

HOW THE MONETARY STRUCTURE  
OF COLOMBIA HAS AFFECTED  
ECONOMIC DEVELOPMENT

THESIS FOR THE DEGREE OF M. A.  
MICHIGAN STATE COLLEGE

AGUSTIN BOCANEGRA Y MEJIA  
1955



HOW THE MONETARY STRUCTURE OF COLOMBIA HAS  
AFFECTED ECONOMIC DEVELOPMENT

By

Agustin Bocanegra y Mejia

A THESIS

Submitted to the School of Graduate Studies of Michigan  
State College of Agriculture and Applied Science  
in partial fulfillment of the requirements  
for the degree of

MASTER OF ARTS

Department of Economics

1955

THESE

1

## ABSTRACT

Since 1940 inflation has been a characteristic of Colombia's economy, and may indeed continue to be a major problem for a considerable time, bringing with it the usual effects of intensification of inequalities of income and encouragement of speculative, rather than productive, investment. Between 1940 and 1949 the consumer goods price index rose by 172 percent, and the currency in circulation rose by 343 percent.

The causes of the price rises were partly a reflection of world development. During World War II, Colombia accumulated a considerable exchange balance, and could not import proportionately, increasing the bank deposits and reserves. At the end of the war the situation changed, but the expansion of commercial bank credit and government borrowing from the central bank more than offset the drain on foreign exchange, and further encouraged inflation.

There are ten Colombian and four foreign banks in the country; about 70 percent of all commercial bank credits are lodged with the three biggest national banks, which have branches throughout the country. The organization of the commercial banks is similar to that in the United Kingdom, but the organization of the Banco de la



Republica and its relations with the commercial banks resemble the Federal Reserve System of the United States. All the commercial banks are affiliated with the Banco de la Republica.

The central bank is the sole note-issuing authority, and, by means of its rediscount facilities and power to alter the amount of deposits required from the commercial banks, it is able to control their credit capacity.

The report and recommendations of an economic mission under the title "Basis of a Development Program for Colombia," usually known as the "Currie Report," made a thorough investigation of the banking system and its operation, and criticized the theory underlying the banking system. They argued that the Banco de la Republica should be empowered to ration credit, that the government should avoid borrowing from the central bank, and that the shortage of credit in certain spheres of the national economy should be met by allowing the commercial banks to invest a large proportion of their assets in longer-term loans. Some control of this sort was necessary to enable the banks to contribute more effectively to the economic development of the country and to correct the tendency of the traditional policy to aggravate the inflationary tendency of the previous ten years.

It is characteristic of the underdeveloped countries such as Colombia that the resources they put into investments are a much smaller proportion of their national income than is found in the more highly developed countries.

The proportionally low level of investment in underdeveloped countries may be due principally to the unavailability of savings. In Colombia there are opportunities for profitable and productive investments that cannot be exploited because sufficient finances cannot be obtained. The inadequacy of investment is prima-facie evidence that there is deficiency of savings.

In order to increase resources available for the domestic financing of economic development, recourse may be had to a variety of methods; these include voluntary saving, fiscal measures, and direct controls which limit the use of various factors of production or restrict consumption.

## ACKNOWLEDGMENTS

I want especially to thank Professor John M. Hunter, for much useful advice and valuable comments in compiling the data, and also for his painstaking help which led to great improvement in every aspect of the entire thesis.

Finally, I want to thank Mrs. Helen Harder, to whom I owe a debt of gratitude for her help in improving my English grammar.



## TABLE OF CONTENTS

CHAPTER	Page
I. MONETARY STRUCTURE OF COLOMBIA . . . . .	1
Present Monetary Structure . . . . .	1
Kinds of Money in Colombia . . . . .	2
The Circulating Medium in Colombia . . . . .	4
Banco de la Republica . . . . .	4
Rate of Interest . . . . .	9
Agencies . . . . .	9
Development of Activities . . . . .	9
Policy . . . . .	9
Banco de la Republica and Money Supply . . . . .	13
Commercial Banks . . . . .	15
Savings Banks . . . . .	17
Colombian Monetary History . . . . .	17
Colonial Period . . . . .	18
Independence Period, 1811-1819 . . . . .	19
The Gran Colombia, 1819-1829 . . . . .	19
Republica of Colombia, 1830- . . . . .	20
Fluctuating Paper Money . . . . .	23

CHAPTER	Page
Other Financial Institutions . . . . .	44
Commercial Banks . . . . .	46
Caja Colombiana de Ahorros . . . . .	46
Caja de Credits Agrario Industrial y Minero . . . . .	47
Banco Central Hipotecario . . . . .	47
Stock Exchange . . . . .	48
Insurance Companies . . . . .	49
II. DESCRIPTION OF INVESTMENT IN COLOMBIA . . .	50
Resources of Colombia . . . . .	50
Gold . . . . .	50
Emeralds . . . . .	52
Petroleum . . . . .	52
Agriculture . . . . .	55
Coffee . . . . .	59
Livestock . . . . .	60
Agricultural Investment . . . . .	61
Number, Distribution, and Occupations of Colombia . . . . .	62
Investment in Colombia . . . . .	64
Early Investment . . . . .	65

CHAPTER	Page
Historical Development of Tropical Oil Company . . . . .	67
Manufacturing Industry . . . . .	67
Stage of Industrial Development . . . . .	68
Types of Manufacturing Industries . . . . .	69
Size of Industrial Development . . . . .	69
The Industrial Trend in Colombia . . . . .	69
Current Position of the Industry . . . . .	73
Background of Industrial Development . . . . .	78
Socio-Political Factors . . . . .	78
Economic Impulses Behind Industrialization . . . . .	79
Stimulation by the World Wars . . . . .	79
Protection Afforded by High Custom and Exchange Restriction . . . . .	80
Financial Assistance by the Government . . . . .	81
Institute of Industrial Development . . . . .	82
Financial Assistance Provided by Foreign Capital . . . . .	83
Depression . . . . .	84
Major Manufacturing Industries . . . . .	85
Future Investment . . . . .	87
Communication and Transportation . . . . .	91



CHAPTER	Page
Railroads . . . . .	93
Water Transportation . . . . .	93
Roads . . . . .	93
III. SOURCES OF FOREIGN INVESTMENT OUTSIDE THE MONETARY STRUCTURE . . . . .	96
Data . . . . .	96
Great Britain's Capital in Colombia . . . . .	100
Economic Significance of British Investments in Colombia . . . . .	106
French Investment in the Republic of Colombia . . . . .	107
French Investment Following 1902 . . . . .	108
French Investment After the First World War . . . . .	110
United States Investment in Colombia . . . . .	112
Security For These Loans . . . . .	115
Defaults of the Colombia Bonds . . . . .	118
The Economic Effects of Investment from 1913 to 1929 . . . . .	118
Public Investment in Colombia . . . . .	120
The Export-Import Bank . . . . .	121
International Bank for Reconstruction and Development . . . . .	123

CHAPTER	Page
IBRD projects . . . . .	123
United States direct investment, 1929 to 1936 . . . . .	126
United States direct investment, 1936 to 1940 . . . . .	127
United States direct investment, 1940 to 1950 . . . . .	128
Effects of Investment from 1940 to 1950 . . . .	129
Investment Climate in Colombia . . . . .	132
IV. SHORTCOMINGS OF THE MONETARY SYSTEM . . . . .	134
Functioning of the Present-Day Banco de la Republica . . . . .	134
Brief Review of the Situation of the Banking System in Colombia . . . . .	135
Status and Operations of the Banco de la Republica . . . . .	137
Bank Credit and Capital Formation . . . . .	143
Inflation . . . . .	144
Shift of Income and Wealth . . . . .	145
Forms of Investment . . . . .	147
Attempts at Credit Controls . . . . .	149
Foreign Exchange Operation and Central Bank . . . . .	151

CHAPTER	Page
Capital Formation in Colombia . . . . .	152
Structure of capital formation . . . . .	153
Capital formation and imports . . . . .	157
Magnitude of savings and investment in Colombia . . . . .	157
Financial aspects of capital formation in Colombia . . . . .	161
Origin of capital formation . . . . .	162
Resumé . . . . .	164
V. RECOMMENDATIONS . . . . .	167
Development, Investment, and Savings . . . . .	168
Capital Formation and Saving . . . . .	169
Financing Economic Growth . . . . .	170
Promotion of Voluntary Saving by Individuals and Enterprises . . . . .	172
Fiscal Methods . . . . .	172
Control of Money and Credit Supply . . . . .	174
Banking Legislation . . . . .	175
Agricultural Financial Organizations . . . . .	178
Conclusion . . . . .	179
BIBLIOGRAPHY . . . . .	181



## LIST OF TABLES

TABLE	Page
I. Value of the Colombian Peso in Terms of the Dollar . . . . .	3
II. Composition of Colombian Money Supply . . . . .	5
III. Reserve Ratio of Banco de la Republica . . . . .	6
IV. Growth of Business Since the Founding of the Central Bank . . . . .	10
V. Distribution of Savings Deposits . . . . .	18
VI. Early Banks in Colombia . . . . .	22
VII. Dollar-Peso Rates, 1900-1905 . . . . .	26
VIII. Monetary Stock of Colombia, 1923-1926 . . . . .	33
IX. Money Supply, 1940-1949 . . . . .	40
X. Annual Increase in Money Supply, 1941-1949 . . . . .	42
XI. Sources of Money Supply, 1941-1949 . . . . .	43
XII. Price Indexes, 1940-1949 . . . . .	45
XIII. Gold Production . . . . .	51
XIV. Production and Exportation of Hydrocarbons . . . . .	54
XV. Agriculture: Estimated Value of Production, 1939-48 . . . . .	57
XVI. Occupations of Gainfully Employed, 1939-1947 . . . . .	63

TABLE	Page
XVII. Industrial Establishment According to Capital Invested, 1941 . . . . .	70
XVIII. Major Manufactures . . . . .	74
XIX. Colombian Production, 1944-45 . . . . .	75
XX. Components of Value of Production (manufacturing) of All Industrial Production (1944-45) . . . . .	77
XXI. Projected Investment Program, 1951-55 . . . . .	90
XXII. Recommended Investment in Specific Industries, 1951-1955 . . . . .	92
XXIII. 1949 Appropriations for National Highways, Ministry of Public Works . . . . .	95
XXIV. British Mining Associations . . . . .	102
XXV. British Investment in Economic Enterprises in Colombia Ending 1876 . . . . .	103
XXVI. British Investment in Colombia Ending 1890 . . . . .	104
XXVII. British Investment in Colombia Ending 1913 . . . . .	104
XXVIII. British Investment in Colombia at the End of 1939 . . . . .	106
XXIX. Liquidation of British Investment, 1941 . . . . .	107
XXX. French Investment at the End of 1902 . . . . .	109
XXXI. French Investment in Colombia at the End of 1913 . . . . .	109
XXXII. French Investment in Colombia at the End of 1938 . . . . .	111

TABLE	Page
XXXIII. French Investment in Colombia, 1943 . . . . .	112
XXXIV. Investment of United States at the End of 1898 . . . . .	113
XXXV. United States Investment in 1913 . . . . .	114
XXXVI. United States Loans to Colombia from 1926 to 1929 . . . . .	116
XXXVII. List of Loans of Export-Import Bank . . . . .	122
XXXVIII. American Direct Investment . . . . .	128
XXXIX. Direct Investment Abroad of the United States in Colombia, 1950 . . . . .	130
XL. Direct Investment in Colombia, 1950, by Type of Foreign Organizations, Number . . . . .	130
XLI. United States Manufacturing Investment in Colombia, 1945-1950 . . . . .	131
XLII. Price Index, 1940-1949 . . . . .	139
XLIII. Increase in Money Supply and Price, 1940-1949 . .	139
XLIV. Sources of Money Supply, 1941-1949 . . . . .	141
XLV. Gross Capital Formation, 1939 to 1947 . . . . .	155
XLVI. Gross Capital Formation by Economic Sectors, 1939 to 1947 . . . . .	156
XLVII. Relative Importance of Imports in Various Sectors of Capital Formation from 1939 to 1947 . . . . .	158
XLVIII. Estimate of Savings and Investment in Colombia . . . . .	159



TABLE	Page
XLIX. Estimates of Savings and Investment in Colombia as Percentage of Gross National Product . . . . .	160
L. Budget for Colombian Economy, 1947 . . . . .	163

## CHAPTER I

### MONETARY STRUCTURE OF COLOMBIA

The purpose of this chapter is to outline in general terms the present monetary and central banking systems of the Republica of Colombia, and also to summarize briefly the principal aspects of Colombian monetary problems, together with the techniques and measures adopted for their solution.

#### Present Monetary Structure

In Colombia the unit of account is the peso, divided into one hundred centavos. In accordance with Law No. 90 passed in 1948, the gold content of the Colombian peso is 0.50637 gram.<sup>1</sup> The parity intrinsic with the dollar is: One dollar =  $0.888671/0.455733 = 1.949982$  Colombia pesos. The gold content of the Colombian peso in 1938 was 0.56424 gram, and the parity intrinsic with the dollar was: One dollar = 1.7499862 Colombian pesos.<sup>2</sup> The value of the

---

<sup>1</sup> Gustavo Otero, Monografia de Colombia, Edition Paris, 1950, p. 27.

<sup>2</sup> Revista de la Republica de Colombia, Enero 1954, Bogota, Colombia, p. 75.

peso varied from 0.97 United States cents in 1928 to 0.51 United States cents in 1953, as is shown in Table I.

These figures are for the official free rate, but do not account for black-market rates. It should be remembered that the value of the dollar dropped to 59 percent of its value in terms of other currencies in 1933, because of the devaluation of the dollar by the provision of the Gold Reserve Act of 1934.

#### Kinds of Money in Colombia

Colombian money can currently be classified as follows:

1. Full-bodied money.
2. Credit money.
  - (a) Token coins.
  - (b) Circulating promissory notes issued by banks.
    - (1) Circulating promissory notes issued by central bank (by the government).
    - (2) Circulating promissory notes issued by other banks.
    - (3) Demand deposits subject to check.

The principal full-bodied money appearing in the money system of Colombia consisted of coins of the standard metals that were issued when Colombia utilized a bimetallic standard (i.e., using both

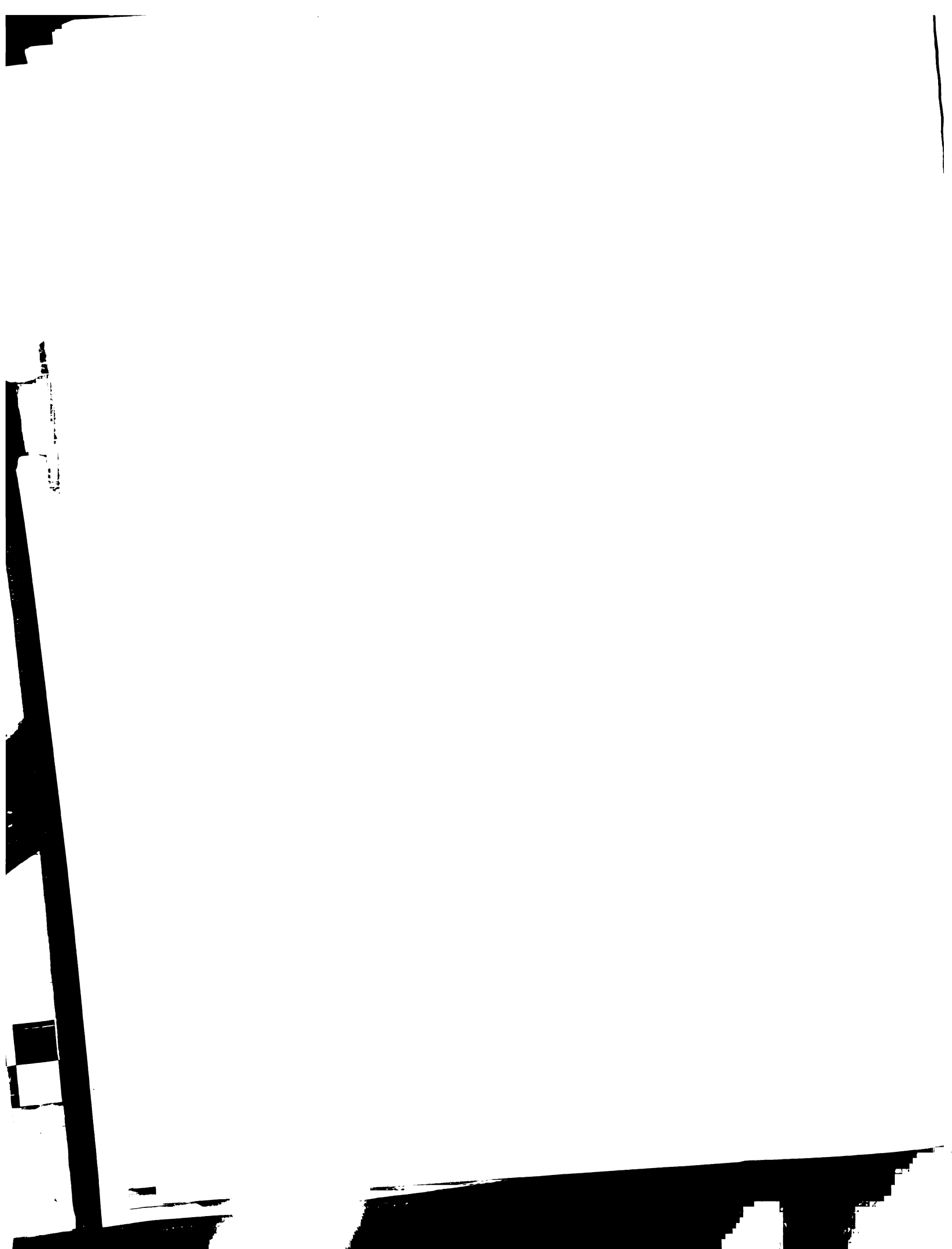


TABLE I

## VALUE OF THE COLOMBIAN PESO IN TERMS OF THE DOLLAR

1928	1932	1934	1938	1940	1945	1948	1950	1951	1953
97	95	62	56	57	57	34.15	50.51	51.5	51.5

Sources: United States Tariff Commission, Foreign Trade of Latin America, Part I, pp. 141-142; and Revista del Banco de la Republica, January, 1954, p. 124.

gold and silver) or metallic standard (i.e., gold standard). Full-bodied money has in the past played an important role in the monetary system of Colombia. Credit-money is any money that circulates at a value greater than the commodity value of the material of which it is made. All money in circulation at present in Colombia is credit money. The principal types of credit money are token coins,<sup>3</sup> paper money, and checking deposits.

Circulating promissory notes are issued by the government; the government also issues credit money. This practice was first used by the government in financing its early military expenditures.

---

<sup>3</sup> All circulating coins in Colombia--silver peso, half peso, quarters, dimes, nickels, and pennies--are token money.



Circulating promissory notes issued by the central bank constitute a considerable part of the hand-to-hand currency.

Demand deposits at banks are the major part of the money supply in Colombia.

### The Circulating Medium in Colombia

Table II shows the composition of the Colombian supply of money.

All types of these circulating monies in Colombia, except checking deposits, have full legal-tender power; that is, they have the legal power to discharge debts. Though checking deposits are not themselves legal tender, the banks are obligated to redeem them on demand in legal-tender money.

The Banco de la Republica must maintain reserves equal to at least 25 percent of its notes outstanding; however, it often maintains reserves above that requirement (see Table III).

#### Banco de la Republica<sup>4</sup>

The Government Law No. 25 passed in 1923 created the re-public bank. This bank started functioning with a capital of ten

---

<sup>4</sup> Information taken from Colombia in Cifras, 1948-49, Extraordinary Edition, Colombia, Bogota.

TABLE II  
COMPOSITION OF COLOMBIAN MONEY SUPPLY  
(in thousands of pesos)

Year	Notes of the Banco de la Re- publica	Gov- ern- ment Paper	Silver Cer- tifi- cates <sup>1</sup>	Silver Coins	Nickel- Cop- per Coins	Total	Demand De- posits	Total Money Supply
1949	476,340	7,931	838	19,929	7,604	512,642	431,802	926,444
1950	463,182	7,931	312	10,134	7,847	489,406	504,836	994,242
1951	522,527	7,931	236	12,294	7,848	550,836	607,827	1,158,663
1952	609,727	7,931	236	12,401	8,806	639,101	709,101	1,348,202
1953	688,088	7,931	216	13,572	9,713	718,820	876,372	1,595,142

Sources: Revista del Banco de la Republica; Enero, 1954, p. 70.

<sup>1</sup> Silver certificates are the only representative full-bodied money in Colombia, and are in effect circulating warehouse receipts for full-bodied coins or their equivalent in bullion.

TABLE III  
RESERVE RATIO OF BANCO DE LA REPUBLICA  
(in thousands of pesos)

Year	Note Capacity Authorized	Actual Note Issue	Minimum Reserves (pct.)	Present Reserves (pct.)
1949	817,659	476,340	25	42.25
1950	685,323	463,182	25	36.99
1951	922,945	522,528	25	44.16
1952	1,044,038	609,727	25	42.81
1953	1,345,391	688,088	25	48.88

Sources: Revista del Banco de la Republica; Enero, 1954, p. 53.

million pesos; it was organized by the government in conjunction with local and foreign commercial banks. The charter of the Banco de la Republica has been extended for twenty-five years. It retains its privileges as the sole bank to issue notes, for which the bank pays the government a royalty of 13,754,000 pesos annually. The bank is required to maintain reserves equivalent to 25 percent of its demand deposits and 30 percent of its outstanding notes, excluding silver certificates, against which a 100 percent reserve of silver coins is required. These reserves, other than those against silver certificates, consist of gold in the vaults of the bank or held abroad as demand deposits in foreign banks of high standing. The control of the bank is in the hands of a board of directors composed of nine members, three of whom represent the government, and the remainder represent the national and foreign banks. Members of this board serve for a period of two years. The president of the bank is elected by a vote of seven of the nine members.

The law contains also an agreement between the bank and the government to the effect that the latter will not issue, nor allow to be issued, any kind of paper money or media that may circulate as money. The bank is guaranteed freedom in the importation and exportation of gold, although in times of war the bank and the

government may agree upon a temporary suspension of free gold movements.

The bank is made the principal depository of the funds of the national government and of public or semipublic institutions founded by law, and is made the government's fiscal agent. The bank has assumed the function of paying-agent at home for the public debt, and transmits funds for the service of the external debt.

The actual capital of the bank is 15,358,600 pesos, distributed in the following manner:

Class A, stocks (government) . . . . .	5,000,000 pesos
Class B, stocks (domestic banks) . . .	7,372,200 pesos
Class C, foreign banks . . . . .	989,700 pesos
Class D, private investment . . . . .	<u>1,496,700 pesos</u>
Total . . . . .	15,358,600 pesos

Each share of stock has a nominal value of 100 pesos.

The stocks of the government can be neither above nor below 5,000,000 pesos. In respect to the foreign banks, their percent interest in the Banco de la Republica is calculated from such capital as they have designated for doing business in Colombia. The stocks of Classes B, C, and D are interchangeable with each other, if the holders desire to change.

