Banks, Agrarian Bank and BCH (Nominal Pesos, Millions)								
Year	Coffee	Non-Coffee Agriculture	Livestock	Industry	Construction	Commerce	Services	Total
1940	8.7	17.2	24.0	25.8	9.8	88.0	97.8	173.5
1941	10.7	16.7	27.9	36.4	10.2	106.4	116.6	208.3
1942	9.1	14.4	31.9	47.2	10.8	107.0	117.8	220.4
1943	12.6	19.1	37.9	53.1	10.1	160.4	170.5	293.2
1944	15.8	23.6	56.7	43.0	13.4	191.8	205.2	344.3
1945	18.3	32.9	64.3	59.6	22.3	260.5	282.8	457.9
1946	27.8	46.9	98.5	79.9	44.1	355.6	399.6	652.8
1947	33.8	60.9	105.6	130.8	53.0	377.4	430.4	761.4
1948	36.0	66.8	127.9	160.6	34.8	450.7	485.5	876.8
1949	32.8	60.4	151.7	199.1	25.9	496.5	522.4	966.4
1950	40.3	81.6	193.7	262.7	47.6	702.5	750.1	1,328.4
1951	59.1	119.3	209.4	367.6	59.0	624.4	683.4	1,438.7
1952	85.2	127.6	318.7	367.2	91.8	746.5	838.3	1,737.0
1953	96.5	136.7	360.5	361.9	101.1	873.5	974.6	1,930.1
1954	138.1	188.2	489.7	431.8	92.3	1,092.5	1,184.8	2,432.7
1955	140.2	196.3	559.8	512.2	113.9	1,269.9	1,383.8	2,792.3
1956	161.2	215.1	552.9	676.6	167.3	1,511.2	1,678.5	3,284.2
1957	180.7	226.6	507.6	756.2	171.2	1,517.3	1,688.5	3,359.6
1958	185.7	227.1	598.0	787.7	179.2	1,647.4	1,826.5	3,625.1
1959	140.8	568.0	621.2	1,022.3	240.4	1,860.9	2,101.2	4,453.5
1960	168.0	582.4	670.3	1,017.8	326.2	2,051.9	2,378.2	4,816.6
1961	205.8	695.4	829.3	1,342.8	292.2	2,237.7	2,529.9	5,603.2
1962	188.6	769.1	864.8	1,375.3	352.3	2,450.2	2,802.5	6,000.2
1963	259.0	1,097.8	1,207.0	1,931.2	429.6	2,708.8	3,138.4	7,633.5
1964	327.9	1,116.8	1,328.8	2,483.5	471.8	2,684.9	3,156.7	8,413.8
1965	333.2	1,120.9	1,282.9	2,600.0	535.1	2,971.1	3,506.2	8,843.2
1966	425.1	1,505.0	1,514.5	2,945.6	633.7	3,093.3	3,727.1	10,117.2
1967	481.3	1,779.9	1,751.3	3,530.7	590.2	3,505.3	4,095.4	11,638.7

Sources and Methodology: Services includes Commerce and Construction. For commercial banks data are from BRep. IAGJD, 1968–69, and BRep. Revista, various issues. Data for the Agrarian Bank from DANE. Anuario General de Estadística, various years. Data for the Mortgage Bank (BCH) from BCH. Informe y Balance, various years; the 1958 issue was particularly useful; and complemented with BRep. IAGJD, various years. No data are available for the Central Bank.

