GROWTH AND DISTRIBUTION IN COLOMBIA:
Some Recent Analyses*

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ECONOMIC POLICY AND INCOME DISTRIBUTION IN COLOMBIA. By R. ALBERT BERRY and RONALD SOLIGO. (Boulder, Colo.: Westview Press, 1980. Pp. 269. $24.50.)

INTERGOVERNMENTAL FINANCE IN COLOMBIA: FINAL REPORT OF THE MISSION ON INTERGOVERNMENTAL FINANCE. By RICHARD M. BIRD. (Cambridge, Mass.: International Tax Program of the Law School of Harvard, 1984. Pp. 414. $20.00.)

THE ROLE OF ECONOMIC ADVISERS IN DEVELOPING COUNTRIES. By LAUCHLIN CURRIE. (Westport, Conn.: Greenwood Press, 1981. Pp. 288. $27.50.)

ROADS TO REASON: TRANSPORTATION, ADMINISTRATION, AND RATIONALITY IN COLOMBIA. By RICHARD HARTWIG. (Pittsburgh: University of Pittsburgh Press, 1983. Pp. 276. $24.95.)

WHY THE EMPEROR'S NEW CLOTHES ARE NOT MADE IN COLOMBIA. By DAVID MORAWETZ. (Oxford: Oxford University Press for the World Bank, 1981. Pp. 192. $22.00.)

WINNERS AND LOSERS IN COLOMBIA'S ECONOMIC GROWTH IN THE 1970S. By MIGUEL URRUTIA. (Oxford: Oxford University Press for the World Bank, 1985. Pp. 142. $19.95.)

Between 1960 and 1980, Colombian income per capita grew at more than 3 percent per annum. Although Colombia's economic performance has worsened recently along with most of Latin America, its

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record of sustained growth over these two decades, while avoiding major recessions, ranks among the best of the major Latin American countries. Colombia grew particularly rapidly in the period from 1966 to 1974, when growth averaged nearly 6.5 percent per annum, versus 4.9 percent per annum for the rest of the sixties and seventies.

The first question that naturally arises in reviewing a series of books on Colombia is what factors and policies produced this sustained growth? In particular, what factors produced the growth spurt and then the slowdown in the period between 1974 and 1980? A second question is how were the fruits of growth distributed? This question is particularly relevant because two well-known studies of the early 1970s suggested that Colombia might encounter serious difficulties in absorbing its rapidly growing labor force.[1] Although birthrates were falling sharply even as these studies were being written, the bulge in population growth of the fifties and sixties nonetheless meant that labor force growth would remain high through the 1980s.

The books under review provide interesting views on these questions because three of the authors are among the best-known experts on the Colombian economy during this period and were closely involved in economic policy-making. In 1950 Lauchlin Currie led the first World Bank mission to a developing country (Colombia) and directed a monumental study still cited admiringly in many of the books reviewed here.[2] Currie became a naturalized Colombian citizen, and in 1970 he was named a macroeconomic advisor to the Colombian Departmento Nacional de Planeación. There he participated in writing the Plan de las Cuatro Estrategias, which reflects many of the ideas set out in his early books.[3] Currie's *The Role of Economic Advisers in Developing Countries* is organized around the problems faced by policy advisors, but most of the examples are drawn from his experiences in Colombia. Albert Berry began working on the Colombian economy in the 1960s, as part of the Yale Growth Center's program of country studies, and he acted as a consultant to the Colombian government on various occasions. Miguel Urrutia participated in the Musgrave Commission on tax reform during the late 1960s and served as advisor to the Junta Monetaria, Director de Planeación, and Ministro de Minas y Hidrocarburos. He has written on such diverse aspects of the Colombian economy as labor unions, economic history, income distribution, and public expenditure and taxation.