T  
small  
small  
medium  
large

### Rate of Interest

The Banco de la Republica rediscounts to its members at an annual rate of 4 percent when the loans are to industrial operators, and at 3 percent when backed by agricultural products. However, member banks are authorized by the central bank to charge interest rates 2 percent above that fixed by the Banco de la Republica.

### Agencies

The law requires that the Banco de la Republica must maintain a principal office in the capitol city of each state.

### Development of Activities

Table IV shows the growth of business since the founding of the central bank.

### Policy<sup>5</sup>

The Colombian central banking legislation of 1923 was modeled in important respects after the early Federal Reserve System. The

---

<sup>5</sup> International Bank for Reconstruction and Development, The Basis of a Development Program for Colombia, "Money, Deficits and Inflation."

TABLE IV  
GROWTH OF BUSINESS SINCE THE FOUNDING OF  
THE CENTRAL BANK  
(in millions of pesos)

Year	Gold Reserves	Loans Discounted	Deposits
1924	23.173	4.071	5.691
1928	64.658	13.251	10.855
1932	17.171	28.541	19.001
1936	41.977	41.242	33.135
1940	43.562	58.520	51.507
1944	276.909	28.723	134.598
1948	175.484	169,689	171.796
1950	160.484	150.670	145.790

Source: Colombia in Cifras, 1948-1950, Bogota, Colombia.



underlying idea was to give an elastic supply of currency and bank credit, to avert crises by pooling reserves, and, at the same time, to obtain a certain degree of liquidity of commercial assets through adequate supervision. Rediscounts of the central bank, operating under eligibility requirements, were to gear the volume of credit to the supply of eligible paper, thus serving the proper needs of trade. Since that time the concept of the central bank's function has changed.

The commercial loan theory of banking operations required that bank credit should not be used to finance additions to fixed plant and equipment; that these, rather, should be financed from savings of individuals and business firms. Only loans for commercial purposes (as distinguished from investment, consumption, and speculative motive) should be made by commercial banks. More specifically, only goods-in-process should be financed by bank credit. Such financing would mean that deposit-money created by bank credit expansion could not outgrow production. It also would mean that a decline in the money supply would always accompany a decline in the volume of transactions involving goods-in-process. Bank loans extended for such commercial, productive purposes were described as self-liquidating, since they could be repaid in a short

period of time from the proceeds of the sale of goods. Each of these transactions would create new money when loans were made, and contract the money supply when it was repaid. This process would, when repeated, result in the creation and retirement of money as before.

Short-term commercial loans are the most desirable type of assets for commercial banks, yet it must be recognized that these loans--rising in prosperity, and falling promptly in recession--may accentuate rather than mitigate business cycles.

In most periods of upturn in business activity an increase in commercial loans accompanies an accumulation of business inventories. This development may be partially speculative in character rather than purely commercial. It is also to be noted that inventory-accumulation, financed by bank credit, not only increases the money supply, but also increases the business demand for goods, while the supply available to the public is not increased proportionately. This inventory-accumulation, based on commercial loans, can set in motion a chain of cause and effect that increases the public money supply at more than a one-to-one relationship to the supply of finished goods available to the public.

This commercial-loan theory under the central bank set a standard of eligibility of paper for rediscount by member banks. The result was that the central bank had power to convert customers' paper into currency or excessive reserve power. Should member banks choose the latter alternative--the conversion of eligible assets into reserve balances--the money-creating potentialities of bank loans would multiply several times.

The foregoing discussion on the commercial-loan theory was given in order that one might understand the role that the central bank of Colombia played from the beginning in the inflation of the country.

#### Banco de la Republica and Money Supply

The extension of credit by the Banco de la Republica is twofold. When the central bank makes a loan to the government or purchases paper in the market, it thereby creates deposits, and, in this way, increases the money supply. However, credit creation by the central bank also adds to the reserves of commercial banks. The ability of commercial banks to create credit is thereby increased, and since credit-creation may proceed on a multiple basis, changes in the reserve position of commercial banks are of great

100

importance. Sometimes lending by the central bank is aimed directly at providing commercial banks with additional reserve funds, as in the case of the rediscounting of commercial paper presented by the member banks. At other times, the primary objective of credit creation by the central bank is to give credit to the government or other nonbank-borrowers, either directly or through various lending institutions. But even though the primary objective of such transactions is not expansion in commercial bank reserves, they will, nevertheless, have this result, even as do rediscount operations; thus, when the government proceeds to spend the money, for instance, to erect a school, it will pay the construction company by a check drawn on its own account with the Banco de la Republica. This check will be deposited in the commercial bank of the construction company, the construction company will receive credit on its deposits account, and the commercial bank will present the check for collection for the Banco de la Republica. The Banco de la Republica will debit the treasury account and give a credit to the commercial bank, thus raising the reserves of this bank. Expanding or contracting central bank credit has important effects on the money supply.



Commercial Banks<sup>6</sup>

There are ten Colombian and four foreign banks in Colombia. About 65 percent of all commercial credit and deposits are with the three largest commercial banks, which have branches in all parts of the country. The system of commercial banks in the country is very similar to the system in the United Kingdom: the banking system is organized as a branch system. There are three powerful banks with branches distributed all over the country. However, the commercial banks stand as member banks in relation to the Banco de la Republica. They must hold their required reserves in deposits with the central bank. Only the Banco de la Republica has the privilege of issuing notes, and, by using its rediscount agency, and by changing the reserve requirement of the member banks, the Banco de la Republica could exert certain control over the commercial bank reserves. This resembles the operation of the Federal Reserve System.

Decree No. 1732 of September 30, 1951, required that all commercial banks maintain reserve deposits with the Banco de la

---

<sup>6</sup> This information has been taken from U. S. Department of Commerce, International Reference Service, January, 1945, Colombia, Vol. 2.

1

1



Republica of an amount equal to 25 percent of their demand deposits and 12.5 percent of time deposits. However, banks maintaining interest rates at less than 2 percent above the rediscount rate of the Banco de la Republica were permitted to reduce their reserves to 15 percent of demand deposits and 5 percent of time deposits. The terms of Decree No. 1148 of June 10, 1943, raised these reserves requirements by 100 percent, and stipulated that increases be invested in 3 percent certificated deposits,<sup>7</sup> payable in foreign exchange or local funds. Decree No. 2579 of December 23, 1943, further increased the required reserves against demand deposits. The principal limitations in the operations of commercial banks are: (1) Loans to one individual or corporation may not exceed 10 percent of the lending bank's capital and reserves. (2) Loans may not extend for a period longer than one year, except those secured by agriculture pledges, in which case the maturity of each loan may not exceed two years, and their total is limited to one-half of the amount of the bank's time deposits. (3) Total loans in real estate as security may not exceed 30 percent of the total assets of a commercial bank. In

---

<sup>7</sup> The deposits are nonnegotiable certificates of the Banco de la Republica with two years' maturity and bearing interest at 3 percent.

In addition to these restrictions, commercial banks may not deal in merchandise, or invest in corporation stocks and bonds, although they may purchase public securities, land-mortgage bonds, and other obligations eligible for the investment of savings accounts.

### Savings Banks

Savings banking is carried on in Colombia on a small scale. Only seven institutions engage in this type of banking. Such savings banking as there is has developed during the past 20 years. Total savings deposits amounted to 40,355,000 pesos at the end of 1943, compared with less than 1,000,000 pesos in 1924. Table V shows the distribution of savings from 1949 to 1953.

### Colombian Monetary History

During her economic life, Colombia has employed several kinds of bimetallic, gold, and inconvertible paper money standards. It is possible to enumerate four periods of her monetary history: (1) the colonial period, from 1610 to 1810; the independence period, from 1811 to 1819; the Gran Colombia Republica, from 1819 to 1829; and the Colombia Republica, from 1830 to the present.

TABLE V  
DISTRIBUTION OF SAVINGS DEPOSITS  
(in thousands of pesos)

Depository	1949	1950	1951	1952	1953	Pct.
Caja Co- lumbiana .	76,154	90,596	112,464	141,443	157,357	77.71
Caja Par- ticulares .	5,258	6,372	7,811	9,452	10,839	5.35
Banks . . .	9,108	10,648	14,519	21,913	34,357	13.35

Source: Revista del Banco de la Republica, Enero 1954, p. 63.

#### Colonial Period

Colombia, like all countries in South America except Brazil, inherited her monetary system from the Spanish administration. Before her independence the circulating medium was a hodgepodge of varieties of foreign coins--British, French, Portuguese, and Spanish. Their relative value fluctuated from time to time. The most plentiful of all the coins was the Spanish silver coin known as "pesos duro" (dollar). Paper money at that time was not circulated extensively.

### Independence Period, 1811-1819

After the declaration of independence a kind of bimetallism was the prevailing monetary system. Gold and silver coins were supposed to circulate side by side at a fixed rate, but in reality, there was considerable fluctuation due to changes in the availability of the two metals. On August 27, 1811, a law was passed which authorized for the first time the emission of one million pesos of paper money, at full legal tender. This paper issue brought about some difficulty because people tried to get rid of it by exchanging the paper for metallic currency. During this period counterfeiting was very general; private citizens and business concerns alike tried to debase the gold and silver coin, necessitating drastic action by the government.

### The Gran Colombia, 1819-1829

During this period, in which Colombia and Venezuela were united under one political regime, the Congress adopted officially the monetary system of Spain. The law reads as follows: "All coins made in Colombia shall have the same weight which was given by the monetary law of Spain, together with a bimetallic standard." This was the only significant law concerning monetary activities

1

throughout the period. Nevertheless, the leaders and the government of the country were convinced of the necessity for uniformity in the standards of the values as represented by the coins, and of a standard legal weight.

#### Republica of Colombia, 1830-

During this period were passed important laws regarding the monetary system of Colombia.<sup>8</sup> The Congress of 1846, at the request of President Mosquera, provided that all coins of the country should be nine-tenths pure metal and one-tenth alloy (0.900). The making of inferior coins ceased, and the "macaguinas" (coins made in Lima and introduced in Colombia) still in circulation were collected in order to issue new coins in their place. The Granadina dollar of ten reals was created, and, in order to remedy the scarcity of medium circulation, French and Belgian silver coins were received in the government office at two reals per franc. The gold coins, according to the new legislation, were to be the onze (worth eight escudos and the doblon (worth two scudos). The silver coins

---

<sup>8</sup> Taken from Henao Arrubal, History of Colombia, University of North Carolina, 1938, pp. 449-456.

were the peso, the half-peso, the quarter-peso (or peseta), and the eighth-peso (or real).

In 1853 a law provided that the unit be silver pesos of one hundred cents, and the real was abolished. The old peso of eight reals was to be known thereafter as the piece of eight-tenths; the peseta as a piece of two-tenths, and the real as one-tenth.

By 1871, commercial banking was established. During this period the commercial bank issued banknotes and checking deposits, but the latter were unsuited to a country predominantly agricultural, with few towns and slow travel and communications.

Chronologically, the banks were established as shown in Table VI.

In 1880, the Congress decided to create the Banco National of Colombia.<sup>9</sup> The capital stock was 10,000,000 pesos, of which 6,000,000 were subscribed by the federal government; the remainder were subscribed by private individuals, some of them residents of foreign countries. Its head office was located at Bogota.

The purpose of such an institution was to encourage the economic activity of the country, and at the same time to lay the

---

<sup>9</sup> Manuel Samper, Escritos Economicos, Edition Bogota, Colombia, Vol. III, pp. 7-22.

TABLE VI  
EARLY BANKS IN COLOMBIA

Banks	Created	Capital (gold pesos)	Reserve
Banco de Bogota . . . . .	1871	1,000,000	10 percent
Banco de Colombia . . . . .	1875	600,000	10 percent
Banco Popular . . . . .	1877	50,000	-

Source: Enciclopedia Illustrated, "Colombia," Editions Madrid, Spain, p. 151.

foundation for the public credit of the nation. The bank performed both commercial and central banking functions. As a commercial bank it loaned to individuals and business firms. It also performed various functions that are usually entrusted to a central bank (i.e., it held government deposits, acted as fiscal agent of the government, and transferred funds from area to area for government accounts). When the bank was created, the country had a metallic currency of gold and silver coins in circulation, and a considerable amount of bank notes backed by the capital of the commercial banks, but this normal situation gradually changed to unsound paper currency because of the enormous amount of bank notes issued by the Banco National in later years. The bank notes of the Banco National circulated at



par value with the metallic coins until 1884, but from then on they depreciated, and metallic money was found only in the more remote parts of the country.

### Fluctuating Paper Money<sup>10</sup>

The notes issue of the Banco National had increased steadily, but not yet in excessive quantities. In 1886, after several years of political disorder, the government required the bank to issue 4,000,000 pesos, giving the notes full government guarantee. The one-peso note of the Banco National was made the legal monetary unit. Transactions based on any other money were forbidden, and issuance of notes by other banks was prohibited. By 1889 the circulation of notes of Banco National was 9,400,000 pesos. As the end of the decade drew near, the quotation of exchange approached the figure of 100 percent, premium. In other words, two pesos in paper money were approximately equal to one United States dollar; but the note issue of the Banco National expanded steadily, until, in 1894, when the institution was liquidated, the total amount of note-issues was

---

<sup>10</sup> The following description of the monetary history of Colombia was taken from U. S. Department of Commerce, Colombia Public Finance, Trade Bulletin Series No. 43, 1926, pp. 59-69.

11

11

found to be over 26,000,000 pesos. Most of this enormous amount had been issued to meet the needs of the government, but there were also clandestine issues for private purposes in excess of the amount authorized by law.

The outstanding paper money was now under government responsibility. Subsequently, still more issues were made by the Congress to meet deficits. There was much political unrest during the closing years of the century, culminating, in 1899, in bloody civil war which lasted until late in 1902, and which brought about a complete disruption of the currency.

During these three years of warfare, paper money was issued in great quantities by the central government, by the various provinces, and the military leaders in the field. The total amount at the end of 1902 seems to have been about 850,000,000 pesos. Prices of all kinds of commodities rose to fantastic heights. Such public revenues as were collected were paid in paper money of insignificant value; debts were paid off in worthless, depreciated paper money, impoverishing the creditors; in fact, all the usual effects of a rapid depreciation of a monetary unit were experienced. It is estimated that the civil war cost fifty thousand lives and immense destruction of tangible property, but the economic results of the monetary collapse were regarded as almost equally disastrous.

Just before the outbreak of the civil war the exchange value of Colombian paper currency reached about 300 percent premium for gold; that is, four pesos were equal approximately to one United States dollar. The premium in 1890 had been nearly 100 percent. There was a constant increase during the following years. In 1898 the rate advanced to a little over 200 percent, and in 1899 was from 290 to 350 percent. During this period normal trade and finance were disorganized to such a degree that foreign-exchange quotations of the Banco de Colombia of Bogota indicated that the range for the years 1900 to 1904 was about as shown in Table VII.

The conclusion of the civil war found the country with an enormous supply of paper money, a peso of which was worth slightly less than one one-hundredth of the gold peso which had long ceased to exist, although retained for a quarter of a century as a measure by which to compute a relative value of the actual circulation.

The years of restoration immediately following the peace brought a number of legislative measures aimed at the establishment of a stable currency. The following were the principal measures that brought back order and regularity:

Restoration of free stipulation: Law No. 33 of 1903, and No. 18 of 1904, rescinded the measure of 1886 which had forbidden

TABLE VII  
DOLLAR-PESO RATES, 1900-1905

Year	Dollar-Peso Rates
1900	999 - 1,163
1901	2,075 - 4,600
1902	4,250 - 9,100
1903	9,800 - 10,000
1904	9,400 - 10,000
1905	9,900

Source: U. S. Department of Commerce, Colombian Public Finance, 1906, p. 30.

acts specifying payments in any money other than the notes of Banco National. Henceforth there was to be freedom to specify in any kind of coin and currency, foreign or domestic; but the present paper money was to retain its legal-tender status at the rate or equivalence. The official rate at which the paper was received in payment of public dues was 10,000 percent, or 100 pesos to one gold peso. The commercial rate of exchange, however, was still subject to fluctuation, but these movements do not appear to have exceeded 10 percent of the legal exchange rate.

1

Law No. 59 of 1905 authorized the coinage of a new gold currency and fixed the value of the paper money at 100 to 1 for the payment of all obligations contracted in gold.

Law No. 35 of 1907 changed the gold peso to the equivalent of one-fifth of the pound sterling, making the 5-peso gold piece the exact equivalent in weight and fineness of the English sovereign. It was still permissible, however, to contract obligations in terms of any foreign or domestic currency, payable in national currency at the market rates of equivalence.

Law No. 69 of 1909 created a "Conversion Board" whose principal function was to attend to the exchange of worn-out currency for new standard series of notes, issue new subsidiary coins, take measures for stabilization of the value of the paper money, and furnish backing for the currency. It gradually accumulated funds for the formation of the conversion notes, but they were appropriated by the government during the period of stringency which followed the outbreak of the European War in 1914.

The Junta de Conversion began operations in January, 1910, and remained in existence until it was superseded in July, 1923, by the founding of the Banco de la Republica in 1923.





The net result of these measures described above was the attainment of a fairly uniform and stable value for the paper money, effective from the time the Junta de Conversion started operations. The improvement in conditions following the restoration of order was reflected in a satisfactory revival of industry and trade. Foreign gold coin entered the country and circulated freely beside the depreciated paper. In 1913 the Junta de Conversion was directed by law to replace all paper money in circulation with a new issue of notes representing gold pesos at the rate of 1 to 100. The new notes were called "gold notes." The entire issue ultimately amounted to 10,360,700 pesos, which included the redemption of the wartime issue in the amount of about 850,000,000 pesos previously cited. This period of fluctuating paper money in Colombia may be said to have ended in 1910, when the various measures taken to restore order became effective.

General conditions in Colombia improved after 1910 because of greater productivity resulting from the maintenance of peace and to the rise in price of agricultural commodities. It is true that the bulk of the circulation was still composed of inconvertible and inflexible paper money, but it was no longer subject to more than the usual fluctuations in exchange value relative to the course of trade

and other normal variations. A certain amount of foreign gold coin had entered the country. Preparations were being made to resume the coinage of Colombia gold currency, although this coinage did not begin until the mint at Medellin had turned out increasingly larger amounts of gold late in 1914.

If the war had not come in 1914, it seems likely that the operation of the Junta de Conversion would have gone forward without interruption, and that eventually a fund would have been accumulated with which to redeem the paper money. However, the effects of the war interrupted the progress of the monetary reform and the chance for a return to gold currency.

The first effect of war conditions on the currency and exchange situation in Colombia were noted in the disappearance from circulation of the relatively small stock of gold coins and the advance of exchange rates to a level of about 106 pesos to 100 dollars in place of the par of 102-3/4. Apparently this was due to the dependence of the country's financial structure on the markets of Europe and the United States.

Foreign trade was curtailed; the currency was reduced in volume through the loss of gold from circulation; and credit was restricted, leaving in circulation only the old paper money,

supplemented with a supply of minor nickel coins. The stock of money was only 10,000,000 pesos, a volume so small, in fact, that scarcely enough currency existed for the needs of business even in the rather depressed conditions of 1914 and 1915.

The first new element in the currency was the "cedule hipotecaria"; these were mortgage bonds of very small denominations with an interest rate of 2 to 3 percent which were put out by the banks. The issue of such bonds in small denominations was an unauthorized effort to provide a sufficient local supply of something that could circulate as money. By 1917 the cedulae in circulation were sufficiently numerous to be commonplace, so, in 1919, Law No. 89, which forbade the issue of any such cedula designed for hand-to-hand use, was enacted.

In order to provide more currency, Law No. 9 of 1918 authorized the issue of special notes (bonos bancarios) by banks which would meet the prescribed conditions. This monetary stringency just described, which prompted the issue of emergency paper, was caused in part by the hoarding of silver coins induced by the rise in silver prices from 1916 to 1920. It was also found that unusual activity in the production of platinum so increased the demand for

old silver coins that their value almost doubled.<sup>11</sup> It may be noted here that few restrictions were placed on the free movement of gold during the entire war and postwar periods.

The introduction of these emergency issues into the currency does not seem to have caused any pronounced inflation. All kinds of paper money circulated indiscriminately.

After World War I ended, the economic situation of Colombia improved, and from 1919 until 1920 there was a notable business boom brought by the war inflation. The price of coffee went to unprecedented levels, and the Colombian supply was large. But the world-wide collapse of 1920-21 affected Colombia acutely, because the lower classes suffered from a lack of employment, while the merchants and landed proprietors experienced a severe restriction of income, and the banks were loaded with frozen assets so that, for a long time, there was almost no available liquid capital with which to make loans of the customary kind on crops.

In 1922 a new administration came into office, and in its program the reform of fiscal matters occupied a prominent place. In accordance with this policy, permission was obtained from the

---

<sup>11</sup> Silver compounds are required in the production of m.



Colombian Congress for the engagement of foreign experts to make recommendations for the improvement of the currency and banking structure.

The Banco de la Republica was established in July, 1923, upon the bases recommended by the commission of financial experts from the United States. When the bank opened for business it immediately began the issue of convertible notes. This inaugurated the return to the full gold standard. The Banco de la Republica was given the responsibility to act as the instrument for the withdrawal from circulation of the various kinds of fiduciary paper money.

A provision was made that dividends on government shares of the bank should not be received by the national treasury, but should be used by the bank for the retirement of equivalent amount of the gold notes or bills representative of gold--the old national paper money. This process was to be continued until all the issues should be retired.

Table VIII shows the outstanding amounts of the various kinds of money from 1923 to 1926.

The convertible notes show a very large increase, while the nonconvertible paper money, which formed practically all of the circulation as recently as 1922, has been reduced to a fairly small



TABLE VIII  
MONETARY STOCK OF COLOMBIA, 1923-1926

Items	1923	1924	1925	1926
<b>Convertible notes:</b>				
Coined gold .	2,892,668	7,825,932	13,601,360	15,522,610
Silver . . . . .	9,778,533	9,778,533	9,778,533	9,778,533
Nickel . . . . .	2,000,000	2,000,000	2,000,000	2,000,000
Notes of the Banco de la Republica . . . . .	0	10,179,632	23,195,182	36,923,549
<b>Inconvertible paper:</b>				
Fiscal bills .	10,360,709	10,360,709	10,360,709	9,785,709
Treasury cedules . . . . .	3,214,405	999,699	242,813	86,718
Treasury bonds . . . . .	5,090,793	4,254,768	1,646,505	581,463
Bank bonds . .	673,000	162,572	39,875	28,800
Bank cedulae .	4,095,572	3,163,413	1,938,336	906,736
Totals . . . . .	38,069,680	48,725,258	62,803,313	75,814,118

Source: U. S. Department of Commerce, Colombia Trade Bulletin  
Series No. 43, p. 78.



proportion of the whole. The remainder of the Treasury cedules, bank bonds, and bank cedules are simply those for which funds rested in the Banco de la Republica which have not been presented for redemption. A further reduction was made in July, 1926, with the sum of 475,000 pesos received in dividends for the year 1925-26.