Table A.6.7: Allocation of Credit by the Banking System, 1940–67

New Loans: Commercial Banks, Agrarian Bank and BCH (Percentages)						
Year	Coffee	Non-Coffee Agriculture	Livestock	Industry	Services	Total
1940	5.0	9.9	13.8	14.8	56.4	100.0
1941	5.1	8.0	13.4	17.5	56.0	100.0
1942	4.1	6.5	14.5	21.4	53.5	100.0
1943	4.3	6.5	12.9	18.1	58.1	100.0
1944	4.6	6.9	16.5	12.5	59.6	100.0
1945	4.0	7.2	14.0	13.0	61.8	100.0
1946	4.3	7.2	15.1	12.2	61.2	100.0
1947	4.4	8.0	13.9	17.2	56.5	100.0
1948	4.1	7.6	14.6	18.3	55.4	100.0
1949	3.4	6.3	15.7	20.6	54.1	100.0
1950	3.0	6.1	14.6	19.8	56.5	100.0
1951	4.1	8.3	14.6	25.6	47.5	100.0
1952	4.9	7.3	18.3	21.1	48.3	100.0
1953	5.0	7.1	18.7	18.7	50.5	100.0
1954	5.7	7.7	20.1	17.7	48.7	100.0
1955	5.0	7.0	20.0	18.3	49.6	100.0
1956	4.9	6.5	16.8	20.6	51.1	100.0
1957	5.4	6.7	15.1	22.5	50.3	100.0
1958	5.1	6.3	16.5	21.7	50.4	100.0
1959	3.2	12.8	13.9	23.0	47.2	100.0
1960	3.5	12.1	13.9	21.1	49.4	100.0
1961	3.7	12.4	14.8	24.0	45.2	100.0
1962	3.1	12.8	14.4	22.9	46.7	100.0
1963	3.4	14.4	15.8	25.3	41.1	100.0
1964	3.9	13.3	15.8	29.5	37.5	100.0
1965	3.8	12.7	14.5	29.4	39.6	100.0
1966	4.2	14.9	15.0	29.1	36.8	100.0
1967	4.1	15.3	15.0	30.3	35.2	100.0

Sources and Methodology: See Table A.6.6.

Table A.6.8: Allocation of Credit by the Agrarian Bank, 1940–67 (Break-Up of Loans by Economic Activites per Peso)

Year	Coffee	Catte Ranching	Other Livestock	Industry	Pastures	Other Crops	Agricultural Machinery	Housing	Fencing	Rice	Potatoes	Sugar-cane	Sub-Total	Other
1940	0.27	0.46	0	0.06	0	0.05	0	0	0	0.05	0.05	0.03	0.97	0.03
1941	0.29	0.47	0	0.05	0	0.01	0	0	0	0.04	0.03	0.05	0.94	0.06
1942	0.23	0.56	0	0.03	0	0	0	0	0	0.03	0.03	0.04	0.92	0.08
1943	0.29	0.51	0	0.03	0	0.04	0	0	0	0.03	0.03	0.04	0.97	0.03
1944	0.19	0.53	0	0.02	0	0.04	0	0	0	0.02	0.04	0.04	0.88	0.12
1945	0.23	0.3	0	0.01	0.06	0.05	0	0	0	0.03	0.04	0.03	0.75	0.25
1946	0.24	0.28	0.05	0.01	0.06	0	0.02	0.04	0.02	0.03	0.05	0.04	0.84	0.16
1947	0.23	0.12	0.05	0.01	0.06	0.03	0.02	0.06	0.02	0.03	0.05	0.03	0.71	0.29
1948	0.22	0.27	0.04	0.01	0.06	0.04	0.03	0.05	0.03	0.03	0.06	0.03	0.87	0.13
1949	0.17	0.36	0.04	0.01	0.07	0.03	0.03	0.03	0.03	0.02	0.05	0.02	0.86	0.14
1950	0.17	0.35	0.03	0.01	0.07	0.03	0.04	0.03	0.03	0.02	0.05	0.02	0.85	0.15
1951	0.18	0.34	0.03	0.01	0.07	0.02	0.04	0.05	0.03	0.03	0.07	0.02	0.89	0.11
1952	0.17	0.42	0.03	0.01	0.06	0.02	0.02	0.04	0.03	0.02	0.05	0.02	0.89	0.11
1953	0.18	0.39	0.02	0.01	0.06	0.03	0.03	0.04	0.02	0.02	0.04	0.02	0.86	0.14
1954	0.17	0.4	0.02	0.01	0.05	0.03	0.04	0.06	0.02	0.02	0.04	0.02	0.88	0.12
1955	0.16	0.45	0.02	0.01	0.06	0.03	0.04	0.05	0.02	0.02	0.03	0.02	0.91	0.09
1956	0.16	0.38	0.02	0.01	0.07	0.05	0.06	0.11	0.02	0.02	0.03	0.01	0.94	0.06
1957	0.17	0.32	0.02	0.01	0.08	0.04	0.03	0.06	0.02	0.03	0.03	0.02	0.83	0.17
1958	0.12	0.38	0.01	0.01	0.05	0.02	0.01	0.02	0.03	0.02	0.02	0.02	0.71	0.29
1959	0.13	0.32	0.02	0.01	0.07	0.05	0.08	0.03	0.01	0.03	0.04	0.02	0.81	0.19
1960	0.14	0.33	0.02	0.01	0.07	0.06	0.08	0.03	0.02	0.03	0.03	0.02	0.84	0.16
1961	0.09	0.33	0.02	0.01	0.08	0.09	0.07	0.03	0.03	0.05	0.03	0.02	0.85	0.15
1962	0.1	0.36	0	0	0.05	0.05	0.05	0.02	0.02	0.05	0.03	0.02	0.75	0.25
1963	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1964	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1965	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1966	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29
1967	0.1	0.35	0	0	0.04	0.05	0.04	0.01	0.02	0.05	0.03	0.02	0.71	0.29

