View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Research Papers in Economics

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Foreign Trade Regimes and Economic Development: Colombia

Volume Author/Editor: Carlos F. Diaz-Alejandro

Volume Publisher: NBER

Volume ISBN: 0-87014-509-6

Volume URL: http://www.nber.org/books/diaz76-1

Publication Date: 1976

Chapter Title: Chapter 4 Tariffs, Prior Deposits, and the Import Exchange Rate

Chapter Author: Carlos F. Diaz-Alejandro

Chapter URL: http://www.nber.org/chapters/c4042

Chapter pages in book: (p. 100 - 123)

Chapter 4

Tariffs, Prior Deposits, and the Import Exchange Rate

In this chapter and the next two, I will go into some detail on the mechanics of the different import-restraining policy instruments. Emphasis will be placed on how they operated in about 1971, with retrospective glances whenever data warrant them. These chapters will be largely descriptive, leaving a good share of the discussion on the effects of these policy instruments on resource allocation, growth, income distribution, employment, and national autonomy for Chapter 8. Both economically and bureaucratically, the several import-repressing mechanisms overlap and interact; so it will not be either possible or desirable to discuss each mechanism in isolation from all the others, i.e., to omit all references to, say, import controls when discussing tariffs.

THE TARIFF

The universal debate between protectionists and free traders took Colombian root quite early in the nineteenth century and, as elsewhere, has never been resolved.[1] Historically, transport costs from the Colombian coasts to its central highlands, where a large share of the population lives, have been high, providing a significant but declining natural protection for some areas of the country. On the other hand, because of these high transport costs, enterprises located in regions near the Atlantic coast or the banks of the Magdalena river found it more convenient to import manufactures from Europe or North America than to buy them from the struggling craftsmen and infant industries of the highlands.[2]

It has been argued conventionally that the primary function of the Colombian tariff during the 1920s was to provide the central government with revenue.[3] A completely new tariff schedule was adopted in 1931, using the balance of payments as a partial justification. For a *sample* of nontraditional industries, David Chu has found that although Colombian nominal tariffs rose between 1927 and 1936, the median level of effective protection fell slightly, from 19 to 17 per cent in ad valorem equivalents. The ranking of industries according to the level of effective protection also changed little between those two dates, but perhaps enough to stimulate some leading industrial sectors. The average of nominal tariff rates for all imports was 23 per cent in 1927, 25 per cent in 1936, and 15 per cent in 1945. As prices rose during the Second World War, the 1931 tariff modifications, based on specific taxes, became less effective, and multiple exchange rates were introduced in part as an alternative to tariffs.

Major revisions of the tariff schedule took place again in 1951 and in 1959; both of them were protectionist in intent.[4] Average nominal duties, in ad valorem equivalents, for items not on the prohibited list were 17 per cent in the 1951 tariff and 48 per cent in the 1959 tariff. The tariff increase was greater for manufactured consumer goods, rising from 18 to 53 per cent in ad valorem equivalents, than for intermediate inputs into industry, which rose from 22 to 40 per cent. The tariff at both dates included specific as well as ad valorem duties; as late as 1962, 30 per cent of the value of assessed tariffs came from specific duties.[5]

In December 1964 a new tariff schedule was decreed, adopting the Brussels nomenclature (BNM) and containing only ad valorem duties. However, since that date, and acting under special powers, the government introduced a bewildering number of changes in the tariff, particularly during the import liberalization episode of 1965–66 and again in 1968–71. The duty rates on many items have been changed several times between 1964 and 1971, under special laws by which Congress granted the Executive, or the latter assumed, the power to carry out such changes without detailed congressional approval, but for limited periods of time. Merely between January 1965 and December 1966, it is estimated that nearly one thousand tariffs were changed (mostly increases); there were also temporary surcharges, for three or four years, on many consumer goods and even on intermediate and capital goods aimed at smoothing the liberalization process. The power of the Executive to carry out such changes without congressional approval expired in 1971, but the government quickly requested from Congress a new general law allowing frequent (although limited) rate changes. The process of selecting which duties were to be changed, and by how much, has remained somewhat of a mystery even to close observers of the committee on tariff policy, which has been responsible for tariff modifications.

TABLE 4-1

Import Duties Collected as Percentages of Peso Value of Merchandise Imports and of Central Government Tax Revenues, 1943–72

Year	Ratios of Duties to Imports	Ratios of Duties to Central Govt. Tax Revenues	Year	Ratios of Duties to Imports	Ratios of Duties to Central Govt. Tax Revenues
1943	14.8%	26.1%	1958	7.6%	13.5%
1944	14.9	24.4	1959	13.6	22.4
1945	14.7	29.2	1960	16.6	29.2
1946	12.2	27.2	1961	15.1	28.2
1947	10.3	26.1	1962	14.1	26.9
1948	10.0	20.8	1963	12.6	19.2
1949	8.3	13.5	1964	12.7	16.7
1950	12.7	21.2	1965	15.0	15.9
1951	21.8	36.8	1966	22.5	31.9
1952	18.9	32.1	1967	15.1	15.2
1953	18.3	35.7	1968	13.1	15.9
1954	20.0	36.9	1969	14.1	15.5
1955	16.1	25.8	1970	17.3	19.0
1956	13.4	20.6	1971	15.4	16.5
1957	9.4	17.7	1972	14.6	15.9

SOURCE: Basic data from DANE-AGDE, various issues, and BdlR-RdBdlR, various issues.

