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COLOMBIA, 1970-85. MANAGEMENT AND CONSEQUENCES OF TWO LARGE
EXTERNAL SHOCKS.

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FEDESARROLLO

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This working paper is one of five country papers prepared as part of a study of the appropriate choice of external strategies for intermediate-level developing countries in the difficult trade and investment conditions of the 1980s. An earlier stage of the project analysed the experience of 25 intermediate-level and more advanced developing countries to determine whether the lessons that have been drawn from the most successful appeared to apply to a larger number, and under differing external conditions. The country studies are intended to examine the same questions at a much more detailed level. It is hoped that a final report drawing conclusions from both parts of the study will be published in 1988. The project is directed at ODI by Sheila Page. We are grateful for financial support from the Overseas Development Administration, the Economic and Social Research Council, and the International Development Research Centre of Canada, but they are not responsible for the views expressed here.

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Working Paper No. 21 Malaysia
Working Paper No. 22 Thailand
Working Paper No. 23 Zimbabwe

The fifth study, on Peru, will be published later in 1987.

The author of the Colombian study is a Research Fellow at Fedesarrollo. The final version of this paper was received in May 1987.

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COLOMBIA, 1970-85. MANAGEMENT AND CONSEQUENCES OF TWO LARGE
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'Colombia emerges as a shining example of growth with a pragmatic and successful macroeconomic policy...we could dare to argue that we face a country which was really able to coordinate short run adjustment with a long run economic strategy. Similarly to Brazil, but without inflation' -my translation- (Thorp and Whitehead,) 1986:295)

INTRODUCTION

After more than four decades of sustained growth, averaging 6.5% per annum, Latin America confronted a period of severe adjustment as a reaction to severe shocks in the 1970s and - mainly - in the 1980s. Most of these were external: oil price increases in 1973-74 and 1979-80; a drastic deterioration in the terms of trade after 1980; and a dramatic rise in world interest rates in 1980-82. Their impact was sometimes magnified by domestic economic policy. Other 'shocks' were policy-induced: liberalisation episodes in the 'south-cone' regimes, and borrowing during the 1970s to finance many types of expenditures, not all 'productive'.

The international environment faced by the different countries of Latin America was similar in many aspects, but the magnitude and consequences of the external shocks were different. As regards Colombia, coffee was a special commodity in the 'commodity lottery'; exports of drugs contributed heavily to foreign-exchange earnings; and the country has always been more or less self-sufficient in oil. Colombia's economic policy was also different, very conservative, especially on the external front: the country never committed suicide by borrowing heavily abroad, and followed pragmatic (and, again, conservative) fiscal and monetary policies, always preoccupied with the fear of inflation. Even more important, most Colombian policy makers were always sceptical about the positive contribution of the international mobility of money. Some financial liberalisation occurred in 1974 and 1978, but it was mainly 'domestic'. Financial flows into and out of the country were always well controlled, at least in comparison with the south-cone regimes where such flows were encouraged and promoted.

In this paper we review the effect of the external shocks on the Colombian economy, the macroeconomic policies adopted as a reaction to them, and their ultimate effect on growth .

Comparisons will be made with other Latin American countries and with other coffee producers in order to highlight particular aspects of the Colombian 'case'.

The paper is structured as follows: the macroeconomic identity between savings and investment links the first two sections. The first, on external savings, studies the evolution of Colombian and Latin American terms of trade, and the different sub-accounts of the balance of payments together with forecasts for the rest of the 1980s. The second tries to explain the internal adjustment (in domestic savings and investment) that took place during the 1980s. After dealing with some technicalities of the savings-investment identity, the section considers long-run trends in savings and investment in Colombia, and their monetary consequences. It ends with a comparison with other Latin American countries.

Section 3 briefly reviews the long-run economic objectives of the different governments in Colombia since 1970. Their fulfillment depends on the size of the external shocks, the management of the coffee variables, and how explicit these objectives are. We shall concentrate on two particularly interesting cases: the López (1974-78) and Betancur (1982-86) administrations. Both governments suffered the worst external shocks of the last 50 years, only comparable with the shocks of the 1930s. But there are additional features which increase our interest: in the first case (López), the government presented a very well structured economic programme, which was much more ambitious than the traditional Colombian Plan. Most of the proposed policies and objectives ultimately had to be set aside and sacrificed in order to fight the undesirable effects of the coffee bonanza. The case of the Betancur government is also very interesting, because his proposals for peace in the country had necessarily to be tied to large government expenditure in the guerrilla zones.

But the size of the public sector deficit could be closely associated with the size of the current account deficit, and

international reserves were reduced by half in 1983. An economic plan had to be negotiated with the international financial institutions and foreign bankers, and reduction of the public deficit was a priority.

Section 4 looks at Colombian long-run growth. The recent literature on the 'Dutch Disease' has chosen Colombia as one of its favourite examples, but we show that things are basically more complicated, and that it is not enough to reform relative prices to guarantee future healthy growth. We review the situation of agriculture and industry - the two classic engines of growth.

The final section on lessons tries to draw together the main conclusions of the paper, and give some preliminary ideas on Colombia's future policy and growth.

1. EXTERNAL SHOCKS

In this section we review the evolution of the international terms of trade, with special emphasis on coffee, and the balance of payments. Comparison will be made with other Latin American countries.

1.1 Terms of Trade

Latin American terms of trade in the first part of the 1980s were the lowest recorded in the previous 50 years. Their index value in 1986 (54.5; 1950=100) was merely half the average for the 1950s (101.9) - their highest level. The decline began (Echavarria 1982c; CEPAL, 1986) during the 1960s, and after a small improvement in 1970-74, started to fall again, dropping 20% between 1981 and 1986². The decline was especially marked for non-oil minerals (hitting countries like Chile, Peru and Bolivia), but was also important for agricultural products and for countries like Paraguay (cotton) or the Dominican Republic (sugar).

Colombian terms of trade behaved very differently from those of the 'typical' Latin American country during the 1970s and 1980s. They did not deteriorate but improved in the second part of the 1970s, and improved again (by 13%) between 1981 and 1986. Coffee prices in 1977 were the highest ever recorded, and the level reached in April of that year (US\$ 3.20/lb) represented nearly 5 times the maximum price registered in the previous 'bonanza' (1950-55) (Junguito, 1977, p.218)³ and 7 times the maximum price of the 1960s. They dropped between 1979 and 1984, but their level in 1984 was not historically low. The new coffee 'bonanza' of 1986 was again very untypical. Terms of trade for non-coffee exports were comparatively stable, but the importance of coffee in total Colombian exports was (is) so high, that the terms of trade for the average commodity exported behaved similarly to coffee. The evolution of commodity prices is analysed more carefully in Table 1.1.

The behaviour of coffee prices was not entirely similar to that of other commodities. They did not increase much between 1970 and 1974 unlike other products, (especially oil and sugar)⁴, but presented the largest increase in 1974-79 and one of the largest drops in 1979-84. The coffee 'bonanza' which started in the first quarter of 1986 could also be considered relatively untypical, with price increments double those for sugar and bananas, the only two other products with positive variations.

All this shows, at the same time, that coffee prices were highly unstable after 1970. Only sugar, oil and cocoa were more unstable⁵, and this is specially important for Colombia, as coffee represents more than half of its total exports, something unusual even by Latin American standards. Excluding the exceptional case of Venezuela (oil), only Chile (copper) presents similar levels of concentration⁶.

1.2 Foreign Borrowing

International prices, total exports and oil imports were only marginally influenced by government policies. We could therefore say that some countries did better just because they were luckier. However, in our global picture of the external sector (see below) there is another variable-foreign borrowing - which became more important over time, and which, no doubt, was under government control. The supply of foreign funds was almost 'unlimited' in the 1970s, when petro-dollars were internationally recycled. Each country 'decided' how much it 'wanted'.

The outstanding debt of the developing countries jumped from US\$74.7 billion in 1970 to US\$179.1 billion in 1975 (239, 1970=100), and to US\$397.3 billion in 1979 (531.9). Brazil and Mexico account for nearly 25% of the total, and rapid growth in foreign borrowing was the common factor for most Latin American countries in the period. Again, Colombia

presents a very different case, even more clearly in the 1970s. The behaviour of coffee exports, the fear of inflation⁷, the absence of mature projects to be undertaken by the government, and the fear of state interventionism in the economy, produced this result. The country did not want to 'dance' with foreign bankers. The comparative figures for Colombia are: US\$ 1,249 million in 1970, US\$ 2,348 million in 1975 (187:1970=100), US\$ 3,343 million in 1979 (267). The stock of Colombian debt in 1984 was US\$ 7,541 million (Berry and Thoumi, 1985: Table 6).

We might distinguish five periods in Colombian foreign borrowing: i) 1970-72, of fast growth; ii) 1972-78, when the stock of total debt decreased more than 20% in real terms, private borrowing being tightly controlled; iii) 1979-82 with debt increasing at similar rates to the rest of Latin America and private borrowing increasing even faster⁸; iv) 1982-85 in which Colombia was one of the few countries in Latin America able to obtain fresh loans. Fresh disbursements were made to both the private and public sectors, but the public sector behaved more dynamically after 1984/85. The relation between the stock of debt and exports in 1985 was the highest recorded in our period of analysis (Table A-3), and the situation is even worse if we consider the ratio of interest payments to exports. In 1986 Colombia did not need new loans, and it is still not clear if the money from the 'Jumbo' credit will be used at all⁹.

As to interest rates on the loans, maturities and grace periods, Table A-3 shows that nominal interest rates jumped after 1978/80 to double those of the previous years (13% from 7%); they decreased again after 1982, but the opposite happened in real terms. The maturity of the loans decreased between 1970 (21 years) and 1978 (14 years) to remain fairly constant thereafter. Finally, the grace period has been stable.

Compared to other Latin American countries, the ratio of debt to GNP or exports was lowest for Colombia in 1979 (except for

Venezuela), and in 1986 (except for Paraguay)¹⁰. There were some intermediate years like 1983, however, in which the ratios were not favourable, mainly as a result of the evolution of exports in the other countries (see below and Table A-1).

1.3 Balance of Payments

i) 1970-86.

Colombia's international reserves suffered tremendous oscillations during the period under consideration (See Table 1.2; Graphs 1.2 and 1.3)¹¹. From low (and unstable) levels in 1970-74 (US\$441 million, equivalent to 3 months of imports in 1974), they jumped to US\$5,056 million (14 months) in 1980. They began to decrease slowly in 1982, with substantial reductions in the following years, mainly in 1983 - reduced by half - with positive increments only in 1986. Special emphasis will be placed on the period 1975-85 in what follows.

The real deficits and surpluses in the trade and capital accounts during the first half of the 1980s were much larger than in any year of the 1970s, and tended to compensate each other throughout the period considered¹². The compensation was far from complete, and the differences between them - the international reserves - fluctuated markedly. As to the components of the capital account, short-term borrowing has always been a minor portion (Graph 1.3), and the increase in capital borrowing for 1979-84 was due to increases in long-term borrowing. Direct investment in 1981 and 1982 was higher than in any year of the 1970s, but still represented less than 25% of long-term borrowing¹³.

On the current account, interest and amortisation payments (most of the difference between the trade and current balances) were high both between 1970 and 1973 and after 1982. The significant deterioration of the current account

from 1980 to 1984 was due both to the fall in real exports (up to 1983), and to increases in imports (up to 1982)¹⁴.

Starting with exports, coffee, drugs, and 'non-traditional' exports were of roughly similar importance¹⁵. However, the evolution of total registered exports was determined mainly by coffee; drug exports are not registered as exports, and 'non-traditional' exports did not show large oscillations.

Looked at more carefully, however, it is clear that 1975 marks the end of a period which started in the middle of the 1960s, in which Colombian growth was based more than ever on non-traditional exports. They represented 60% of total exports in 1974, and decreased year by year to regain historical levels¹⁶. The relevant aspect to be considered, however, is that the crisis in minor exports did not start in the 1980s.

The figures in Table 1.3 do not permit a comparison of the evolution of exports in different periods since they are given in nominal US\$. However, they allow us to make valid comparisons among different Latin American countries. We are mainly interested in the evolution of manufactured exports, and may safely assume that price variations were similar for the different countries. Colombian manufactured exports increased much more than those of any other country between 1970 and 1974¹⁷, but decreased in real terms after 1974, and even in nominal terms after 1980. This means that the country lost its relative position in Latin America between 1974 and 1980, with other countries like Venezuela, Brazil and Peru doing well. We have only two other countries to compare with after 1980: Argentina did worse than Colombia, Brazil did better¹⁸.

Three important points relate to imports. First, Colombia did not import oil heavily, being a net oil exporter in 1973, 1975, and 1984. Net oil imports in the intermediate years never represented more than 13% of total exports, and the net balance was almost in equilibrium for the whole period.

Second, real imports were not reduced drastically during the 1980s. They decreased after 1982, but the level in 1984 was comparable to that in 1979-80. Even more important, capital goods imports were more dynamic than consumer or intermediate goods¹⁰. Investment was not restricted by foreign-exchange constraints and, in general, the country did not have to 'adjust' like other Latin American nations. Finally, Colombia shows the typical developing country import structure, with capital goods imports being more than 40% of the total and manufactured imports 65%²⁰. Most probably, domestic and international production are complementary (Ocampo, 1986).

In relation to other Latin American countries, the two most distinctive characteristics of the Colombian foreign sector are, first, the low weight of oil imports; countries like Brazil committed 30% of total exports to the payment of oil imports. Second, as noted earlier the country did not 'adjust' as the other Latin American countries did, at least not until 1984. Broadly speaking, at the beginning of the international crisis Colombian international reserves were much higher than those of the average Latin American country (both in terms of GDP and imports), but this was no longer true in 1984 when the country was in a comparatively weak position²¹.

What happened in 1985 and 1986 is still in dispute. Some tough, very 'orthodox', and ex-post rather unnecessary, policies were followed in 1985, and no doubt similar policies would have been applied in 1986. In that sense, Colombia would have had the typical Latin American adjustment with a delay of three years. But sudden and previously unforeseen changes in some important economic variables made things easier. The new coffee 'bonanza' of 1986, and the external impact of the tough policies adopted in 1984/85 brought foreign exchange to the country; this, and the good long-run prospects in the coal sector convinced international bankers, the IMF and the World Bank to treat Colombia as a special case (see below). New loans came into the country making the external situation even better. It seems, ex-post, that the

Colombian adjustment process lasted only one year, and was remarkably mild.

ii) 1986-90.

We have already given some hints as to the problems with any prediction of the future of the Colombian balance of payments. The economy depends too heavily on a single commodity which, at the same time, is very unstable. Nobody was able to forecast the coffee bonanza of 1975-79, or the new boom of 1986. It was not even accepted, at the time of the bonanza of 1975-79, that it would not last forever; some economists began to consider 'structural' world developments (wars in Africa and Central America) which could keep coffee prices high. Compounding the problems of prediction, the Colombian foreign sector will depend increasingly on oil and coal exports, two other very unstable commodities.

However, the importance of adequate projections is obvious in our paper, and we should make our best estimates. It is relatively clear that the Colombian economy will not 'suffer' from another coffee bonanza as large as that of 1975-79. The new boom of 1986 was very mild - in relative terms - and we shall see in Section 3.2 (on coffee policy) that the coffee bonanza of 1975-79 was much larger than any previous 'bonanza' Junguito et al. (1977) provide support for our statement, and they conclude that very large booms occur every 25 years.

According to World Bank predictions, real coffee prices in 1990 will be similar to those in 1983 - a bad year - being relatively constant in the second half of the 1980s (Thomas, 1985; 34). In addition, oil prices will reach US\$18/barrel and will remain constant until the end of the decade. Based on these assumptions, Table 1.4 presents some guesses about the future of the Colombian balance of payments. The figures shown represent the averages of two recent estimates made separately by FEDESARROLLO and the National Planning Committee (DNP)²².

At the most aggregated level the Colombian economy will present large and increasing current account deficits for the rest of the decade, particularly after 1988, as the trade surpluses will not be enough to pay for services and transfers (except in 1986). This item - services and transfers - in 1988 and 1989 will be similar in size to total coffee exports. However, it must also be said that the relative - to exports or GNP - size of the deficit is not comparable in the future with the worst years of 1982 and 1983. Even better results will be shown in relation to the debt burden. The ratio of debt to exports has been falling since its peak in 1985, and this trend will continue during the rest of the decade (Ocampo, 1986: Graph 1.2).

On the export side it is relevant to note the important diversification of the economy from coffee to two other commodities, oil and coal; their actual combined participation is 15%, and will jump to 36% in 1990. This means both good and bad news. Just because a larger - compared with coffee - percentage of these exports will go directly to the state; and second, it is likely that the combined price of the three commodities will fluctuate less than the price of only one of them - coffee. Bad because, the price of coal is tied to the price of oil, and also, because, both activities are very capital-intensive and create few jobs.

2. INTERNAL ADJUSTMENT. SAVINGS AND INVESTMENT

New international loans disappeared after the Mexican crisis of August 1982²³. Roll-overs were automatically excluded for most countries, and total interest payments were higher than ever before: 41% of exports for Latin America as a whole, and nearly 50% for Argentina, Mexico, Brazil and Chile²⁴. A great effort was made on the external front by most Latin American countries to adjust their economies. Debt continued to be serviced, entailing a burden double that which Germany considered intolerable at the end of the First World War (Fishlow, 1985: 159).

To pay the debt, exports were increased and imports decreased, which meant that lower external savings were available for domestic investment. If a constant level of investment was to be sustained domestic savings had to increase; alternatively, the level of investment had to be reduced and both alternatives were costly in terms of present and future consumption. In this Section we analyse the behaviour of savings and investment in Colombia in the period 1970-85. As before, we end with a comparison with other Latin American countries.

2.1 Savings and Investment. Analysis of Identities.

Total savings - external and internal - are identically equal to total investment. Formally:

$$i = S_f + S_i$$

where:

i = Investment

S_f = Foreign Savings

S_i = Internal Savings (private and public)

Foreign savings are the difference between Colombian imports and exports. We could include factor payments abroad (R) with the subsequent modification in the definition of the other variables.

Formally, we could define $S_f = M - X$ - trade account of the balance of payments - in which case $S_i = GDP - C - G^{25}$; alternatively, if $S_f = M + R - X$ - current account, $S_i = GNP - C - G$, with $GDP + R = GNP$, being GNP larger than GDP in our countries ($R > 0$). In what follows we shall define S_d (domestic) as the first alternative of internal savings; and S_n (national) as the second (See BID, 1985 Chap. 2).

In turn, S_i could also be divided into private and public internal savings, in which case:

$$i = S_f + S_g + S_p$$

Where:

S_f = External Savings, with $S_f = M - X$ (first alternative)

S_g = Public Savings, with $S_g = T - G$

S_p = Private Savings

G, T: Current government expenditure and Taxes

These are just accounting identities and, as such, they say nothing about causality. It could be said that higher investment produces higher savings; or that the economy first needs higher savings in order to finance additional investment. However, the second alternative is valid only when the economy is at full employment²⁶, not a very plausible assumption for Latin American today. It seems more relevant to assume that investment generates savings through variations in production and through forced savings²⁷.

2.2 Colombia 1970-85

i) Savings and investment after 1970

In this section we review savings and investment behaviour in Colombia since 1970 in order to see which developments of the

1980s could really be considered a reaction to the international crisis. It will also be useful as an introduction to the next two sections on Economic Policy and Growth. The main conclusions are derived from the figures of Table 2.1 (see also Graph 2.1)²⁹.