Sources and Methodology: Data are from DANE. Anuario General de Estadística, various years. Data for 1964–67 were not available; for these years the distributions for 1963 were kept constant. Though the allocation considers short-term new loans only, this type of lending dominated the operations of the bank; therefore, these distributions were applied to the total value of loans made by the Agrarian Bank.

Table A.6.9: Allocation of Credit by the Agrarian Bank, 1940–67

Year	Livestock	Agriculture	Other	Value of Loans $ (Millions)
1940	0.46	0.45	0.09	27.9
1941	0.47	0.42	0.11	29.9
1942	0.56	0.33	0.11	28.0
1943	0.51	0.43	0.06	28.0
1944	0.53	0.33	0.14	43.8
1945	0.36	0.38	0.26	49.3
1946	0.41	0.38	0.21	61.7
1947	0.25	0.39	0.36	87.0
1948	0.4	0.41	0.19	100.4
1949	0.5	0.32	0.18	116.0
1950	0.48	0.33	0.19	142.8
1951	0.47	0.36	0.17	182.7
1952	0.54	0.3	0.16	246.9
1953	0.49	0.32	0.19	261.9
1954	0.49	0.32	0.19	365.2
1955	0.55	0.3	0.15	383.7
1956	0.49	0.33	0.18	390.0
1957	0.44	0.32	0.24	383.3
1958	0.47	0.21	0.32	491.3
1959	0.42	0.35	0.23	613.1
1960	0.44	0.55	0.01	627.0
1961	0.46	0.53	0.01	790.7
1962	0.42	0.49	0.09	939.3
1963	0.52	0.46	0.02	1,301.8
1964	0.52	0.46	0.02	1,365.3
1965	0.52	0.46	0.02	1,367.3
1966	0.52	0.46	0.02	1,710.2
1967	0.52	0.46	0.02	2,062.4

Sources and Methodology: See Table A.6.8.

Table A.6.10: Mortgage Bank: Industrial Credit, 1940–67 ($)

Year	Industrial Credit	All Credit
1940	947,501	7,366,501
1941	1,300,085	6,272,085
1942	124,900	5,337,900
1943	168,975	5,542,975
1944	10,510	7,733,510
1945	775	14,369,775
1946	255	16,458,255
1947	490,675	25,702,675
1948	2,499,900	17,802,900
1949	6,200,048	13,695,048
1950	4,215,096	25,178,096
1951	6,666,025	33,893,025
1952	8,356,432	52,993,432
1953	6,937,876	51,024,876
1954	4,165,451	39,334,451
1955	22,552,233	62,235,233
1956	39,569,715	104,567,715
1957	46,865,485	118,449,485
1958	18,214,995	104,844,995
1959	29,397,000	171,216,000
1960		217,909,000
1961		165,835,000
1962	15,589,000	215,617,000
1963	29,104,000	264,970,000
1964	37,829,000	272,126,000
1965		267,657,000
1966		314,969,000
1967		303,486,000

Source and Methodology: Industrial credit series calculated from BCH. Informe, various years, which have total credit data, and from BRep. IAGJD, and BRep. Revista, various issues, which have data for all credit advanced exclusive of industrial financing. Data were not available for 1960–61 and 1965–67.