During 1973 and early 1974 a large number of duties were reduced, partly to offset increases in the world price level and partly to fight smuggling. About 2,500 tariff items were changed. Colombia has also been following the tariff reduction timetable of the Andean Common Market, applicable to trade among the members and calling for annual cuts in segments of ten percentage points from a base no higher than 100 per cent, starting on December 31, 1971.

A first attempt at quantification of the impact of the tariff is presented in Table 4-1, showing the de facto "average tariff" (first column) and the share of central government tax revenues accounted for by duties collected over the years from 1943 through 1972. The most striking feature of the data in this table is the repeated pattern of gradual declines followed by abrupt increases in both percentages without any obvious over-all trend for the whole period. The abrupt increases (in 1951, 1959–60, and 1965–66) coincide with tariff reforms. The unusually high tariff revenues in 1966 are also partly accounted for by increased imports of automobiles, which even at rates lower than those of earlier years yielded substantial sums.

The course of the average tariff (duties collected as a percentage of import values) from 1951 through 1972 can be quite well explained statistically as a function not only of years elapsed since the last major tariff reform but also of the level and composition of imports. The best results of attempts at explanation are presented in Table 4-2. It can be argued that after adjustment is made for years elapsed since the last major tariff reform as indicated by the always significant dummy, remaining increases in the average tariff reflect import liberalization. Thus, there is a significant and positive link between the average tariff and the level of imports whether measured in absolute or in relative terms. Significant links also exist with the share of consumer goods in the import bill (positive, because these goods are taxed at above-average rates) and with that of capital goods (negative, because these goods are taxed below the average). No such links were found with the share for raw materials and intermediate products. These conclusions are also supported by a regression (not shown) of the average tariffs as a function of the shares of consumer, intermediate, and capital goods in the import bill, without a constant term. The respective average tariffs estimated for each of those groups according to this regression are 72, 10, and 7 per cent; but only the coefficient for the share of consumer goods has a t statistic larger than 2.0.

It may be thought that the gradual erosion in tariff revenues following reforms may be due to the presence of specific duties within a worldwide inflationary setting. The pattern, however, has been present even following the 1965 conversion of all duties into ad valorem rates. A more plausible and general explanation for the power of the dummy in Table 4-2 is the tendency for tariff reform to involve, for fiscal reasons, an increase in the rates charged to intermediate and capital goods, plus those on a few luxury consumer durables, as well as a tightening of loopholes and abolition of ad hoc exemptions. On balance, these measures, which are favored by the Treasury, lower the effective protective rates for most existing industries, since in most cases direct competitors are kept out by prohibitions and the licensing mechanism. As a result, shortly after its inception the reform faces a relentless gnawing by special interests, who seek lower input rates and exemptions, until that process goes so far as to arouse fresh demands for tariff reforms.

Table 4-3 shows estimates based on a sample of products for the extent of exemptions from import duties shortly after the tariff reform of December 1964. In the key categories "other intermediate goods" and "other capital goods," making up nearly 60 per cent of all sampled imports, the gradual expansion of exemptions can be seen. Besides the Vallejo Plan, discussed in Chapter 2, other total or partial exemptions include those relating to imports from Andean and other LAFTA sources, those for "basic industries" (e.g., sulphur, pig iron, coal, chemical pulp, fishing, etc.), imports for the public sector, imports financed with AID credits, plus other ad hoc exemptions.

TABLE 4-2

Regressions for Import Duties Collected as Percentages of Peso Value of Merchandise Imports, 1951–72
(t statistics in parentheses)

	(1)	(2)	(3)	(4)
Constant	−27.81 (2.15)	−42.64 (3.42)	5.39 (2.60)	11.37 (3.51)
Dummy for tariff reform	−1.37 (6.58)	−1.57 (7.48)	−0.78 (4.65)	−0.73 (4.99)
Logarithm of dollar value of imports	6.76 (3.10)	11.82 (5.42)	—	—
Relative import level	—	—	0.10 (4.34)	0.12 (7.84)
Share of consumer goods in imports	0.45 (2.91)	—	0.14 (0.86)	—
Share of capital goods in imports	—	−0.29 (2.85)	—	−0.17 (2.29)
R^2	0.77	0.77	0.83	0.86
F statistic	20.50	20.14	29.33	37.80
DW	2.06	1.51	1.48	1.42
No. of observations	22	22	22	22