Analysts generally agree that increased nontraditional exports were a major contributor to Colombia's growth surge. Between 1966 and 1974, exports other than coffee rose at an average rate of 28 percent per annum in current dollars. Numerous studies have examined the causes of this growth from a macroeconomic standpoint and found that a key element was the shift in 1967 to the combination of a realistic exchange rate (maintained for over six years by a steady rate of devaluation about equal to the inflation differential between Colombia and her trading partners) and, to a lesser extent, the generalized system of export incentives.[4]

David Morawetz's *Why the Emperor's Clothes Are Not Made in Colombia* analyzes the determinants of the boom in nontraditional exports from another angle by focusing on exporting in a single industry. Despite this narrower focus, his findings concur with the macro studies that the single most important reason for the rapid growth of the clothing export industry was macroeconomic policy—the exchange rate and the system of generalized export incentives that made clothing exports profitable. Morawetz also shows that after 1973, when the exchange rate was allowed to appreciate, clothing exports began to decline. Morawetz's interviews with firms also highlight other factors in exporting besides price. When exporting was profitable, Colombian clothing producers signed licensing agreements for marketing. These agreements helped the Colombian firms keep up with changing tastes in export markets and provided a transfer of technology leading to reductions in costs per unit of 30 to 50 percent. But quality control and prompt delivery remained problems. After 1974, when macroeconomic policies began to make exporting from Colombia less profitable, these two factors added to the pressures that terminated the agreements. Productivity also declined after the agreements ended.

Morawetz provides an interesting example at the industry level of the impact of Colombia's protectionism on its exporters. As protection increased, clothing manufacturers were subjected to soaring prices for their textile inputs. By 1978 the prices of cotton textile fabrics were 50 to 100 percent higher internally than externally, according to price quotes that Morawetz obtained by calling Colombian textile firms. The textile manufacturers were able to maintain this differential only because of the high protection afforded textiles. Inevitably, such high input prices made it nearly impossible for Colombian clothing exporters to compete in world markets.

Although Colombia did well in nontraditional exporting in the early 1970s when compared with most other Latin American countries, Morawetz points out that its performance compares less favorably with Asian countries. With an unfavorable exchange rate, higher costs for inputs, and constant delays in exporting and importing, it is not surprising that Colombian clothing exports to the United States in 1978 totaled less than 1 percent of the combined clothing exports of Hong Kong, South Korea, and Taiwan. This disparity existed despite the fact that in 1978 the wages in these Asian countries were 50 percent higher than in Colombia. In the latter part of the 1970s, Colombia did not even fill its export quota under the Multi-Fiber Agreements because the foreign currency prices it received, when translated into pesos at the overvalued exchange rate, did not cover Colombian costs of manufacture.

A second major factor in Colombia's growth surge was construction. As Currie explains, the Plan de las Cuatro Estrategias was based on the idea of achieving high growth by stimulating housing construction and exports other than coffee. These areas were viewed as sectors that could expand rapidly because in the case of housing, unsatisfied latent demand was high and income elasticity could be high, and in the case of exports other than coffee, additional supply would not affect prices much. The leading sectors would then stimulate faster growth in the other sectors. In addition, in a more rapidly growing economy, further feedbacks to higher growth would occur as economies of scale were realized, incentives increased for technical change, and higher incomes led to slower population growth. The instrument for promoting housing construction was to be an innovative system of indexed deposits and mortgages known as UPAC (Unidad de Poder Adquisitivo Constante), which would expand housing finance greatly. As Currie points out, this strategy met with significant opposition. Yet President Pastrana decided to go ahead with the plan, and in a brief period, a whole new system of financial intermediaries was created, largely by the private sector. Housing boomed in 1973 and 1974, a particularly impressive performance according to Currie in light of the upsurge in inflation, a factor that normally had reduced housing construction. Although the UPAC system was curtailed significantly after 1974 by the López Michelson administration, it has nonetheless provided strong support for housing finance, underwriting the construction of two hundred and fifty thousand houses between 1972 and 1984, with seven million deposits at the end of 1984.

The impact of the growth spurt on income distribution was analyzed in 1975 by the papers included in *Economic Policy and Income Distribution in Colombia*, although the book did not appear until 1980. Albert Berry and Ronald Soligo's introduction provides a good review of the studies of income distribution up to the mid-1970s, including Berry's earlier book with Urrutia,[5] and also summarizes the rest of the articles on the specific factors affecting income distribution. They find that income distribution worsened somewhat during the high-growth period. Moreover, they find that the share of labor going to unskilled labor worsened. They attribute this trend mainly to the rise in inflation in 1973–74 that was unaccompanied by a similar inflation in wages. Finally, the contributions to the Berry and Soligo collection are decidedly less pessimistic about the impact of increases in the labor force than the studies made at the beginning of the 1970s.