Table A.6.11: Allocation of Credit by the Banking System, 1952–67

Outstanding Loans: Commercial Banks, Public Banks and Central Bank (Nominal Pesos, Millions)				
Year	Agrarian	Industry	Services	Total
1952	560.2	228.6	606.0	1,394.9
1953	586.2	239.6	729.0	1,554.8
1954	722.5	270.6	901.0	1,894.1
1955	1,076.5	370.5	1,096.5	2,543.5
1956	959.3	523.4	1,335.2	2,817.9
1957	1,035.9	625.5	1,414.3	3,075.7
1958	1,803.5	639.0	1,574.5	4,017.1
1959	1,995.7	569.4	1,863.6	4,428.6
1960	2,068.6	757.4	2,221.5	5,047.5
1961	2,299.2	960.1	2,582.9	5,842.2
1962	2,653.9	1,044.0	2,983.5	6,681.4
1963	3,363.9	1,500.2	3,455.0	8,319.2
1964	3,510.7	1,867.6	3,601.0	8,979.3
1965	3,946.9	2,011.0	4,259.0	10,216.8
1966	4,682.9	2,361.2	4,683.0	11,727.1
1967	5,673.5	2,704.0	5,697.0	14,074.6

Sources and Methodology: Public banks include the Agrarian Bank, the Popular Bank, all mortgage banks and other entities. Calculations are from the author based on BRep. IAGJD, 1968–69. See Table A.6.12 for Central Bank's calculations.

Table A.6.12: Banco De La República

Outstanding Loans and Discounts to Private Agents, 1940–67 (Nominal Pesos, Thousands)

Year	Coffee	Pledge Bonds (Coffee Exclusive)	Cattle Funds and Other	Development Banks	Total
1940					6,214
1941	10,438		993		11,431
1942	10,485		1,267		11,752
1943					857
1944					45
1945					3,217
1946					347
1947	28,894		448		29,342
1948	26,575		34		26,609
1949	56,000	6,869	57		62,926
1950	87,250	4,663	78		91,991
1951	35,000	34,116	48		69,164
1952	113,700	22,003	883		136,586
1953	70,800	13,590	1,973		86,363
1954	1,500	34,241	4,031		39,772
1955	220,000	34,515	3,706		258,221
1956	2,300	38,798	4,823		45,921
1957	34,000	78,212	6,779		118,991
1958	575,900	176,069	6,908		758,877
1959	531,539	123,968	13,383		668,890
1960	473,584	112,911	16,636		603,131
1961	360,512	40,821	44,879	27,174	473,386
1962	380,633	72,106	51,765	67,386	571,890
1963	319,258	138,385	63,318	128,204	649,165
1964	264,258	0	122,892	205,712	592,862
1965	599,258	0	76,032	247,486	922,776
1966	742,040	0	88,456	273,519	1,104,015
1967	1,067,550	0	120,431	260,630	1,448,611

Sources and Methodology: Most data are from BRep. IAGJD, 1964, Vol. 2, and 1968–69. Break-downs for the early 1940s are very rare, however, the CB's reports note that the majority of the operations consisted of advances made over guaranteed coffee with the Federation of Coffee Growers; see for instance, BRep. IAGJD, 1940–41, p. 15. After 1955 the series for provincial Cattle funds and other corresponds to the former entirely.

Table A.6.13: Outstanding Loans to Output by Economic Activities, 1952–67 (Ratios)

Year	Agrarian	Industry	Services	Total
1952	0.18	0.14	0.13	0.15
1953	0.17	0.14	0.14	0.15
1954	0.17	0.14	0.15	0.15
1955	0.26	0.16	0.17	0.20
1956	0.20	0.21	0.19	0.20
1957	0.17	0.20	0.17	0.18
1958	0.27	0.18	0.16	0.20
1959	0.28	0.14	0.16	0.19
1960	0.27	0.15	0.17	0.20
1961	0.27	0.17	0.17	0.20
1962	0.29	0.16	0.17	0.20
1963	0.30	0.17	0.16	0.20
1964	0.23	0.18	0.14	0.17
1965	0.25	0.17	0.14	0.17
1966	0.25	0.17	0.12	0.16
1967	0.27	0.17	0.13	0.18