The central bank was helpful in avoiding bankruptcies and consequent financial panic, but its effectiveness went no further because monetary management was outside its sphere of action. The money was under a rigid gold standard and the only influence of the bank was the manipulation of the discount rate. Eligible paper was scarce and the weapon of the discount rate soon became an illusory one. In reality the Kemmerer Commission constituted only a minor improvement over the old banking system. The bank was unable to control the great increase of money created during the 1920's as a result of enormous exportations and the incoming of large foreign investments. For example, from 1924 to 1927, the quantity of money in Colombia increased by 36 million pesos, owing a favorable balance of trade, while the increase in credit of the central bank was less than one million pesos.

In 1929 the situation was the reverse: the bank could not control the deflationary impact of the adverse balance and contraction



of private credit. Between 1929 and 1931, the bank sacrificed reserves because it hoped to maintain the stability of the currency, and to remain on the gold standard; it was believed that a strong deflationary period would bring proper adjustments.

In 1931, widespread public complaints arose due to the severe deflation, so a reversal policy was instituted--a policy of easy credit protected by exchange depreciation and exchange control.

Today the influence of the Kemmerer Commission is very weak, since the government is accepting more responsibility for the management of the currency and control of the exchange rate. The strong influence of international trade and the movement of heavy investment create a special problem in Colombian financial history. The inflow or outflow of foreign exchange sets the pattern for its economic activities.

Savings and domestic investments are of small proportion in Colombia; hence the business cycle is dominated by fluctuations of imports and exports; for example, an inflow of foreign exchange brought a multiple expansion of money and spending, and an outflow brought a multiple contraction, through the operation of reserves of commercial banks.



The reserves of commercial banks are created from two sources: first, they may be created or augmented by the creation of credit of the Banco de la Republica; and second, they can be created by the gains and losses of foreign exchange as a result of exports and imports. These factors have caused inflation or deflation in the economy of Colombia. The process of adding reserves in the central bank, and of increasing the supply of money, is the result of a favorable balance of trade. The foreign exchange balance goes to the central bank, thereby providing the means for credit expansion. On the basis of this new money, the bank can grant additional loans, which mean additional deposits. In this way gold import increases the amount of purchasing media by an amount much greater than the export balance itself; conversely, if the bank loses reserves, credit tends to contract. During the depression, Colombia passed through one of the most difficult periods of her economic life. Although Colombia is rich in natural resources, her prosperity depends principally upon the exportation of coffee, which stands next in importance to petroleum and bananas as an export product.

That the price of coffee should be adversely affected by a world-wide depression was inevitable. By 1929, it had dropped by

1

more than half, coincident with the general decline in price of agricultural commodities.

Any decrease in the proceeds from the sale of the Colombian coffee crop abroad has a tremendous effect on the economic activities of Colombia. These factors bring into sharp focus the sensitivity of Colombian economy to foreign stimulation. Prices abroad may spell boom or bust for the large sector of the Colombian economy which is dependent on coffee.

Thus a decrease from the sale of coffee meant less gold with which to pay for articles imported. This decrease affected the national revenue from customs duties, rendering the government incapable of meeting its current expenditures and its public debts.

The year 1931 was the worst year for Colombia, because foreign commercial banks suddenly canceled the credit to Colombian banks. This act created a financial and commercial panic. Foreign capital disappeared from the country and the gold reserves of the Banco de la Republica were cut in half, thus effecting a contraction of the credit and currency which assailed the stability of the peso.

Colombia had been on the gold standard since 1923, so that the circulation of the notes of the Banco de la Republica could be changed free for gold, but now, as the situation grew steadily





worse, and the gold reserves were diminishing, the government issued a decree (No. 1643) by virtue of which the free movement of gold was temporarily stopped and its export prohibited. The Banco de la Republica assumed the responsibility of buying and selling, and assumed control of the international exchange transactions. This decree also ordered that notes of the Banco de la Republica could be redeemed only through sale of sight-drafts on New York upon authorization of the Commission. A few days later another decree was issued (No. 1723, September 30, 1931) which required all the banks of the country to deposit their metallic reserves in the Banco de la Republica, and declared, moreover, that all private citizens having more than 1,000 pesos abroad must inform the commission to that effect.

Decree No. 1887 appointed a commission to control exports. The exporters were to sign agreements with the commission stating that they would agree not to make transactions which would cause a flow of capital out of the country.

These measures were not efficient because neither one required them to sell to the Banco the exchange obtained through sales of commodities abroad, so the government decided to create the office of Exchange Control. This office limited the amount



of exchange which could be purchased for the expenses of Colombians abroad, or foreign business in Colombia, and a tax of 10 percent of face value would be paid by everyone abroad except students.

After the world economic conditions improved, Colombia began to make substantial gains in many phases of her economic activity, including higher foreign trade values, a budget surplus, and improvement of agricultural conditions. Higher prices were being received for agricultural products. Of particular significance to Colombia was the marked rise in the price of coffee.

World War II brought further inflation. It seems relevant to outline the sources of increase in the money supply. The term "money supply" here will be understood to include the total currency outside banks, plus demand and term deposits at commercial banks. Savings deposits are excluded.

The money supply was increased from December 31, 1940, to June 30, 1949, by 728 million pesos.<sup>12</sup> Seventy-five percent of its total supply of money was in deposits and about 25 percent in currency, as shown in Table IX. The currency supply was created

---

<sup>12</sup> The following sections are taken from Basis of a Development Program for Colombia, sponsored by International Bank for Reconstruction and Development, "Money, Deficits and Inflation," Washington, 1951.



TABLE IX  
MONEY SUPPLY, 1940-1949  
(in millions of pesos)

Dec. 31	Deposits				Currency			Grand Total
	Banco de la Republica		Com- mer- cial Banks	Total	Banco de la Repub- lica Notes	In Banks	Total	
	Treas- ury	Other						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1940	11.0	13.8	107.6	132.4	62.3	10.5	79.9	212.3
1941	11.3	13.7	117.4	142.4	74.4	7.5	95.0	237.4
1942	10.3	20.7	151.6	182.6	103.6	12.0	119.8	302.4
1943	30.7	42.7	187.9	261.3	125.4	9.2	144.7	406.0
1944	31.1	28.1	251.6	310.8	179.3	10.1	198.2	509.0
1945	64.1	27.2	300.0	391.3	204.9	13.3	221.5	612.8
1946	53.2	32.6	379.7	465.5	260.1	17.4	274.6	740.1
1947	31.5	33.8	401.4	466.7	297.9	20.3	312.3	779.0
1948	20.8	28.8	457.0	506.0	361.8	22.9	374.5	881.1
1949 <sup>1</sup>	14.3	29.5	535.3	579.1	347.3	22.3	360.6	939.7

Source: Balance sheet of the Banco de la Republica, Annual Report  
Banco de la Republica, 1948, and Appendix G.

Column (3): Includes demand deposits and term deposits. Excludes  
savings deposits and interbank deposits.

Column (8): Columns (4) plus (7).

<sup>1</sup> June 30.

by the notes issued by the Banco de la Republica, and the deposits were held by the commercial banks (see Table X). In addition to the increase in money supply, there was an increase in savings deposits which rose from 9.5 million pesos in December, 1940, to more than 90 million pesos by 1949.

The increase of money supply was mainly in the type of bank credit (deposits or notes), which was the result of three factors:

(1) the inflow of foreign exchange in the wartime period, which brought a favorable balance of payments; (2) the easy-credit policy of the banks to business; and (3) the extension of loans by the banks to the Colombian government. In Table XI is shown the money-increase caused by these three sources; the table notes a distinction between credit from the Banco de la Republica and that of commercial banks. The table also shows how these three sources of money supply varied in relative importance. Between 1941 and 1945 exchange inflow was the main factor of increase, and the extension of credit remained relatively small; but from 1945 to 1949 the credit to the government became a considerable factor in the increase of the supply of money. The private lending by commercial banks was a direct result of the increase of credit of the Banco de la Republica. The effects of the increase in the supply of money

TABLE X

ANNUAL INCREASE IN MONEY SUPPLY, 1941-1949  
(in millions of pesos)

Year	Increase Over Preceding Year			
	Deposits	Currency	Total	Percentage Increase
1941	10.0	15.1	25.1	11.8
1942	40.2	24.8	65.0	27.4
1943	78.7	24.9	103.6	34.3
1944	49.5	53.5	103.0	25.4
1945	80.5	23.3	103.8	20.4
1946	74.2	53.1	127.3	20.8
1947	1.2	37.7	38.9	5.3
1948	39.9	62.2	102.1	13.1
1949 <sup>1</sup>	72.5	-13.9	58.6	6.7

Source: Currie Report, p. 292 (Table 106).

<sup>1</sup> January 1 to June 30.

TABLE XI

SOURCES OF MONEY SUPPLY, 1941-1949  
(in millions of pesos)

Sources	1941-45	1946-48	1948-49 <sup>1</sup>
Foreign Exchange . . . . .	265.9	-121.9	-11.0
Credit to Government and Public Institutions . . . . .	<u>25.2</u>	<u>163.6</u>	<u>13.3</u>
Banco de la Republica			
Government . . . . .	15.8	66.4	2.8
Stabilization fund . . . . .	-1.6	28.2	-5.3
Caja de Credito Agrario and other member banks . . . . .	-2.5	33.7	4.9
Banco Central Hipotecario .	-3.2	29.0	-4.8
Caja Colombiana de Ahoros	-	8.0	
Commercial Banks			
Government . . . . .	16.7	-1.7	15.7
Credit to Private Borrowers . . .	<u>107.9</u>	<u>220.6</u>	<u>56.4</u>
Banco de la Republica . . . . .	-21.1	17.5	51.9
Commercial Banks . . . . .	129.0	203.1	4.5
Treasury Currency . . . . .	<u>1.8</u>	<u>5.7</u>	<u>-</u>
Total . . . . .	400.8	268.0	58.7

Source: Annual Report of Banco de la Republica.

<sup>1</sup> January 1, 1948, to June 30, 1949.



resulted in an inflationary process which deeply affected the price index in Colombia. The index of consumer goods prices rose from an average of 100 in 1940 to 272 in December, 1949, as shown in Table XII.

During this period of rapid inflation, the Banco de la Republica instituted anti-inflationary measures which were much criticized. Importers were also required to invest to the amount of 10 percent of the value of their imports. Banks were ordered to raise their reserves by 100 percent, investing the increase in certificates of deposit bearing 3 percent interest. It was believed that these drastic measures would absorb in two years the excess inflow of 100 million pesos which had resulted from Colombia's favorable balance of payments. By 1943 the result was that certificates of deposit totaling thirteen million pesos had been sold.<sup>13</sup>

#### Other Financial Institutions

A recent development in Colombia is the growth of special banking agencies for public investment.

---

<sup>13</sup> Robert Triffin, Money and Banking in Colombia, Board of Governor of the Federal Reserve System, Washington, 1944.

TABLE XII  
PRICE INDEXES, 1940-1949

Item	Annual Average			Dec., 1949
	1940	1946	1948	
Prices of Consumer Goods				
Food . . . . .	100.0	181.8	250.1	271.7
Housing . . . . .	100.0	192.7	265.7	275.9
Clothing . . . . .	100.0	197.3	250.1	277.7
Construction Materials . . . . .	100.0	226.8	254.4	286.6
Coffee . . . . .	100.0	276.2	398.9	716.1
Cattle . . . . .	100.0	217.0	335.5	415.3
Wages . . . . .	100.0	151.04	255.0	-

Source: Currie Report, p. 288 (Table 103).

## Commercial Banks

The role of commercial banks in Colombia was discussed at some length in the preceding pages. Colombian commercial banks supply an enormous amount of funds to commerce and trade. In 1948, commercial banks provided 40 percent of funds to the domestic economy of Colombia.

## Caja Colombiana de Ahorros

Over 80 percent of the Colombian savings deposits are held in the Caja Colombiana de Ahorros. In 1949 the amount was 772 million pesos, as against 18.5 million pesos held by all the other institutions. The Caja Colombiana is run by a board of directors in a manner similar to the Banco de la Republica. This institution acted as intermediary in financing other public credit institutions and at the same time helping the government with funds to balance its budget. In 1948, out of the total Caja Colombiana, assets were 107.8 million pesos; 58 million pesos were in national government bonds, including 10 million in Credit Agrarian and 4 million in credit territorial.

100

### Caja de Credits Agrario Industrial y Minero

This institution is the major supplier of agricultural credit.

It is controlled by the Board of Directors of the Banco de la Republica. Its capital in 1949 was 4.5 million pesos. In 1949 the total funds amounted to 161 million pesos, which was derived from the issue of bonds and from capital subscription. It provides agricultural credit from six months to twelve years with interest ranging from 6 to 7.5 percent. The loans to any borrower are limited to 25,000 pesos for short-term, and 50,000 pesos for long-term credit.

This institution has fourteen branch offices in different departments, and a number of local offices. The total loans granted have been steadily increasing during recent years, but the funds available are by no means sufficient for the needs of Colombian agriculture.

### Banco Central Hipotecario

Another important institution is the Banco Central Hipotecario.

The capital of the Banco Central was 15 million pesos in 1949, and the total assets were 119 million pesos.

The main function of the Banco Central Hipotecario is to supply mortgage funds for high-cost housing; this is the only



institution which raises funds to make long-term loans in adequate amounts. Its loans are made at 8 to 9 percent, or 2 percent above the bank rates paid by the Banco Central Hipotecario, with gradual amortization over a twenty-year period. Loans are extended up to 50 percent of the property value. This institution makes no contribution to medium and lower-cost housing.

### Stock Exchange

The only stock exchange in Colombia is the stock exchange of Bogota. It is a private corporation supervised by the superintendent of banks. The companies registered at the stock exchange increased from forty in 1939 to ninety-four in 1949, and capital reserves rose in the same period from 140 million to 600 million, but only 20 percent was obtained by the issuance of new shares; much of it was by the retention of earnings. The transactions of this stock exchange are concentrated in a few companies. The stock exchange has not provided access to capital markets for new companies which are not fully popular with the public. Those needing funds must obtain them through the retention of profits in their own businesses or from friends.

## Insurance Companies

The increase in insurance is a source of growth every year.

The total investment of insurance companies rose from 23 million in 1946 to 45 million in 1947, and 57 million in 1948. Unlike the other institutions of credit, the insurance companies have distributed their funds between public and private investments of various kinds. In 1948, holdings of government bonds were increased by 22 million, while private investments and loans rose by 10 million pesos.





## CHAPTER II

### DESCRIPTION OF INVESTMENT IN COLOMBIA

Understanding of Colombia's economic development requires a review of her geographic and political attributes; however, an attempt has been made to list only the outstanding natural resources.

#### Resources of Colombia

##### Gold

Colombia is the largest producer of this metal among the Latin American countries. It is estimated to have one-third of the continent's known resources, and ranks eighth in the world.<sup>1</sup> The principal producers are the states of Antioquia and Cauco; the gold production of Colombia for the last four years is shown in Table XIII.

---

<sup>1</sup> Gustavo Otera, Monografia of Colombia, Bogota, Colombia, 1950, p. 6.



TABLE XIII  
GOLD PRODUCTION

States	1950		1951		1952		1953	
	Ounces	Pct.	Ounces	Pct.	Ounces	Pct.	Ounces	Pct.
Antioquia .	224.799	59.3	292.340	67.2	280.918	66.5	304.245	69.8
Caldas . . .	10.995	2.9	8.630	2.0	6.079	1.4	7.694	1.8
Cauca . . .	32.074	8.5	29.703	6.9	30.644	7.3	22.537	5.2
Choco . . .	57.227	15.1	52.344	12.2	61.496	14.6	53.837	12.3
Huila . . . .	0.844	0.2	0.394	0.1	0.222	0.1	0.385	0.1
Narino . . .	46.095	12.1	36.628	8.5	34.936	8.3	40.174	9.2
Santander .	2.633	0.7	4.289	1.0	2.697	0.6	2.440	0.6
Tolima . .	2.191	0.6	2.414	0.5	2.272	0.5	2.354	0.5
Valle . . . .	1.280	0.3	1.874	0.4	2.193	0.5	1.845	0.4
Varios . . .	1.234	0.3	2.107	0.5	0.783	0.2	0.533	0.1
Total . . . .	279.414	100.0	430.723	100.0	422.240	100.0	436.045	100.0

Source: Revista del Banco de la Republica, Enero p. 8, 1954.

### Emeralds

Colombia has practically a world monopoly, under the control of the government, giving to the market the best type of emeralds. The mines are located in the state of Boyaca (see Map I).

### Petroleum

Colombia is second only to Venezuela among the South American countries in output of petroleum. In 1952 Colombia occupied tenth place in world production. The production of crude oil is confined to three fields for practical purposes. Two of these--the Infant and La Lira--are in the De Mares concession in the state of Santander, about 400 miles from the Magdalena River. Other important zones are in the state of Magdalena and Guajira state (see Map I).

The production of crude oil from 1921 to 1947 was about 291,122,406 barrels of 42 gallons each. Total production for 1950 was 30 million barrels, of which 26 million were exported. In 1937 petroleum constituted 23 percent of the total value of Colombia's exports. The figure in 1949 was 19 percent. The oil industry contributed 3.1 percent of government revenues in 1949. Production and exportation of petroleum for the last four years are shown in Table XIV.





MAP I

TABLE XIV

## PRODUCTION AND EXPORTATION OF HYDROCARBONS

Year	Total Production (barrels)	Exportation	
		Barrels	Value (millions of U.S. dollars)
1949	29,723	24,167	58.191
1950	34,059	28,269	64.489
1951	38,398	32,237	72.872
1952	38,683	32,030	73.388
1953	39,434	32,069	76.306

Source: Revista Del Banco De Colombia, Enero 1954, Bogota, Colombia, p. 84.





## Agriculture

Colombia's wide variations of terrain, soil, and climate allow a wide diversity of agricultural production (see Map II). About 74 percent of its population is occupied in agriculture and cattle industry. Although only about 2 percent of the total land is under cultivation,<sup>2</sup> Colombia produces enough food for its people. There are 15,491,300 acres utilized in crop production, and 1,149,100 are used by the cattle industry. The typical farm unit is small, with an average of five acres. Statistics available show about 709,000 small farms. Colombia's major crops are coffee, sugar cane, corn, potatoes, rice, wheat, yucca, and bananas (see Map II). The commercial crops are potatoes and barley. Table XV shows an estimate of the value of Colombian agriculture production from 1939 to 1948. It shows the expansion of production of rice, beans, sugar cane, and the relative stable position of other products such as wheat, potatoes, and cocoa.

---

<sup>2</sup> Commercial Atlas and Marketing Guide, Rand McNally, 1954, p. 54.



CULTURAL RESOURCES

- COFFEE .....
- TOBACCO ▲▲▲▲▲
- COTTON ×××××
- SUGAR □□□□□

MAP II



TABLE XV

AGRICULTURE: ESTIMATED VALUE OF PRODUCTION, 1939-48  
(in millions of pesos)

Item	1939	1940	1941
Export crops:			
Coffee . . . . .	70.7	71.2	76.3
Bananas . . . . .	8.8	6.1	3.7
Total . . . . .	<u>79.5</u>	<u>77.3</u>	<u>80.0</u>
Percentage . . . . .	19.4	18.5	18.9
Crops for domestic consumption:			
Rice . . . . .	16.1	16.5	18.7
Maize . . . . .	56.3	62.4	59.2
Wheat . . . . .	23.7	23.5	26.7
Barley . . . . .	0.1	0.1	0.3
Beans . . . . .	8.6	8.1	7.9
Potatoes . . . . .	54.0	52.2	46.8
Cassava . . . . .	23.9	25.8	27.6
Plantains . . . . .	49.7	49.7	49.7
Sugar . . . . .	16.7	17.4	21.0
Cacao . . . . .	8.0	9.3	8.0
Tobacco . . . . .	9.9	10.6	11.9
Unrefined sugar . . . . .	63.0	64.4	65.9
Total . . . . .	<u>330.0</u>	<u>340.0</u>	<u>343.7</u>
Percentage . . . . .	80.6	81.5	81.1
Grand total . . . . .	409.5	417.3	423.7

Source: U.N., Economic and Social Council, Economic Commission for Latin America, Recent Trends and Developments in the Economy of Colombia, p. 21, 1950.

TABLE XV (Continued)

1942	1943	1944	1945	1946	1947	1948
87.8	84.6	88.6	88.8	86.7	92.6	98.2
<u>0.3</u>	<u>-</u>	<u>0.6</u>	<u>1.4</u>	<u>2.0</u>	<u>3.0</u>	<u>4.0</u>
<u>88.1</u>	<u>84.6</u>	<u>89.2</u>	<u>90.2</u>	<u>88.7</u>	<u>95.6</u>	<u>102.2</u>
20.5	20.4	20.2	19.8	18.6	19.7	19.5
18.7	14.6	18.9	17.8	25.3	24.2	39.1
56.1	57.7	63.2	63.0	63.5	63.5	65.0
20.3	17.1	15.2	15.4	22.4	22.6	22.2
0.1	0.1	0.1	0.1	0.4	0.4	0.4
8.1	10.1	12.0	14.0	14.7	13.5	14.7
49.2	40.6	47.3	52.7	54.1	54.1	57.2
29.5	31.4	33.2	25.1	36.8	28.7	39.1
49.7	49.7	49.7	49.7	49.5	49.4	47.8
23.2	24.3	26.1	27.6	27.6	30.1	39.6
8.0	6.0	6.0	6.7	7.3	5.3	7.3
10.6	9.9	9.9	10.6	12.5	12.5	13.2
<u>67.3</u>	<u>68.9</u>	<u>70.5</u>	<u>72.0</u>	<u>73.7</u>	<u>75.4</u>	<u>77.0</u>
<u>340.8</u>	<u>330.4</u>	<u>352.1</u>	<u>364.8</u>	<u>387.8</u>	<u>389.7</u>	<u>422.6</u>
79.5	79.6	79.8	80.2	81.4	80.3	80.5
428.9	415.0	441.3	455.0	476.5	485.3	524.8

## Coffee

Constituting one of the bases of the economy of Colombia, coffee represents 31 percent of the total agricultural production and about 78 percent of the total value of exports.<sup>3</sup> Coffee represents to Colombia 75 percent of its earnings of foreign currency, and at the same time the source of exchange for its imports.<sup>4</sup>

The cultivation of 150,000 coffee trees occupies one million acres. During the years 1946 to 1951, Colombian production of coffee remained uniform at a yearly average of 5.5 million bags. During this period Colombia produced 18 percent of the world's production.<sup>5</sup>

Sugar cane is the second product in value. The development of this industry is in the hands of the government.

Colombia is virtually self-supporting in rice. Production in 1950 was 18,000 tons, and it increased 10 percent in 1951.

---

<sup>3</sup> Gustave Otero, Colombia, Nat. Resources, Bogota, Colombia, 1950, p. 19.