The levels of savings and investment are very low in Colombia compared with other countries²⁹, but also very stable³⁰. However, the aggregates hide the crucial fact that private and public sector behave very differently: the public sector saves much less than it invests, and the opposite is true of the private sector. The difference is even more conspicuous today, as private investment has been falling (and public investment rising) over time. To give an idea of the levels, public savings were almost nil in 1983, and public and private investment were similar.

The figures just mentioned have been utilised to characterise the Colombian economy as one in which government expansion has produced 'crowding out' and the private sector does not have enough resources to invest. This could be the case, but more research needs to be done on the subject before we arrive at definite conclusions.

Public sector investment can cause crowding out if it utilises scarce physical and financial resources that would otherwise be available to the private sector, or if it produces marketable output that competes with private output. Also, the financing of public sector investment - taxes, debt or inflation - will lower the resources available to the private sector. But in order to prove the existence of crowding out it has to be shown, also, that the private sector will invest more if additional resources are available.

According to the previous discussion, there are some characteristics of the Colombian economy which could indicate that crowding out is not important: most public investment in Colombia is related to infrastructure and 'public' goods; the

economy is never working at full capacity; and the private sector does not seem to react very dynamically to the availability of additional resources or to lower interest rates. In addition, firms have not considered credit availability to be binding, at least since 1979³¹. Finally, at a more theoretical level, in an open economy with 'flexible' exchange rates like Colombia, government expansion also crowds out the external sector - lowers international reserves - and not just private investment.

Before leaving the topic we should also note that a large proportion of the public investment considered corresponded to a package, mainly related to electric power, industry and mining, which was carefully prepared for the Consulting Group meeting in Paris in October 1983. It seems today that expansion projects in the electricity sector were more than the country really needed, but this only means that some projects concerning what the country will need in the future were undertaken in advance.

Until we get more complete studies, then, we could say, that the public sector has played an important stabilisation role, complementing private investment. It is also clear that it has played a compensatory role in relation to external savings, making total savings much more stable. Public savings increased in those periods when external savings were decreasing (1974-77); stayed at high levels when external savings were low (1975-80); and decreased again in the final period analysed, compensating for the important increase in external savings³².

ii). Monetary effects of savings and investment

Fluctuations in high powered money can be closely associated with the evolution of internal and external savings and investment. Formally, from the balance sheets of the Central Bank, the public sector, and the foreign sector:

$$dH = [(G-T) - Cpg] + [CA + Cfp] + [Ccp] \quad (4)$$

(1) (2) (3)

where:

dH = Changes(absolute) in High Power Money (Monetary Base).

Ccp = Credit from the Central Bank to the private sector

Cfp = Credit from 'foreigners' to the private sector

Cpg = Credit from the private sector to the government

G: Government expenditures (total, includes public investment) and transfers

T: Taxes

CA: Current account of the balance of payments³³

Equation (4) simply says that absolute variations in High Powered Money can be due to: a. fiscal deficits not financed by the private sector³⁴; b) changes in foreign reserves; c) credit from the Central Bank to the private sector. We shall call the first two components the adjusted fiscal deficit and the adjusted balance of payments.

Equation (4) shows the close association between the external sector, the public sector, and the monetary variables, and why the control over money supply (H) is so weak in Latin American countries: the deficit moves with the cycle - as in the industrial countries - and Cpg is almost nil (with underdeveloped capital markets monetary policies are not independent of fiscal policies)³⁵; finally, the external sector is very volatile because of the importance of commodities.

In this section we review the evolution of the monetary base - and its sources - in Colombia since 1975. The control of this variable was the main objective of most governments of the period, but mainly of the López Administration. Such a review will assist us in understanding the country's economic policy which is the topic of Section 3. The main figures are

shown in Table 2.2 (see also Graph 2.2) according to equation 4 above.

The average change in the monetary base between 1971 and 1974 was C\$3.5 billion/year, less than one-tenth of the current account surplus in 1977 and 1978³⁶. In other words, the monetisation of the current account surplus would have increased the monetary base by ten times the average for the previous period. And inflation rates during the Pastrana government were considered unacceptable by López (see Section 3, part 3.1).

The public sector contributed more than any other factor to 'sterilising' the increases in the monetary base during 1975-78, mainly in 1976 and 1978: foreign sector taxes increased 'automatically', more than compensating for the reduction in unitary coffee taxes during the period, but the effect of the tax reform of 1974 was also important³⁷. On the expenditure side, cautious expenditure policies allowed the budget to play a countercyclical role. Colombia presents an important contrast to other coffee countries in the period³⁸, indicating once more that domestic policies were important in deciding the final outcome. The contractionary impact of the fiscal deficit of 1976 (-129%) was comparable to the expansionary effect of the current account surplus (+181%); in 1978 the government surplus 'sterilised' 40% of the increase in the monetary base. This is remarkable when we consider that in most years of the 1970s and 1980s the government was running a deficit.

Private sector loans to the government (Cpg) were never important and carried the 'wrong' sign during the bonanza. Instead of getting money from the private sector to contract the money supply further, the government 'gave money' to the private sector - net repayments of credits obtained in the past. In 1976, for example, the fiscal deficit contracted the monetary base by 129%, but the adjusted fiscal deficit only by 123%.

The pressures from the external sector were very unstable, with positive peak years in 1976 (+181%) and 1978 (+ 298%), Foreign credit to the private sector (Cfp) played a contractionary role throughout the bonanza, and this contrasted markedly with the behaviour of the same variable for the Turbay Administration when controls were very much relaxed. It was not important in 1983, but its evolution helped to ease the situation in 1984.

Central Bank credit to the private sector (Ccp) was expansionary during the coffee bonanza and, in this sense, it shows the same pattern as during the Pastrana Administration. Behaviour changed only with President Turbay, when monetary policy played a restrictive role; it was again expansionary under Betancur, at least until 1984.

All the effects described above, when combined, produced the changes in the monetary base indicated in Table 2.2. The policies and circumstances described determined the desired results on the monetary front. Given the size of the external shocks, it is remarkable that during the coffee bonanza the monetary base increased by only 37% in comparison with more than 20% under Pastrana.

2.3 The Real Adjustment of 1980-84 in Latin America

Usually in the past Latin American countries utilised foreign resources - foreign savings - to invest domestically. Imports of goods and services were higher than exports, and the difference was financed by long-term foreign loans. But the situation became much more difficult when new foreign loans vanished after 1982. Exports(imports) had to increase (decrease), in order to service the debt. Internal savings ought to have been higher if the level of investment was to be sustained, but the opposite happened. Economic recession produced still lower levels of internal savings than in the past, and a great deal of the adjustment came through huge reductions in investment. The more relevant figures related

to the adjustment process between 1980 and 1984 are summarised in Table 2.3, for 7 Latin American nations.

On the external front, as we saw in Section 1, Latin American external savings became negative in 1983 and 1984, after being positive most of the time in the past; this was mainly due to very high interest payments abroad (2.2% of GNP in 1980; 6.6% in 1984), but also to the important 'adjustment' in the foreign sector after 1982. Exports were increased and imports reduced.

Colombia was one of the few countries which year after year could import more than it exported; also, interest payments abroad were very low in relative terms³⁹. The first characteristic meant higher foreign savings, but the second produced the opposite effect. The net result was that external foreign savings were not larger in Colombia than in the 'typical' oil-importing country, but much larger than in the oil-exporting countries⁴⁰.

On the domestic front, Latin American domestic investment fell because both external and national savings declined. The fall in Colombia's national savings was not as dramatic as in the other nations⁴¹.

Colombia was the only country among the seven studied where total investment did not fall between 1980 and 1984, mainly because of the compensatory role of public investment⁴². A similar role did not take place in the other countries analysed, at least not to the extent required to compensate for the drastic deterioration in private investment in all the countries of the sample - mainly in Argentina and Venezuela.

Even more impressive, the size of Colombia's public deficit was not large, at least when compared with the oil-importing countries. It represented 2.0% of GNP in the worst years (1983 and 1984), as compared with 4.5% and 3.9% in the oil-importing countries⁴³. Altogether, it seems that the

government played a very important role in the economy: deficits were not as explosive as many people thought, and government total expenditures included a large proportion of investment. Unfortunately, we do not have comparable figures for 1985 and 1986 when, it seems, public investment decreased markedly, and the public sector did not continue to show the healthy characteristics just described (Coyuntura Economica, October, 1986).

3. ECONOMIC POLICY

Some authors like Ocampo correctly stress that Colombian policy makers do not follow long-term policies, being distinguished simply by their prudent (and conservative) management of the economy (Thorp and Whitehead, 1986). This is one of the reasons why Colombian policies during the 1970s and 1980s appear so 'wise' today, and in a very unstable international scenario prudent policies usually pay.

In this section we want to explore a complementary thesis. However, long-term objectives were sometimes present, as revealed in the four-year Economic Plans, but the severe instability of the foreign sector forced governments to sacrifice them in order to achieve short-term targets. This was even more clear when the shocks were large, in the López and Betancur Administrations. Under López the economy was 'blessed' with large amounts of foreign exchange, which disappeared under Betancur especially after 1983. In the first period all economic instruments were aimed at the single objective of controlling 'imported' inflation. Under Betancur all available instruments were devoted to controlling the bank crisis (first), and the fall in international reserves (thereafter).

3.1 Long-Term Economic Policy⁴⁴

Since 1972 there have been four presidents in power and we shall review the economic situation and objectives for each of them. During the government of Misael Pastrana (1970-74) inflation escalated to 25% or more, and the availability of foreign exchange and the fiscal deficits became not only sufficient but indeed so high that they were complicating factors in the control of inflation. At least up to 1974 the government assigned high priority to economic growth and much less to stabilisation. Long-term policy focused on urban building as the main source of growth and employment creation⁴⁵, and in order to obtain the resources needed to

finance such activity important financial innovations were introduced. The UPAC ('constant purchasing power financial paper') was created, and it was the pioneer of papers with positive interest rates⁴⁶; these changes became effective only in 1972. Minor exports were also important.

President Lopez inherited a booming economy with high international reserves and inflation rates which were notable by Colombian historical standards. The main goals were the control of inflation, and improvement in the highly unequal distribution of income, for which Integrated Rural Development Plans and Food Nutrition Programmes (supported by the World Bank) were adopted. An important tax reform was proposed and undertaken. The government tried hard to liberalise the domestic capital market, and most financial assets were 'freed', now for philosophical reasons⁴⁷. López harshly criticised the former Administration for what he considered incompetent management of the economy, mainly in the area of prices and inflation. According to his diagnosis, price increases hit hardest the middle and poor groups of the population and ought to be stopped immediately. Nobody at that time could imagine that after 1975 the Colombian economy would 'benefit' from the mixed blessings of the largest coffee exports ever recorded which, in turn, caused the highest inflation rates suffered by any Colombian government this century⁴⁸.

The Turbay Government (1978-82) presented the National Integration Plan whose main emphasis was on public infrastructure: better roads between the three main cities - Bogotá, Medellín and Cali⁴⁹. Their construction was started at the end of 1979. The Plan also aimed to increase the degree of regional autonomy and political decentralisation, in order to develop the energy and mining sectors, and to reduce inefficiencies in government expenditures. At least during the first two years additional foreign reserves were not highly regarded, and the memories of the bonanza remained. However, over time, many people in the government

began to argue in favour of growth and government expenditure, even at the cost of higher inflation.

Before moving to the last Administration in our period, and as a summary of what we have just written in this section we should note that some people considered that the Turbay Plan nicely rounded off the set of priorities presented by the different governments. The sum of different unbalanced Plans could, after all, amount to a long-term balanced growth strategy. Maybe this goes too far but, if the thesis were correct, we might even argue that the separate sub-plans could achieve, and even more effectively, the same goals as a long-term plan by concentrating attention on a limited number of goals at any one time and on the needs which seemed most promising then. A creative disequilibrium, the outcome of Hirschman-type bottlenecks, if not a strategy?.

In his four-year Plan 'Cambio con Equidad' (Change and Social Justice) President Betancur (1982-86) emphasised the construction of urban housing. Distributive issues were now more important than under Pastrana - the only other conservative president in the period - and housing for low-income people was especially supported³⁰. Export public sector construction had to increase even more than originally planned, in order to compensate for the lack of dynamism of the private sector, with important consequences for the size of the fiscal deficit. But government expenditures were also important for the 'Peace Strategy' adopted by the government, as any economic strategy simultaneous with successful peace efforts had to contemplate massive expenditures in guerrilla zones. The rapid decline in international reserves of 1982 and 1983 was always a threat to such purposes, under the argument (still heatedly debated) that higher fiscal deficits ('printing more money') will reduce international reserves.

The initial actions of the administration concentrated on the 'rescue' of the financial sector of the economy, and an 'economic emergency' was decreed in October 1982. The government and the Central Bank behaved as 'lenders of last

resort', and many banks and financial institutions - including the largest financial conglomerate in the country, the Grupo Gran Colombiano - were nationalised or subjected to government intervention. Schemes to refinance private foreign debts and large 'non-recoverable' domestic loans were also implemented (Ocampo and Lora, 1986: 20-21).

3.2 Coffee Policy

Large oscillations in coffee production and exports inevitably produce serious inconvenient effects in the economy. The few macroeconomic instruments available - traditionally considered relatively weak and ineffective in less developed countries - will be fully utilised to fight the short-run undesirable effects. But that is not all. Relative prices (mainly tradeables vs non-tradeables) will also move producing long-run effects on the economy which should not be allowed to operate under optimal policies: if the rise (fall) in coffee prices is transitory - and everybody agrees that is - first-best policies should aim at avoiding large fluctuations in relative prices. In what follows we shall be referring mainly to the period 1975-79, but we shall also highlight the evolution of coffee policies after 1979.

Relative prices were far from constant, and followed - with some lags - the oscillations in international prices. The huge increase in the international coffee price after 1975, produced by the severe Brazilian frost of July, 1975¹¹, combined with inappropriate management, produced a transformation in the Colombian economy which could only be compared to that at the beginning of the century. Coffee production had been stable in the 1950s and 1960s (7,000-8,000 bags a year) but increased to 12,300 bags in 1978 and 13,037 bags in 1980.

The transformation originated mainly from improvements in productivity - there was no net increase in total land under cultivation during the period - with the adoption of a highly

commercially available in Colombia around 1975³². The country changed profoundly between 1975 and 1979, but there were no changes in production after 1980. The evolution of coffee exports could be divided accordingly into two periods. The first (1975-79) with dramatic increases in international prices, production and real exports (volume); and the second (1979-85) when coffee exports moved with international prices - production and real exports remaining relatively constant.

The volume of coffee exports almost doubled between 1969 and 1978, and production increased even more dramatically with a very large accumulation of stocks. In 1983 Colombia exported 10,000 bags, produced 13,500 bags, and had 12,000 bags in stock; the figures for 1986 were 10,000, 11,000, and 8,800 bags (see Table 3.1). The Colombian share in world coffee exports doubled between 1976 (10.1%) and 1979 (19.1%), with a fairly constant participation (14% approx.) in the 1980s. The shares of GDP, agricultural GDP and agricultural exports reached their highest values in 1977 for the first two variables (9.6% and 32.5%) and in 1978 for the third (85.4%).

Coming back to the issue of economic policy, there are three alternatives to neutralise the influence of large inflows of foreign exchange into the economy: a) keep foreign resources outside the country in the hands of private exporters; b) tax these resources away from the private sector, and keep them outside the economy; they could be transferred to the government (b1) or to the National Federation of Coffee Growers (FNC) (b2); c) if foreign exchange is already monetised, measures to 'sterilise' should be adopted: c1) open market operations; c2) other 'unorthodox' compensatory policies: fiscal surpluses; increases in 'import deposits', etc.

Alternative a) - keep foreign exchange outside the country - was never seriously considered by the government as it would have completely eroded Colombia's long (since the 1930s) and successful tradition of exchange control. Once dismantled, it would have been almost impossible to reintroduce after the

bonanza. Even more important, potential benefits could have vanished through the capital account as additional financial resources could have come into the country; 1975-79 was a period of high domestic profitability - international interest rates were not especially high, and the nominal devaluation of the exchange rate was low (Echavarria, 1982).

Alternative b1) - tax the additional resources and keep them in government hands - was not easy to implement both on equity grounds and on political considerations. As to the first reason - equity - coffee producers correspond to a very homogeneous group of low- and middle-income farmers, and more than 300,000 families depend on coffee earnings; why should they pay higher taxes than other wealthier groups in the country⁵³?. On the political side, the FNC - unlike the African coffee producers or Brazil - is a private sector agency representing the interests of the coffee growers and exporters⁵⁴, and it is considered the most powerful pressure group in the country (Urrutia, 1982). This does not mean, of course, that it is impossible to tax resources away from the coffee sector⁵⁵. In the case of President López it was explicitly stated and decided that the coffee bonanza belonged to coffee growers and exporters. Equity does not always coincide with proper macroeconomic management.

It is completely rational to impose export taxes and quotas in large coffee-growing countries like Colombia, because private entrepreneurs simply will not do what is socially convenient; an export tax will allow the country to exert the monopoly power available, and to follow an optimal pricing policy. On the other hand, in times of large accumulation of stocks, higher production simply means higher unsold stocks⁵⁶, and the only social benefit could be the potentially higher export quotas in future intentional negotiations - stocks are one of the additional variables considered. The argument does not say that the state should keep the taxes, which could also be returned to the FNC (alternative b2). However, for stabilisation purposes alternatives b1 and b2 are entirely different as most

resources given to the FNC go back to the economy to improve the economic conditions of coffee areas (investment in infrastructure, research and development in coffee, etc).

How was coffee policy implemented during the bonanza, and in the years following 1979? There are four important aspects of coffee policy which finally determine how much of the international coffee price goes into the economy, and the distribution of the benefits (among the government, the FNC, the coffee growers and the coffee exporters):

i) Effective international price. In fixing the variables which determine the effective international price, the government will determine the amount of Colombian pesos given to the private exporter and which enter the economy³⁷.

ii) Domestic price paid to the grower³⁸. If the difference between i) and ii) is small, private exporters will simply not export, and the FNC will have to sell abroad all the coffee available. It seems easier to control foreign exchange in the hands of the FNC, as the government has a lot to say inside the institution.

iii) The government can transfer additional resources to the FNC, taking them away from growers and exporters, through the Retention Quotas and the Pasilla and Ripio Tax, which are not real taxes in the traditional sense; the only real tax on the coffee sector is the Ad-Valorem tax³⁹. Additional FNC exports do not necessarily mean that the FNC will obtain additional resources. On the contrary, the absence of private exporters could simply mean that it is not worthwhile to export, and the institution could be losing money; no study has yet proved that the FNC is more efficient in doing business abroad. Of course, most of these variables are interrelated. The Retention Quota Tax, for example, has been used mainly to manipulate domestic prices and to shield domestic producers from the full effects of the change in international prices.

Table 3.1 presents the evolution of some of the variables we have just been discussing. The effective external price, depends on: i) the ad-valorem tax: it was not used properly during the bonanza period. Instead of raising it to 'sterilise' resources, the tax was lowered over time, and especially in 1977 and 1978⁶⁰. In 1982 and the subsequent years the government desperately needed money but the ad-valorem tax was lowered even further; in 1982 it was at its lowest level ever. ii) The reintegro price. Its evolution did not help in isolating the coffee sector from the rest of the economy, as it has historically followed the international price with some lags. iii) The period of maturity of the Exchange Certificates. It was 120 days during the bonanza period, and at first sight all it did was to delay by 120 days the monetisation of coffee exports - certainly not very important. However, as a consequence of the delay, the amount of pesos (per dollar) given to the private exporter was reduced. This second effect was more important.