Sources and Methodology: See Tables A.6.1, A.6.11 and A.6.12

Table A.6.14: Incremental Capital-Output Ratios by Economic Sectors, 1940–67

Year	Coffee	Livestock	Non-Coffee Agriculture	Industry	Services	Total
1941	0.16	3.99	-1.24	2.17	6.98	8.92
1942	0.32	-3.85	0.98	-13.37	7.62	2.67
1943	1.15	0.43	1.34	0.54	4.46	1.83
1944	0.24	0.34	1.05	0.65	2.48	1.27
1945	0.57	0.34	2.20	1.18	1.77	1.49
1946	0.13	1.14	2.62	1.66	1.90	1.65
1947	0.12	0.17	1.87	1.85	2.61	1.56
1948	0.67	-0.79	1.28	1.94	4.01	2.66
1949	0.24	0.42	0.85	2.09	2.28	1.59
1950	0.11	0.07	0.45	0.56	0.43	0.39
1951	0.21	-0.35	0.40	5.32	1.29	1.37
1952	0.08	0.21	-0.77	4.69	2.64	2.26
1953	0.85	1.07	0.32	3.45	2.33	2.03
1954	0.05	0.64	0.54	2.34	2.22	1.44
1955	-0.09	0.63	-1.56	1.89	6.49	6.42
1956	0.13	2.21	0.32	2.28	3.44	1.93
1957	0.13	0.35	0.20	1.35	1.53	0.97
1958	0.13	0.28	13.31	0.89	1.36	1.07
1959	-0.10	0.34	0.37	0.88	1.55	1.22
1960	0.26	0.61	-2.60	0.83	1.98	1.46
1961	-1.58	2.95	0.44	1.21	1.85	1.49
1962	3.53	1.01	1.00	1.21	1.70	1.46
1963	0.29	0.28	0.30	0.44	1.01	0.70
1964	0.10	0.22	0.24	1.43	1.11	0.80
1965	1.49	0.28	-1.65	1.38	1.16	1.23
1966	0.48	0.32	0.55	1.18	0.92	0.87
1967	0.46	0.79	0.69	2.09	1.52	1.42

Sources and Methodology: Services include commerce and construction. Proxies for marginal capital are gross fixed investments from Table A.6.3. The annual variations in sectoral output were calculated from Table A.6.1.

Table A.6.15: Incremental Capital-Output Ratios by Economic Sectors, 1952–67

Year	Agrarian	Industry	Services	Total
1952	0.70	4.69	2.64	2.26
1953	0.57	3.45	2.33	2.03
1954	0.30	2.34	2.22	1.44
1955	-2.03	1.89	6.49	6.42
1956	0.40	2.28	3.44	1.93
1957	0.22	1.35	1.53	0.97
1958	0.47	0.89	1.36	1.07
1959	0.64	0.88	1.55	1.22
1960	0.82	0.83	1.98	1.46
1961	0.81	1.21	1.85	1.49
1962	1.07	1.21	1.70	1.46
1963	0.29	0.44	1.01	0.70
1964	0.21	1.43	1.11	0.80
1965	1.36	1.38	1.16	1.23
1966	0.47	1.18	0.92	0.87
1967	0.70	2.09	1.52	1.42

Sources and Methodology: See Tables A.6.1, A.6.3 and A.6.14

Table A.6.16: Comparisons of Loan Ratios to ICORs, 1952–67

	Agrarian	Industry	Services	All Activities
ICORs [A]	0.44	1.72	2.05	1.67
Sector to Overall ICORs [B]	0.26	1.03	1.23	1
Loans to Output [C]	0.24	0.17	0.15	0.18
Sectoral to Overall Loans to Output [D]	1.32	0.91	0.85	1.00
D/B	5.05	0.88	0.69	

Sources and Methodology: ICORs = Incremental Capital Output Ratios. ICOR values are the sectoral averages for the period 1952–67. ICOR calculations from the World Bank 'Economic Growth in Colombia: Problems and Prospects' (1970) p. 59 corroborate the author's own calculations. Their total ICOR average for the intervening period is 1.51, compares favourably with the datum 1.67 obtained in this study. The loans to output ratios are averages from Table A.6.13. It uses outstanding loans from all public and private banks in addition to outstanding loans from the Central Bank.