<sup>4</sup> Study of Latin America Countries, Senate Report No. 1082, 1954, Colombia, p. 94.

<sup>5</sup> Walter O. Galbraith, Colombia, Royal Institute of International Affairs, Oxford University, 1953, p. 87.

Bananas are the other main agricultural product. They are shipped abroad, especially to the United States. Cotton has suffered a severe setback in production owing to a disease called "picuds," which has necessitated importation of cotton fibers from neighboring countries.

Tobacco is mostly used for local consumption in cigars and cigarettes.

Corn is cultivated throughout the country, and is the basic food for the population in general.

The government has tried to encourage the cultivation of other crops such as coconut and sesame.<sup>6</sup>

#### Livestock<sup>7</sup>

The cattle industry has long been one of Colombia's principal occupations. A great deal of improvement has resulted from the application of modern scientific methods. From 1938 to 1947, the cattle industry increased by 4.5 million head, with a corresponding

---

<sup>6</sup> U. S. Office of International Affairs, Basic Data on Other Republicas, 1945, Colombia, p. 42.

<sup>7</sup> Taken from the official publication of the government of Colombia in the Report, presented by the Ministre de la Economica Memoria, 1946-47, Bogota, Colombia.



increase in production of meat, hides, wool, and milk and its derivatives. In 1951 Colombia had 15 million head of cattle, and the poultry population was 21 million. About 600,000 cattle are produced by the state of Bolivar. Colombia exports cattle to the Canal Zone, Trinidad, and Venezuela. A characteristic of the industry is an animal wastage equal to 50,000 cattle due to the high mortality rate and loss of weight in transport from the ranges to the markets.

The government and private businessmen are trying to improve the situation by establishing slaughterhouses and meat-packing plants in the cattle-raising areas.

Only a small number of sheep, hogs, and goats are raised. Estimates for 1951 show a production of 1.3 million sheep and 2.7 million hogs.

#### Agricultural Investment<sup>8</sup>

Machinery and implements were the most important forms of private agricultural investment, although investment in plants for processing agricultural commodities and expenditures for improvements of agricultural methods were of normal proportions. The

---

<sup>8</sup> Senate Report, Study of Latin American Countries, 1953, No. 1082, Colombia, p. 233.

main reason for this investment was to increase production in order to continue agricultural trade exports. The tendency for exports to outstrip production became apparent in the period beginning in 1940 and extending to 1944.

The chief reason for the greater increase in export products was the higher rise in postwar prices for exports--crops such as coffee and oilseeds--compared with those crops produced for home consumption. In some cases (e.g., coffee), there was an actual diversion of production from the domestic market to export.

The government has sought to counteract the effects of the rise in export prices by compelling the increasing production of food crops for domestic consumption by supporting and encouraging public agricultural credit for such crops.

#### Number, Distribution, and Occupations of Colombia

The first census in 1841 reported two million people, and that of 1900, 3,880,000. The results of the census of 1951 are not yet published, and the most recent figures available are those of the census of 1938, which counted 8,407,956. This represents an increase of 2.15 percent per annum, and, on this basis, the official estimate of the total population in 1950 was 11,259,739 (see Table XVI).

TABLE XVI

## OCCUPATIONS OF GAINFULLY EMPLOYED, 1939-1947

Occupation	Equivalent Full-Time Workers (in thousands)		Pct. Increase
	1939	1947	
Grand total . . . . .	2417	2880	18.1
Rural . . . . .	1527	1755	14.9
Total urban . . . . .	890	1125	26.4
Mining . . . . .	57.5	60	4.5
Manufacturing industries . . . . .	100	146	46.0
Handicrafts . . . . .	148	185	25.0
Construction . . . . .	72.5	96	32.0
Transport . . . . .	66.5	95	43.0
Commerce . . . . .	145	194	31.0
Government . . . . .	95	98	3.0
Services . . . . .	67	79	18.0
Liberal professions . . . . .	19.5	25	28.2
Domestic services . . . . .	110	140	27.2
Other . . . . .	6	7	17.0

Source: : The Basis for a Development Program for Colombia, p. 33.

The distribution of the urban force in industrial employment increased almost 50 percent in nine years, then followed the relatively rapid increase in transportation and trade. However, in some fields it has shown little progress, as, for example, the fixed number of government employees.

### Investment in Colombia

Colombia, in her early stage of economic development, relied on foreign capital to finance its growth, and thus she depended on other nations for the productive factor: capital. The investment in Colombia may be analyzed by pointing out three stages in the economic evolution of the area.<sup>9</sup> The first was characterized by a simple system of economic life. In that period there was a complete absence of manufactured products since the economic environment was not suited for a large outlet of capital from an industrial country.

The second period, from the end of the nineteenth century to World War I, was characterized by the increase of investment mainly in mines and textile industries. The improvement of harbors

---

<sup>9</sup> Max Winkler, Investment of U. S. in Latin America, World Peace Foundation, Boston, 1928, pp. 17-22.

and growing European demand for foodstuffs were features of this period, too.

The third period of investment in Colombia dated from World War I to the present time. The expansion of local industries was the characteristic of this period.

### Early Investment<sup>10</sup>

Early investment may be classified as follows: railways, canals, mining, agricultural, newspaper, and mercantile establishments.

United States investors were among the first to become interested in transportation. The construction of the Panama Railroad in 1855, which cost 8 million dollars, was sponsored by North Americans, who also secured concessions for roads between Chirigui Lagoon and the small town of David, in 1854, and the line which connects Cartagena to Calamar. The government was helpful in providing large grants of land.

---

<sup>10</sup> The material here follows Professor J. Fred Rippy, The Capitalist and Colombia, Chapters III and VIII (New York: The Vanguard Press, 1932).

Public utilities in Santa Marta were the telephone and electric lighting system developed in 1909. In 1899 the United Fruit Company was launched. Also there were some investments in urban real estate and newspapers. All types of investments about that period amounted to 14 million dollars.

One of the first oil investments in Colombia was in the year 1908, when the Cartagena Oil Company was formed by Colombian citizens.

In 1914 the Standard Oil Company made an agreement with the owners of the Cartagena Company to take control and to explore oil in the district. By 1916 another company was formed, the Tropical Oil Company, which was soon taken over by Standard Oil Company of New Jersey. The exploitation of petroleum on a large scale, however, started in 1926. In 1921 the Tropical Oil Company made a 30-year contract with the Colombian government for the purpose of developing the petroleum industry in the DeMares Concession situated in the state of Santander. Upon expiration of a 30-year lease held by the Tropical Oil Company in August, 1951, the DeMares Concession reverted to the government.

## Historical Development of Tropical Oil Company

The Tropical Oil Company was the first to produce on a commercial basis the petroleum from Barrancarmeja (located in the Demares Concession). This concession was given to the Tropical Oil Company August 25, 1919; thus, for 30 years the Tropical Oil Company was active in the economic development of Colombia. In 1922 the company installed the refinery in Barrancarmeja and constructed the pipeline of the Andian. Production in 1921 was 66,750 barrels, and in 1926 it reached 6,443,587 barrels. Today the activities of the Tropical Oil Company extend into numerous regions of the country and give occupation to more than 6,000 people.

The contribution of the Tropical Oil Company to the general economy of Colombia was mainly in fiscal matters. Between 1921 and 1947 they paid 39,310,000 pesos in direct and indirect taxes on importations.

The Tropical Oil Company has endeavored to increase its exchange reserves through the introduction of United States dollars.

## Manufacturing Industry

Three decades ago Colombia was a country exclusively agricultural, pastoral, and mineral. Colombia produced fruits and raw

materials and exported what it did not need. In recent years industries other than processing of local agricultural materials have made considerable progress. Colombia has witnessed a period of accelerated production in the last half-decade. New industries were created and the value of industrial output rose sharply to meet the requirement of a war-fostered trade and self-dependency.

### Stage of Industrial Development

At the present time the occupational distribution in Colombia tends to conform to that stage of development which Professor George Wythe has characterized as "the intermediate industrial order,"<sup>11</sup> meaning that Colombia is still in the early stage of industrialization. The principal manufactures are of types involving relatively simple processes like the preparation of food, meat, sugar, paste foods, and articles with a popular-demand market, such as cotton, shoes, glassware, et cetera. Heavy industries are the exception rather than the rule, largely because of a shortage of good coking coal and the unfortunate location of iron deposits.

---

<sup>11</sup> George Wythe, An Outline of Latin American Economics (New York: Barnes Noble Inc.), p. 149.



## Types of Manufacturing Industries

Light industry in Colombia involves two principal types of activity: (1) the production of consumer goods for domestic consumption, and (2) the processing of raw materials for export.

The greatest development activity has been in the field of consumer goods. Cotton textiles first achieved importance, followed by shoes, printing, soap, furniture, matches, and other articles of wide use. At the same time various food-processing industries became more mechanized; sugar and flour mills, meat-packing and the foodstuff industries embraced a wide variety of activities.

## Size of Industrial Development

The most striking characteristic of the manufacturing and processing industry in Colombia is the large number of small establishments (see Table XVII).

## The Industrial Trend in Colombia

Industrial data for the years prior to 1934 are very poor, yet it is possible to achieve a realization of some general characteristics of industrial growth even without precise statistical material. From a historical point of view it is possible to outline three periods

TABLE XVII

INDUSTRIAL ESTABLISHMENT ACCORDING TO  
CAPITAL INVESTED, 1941  
(Directory de la Industry, Manufacturing in Colombia)

Industry	Over 250,000	50,000- 250,000	5,500- 50,000	Under 5,500	Total
Food products . . . .	120	56	359	1,059	1,486
Beverage . . . . .	18	17	62	188	283
Tobacco . . . . .	7	5	60	124	151
Oil . . . . .	7	2	7	6	16
Chemicals . . . . .	1	20	105	274	400
Rubber . . . . .	-	1	4	4	9
Wood . . . . .	1	5	37	332	375
Paper . . . . .	3	2	8	14	27
Geographic arts . . .	2	13	64	270	379
Leather . . . . .	1	5	24	175	205
Textiles . . . . .	17	22	51	58	139
Wearing apparel . . .	2	17	106	653	778
Power water supply					
Oil and fuel . . . . .	26	45	33	164	468
Nonmetallic minerals	2	-	-	-	3
Metallurgy . . . . .	7	10	54	275	346
Common metal . . . .	2	6	29	86	133
Machinery . . . . .	2	5	28	188	223
Metal stones . . . . .	-	3	13	91	133
Miscellaneous . . . . .	-	-	4	18	72
Total . . . . .	104	234	1,222	3,990	5,550
Percent . . . . .	1.9	4.1	22	71.9	100

Source: Lloyd J. Hughlett, Industrialization of Latin America, p. 49.

of industrial advance in Colombia:<sup>12</sup> first, from 1880 to 1914; second, during World War I and postwar; and third, from 1931 onward.

Manufacturing in Colombia did not take root until the last quarter of the nineteenth century. However, this manufacturing was very meager yet; it was an elementary manufacturing industry, in some cases its origins, as in the tanning of leather, were in the crafts of the colonial period.<sup>13</sup> Among the products of these industries were laundry soap, cigars, alcohol, et cetera.

During the second period, from 1914 to 1931, Colombian industrial development saw the introduction of textile manufacturing, shoe manufacturing, and commercial wire production. In 1915 there were 121 manufacturing establishments with a total capital investment of 168 million pesos. The textile industry accounted for more than one-fourth of the total capital invested.<sup>14</sup>

After World War I, industrial expansion continued. A petroleum refinery was built and considerable expansion occurred in the

---

<sup>12</sup> George Wythe, "The New Industrialism in Latin America," Journal of Political Economy, Vol. XLV, No. 2 (April, 1937), p. 208.

<sup>13</sup> Wendell G. Gordon, The Economy of Latin America, Columbia University Press, 1950, p. 108.

<sup>14</sup> United Tariff Commission, Mining and Industry in Colombia, Washington, D. C., 1949, p. 8.

processing of foodstuffs; however, the industrial potential of Colombia was still small in 1921, and the growth continued to be very moderate throughout the 1920's.

The next great impetus to manufacturing occurred between 1930 and 1933. In this period most of the basic industries were established, and since then Colombia's industrial expansion has been largely centered in these same industries. With the exception of rubber tires and the caustic soda industries, which are of considerable size, small plants prevail. The magnitude of the expansion is shown by the increase from 1934 to 1938 of 400 percent in the production of cement, 200 percent in the sugar industry, and 400 percent in electric power output.<sup>15</sup>

In 1936 the Contralleria General of Colombia made an investigation and found 469 manufacturing establishments, representing a combined investment of \$64.3 million, producing goods valued at 106.2 million pesos (60.7 Unites States dollars), and employing 29,154 persons. By 1940 the number of establishments investigated by the Contralleria had increased to 1,541, the total investment was 1,224 million pesos (\$69.9 million), and total production was valued at

---

<sup>15</sup> United Tariff Commission, Mining and Industry in Colombia, Washington, D. C., 1949, p. 8.

187.7 million pesos (\$108.3 million), and a total of 42,681 persons were employed.<sup>16</sup>

In 1943, 633 companies were organized in Colombia with aggregate capital of 21,882,500 pesos; of these, 357 were manufacturing establishments and 274 were commercial or sales organizations. It is significant that the capital invested in industrial enterprises in 1943 was three times greater than the investment in commercial companies. Table XVIII shows the major manufactures in Colombia in 1938 and 1942.

#### Current Position of the Industry

In 1945 an industrial census was made; this census showed 20,000 salaried employees and 115,000 workers in the industrial field. About half of these workers were occupied in food-processing and textile plants (see Table XIX). (Geographically, industry was concentrated in four cities: Bogota, Medellin, Cali, and Barranguilla. It is estimated that in 1944-1945 nearly 70 percent of the industry was centered around these four cities.)

---

<sup>16</sup> International Bank for Reconstruction and Development, The Basis of a Development Program for Colombia, Washington, D. C., 1950, p. 87.

TABLE XVIII

## MAJOR MANUFACTURES

(number of establishments, number of workers, and value)

Products	Establish- ments	Workers	Value of Output in United States Dollars
<u>1938</u>			
Total . . . . .	1,031	34,422	84,838,371
Beverage . . . . .	171	4,506	22,234,801
Chemical Phar. . . . .	175	2,793	5,277,725
Clothing . . . . .	162	2,171	2,079,769
Food . . . . .	81	1,851	6,973,421
Glass . . . . .	10	1,001	610,403
Leather . . . . .	60	797	1,710,763
Machinery . . . . .	80	1,011	10,864,208
Other Metal . . . . .	58	1,432	2,268,347
Rubber . . . . .	7	132	120,608
Stone . . . . .	47	1,860	2,916,474
Textiles . . . . .	64	11,371	14,525,179
Tobacco . . . . .	70	4,955	14,197,929
Wood paper . . . . .	13	315	504,531
Miscellaneous . . . . .	33	227	554,213
<u>1942</u>			
Total . . . . .	1,415	54,473	135,871,364
Beverage . . . . .	201	5,251	25,623,765
Chemical Phar. . . . .	125	2,094	5,502,546
Clothing . . . . .	281	3,053	3,824,230
Food . . . . .	110	2,685	11,044,827
Glass . . . . .	12	1,138	627,458
Leather . . . . .	74	1,356	3,068,908
Machinery . . . . .	125	5,932	15,154,800
Other Metal . . . . .	87	1,919	3,545,809
Rubber . . . . .	7	440	981,919
Stone . . . . .	62	1,661	3,903,864
Textiles . . . . .	77	19,751	36,788,798
Tobacco . . . . .	93	5,340	18,658,494
Wood paper . . . . .	19	457	1,388,797
Miscellaneous . . . . .	122	1,396	5,702,517

Source: Encyclopedia Britannica World Atlas Trade Edition, 1940,  
p. 63.

TABLE XIX  
COLOMBIAN PRODUCTION, 1944-45

Category	Millions of Pesos	Percentage
Foodstuffs . . . . .	263,000	41.12
Textiles . . . . .	84,000	13.23
Beverages . . . . .	52,000	8.18
Instrument and metal . . . . .	35,000	5.55
Clothing . . . . .	34,000	5.45
Chemicals . . . . .	24,000	4.32
Leather goods . . . . .	27,000	4.28
Nonmetallic . . . . .	24,000	3.79
Metallurgic . . . . .	21,000	3.37
Wood manufacturing . . . . .	19,000	2.97
Tobacco . . . . .	15,000	2.48
Graphic arts . . . . .	14,000	2.21
Petroleum . . . . .	11,000	1.74
Rubber . . . . .	4,000	0.71
Paper, cardboard . . . . .	2,000	0.35
Miscellaneous . . . . .	1,000	0.24
Industrial . . . . .	72	0.01
Total . . . . .	633,072	100.00

Source: Colombia, Contrallaria General de la Republica, Primer Censo Industrial de Colombia, 1945.

Capital and reserves amounted to 508,200,000 pesos. Sixty percent of this amount was invested in plants manufacturing textiles and processing foodstuffs. Another relevance in assessing industry's contribution are the figures on value added, or, in other words, the contribution to over-all production represented by the value of the work of labor, management, and capital. In 1939 this figure of value added in manufacturing amounted to about 120 million pesos, and grew to 494 million pesos in 1947. These figures represent, respectively, 11.5 and 15.3 percent of the total of the value added by all economic activities, or the net national income. Table XX shows the extent to which Colombian production is utilizing locally produced raw materials. In 1944-1945 only 21 percent of all raw materials used in manufacturing were imported.<sup>17</sup>

In general, Colombia is supplying through domestic fabrication practically all of its current consumption of processed foodstuffs, beverages, tobacco, textiles, et cetera. It is fabricating a very substantial part of its building-material requirements. The major classes of fabricated items which are still being imported include transportation vehicles and machinery.

---

<sup>17</sup> International Bank for Reconstruction and Development, The Basis of a Development Program for Colombia, 1950, p. 87.



TABLE XX

COMPONENTS OF VALUE OF PRODUCTION (MANUFACTURING)  
OF ALL INDUSTRIAL PRODUCTION (1944-45)

Component	Value of Items 1944-45 (thous- ands of pesos)	Percent of Total
Raw Material . . . . .	484.3	58.4
Local agriculture . . . . .	260.0	31.3
Local other . . . . .	119.0	14.4
Imports . . . . .	105.3	12.7
Wages and Salaries . . . . .	97.3	11.7
Fuel . . . . .	14.4	1.7
Depreciation . . . . .	21.5	2.6
Taxes . . . . .	59.8	7.2
Retained earnings . . . . .	45.9	5.5
Wet products . . . . .	70.5	7.2
Other . . . . .	36.5	8.5
Total . . . . .	830.0	

Source: The Basis of a Development Program for Colombia, p. 89.

### Background of Industrial Development

The forces that have operated to produce the movements to industrialization in Colombia are complex. Viewed in the broadest perspective, the development may be considered as partly socio-political and partly economic factors such as the growth of the middle class, technological changes, and the gradual diffusion of industrial skill.<sup>18</sup> The nature of these developments will be discussed in the following paragraphs.

#### Socio-Political Factors

Progress toward industrialization in many Latin American countries during 1930 helped Colombia to realize the influence of certain socio-political factors on industrialization. Leaders began to think of two possibilities: (1) an increase in per capita purchasing power and the growth of the middle class that would take interest in politics and develop a body of intelligent voters; and (2) other factors for industrialization--the desire for increase in national

---

<sup>18</sup> Paul V. Horn and Habert E. Rice, Latin America Trade and Economics, Chapter 11, Latin America Industry, Prentiss Hall Inc., 1949, p. 286.

power and commercial prestige, called by Wythe the "new nationalism."<sup>19</sup>

### Economic Impulses Behind Industrialization

The economic impulses behind industrialization were: (1) stimulation by world wars; (2) protection afforded by high customs and exchange restrictions; (3) financing assistance by the government and other institutions; (4) financial assistance provided by foreign capital; and (5) great depression. They will be discussed in the following paragraphs.

#### Stimulation by the World Wars

Efforts toward Latin American industrialization were greatly increased during the two world wars by a variety of causes. The influx of European refugee capital helped a considerable expansion in the number of manufacturing establishments, and further funds were made available by unusually large exports to the United States and the United Kingdom. Dollar and pound sterling credits accruing from these exports and converted into bank credits, in local

---

<sup>19</sup> George Wythe, Industry in Latin America, Chapter I, Industry As the Way Out, Columbia University Press, 1945, p. 11.

currencies, were seeking profitable employment. Other influences were the inability of industrial countries to supply the usual imports, which created acute shortages of many essential goods. The high prices resulting from these conditions still further stimulated the desire for industrialization that would yield profits to domestic business enterprises and assure greater self-sufficiency and improved living standards.

#### Protection Afforded by High Custom and Exchange Restriction

Colombian factory industry in the past has been built up largely by utilizing the tariff for protective purposes. Before 1931 the tariff was used primarily to raise revenue, but subsequently it has been employed in ever-increasing measure to stimulate certain branches of agriculture and certain manufacturing industries.<sup>20</sup> New plants now are supported by a policy which limits imports by quota until the capacity of the plant is absorbed by the domestic market. The duties are high. Automobile tariffs range from 40 to 60 per cent of landed cost. Tariffs are also high against wheat and flour.

---

<sup>20</sup> Taken from U. S. Tariff Commission, Colombia Commercial Policy, Washington, D. C., 1945.

Exchange control and adjustment of exchange rates at times, however, takes the place of the tariff. For instance, coffee can be purchased only at the official exchange rate of 2.5 pesos per dollar, rather than at the market exchange rate, approximately 3 pesos per dollar. The result is that coffee costs more in dollars. Certain luxury items such as fruit and stuffed olives may be imported only by purchasing exchange certificates at a premium exchange rate.

As a means of encouraging the development of new manufacturing enterprises in Colombia, the government has granted tax exemption to them in the early years of their existence. So far new plants in three important industries (cement, sugar, and tanning), representing an investment of nearly 10 million pesos (\$57 million), have been benefited from this aid.

### Finance Assistance by the Government

The movement toward industrialization in Colombia does not consist of an expressed desire for an unconscious impulsion toward the establishment of a factory system. A schedule of industrialization has been deliberately planned with respect to financing and encouraging (1) basic industries of primary importance to the nation's industrial pattern, (2) industries that convert raw materials into semifinished

products, and (3) industries that can economically compete by manufacturing consumer goods imported in prewar years.

Institute of Industrial Development. The Institute of Industrial Development was created by Decree No. 1157 of June, 1940. This organization has quickly become a major factor in the field of industrial promotion. It is not designed merely to provide capital, but also to act as "promoter" and partner in those basic industries that require costly preliminary surveys and large capital that may not be within the immediate reach of private parties. The minimum capital of the Institute was set at 4,000,000 pesos, of which 3,000,000 were to be subscribed by the Colombian government and 1,000,000 by the Central Mortgage Bank.

Enterprises which the Institute had initiated, or in initiation of which it had participated, included those concerned with the following: production of iron, coal, and mineral water; forest products; and the manufacturing of tires, woolens, and glass. Many of these enterprises are in actual operation, whereas others are still in the experimental stage. At the end of its third year of operation, the Institute of Industrial Development held investments in industry totaling 2,706,000 pesos, and had funds amounting to 3,012,000 pesos awaiting such investment. In several instances the Institute has

participated jointly with United States capital in the establishment of new enterprises.