The domestic price received by the grower - Column 13 - shows the correct trend, but the magnitude of the changes was not as significant as desired. It has been calculated that three-fifths of the variations in the international price are absorbed by the domestic price, and the period of the coffee bonanza was no exception. The undesired result is even more clear if one compares the figures in the table with the alternative of keeping real coffee prices constant⁶¹. For most of the period the domestic prices paid to the private producer represented between 50% and 55% of the international price (45-50% during the bonanza).

Having decided that the coffee grower was going to reap most of the benefits of the bonanza (historically considered), and that private exporters were going to play an important and active role, there was not much to be done. Something close to the international price had to be paid to the private exporters.

Column 5 shows the enormous variations in the participation of private exporters. They exported 60% to 80% of total exports in 1975-78, with much lower percentages in the years following the bonanza. In the extreme year of 1980 their activity was banned by the government. Their participation in the 1980s was still high, but much lower than in 1975-78.

On the distribution side, (Columns 17 and 18) the FNC obtained a large share of the bonanza revenues through important increases in the Retention Quota tax - the Pasilla and Ripio tax was almost nil. Total 'taxes' - Column 19 - increased during the bonanza, mainly because of the evolution of the Retention Quota.

3.3 Reactions to the External Shocks

1) Economic Policy 1975-80. Fighting inflation

Between 1952 and 1980 the Colombian economy behaved as a standard semi-open economy, with an increase of 10% in high powered money inducing a 5% rise in the rate of inflation and some reduction in the level of foreign reserves⁶². Regression analysis is not powerful enough to prove causality, and some authors argue that the relation between these variables is the opposite, higher prices inducing a larger amount of money. In a recent study, however, using more sophisticated statistical techniques, Leiderman (1984) 'proves' that in 1953-78 there was no important monetary 'accommodation' in response to inflation and output growth. In Colombia (unlike México) money played an active role in causing price increases⁶³. For our purposes all we need to say is that money matters in the medium and long term, and even more when the economy is suddenly hit by unexpected increases in foreign reserves. How was inflation fought in the period of the coffee bonanza?

The impact of the foreign sector was certainly important. As we said in Section 2.2, the average change in the monetary base between 1971 and 1974 was Col\$3.5 billion/year, less

than one-tenth of the current account surplus in 1977 and 1978. In other words, the monetisation of the current account surplus would have increased the monetary base by ten times the average for the previous period. And inflation rates under the Pastrana government were considered unacceptable by López⁶⁴.

As to the sources of the monetary base and its control, we also noted that: the public sector contributed more than any other factor to 'sterilise' the increases in the monetary base in 1975-78, mainly in 1976 and 1978; credit from the private sector to the government was never important in relative terms - and it had the wrong sign during the bonanza. The government made an important effort to control foreign borrowing by the private sector (Cfp) and its impact. Finally, Central Bank credit to the private sector was expansionary during the coffee bonanza.

All the effects described, when combined, produced the changes in the monetary base. Given the size of the external shock, it is remarkable that the monetary base increased only 37% in 1975-78, in comparison with more than 20% for the Pastrana Administration. The difference is even lower if we compare the changes in money supply (M2, Table 3.2, Row 5): 25% for 1971-74; 29% for 1975-78, indicating important reductions in the money multiplier, thanks to a very complex scheme designed to avoid secondary money expansion⁶⁵.

We now want to analyse other variables and policies related to the control of inflation during the bonanza. A first question we must ask is, how much money was kept outside the economy, or sterilised directly. The Colombian monetary accounts (which bring together the 'non-monetary liabilities' which contain main items: money kept outside the country by the FNC, 'import deposits', and the result of some incipient open market operations - exchange certificates, etc), indicate that in the whole period 1975-79 C\$36 billion were kept outside the economy, 32% of total exports and 25% of M2. These figures might look impressive at first, but not

when compared with similar relations for 1971-74 and 1980-84. Their importance is comparable in the three periods, whereas it should have been much higher during the bonanza, the only time when foreign exchange should have been kept outside the economy. Coffee exporters and the FNC brought back their resources during the bonanza⁶⁶.

Inflation rates were extremely high in 1977 and 1979-81⁶⁷, but much lower than changes in money supply; only in 6 out of the 14 years studied were both figures comparable. Other variables related to the cost-supply side were important: wages, the exchange rate, and interest rates somehow contributed to reduce the impact of monetary growth on prices during the coffee bonanza (Table 3.2)

The increase in real wages between 1975 and 1980 was comparable with the historical increase in labour productivity (3%) and did not compensate, for the drastic real deterioration of the previous period. The nominal devaluations in the exchange rate in 1977 and 1978 (6%) were the lowest recorded in the whole period analysed, despite the fact that internal inflation was high; subsidies were substantially reduced in 1974, and the combined effect of both was a serious revaluation of the real effective exchange rate: -13% in 1977 (Row 15). Finally, the evolution of nominal interest rates also contributed to the control of inflation during the period. In 1977 they fell 5% in nominal terms, when the inflation rate was 33%, producing a huge negative real value. With the exception of 1973, this never happened again in the period analysed⁶⁸. Variations in the nominal interest rate were also very small in 1978 and 1980.

The trend of the three cost variables - mainly the exchange rate and nominal interest rate - helped to control inflation, but precluded the achievement of some long-term objectives announced as desirable by President López. The evolution of real wages ran counter to the announced improvements in income distribution⁶⁹; the evolution of the real exchange rate counter to his intentions of seeing Colombia as a 'new

Japan in South America'; and the evolution of interest rates counter to positive interest rates reflecting scarcities in the economy⁷⁰.

But other policies were adopted which should not have been used for sub-inflationary purposes in 'normal' times. Colombia has used trade controls in a procyclical manner partially for stabilisation purposes; partially because the availability of foreign exchange allowed the authorities to relax controls (Cuddington, 1986:7).

On the tariff front the López Government announced an important tariff 'rationalisation' in the first months of 1975 which was never implemented. In the first months of the Turbay Administration significant tariff reductions were announced but they never materialised; pressures from important economic groups were strong enough to prevent them, and it was not until 1981 that major tariff reductions were adopted⁷¹. But non-tariff barriers also matter: they were reduced consistently throughout the bonanza (see Graph A.1) and the process only ended when the foreign situation started to deteriorate after 1981⁷².

The important point we want to highlight is that the design of a more rational tariff structure, aiming at long-term industrial - and agricultural - growth, never materialised. Non-tariff barriers were reduced mainly to fight inflation. Previous deposits were also re-established to gain additional control of the money supply (Echavarria and Garay, 1978). Direct price controls and subsidies (housing, cotton, consumption goods - milk, sugar and coffee) were introduced in 1975-78 though the President had attacked repressed prices as 'political prices' in his election campaign.

ii) Economic policy 1980-85. Acquiring foreign exchange⁷³.

The three most significant external shocks in the period 1980-85 were the collapse of the coffee market from the middle of 1980, the debt crisis of 1982, and the Venezuelan

devaluation of the bolivar in 1983. These shocks forced some accommodating domestic policies, but policies also changed with different diagnoses of economic policy.

First, the external situation of the country changed over time as described in Section 1. The initial two years of the 1980s were still years of increasing reserves, but they started to decrease in 1982. In 1983 they fell to halt. With that trend, they would have been exhausted by 1984. New inflows of capital were not enough. New loans were obtained but repayments were also higher.

Second, economic objectives and priorities also changed, fighting inflation was the main priority in the second half of the 1970s. The discussion centred on the determinants of poor growth performance in 1979-82; and the behaviour of the foreign sector was the main issue after 1982. More accurately, the issue was the interrelation between public deficits and the foreign sector.

This sequence does not necessarily mean that the situation improved on that front before being discarded as the main goal, and it is interesting to analyse the transition from one priority to another. Four reasons appear plausible. First, the new government simply changed priorities: the newly elected Turbay Administration put more emphasis on growth, and less on the control of inflation. Second, new more traumatic problems, appeared: the behaviour of the foreign sector after 1983 could be placed in this particular category. Third, for some theoretical or pragmatic reason the achievement of that particular goal was now considered more costly or less beneficial than was originally thought: after 1982, for example, it was argued that inflation was much more difficult to control because expectations - formed in the past - were now playing an important role. In a similar vein - looking now at benefits - the over-enthusiastic approach towards the advantages of large fiscal deficits to increase demand was followed by a much more cautious one⁷⁴. Fourth, it was felt that the problem was important but somehow it was

similar - or more intense - in other Latin American countries. Inflation was high, but look at our neighbours; the economy did not grow, but we did not have negative rates like our neighbours....

Ocampo has divided economic policy in the period into three main phases: 1980-82 (increasing disequilibrium and economic recession); 1983-84 (heterodox management of the economy); and 1984-85 (orthodox phase). The main elements of each phase were the following:

1980-1982. In the last two years of the Turbay Administration the new strategy combined an expansionist fiscal policy, a contractionary monetary policy, and an important import liberalisation process. Fiscal deficit was seen as the instrument for building public roads - public goods should be built by the state - and it should be financed by long-term credit which was not available domestically; international loans were seen as the solution. Import liberalisation was seen as one way to control the inflationary impact of the fiscal deficit. The deterioration in the foreign sector which showed important signs from 1980 onwards was not perceived until 1982. But not all the deficit can be explained by larger expenditures, and the fiscal 'counter-reform' of 1979, negligent tax collection and increases in current government expenditures explain most of it.

Tariff reforms were important in the period, and in 1982 more than 70% of all tariff items were in the list of 'free imports'⁷³. Economic recession was considered in some quarters to have been caused by a combination of crowding out by the public sector and too much liberalisation in relation to the industrial sector.

1980-1984. The new Betancur Administration initially agreed with most of the previous diagnosis, but its forces had to be directed to the control of domestic financial panic. Rumours had started in the last months of the Turbay Administration that the banks were mismanaged and that the new government

was planning to intervene in the affairs of the most important financial group in the country, the Gran Colombiano group.

The reactivation of the economy was the central issue, and to that end private credit and export subsidies were increased, and import liberalisation stopped. Housing construction was seen as the other tool to reactivate demand. Important measures were adopted - ex-post unsuccessfully - to help the private sector in servicing its foreign debt.

It soon became clear that the room for manoeuvre was not unlimited, especially after 1983 when the external sector deteriorated rapidly. Deflationary demand policies were never seriously considered, however.

1984-85. Some policies adopted in this phase closely followed those of the previous phase⁶, but the diagnosis of the economy changed significantly on other fronts, and excess domestic demand was now seen as the main reason for the external disequilibrium. This was even more clear when the government became involved in negotiations with the IMF and the World Bank. It was necessary to reduce public expenditures (both current expenditures - real wages - and public investment). The most significant change on the foreign front was the compromise reached with the international agencies to re-establish in 1985 the real exchange rate of 1975 - an unprecedented real devaluation of 30%. Finally, the government agreed to liberalise imports gradually, with important reforms at the beginning and middle of 1985 and in February 1986⁷.

The negotiating stance adopted was radically different from that followed by other Latin American countries, and 'monitoring' by the IMF was finally accepted by private bankers⁸, instead of a normal agreement with the Fund. Ex-post, however, there was not much difference between the two positions.

4. GROWTH

4.1 Economic Growth in the 1970s and 1980s

Compared with other Latin American countries Colombia did well during the recession of the 1980s, and only Brazilian growth was comparable (CEPAL, 1986: Table 2)⁷⁹. But growth in the 1980s was the lowest since 1925 (see Table 4.1). In the 1970s the Colombian economic record could be considered 'average'⁸⁰ for Latin America.

Over a longer period the Colombian economy showed one of the highest per capita growth rates in the period 1913-1950 (though modest by post-World War II standards), and in 1950-80 growth accelerated in Colombia much less than in other fast-growing countries (Syrquin, 1986:3). GNP per capita represented 21% of that of the United States in 1950, and 24% of that in 1980⁸¹.

Four important points emerge from the analysis of sectoral growth in the period. First, agriculture did much better than industry in the 1970s and 1980s - an important break with the past. Second, poor industrial growth in the second part of the 1970s - a fact for Colombia - was not common to other Latin American countries; Latin American industrial growth in the period 1975-80 was higher than in any previous period (Echavarria, 1986: 2). Third, neither industry nor agriculture were the leading sectors in the 1970s or 1980s⁸², and this unhealthy pattern will have important consequences for future growth. Fourth, the economy grew at its fastest historical rate between 1967 and 1974. This can be appreciated from Table 4.1, but we should note that it is also true in comparison with any other 7-year period in Colombian economic history. However, this is not true for agricultural or industrial production, only for aggregate production.

What are the main explanations of sectoral and aggregate growth? We do not have the answer, but some elements could be considered.

4.2 Different Explanations of Aggregate and Sectoral Growth

1) Supply. Capital and Labour.

By definition, growth in production is a combination of labour productivity (Q/L) and employment (L). Growth in labour productivity, in turn, depends on the stock of capital (K) and on the 'residual'.

Put formally:

$$Q = (L) (Q/L) \quad (1)$$

where:

Q = Production

L = Employment

Q/L = Labour Productivity

From (1):

$$(Q^*) = (L^*) + (Q/L)^*$$

where:

$*$ = Percentage changes in the variable

Production growth can also be 'explained' in terms of employment (L), in the stock of capital (K), and the residual. For a production function with constant returns to scale we can define the residual as that part of growth not explained by labour and capital.

$$\text{Residual} = Q^* - (E1.L^*) - (E2.K^*)$$

where:

Q^* , L^* , K^* = Growth rates of production, employment and capital stock.

E1, E2= Elasticity of production with respect to employment and capital investment. With our assumptions elasticities coincide with factor shares: 40% for labour and 50% for capital, percentages not far from the actual figures in Colombia.

For the Colombian economy as a whole McCarthy et al (1985) find that labour and capital explain nearly 70% of growth between 1963 and 1980, and more than 85% if the period 1967-74 is not included. The importance of the residual jumped in 1967-74, with the 'healthy winds of greater international competition'. The contribution of K is always larger than the contribution of L, but the importance of the record has increased over time. The study just mentioned is the only one available for the aggregate economy. For industry, there are more complete studies (Echavarria, 1986: 14-19) which show:

a) The stock of capital grew faster in industry than in the rest of the economy during the last decades: in 1925 K/L was lower than average in industry: in 1967 it was 30% higher in industry than in the rest of the economy.

b) Employment (L^*) and labour productivity (Q/L)* were equally important in the explanation of growth between 1950 and 1983. However, the important transformations in labour productivity occurred in the 1950s and 1960s, and labour productivity remained constant after 1972. For the whole period it grew at an annual rate of 3.1%.

c) The Residual is more important in industry than in the economy as a whole, its weight oscillating between 30% and 50% depending on the sub-period. However, the importance of the residual decreased drastically after 1970.

The most important conclusions to be drawn from the figures just quoted are related to structural problems in Colombian industry during the 1970s. Labour productivity did not increase after 1972, mainly because the importance of the

'residual' decreased drastically. The crisis of the 1980s hit an industry which had already been relatively sick in the 1970s. The crisis in industrial production, in turn, is not due to lack of investment or employment.

Syrquin (1986: 448) finds something similar for the other Latin American economies, and, not just for industry: 'growth in Latin America after 1973 cannot be described as having been "savings-constrained" or "trade-constrained". It appears that we need at least an additional constraint to describe the slowdown in growth during the late 1970s. A likely candidate might be "absorptive capacity". Reduced growth cannot be explained as being due to a failure of resource expansion: rather, it was due to the low efficiency in the utilisation of internal and external resources' (ibid.: 452). The rate of capital accumulation increased significantly after 1973 in Latin America, but growth failed to respond and even declined. While the rate of investment was going up, its efficiency was declining. Syrquin also finds that the slowdown in labour productivity since 1973 originated outside agriculture, primarily in industry.

ii) Demand.

The evolution of aggregate demand plays a very important role in the evolution of industrial production, and of urban production in general. FEDESARROLLO calculates 'autonomous expenditure' - the sum of the purchasing power of public expenditure, non-traditional exports, and domestic coffee revenues - and finds a close relation between that variable and industrial production. The impact of the diverse autonomous expenditures is not symmetrical. Depressions in the external sector which mainly hit rural groups are compensated for by expansionary fiscal policies which in turn, benefit urban groups. It is paradoxical, but probable, that crisis in the external sector benefits urban groups just because of the fiscal policies adopted as a reaction. The growth of 'autonomous expenditure' in the first part of the 1970s decreased after 1974, producing an important effect on urban production in general.

Aggregate demand dropped drastically between 1980 and 1983 partially causing one of the largest industrial crises in Colombian history. But the worst years are now over, and since 1983 the evolution of demand has been relatively favorable to industry. Industry grew by more than 8% in 1986, and it is believed that the future will not be so dark as in the first part of the 1980s.

iii) Dutch disease.

An explanation which claims to be derived from general equilibrium models must have many followers, as shown by the extensive literature published in recent years⁸³. A revaluation of the exchange rate (produced by a commodity boom) hits the production of tradeables, which are also industrial goods in countries like Holland or Britain. Colombia has been chosen as one of the favourite examples of Dutch Disease, and there are some obvious reasons for this: mainly the industrial crisis started in 1974/75 when the real exchange rate began to rise. It is also claimed that the disease hit agriculture, a highly claimed sector. But many problems still remain in this theoretical explanation.

a) In Colombia the industrial sector could be more likely associated with non-tradeables, and the agricultural sector with tradeables⁸⁴. (i) But the Dutch Disease Model does not produce such conclusive results for non-tradeables, and as a consequence the model cannot predict the Colombian industrial crisis. (ii) In the rise of the 'tradeable' sector - agriculture - we saw that growth rates for the agricultural sector were specially high between 1972 and 1978, when the Dutch disease was supposed to operate. And it will be too much to argue that the agricultural crisis was due to the influence of relative prices after 1979, when the agricultural new industrial sectors were in crisis in every Latin American country.

b) In a recent study on the 'Colombian Dutch Disease', Kamas (1986) concludes that some of the elements of the disease

were there, though 'the econometric estimates only weakly confirm that the real exchange rate affects domestic sectoral production in the way predicted by the model'. She also finds strong evidence for a significant output response to fiscal and monetary policies. The relative price of non-tradeables increased after the bonanza but did not decrease thereafter, indicating important inflexibilities in the economy; the Disease Model assumes price flexibility and mobile resources. Finally, for 32 sectors of the economy Kamas finds no clear relationship between growth rates and the share of traded goods; instead, the more traded sectors grew faster⁸³.

4.3 Future Growth and Economic Strategy

Explanations as to why the Colombian economy did relatively well in the 1980s are not enough for our purposes, since we should also be able to say something relevant to future strategies for growth. What can we learn, from the Colombian and other countries' experiences?

i) Foreign-exchange bottlenecks.

Both savings and foreign exchange will be required for future growth. Current account deficits will be with us for the rest of the decade, and foreign capital will be needed to meet interest payments and transfers. The worst years (1982 and 1983) are over (see Section 1) but things will not be easy in the near future.

The international situation will become increasingly complex as default is almost imminent in Brazil and new loans are difficult to obtain in Latin America with a stagnant international economy in which protectionist pressures are multiplying. What can be done? Not much, certainly, but at least some questions require correct answers.

Since 1974 Colombia has been losing ground as an exporter of manufactured goods, and the poor behaviour of the

international economy - a common factor - cannot explain this. Rather it seems that a weak export promotion effort is the responsible factor, since the exchange rate has not been found to be a key variable in empirical studies⁸⁶. But much more study is still required in this area. Understanding this phenomenon is particularly important for Colombia, since the success in the area of minor exports between 1967 and 1974 has been associated with 'cheap' growth which did not require much additional investment - a large 'residual' - and, on top of that, with a major investment boom.