Regarding the impact of the nontraditional exports on income distribution, the essay by Berry and Carlos Díaz Alejandro argues that it probably was small. Although the exports came from the more labor-intensive sectors, they represented only a small fraction of GDP (6 to 7 percent) and were concentrated in a relatively few firms. A broader and more sustained growth of nontraditional exports would have been necessary to achieve a major change in distribution. Such growth could only have occurred through reductions in the protection that continued to hinder potential exporters and afforded significant advantages to larger firms. Nonetheless, it is worth noting that Colombia experienced an unprecedented growth in employment during this period, and the absorption of labor in manufacturing was particularly rapid. This trend probably reflects the indirect impact of the outwardly oriented development strategy, as well as the boom in construction.[6]

As to the impact of housing construction, Berry and Soligo make the interesting point that in the short run a housing boom sharply increases the demand for labor, particularly unskilled labor, and so improves income distribution. In the longer run, however, more housing means more housing services and therefore the owners of those houses receive a correspondingly larger share of national income. Consequently, labor's share will decline in the longer run. Thus a trade-off exists between a short-run improvement and a long-run decline in labor's share. While this conclusion is relatively insensitive to the economy's parameters, it neglects the point that a sustained higher level of housing construction can increase the demand for labor and so result in higher labor incomes than otherwise would have been achieved. This omission illustrates the well-known problems that arise from focusing solely on relative incomes and neglecting the impact of economic growth.

For the demand for labor to increase as housing construction rises, the rate of investment in the rest of the economy should not fall too much. At the time the UPAC system began, some feared that its rapid growth would divert credit from investments outside housing, a fear echoed in the Berry and Soligo volume. But investigations undertaken at Planeación in the mid 1970s suggest that UPAC's growth did not represent a diversion of deposits from existing financial intermediaries. Thus, about the same amount of real credit remained available to finance investment other than housing. While total fixed investment—housing plus plant and equipment plus government investment—did slow down after 1974, this trend was caused by the stabilization program, which reduced public and private investment, and by the impact of the limitations on the UPAC system, which slowed the growth in housing finance, rather than by the diversion of credit envisaged by Berry and Soligo.

Miguel Urrutia's *Winners and Losers in Colombia's Economic Growth of the 1970s* comes to very different conclusions than Berry and Soligo's volume about the changes in income distribution during the 1970s. *Winners and Losers* meticulously assembles the available data and carefully analyzes their quality. At times the reader feels overwhelmed by the fifty-seven tables in the first two-thirds of the book. But all this evidence clearly challenges the commonly held view, especially regarding Colombia, that the 1970s were a time of worsening income distribution. First, wages of agricultural workers (who earned the lowest wages of any group) grew the fastest—substantially faster than national income. Second, the data show that wages of lower-income urban workers generally grew faster than wages of higher-income urban workers and salaries of white-collar employees, thus improving income distribution somewhat at the expense of the middle class. Yet even the deterioration of the position of the middle class is not clear, once the changing levels of participation by middle-class women are taken into account. Third, a comparative study of families in Cali with the highest and lowest incomes over the whole decade indicates that the lowest incomes grew much faster than either the national income (7.8 percent versus 5.8 percent per annum) or the highest family incomes (6.9 percent per annum). This statistical finding of a substantial improvement in the poor families' income is supported by the enormous increase in their ownership of consumer durables. To a large extent, the improvement in the incomes of the poor families reflects a substantial increase in female participation together with an improvement in the relative wages of females. Urrutia also finds that a careful comparison of household incomes suggests no worsening of income distribution between 1964 and the early 1970s, and some improvement in the absolute share of income going to the lowest deciles. All the data point to a further improvement in distribution by the end of the 1970s.