#### Financial Assistance Provided by Foreign Capital

Foreign capital has been significant in the advance of manufacturing industry in Colombia. Some of the outstanding manufacturing industries are branches of foreign enterprises, particularly packing houses, chemicals, and tire factories. There is enormous and continued drawing upon foreign countries for capital, for machinery, and for management and technical assistance.

In some cases, the foreign contribution has been large; for example, the United States aided industrialization of Colombia by the establishment and expansion of industrial enterprises. Loans were made through the Export-Import Bank to finance the purchase of equipment for the development of manufacturing in Colombia. The formal endorsement of continuing establishment of new industries in Latin America by the United States was made by the Conference of Commission of Inter-American Development in 1944.

## Depression

The economic depression of the 1930's ushered in a decade of industrial expansion in Colombia. This period of greatest decline in exports coincided with a period of marked industrial advance in Colombia. That advance was the counterpart of the trend toward agrarian self-sufficiency in Europe that restricted the outlet for raw material and forced Colombia to fall back on its own resources. All restrictions helped to set in motion this chain of events: shrunken export balances in Colombia; lack of purchasing power necessary to import manufactured goods in large amounts; inability to service large foreign debts; and a consequent determination to establish industries for converting into finished goods many raw commodities for domestic consumption.

The decline in the income received by Colombia during the early 1930's resulted in a decline in the value of its currencies in relation to currencies of European countries and the United States. Then Colombian importers increased their local currency prices of imports in order to secure for their products the same amount as before in pounds sterling, dollars, and other foreign currencies. But local manufacturers were at a decided advantage, for their cost of native raw materials, labor, and overhead were not affected by



currency depreciation. So it was increasingly profitable to manufacture an ever-growing number of products previously imported.

### Major Manufacturing Industries<sup>21</sup>

Ninety-seven percent of the total production of Colombia takes in the following industries: textiles, food products, beverages, metallurgical products, chemicals, pharmaceuticals, clothing, leather, and tobacco.

The textile industry has grown to a great extent. From a capital of 2,100,000 pesos in 1930 it increased to 81 million pesos in 1950. Profits rose from 776,000 pesos to 26,700,000 pesos during the same period, and the net worth increased from 4 million pesos to 196 million pesos. The manufacturing of wool, rayon, and silk has progressed notably. The cement industry has doubled its production within five years, and has added production capacity of 1,000 tons.

Domestic iron and steel production began in 1942, with the Empresa Siderurgica metallica plant in Medellin. Equipped with

---

<sup>21</sup> Interim Report of the Senate Committee of Banking and Currency, Study of Latin American Control, Colombia, Manufacturing, Washington, D. C., 1954, p. 23.

modern steel furnaces, coke ore, and rolling mills, its capacity is 12,000 tons of steel per annum.

In 1952 a 40-million-peso integrated steel mill project was begun at Pas del Rio in Western Boyaca Department. This state contains good deposits of iron ore, bituminous coal, coking coal, and limestone.

The cigarette industry has recently surprised its South American competitors. In 1919 the industry imported 90 percent of the tobacco it used; now it is all produced domestically.

The tire industry is just beginning. New plants have also been erected for producing paper, paints, glass, candy, and milk products. Other principal industries include leather, chemicals, and pharmaceuticals. In addition, Colombia produces beer, soap, and woodwork. A soda-ash plant is among the major industries founded since 1950. It uses domestic materials to produce 100 tons of soda per day, and was built by the Bureau for Industrial Development. Another important plant is Celanese Colombia of Cali, a subsidiary of the Celanese Corporation of America.



### Future Investment

The International Bank for Reconstruction and Development (IBRD) organized an economic mission which, after nearly one and one-half years, published its report: The Basis of A Development Program for Colombia. The report is also known as the "Currie Report." The head of the mission was Dr. Lauchlin Currie, who was assisted by fifteen experts from the International Bank; these experts were given assistance by an additional sixteen Colombian specialists in economic, political, and social fields. This report is not a study of the entire economic life of Colombia; it is, nevertheless, very useful and helpful, since there are few serious studies on the country's economic problems.

The Currie Report has been used as a basis for this chapter, and tables and data concerning Colombian industry have been taken therefrom.

The purpose of the mission was to make recommendations as to (1) direction in which investment might be channeled, especially recommendations as to investment priorities among various important sectors of the economy and among various types of undertakings within such sectors; (2) other methods and measures which might raise the level of agricultural and industrial production and improve

the efficiency of the distribution system; (3) public financial and economic policies and administrative mechanism appropriate to carry out the development objectives.

Following transmittal of the mission report in 1950, the government established a Committee on Economic Development to assist the government in formulating an over-all development program based on the report, and to recommend steps to be taken to assure the effective execution of the program. At the government's request, two staff members of the IBRD assisted the committee in its work.

The government has taken a number of steps based on the recommendations of the mission and the committee. Measures have been taken to check inflation, new regulations relating foreign-exchange control have been enacted, and a comprehensive highway-rehabilitation program has been adopted. In 1952 a National Planning Council was established to coordinate all government activities involved in the execution of the development program. In addition to helping the government in its over-all planning for development, the IBRD has provided assistance in working out specific measures to achieve development objectives in particular fields. These activities will be discussed in the next chapter.

It is useful to consider the main line of the Currie Plan as indicative of experts' opinions of the potentialities of the Colombian economy.

The program envisaged a total capital outlay of about 5,000 million pesos over the years 1951-55 (assuming stable prices), about one-fifth of which would be required for imported equipment. This sum was allocated as indicated in Table XXI.

This assumed that prices and exchange rates would remain stable through the period, that an increase in productivity of 4 percent per year would be achieved, and that foreign capital would flow in at a rate of about 60 million pesos a year. It further assumed that the total foreign exchange requirement each year would amount to 900 million pesos.

After the presentation of the report, the Committee on Economic Development made its recommendations for investment and development projects totaling 3,300 million pesos over the succeeding five years. The task of implementing this is in the hands of a special branch under the president's secretary, which has been created under the title of "Economic Planning Office."

The committee estimated that, during the next five years, foreign investment in Colombia should maintain an average rate of

TABLE XXI

## PROJECTED INVESTMENT PROGRAM, 1951-55

Investment	Total Imports (millions U.S. \$)	Private Investments (millions of pesos)	Public Investments (millions of pesos)	Total Investments (millions of pesos)	Pct.
Industries . .	191.5	741.5	-	741.5	14.5
Agriculture . .	109.0	341.0	176.0	517.0	10.3
Transport . . .	322.5	878.0	645.5	1,523.5	29.9
Mining . . . . .	46.0	135.5	-	135.5	2.7
Construction .	14.0	40.5	-	40.5	0.8
Housing . . . .	43.5	1,145.4	-	1,145.5	22.5
Building . . . .	28.5	150.0	297.7	447.7	8.8
Municipal facilities and power . . . . .	98.5	-	136.6	136.6	10.5
Total . . . . .	853.5	3,431.0	1,655.8	5,087.7	100.0

Source: International Bank for Reconstruction and Development, The Basis of a Development Program for Colombia, 1950, p. 594.

37.5 million United States dollars per year, derived as follows: \$20 million from loans, \$10 million from private investment, and \$7.5 million from oil companies.

With regard to the general future of the country's economy, a sentence from the preface to the Currie Report may be quoted: "All members of the Mission, although they found need for improvements in many specific conditions and practices, became intensely interested in and most enthusiastic over, Colombia's potentialities."

It is difficult to forecast the industrial expenditures needed in Colombia for the development of its natural resources. Quoting from the Currie Mission, "we can attempt it; just assuming certain rates of growth in the demand for various industrial products and calculate the additional capital investment necessary for expansion of plants to meet such growth." Table XXII indicates the cost of projected industries. The projects recommended by the mission are not total investment, but priorities within a large plan of investment.

### Communication and Transportation

The huge mountains of the Andes complicate the problems of transportation; in fact, transportation is one of the most difficult problems facing the economy of Colombia. Some progress has been made through building of roads, but much remains to be done.



TABLE XXII

RECOMMENDED INVESTMENT IN SPECIFIC INDUSTRIES,  
1951-1955

Industry	Foreign Exchange Investment (millions U.S. \$)	Domestic Investment (millions pesos)
Cotton textiles . . . . .	0.75	-
Wool textiles . . . . .	2.00	1.00
Rayon textiles . . . . .	1.00	-
Shoes . . . . .	0.70	2.80
Mineral water . . . . .	0.80	-
Sugar . . . . .	3.50	1.50
Fats . . . . .	0.42	0.40
Leather . . . . .	1.00	4.00
Glass . . . . .	0.70	1.60
Chemicals . . . . .	0.60	0.80
Concrete batching . . . . .	1.00	-
Lumber . . . . .	3.50	3.00
Scrap and pig iron . . . . .	5.00	8.00
Electric smelter . . . . .	0.55	-
Petroleum . . . . .	9.60	4.80
Coal . . . . .	4.80	6.40
Total . . . . .	35.92	34.30

Source: The Basis of a Development Program for Colombia, p. 437.

## Railroads

During Colonial times no effort and interest were shown in building roads and bridges, and the civil war and lack of money after their independence hindered the improvement of transportation in Colombia. Until 1900, transportation in Colombia was very primitive; pack mules traversed hills and mountains, while much of the country remained unexplored.

Railroads are not well developed owing not only to lack of capital but also to the altitude of the mountains. This caused a lack of homogeneity in the transport system of Colombia.

## Water Transportation

The River Magdalena constitutes the principal means of communication between the interior and the Atlantic coast, but transport on the River Magdalena is declining due to a low water level in the dry season. The Rivers Patea, San Juan, and Putumayo also are important for water transportation.

## Roads

In 1948 there were 12,500 miles of roads, but 1,750 miles of these are unusable at certain seasons of the year. Only about 4

percent of the roads are asphalt. Three trunk routes exist, running from north to south parallel to the three Andean chains, and two more run transversally across these ranges.

The over-all highway improvement has been impressive, in view of the great difficulties of construction and maintenance in such a rugged country. The Transportation Act of 1949 set aside "the sum that is necessary to take care of maintenance additions and betterment service." This law is an encouraging sign of the interest of the government in transportation, and shows its awareness of the importance of good roads. The funds available under the Act of 1949 provided that annual appropriations for general road construction shall not be less than 12 percent of the common taxes; for example, a portion of the national gasoline tax is specifically earmarked for surfacing national highways. Total appropriations for highways in 1949 were 37,317,000 pesos, as shown in Table XXIII.

Future projects for surface transport involve a cost of \$23.9 million, and are allocated as follows:

Railroads . . . . .	\$15.3 million
Pipelines . . . . .	2.6 million
Highways . . . . .	4.5 million
Port facilities and inland waterways . . .	<u>1.5</u> million
Total . . . . .	<u>\$23.9</u> million

TABLE XXIII

1949 APPROPRIATIONS FOR NATIONAL HIGHWAYS,  
MINISTRY OF PUBLIC WORKS

Purpose	Appropriated 1949 (pesos)	Pct. of Total
Maintenance and equipment . . . . .	10,900,000	29.2
Paving . . . . .	4,800,000	12.9
Construction . . . . .	18,473,000	49.5
Department contracts . . . . .	1,905,000	5.1
Bridges . . . . .	1,239,000	3.3
Total . . . . .	37,317,000	100.0

Source: The Basis of a Development Program for Colombia, p. 119.

## CHAPTER III

### SOURCES OF FOREIGN INVESTMENT OUTSIDE THE MONETARY STRUCTURE

Foreign capital has played a vital role in facilitating the exploitation of Colombian resources and in shaping the peculiar development of Colombian economy. Without the huge volume of foreign capital which has been invested in Colombia, export industries could scarcely have been established upon such a large scale; the export trade, the fiscal system, and the internal economy of Colombia would have assumed a different nature. Any analysis of the economic development of Colombia must utilize this pivotal role of foreign investment as one point of departure.

#### Data

It is impossible to obtain perfectly reliable data as to the volume of investment undertaken by nationals of any country within the geographical confines of another country. Even when statistics are available it is often difficult to ascertain their precise meaning or to know if they are comparable with statistics from other sources.

The available estimates are considered in some detail in the following pages. From these data it is apparent that the principal creditor nations today are Great Britain, France, and the United States. The British investment in Colombia amounts to 21 million pounds, and American investments are 193.4 million dollars. French investments were 120 million francs, and there are also indeterminate amounts invested by other countries.

Great Britain's investment in Colombia is distributed among government bonds and municipal bonds and securities of private railway enterprises and public utilities. The investments of the United States are distributed in a very similar way, though there is some tendency to prefer the newer types of public utilities--telegraph and telephone companies, for example--to railways. The extent to which principal creditor countries had invested capital overseas is not easily measured statistically. Some attempts to do so have been made, notably by Dr. Rippey, from whose books and articles many of the estimates in the present chapter have been taken. These estimates are subject to wide margin of error. They do, however, help to present a picture of the importance of international investment during the period when its advantages were most needed in Colombia.

The classifications of foreign investments as adopted by the various countries of the world are usually determined by the conditions under which the investments are held, by the sources from which the necessary data can be obtained, and by the desirability of certain classifications for analytical purposes.

A brief discussion of the classifications adopted by (1) Sir Robert Kindersley, regarding British investment, and (2) the Department of Commerce, regarding American investment abroad, will be illustrative of the influence of these factors.

British investments in Colombia are of many types. First, there are the extensive holdings by the British of Colombian government bonds. Second, there are many large investments by private corporations operating in Colombia which have their head offices in England and most of their securities listed on the London Stock Exchange. Third, there are substantial holdings of foreign securities not listed on the stock exchange.

American investments are classified by the Department of Commerce as foreign direct investments and portfolio investments. Foreign direct investments, as herein considered, include those commercial and industrial properties situated abroad and belonging to residents of the United States and its territories, from which a

return is normally expected. In the categories of direct investment are embraced corporate investment in (1) American-controlled manufacturing and sales organizations in foreign countries; (2) the stocks and bonds of foreign-controlled manufacturing and sales corporations; (3) purchasing agencies; (4) petroleum refining and distribution facilities; and (5) public utilities, et cetera. Portfolio industries include equity and other securities investments in Colombia, and the issue of Colombian government bonds. The characteristic feature of this type of investment is for purposes of income, rather than control.

The data on investment (direct and portfolio) in Colombia were classified by the Department of Commerce. In tabulating the data it had in mind the following objectives: (1) to ascertain the total investment in Colombia; (2) to distribute the data by industries and also by commodities, since by that means the motive for the investments might be judged more accurately; and (3) to make a start in the analysis of the origin and the life history of the investment.

The following pages are devoted to the accomplishment of this objective to the extent that the available sources of information permit.



### Great Britain's Capital in Colombia

In 1820, Fea, who was Vice-President of Colombia, appeared in London. Delegated with the powers of minister-plenipotentiary, he had come to plead for British financial aid in the cause of the colonial revolt against Spain.

Britain was keenly interested in the establishment of foreign centers for the establishment of trade relations, and so a loan was granted. It was, however, pitifully short of the 2,000,000 pounds which Lea had asked for. After paying commissions and interest for the two-year duration of the loan, there remained to the revolting Colombians but 640,000 pounds, with which they purchased a ridiculously small navy and an inadequate number of guns. However, this was the beginning of the Colombian-British trade relations; and from that time forward Britain took the lead and dominated not only capital export to Colombia, but to other Latin American countries as well.<sup>1</sup>

Within a few years, the expansion of British capital to the young republic of Colombia had begun to pyramid.

---

<sup>1</sup> Simon G. Hanson, Economic Development in Latin America, Chapter XII, Inter-American Economic Affairs, 1951, p. 280.

This period was known as the "British Investment Boom."

Great Britain invested unprecedented amounts of capital, not only in Colombia, but in other parts of Latin America. These investments were made in bonds and securities of many joint stocks.

"Get rich quick in South America" was the slogan of the day. Bankers, lawyers, and gamblers swarmed the streets of London soliciting support for their schemes. Journalists and government administrators were caught in the spiraling excitement, and corporations mushroomed overnight.

In 1824 the Gran Colombia, then embracing what later were the nations of Colombia, Venezuela, and Ecuador, had 6,750,000 pounds of British investment with a rate of interest of 6 percent. . The nature of this investment in Colombia was in mines, especially gold and silver, and their capitalization in some companies was as shown in Table XXIV.<sup>2</sup>

Such is, in brief, the early story of British investment in Colombia. In 1827 the inevitable happened. The shaky superstructure built in the South American economy collapsed, carrying thousands

---

<sup>2</sup> J. Fred Rippy, "Latin America and the British Investment Boom 1820," Journal of Modern History, 1947, pp. 123-29.

TABLE XXIV  
BRITISH MINING ASSOCIATIONS

Companies	Capital (in pounds)	
	Authorized	Paid In
Anglo-Colombian . . . . .	1,500,000	75,000
Colombian . . . . .	1,000,000	150,000

Source: J. Fred Rippy, Latin America and the British Investment Boom 1820, Journal Modern History, 1947, pp. 123-29.

to financial ruin, and for a third of a century British investments in South America were negligible. However, by 1870 the British people had forgotten their tragic experiences in Colombia and started to invest again. They invested a considerable amount in many of the Colombian government bonds, which proved later to be as worthless as those of the earlier period, but the investments in mines and natural resources were sound (see Table XXV).

During the decade following the year 1880, British capitalists invested large sums in Colombia. In no other period of equal length, with the exception of the ten years following 1903, did they send a greater volume of capital into the region. The number of investments in economic enterprises increased, and the aggregate

TABLE XXV

BRITISH INVESTMENT IN ECONOMIC ENTERPRISES  
IN COLOMBIA ENDING 1876

Type	Enterprise	Investment (pounds)
Bonds	Railroads Panama (1868) . . . . .	569,800
Mining	Antiquina . . . . .	42,453
Mining	Tolima . . . . .	43,450

Source: J. Fred Rippy, *British Investment in Latin America, End, 1876*, Journal of Modern History, Sept., 1947.

nominal capital in such enterprises also increased. The distribution of British investments in Colombia in 1890 is shown in Table XXVI.

There were also British investments in corporate real estate enterprises and public utilities, mainly in submarine cables, gas plants, and telephones. Such was the magnitude and character of the British investments in Colombia a decade before the close of the nineteenth century. The railroad investment, together with the rush of capital into mining, was the most outstanding feature of the movement of British capital into Colombia during this decade.

However, British investment did not reach its maximum until 1931, but in the year 1913 the number of enterprises financed by the British probably reached its peak (see Table XXVII).

TABLE XXVI

## BRITISH INVESTMENT IN COLOMBIA ENDING 1890

Total Nominal Investment (pounds)	Government Securities	No.	Economic Enterprises Nominal Capital
5,399,383	1,913,500	23	3485.883

Source: J. Fred Rippy, A Decade of British Investment in Latin America, p. 38, Journal of Modern History, Nov., 1948.

TABLE XXVII

BRITISH INVESTMENT IN COLOMBIA ENDING 1913  
(government bonds and economic enterprises)

Total Investment	Government Bonds	Economic Enterprises	Railways
6,654,094	3,388,874	3,265,220	3,265,220

Source: J. Fred Rippy, British Investment in Latin America, End 1913, p. 231, Journal Modern History, Sept., 1947.

British investment in government bonds exceeds their railways investment, and even their economic enterprises. The investment in railroads includes eleven railroad organizations. British investments in economic enterprises include those made in shipping, public utilities, trading companies, and in financial institutions such as private commercial banks, loans, and investment establishments. They were also engaged in manufacturing and processing.

The year 1939 marked the decline of British capital abroad; responsible factors were the rise of economic nationalism in Colombia and the British liquidation of investments abroad (see Table XXVIII).

British capital was invested in other diverse projects. It was invested altogether in eleven mines. The British financial petroleum enterprises operating in Colombia at the end of 1939 were the British-controlled Oil Fields Ltd., and the Royal British Shell Company. There was also some British capital invested in coffee plantations.

Although British investment in Latin America had been gradually decreasing since 1931, it was not until 1939 that the devastating effects of World War II were to sharply affect British investments not only in Colombia, but also in other overseas countries.

TABLE XXVIII

## BRITISH INVESTMENT IN COLOMBIA AT THE END OF 1939

Total Investment	Government Bonds	Economic Enterprises	Railways
5,797,087	3,252,480	2,544,607	2,095,444

Source: J. Fred Rippy, *British Investment in Latin America*, 1939, p. 64.

Before 1941, Britain had sold holdings worth 4,500 million pounds (see Table XXIX).

### Economic Significance of British Investments in Colombia<sup>3</sup>

In reviewing the work of the British in Colombia it was necessary to enter into statistical information, and this has been shown clearly on the preceding pages. After Colombia had won its independence, it looked abroad for financial and industrial assistance. Since neither Spain nor Portugal were able to tender it, it was to Great Britain that Colombia turned during most of the nineteenth century for capital, machinery, and technical assistance in the

---

<sup>3</sup> W. H. Koebel, *British Explorations in South America*, Ch. XXV, *Investment in South America*, Century Co., 1917.

TABLE XXIX

LIQUIDATION OF BRITISH INVESTMENT, 1941  
(in millions of pounds)

Area	Sold
Western Hemisphere . . . . .	210
Canada . . . . .	905
South America . . . . .	381

Source: Donald Bailey Marsh, World Trade Investment, p. 380.

building of bridges and railways, and the development of ports, steamship lines, communication facilities, and public utilities in large cities. They also invested in banking, mines, and manufacturing; the latter, however, comprised only a small part of the total British investment.

French Investment in the Republic of Colombia

The largest single investment of French private investors in Colombia was the investment in the Universal Inter-Oceanic Canal Company, which was organized in 1881 for the purpose of constructing a canal across Panama, which was at that time part of Colombia. The total nominal capitalization of this corporation was over two



million francs. The total French investments in Colombia are difficult to evaluate because of the disposition of the French to purchase securities in foreign markets, and minority holdings in economic enterprises controlled by capitalists of other nations.

Table XXX is a tentative estimate of French investments in Colombia at the end of 1902.

French investments in real estate, including extraction of forest products, were rather heavy, comprising over 40 percent of the aggregate in all economic enterprises. The approximate amount was 10 million francs. The amount of French capital in urban and agricultural properties and the exploitation of forest in Colombia has not been ascertained, but the aggregate in mining investment was calculated as 5 million francs.

#### French Investment Following 1902

French capital flowed rapidly in Colombia during the decade 1903-1913. The aggregate nominal value of French investment in Colombia at the end of 1913 is shown in Table XXXI. This French investment was mainly in mining and government bonds.

TABLE XXX

FRENCH INVESTMENT AT THE END OF 1902  
(in thousands of francs)

Total	Government Securities	Economic Enterprises
246,000	-	246,000

Source: J. Fred Rippy, Inter-American Economic Affairs, French Investment in Latin America, 1951, Vol. 2.