International markets are extremely competitive in manufactures and 'marketing' is as important as any other input. This means that a long-term strategy has to be designed to regain our relative position. Things will be easier with other non-traditional exports where prices are the relevant variable, mainly agriculture, but the close relation between food prices and the general price level calls for a cautious strategy on that front.

Other areas are more difficult to explore. Political considerations - how 'safe' - and inertia from the past seem to be crucial variables in explaining foreign investment, and Colombia's recent experience in the area is not very encouraging. Important measures were taken after 1982 to attract foreign capital⁸⁷ without any important reaction from outside. The political and social conditions of the country are not the most favorable to attract foreign investment.

Similar arguments could be made in relation to 'export-processing zones'. They have been utilised mainly by Colombian producers to import goods into the country, with frequent complaints about smuggling. A few foreign companies operated in the zones in the 'golden' period of 1967-74 but decided to quit relatively quickly. Their main complaints were related to the quality of the labour, and to infrastructure. The fundamental fact, however, was that Colombia was not a country with extremely low paid labour -

e.g. Haiti - and did not have important geographical advantages - e.g. México (Echavarria, 1979).

Import substitution will be the main single factor determining foreign-exchange bottlenecks in the future.

ii) Domestic factors.

Foreign exchange will be important for future growth but is not the decisive element. Colombian long-term growth has been very stable - despite the extreme volatility of the external sector, and many times severe external conditions 'produced' structural modifications in the economy which were decisive for long-term growth (e.g. industrialisation in the 1930s).

Internal factors - productivity, demand and structure - have played a crucial role in Colombian capital accumulation up to now, and something should be said in very broad terms about these factors. Most of the time we shall refer to industry since the information and research on other sectors is not as complete.

Which sectors ?

Agriculture and industry have played the central role in the developed countries' capital accumulation and there is no reason why Colombia should be the exception. Growth based in other sectors - particularly in the financial sector - should be seen as short-term adjustments which, by themselves, will not guarantee long-term growth.

New resources from coal and oil must be considered in this light. They represent one of the few opportunities the country will have to invest massively in key objectives, and it would be wrong not to learn from neighbouring countries which remain under-developed even while possessing those same resources. Regional domestic conflicts could be acute, but they must not represent be an important obstacle, and special programmes designed for those poor areas which are rich in

natural resources could be inserted into the broad main objectives.

Every effort should be made to diversify out of coffee. Colombia did better than other countries in the 1980s while also being more specialised in a single commodity. The wrong conclusions could be drawn from this. To set all one's hopes on one single, highly unstable commodity is totally wrong, and it is difficult to understand how some writers can still ask for even larger participation in the international coffee market⁸⁸; on the same lines, others consider the FNC as a fund built by the 'cafeteros' for the 'cafeteros'.

Excessive specialisation in coffee is not the best route. The Colombian economy did well in the 1980s but what matters is the long run, and in the long run other countries did much better. Colombian long-term growth is not satisfactory, neither in comparison with other Latin American countries like Brazil - a more diversified (also from coffee) and economically aggressive country - nor in comparison with the South East Asian countries. In his classic 'Typology of Economies Exporting Raw Materials' Furtado (1976) does not recognise coffee as one of the commodities able to generate the best conditions for growth. He was referring to Brazil and missed some important characteristics of Colombian coffee⁸⁹, but his argument continues to be valid in general.

Agriculture and industry are not doing well. The industrial crisis started in Colombia in 1974 and the country has to regain the long-run rates of the past. Agricultural production grew more in the 1970s than in previous decades, but that does not mean that things are satisfactory. And the explanation of low growth is only marginally due to international variables.

Agriculture and industry must be seen as complementary sectors. Low prices for wage goods mean larger demand for industrial products and lower labour costs. Agriculture produces inputs required by industry, and generates savings

to finance aggregate investment. Even if industry were to be preferred in a long-term strategy⁹⁰, the specific political and social conflicts in the country call for massive investments in the rural areas in order to buy peace.

We still do not have the studies required to say something conclusive about which sub-sectors to promote. However, some preliminary ideas could be useful. In agriculture Eduardo Sarmiento found in 1982 that a devaluation of just 10-15% was all that was required to allow domestic production to be competitive. He also selected certain products (e.g. maize) for which it would be almost impossible to compete. More of this kind of studies have to be undertaken.

In the area of manufactures we can be more specific⁹¹. Echavarria et al. (1983) find a very biased industrial structure, favouring beer, processed food, tobacco and textiles, with large deficiencies in all the other more advanced sectors (SIIC 34-39). The methodology utilised means, also, that other countries of similar market size have been able to generate larger production in those sectors, which, incidentally, have been more dynamic in almost every country during the last 20 years⁹². If the size of the market is not the main constraint on production, the explanation of why the industrial structure is so biased must be related to economic policy - or its absence.

This does not mean, of course, that every 'advanced' sector should be promoted. The heterogeneity of the sub-sectors call for a selective promotion strategy; in some sub-sectors it is impossible to do anything simply because technological constraints and barriers to entry preclude it.

The authors tried to rank sectors according to four alternative criteria: labour intensity (+), static comparative advantage (+)⁹³, linkages (+) and import intensity (-)⁹⁴. They found that SIIC 38 (Metal products, machinery and equipment) presented the most favorable characteristics, with very negative elements for some of its

sub-sectors like computing machinery (SIIC 3825), automobiles (3843), among others. Basic metals (SIIC 37) also seemed desirable, and SIIC 35 (chemicals, etc) clearly undesirable. We must reiterate that this study simply represents a line of research which could be fruitful for the future. It also calls for the promotion of medium-range firms which are simply non-existent in Colombia.

iii) The role of the state.

The main role of the state in the process of growth is to increase - or use the actually available - taxes in order to invest in areas where the private sector does not want to invest, or should not do so. To treat any public expenditure as demand - giving equal importance to investment and consumption - is simply wrong, as efficiency, and the kind of expenditure also matter.

There is a significant qualitative difference between coffee and the other two new commodities available to the country - coal and oil - because these last two belong to the Colombian state, not to private producers. This will permit things that were unthinkable in the past, but will also mean that more resources could be lost through inefficient utilisation.

Among the main future tasks for the state are the following:

- To buy peace in the country, investing massively in agriculture, agrarian reform and infrastructure. The share of agriculture in total public investment has decreased from 25% in 1970 to less than 7% in 1982⁹⁵, and this trend has to be reversed.

- To keep a stock of well designed and essential projects. We saw how important this was after 1980 when public investment helped economic growth.

- To complement private investment in industry. The industrial strategy proposed here requires the promotion of 'advanced'

sectors in general. The private sector will undertake production in those labour-intensive sub-sectors which do not have important economies of scale; the state will undertake production in the bulky sub-sectors with large economies of scale⁹⁶. If both types of investments are not done simultaneously, both will fail.

5. LESSONS OF 1975-85 AND STRATEGY FOR THE FUTURE

Colombian policy-makers will face a difficult scenario in the near future. Urban unemployment is greater than ever, and income distribution is one of the worst among the developing countries; it certainly did not improve during the 1970s and 1980s. Social and political conflicts are already extremely acute, and the final outcome in these areas will mainly depend on future economic growth and its distribution⁹⁷. Economic policy and the implicit development strategy will be decisive in this respect .

The problems faced seem so insurmountable that our recommendations could seem extremely marginal. We still believe, however, that there are some important lessons to be learnt from past experience, and that there is not enough debate inside the country on topics which will be central to future capital accumulation.

5.1 What Can We Learn?

-Why did Colombia do relatively well in the first part of the 1980s?

Colombia's international reserves were very high at the beginning of the international crisis, and inflation rates modest by Latin American standards. These were two important assets with which to fight the international recession of the 1980s.

Large international reserves at the beginning of the recession allowed the country to import as much as was needed, especially capital goods bought by the public sector. Better co-ordination with the private sector might have allowed less traumatic consequences for national industry in these areas; nevertheless it was good policy to use scarce foreign exchange for capital goods imports instead of for consumption.

Public and private investment stagnated together in most Latin American countries, but in Colombia the favorable evolution of the public sector played an important compensatory role - up to 1984. It took resources from the rest of the economy in order to do that, which does not automatically mean that 'crowding out' was an important element explaining the lack of dynamism of private investment. International comparisons are revealing in this area, as private investment was even more stagnant in other countries, despite the additional resources 'released' by shrinking public investment⁹⁸.

We do not have documentation on other Latin American countries after 1984, but at least in Colombia public investment decreased drastically after 1984 (Coyuntura Económica, October 1986, p.32). It is in that sense that some people argue that the Colombian adjustment process is very similar to that in the rest of Latin America, but with a lag of 3 or 4 years.

The government played another important role in Colombia, as public savings partially compensated for the extreme instability of external savings, making total savings - and investment - more stable. Especially encouraging, it was done without large public deficits, at least in comparison with the oil-importing Latin American countries.

-Evaluation of economic policy in the period.

How does one evaluate economic policy when the international situation is so volatile and unpredictable? Nobody writing in 1975 could have predicted the size of the coffee bonanza faced by Colombia; nobody writing in 1978 could have predicted the arrival of the worst international recession in the capitalist world for more than 50 years. The amount of foreign exchange inside the country is never known, such is the size of (Colombia's) 'underground' economy.

And, of course, the evaluation of economic policy will be entirely different ex-post and ex-ante. Should we evaluate economic policy in the light of present knowledge, or with the information available at the time when decisions were taken? Even worse, how much information do we have today? At the beginning of 1987 most analysts in the country were of the opinion that foreign exchange would not be a constraint in the coming years, with future coffee prices around US\$ 2/lb. From that perspective, the adjustment policies followed in 1984 and 1985 seemed unnecessarily tough. Three months later coffee prices plunged to less than US\$1/lb, and it seems that the future will be much duller than predicted - who knows now? The adjustment policy followed in those years now appears wiser than it did earlier.

Both exercises, ex-post and ex-ante, are useful, however, and in each case we shall specify our assumptions about the relevant information considered in our judgements.

i. Coffee is not just another good produced by the Colombian economy. Coffee prices, coffee production, and coffee policies must be seen as an essential part of the whole package of macroeconomic instruments available. The most important macroeconomic policy adopted during the Lopez Administration was to consider that the coffee bonanza belonged to the coffee people. But it was too costly. This seems to have been understood now both by the coffee people and by the government during the new 1986 bonanza, which means that we learnt from our own experience.

ii. Given that, it should be said that economic policy was very efficient in controlling inflation. President Lopez was right in saying that inflation had important distributive consequences which had to be fought, and ex-post the low levels of inflation at the beginning of the crisis of the 1980s were one of Colombia's main assets.

iii. In a very unstable international economy conservative and cautious policies always pay. There is no room for

experiments or for 'risk' lovers. Risk aversion was always present among Colombian policy-makers and, ex-post, it paid off. Many Latin American countries experimented with 'new' ideas in economics, and had almost a decade to prove they worked, but positive results never materialised. At a theoretical level, domestic interest rates did not follow the predicted pattern and remained incredibly high; at a more pragmatic level, the experiments produced disastrous results in terms of growth and employment. Latin American economists in general are coming back to a pragmatic neo-structuralism which can avoid many troubles in the future (see Fishlow, 1985), and Colombian economists seem to show this kind of pragmatism.

iv. Colombian policy-making seems very wise ex-post. This is definitely true in comparison with other Latin American countries, but even better policies could have been implemented. With negative interest rates it was good policy to obtain foreign loans in the 1970s; but it was bad policy to invest those resources in the way they were invested. Best policies would have been followed if every single dollar obtained had been invested in export-oriented activities (Syrquin, 1986). Other heavy borrowers like South Korea did exactly that, and they are not living with the extreme bottlenecks of Colombia's neighbours.

In the Colombian case, would it not have been even better to obtain new loans in the 1970s and to direct these resources towards capital imports for export activities? Even without new loans, would it not have been better to permit imports or to import directly - capital goods mainly - in order to keep a higher exchange rate?

The above arguments assume that we have ex-post information. At the time when policies were - were not - adopted, nobody understood the argument of Minister Wiesner about foreign reserves belonging to the private sector. This meant, according to him, that if the private sector did not want to

invest, 'and import, nobody else could do it. Could not the state have borrowed from the private sector and invested?

v. Colombia was very cautious in borrowing abroad, or in opening the economy to international financial flows, but that does not mean that economic policy was not utilised. On the contrary, the country has a long tradition of intervention, mainly on the foreign front, and it was used most of the time. Given the magnitude of the external shocks of 1975-85, it seems good policy to fight with all available tools for one or two main objectives. Even tariff policies had to be used to fight inflation in the second part of the 1970s, and this was well done. Long-term growth, stability, and distribution are the main objectives of economic policy⁹⁹, and at least in the area of growth Thorp and Whitehead show that the more heterodox and interventionist Latin American countries, - Brazil and Colombia, also show the best record.

vi. What should be done in order to increase future growth? Foreign exchange will be scarce as it has always been in Colombia in the last four decades, with some minor exceptions. Not much can be done, but attention must be drawn to the fact that Colombia lost ground in the area of minor exports even in relation to other Latin American countries. This is particularly important as the period of rapid growth in minor exports has also been associated with an important upsurge in investment and with 'cheap' growth.

Given that there are no extreme policies which could radically change future perspectives in the foreign sector, we should turn our attention to the domestic side. The main emphasis should be given to agriculture and industry, trying to promote a shift of resources out of coffee, oil and coal.

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1. Allowing interest rates to fluctuate, the government tried to tighten control of the money supply. Domestic and international liberalisations are not independent, of course, the first being a pre-condition for the second. To open up the economy with strong domestic control will mean that money will leave the economy fast.

2. The figures are

(1952=100):

1930-39	73.17
1940-49	85.77
1950-59	101.87
1960-69	82.11
1970-74	84.55
1975-78	78.43
1980	68.88
1981	60.96
1982	58.40
1983	59.04
1984	62.88
1985	59.73
1986	54.53

3. In real terms (deflating by the Colombian price for imports) the coffee price in 1977 was 80% higher than in 1954. But international quotations could be misleading. Coyuntura Economica (April, 1978, p.77) argued that no important transactions were carried out at those international prices. They were simply quotations without much in the way of sales or purchases. At the peak of the cycle Brazil gave important discounts to purchasers. Coyuntura estimates that the maximum price at which Colombia sold was not much higher than US\$2.00lb.

4. Nominal annual increases of 8% for coffee; 21% for 'all products'. However, the behaviour of commodity prices was very heterogeneous. For those commodities 'relevant' for Latin American countries (see first part of Table 1.1) price increases for bananas, meat, copper, and iron minerals were also low.

5. Period 1970-80. Thomas (1985; 197) arrives at similar conclusions for a sample of agricultural commodities. Only sugar prices (international) were more unstable. However, this was not the case for other periods. Thus, Junquito (1977: 153) finds that coffee was one of the most stable commodities between 1963 and 1974 (29 products considered).

6. But copper prices did not show the excessive instability of coffee, in the period considered. Tin is very important for Bolivia analysis below. But its price increased in the first part of the 1970s, not in 1975-80. Both facts are important for the analysis below.

7. Even in the worst years, the country's inflation rates were among the lowest in Latin America. Maybe. Colombian policy makers show a greater fear of inflation than other countries. This line of argument is further explored in Bacha, (1984). It is amusing to realise that Colombia is one of the few countries in the world (the only one?) whose National Constitution forbids fiat money (Ocampo, 1984: 126).

8. The share of Colombia in Latin American total debt (private and public) decreased from 6.8% in 1973 to 3.5% in 1979 and remained constant until 1982 (Villar, 1983: 227).

9. The negotiations for what was called the 'Jumbo credit' started in 1982, and only ended in 1985. But it is not clear today if the country will use the credit available.

10. For figures in 1979 see Table A-1; for 1986, see CEPAL, 1986, Table 17.

11. The figures in Table 1.2 are in current US\$ million; the figures in Graphs 1.2 and 1.3 are in real dollars, showing better the trends in the variables included. We shall generally consider real variables.

12. Capital inflows were important at the beginning of the 1970s when the current account was highly negative, and began to decrease with the improvements in the current account over time. They were very modest in 1975-78 (almost nil in 1977), and increased dramatically during 1979-83 when the current account was deteriorating. In 1978 and 1979 the country borrowed abroad at a time when its foreign reserves were increasing, and this was seen as a sign of incoherent policy, at a time when internal inflation originated in the monetisation of foreign reserves (see below). Ex-post, when the unforeseen international recession arrived, this policy could be easily justified: the country needed to accumulate foreign reserves to 'survive' the depression years.

13. Illegal capital flight in and out of the country does not seem to have acquired the magnitude it had in Mexico, Argentina and Central America. According to Thorp and Whitehead (1986, pp.303-4) it was not important in Colombia and even less in Brazil.

14. This last point is especially important: Colombia did not have to adjust imports drastically to accommodate to the international recession. See below.

15. Nobody will ever be able to estimate exactly the importance of illegal exports (mostly drugs). Junguito and Caballero consider that marihuana and cocaine exports increased from US\$1 million in 1970 to US\$500 million in 1977 (one third of coffee exports in this last year). Ruiz (1979) and Ruiz and Lopez (1981) give larger figures: US\$1,500 million in 1978, and 2,600 million in 1979, representing 126% of coffee exports in the latter year. They also estimate that marihuana exports were much higher than cocaine exports at that time, but it is likely that the situation is the opposite today. Most probably illegal exports are recorded as services in the capital account of the Balance of Payments, or as errors and omissions.

16. This also happened in terms of GNP (Cuddington, 1986, Fig. 3A). After a growth rate of 5% a year in constant prices during 1970-75, non-coffee agro-based exports grew only 1.7% in 1975-83 (Thomas, 1985: 9). Something similar happened to exports of manufactures (mainly textiles, fibres, and manufactured metals). They represented 8% of total exports in 1970 and 20% in 1975; only 16% in 1983 (Echavarria 1986, p.60).

17. They represented 8.7% of total exports in 1970 and 21% in 1974. Manufactured exports are much smaller than 'non-traditional' exports.

18. Our definition of 'manufactures' in Table 1.3 is not consistent with that used earlier for commodities. SITC 5-8 include some metals which alter our comparisons. The problem is especially acute in the case of Chile where manufactured exports - copper - would represent almost 65% of total exports.

19. IDB, 1985: 30). Capital goods imports in 1982-84 represented twice the average for 1970-78; the relation for the consumer goods was 1.63 and for intermediate goods 1.75.

20. Chemical products (14%) were the other important manufactured imports; food represented 11% of total imports (Echavarria, 1986: 9). The growth in agricultural imports was a little lower than in total imports (6%) in 1970-83. (Thomas, 1985: 9).

21. At least compared to other Latin American countries. The relation between the non-factoral trade balance and GDP $(X-M)/Q$ increased both for the oil-exporting (3.56% in 1979,

5.88% in 1983) and oil importing countries (6.58% in 1979, -1.31% in 1983); the figures for Colombia were 0.24% and -4.90%. 1984 was not a 'bad' year when compared with other periods of the past. It was even better than in the first part of the 1970s, an obvious candidate for comparison. Thus, on 1974, Thomas (1985: 26) writes 'With the trade reforms initiated in 1967, the peso depreciated significantly, reaching equilibrium by the mid 1970s. The balance of payments was in reasonable equilibrium from 1973 to 1975. Commodity prices, especially those of coffee, were not abnormal in that period, and Colombia was still self-sufficient in petroleum, so there was no significant oil price effect.'

22. See Ocampo, 1986: Table 2 for a discussion of the figures given by each Institution.

23. It was not just the Mexican moratorium of August 1982, which made things so difficult. At that time, Argentina was already in 'technical' moratorium, and not only because of the Malvinas War of April 1982. Brazil, Venezuela, Chile and Cuba were soon involved in similar negotiations with the IMF and the international banks. Perú had been in a similar position since 1981.