Why do Urrutia's conclusions contradict the generally held view about Colombian income distribution, particularly that expressed in the Berry and Soligo collection? First, a closer look at the wage series shows that most real wages peaked in the early seventies, declined until 1976 or 1977 during the stop-go cycle, and then rose sharply until 1980. Thus it was easy for Berry and Soligo to draw the conclusion that income distribution had worsened, based on data from the mid-1970s. Although at one point Berry and Soligo do suggest that the main cause of the worsening income distribution was the lag in wage adjustments and that wages would eventually catch up to prices, most of their projections do not incorporate this view. As Urrutia points out, this pattern is exactly what occurred. Second, most of the previous analyses of income distribution concentrated on urban wage income, and the few national household surveys covered the agricultural sector poorly, particularly agricultural income other than wages. As Urrutia shows, between 1964 and 1972 the distribution of income actually worsened somewhat in both the urban and rural sectors, but overall income distribution improved because of the narrowing rural-urban differential.

One should also note that Urrutia's optimistic conclusions may be subject to the same criticism as Berry and Soligo's findings: later developments negated them. While real wages undoubtedly improved significantly at the end of the 1970s, especially when fringe benefits are taken into account, the question remains open as to whether this improvement was due to market forces or to government policy and union pressure. If the latter is true, then the recent slowdown in employment growth must be attributed, at least in part, to excessive real wages as well as to the cyclical downturn. Moreover, the pressure for high real wages may have led to pressures for higher protection, which in turn contributed to the slowdown of exports other than coffee. All of this argument is somewhat speculative, of course; an alternative explanation of the rising real wage is that it reflected the considerable upgrading of the educational attainments of the Colombian labor force. Another study of income distribution is clearly needed to untangle these puzzles.

The other two books under review deal with another aspect of economic growth in Colombia, the role of the government. What the Musgrave report did for taxes,[7] Richard Bird's *Report on Intergovernmental Finance* does for government expenditures. This report breaks new ground in attempting to trace the flows of spending through the Colombian fiscal labyrinth and analyze closely the behavior of some of the the autonomous agencies. It also makes some suggestions for improvements.[8] As is apparent from the data presented, the cash surpluses of the central government during the period of the coffee boom may well hide a substantial transfer from the central government to the rest of the public sector and an overall public sector deficit. It is this transfer that the Bird report analyzes. Two other conclusions stand out. First, the process of setting up special autonomous agencies that began in the late 1960s has led to a proliferation that now makes public sector planning and budgeting nearly impossible. The harder it becomes to trace what is happening to government funds, the harder it is to determine how efficiently resources are being used. Second, the prevalence of earmarked taxes has given these agencies even greater autonomy and impeded the control of public spending. The report does not consider earmarking as intrinsically bad, rather that it is justified in some cases while in others it occasions too great a loss of fiscal control.

The Musgrave report led to a major tax reform in 1974. That reform is well described in the Berry and Soligo collection by Malcolm Gillis and Charles McClure, two of the original participants in the Musgrave Commission. It will be interesting to see whether the *Report on Intergovermental Finance* has a similar impact.

Richard Hartwig's *Roads to Reason: Transportation, Administration, and Rationality in Colombia* is another catchy title dealing with Colombia. But the book is less about Colombia than about developing a theory of public administration. To a nonspecialist, however, the author's search for a theory of public administration seems to be largely a series of citations. Hartwig settles on the view that successful public administration must be functionally rational, by which he seems to mean that it must consider various modes of rationality—economic, social, technical, legal, and political. It must also be responsible, by which he seems to mean that it is based on an agreed-upon approach to decision making. In analyzing Colombia's transport policy, Hartwig concludes that engineering and economic rationality was overemphasized while political and social realities were neglected. Transport policy was neither functionally rational nor responsible, and it was consequently ineffective.

Many of Hartwig's observations and anecdotes are illustrative, but others strike this reader as poorly chosen. Readers would probably prefer more detail about the actual formation of transport policy and less on the problems of the library of the Ministerio de Obras Públicas as an example of the problems of public administration. It is hard to take seriously Hartwig's treatment of the Harvard Transport Model as an instrument intended by decision makers to impose rationality on transport planning. Although the model probably recouped its low cost many times over, it took ten years to be published, and one of its main conclusions—the stress on maintenance—simply repeated the Currie mission's recommendation. In addition, the model was not transparent enough to convince policymakers, especially given some of the counterintuitive results that Hartwig cites. In actuality, many of these results reflect the deficiencies of the standard econometric modeling practice of the time. Experience has shown that this practice did not reflect the structure of the economy, that it would have led to erroneous predictions, and that policymakers were therefore wise not to depend too heavily on the model.