TABLE XXXI

FRENCH INVESTMENT IN COLOMBIA AT THE END OF 1913  
(in thousands of francs)

Total	Government Securities	Economic Enterprises
15,000	70,000	142,000

Source: J. Fred Rippy, French Investment in Latin America, Inter-American Affairs, p. 62, 1951, Vol. 2.

## French Investment After the First World War

Largely because of the impact of the first World War, French investments in Colombia rapidly declined. The fall in the exchange value of the franc in contrast to the more stable United States or English currency sharply reduced dividends in all instances in which the gold clause of the contracts could not be upheld, and made it profitable at the same time for Colombia to pay off French debts in paper francs when this could be done legally and conveniently. Moreover, economic conditions in France immediately after the war, and again after the depression, did not, in general, favor investment. The aggregate nominal French capital in Colombia at the end of 1938 was probably considerably more than 90 million francs; but it is important to bear in mind that the value of the franc had dropped decidedly since 1913. In terms of United States dollars, which had also been reduced in value in 1934, the franc had fallen from nearly twenty cents to a fourth of a cent. The figures in Table XXXII represent estimated French capital in Colombia at the end of 1938.

Information on French investments in Colombia after 1938 is very scant. A considerable influx of capital may have entered Colombia during the following decade, but French assets were frozen during World War II in order to prevent their utilization by the Nazis.

TABLE XXXII

FRENCH INVESTMENT IN COLOMBIA AT THE END OF 1938  
(in thousands of francs)

Total	Government Securities	Economic Enterprises
90,000	72,500	17,500

Source: J. Fred Rippey, French Investment in Latin America, Inter-American Affairs, Vol. II, p. 67, 1951.

Table XXXIII is based mainly on estimates made by the Office of Strategic Services of the United States.

Stated in francs, French investments may well have reached their peak in Colombia in 1943. The value of French capital steadily declined after the First World War. The main reason for this was the liquidation and sale of the canal company and its subsidiary railway, together with the political instability of Colombia. Such new French capital as may have fled to Colombia during the months following the termination of World War II was undoubtedly more than counterbalanced by liquidation, sales, and redemptions of existing investments.

TABLE XXXIII

FRENCH INVESTMENT IN COLOMBIA, 1943  
(in thousands of francs)

Country	Total
Colombia . . . . .	121,600

Source: J. Fred Rippy, French Investment in Latin America, Inter-American Affairs, Vol. II, p. 70, 1951.

United States Investment in Colombia

United States enterprises began to expand in Colombia as early as 1886. The movement, however, was not sustained, and the United States foreign investment had little attention until after World War I. This date marked the peak of a period of prosperity in the United States which coincided with financial stringency and political disturbances in Europe, and provided an impetus for the first real interest on the part of United States financiers and industrialists. The exact figures of the transactions prior to 1914 are unknown, but probably were as shown in Table XXXIV.

These investments may be classified in order of importance as follows: railways, canals, agriculture enterprises, newspapers, and mercantile establishments. The brief history of these early

TABLE XXXIV

INVESTMENT OF UNITED STATES AT THE END OF 1898  
(dollars)

Total	Railroad	Loans	Urban State	All Others
14,000,000	8,000,000	3,500,000	1,000,000	2,000,000

Source: J. Fred Rippy, The Capitalist in Colombia, p. 16.

Investments were discussed in the last chapter. In 1913, the United States investments decreased enormously. Table XXXV shows the amount of investment at the end of 1913.

The main reasons for this decrease were the Colon fire of 1885 which destroyed half of the town, the subsequent revolutionary disturbances in the State of Panama (which was trying to separate from the republic of Colombia), and the feeling of the United States investor that under such disturbed conditions his capital was in constant danger of being confiscated or destroyed. But the principal factor why the United States investment capital decreased was the secession of the Panama Canal Zone from Colombia in 1903, with the aid of the United States, which resulted in a deep hatred in Colombia for anything connected with the United States. Roughly, these comprised the investment activities of the United States in Colombia prior to 1919.

TABLE XXXV

UNITED STATES INVESTMENT IN 1913  
(dollars)

Investment	Amount
United States Fruit . . . . .	2,000,000
Bananas Companies . . . . .	200,000
Mines . . . . .	10,000
All others . . . . .	800,000

Source: J. Fred Rippey, The Capitalist in Colombia, p. 28.

From 1918 to 1924 came the oil boom. United States citizens began to engage in the oil industry in Colombia. The actual investment did not exceed 45 million dollars. The Tropical and Indian Corporations expended 30 million in refineries, roads, and pipelines. Then came the period known as the "Dance of Millions." From 45 million dollars invested in 1920, there was, at the end of 1926, 80 million dollars, and at the end of 1929, 280 million dollars. It is believed that in 1928 United States capital in Colombia amounted to more than twice the total of all other foreign investments combined. Most of the investments of the United States in Colombia were securities sold on the New York Stock Exchange.

The special circular sent out by the Bureau of Foreign and Domestic Commerce of the United States on September 29, 1928, commented on the amount of the United States loans to Colombia since 1920.

Prior to 1920 Colombia foreign loans had been floated almost exclusively in Europe. In the eight years that had since elapsed practically all the foreign financing by the central government, the department, the municipalities of the Colombian Republics, had been done by the United States. This loan was distributed as shown in Table XXXVI.

The so-called "Dance of the Millions" aroused great controversies in the Colombian press; the public was alerted. It was thought that the credit of the nation was in danger. The minister of finance decided to place the issue before the Colombia Congress, which in June, 1928, passed a law stating that the National Government would thereafter have complete control over the contracting of future loans by all Colombian departments and municipalities.

#### Security For These Loans

The loans made by the national government were not secured by specific guarantees, but the department and municipality loans



TABLE XXXVI

UNITED STATES LOANS TO COLOMBIA FROM 1926 TO 1929  
(dollars)

Recipient	Amount
Central Government . . . . .	64,445,307
Agriculture Mortgage Bank . . . . .	16,000,000
Department C . . . . .	65,520,000
Municipalities . . . . .	25,109,000
Miscellaneous . . . . .	21,904,000
Mining Companies . . . . .	15,000,000
Oil Companies . . . . .	20,046,000
Total . . . . .	215,324,557

Source: The Capitalist in Colombia, p. 38.

were secured by rather extensive mortgages on public properties and revenues. For example, in the Department of Antioquia, bonds were secured by the net operating income of the Antioquia Railway, together with 75 percent of the departmental tobacco tax revenue.

The loans were soundly employed in public projects such as buildings, highways, and railroads, improvements of rivers and harbors, public health, or for the refunding of loans contracted at higher rates of interest. Besides these large loans, there were also large sums invested in oil, mining, meat packing, agriculture, and other enterprises, to the amount of 20 million dollars.

Some of the important United States companies operating in Colombia at that time were as follows:

	<u>Capitalization</u>
South America Gold, Platinum . . . . .	\$10,000,000
Choco Platinum Delaware . . . . .	5,000,000
Colombia Emeralds Company . . . . .	5,000,000

Agricultural enterprises of the United States were numerous:

Colombia Sugar Corporation . . . . .	\$ 2,000,000
United States Company . . . . .	13,500,000
Atlantic Fruit Company . . . . .	4,000,000

Other forms of American properties in Colombia were city real estate, equipment, and stocks of goods to the amount of nearly 2 million dollars.

### Defaults of the Colombia Bonds

The business recession which began in the latter part of 1929 marked the first major world economic depression. The change in business conditions and price levels made it more difficult for debtors to meet their obligations. The result was the failure of many government bonds and corporations of Colombia to pay the full interest on their bond issues in the United States.

The collapse of coffee prices, with the resulting depreciation of the currency, caused the Colombian government to announce on October 31, 1951, that it was unable to obtain the necessary foreign exchange to pay the service on its dollar bonds.

### The Economic Effects of Investment from 1913 to 1929<sup>4</sup>

Between 1913 and 1929 the history of Colombia was characterized by important changes in material progress. During this

---

<sup>4</sup> J. Fred Rippy, Historical Evolution of Spanish America, Ch. XIII, Progress in Colombia, Crost Co., 1943, p. 286.

period British and United States investment served as great stimuli to the economic development and activity of the Republic of Colombia.

The increase in Colombian investments was phenomenal from 1915 to the world depression; national trade increased from 63 million to 223 million pesos--an increase of 254 percent. Most of this trade represented the transactions of foreign individuals and corporations--that is, a large part of the profits went to foreigners--but even so, the national wealth was increased by the payment of more wages and greater economic activity.

Telephone lines increased during this 16-year period from 5,094 miles to 34,680, the number of telephones increased from 3,177 to 21,110, the mileage of telegraph lines almost doubled, and railway lines increased more than eightfold.

In 1913 there were only a few automobiles in the nation; by 1929 there were 13,300. Colombia supplied and exported mainly petroleum, hides, coffee, and cacao. During this period foreigners engaged in business in the region purchased from abroad an approximately equal amount of manufactured products such as locomotives, steel railways, and other machinery.

## Public Investment in Colombia

Until 1930, the foreign investment in Colombia was monopolized by private capital invested in minerals, foodstuffs, and other raw materials, and in public utilities industries. The colonial nature of such investments in Colombia is shown by the disproportionately large volume of direct to portfolio industry. During the latter phases of the great depression, a slight shift toward government loans and investments could be observed.

The defaults of foreign debtors, the economic depression of 1929, the flight of capital to the United States, and the Johnston Act of 1934 helped to make the decade of the 1930's one in which United States investment abroad decreased. Private investment in Colombia declined, and yet there remained roads yet to build and extensive development programs to finish, which were not by their nature very attractive to private investors.

Differences of opinion exist about the role of public investment, but regardless of such an issue, it is obvious that in some fields such as repairing earthquake devastation or making roads, the propriety of using public funds is generally accepted.



The Export-Import Bank. The most important public agency for lending large sums to Colombia has been the Export-Import Bank of Washington. This bank was created in 1934 as an export credit agency, to meet the emergency caused by the growth of bilateralism and restriction in foreign trade.

According to the National Planning Council of Colombia, the Export-Import Bank has been the largest single lender to Colombia during the life of the bank. Of the 83 million dollars loaned, a great portion has already been repaid. Good returns have been in evidence from these loans. Irrigation works in the Magdalena Valley have made thousands of acres, formerly arid, into good crop-producing fields.

Export-Import loans for transportation, hydroelectric power, and reconstruction of the capital of Colombia in 1945 have been of enormous value to the Colombian economy. Of the 257 millions of Colombia's public debt in 1952, about 40 percent was owed to the Export-Import Bank and IBRD. Recently, the Export-Import Bank and the International Bank for Reconstruction and Development have been providing over half of the new loan funds obtained by Colombia. See Table XXXVII for the loans of the Export-Import Bank in Colombia.

TABLE XXXVII

## LIST OF LOANS OF EXPORT-IMPORT BANK

Export-Import Loans	Serial No.	Purpose	Amount Outstanding
May 1, 1941: \$20,- 000,000 loan to the Republic of Colombia	296	Financing the purchase of U.S. equipment for construction of public service	\$14,842,717
July 1, 1943: \$14,- 500,000 loan to Caja de Credit Agrario	346	Financing projects to develop and improve agriculture	9,239,750
March 29, 1944: \$2,- 625,000 loan to Em- pera de Energic Electrica	351	Financing cost of 50,000 kilowatts additional ca- pacity	787,528
December 10, 1947: \$1,978,609.44 loan to Republic of Colombia	438	Construct seagoing hop- per dredge for use in Co- lombian post-improvement	1,714,790
June 8, 1950: \$750,- 000 loan to Republic of Colombia	442B	During violence in 1948 there were 28 streetcars destroyed in Bogota	450,000
February 21, 1951: \$105,000 loan to Republic of Colombia	442D	Financing U.S. railroads spare parts	62,728
March 27, 1952: \$2,- 600,000 loan to Em- presa Electrica	518	To make funds available for the completion of fa- cilities financed under credit 351	1,717,538
May 27, 1954: \$372,- 000 loan to Empresa Nationale	562	Expansion of telephone equipment	372,000
June 17, 1954: \$53,- 000 loan to Empresa Nationale	564	Highway equipment	53,000

Source: Export-Import Bank of Washington, Fourteenth to Eighteenth  
Semiannual Report to Congress, Washington, D. C.



International Bank for Reconstruction and Development. In addition to helping the Colombian government in planning its economy, the IBRD and the government sponsored a visit by an expert from a New York investment firm to Colombia to advise concerning ways to increase the flow of capital in production to private enterprises, and on means to develop markets for public securities. Also, the IBRD arranged for the services of a firm of engineering consultants to study the administration and financial aspects of the proposed reorganization of the Colombian government facilities and communication programs. The government has since retained this firm to coordinate and supervise the execution of the national railroad program being financed by the IBRD.

IBRD projects. The Farm Machinery Project was made possible by Loan No. 18 CO. The loan amounted to 5 million dollars, at a rate of interest of 3.5 percent per year, over a period of seven years; it was dated August 19, 1949. The amount disbursed as of September 30, 1953, was \$4,925,441 (the balance of \$74,559 has been canceled). The borrower was the Caja de Credit Agrario, Industrial Minero. A description of the project is as follows: The purchase of agriculture and equipment for repair and maintenance centers (the machines include heavy and light tractors, with complementary

equipment, tools, et cetera). The farm machinery project loan benefits the economy of Colombia by increasing farm production to meet expanding domestic needs. About 4 million dollars have been expended in tractors; purchase of hand tools amounted to \$210,000. This machinery has been used to expand cotton production and to increase production of rice in regions which are very fertile and suited to mechanization.

The Anchicaya Hydroelectric Project was made possible by Loan No. 38 CO. The loan amounted to \$3,530,000, at an interest rate of 4 percent per year, over a 20-year period; it was dated November 2, 1950. The amount disbursed as of September 30, 1953, was \$2,899,749. The borrower was the Central Hidroelectric del Rio Anchicaya. The project may be described as construction of a 24,000-kilowatt hydroelectric plant, together with the necessary transmission lines. The plant will supply power to the city of Cali. The project was started in 1950, but the progress was slow for lack of capital. After the IBRD loan was made, the work progressed satisfactorily.

The Highway Project was made possible by Loans No. 43 CO and No. 84 CO. The total amount of the loans was \$30,850,000 (No. 43 CO amounted to \$16,500,000, and No. 84 CO was \$14,350,000).

Loan No. 43 CO was made at an interest rate of 3.25 percent, and Loan No. 84 CO was made at an interest rate of 4.75 percent, both over a period of 10 years. The date of Loan No. 43 CO was April, 1951, and that of No. 84 CO was September 10, 1953. The borrower was the Republic of Colombia. The project may be described as an emergency program to remake the 2,906 kilometers of deteriorated sections of the major truck roads (80 percent of these roads needed paving), and the construction of 155 kilometers of new connecting-link highways. The total cost of the program is 109.8 million United States dollars, and represents 199 millions in local currency. Forty United States contractors are carrying out the project; the work has progressed despite adverse weather conditions. The IBRD has stationed a highway engineering consultant at Bogota since 1951 to assist the Ministry of Public Works and to keep the IBRD informed of the progress of the project.

The Magdalena River Valley Railroad Project was made possible by Loan No. 68 CO, which amounted to 25 million dollars, at an interest rate of 4.75 percent, over a period of 25 years. The date of the loan was August 26, 1952. The amount disbursed as of September 30, 1953, was \$3,752,810. The borrower was the Republic of Colombia. The project is part of a broad program being carried

on to improve the Colombian railroads. The plan is: (1) to build a railroad line 235 miles long in the Magdalena River Valley to connect the country's eastern and western rail networks (120 million dollars). Contracts for the construction work were signed in April, 1953, with two Colombian firms and one American firm, and work is getting under way. The project is expected to be finished in 1956, although some sections will be opened to traffic earlier.

United States Direct Investment, 1929 to 1936. The United States direct investments in Colombia at the end of 1936 were in most instances lower than at the end of 1929. Changes during these years in the type, value, and distribution of investments were numerous. One of the most important reasons was the depression which, by 1931, had become world-wide. The depression resulted in the failure of many enterprises and the reduction of the net worth of many others as a consequence of the losses incurred. The total amount of investments in Colombia in 1936 was \$107,549 in comparison to \$123,994,000 in 1929. More than half of this total was invested in the production of raw materials. Mining, petroleum, and public utilities were the first groups in value.

United States Direct Investment, 1936 to 1940. The period from 1936 to 1940 was, in general, more favorable than the period from 1929 to 1936. Investments in Colombia totaled \$111,616,000 at the end of 1940. More than half of these investments were concentrated in the production of raw materials and petroleum. Seventy-five million dollars of the total of \$111,616,000 was invested in petroleum. A comparison of 1936 and 1940 valuations of identical foreign investments is desirable, but the lack of available industry data, owing to the fact that some companies have sold or liquidated and some new ones have been formed, together with the fact that the methods of valuation are not comparable, make it impossible to do so. Table XXXVIII shows a comparison of American direct investment in Colombia during 1929, 1936, and 1940.

Although the Export-Import Bank has been the primary agency through which United States public funds have been channeled to Latin America, other government agencies have also participated. United States departments, bureaus, and agencies have helped and assisted Colombia. The departments of Commerce and Agriculture have utilized such appropriations. Funds have been also utilized in Colombia, and a number of loans have been made by the subsidizing of Reconstruction Finance Corporations.

TABLE XXXVIII  
AMERICAN DIRECT INVESTMENT  
(in millions of dollars)

1929	1936	1943
124.0	107.5	117.0

Source: Foreign Investment of the United States, State Department, p. 48.

United States Direct Investment, 1940 to 1950. Direct investment in Colombia increased from 1943 to 1950. It amounted to 193.4 million dollars. The increase followed the decline of 1929 to 1943. The flow of new investment capital after the end of World War II was into petroleum and manufacturing. Manufacturing investments grew most rapidly in Colombia.

In 1929 the investments in the food and meat-packing industries accounted for more than half the total investments in Colombia. The depression of 1930, and World War II, caused manufacturing investments to drop, and they did not recover until after the war, when many sizable manufacturing investments in Colombia were encouraged.

The main factor was, of course, the war, because Colombian markets were cut off from European sources which earlier had

supplied a portion of imported manufacturing goods. This factor led to increases in manufacturing investment. The largest amounts were invested in chemical products, electrical equipment, and motor vehicles, (see Tables XXXIX, XL, and XLI).

Although most United States petroleum investment in Latin America was in Venezuela, there were sizeable investments in Colombia.

#### Effects of Investment from 1940 to 1950

Increased use of capital equipment and the concentration of investment on various projects greatly increased from 1940 to 1950. This was especially true in the war years: 1940 to 1945. A high proportion of Colombian investment from 1940 to 1950 was in agriculture and motor vehicles. In petroleum, investments were almost entirely confined to developing existing fields and adding refining and transportation facilities, which yielded results early by increasing the amount of petroleum products marketed; on the other hand, little was invested in exploratory drilling, where costs would have been higher and results less rapid. Although the cement, iron, and steel industries, which required large amounts of capital, advanced more rapidly than other expenditures, they made up only a small part of the total industry.

TABLE XXXIX

DIRECT INVESTMENT ABROAD OF THE UNITED STATES  
IN COLOMBIA, 1950  
(in millions of dollars)

Petroleum	Manu- facturing	Trans- portation	Trade	Finance	Miscel- laneous
111.6	24.8	29.2	8.8	3.9	3.0

Source: Foreign Investment of the United States, 1950, United States Department of Commerce, A Supplement to Survey of Current Business, p. 44, 1951.

TABLE XL

DIRECT INVESTMENT IN COLOMBIA, 1950, BY TYPE OF  
FOREIGN ORGANIZATIONS, NUMBER  
(in millions of dollars)

Item	Number	Value
Total . . . . .	152	193.4
Foreign corporations . . . . .	68	75.3
Branches . . . . .	84	118.1

Source: Foreign Investment of the United States, 1950, United States Department of Commerce, A Supplement to Survey of Current Business, p. 45, 1951.



TABLE XLI

UNITED STATES MANUFACTURING INVESTMENT  
IN COLOMBIA, 1945-1950  
(in millions of dollars)

1945	1950	Increase
6	25	19 percent

Source: Foreign Investment of the United States, 1950, United States Department of Commerce, A Supplement to Survey of Current Business, p. 11, 1951.

Investment in public facilities including highways, railroads, large-scale electric power plants, and community work accounted for a portion of the investment. There was a small amount of public-building construction from 1940 to 1950; there was some construction of expensive housing for the well-to-do, and some hospitals and institutions of higher learning. It must be concluded that an impressive increase in national income was achieved from 1940 to 1950. In no previous period in Colombia's history was the rate of economic growth as high as in this period. Colombia would be doing exceptionally well if the same rate of expansion per capita were to continue over the succeeding ten years.

Investment Climate in Colombia

At the moment, conditions are favorable for the investment of North American capital in Colombia. The government, although not confirmed in its position by popular election, seems to have the confidence of Colombian and United States business. There is a feeling that in order to achieve economic development of the country and a higher standard of living it will be necessary to use foreign capital. Under 1950 legislation, foreign capital may be freely imported into Colombia and freely repatriated, although an export permit must be obtained to ship dollars out of Colombia. In general, the law does not require that Colombia own part of a foreign-owned business. Foreign nationals are permitted to engage in business in Colombia on the same terms as Colombian nationals, for all practical purposes. Recent legislation concerning petroleum development offers more encouragement to the investment of foreign capital. The government encourages the export of crude oil by levying no export or severance tax against it.

The government receives a royalty based on a sliding scale ranging from 4 to 13 percent, with an average of 10 percent. Nevertheless, two of the obstacles to the development of foreign capital are the low incomes and the low standard of living. Colombian

businessmen know this, and have tried to remedy it through legislation to increase the purchasing power of the peon (worker), while industrial expansion is helping to increase the standard of living. Colombia still derives about 40 percent of its income from agriculture.

The diversification of the economy would help the investment climate. In late years extensive studies have been made in the woolen, rayon, silk, and cement industries.

## CHAPTER IV

### SHORTCOMINGS OF THE MONETARY SYSTEM<sup>1</sup>

With this chapter we pass from a study of the nature and source of foreign investment to a consideration of the part that the monetary system plays in the general economic organization of Colombia. It is the purpose of this chapter to consider the nature of credit that exists today in Colombia and to indicate in a general way the shortcomings of such institutions of credit as factors of economic development in Colombia.

#### Functioning of the Present-Day Banco de la Republica

The main thesis in these pages is that the Banco de la Republica of Colombia has not supplied the economy in any state of its development with the optimum amount of money because the money flow in certain periods was excessive, and at other times it was deficient relative to the flow of goods.

---

<sup>1</sup> Much of the information in this chapter has been taken from the United Nations Department of Economic Affairs, Economic Survey of Latin America, 1948, 1949, and 1950, New York.