24. Figures for 1982, the worst year of the 1980s. In 1986 the corresponding figures were 35% for Latin America with substantial reductions in the debt burden for Brazil, and to a less degree for the other countries. Only Argentina was in a similar position with a ratio higher than 50%.

25. Income less private and public consumption.

In what follows:

X,M= Non Factorial Exports of Goods and Services.

GDP= Gross Domestic Product

GNP= Gross National Product

C = Private Consumption

G = Current Government Expenditures.

R = Net payments to factors abroad - nearly equivalent to interest payments in our countries.

26. Taylor, 1983: 31-2. The author shows that the discussion about which variable goes first does not depend on any other discussion but this.

27. Even orthodox economists will accept this argument for the short run, and it is indeed very difficult to argue that our countries were at full employment in those years. For the long run the discussion becomes more heated. But even in the long run things are not clear. First, some authors like Raldor (post-Keynesians in general) argue that investment determines savings even in the long run, through forced

savings and technological change. Second, even in a fully neo-classical world higher savings affect production only marginally. After a once and for all jump in production following the increase in savings the economy will return to the same path of growth. Long-run neo-classical growth depends only on population increase and technical change, and two economies with very different saving rates will grow at the same rate if they present similar changes in population and technical change.

28. The figures are not the same in Tables 2.1 and 2.2 mainly because the deflators are different (e.g. GNP vs GDP); also because the definitions of the variables differ (there are many definitions of the deficit which differ in technical aspects); or simply because they correspond to different sources. For Colombia alone figures on savings and investment produced by the Central Bank differ from those produced by DANE. However, the figures in Table 2.1 are comparable among countries, and those in Table 2.2 are comparable over time for Colombia.

29. Among nine countries analysed in a recent World Bank document, Colombia with Perú present the lowest savings ratios (World Bank, 1986). The figures are as the follows (as a proportion of GNP; 1980-84).

	Savings	Investment
Colombia	16.8	19.7
Perú	16.7	16.1
Paraguay	18.0	27.7
Ecuador	24.4	22.3
Brazil	20.3	20.4
México	28.7	23.3
Thailand	20.3	23.8
Malaysia	29.2	32.3
South Korea	25.3	28.4

The figures in Table 2.2, however, do not show such comparative low ratios, and Colombia presents intermediate ratios in relation to the other 6 Latin American countries studied: higher saving ratios than the oil-importing countries (but lower than in Brazil); lower than in the oil-exporting countries.

30. Domestic savings fluctuate much more than total investment, revealing - identities again - the important variations in the Colombian external sector (external savings). Among the saving ratios considered in Table 2.1, the most volatile was external savings. See note 32.

31. The main determinant of private investment is aggregate demand. For a summary of the investment literature and empirical findings for Colombia see Ocampo et al, 1985: especially p.98. On credit conditions see Silvani, 1983.

32. Statistically, the coefficient of variation for the different series confirms this fact: the most volatile series among different types of savings (second part of Table 2.2) is external savings (5.15); then, public sector savings (1.40); no other series presents a coefficient of variation higher than 1. The coefficient of variation for the sum of external savings and public savings is also less than 1.

33. The methodology follows Barro (in Gómez et al, 1976. figures differ, however. The identity shown is obtained after an arithmetical manipulation of three identities.

For the Central Bank: Changes in assets equal changes in liabilities:

$$dH = dR + Ccp + Ccg \quad (1)$$

Where, besides the variables quoted in the text::

R= Foreign Reserves

Ccg= Central Bank Credit to the Government.

For the Public Sector: the deficit is financed from the Central Bank, the Private Sector, and foreigners:

$$G - T = Ccg + Cpg + Cfg \quad (2)$$

Ccg= Central Bank credit to the Government

Cfg= Credit from 'foreigners' to the government.

For the foreign sector, changes in foreign reserves are identically equal to changes in the current account and in the capital account of the balance of payments.

$$dR = CA + Cfp + Cfg \quad (3)$$

where:

R= Foreign reserves.

CA= Current account of the balance of payments

Cfg= Foreign credit to the government.

34. Deficits financed by the private sector do not affect the monetary base; money just changes hands.

35. With open market operations (which means that Cpg is different from zero) the deficit can be increased (decreased) with the money supply remaining constant.

36. The current account surplus was C\$30.4 billion in 1977 and C\$32.1 billion in 1978. The monetary base (stock) was C\$ 28 billion in 1974.

37. Though the effect of the reform dwindled through time. Important 'counter-reforms' were adopted in 1977 and 1979 and people learned how to evade (Perry and Cardenas, 1986). The deficit was largely financed by external borrowing. After 1982, when the availability of foreign capital diminished, domestic borrowing became increasingly important.

38. Most of the coffee countries analysed by Davis (1983: 129) had a larger deficit in 1978 than in 1975. Revenue growth was impressive in most of them, but even more impressive was the growth of expenditure, reflecting the lagged impact of spending plans conceived at the height of the boom. This did not happen in Colombia. It should also be pointed out that in most of these countries public capital expenditures grew more than current expenditures which did not happen in Colombia either. One must be particularly careful about viewing the 1979 movements in the Central Bank's balance sheet as sterilisation activity. In that year the public sector undertook a large amount of external borrowing. At the same time, a considerable portion of the reduction in government net liabilities to the Central Bank was due to a large increase in government deposits at the Central Bank. What was occurring was a slow disbursement of funds for public investment projects financed by foreign borrowing. In the meantime, the borrowed funds were held as government deposits at the Central Bank. Although this activity causes foreign reserve inflows to increase and government liabilities net of deposits to the Central Bank to decrease, this does not reflect sterilisation activity in the usual sense of the term (Cuddington, 1986: 26).

39. The relation between interest payments and GDP in Colombia was one-fourth of that for the oil-exporting countries; and one-fifth of that for the oil-importing countries, being especially high for Chile and Argentina. The debt burden was much higher for the oil importers, because their exports were relatively smaller and some foreign borrowing was undertaken to pay for oil imports.

40. On average over the whole period, external savings were nil for the oil-exporting countries, and positive for Colombia (3.5%) and the oil-importing countries (5.8%).

41. National savings decreased considerably for the group of countries (arithmetic averages): by 21.1% in 1980, and 17.4% in 1984. However, the lowest ratios were obtained in 1982/83, with higher figures for the following years. This was a common feature for all the countries considered, though the variations were enormous for Venezuela (32.5% in 1980; 17% in 1983). Mexico also presents very high saving ratios, generating high ratios for the oil-exporting countries as a group (21.8%). National savings in Chile were remarkably low (6.6%) and this produced low ratios for the oil-importing

countries.

42. Moreover, the projects undertaken were important for the country and were well-monitored (see above).

43. The figures given in Table 2.2 do not seem to be consistent with those in Table 2.1. It is very likely that, the definitions of the public sector deficit are simply different. However, figures are internally consistent in each case, and the comparison just made is valid.

44. This Section relies heavily on Berry and Thoumi, 1985.

45. The Plan denominated Four Strategies, but really focused on one of them: urban building. Under the influence of Professor L. Currie, rural-urban mobility was seen as desirable - at least unavoidable - and leading to higher labour productivity for the country as a whole. Rural migration had to be absorbed by industry and modern activities in the cities.

46. This financial reform was introduced to obtain money for the construction sector, and not because of any consideration related to other more theoretical considerations etc. (Jaramillo, 1982: 9).

47. With a ceiling of 5% over the expected inflation rate.

48. According to some economists the high inflation rates of that period were also responsible for high rates in 1979-82.

49. It was presented later than usual - and for that reason was subject to harsh and unnecessary criticism - and 'cooked up' in a very strange way. After a lecture given by the then Head of DNP (National Planning Committee), Roberto Junquito, wrote: 'The specification of the basis for the new Development Plan is one of the most important recent economic pieces of news in the country. Surprisingly enough neither the press nor the Colombian economic analysts seem to take any notice of it'.

50. Housing has always been an important issue for all Colombian governments. The last four Economic Plans had that objective in mind, but the number of 'solutions' promised varied immensely from Plan to Plan: Four Strategies, 1971-1974, 'solutions'; To Close the Gap, 1975-1978, National Integration, 1979-82, Change with Social Justice, 1983-1986. See Coyuntura Económica, March, 1984, pp. 59-64.

51. The frost was more severe than any other in the post-war period. It reduced the production of the state of Parana (the most important coffee state in Brazil) to 10% of previous levels. Even worse, it also destroyed the trees, with important consequences for future production. A Producers Pact failed to materialise in 1975, and the 'New International Coffee Pact' which was due to come into operation after October 1976 never worked out. A new agreement on coffee export quotas, the first since 1972, was only signed in September 1980.

52. Caturra produces 2-3 times more than the traditional technology - per unit of land - but with much higher inputs of fertilizer and labour.

53. Higher taxes aimed at stabilisation and growth are difficult to 'sell' in any country.

54. Most African Francophone countries manage coffee fluctuations through Stabilisation Funds, but in countries like Uganda, Ethiopia and Kenya the coffee organisations could be broadly described as Marketing Boards. Stabilisation funds establish a guaranteed or reference price for the exporter, and the difference between this reference price and the actual export price accrue to, or are paid by, the stabilisation fund. Marketing boards, on the other hand, are more directly involved in the marketing and export of the product. In some cases they fix minimum producer prices; in others, the Board regulates the sales of coffee through auctions (Davis, 1983: 123).

55. The government has a large influence inside the FNC, a private non-profit-making association of coffee producers that engages in commercial activities, and that has been the main body charged by the government with administering coffee policy in the country. The federation is responsible for the management of the National Coffee Fund (NCF), for the provision of technical assistance to the industry, for the control of domestic and export marketing, and for advice on the setting of certain rates of taxation and prices which affect the industry. The relationship between the government and the federation has been controlled since 1928 by a series of contracts that set out the duties to be delegated to the federation and the remuneration that it will receive in return for its services. Among the specific areas the government can control are the following: first, it authorises the budget of the FNC; second, the appointment of the General Manager of the Federation is subject to the approval of the President of Colombia. Third, under the present contract the government and the coffee growers' representatives have equal representation on the National Committee of Coffee Growers which executes the decisions of the Congress. In addition to this control of the federation, the government determines the rate of taxes in the country,

including those specific to the coffee industry, and has a majority in the committee which determines the price at which the federation purchases coffee from growers. See Thomas, 1985, Appendix F.

56. The social (5.9) and private (less than 3.8) benefit/cost ratios of producing crops other than coffee have been calculated by Thomas. The argument is relatively simple: the social benefit of an additional bag of coffee is almost nil because it will just become additional stocks. The only benefit that an additional bag could have is the stronger position of Colombia in future negotiations on quotas (Thomas, 1985, 115-116). The figures provided by the author are the following:

BENEFITS AND COSTS OF COFFEE DIVERSIFICATION.

(\$/year/hectare)

	SOCIAL	PRIVATE
I. BENEFITS.	2,524	1,967
A. Variable cost of coffee production (not expended)	1,487	1,487-34
B. Storage avoided	523	0
C. Value of alternative crop	514	514
II. COSTS.	426	1,453
A. Loans for the alternative crop	316	158
B. Technical Assistance " "	90	0
C. Other costs of reducing coffee	20	0
D. Costs of coffee not sold	0	1,295
III. BENEFITS-MINUS COSTS	2,098	514
IV. BENEFITS/COSTS	5.92	3.82

57. The effective final price (per bag) obtained by the private exporter will be $P_e = (1-t) \cdot P_r \cdot e$, where:

P_e : Price (col.\$/bag) obtained by the private exporter
 t : Ad-Valorem Tax.

P_r : Reintegro price, determined by the government. Historically it has tended to move, with a lag, with the international price.

e : exchange rate (up to 1967 Colombia operated under a regime of multiple exchange rates). The exchange rate was unified for all kind of exports in 1967. In 1977, however, the government introduced what were called Exchange Certificates - certificados de cambio - which in practice reintroduced the (now disguised) multiple exchange-rate system. From 1977 onwards, the private exporter of coffee and other 'traditional' exports did not get cash, but Certificates which could be redeemed after some days. That meant that the present value price - of the certificate was reduced.

58. The purchase price offered by the FNC will also be the domestic price inside the country, just because of the large size of the FNC.

59. And only part of it, as some of the revenues are returned by the government to the FNC. This tax was established in 1967 when the multiple-exchange rate system was eliminated. The Retention Quota is the amount of coffee given by the exporter to the FNC per bag of excelsa exported. The FNC and the government can determine the percentage of coffee per bag. It was originally created in 1958 to withhold coffee from the market under a retention agreement among Latin American Producers.

60. Davies (1983: 123, Table 4) provides useful information as to who benefited from the bonanza: the producer, the Central Government, or the commodity organisation. The Colombian Government obtained only 10-12% of export receipts between 1975 and 1977, when the figures for the other coffee countries analysed oscillated between 20% and 30%. Not only did the FNC get the largest share during the bonanza, but its participation became larger with time. The decreasing level of the ad-valorem tax is even more clear when we consider this tax in terms of exports. From a level of 20% in 1974, it decreased to 16% in 1978 (by one percentage point a year). It was further reduced in the years following 1978: 12% in 1981, 6.5% in 1983.

The share of the government in total coffee taxes was 30% on average during the period of the bonanza. It decreased from 35% and 38% in 1974 and 1975, to 29-30% in each of the years between 1976 and 1980 (Thomas, 1985: 216).

61. Very few of the commodity organisations in the 10 countries analysed by Davis (1983) invested their resources in a way that would ensure their availability for future price support (see Davis, p.134)

62. Edwards, 1985. For this reason money income elasticity is much lower than 1. Monetarists claim that it should be near 1 in a closed economy. Edwards also argues that the rate of growth of high powered money depends on past rates of growth of that same variable (up to three periods), the magnitude of the fiscal deficit, and the rate of increase in coffee prices. The elegance of the economic model used by the author is, however, much more appealing than his econometric results. Conclusions are too strong for an R^2 of 0.52 in time series, even if 'the signs are correct'. His argument for the inclusion of the fiscal deficit as an additional variable is not very convincing, either.

63. This is a never ending story in every country of the world, and Colombia is no exception. Ocampo (1986: 151), for example, argues that the macroeconomic effect of the coffee

bonanza does not depend on the impact of the additional foreign exchange but on the increase in the domestic price of coffee and the induced public expenditure. On the second issue, causality, it can be 'proved' that price increases determine monetary expansion.

64. In what follows we shall consider 1971-74, including both extreme years, as the Pastrana Administration period and 1975-78 for López.

65. Among other things, a marginal reserve requirement of 100% was introduced in 1977.

66. Advanced deposits on imports did rise during the 1976-80 period, but the increase was very small relative to the massive inflow of foreign-exchange reserves (Cuddington, 1986: 26)

67. Not in comparison with other Latin American countries. Between 1975 and 1979 Chile had three years when inflation rates were higher than 100%, and Argentina for every single year of the period; inflation rates in Brazil were almost double those of Colombia and, in general most Latin American countries suffered higher inflation rates than Colombia. This was, an important Colombian asset at the beginning of the crisis of the 1980s.

68. The decrease in interest rates was due not only to direct controls, but also to the effect of the increases in money supply. Some authors like Fernandez and Candelo (1983) (see also Echavarría (1982b) argue that the Colombian financial market is very segmented and isolated from the international financial market. It seems that the same happened in all the Latin American countries, especially in the south-cone ones where international capital flows were completely freed. Domestic interest rates never acquired the expected - low levels desired by policy makers and military in power.

69. Things are much more complicated, of course. López has repeated the argument that fighting inflation during his administration was the most direct way to avoid further deterioration in income distribution, because inflation lowers real wages. On the other hand, Miguel Urrutia (1983) shows that the evolution of wages was not similar among the different strata in the working class. Middle groups were badly hit by lower wages, while the lowest and higher income groups benefited in relative terms. (See also Echavarría et al, 1983).

70.1975 marked the end of a very important experiment in export diversification which started in the mid 1960s. There are many factors which explain the low dynamism of minor exports after 1975, the evolution of the exchange rate being one of them, but not the most important one (see Echavarría, 1982b; and Villar, 1984.). On the approach towards interest rates see Jaramillo, 1982 see also Coyuntura Económica May 1978.

71.60% with respect to 1964, the date of the previous important reform (see Martínez, 1986). On the 'reform' of 1978 see Echavarría and Garay (1978).

72.Important liberalisation episodes occurred in 1984 and 1985, this time under the pressure of the IMF and the World Bank. This will be the subject of the next section.

73.Based on Ocampo and Lora, 1985.

74.This is clear today, from the different issues of Coyuntura Económica after 1982. In the earlier issues it appeared that all that was needed to reactivate the economy was a larger fiscal deficit to compensate for the deterioration in effective demand from the external sector. The deficit increased year after year and the economy continued to show slow growth rates.

75.30% in 1974 and 54% in 1979.

76.At the end of 1984 an additional across-the-board tariff of 8% was imposed on imports.

77.At the beginning of 1985 the government reduced tariffs on goods used as inputs for exportables; in the middle of 1985 all tariffs were reduced. New similar measures were adopted at the beginning of 1986.

78.Private bankers also asked for the incorporation of the debt of some Colombian banks in Panama, into Colombian regular debt.

79.We exclude Cuba, a country which grew 4 times more than any other Latin American country during the period.

80.For 1973-84, World Bank data place Colombian growth eighth out of 20 American less developed countries, and 27th out of 80 non- socialist less developed countries (Berry and Thounl,

1985: 5.)

81.Comparative figures for Brazil are 14% of US income in 1950, 28% in 1980.

82.The leading sectors (higher rates of growth) in 1970-75 were: public utilities (11.16%), personal services, transportation and communications, and government services(6.0%). In 1975-80, financial services(11.0%), government services, and construction(5.6%).

83.The following paragraphs draw heavily on Edwards (1985, in Thomas). See also, Edwards and Aoki(1983); Edwards(1984); Harberger(1983); Dornbusch(1974); Corden and Neary(1982)

84.The industrial sector is protected by important non-tariff barriers which 'disconnect' the domestic market from the international. On the export side, the relation between exports and production is always less than 7% (see Echavarría, 1986). On the importance of the foreign sector in the Colombian agricultural sector see Thomas, 1985.

85.Kamas argues correctly that what should be measured is not growth but changes in growth, and she finds that the negative changes observed were stronger for the most open sectors. But neither industry nor agriculture was among them. Most of the tradeable sectors considered were 'advanced' and unimportant (in terms of weight) industrial sub-sectors: paper, machinery, transport materials, etc. Also mining and coffee.

86.Echavarría (1982b) and Villar (1984) do not find that the exchange rate had important effects on minor exports, and even less on manufactured exports. Like Echavarría, Edwards in his recent study - in Thomas, 1985 - gives the most important role to the evolution of the international economy, but he finds a larger price elasticity than the other two studies. There is a fundamental flaw in Edwards study and his results should be taken with reservation. The relation between the Colombian and the US dollar is not the relevant exchange rate as there were some years during the period under consideration when exports to Venezuela represented the great bulk of total minor exports.

87.Echavarría, 1986: 168-72. There is also a discussion of some technical 'mistakes' in how foreign capital was 'attracted'.

88.The argument is totally contradictory in its own terms: 'if we could do it during the bonanza of 1976-80, we can do it again' (Ramírez, 1985).