Another problem with *Roads to Reason* is that Hartwig's theory provides an easy basis for criticism, but not much help for an analyst who is trying to explain why certain forms of administration develop, or even a realistic way to improve programs. For example, Hartwig comments favorably on the Fondo Vial, through which part of the gasoline tax is earmarked for road construction. But as the Bird commission points out, earmarking is not always a desirable solution because of the loss of budgetary control. The Fondo Vial is an exception that usually works reasonably well because of the close links between the beneficiaries of the expenditure, the road users, and the taxes paying for the benefits. Even here an exception exists: when policy on pricing petroleum effectively shifted part of the tax to ECOPETROL, the change created substantial financial problems that distorted the company's operation, an undesirable side effect not considered in the decision to earmark revenues.

Hartwig also speaks admiringly of Currie's World Bank report for introducing economic rationality into transportation planning, formerly a purely engineering exercise, and for occasioning the elimination of potentially expensive and economically unfeasible projects. At the same time, Hartwig criticizes the report and the World Bank's large highway investment program of the 1950s and early 1960s for not contributing as much as they might have to Colombia's development due to their neglect of the political and social dimensions. The criticism that engineers and economists must pay attention to political and social realities to succeed is not novel, especially when that criticism is made ex post facto. As Nobel-prize-winner Herb Simon has pointed out, in order to get anything done, decison makers must concentrate on a few alternatives. Hartwig's proposed remedy of considering more modes of rationality contains no realistic general guidelines for selectively incorporating these dimensions into the analysis.

Another of Hartwig's suggestions is to embed transportation programs into a comprehensive national plan involving political and social aspects as well as economic aspects. This idea simply calls on a deus ex machina to resolve the problems. It is probably not within human capabilities to make up such a plan, if he means it to be a document that is actually implemented. Even if such a plan were possible, it could not be effected within a reasonable time period. Hartwig's criticism of how long it took to develop the Harvard model of Colombia's transport system shows how difficult it is to complete and implement a comprehensive plan of even the transport sector, let alone the economic, social, and political dimensions of the country. Currie's *The Role of Economic Advisers in Developing Countries* emphasizes how important it is to give timely advice, even if some of the minor details are not quite correct, in order to take advantage of windows of political opportunity. Indeed, if one were to make a general criticism of the excellent books reviewed here, it would be that they did not appear soon enough from the standpoint of policy-making. Of course, data are often slow in appearing, particularly data on income distribution, but greater efforts must be made to present scholars' results promptly enough to have an impact on policy-making.

NOTES

1. International Labour Organisation, *Towards Full Employment* (Geneva: ILO, 1970); and World Bank, *Economic Growth of Colombia: Problems and Prospects* (Baltimore: World Bank, 1972,.

2. International Bank for Reconstruction and Development, *The Basis for a Development Program for Colombia* (Baltimore: Johns Hopkins Press for the IBRD, 1950).
3. Lauchlin Currie, *Operación Colombia* (Bogotá: Cámara Colombiana de Construcción, 1961); also his *Accelerating Development* (New York: McGraw-Hill, 1966).
4. See Carlos Díaz Alejandro, *Foreign Trade Regimes and Economic Development: Colombia* (New York: National Bureau of Economic Research, 1976) and works cited therein.
5. Miguel Urrutia and R. Albert Berry, *La distribución del ingreso en Colombia* (Medellín: Editorial La Carreta, 1975).
6. For further discussion of these points, see Díaz Alejandro, *Foreign Trade Regimes;* Francisco Thoumi, "International Trade Strategies, Employment, and Income Distribution in Colombia," in Anne Krueger, Hal Lary, Terry Monson, and Narongchai Akrasanee, *Trade and Employment in Developing Countries*, vol. 1, *Individual Studies* (Chicago: University of Chicago Press and NBER, 1981); and World Bank, *Colombia: Economic Development under Changing Conditions* (Washington, D.C.: World Bank, 1984).
7. Richard Musgrave and Malcolm Gillis, *Fiscal Reform for Colombia* (Cambridge, Mass: International Tax Program of the Harvard Law School, 1971).
8. See World Bank, *Colombia*, for additional recommendations on improving the budgeting and expenditure process.