Under the present-day monetary mechanism the money supply might rise in periods of prosperity and decline in times of depression as much as in the past. There is no automatic regulator that governs either its rate of increase or decrease; instead, management of money supply is relied upon more than ever before. The central bank is in a position either to facilitate or to halt this expansion. The central bank, however, can facilitate the expansion by lending directly to the government, which will strengthen the free reserves of the bank, or by lending to the banks through rediscount or advances, which will strengthen the free reserves of the bank, and can contract the credit of the economy by using the same measures in a reverse manner.

#### Brief Review of the Situation of the Banking System in Colombia

For several years, it has been evident (for the general economic situation of Colombia) that a fundamental reform or reorganization was inevitably necessary in the banking system (see Chapter I). The inadequacy of the Colombian banking mechanism to provide for the requirements of business activities of the country has long been evident. It was necessary to permit the existence of extensive innovations in its banking practice, sanctioned first by experience of

older nations. These are exemplified in the custom of dividing the accommodations of larger business enterprises among a considerable number of banking institutions. In the early part of the decade from 1920 to 1930 it was for the first time recognized as the outgrowth of fundamentally wrong organization of Colombian banking system. The weakness of the Banco de la Republica was apparent failure to control inflation in the decade following World War II. However, these conditions were slowly appreciated, and the legislation of Congress subsequently attempted to adopt measures for complete rectification and reconstruction even of the very foundations upon which the present-day banking system of Colombia rested. The case calls for a thorough reconsideration of the theory upon which the Colombian banking system has been based, as well as the thoroughness with which it has been conducted.

The test of soundness in any banking system is its ability to withstand the onslaughts which develop as the result of friction inside the economy mechanisms, as well as those acts that are due to changes of a more profound nature, in the relationships of economic groups. The Colombian banking structure has not found itself able to withstand such a test, and the following questions have inevitably arisen: (1) What must be done to adapt the Colombian

banking system to immediate necessity? (2) What long-run changes must be attempted in order to make it responsive to the states of soundness and safety, thereby reducing the danger of a recurrence of the banking difficulties which have been conspicuous since 1929?

The problem involves fundamental questions of central banking, and they require a treatment which shall include within itself a discussion of central banking relationships--of the banking system as a whole, as well as international aspects of its reserve system. The banking problem in Colombia thus becomes a question of both commercial and central banking structure and management, as well as a restoration of international soundness.

#### Status and Operations of the Banco de la Republica

Before turning to recommendations for measures in the monetary structure for economic development and investment in Colombia, it is necessary first to outline the increase of money supply of the Banco de la Republica, the lack of credit of financial institutions other than central bank, and to enumerate the shortcomings and deficiencies of the present system that require correction. As is well known, an inflationary situation has influenced the economic history of Colombia during the last decade (see page 16), and still

is a characteristic of the Colombian economy. The index of consumer goods prices provides the measure of Colombian inflation (see Table XLII); the average index price rose from 100 in 1940 to 272 in December, 1949.

Usually, the rise of price (which is, of course, the result of much expenditure without an equivalent supply of goods) is coupled with an increase in the money supply from the Banco de la Reserve. The relationship between money supply and the level of prices in Colombia is shown in Table XLIII. The term "money supply" is here defined to include the total of currency outside banks, plus demand and term deposits at commercial banks. Savings deposits are not taken into consideration.

From 1940 to 1949 the cost of living, or price level, rose 172 percent, and the money supply increased 340 percent. The war period was characterized by unavailability of imports, which led to postponement of purchases. Many individuals had huge amounts of cash, which were channeled into speculation, such as real estate, which rose from 65 million pesos to 311 million pesos. In other words, during World War II the money supply, or purchasing power, increased at a faster rate than expenditures on goods and services.



TABLE XLII

## PRICE INDEX, 1940-1949

Item	1940	1946	1948	1949
Price of consumer goods . . . . .	100.0	151.8	250.1	271.7
Food . . . . .	100.0	192.7	265.7	275.9
Housing . . . . .	100.0	146.8	199.8	248.0
Clothing . . . . .	100.0	197.3	250.1	277.7
Construction materials . . . . .	100.0	226.8	254.4	286.6
Coffee . . . . .	100.0	276.2	398.9	716.1
Cattle . . . . .	100.0	217.0	335.5	415.3
Shares . . . . .	100.0	186.9	126.5	130.1
Wages . . . . .	100.0	151.0	255.0	-

Source: The Basis of Development Program for Colombia, p. 288.

TABLE XLIII

## INCREASE IN MONEY SUPPLY AND PRICE, 1940-1949

Item	1940-1946	1946-1949	1940-1949
Increase in the money supply:			
In millions of pesos . . . .	527.8	199.6	127.4
In percent . . . . .	248.6%	27.0%	342.6%
Increase in cost of living:			
In index point . . . . .	81.8	89.9	171.7
As percent . . . . .	81.8%	49.4%	171.7%

Source: The Basis of Development Program for Colombia, p. 289.

Table XLIV shows the main sources of the money supply:

(1) the increase in foreign exchange during the postwar period, (2) the expansion of the volume of bank loans to businesses, and (3) the extension of bank loans to the government.

The most significant of the sources was bank-lending to private individuals throughout the period from 1941 to 1949. The extension of bank credit to businessmen did not happen without an increase in Banco de la Republica credit. As a result, the demand for consumer goods and services tended chronically to exceed available supplies at any given level of prices, and prices were continually pushed upward. The persistent rise in prices in turn set up reactions that reinforced the inflation. For example, the increased profits resulting from the lag in wages behind prices, instead of causing an increase in the over-all propensity to save, and thereby tending to wipe out the "inflationary gap," tended to be spent on the hoarding of goods (a special form of investment expenditure) in view of anticipated further increases in price. The inflation, moreover, provoked demands for higher wages, as workers sought to make good the decline in their real wages, and thereby resulted in a familiar wage-price spiral; it increased the size of the budget deficit, in view of the inevitable time lag between public expenditures on the

TABLE XLIV

SOURCES OF MONEY SUPPLY, 1941-1949  
(in millions of pesos)

Sources	1941-1945	1946-1948	1948-1949
Foreign exchange . . . . .	265.9	-121.9	-11.0
Credit to government and public institutions . . . . .	<u>25.2</u>	<u>163.6</u>	<u>13.3</u>
Banco de la Republica			
Government . . . . .	15.8	66.4	2.8
Stabilization fund . . . . .	- 1.6	28.2	- 5.3
Caja de Credit Agrario . .	- 2.5	33.7	4.9
Banco Central Hipotecario . .	- 3.2	29.0	- 4.8
Caja Colombiana de Ahorros.	-	8.0	-
Commercial banks			
Government . . . . .	16.7	- 1.7	15.7
Credit to private borrowers .	107.9	220.6	56.4
Banco de la Republica . . .	-21.1	17.5	51.9
Commercial banks . . . . .	129.0	203.1	4.5
Treasury Currencies . . . . .	<u>1.8</u>	<u>5.7</u>	<u>-</u>
Total . . . . .	400.8	268.0	58.7

Source: The Basis of the Development Program for Colombia, p. 297, Table 107.

one hand and the assessment or collection of taxes and other revenues on the other. All these factors independently reinforced the inflation. The increase in production during the period was entirely inadequate to offset the prevailing inflationary pressures. Even with increased output, there was no increase in the propensity to save, since, as already suggested, all money income tended to be spent; nevertheless, the inflationary process resulted in forced savings.

Inflation has tended to discourage typical forms of voluntary savings which had acquired growing importance in Colombia. Here may be found the sources of future savings for industrialization, when monetary stability can be restored. The principal objective of central banking is to promote monetary stability and to regulate the volume, character, and cost of the money supply in such manner as to be conducive to a healthy level of employment, national income, and economic development. The Banco de la Republica has not been in a position to render its full contribution to capital formation. The central bank and private banking facilities and resources are extremely limited in the country as a whole. Banking practices are founded on a strictly commercial basis except by the Industrial Development Corporation; loans are made almost exclusively to finance commerce or trade, rather than production of goods.

## Bank Credit and Capital Formation

The supply of money which is available from any central bank is unlimited, in a monetary sense. The government can print bonds and sell them to the banks. The government then has the money (bank notes) which banks have paid for the bonds. Meanwhile, the banks can use the bond certificates as the reserves behind new bank note issues or other types of credit extension. In this way, and on the basis of fractional reserves, the central bank can create a considerable amount of credit without government participation in issuing bonds; but it does not follow from this fact that the rising of capital funds in this way will immediately bring about unlimited amounts of capital goods. The operation does increase the amount of money and credit in circulation, and therefore the amount of actual or potential capital funds; but it does not automatically mean that capital goods will be produced or will be available in the country. The net result of the whole operation may be merely to raise the price level of these reservoirs of resources, manpower, and technical skill. During the ten years the Banco de la Republica has been doing this, the results have been unsatisfactory. Capital goods have not been produced or made available in sufficient quantities, nor has the expansion of consumer-goods production been of sufficient

size to utilize all the money and credit in circulation without substantial rises in the price level. Success in attracting savings deposits in recent years has been poor, due in part to the inflation, which had discouraged savings deposits, and in part to the attractiveness of other investments which may yield 10 to 15 percent, as compared with 4 to 6 percent from savings deposits in the bank. Commercial banking, though relatively highly developed in Colombia, is concentrated in urban areas and large cities. Rural banking, aside from credit cooperative and money lending, is almost nonexistent.

### Inflation

It is generally agreed that inflation causes certain social injustices and gives rise to various economic evils. The effects of a large and continued inflation are quite pervasive. The economic and social cost of continuous inflation can be appreciated by considering the shifts in income and wealth, and the distortion of investment, both of which reflect the uneconomic use of productive resources.

### Shift of Income and Wealth

In order to increase investment under conditions of inflation, businessmen must bid up the prices of materials and labor needed for investment, using for this purpose the credit made available to them by the banks. By offering higher prices and higher wages they attract productive resources away from the consumption field into the investment field. Prices must rise in turn in the consumption sector partly because income will be higher and because the supply of consumer goods will be diminished.

The rise in prices and the lag in wages, particularly in the consumer goods industry, will increase profits and shift real income to the recipients of profits. It is out of these increased profits that the additional savings will take place, which is equivalent to the increase in investment that businessmen have undertaken on the basis of bank credit.

The proportion of the increase in profits that remains as savings for the increase in investment will determine how large a shift in real income is necessary to induce a given increase in investment. Some shift in income to profit-receivers is essential to secure the additional investment. The smaller the shift in income relative to investment, the less will be the social cost that the

inflation entails. In developed industrial countries like England or the United States, the shift in real income would be much smaller than in undeveloped countries like Colombia, because the high rate of corporate income and excess-profits taxes would take a considerable part of the increased profits for the government. However, in Colombia, taxes on profits are generally much lower. A large part of the shift in real income to profits causes a disposable income for profit-receivers, and is used for purposes other than financing of new-home investments. That is why the shift in income to profit-receivers is much larger than the amount of additional investment undertaken by businessmen. If two-thirds of the increase in real income in the form of profits is used for all purposes other than to finance the increase in the volume of home investment, then the shift in real income will have to be three times the volume of additional investment financed through the inflation process. This kind of inflation, which increases the investment, will not only reduce consumption in proportion to the investment, but also reduce the consumption of the public, which does not belong to the profit-receivers.

It has been pointed out that the savings that businessmen are amassing from their inflated profits do not represent a net increase



in real savings. In the absence of inflation there would have been some voluntary saving, however small. With inflation, some voluntary savings will cease because it no longer pays to hold savings in the form of money assets, and because the real income of some savers will be reduced. From the moment that firms provide savings out of profits in proportion to the reduction in savings by other sectors of the economy, there is no net increase in real investment; only a shift in the ownership of such investment from the general public to the profit-receivers. The public thus pays a high price for investment financed by inflation.<sup>2</sup>

#### Forms of Investment

The form of the investments induced by inflation is as significant as their aggregate amount. It is well known that all investments contribute in equal degree to the increase of higher productivity and higher standard of living. Prolonged inflation induces the wrong kind of investment: the investment is the type that offers great profits, and holding wealth rather than using it gives a high

---

<sup>2</sup> International Bank for Reconstruction and Development, The Basis of a Development Program for Colombia, Washington, D. C., 1950, p. 48.

degree of ownership advantages and less degree of use benefits.

There are three kinds of investment in which the use benefits are low and the ownership benefits are high: inventories, some types of construction, and foreign assets.

During an inflationary period cash accumulations and fixed money assets depreciate in real value, and such holdings are avoided. A businessman who is accumulating cash from inflationary profits may find that the opportunity for expansion in his own business is limited; for such businessmen the accumulation of inventories is a desirable procedure, because prices will rise and supplies will be scarce. For this and other reasons, inventories are a favored type of investment.

Another kind of investment likely to be abnormally expanded under inflation is real estate investment, particularly in the form of high-priced apartment and commercial buildings. Professional people with limited opportunity for investment in an operating enterprise are likely to be attracted by real estate investment, with its sure appreciation of the money value of investment.

Finally, the ownership of foreign assets is a form of holding wealth which may become extremely profitable. When continuous inflation leads to an expectation of exchange depreciation there is a strong tendency to hold some assets in the form of foreign funds.

### Attempts at Credit Controls

Despite the huge increase in bank credit underlying the expansion in Banco de la Republica money supply (1941-1949), few attempts at credit control were undertaken. Clearly, the Banco de la Republica was not in a position to restrict its overdraft to the government by resisting the latter's demand. Nor could it easily restrict its loans to government agencies, since such loans were predominantly for the purpose of financing government-sponsored undertakings. Its ability, moreover, to restrict loans to private parties was limited by the fact that it was not equipped with adequate credit control power until a later time, when the inflation was very advanced. The Banco de la Republica was essentially a passive instrumentality of the authority, unable to pursue a credit-control policy of its own. Traditional weapons of credit control in a country with an undeveloped financial structure such as Colombia would in any case have been largely ineffective. Nevertheless, a few attempts at credit control were made by the government and the board of the Banco de la Republica. The major form of credit control pursued by the authorities was to require government approval for all bank loans to private parties in excess of certain specified sums, the ostensible purposes being a measure of qualitative control over large

loans, and also perhaps indirectly a measure of quantitative control over the aggregate of bank loans.

Open-market operations, normally one of the most effective and flexible credit-control techniques available to monetary authorities, are of no real importance in Colombia at the present time, because there is neither a money market nor a market for government securities.

In large part, the failure of the Banco de la Republica to effect deflationary tendencies has been due to a lack of appropriate controlling power and inadequate appreciation of its special functions and responsibilities as a controller of credit.

The need is for specialized institutions or other facilities for providing intermediary and long-term credits financed from genuine noninflationary sources, such as from long-term deposits or sale of securities to the public. But the basic fact, which cannot be emphasized too strongly, is that, at the present time, there are no such sources of finance to be tapped on any appreciable scale, because of the continuing inflation, which makes potential savers reluctant to put their money into long-term deposits or obligations.

## Foreign Exchange Operation and Central Bank

One of the important functions of a central bank is to serve as the custodian of all or the bulk of a country's gold and foreign exchange reserves, and to administer the reserves in such a way as to safeguard the external value of the country's currency and to assure its convertibility into other freely convertible currencies.

The relationship between foreign exchange resources and internal credit conditions is important to Colombian economic conditions. The fundamental idea is to relate the monetary structure to external trade. Typically, the thesis is that in the prosperity phase of the business cycle Colombia has an excess of exports sold at profitable prices, whereas in depression years imports increase relative to exports and relatively higher prices prevail. A small country like Colombia cannot influence world prices, and perforce must do the next best thing. So, according to this approach, the central bank should curtail credit expansion within the country during the prosperity phase of the business cycle and expand credit during the depression phase; that is, the foreign exchange resources accruing during the prosperity phase should not be used to expand credit during that period.

This is not the standard procedure of the international gold standard, which would have involved gold inflow during the prosperity phase--accompanied by an expansion of credit, so that the resultant rise in prices in the exporting country would eventually cause a curtailment of exports. The "specie-flow mechanism" was built on the idea that an excess of exports from one country would be paid for by excess gold from another country; the importation of gold would lead to an expansion in the money supply in the country. In international gold-standard theory, the supply of money and credit available internally should expand in proportion to the increase in the gold stock; this followed because it was assumed that fractional gold behind the money in circulation either was or should be the dynamic force controlling the amount of money in circulation. So, according to this analysis, the balance of trade normally adjusts itself to changes in the price level, and vice versa.

### Capital Formation in Colombia<sup>3</sup>

It is probably true that, at the present time, there is more private venture capital in Colombia than ever before. The export

---

<sup>3</sup> Taken from Basis of a Development Program for Colombia, Chapter IV, p. 37.

surplus and high profits of the war period did much to bring this about; but even so, it is probably true that there are not at the present time enough private funds to finance a major expansion of capital goods. Of course, the situation would change as the amount of capital goods increased as a result of the increased investment. Given the present organization of Colombia, it is possible to say that capital funds are a necessary element in the development process, and even more important than capital funds in the process of creating capital goods are technically trained labor, plus the proper raw materials.

Structure of capital formation. Capital formation as defined in national income statistics includes expenditures on plant and equipment, as well as in residential and business construction and changes in inventory holdings; it excludes investment in human resources such as improved health or education. It should bear in mind, therefore, that, on the one hand, estimates of capital formation presented here include luxurious homes and automobiles, while, on the other hand, they exclude investment in workers' health and education other than those represented by expenditures on schools, hospitals, and health centers. .

Data on capital formation in Colombia are available for the years from 1939 to 1947; these data will give a comparison of capital formation during prewar and postwar years. The year 1947 was abnormal because of the resumption of large-scale imports which had been suspended during the war, and because of increased prices.

Table XLV shows that capital formation quadrupled from 1939 to 1947, rising from 153.5 million to 612.2 million pesos; between 1939 and 1947 the growth was arrested because it was a war period when imported equipment was difficult to acquire.

Equipment's share in the total rose from just under half to almost 55 percent from 1939 to 1947. This was probably caused by both increased prices and greater equipment availability in 1947. Investment in labor remained at a steady pace, but dropped somewhat in 1942 and 1944. In the period as a whole, investment in building construction more than tripled.

Table XLVI shows a more detailed view of capital formation in the years 1939 to 1947. In industries and public works, capital formation in equipment increased more than sixfold, while the rest of the economy more or less quadrupled.

Total capital formation in agriculture, transportation, mining, and construction is at practically the same rate as the equipment



TABLE XLV

GROSS CAPITAL FORMATION, 1939 TO 1947  
(in millions of pesos)

Year	Delivered Cost of Equipment	Building	Labor Cost	Total
1939	72.0	50.1	31.4	153.5
1940	70.3	46.5	47.9	164.7
1941	74.4	51.4	51.7	177.5
1942	21.3	55.0	80.4	156.7
1943	44.6	52.4	62.8	159.8
1944	66.5	64.6	57.8	186.7
1945	102.1	118.2	80.4	300.7
1946	183.1	156.0	155.1	455.0
1947	332.0	170.0	110.2	612.0

Source: Basis of a Development Program for Colombia, p. 38.

TABLE XLVI

GROSS CAPITAL FORMATION BY ECONOMIC SECTORS,  
1939 TO 1947  
(in millions of pesos)

Economic Sectors	Equipment		Building		Labor Cost		Total	
	1939	1947	1939	1947	1939	1947	1939	1947
Industry . . .	13.8	87.3	1.1	7.5	1.4	8.8	16.3	103.6
Agriculture .	11.6	45.0	-	-	3.7	11.5	15.3	56.5
Transportation . . . .	26.7	117.0	-	-	10.4	32.0	37.1	149.0
Mining . . . .	5.0	19.8	-	-	0.5	2.0	5.5	21.8
Construction . . . . .	0.9	6.0	-	-	0.1	0.6	1.0	6.6
Residential .	-	-	36.0	123.0	-	-	36.0	123.0
Commercial	-	-	2.9	17.2	-	-	7.9	17.2
Public work . . . . .	14.0	56.9	10.1	22.3	15.3	55.3	39.4	134.5
Total . . . . .	72.0	332.0	50.1	170.0	31.4	110.2	153.5	612.2

Source: The Basis of a Development Program for Colombia, p. 40.

category in these sectors because there was no great variation in the behavior of the labor-cost component.

Capital formation and imports. Imports are vital for Colombian capital formation. In 1947, from the total capital formation of 612.2 million pesos, about 22.2 million were in the form of imported items. Table XLVII shows the vital importance of foreign exchange costs of capital formation.

The importance of the availability of foreign exchange and wise use of foreign exchange resources are therefore vital to the country's economic development.

Magnitude of savings and investment in Colombia. In the past few years measurements have been made of savings and investments in Colombia; while the measures are not accurate, nevertheless they give the idea of the rate of capital formation in Colombia.

In general, the methods followed in obtaining these estimates (Tables XLVIII and XLIX) are: Gross investments are taken from the basis of imports of machinery and equipment, plus domestic construction and domestic production of capital goods. Gross savings have been derived from gross investments, by adding or subtracting the balance of deficits or surpluses on current accounts.

TABLE XLVII

RELATIVE IMPORTANCE OF IMPORTS IN VARIOUS SECTORS OF  
CAPITAL FORMATION FROM 1939 TO 1947  
(in millions of pesos)

Economic Sector	Imports		Gross Capital		Percentage Imported	
	1939	1947	1939	1947	1939	1947
Industries . . . . .	8.2	54.9	16.3	103.6	50.3	53.0
Agriculture . . . . .	7.1	27.7	15.3	56.5	46.4	49.0
Transport . . . . .	16.2	71.6	37.1	149.0	43.7	48.0
Mining . . . . .	3.3	13.2	5.5	21.8	60.0	60.5
Construction . . . . .	0.6	4.0	1.0	6.6	60.0	60.6
Residential building . .	6.6	22.9	36.0	123.0	18.3	18.6
Commercial building .	0.5	3.2	2.9	17.2	17.2	18.6
Public work . . . . .	7.3	24.9	39.4	134.5	18.5	18.5
Total . . . . .	49.8	222.4	153.5	612.2	32.4	36.3

Source: The Basis of a Development Program for Colombia, p. 41.

TABLE XLVIII

ESTIMATE OF SAVINGS AND INVESTMENT IN COLOMBIA  
(in millions of pesos)

Item	1946	1947
Gross national product . . . . .	2906	3674
Gross private domestic investment . . . . .	324	447
Gross public domestic investment . . . . .	131	165
Total gross domestic investment . . . . .	445	112
Foreign balance . . . . .	- 75	-193
Gross saving . . . . .	380	419
Consumption . . . . .	2526	3255
Loss in monetary reserves . . . . .	0	119
Net capital inflow . . . . .	75	74

Source: "Financing Economic Growth in Undeveloped Countries,"  
by Philippe Pazos, Chapter 16, Saving in the Modern World, p. 312.