89. Mainly related to distributive issues and their implication in terms of political stability.

90. The static concept of comparative advantage is of no help in the discussion, simply because future comparative advantages are acquired by present policies. If Japan, Korea, or any other of the successful NICs had followed the rules of static comparative advantage they would not be producing today steel, oil refineries, petrochemicals, automobiles and, in general, products for which income elasticity of demand is large, and in which technology and labour productivity change fast. Kaldor's laws represent additional elements in favour of industry (see Thirlwall, 1983): higher industrial growth will produce higher aggregate growth (1st Law); higher growth of industrial labour productivity (2nd Law); and of labour productivity in general (3rd Law). For more on this line see Ecnavarria et al., 1983.

91. Which, again, should be seen as very preliminary.

92. Chenery and Associates predict the industrial structure of a given country from 3 variables: income per capita, population, and international specialisation in manufactures.

93. Bruno's Domestic Resource Cost.

94. Engineering aspects of production (economies of scale, technical feasibility) have to be studied more carefully before arriving at more definitive conclusions.

95. Thomas, 1985: 124. There are many problems involved in such measures, however, as the author rightly points out.

96. Information on future events is too scarce and diffuse in the developing countries to argue that private entrepreneurs will do what is socially desirable. The other standard question related to information is: does the government know the future better than private entrepreneurs? It sounds too academic... The experience of successful countries shows that our proposal is the correct route to follow.

97. They are separate matters, of course. Many 'structuralists' have emphasised the negative impact of a skewed income distribution on aggregate demand. For the specific case of Colombia it has been argued that the single factor responsible for its economic backwardness relative to the developed countries has been the original distribution of

land (Quoted by Berry, 1971: 4). There are some causal lines in the opposite direction: economic growth offers opportunities that are more easily grasped by the richer people in the country.

98. More research is needed in this area, however. It is not just government investment which can crowd out private investment, but government expenditure in general.

99. Reading Cuddington's otherwise excellent article (1986), one might end up thinking that the objective of economic policy is to keep tariffs low. All his recommendations on economic policy are made for just that purpose. Extremely strong assumptions have to be made in order to jump from those recommendations to growth and income distribution.

I. PARTICIPATION (%) OF MAIN EXPORTS IN TOTAL EXPORTS (AVERAGE, 1970-80)

	MAIN PRODUCTS				PRODUCTS
	1	1+2	1+2+3	1+2+3+4	
COLOMBIA	56.14	60.28	64.18	66.95	Coffee, Fuel Oil, Cotton, Sugar
ARGENTINA	17.41	29.35	37.83	42.03	Meat, Corn, Wheat, Hides
BOLIVIA	49.39	63.45	74.17	81.26	Tin, Petroleum, Gas, Zinc
BRAZIL	18.85	30.18	38.08	44.35	Coffee, Soybeans, Iron Ore, Sugar
CHILE	61.14	65.42	NA	NA	Copper, Iron Ore
COSTA RICA	29.07	52.62	60.45	64.91	Coffee, Bananas, Meat, Sugar
DOMINICAN REP.	42.02	54.15	66.02	73.35	Sugar, Ferro Nickel, Coffee, Cocoa
ECUADOR	37.06	60.27	73.27	79.35	Petroleum, Bananas, Coffee, Cocoa
SALVADOR	50.25	60.55	NA	NA	Coffee, Cotton
MEXICO	18.44	24.83	31.05	35.51	Petroleum, Coffee, Cotton, Sugar
PARAGUAY	17.72	35.15	48.21	60.70	Cotton, Meat, Timber, Soybeans
PERU	20.74	35.88	43.85	50.26	Copper, Fishmeal, Zinc, Silver
URUGUAY	26.55	49.68	56.51	NA	Meat, Wool, Hides
VENEZUELA	92.95	95.74	NA	NA	Oil, Iron Ore
CAMEROON	26.31	48.48	57.36	NA	Coffee, Cocoa, Wood
SOUTH AFRICA	38.34	45.92	NA	NA	Gold, Diamonds
ZAIRE	50.85	65.23	75.15	81.51	Copper, Cobalt, Coffee, Diamonds
IRAN	93.67	NA	NA	NA	Oil
PHILIPPINES	20.82	37.50	50.26	62.45	Coconut Prods, Sugar, Wood, Copper
EGYPT	33.98	39.00	NA	NA	Cotton, Rice
MALAYSIA					

II. COMMODITY PRICES. GROWTH AND STABILITY.

	ANNUAL GROWTH (%)				INDEX OF UNSTABILITY (COFFEE=100)
	1970-74	1974-79	1979-84	1984-86	
ALL PRODUCTS	20.59	4.63	-2.29		63.34
FOOD	30.36	-3.61	-0.87		80.61
ALUMINUM	5.65	15.94	-4.83		76.98
BANANAS	2.61	12.10	2.54	10.50	41.89
BAUXITE	14.02	16.26	1.57	0.39	0.00
MEAT	4.91	12.77	-4.64		64.80
COAL	20.66	13.54	0.65		50.87
COCOA	23.32	16.13	-6.17	-2.99	118.74
COFFEE	8.23	18.72	-4.69	25.15	100.00
COPPER	7.36	3.78	-6.22	0.72	58.80
COTTON	23.21	1.42	1.87	-12.34	70.34
IRON ORE	5.67	4.29	0.44	-2.26	46.13
NICKEL	8.01	9.29	-4.48		44.30
OIL	65.79	12.10	10.53	-25.46	148.60
SUGAR	68.02	-20.24	-11.69	10.94	233.84
TEA	6.32	9.11	9.90		67.42
TIN	22.76	12.50	-4.28	-33.18	80.55
ZINC	22.53	1.08	-5.73	-13.90	57.51

Source: IMF, International Financial Statistics, Supplement on Trade Statistics
Methodology: International Financial Statistics

The Instability Index was calculated as: $II = SER/MP$
II. Instability Index.

SER. Standard Error of the Regression between prices and time. (log-log)
MP. Mean of the Dependent Variable (log of prices).

1.2

COLOMBIAN BALANCE OF PAYMENTS. 1970-84 (US\$m.)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
I. CURRENT ACCOUNT BALANCE	-293	-454	-190	-55	-350	-109	207	440	322	491	-159	-1895	-2896	-3003	-1401	-1390
A. TRADE BALANCE	-14	-148	130	280	-16	293	578	734	642	510	-238	-1544	-2190	-1494	246	-21
1. MERCHANDISE EXPORTS, FOB	788	754	979	1262	1495	1717	2243	2713	3206	3506	4062	3219	3216	2970	4273	3713
2. MERCHANDISE IMPORTS, FOB	-802	-903	-849	-982	-1511	-1424	-1665	-1979	-2564	-2996	-4300	-4763	-5406	-4464	-4027	-3734
B. OTHER GOODS, SERVICES AND INCOME	-315	-340	-355	-370	-386	-446	-432	-353	-393	-120	-86	-594	-875	-1673	-1946	-1833
1. CREDIT	231	243	250	325	453	503	632	801	924	1345	1800	1795	1757	1133	1055	1111
2. DEBIT	-546	-583	-605	-695	-839	-948	-1063	-1153	-1317	-1465	-1886	-2389	-2632	-2806	-3001	-2944
C. PRIVATE AND OFFICIAL TRANSFERS	36	34	35	35	52	44	60	58	73	101	165	243	169	164	299	464
II. CAPITAL ACCOUNT	327	346	246	147	272	182	196	-27	86	885	847	1967	1981	1429	940	1857
A. DIRECT INVEST. AND LONG TERM CAPITAL	227	195	264	286	229	295	104	230	95	725	798	1623	1610			
1. DIRECT INVESTMENT	39	40	17	23	35	35	14	43	68	105	48	212	338			
2. OTHER LONG TERM CAPITAL	188	154	246	263	194	260	90	187	28	620	750	1410	1272			
B. SHORT TERM CAPITAL	100	151	-17	-139	43	-113	92	-257	-9	160	49	344	371			
III. OTHER	20	1	20	10	4	11	24	14	103	53	393	298	330	93	-849	NA
IV. NET ERRORS AND OMISSIONS	-18	90	104	69	-17	10	211	159	19	68	375	316	64	-271	-76	-535
V. TOTAL CHANGES IN RESERVES	36	-17	180	170	-91	93	638	586	530	1497	1456	686	-520	-1753	-1166	-917
VI. TOTAL RESERVES																
STOCK	206	188	326	528	441	540	1151	1750	2360	3875	5056	5002	4013	2260	1094	NA
ANNUAL VARIATION (%)		-8.95	73.66	62.14	-16.42	22.41	113.04	52.04	34.85	64.18	30.50	-1.08	-19.77	-43.68	-51.59	NA

Sources:

1970-82. IMF. International Financial Statistics. Supplement on Balance of Payments.

1983-85. IMF. International Financial Statistics

Table 1.3

LATIN AMERICAN EXPORTS, 1970-1983

	COLOMBIA		RATIOS, GROWTH IN EACH COUNTRY IN RELATION TO COLOMBIA											
	(Growth Rates)		MEXICO		PERU		VENEZUELA		ARGENTINE		BRAZIL		CHILE	
	TOTAL MANUFACT. EXPORTS	EXPORTS	TOTAL MANUF.	MANUF.	TOTAL MANUF.	MANUF.	TOTAL MANUF.	MANUF.	TOTAL MANUF.	MANUF.	TOTAL MANUF.	MANUF.	TOTAL MANUF.	MANUF.
70-74	4.3	30.0	1.2	0.2	0.6	0.0	1.9	0.0	1.2	0.7	1.6	0.8	1.0	0.0
74-80	3.3	2.2	1.7	-6.2	0.9	4.8	0.8	10.9	1.0	1.7	0.9	4.3	1.0	0.4
80-83	-3.4	-6.6	0.8	NA	0.8	NA	0.9	NA	0.8	2.0	0.4	0.3	1.0	NA
70-83	2.0	7.8	1.7	NA	0.8	NA	1.5	NA	1.2	0.5	1.5	1.5	1.1	NA

Sources: U.N. Statistical Yearbook, 1979/80 and 1983/84
 Methodology, Annual Exponential Growth Rates, Current US\$.

Manufactures: SITC 5-8

Mexico's total exports grew by 6.5% between 1970 and 1974, 20% more than Colombia's.

The ratio is therefore 1.2. Similar relations for the other countries.

Table 1.4
 PROTECTIONS ON COLOMBIAN BALANCE OF PAYMENTS
 1986-1990. (US\$m. unless otherwise specified)

	1986	1987	1988	1989	1990
1.EXPORTS	5604.5	5967.0	6181.5	6670.5	7037.5
COFFEE SHARE %	51	40	31	30	30
OIL AND COAL %	15	27	36	37	36
OTHERS %	34	32	33	33	34
2.IMPORTS	4067.5	4431.0	4788.5	5230.5	5702.0
A.COMMERCIAL BALANCE (1-2)	1537.0	1536.0	1393.0	1440.0	1335.5
B.SERVICES AND TRANSFERENCES	-1232.5	-1651.5	-1843.5	-2055.5	-2037.0
CURRENT ACCOUNT (A+B)	304.5	-115.5	-450.5	-615.5	-701.5
DEBT/EXPORTS %	1.8	1.6	1.6	1.5	1.5

Source: Ocampo, 1986, Table 2

Methodology:

Arithmetic Average of ~~1986~~ and Fedesarrollo's Projections.

Table 2.1 SAVINGS AND INVESTMENT IN COLOMBIA

CE OF GDP	76	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
GROSS INVESTMENT (I+II)	26.23	19.42	18.13	18.27	21.46	16.99	17.56	16.77	16.29	18.15	19.87	28.62	20.49	19.37
I. FIXED NET INVESTMENT	19.82	17.81	16.86	15.86	16.39	15.34	15.77	14.53	15.36	15.42	16.77	17.68	17.46	16.89
A. TYPES OF INVESTMENT														
Construction	9.31	8.77	8.29	8.11	8.62	8.53	8.47	7.43	7.98	7.96	8.63	9.48	9.33	9.37
Transportation	2.36	2.17	2.17	1.84	1.92	2.87	2.67	1.89	2.47	2.43	2.43	2.44	2.40	2.83
Machinery, Equipment	5.44	5.11	4.93	4.77	5.39	4.69	4.92	4.53	4.77	4.76	5.24	5.37	5.86	5.12
Others	18.82	17.51	16.86	15.86	16.39	15.34	15.77	14.53	15.36	15.42	16.77	17.68	17.46	16.89
B. INSTITUTIONAL SECTORS														
1. PUBLIC SECTOR	9.24	8.84	8.93	8.43	8.67	9.19	9.48	8.33	8.98	8.35	7.88	7.35	7.40	8.26
Public Administration	2.87	2.47	2.71	1.88	1.49	2.68	2.77	3.58	2.84	2.82	2.58	3.24	3.32	3.73
Public Administration, Central Gov.	3.17	3.09	3.21	3.63	3.18	2.99	2.65	2.84	2.68	2.76	2.73	2.41	2.70	2.14
Others	2.36	2.48	2.69	2.69	2.69	2.69	2.69	2.69	2.69	2.69	2.69	2.69	2.69	2.69
2. PRIVATE SECTOR	9.91	9.41	9.62	9.77	10.72	6.20	6.05	6.20	6.41	7.07	8.94	10.33	10.06	8.63
Financial Institutions	16.17	17.49	18.81	18.37	16.26	15.31	15.86	13.70	15.12	15.14	14.97	15.42	14.53	13.56
Households	8.28	8.48	8.56	8.40	8.53	8.51	8.35	8.37	8.41	8.42	8.68	8.78	8.90	8.76
Others	4.88	3.78	4.57	4.76	4.94	4.52	4.28	4.88	4.65	4.51	4.28	4.19	4.14	4.31
II. INVENTORY CHANGES	2.22	1.98	2.05	2.47	5.06	1.65	1.67	1.24	2.98	2.73	2.29	2.97	3.82	2.48
Coffee	8.19	8.21	8.53	8.59	8.53	8.33	8.85	2.21	1.86	1.16	1.25	1.47	1.54	1.91
Others	2.63	1.59	2.58	1.76	5.59	1.99	1.65	2.83	1.84	2.69	2.53	2.50	2.69	1.91
GROSS SAVINGS (I+II)	28.48	19.89	18.37	18.82	21.68	17.98	17.68	19.34	19.65	18.61	20.86	22.12	22.51	22.48
I. FOREIGN SAVINGS, CURRENT ACCOUNT	-4.87	-0.88	-2.19	-8.03	-2.03	-8.03	1.35	2.26	1.38	1.76	-0.48	-5.21	-7.43	-7.13
II. GROSS SAVINGS	16.33	13.29	16.18	18.28	18.85	17.87	19.03	21.68	20.44	19.77	19.86	16.91	15.88	15.27
1. PUBLIC SECTOR	4.43	3.53	3.64	3.14	4.84	4.09	6.74	7.42	6.83	4.65	4.61	2.82	1.84	0.99
Public Administration	1.48	1.43	1.88	1.38	1.34	1.21	1.36	1.84	1.21	1.14	1.49	1.55	1.77	1.29
Public Administration, Central Gov.	2.83	1.88	1.46	1.76	2.71	3.68	3.37	3.78	3.64	3.51	3.28	14.89	13.24	15.18
2. PRIVATE SECTOR	11.90	9.86	12.54	15.14	14.01	13.78	12.29	13.84	13.29	15.12	15.21	14.09	14.04	14.28
Financial Institutions	8.94	8.83	8.88	9.15	11.35	11.34	11.88	11.12	11.24	11.44	11.83	11.15	10.99	10.66
Households	7.11	6.85	6.83	18.18	9.28	7.96	7.92	9.93	8.96	9.37	8.99	8.84	8.13	9.59
NET BALANCE, SAVINGS-INVESTMENT	-8.81	-2.23	-2.09	-2.29	-8.03	-8.36	1.33	1.89	1.65	-0.78	-2.48	-4.53	-4.25	-8.17
I. PUBLIC SECTOR	-8.47	-1.82	-1.13	-8.02	-8.13	-1.39	-2.74	-1.03	-1.45	-0.78	-2.48	-4.53	-4.25	-8.17
Public Administration	-4.35	-1.44	-1.79	-1.94	-1.94	-2.83	1.01	0.98	0.94	0.94	0.94	0.94	0.94	0.94
II. PRIVATE SECTOR	-4.47	-2.61	-1.96	-1.29	-2.88	-2.43	-2.57	-0.84	-1.83	-0.83	-0.84	-1.52	-1.15	0.77
Financial Institutions	8.57	8.35	8.22	8.47	8.53	8.82	8.73	8.73	8.73	8.73	8.73	8.73	8.73	8.73
Households	3.83	1.37	4.26	5.48	4.35	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64
III. FOREIGN SECTOR	-4.87	-0.88	-2.19	-8.03	-2.03	-8.03	1.35	2.26	1.38	1.76	-0.48	-5.21	-7.43	-7.13

Source: DANE, Cuentas Nacionales de Colombia.
F20 a partir de adquisición.

Table 2.2 SOURCES OF THE CHANGES IN HIGH POWER MONEY
Colombia, 1970-84

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
1 SOURCES OF CHANGES IN MONETARY BASE (X)														
2 (+ figures indicate expansionary pressures).														
3 1.ADJUSTED FISCAL DEFICIT (a-b)	112	55	20	26	26	-123	-8	-39	-17	27	-28	8870	72	530
4 a.FISCAL DEFICIT(+) OR SURPLUS (-) -CENTRAL GOVERNMENT-	96	68	27	87	14	-129	-13	-55	-18	24	-53	7427	95	523
5 b.PRIVATE SECTOR LOANS TO THE GOVERNMENT -Cpg-	-16	13	7	61	-12	-6	-4	-15	-1	-3	-25	-1443	23	-7
6														
7 2.ADJUSTED BALANCE OF PAYMENTS (a+b)	-48	17	19	-66	18	165	61	275	178	87	-86	-12389	-228	-607
8 a.CURRENT ACCOUNT DEFICIT(-) OR SURPLUS (+)	-169	1	16	-92	13	181	66	298	169	74	-188	-17355	-245	-682
9 b.FOREIGN LOANS TO THE PRIVATE SECTOR -NET- -Cfp-	121	15	4	27	5	-16	-4	-23	9	13	102	4966	17	75
10														
11 3.CENTRAL BANK CREDIT TO THE PRIVATE SECTOR -Ccp-	36	28	61	140	56	58	47	-135	-61	-14	14	3619	56	177
12														
13 CHANGES IN MONETARY BASE (ADJUSTED) -1+2+3-														
14 %	100	100	100	100	100	100	100	100	100	100	100	100	100	100
15 (MILLIONS OF Col.\$)	1.4	3.7	5.7	4.0	9.7	15.7	21.4	26.4	30.8	38.1	37.3	36.4	33.0	50.7

Methodology:

Monetary Base Changes: Same Methodology as Barro (1973)

Sources: Revista del Banco de la Republica. References to the february, 1979, issue.

Row 4: Table 6.1.3 "Operaciones Efectivas del Gobierno Central"

Row 5: Table 6.1.3 "Credito de Particulares e Instituciones Financieras".

Row 8: Table 5.1.1 "Movimiento de Cambio Extranjero. Resumen".

Includes: "Exportaciones"; "Compra de Capital Petroleo y Oro Nuevo"; y "Servicios y Transferencias"

Includes: "Importaciones"; "Petroleo para Refinacion"; y "Servicios y Transferencias".

Row 9: Table 5.1.7 "Financiacion Externa".

To "Capital Privado". Net (Ingresos-egresos).

Row 15: Table 3.1.4 "Origen de la Base Monetaria".

Table 2.3 INTERNAL ADJUSTMENT IN LATIN AMERICA. SAVINGS AND INVESTMENT IN DIFFERENT COUNTRIES.
(% OF GNP). 1980-85

		EXTERNAL SAVINGS			NATIONAL SAVINGS		I	Sd
		(N-X)	R	Sf	Sn GOVERN.	PRIVATE		
		(1)	(2)	(3)	(4)	(6)	(7)	(8)
				(1)+(2)	(5)+(6)		Sf+Sn	Sn+R
COLOMBIA	1980	-0.6	0.2	-0.4	19.6	1.9	17.6	19.2
	1981	3.6	0.5	4.1	16.8	-0.1	16.9	17.3
	1982	4.4	1.6	6.0	14.9	-0.7	15.7	16.5
	1983	2.7	1.8	4.5	15.3	-2.0	17.4	17.1
	1984	0.9	2.2	3.1	16.3	-2.0	18.4	18.5
	AVERAGE	2.2	1.3	3.5	16.6	-0.6	17.2	17.8
OIL EXPORTING COUNTRIES	1980	-3.8	2.6	-1.2	25.3	4.0	21.3	27.9
	1981	0.2	2.6	2.8	22.6	4.3	18.3	25.4
	1982	0.2	4.4	4.6	19.7	2.8	16.9	24.3
	1983	-6.8	5.1	-1.7	19.7	1.7	18.0	24.9
	1984	-10.6	6.4	-4.2	21.5	3.9	17.5	27.9
	AVERAGE	-4.2	4.2	0.1	21.8	3.4	18.4	26.0
OIL IMPORTING COUNTRIES	1980	2.9	2.4	5.3	17.4	2.5	14.8	19.8
	1981	3.9	4.1	8.0	14.1	-0.4	14.5	18.2
	1982	-0.2	7.7	7.5	11.1	-2.9	14.0	18.6
	1983	-3.8	7.6	3.8	12.1	-4.5	16.6	19.7
	1984	-3.8	8.2	4.4	11.4	-3.9	15.3	15.8
	AVERAGE	-0.2	6.0	5.8	13.2	-1.8	15.1	19.0
ALL COUNTRIES	1980	-0.5	2.2	1.7	21.1	3.1	18.0	23.2
	1981	2.3	2.9	5.2	18.1	1.7	16.5	23.3
	1982	0.6	5.4	6.0	15.3	-0.2	15.5	21.4
	1983	-4.1	5.7	1.6	15.8	-1.5	17.3	17.4
	1984	-6.1	6.6	0.5	16.5	-0.3	16.7	23.1
	AVERAGE	-1.6	4.6	3.0	17.4	0.6	16.8	21.9

Source: Interamerican Development Bank (IDB), Informe, 1985, Chapter 2

Methodology:

The meaning of the variables is explained in the text.

Arithmetic Averages for the different countries

Oil Exporting Countries: Mexico, Peru and Venezuela

Oil Importing Countries: Argentina, Brazil and Chile

Column (1). Trade Balance

Column (2). Net Payments Abroad (most of it interest payments)

Table 3.1

COFFEE FIGURES

{ % unless indicated otherwise)

	PRODUCTION, EXPORTS AND STOCKS (bags)					SHARE IN WORLD:			SHARE IN:			PRICES		TAXES (%)					TOTAL TAXES	
	PRODUCT.	EXPORTS	STOCKS	PRIVATE/		PROD.	EXPORTS	STOCKS	GDP	AGRICULT.	AGRICULT.	WORLD	DOMEST/	AD- EXCHANGE	GENERAL	PASILLA RETENTION	AND RIPIO	QUOTAS		
				TOTAL	EXP.															EXP.
	(1)	(2)	(3)	(3)/(2)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	1975=100	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1958	7442	6431	114	1.8											13.6	2.3	0.1	0.1	0.0	16.0
1960	7500	6043	1081	17.9											12.6	3.7	0.1	0.1	8.3	24.6
1961						10.8	14.2								12.3	3.6	0.0	0.0	8.7	24.6
1964	8547	5743	3589	62.5		15.0	14.0	3.8							0.0	14.6	0.0	0.0	5.8	20.5
1969	8266	6874	5583	81.2											18.7	0.0	0.0	0.0	15.3	34.1
1970						13.4	11.9	9.4	6.5	23.9	82.2	124.8	58.0	18.2	0.0	0.0	0.0	0.0	15.6	33.9
1971									5.0	19.6	79.2	102.6	59.0	17.6	0.0	0.0	0.0	0.0	16.0	33.6
1972									5.3	20.2	73.5	107.2	57.0	16.5	0.0	0.0	0.0	0.0	14.9	31.5
1973									5.7	21.3	78.2	120.2	53.0	18.5	0.0	0.0	0.0	0.0	16.7	35.2
1974	7981	7542	2400	31.8					4.2	16.0	73.0	105.8	51.0	15.9	0.0	0.0	0.0	0.0	19.3	35.2
1975					60.0				5.0	18.7	67.2	100.0	50.0	16.7	0.0	0.0	0.0	0.0	17.6	34.3
1976					79.0	15.6	10.1	6.9	7.5	27.2	78.3	190.3	47.0	15.7	0.0	0.0	0.0	0.0	25.7	41.3
1977					70.0	15.2	14.9	13.0	9.6	32.5	80.9	263.8	38.0	13.6	3.9	0.0	0.0	0.0	31.2	48.6
1978	12300	11431	4870	42.6	36.0	14.8	18.0	17.5	7.7	29.1	85.4	176.7	47.0	14.1	7.0	0.0	0.0	0.0	38.5	59.7
1979	11848	11540	3450	29.9	23.0	15.4	19.1	15.6	6.7	25.3	84.0	154.1	43.0	15.7	6.4	0.0	0.0	0.0	37.9	60.0
1980	13037	9031	5978	66.2	2.0	16.0	15.2	11.6	5.8	25.2	78.6	137.4	48.0	15.1	4.1	0.0	0.0	0.0	31.2	50.4
1981	12893	8990	8289	92.2	38.0	13.2	14.2	18.3	3.8	18.7	70.7	97.4	63.0	11.2	NA	0.0	0.0	0.0	9.4	20.7
1982	12810	9174	10230	111.5	43.4	15.8	14.1	18.9	3.6	18.1	76.0	109.9	58.0	8.8	NA	0.0	0.0	0.0	19.6	28.5
1983	13464	9966	12175	122.2	42.7	14.9	14.2	19.4				104.8	59.0	NA	NA	NA	NA	NA	NA	NA
1984	10700	9600	11900										51.6	NA	NA	NA	NA	NA	NA	NA
1985	11900	11500	10300	7									54.0							
1986	11000	10500	8800										74.3							

Source: Thomas, 1985, 102-114 and TABLE F-4; Coyuntura Económica, December, 1986, Tables II-1 and II-2. Some figures are simply approximated.

Methodology:

Columns (1)-(3) and (6)-(8) are for the "coffee year" (Oct 1-sept 10). Then, instead of 1964, it should be 1964/65, etc

Columns (1)-(3): Thousand sixty-kilogram bags

Column (12): Quoted Prices, not actual sale prices for Colombia. Deflated by a US Dollar price index of manufactured exports from developed to developing country.

Column (13): Ratio of the nominal domestic price paid by the Federación for Pergamino to coffee farmers, divided by the nominal world price of green coffee. For 1984-86 it is the arithmetic average of the 4 terms of the year.

Column (16): The Exchange Differential is not included in Total Taxes for 1981 and 1982.

Table 3.2

MONEY, COSTS, AND PRICES
Colombia, 1970-84

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
1 A. CHANGES (MILLIONS OF COL \$) IN THE MONETARY BASE	1.4	3.7	5.7	4.0	9.7	15.7	21.4	26.4	30.8	30.1	37.3	36.4	33.0	50.7
2														
3 B. CHANGES (%) IN MONETARY BASE AND M2														
4 1. MONETARY BASE	10	25	31	16	34	42	40	35	30	29	22	18	14	18
5 2. M2	13	29	35	25	23	34	34	28	23	45	36	21	25	24
6 3. MONEY MULTIPLIER (M2)	2.0	2.0	2.1	2.3	2.1	2.0	1.9	1.8	1.7	1.9	2.1	2.2	2.4	2.5
7														
8 C. NON-MONETARY LIABILITIES														
9 1. AS A % OF EXPORTS	45	42	45	43	32	36	43	24	24	29	31	42	35	51
10 2. AS A % OF M2	25	25	26	26	25	24	36	19	23	24	19	22	16	22
11														
12 D. CHANGES (%) IN VARIABLES RELATED TO COSTS.														
13 1. WAGES -real-	2	-1	-11	-11	-3	0	6	16	-9	-6	9	7	6	NA
14 2. EXCHANGE RATE -nominal-	8	10	8	10	19	12	6	6	17	4	15	18	23	28
15 3. EXCHANGE RATE -real effective-	5	5	1	-1	18	-2	-13	-2	-2	-1	-7	-6	3	6
16 4. INTEREST RATE -nominal-	22	14	9	34	-1	12	-5	8	16	4	8	2	-11	NA
17 5. CONSUMER PRICES	10	13	21	25	23	20	33	18	25	27	28	25	20	16
18 6. FOOD PRICES														
19														
20 E. INTEREST RATE -REAL-	6	4	-2	1	3	8	-6	11	9	8	10	13	14	NA

Rows 1, 4: Revista del Banco de la República. Table 3.1.4 "Origen de la Base Monetaria".

Rows 5: IMF Financial Statistics

Rows 8-10: Table 3.1.4

Row 13: Wopert, 1985, p.80

Industrial Unit Wage (average worker).

Rows 14 and 15: IMF Financial Statistics, and Cuddington, 1986

Row 16: Carrizosa, 1986, p.48

CERT implicit interest rate.

Row 17: IMF Financial Statistics

Consumer Prices

Row 18: Revista del Banco de la República

Row 20: Nominal Interest Rate (Row 16)-less Inflation Rate.

Table 4.1 **COLOMBIAN ECONOMIC GROWTH.**
1925-1984

	AGRICULTURE,	INDUSTRY	(1)+(2)	GDP
	(1)	(2)	(3)	(4)
1925-31	3.09	2.10	2.98	4.41
1931-39	3.42	12.40	4.70	5.04
1941-49	3.34	7.26	4.22	4.59
1951-59	4.09	7.30	5.13	5.21
1941-59	3.00	7.50	4.22	4.75
1960-67	3.09	5.49	4.02	4.73
1967-74	4.20	8.07	5.88	6.37
1974-78	5.03	4.20	4.64	4.90
1979-84	1.19	0.74	0.98	2.26
1925-84	3.14	6.49	4.01	4.64
1980	2.21	1.22	1.75	4.09
1981	3.20	-2.60	0.52	2.28
1982	-1.90	-1.40	-1.68	0.90
1983	1.80	0.50	1.15	1.00
1984	1.10	8.00	4.55	3.20
1985	1.80	3.00	2.40	2.00

Sources:

CEPAL, "El Crecimiento Económico de Colombia". Anexo Estadístico".

DANE and Banco de la República. "Cuentas Nacionales de Colombia".

COYUNTURA ECONOMICA, Marzo, 1986, p.11

EVOLUTION OF SOME ECONOMIC VARIABLES IN COLOMBIA AND LATIN AMERICA

1967-84

I.

1. VARIABLES AND RATIOS (%)

- 1 FOREIGN RESERVES/GDP
- 2 FOREIGN RESERVES/IMPORTS/MONTHS
- 3 FISCAL DEFICIT/GDP
- 4 DEBT/GDP
- 5 DEBT/EXPORTS
- 6 DEBT-RESERVES/GDP
- 7 DEBT-FOREIGN RESERVES/EXPORTS
- 8 INVESTMENT/GDP
- 9 NOMINAL INTEREST RATE
- 10 INTERNATIONAL INTEREST RATE (USA) + DEVALUATION
- 11 REAL INTEREST RATE
- 12 EXPORTS/GDP
- 13 IMPORTS/GDP
- 14 EXPORTS-IMPORTS/GDP

II. ANNUAL GROWTH RATES

- 15 CONSUMER PRICES
- 16 HIGH POWER MONEY - NOMINAL
- 17 HIGH POWER MONEY - REAL
- 18 M2 - NOMINAL
- 19 M2 - REAL
- 20 INDUSTRIAL PRODUCTION
- 21 AGRICULTURAL PRODUCTION
- 22 GDP
- 23 REAL EXCHANGE RATE
- 24 NOMINAL EXCHANGE RATE
- 25 TERMS OF TRADE
- 26 REAL EXPORTS
- 27 VALUE OF EXPORTS/IMPORT PRICE

OIL IMPORTING COUNTRIES

	1967	1974	1979	1983	1984
1	1.75	3.61	8.49	NA	NA
2	2.30	2.74	7.67	NA	6.61
3	NA	-1.11	-8.23	-0.70	NA
4	17.98	21.94	22.59	16.86	NA
5	21.43	12.58	24.45	12.86	121.45
6	13.84	22.88	34.45	12.16	35.67
7	13.84	19.35	36.05	15.79	17.33
8	11.82	19.59	12.84	18.14	NA
9	13.63	23.88	19.44	19.44	NA
10	-3.81	-8.29	-6.38	-1.31	NA
11	1967-74	1974-79	1979-83	1979-84	
12	23.87	32.40	NA	57.54	
13	31.77	45.61	NA	56.25	
14	2.65	6.37	NA	NA	
15	34.81	54.04	NA	59.96	
16	7.37	8.63	NA	-2.29	
17	5.38	3.88	6.23	NA	
18	3.61	3.91	4.21	NA	
19	6.27	6.83	0.94	NA	
20	-2.12	-2.85	6.83	2.61	
21	33.34	38.59	45.78	43.57	
22	0.81	-1.85	-6.31	-1.12	
23	18.28	5.62	6.61	NA	
24	6.89	5.83	-3.62		

A2

REAL EXCHANGE RATE AND EXPORT SUBSIDIES COLOMBIA, 1973-85

WEIGHTED REAL EXCHANGE RATE (INCLUDES SUBSIDIES)				WEIGHTED REAL EXCHANGE RATE (EXCLUDES SUBSIDIES)				EXPORT SUBSIDIES						
22 COUNTRIES				L.A.M. COUNTRIES				CAT OR PROEXPO CERT				PLAN VALLEJO		TOTAL
MINOR EXPORTS				MINOR IMPORTS				MINOR EXPORTS				MINOR IMPORTS		
79-3	94.46	96.17	102.73	105.98	112.82	114.61	122.44	126.31	22.00	1.00	1.90	24.90		
5	108.68	108.60	105.00	100.00	100.00	100.00	100.00	100.00	2.20	1.20	1.40	4.80		
9	82.99	85.76	84.27	83.97	87.43	89.28	87.73	87.41	4.10	3.00	2.00	9.10		
7	82.49	84.81	78.39	82.93	85.71	87.30	81.46	86.17	3.50	3.00	2.40	8.90		
80	83.48	83.38	82.78	84.66	92.08	91.92	91.39	95.67	9.40	3.20	3.10	15.70		
1	77.45	78.18	83.76	89.39	94.21	89.35	97.14	100.11	11.70	4.20	2.80	18.70		
2	75.86	72.86	80.05	73.48	86.02	83.49	91.74	84.21	12.00	6.00	2.10	20.10		
3	72.96	76.33	67.80	68.28	87.46	91.51	81.23	81.84	18.70	4.90	2.00	25.60		
4	76.48	83.18	67.80	74.09	94.43	102.71	83.71	91.48	21.70	5.10	2.60	29.40		
5	80.73	87.43	70.45	73.74	100.30	108.62	87.82	91.62	22.40	4.10	3.70	30.20		

3.

WILLIAM FOREIGN DEBT
1-1992 (US\$ millions unless otherwise specified)

	DEBT (STOCK)				FLOWS					RATIOS			TERMS OF NEW COMMITTEE		
	LONG TERM	INF. CREDIT	SHORT TERM	TOTAL	DISBURSEMENTS		REPAYMENTS		NET FLOWS	1 OF 1 OF RESER	INTEREST PAYMENT 1 OF 1 OF RESER	NOMINAL INTEREST	MATURITY 1 OF 1 OF RESER		
					PUBLIC	PRIVATE	TOTAL	PRINCIPAL						INTERESTS	TOTAL
PUBLIC AND PRIVATE															
PUBLICLY ISSUED															
GUARANTEED OUTSTANDING															
(1)	(2)	(3)	(4)	(5)	(6)	(7A)	(7B)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
		(1)+(2)		(3)+(4)+(5)							(8)+(9)	(7)-(10)			
1970	1299	283	1582	961	254	83	337	137	59	196	58	255	1254	6	29
75	2377	367	2744	0	1668	4415	490	180	136	316	53	201	497	6	21
78	2807	363	3170	0	1927	5097	331	283	195	478	-185	124	181	5	7
1980	4084	515	4599	0	2337	6936	1019	263	310	573	445	118	107	5	5
81	5073	866	5939	0	2774	8713	1317	463	461	836	480	174	142	9	8
82	5986	1192	7178	0	3124	10302	1238	403	705	1108	130	207	184	14	13
83	6885	1278	8163	0	3260	11423	1372	620	626	1246	126	278	325	15	16
84	7980	1437	9417	0	2868	12285	1753	690	622	1312	441	231	488	12	35

Notes:

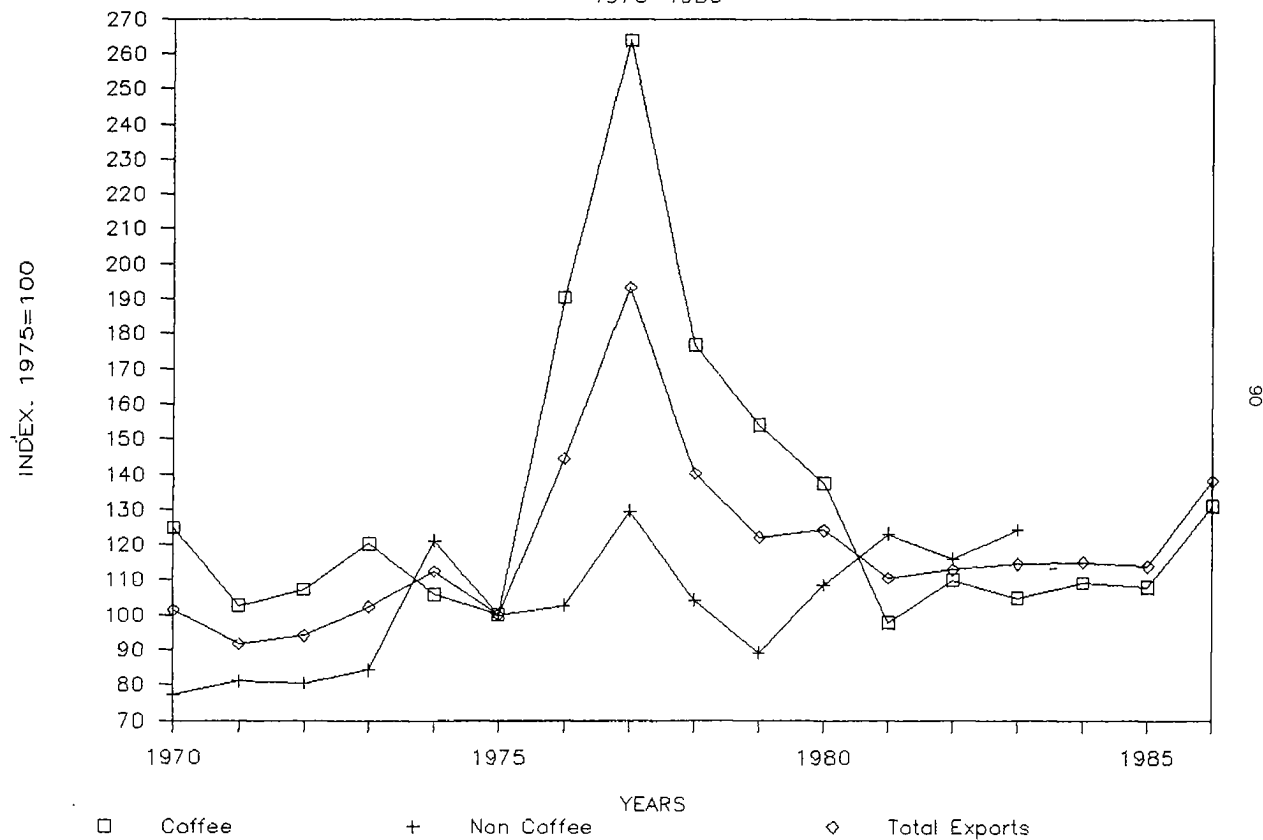
Methodology:

Column 5. To obtain the figures for 1970 and 1975 it was assumed that the relation between short term and long term debt was similar in 1970, 1975, and 1978.
Column 7B. To obtain the figures for 1970, it was assumed that the relation between private and public disbursements was similar in 1970 and 1975.