TABLE XLIX

ESTIMATES OF SAVINGS AND INVESTMENT IN COLOMBIA  
AS PERCENTAGE OF GROSS NATIONAL PRODUCT

Item	1946	1947
Gross national product . . . . .	100	100
Gross private domestic investment . . . . .	5.3	11.2
Gross public domestic investment . . . . .	4.5	4.5
Total gross domestic investment . . . . .	15.7	16.7
Foreign balance . . . . .	- 2.6	- 5.3
Gross saving . . . . .	13.1	11.4
Consumption . . . . .	86.9	88.6
Loss in monetary reserves . . . . .	0	3.2
Net capital inflow . . . . .	26	2.1

Source: Financing Economic Growth in Undeveloped Countries, by  
Philippe Pazos, Chapter 16, Saving in the Modern World, p. 312.

According to the estimates in the immediate postwar year (1946-1947), Colombia had gross savings that equaled some 9 to 16 percent of its gross national product (see Table XLIX). Colombia's average savings from 1946 to 1947, as a percentage of gross national product, was 12.2 percent.

Investment figures presented a completely different picture. Colombia drew against its monetary reserves in order to invest more than saved. The rate of capital formation as a percentage of gross national product was 16.2 percent. The proportion of net capital inflow in gross capital formation was very small; it averaged 2.4 percent of gross national product. Colombia has been able to save a part of its income owing to a high level of exports and relatively favorable terms of trade; if world trade should decline, Colombia would suffer a setback in its economic development.<sup>4</sup>

Financial aspects of capital formation in Colombia. Capital formation has been financed by inflationary methods during recent years in Colombia. It is clearly seen that a high rate of future capital formation will be compatible with price stability only if people

---

<sup>4</sup> Felipe Pazo, "The Problems in Latin America," edited by Walter W. Heller, Savings in the Modern World, by University of Minnesota Press, 1953.

are willing to undertake an equally high rate of saving out of their current incomes and if the community as a whole is willing to impose high taxes. This will be considered in the last chapter of this paper.

Origin of capital formation. There are no data giving an accurate estimate of the sources of financing capital formation in Colombia; nevertheless, it is possible to obtain information from the national income data of Colombia.

Table L shows the national income divided in four sectors of the economy, with the purpose of giving a clear picture of the expenditures made, and the difference between the current income and the expenditures is the amount of saving.

The income of the consumer amounted to 3000.9 million pesos, but consumer expenditures were only 2895.5 million pesos, and the consumer savings equaled 15.5 million pesos. Current receipts to business, including retained earnings and depreciation, equaled 278.5 million pesos, and business expenditures amounted to 447 million, giving an excess of expenditures over receipts of 168.5 million pesos. Foreign trade is equal to net imports, representing net receipts rather than payment to other sectors of the economy.



TABLE L  
BUDGET FOR COLOMBIAN ECONOMY, 1947  
(in millions of pesos)

Sector	Income	Expenditure	Saving
Consumer <sup>1</sup> . . . . .	3000.9	2985.4	+ 15.5
Business <sup>2</sup> . . . . .	278.5	447.0	-168.5
Foreign trade <sup>3</sup> . . . . .	-	-193.0	+193.0
Government <sup>4</sup> . . . . .	436.4	476.4	- 40.0
Adjustment <sup>5</sup> . . . . .	- 42.0	- 42.0	-
Total gross national product .	3673.8	3673.8	0

Source: The Basis of a Development Program for Colombia, p. 50.

<sup>1</sup> Income equals personal income after taxes; expenditures equal consumer expenditures.

<sup>2</sup> Income equals retained earnings plus depreciation charges.

<sup>3</sup> Expenditures equal net exports.

<sup>4</sup> Income equals tax receipts minus deficit of government enterprises; expenditures equal total goods and service expenditures plus domestic transfer expenditures.

<sup>5</sup> Equals domestic transfer expenditures. This must be deducted, since it is not a factor income or a product expenditure.

The income for the government sector is equal to current tax receipts of national, departmental, and local government, which amounted to 436.3 million pesos, and total expenditures, amounting to 476.4 millions, leaving a deficit of 40 million pesos.

The total expenditures by all the sectors equal the total current income of all factors, and both are equal to the total gross national product for the year 1947. The equality between receipts and expenditures combined indicates that any excess of saving will be offset by an excess of expenditure.

These data give us some insight into the financial side of capital formation. First, they show the small amount of the total supplied by personal savings, indicating that personal savings in Colombia are very low. The greatest amount of savings out of current income are supplied by retained business earnings. Second, it seems that domestic investment was larger than the total of funds available out of current income; in other words, one-third of private domestic investment depends on external financing.

### Resumé

The financial structure of the Colombian capital market shows a very uneven distribution of funds among various uses. These are

abundant supply of short-term credit for commercial and industrial purposes, but lack of short-term agriculture funds. There is an ample supply of funds for long-term investment in high-cost houses, but the supply for low-cost housing is insufficient. While long-term funds are available in substantial amounts to established corporations, it is very difficult for the outsider to get capital from the market. The present distribution of investment gives a tendency to over-development in certain sectors of the economy at the expense of other vital areas. The availability of medium and long-term credit within the banking system is generally restricted due to the predominant role of the commercial banks and their short-term operations. While there are Colombian governmental and semigovernmental institutions designated to accommodate the credit needs of industries, their resources for the granting of medium and long-run credit are very limited.

As far as private individuals are concerned, in addition to their preference for real estate investment, only a small minority are familiar with the factors affecting prices of industrial shares and the advantages of holding securities as an investment. Also, the organization of the securities markets in Colombia does not seem to be sufficiently widespread. As a result of the low level of saving

and the prevalent investment pattern, the banking system, including the central bank, is looked upon as the most readily available source of development credit, both public and private, and the effect of it is largely inflationary.

The financial problems of agricultural production are generally more acute than those of any other productive activity. An important institutional factor affecting agricultural credit is the present organization of the market for agricultural products, their loose network, the role of the middleman, and lack of agriculture cooperatives.

Agricultural credit receives little attention from commercial banks, particularly when these institutions consider profits which can be derived from financing trade activities, or the security that real estate offers.

In recent years Colombia has made an effort to assist agricultural development by establishing, under government auspices, specialized credit institutions. They are intended to grant credit at lower rates of interest and on terms which better meet the requirements of agricultural production, but these institutions lack sufficient funds, and are not well distributed over the entire country.

## CHAPTER V

### RECOMMENDATIONS<sup>1</sup>

The fundamental relationship between monetary policy, economic stability, and economic development must finally be considered. The process of economic development is indeed complex. It requires much more than the provision of mechanical equipment. It requires an attitude receptive to the new fields and new methods of production, and institutional arrangements that encourage enterprise and investment. It requires a healthy and well-trained labor force that can adapt itself to new methods of production. Such an economic environment is not created in a short period of time.

---

<sup>1</sup> The following recommendations were made, thanks to the voluminous literature of the United Nations. Among the books read, the following contributed most: (1) "Methods of Financing Economic Development in Under-Developed Countries," by the United Nations, Department of Economic Affairs, New York, 1949; (2) "Domestic Financing of Economic Development," by the United Nations, Department of Economic Affairs, New York, 1950; (3) "Measures for International Economic Stability," by the United Nations, Department of Economic Affairs, New York, 1951; and (4) "Measures for Economic Development of Under-Developed Countries," by the United Nations, Department of Economic Affairs, New York, 1951.

Development, Investment, and Savings

There is a fundamental basis upon which the problem of capital formation may be considered. This involves the relationship between savings, investment, and income. In discussions of economic activity of underdeveloped countries, a phrase which is mentioned frequently is the "vicious circle of poverty." The most popular circular relationships of this type are those with reference to the accumulation of capital in underdeveloped countries. The supply of capital is governed by the ability and willingness to save; the demand for capital is governed by the incentives to invest; and so, then, a circular relationship exists on both sides of the problem of capital formation in such countries. On the supply side, there is small capacity to save, because of the low level of real income, and the low level is a reflection of low productivity, which, in turn, is due to the lack of capital. The lack of capital is the result of the small capacity to save, and so the circle is complete.

On the demand side, the inducement to invest may be small because of the small buying power of the people, which is due to the small real income, which again is due to low productivity; the low level of productivity, however, is the result of a small amount

of capital used in production, which in turn may be caused at least partly by small inducement to invest.<sup>2</sup>

### Capital Formation and Saving

The increase of capital formation depends upon the increase of the margin of saving, which depends ultimately upon the increase of productivity. At the present time Colombian productivity is very low, owing to the lack of sufficient capital, and this lack of capital is due to the narrow margin of saving, which would result again in low productivity.

The national economy consists not in the accumulation of gold and silver, but in the increasing productivity of a country, brought about largely by the accumulation of capital in the form of machinery and other productive equipment. In other words, increase in productivity requires that some of the income must be saved and invested. Savings release part of the country's productivity energies from the services of direct consumption, and thereby make them available for the production of capital goods. Savings are related to economic welfare, reflecting the willingness and ability of the different groups

---

<sup>2</sup> Ragnar Nurkse, Problems of Capital Formation in Under-developed Countries, Oxford University Press, 1953, p. 5.

in the population to add to their wealth. The slowness of economic progress today in Colombia is due in great part to its inability to acquire extensive savings, and to channel savings into production uses.

### Financing Economic Growth

When economic resources are absent or very scarce, not even a perfect financial institution would be able to improve the economic development of a country. The improvement of the financial mechanism is to guide the utilization of economic resources to a better development and prevent dislocation of resources by the process of economic activity. The financial structure of Colombia is capable of improvement in a number of ways, and striving for such advancement must be part of all policies directed toward development. The first and most obvious means of securing additional resources is from voluntary saving. The desire to accumulate moderate savings can be increased by a restoration of monetary stability, which is certain to have a beneficial effect on the saving habits of those for whom the holding of money assets is the only convenient form of saving. Small savings may be stimulated by providing easier access to savings institutions and postal savings



institutions, with convenient forms of deposit, and by offering savings institutions as convenient places of deposit, and saving certificates and saving bonds as convenient forms for holding savings. Nevertheless, it is very unlikely that any considerable increase in small savings can be secured merely through a better institutional arrangement. The most important factor limiting the amount of small savings is the low level of income.

Institutional arrangements are likely to be of greater significance in determining the direction, rather than the size, of investments. The primary objective of development, an increase in the productivity of labor, can often be achieved not only by means of great irrigation and power projects and large industrial undertakings, but also by providing the small farmers, the cottage workers, and the small manufacturers with very modest financial assistance and technical advice. The rural banks should associate themselves with a farm-management service which would provide advice on farm management and the proper use of credit production. If the provision of credit and the dissemination of technical knowledge thus go hand in hand, the traditional fear of the farmer in dealing with financial institutions and hesitation in introducing better methods of cultivation could be overcome.

Promotion of Voluntary Saving by  
Individuals and Enterprises

Measures which can be taken to increase the willingness of the general public to deposit savings and to create confidence in the stability and banking and financial institutions are:

1. Measures of general economic policy, such as avoidance of inflation, and the stability of financial institutions.
2. Encouragement of organizations, especially in rural areas, which collect savings and lend productively as part of their general activities.
3. Extension of the banking system by establishing branches of the government bank, using local authorities as agencies of government banks.

Fiscal Methods

Fiscal policies exercise an important influence on methods of financing open to underdeveloped countries. The objectives of fiscal policies in connection with economic development are as follows:

1. Fiscal policies may be used to counteract the inflationary pressure arising from economic development by reducing over-all effective demand. In doing so they establish conditions in which anti-

inflationary methods of financing, especially voluntary saving, as well as encouragement of forming capital, may be employed.

2. Fiscal policy may be employed by a combination of positive inducement for desirable investment and negative discouragement of undesirable investment. This objective is achieved by differential rates of taxation: a discriminative tax system or grant of tax exemption in suitable directions. Subsidies may be viewed as negative taxes, or as an extreme case of tax exemption, and thus may be brought under a broader concept of fiscal policies.

3. Finally, fiscal policies may also be designed to promote such objectives as changes in income distribution by progressive income taxation, and others not strictly of an economic nature.

The specific methods of taxation available for financing of economic development cover a wide range. They include tax on income (domestic consumption or turnover), taxes on imported consumption goods or other unessential imports, taxes on property (land taxes, estate taxes, et cetera), taxes on profits, and others.

Conditions in underdeveloped countries, in which a high proportion of the national output may not reach the market at all, and nonmonetary transactions may be widespread, often create difficult situations for fiscal administration. Unequal income distribution in

nonmarket economies also make income taxation desirable. Accordingly, commodity taxation, land taxation, and similar means occupy an important place. The use of fiscal methods as a weapon of discrimination among different types of investment and expenditure is of special importance in underdeveloped countries. Widespread use must be made of such methods as directed subsidies, tax exemption for certain imported commodities, tax exemption for enterprises using domestic primary materials, et cetera.

### Control of Money and Credit Supply

Practically all the operations performed by a central bank have the effect of increasing or reducing its monetary liabilities. They also increase or reduce the total money supply, or at least the reserves of the banking system. The central bank will have to undertake such operations whenever monetary conditions threaten to produce an unwholesome expansion or contraction. In the Colombian economy there are three major sources where such disturbances are likely to occur: (1) balance of payments, (2) commercial bank behavior, and (3) government deficits.

An active or passive balance of payments will increase or reduce income and prices, expand and contract the volume of money,

and affect both the demand and supply of bank credit; changes in commercial bank credit, whether or not accompanied by balance of payments disturbances, will have the same effect. A government deficit, which under prevailing conditions would have to be financed largely by the central bank itself, would likewise expand the money supply unless instituted to offset a shrinkage produced by the other factors. The specific corrective action which the central bank may have to take would in part depend upon the origin of the disturbance. A curtailment of bank credit, for instance, might be an appropriate means in case of speculative excesses, but not necessarily the means for dealing with an inflation produced primarily by the balance of payments. Likewise, open market sales might help to restrain a balance of payment boom but might not be feasible at a time when the government had exhausted the capital market and was drawing on the central bank.

### Banking Legislation

Creating adequate channels for credit control is only a portion of the institutional banking problem. Legislative provisions with respect to reserve requirements are another factor which may encourage or impede the pattern of development. Since this country

is largely agricultural, note issues are more important than deposits for the small farmers, many of whom do not have access to banking facilities.

It may be observed that two or three different theories are exemplified in the note issue requirements of the banking systems of Latin America. The first theory reflects the principle advocated by the late Professor Kemmerer, which is the view that stability of a country's currency can best be insured by maintaining sizable reserves in gold or silver, with little or no flexibility. A second theory exemplified is represented by the principle held by Herman Max, a Chilean economist who served as financial advisor to some countries in Central America. His recommendations for complete flexibility in the issue function of the central bank are opposed to that of Professor Kemmerer. The degree of freedom permitted the central bank is surely a factor of importance vis-a-vis development; the Kemmerer position provides for stability rather than development, whereas that of Max makes available to the central bank power to more effectively promote development. A third, and relatively new, theory is represented by the work of Robert Triffin in the banking law of Guatemala. In these cases the reserve requirement varies with the maturity of the banks' exchange obligations. Thus, obligations

under thirty days require 100 percent reserves; from thirty days to one year, 75 percent; from one year to three years, the reserve is 50 percent. This approach is different from the conservative Kemmerer position in that it requires no rigid reserves as an automatic check upon expansion. At the same time, it departs from the Max theory by focusing attention upon the foreign trade position of the country. This is particularly suited to Colombia, where economic welfare depends so much upon the balance of payments, requiring the central bank to hold reserves with a view to their anticipated foreign exchange position. Thus, if a large number of short-term obligations must be met, the central bank is required to anticipate its needs and accumulate reserves in advance. At the same time, complete flexibility is permitted in the expansion of the currency for domestic needs.

In general, we may conclude that a flexible money supply is an important factor promoting economic development, while the older policy of requiring substantial and rigid reserves is a factor which may retard the development of the country.

### Agricultural Financial Organizations

Since agriculture is the principal economic activity in Colombia, the organization of agriculture is an institutional factor of great importance. It might be assumed that a government agency, such as the Ministry of Agriculture, would occupy a strategic place in the structure of an agricultural economy and exercise considerable influence in the formulation and execution of policies for agricultural development.

The improvement and extension of mortgage banks are positive factors in economic development, for they are designed to give longer credit terms, especially to agriculture, under conditions which the ordinary commercial bank could not meet. Here again it is the number of branches and flexibility of their function which count. When these mortgage banks are coupled with a decentralized credit system, the resources for long-term loans are widely distributed throughout the provinces. Much of the economic development in these agricultural regions lies in the direction of increased mechanization requiring investment in machinery and heavy equipment. Such large commitments can rarely be made by farmers unless some institution provides funds that can be amortized over a considerable period.



The availability of mortgage credits also affects other objectives of economic development, such as diversification of crops to meet domestic needs and reduce imports of foodstuffs. This means a partial shift from large landed estates usually given over to a single crop cultivation to smaller units of production which are suitable for crops such as beans, rice, and corn. Small farmers cannot hope to acquire land without financial help on a long-term basis. This provision of mortgage credit is a factor of greatest importance in attacking one of the root problems of agricultural finances in Colombia.

### Conclusion

Colombia is an overwhelmingly agricultural country, with about 65 percent of its working population engaged directly in agricultural and other primary production pursuits, and with coffee constituting over half of the total revenue value of its agricultural output. Because of its concentration on relatively few staple commodities, the Colombian economy is subject to sharp seasonal and cyclical movements. Like other underdeveloped countries, Colombia has low real income per capita, low average productivity (reflecting the small amount of capital per worker and the lack of productive technique),

a high propensity to import, and a low rate of voluntary savings and of capital formation.

The financial structure is not highly developed, there are no capital markets in the accepted sense of the term, and no really adequate facilities for mobilizing such savings as are currently made and for channeling them into productive investment.

From a longer-range viewpoint, Colombian economic well-being depends upon a well-regulated capital investment program, and appropriate facilities for mobilizing them into long-term productive investment will definitely be required. The development of such facilities, however, will depend primarily on the restoration of monetary stability.

## BIBLIOGRAPHY

- Arrubal, Henao. History of Colombia. Chapel Hill: University of North Carolina Press, 1938, 450 pp.
- "Banking in Colombia," Colombia in Cifras 1948-49, Bogota, Colombia.
- "Colombia," International Reference Service, January, 1945.
- Commercial Atlas and Marketing Guide. New York: Rand McNally, 1954, 280 pp.
- Controleria General de la Republica de Colombia. Censo Industrial. Bogota, 1945, 110 pp.
- Encyclopedia Britannica. World Atlas. New York: C. S. Hammond and Company, Inc., 1949, 320 pp.
- "Finanzas," Revista del Banco de la Republica, December, 1953.
- Galbraith, Walter O. Colombia. New York: Oxford University Press, 1953.
- Hanson, Simon G. Economic Development in Latin America. Washington: Inter-American Affairs Press, 1951, 650 pp.
- Horn, Paul V., and Habert E. Rice. Latin American Trade and Economics. New York: Prentiss Hall, Inc., 1945, 460 pp.
- Hughlett, Lloyd. Industrialization in Latin America. New York: McGraw Hill Book Co., 1946, 420 pp.
- International Bank for Reconstruction and Development. The Basis of a Development Program for Colombia. Washington, 1951, 900 pp.
- Koebel, William. British Exploration in South America. New York: The Century Co., 1917, 980 pp.

- Marsh, Donald B. World Trade and Investment. New York: Harcourt Brace and Co., 1951.
- Ministro de la Economia. Reporte in Colombia. Bogota, 1946, 560 pp.
- Nurskse, Ragnar. Problems of Capital Formation in Underdeveloped Countries. New York: Oxford University Press, 1953, 300 pp.
- Otero, Gustavo. Monografia de Colombia. Bogota, 1950, 280 pp.
- Pazos, Felipe. "The Problem in Latin America," Saving in the Modern World. Ed. by Walter W. Heller; Minneapolis: University of Minnesota Press, 1953, 590 pp.
- Rippy, J. Fred. Historical Evolution of Spanish America. New York: F. S. Crofts Co., 1932, 320 pp.
- \_\_\_\_\_. The Capitalist and Colombia. New York: The Vanguard Press, 1932, 420 pp.
- \_\_\_\_\_. "British Investment in Latin America, End of 1913," Journal of Modern History, November, 1947.
- \_\_\_\_\_. "Latin America and the British Investment Boom of 1820," Journal of Modern History, Sept., 1947.
- \_\_\_\_\_. "A Decade of British Investment in Latin America," Journal of Political Economy, February, 1948.
- \_\_\_\_\_. "British Investment in Latin America, 1939," Journal of Political Economy, February, 1948.
- \_\_\_\_\_. "British Investment in Latin America, End of 1876," Inter-American Economic Affairs, March, 1948.
- \_\_\_\_\_. "French Investment in Latin America," Inter-American Economic Affairs, Autumn, 1948.
- Samper, Manuel. Escritos Economics. Bogota, 1936, 480 pp.

Senate Committee on Banking and Currency. Study of Latin American Countries, Interim Report. Washington: U. S. Government Printing Office, 1950, 600 pp.

Triffin, Robert. Money and Banking in Colombia. Washington: Board of Governors of the Federal Reserve Bank, 1944, 80 pp.

United Nations. Economic Survey of Latin America. New York: Department of Economic Affairs, 1949.

\_\_\_\_\_. Economic Survey of Latin America. New York: Department of Economic Affairs, 1949.

\_\_\_\_\_. Methods of Financing Economic Development in Under-Developed Countries. New York: Department of Economic Affairs, 1949, 100 pp.

\_\_\_\_\_. Domestic Financing of Economic Development. New York: Department of Economic Affairs, 1950, 200 pp.

\_\_\_\_\_. Economic Commission for Latin America. New York: Economic and Social Council, 1950, 480 pp.

\_\_\_\_\_. Economic Survey of Latin America. New York: Department of Economic Affairs, 1950.

\_\_\_\_\_. Measures for Economic Development of Under-Developed Countries. New York: Department of Economic Affairs, 1951, 60 pp.

\_\_\_\_\_. Measures for International Economic Stability. New York: Department of Economic Affairs, 1951, 80 pp.

United States Department of Commerce. "Colombia Public Finances," Trade Bulletin Service, USDC, No. 43, 1926.

\_\_\_\_\_. Foreign Investment of the United States. Washington, 1950.

United States Senate. Study of Latin American Countries. Washington: Senate Report No. 1082, 1954, 480 pp.

United States Tariff Commission. Mining and Industry in Colombia.  
Washington, 1949, 50 pp.

Wendell, Gordon. The Economy of Latin America. New York: Co-  
lumbia University Press, 1950, 420 pp.

Winkler, Max. Investment of United States Capital in Latin America.  
Boston: World Peace Foundation, 1928, 420 pp.

Wythe, George. "The New Industrialism in Latin America," Journal  
of Political Economy, Vol. XLV, 1937.

\_\_\_\_\_. Industry in Latin America. New York: Columbia Univer-  
sity Press, 1945, 650 pp.

\_\_\_\_\_. An Outline of Latin American Economics. New York:  
Barnes Noble, Inc., 1947, 450 pp.

ROOM USE ONLY

ROOM USE ONLY

JUN 3 1961

JUN 3 1961  
MAR 3 1962

~~MAR 3 1962~~

MAR 30 1962



MICHIGAN STATE UNIVERSITY LIBRARIES



3 1293 03169 2852