Graph 1.1

COLOMBIAN TERMS OF TRADE

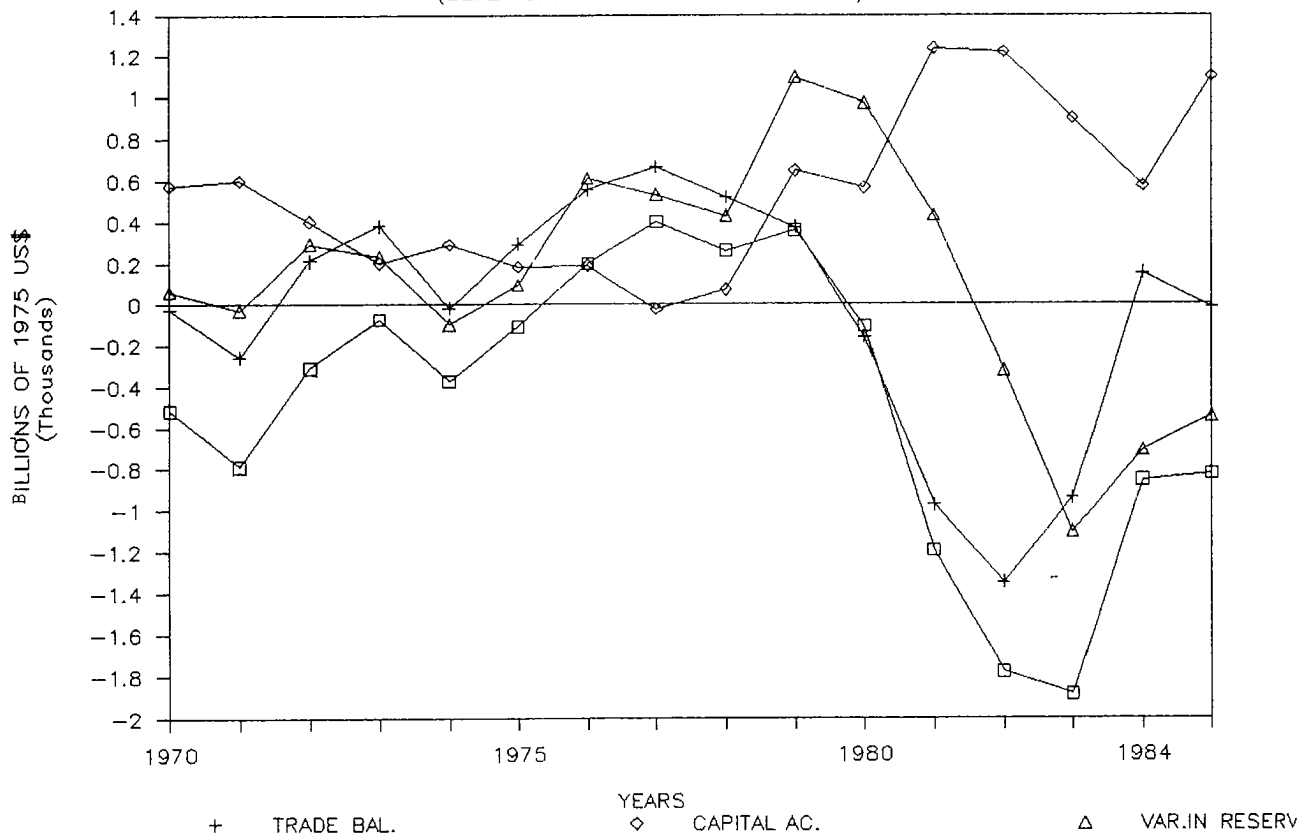
1970-1986



Graph 1.2

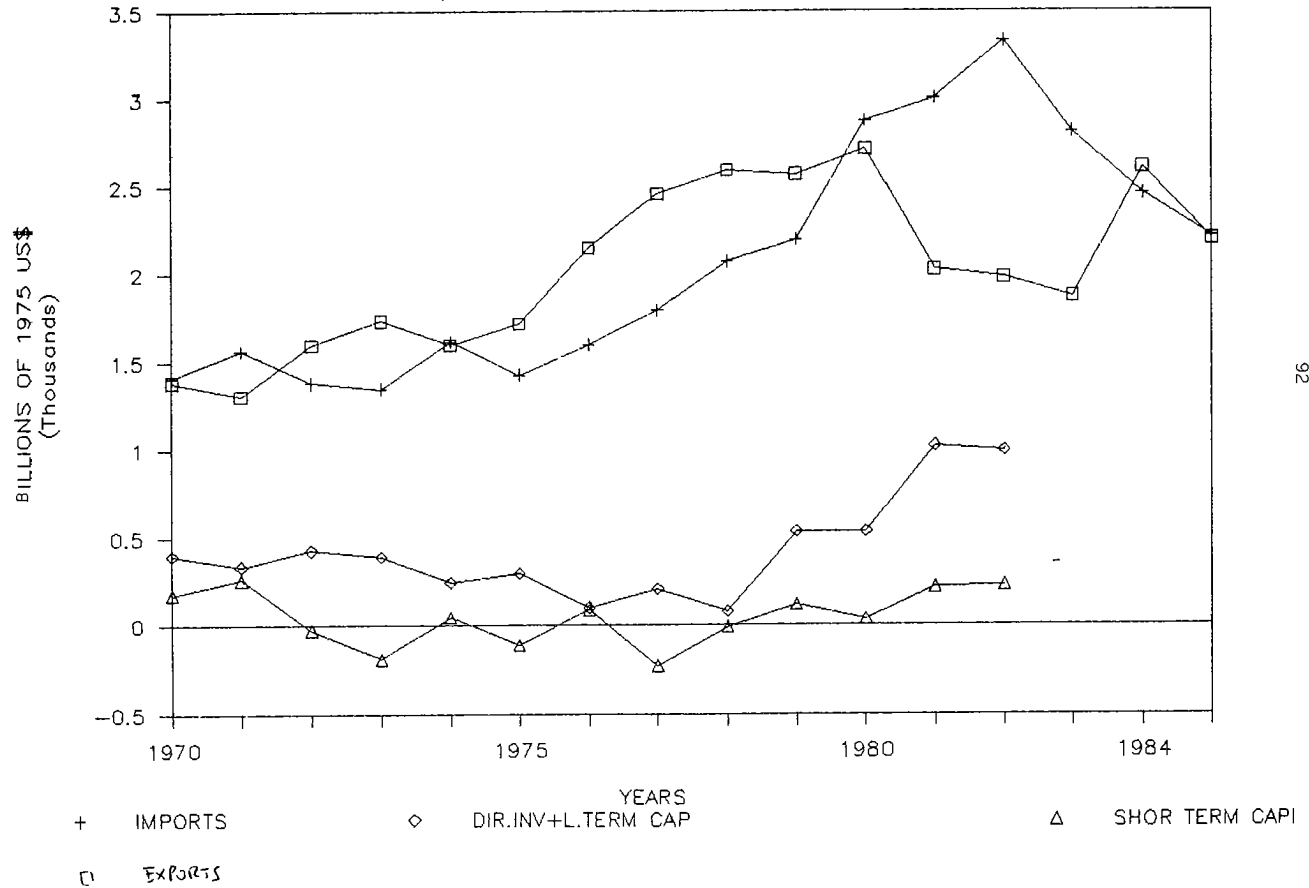
COLOMBIAN BALANCE OF PAYMENTS. 1970-85

(DEFLATOR. COLOMBIAN IMPORT PRICE)



Graph 1.3
VARIABLES IN COLOMBIAN BALANCE OF PAYMENTS

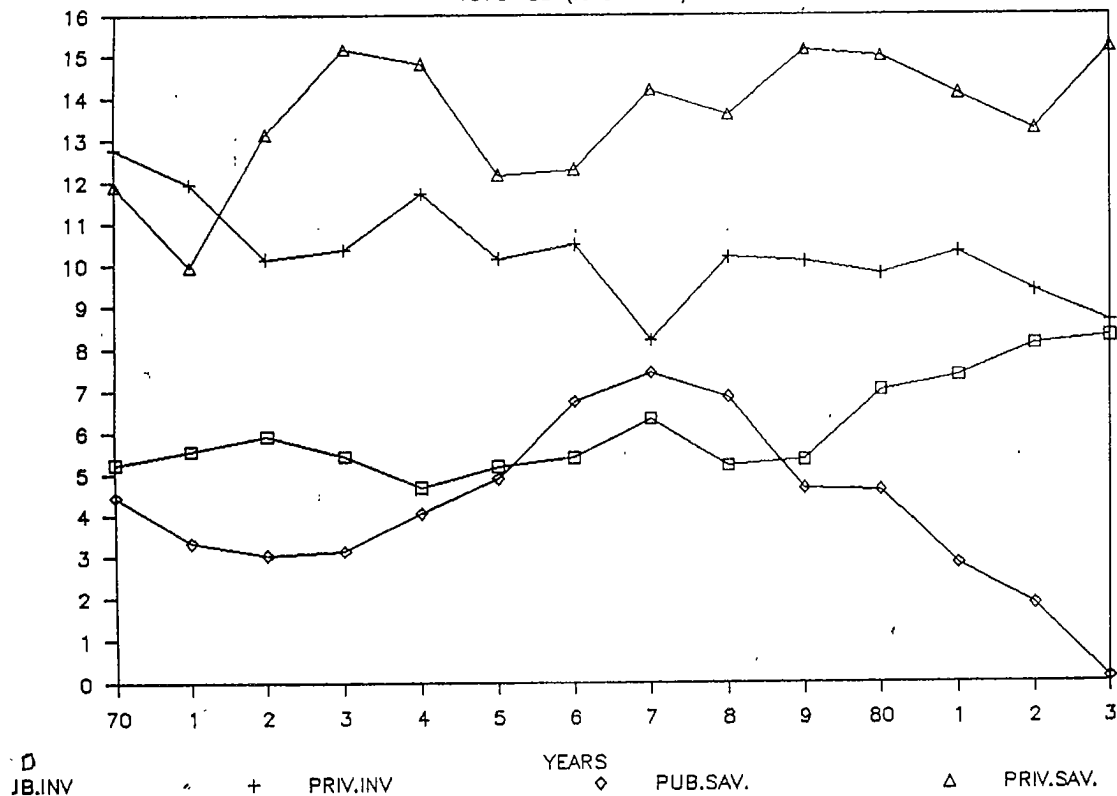
(DEFLATOR, COLOMBIAN IMPORT PRICE)



Graph 2.1

SAVINGS AND INVESTMENT IN COLOMBIA

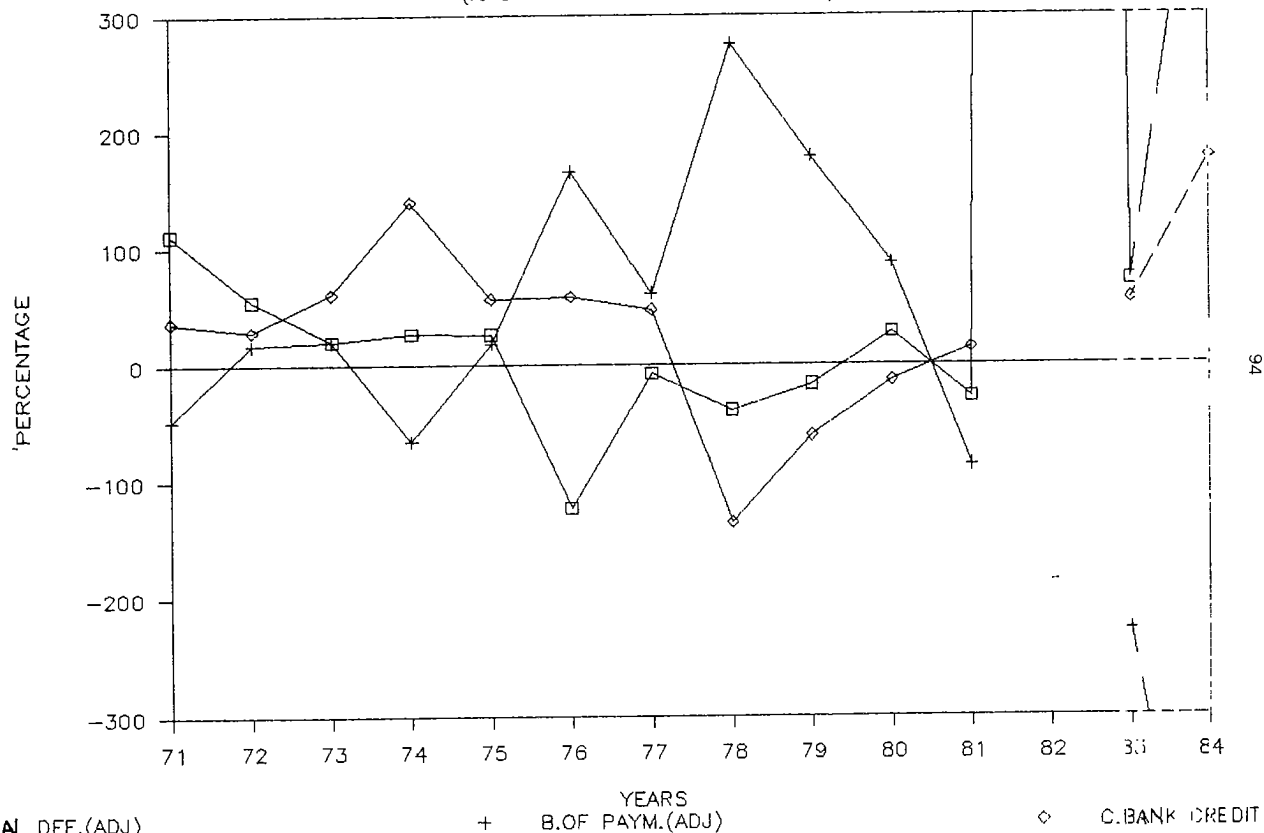
1970-83 (% OF GDP)



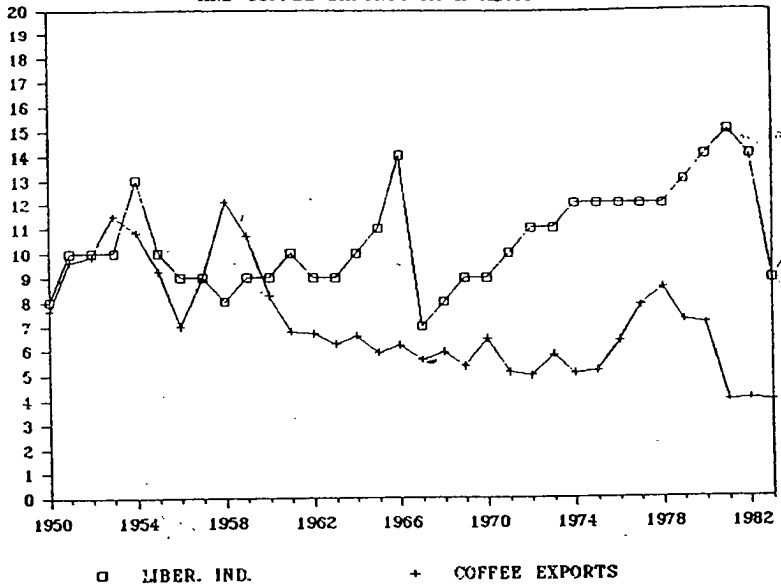
Graph 2.2

ORIGINS OF MONETARY BASE CHANGES

(% OF MONETARY BASE CHANGES)



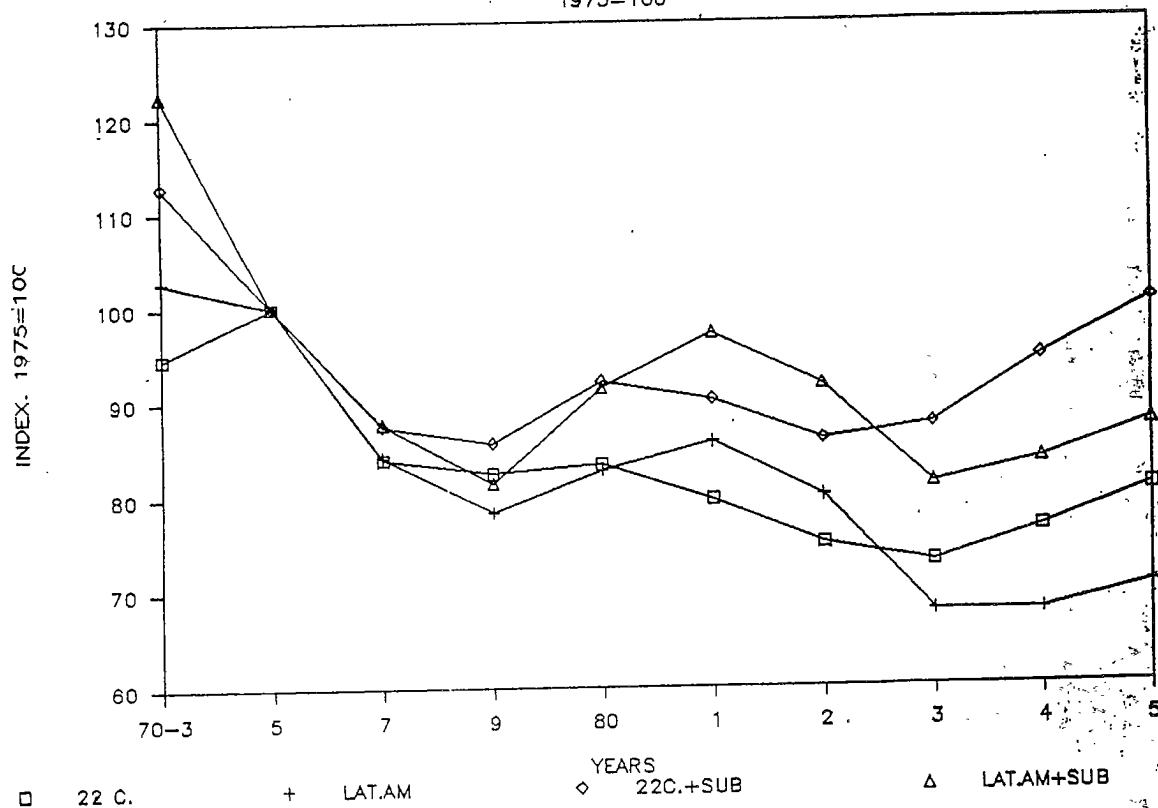
GRAPH A-1 : INDEX OF LIBERALIZATION
AND COFFEE EXPORTS AS A RATIO OF GDP



Washington.

Graph A2. REAL EXCHANGE RATE FOR EXPORTS

1975=100



INFLATION RATES IN COLOMBIA. 1950-84