R^2 = coefficient of multiple determination.
DW = Durbin-Watson statistic.
SOURCE: Basic data as in tables 3-2, 3-4, and 4-1. The dummies for tariff reform are as follows:

1951 = 0	1959 = 0.5	1966 = 1
1952 = 1	1960 = 1.5	1967 = 2
1953 = 2	1961 = 2.5	1968 = 3
1954 = 3	1962 = 3.5	1969 = 4
1955 = 4	1963 = 4.5	1970 = 5
1956 = 5	1964 = 5.5	1971 = 6
1957 = 6	1965 = 0	1972 = 7
1958 = 7		

Relative import level refers to total imports of a given year divided by the average imports during the previous three years, with the result multiplied by 100.

TABLE 4-3

Duties Collected, Dutiable Imports, and All Imports, by Use Categories, 1965–67

Category	Duties Collected as Per Cent of Dutiable Imports in Each Category			Dutiable Imports as Per Cent of All Imports in Each Category			Aver. Share of Each Category in All Sample Imports, 1965–67
	1965	1966	1967	1965	1966	1967	
Automobiles	228	51	85	71	71	71	2.2
Other consumer goods	28	28	24	81	84	70	3.4
Foodstuffs	20	10	17	99	9	22	4.2
Other raw materials	14	15	17	100	100	100	4.1
Intermediate goods for agriculture	3	13	6	99	100	100	2.0
Other intermediate goods	17	25	24	93	93	88	34.0
Transportation equipment	23	42	27	90	85	74	6.0
Capital goods for agriculture	3	8	5	80	82	78	3.1
Other capital goods	17	13	16	61	57	48	24.8
Unclassified	20	49	12	62	87	63	16.2
Total sample	19	28	22	79	79	70	100.0

SOURCE: Unpublished estimates of DANE and Contraloría (Colombian Office of the Comptroller), based on a sample of different types of imports. Average duties for all imports in this table, therefore, need not coincide with those in Table 4-1.

These are not always automatic; many require applications that are subject to review and approval. By 1967, 30 per cent of all imports were exempted from duties; more than half of nonagricultural capital goods imports were tariff-free. A rough estimate places exempted imports at 33 per cent of the total in 1969.

Other tariff loopholes arise from the practice of levying different rates for the same product, depending on its final use. For example, a much lower duty will be levied on an automobile which allegedly is to be used as a taxi ("public service") than an identical car imported for private use. That is why one finds cars painted as taxis which do not seem to stop for any customer. That practice also lends itself to the setting up of special tariff subcategories benefiting powerful interests; the knowledgeable can tell why input X bears a tariff of only 10 per cent if used in producing product Y, while bearing one of 50 per cent "for other industries." Clearly, the tariff is not a purely independent variable in the Colombian socioeconomic system.

It will be seen in Chapter 5 that the import control authority can grant "global licenses" covering several items making up a factory or a productive unit. When such a license is obtained, the importer will pay a single tariff rate on the value of the whole group of commodities. The duty will be the one for the "key machine" in the productive unit. As the importer has the option of seeking a global license or a sequence of ordinary ones, often the global license is requested when the "key machine" carries a low duty and the peripheral items higher ones. The committee supervising tariff policy can also grant a low ad hoc tariff rate to some global licenses.

To obtain a more detailed and yet manageable view of the Colombian tariff structure as it stood in about 1971–73, the rates for a sample of 125 important products, first chosen for 1962 by Santiago Macario,[6] have been analyzed. This will allow us, inter alia, to examine net changes occurring between 1962 and 1973. The regime to which each of the products was subjected in the import control mechanism, i.e., whether it was placed on the free, prior license, or prohibited list, was noted. These three lists will be examined in the next chapter; the free list covers commodities for which no prior license was needed, while the prohibited list includes those for which the import ban was absolute, *unless* they were imported under the Vallejo Plan or for other very restricted purposes. The import duties listed for the prohibited category are thus not totally unimportant, as the deposit which Vallejo Plan users must make with the government as guarantee that those imports will be used exclusively for exporting is related to the size of the duties for the "prohibited" items. Finally, the 1971 prior import deposit for each product was also recorded. This information is summarized in Table 4-4; note that since it is based on rates and information read off the tariff books, it refers to nonexempt items.

Consider first the tariff as it stood in 1971. On the whole, the rates look quite "reasonable," particularly for items not on the prohibited list. There are few extravagantly high duties. As shown in Chapter 2, however, the tariff schedule *by itself* is capable of generating very high ERPs which fluctuate a good deal among activities. It may be seen in Table 4-4 that duties on industrial raw materials, capital goods, and semimanufactured products were substantially lower than those for processed foodstuffs and all kinds of consumer goods. The average duties for industrial raw materials and capital goods on the prior license list are 16–26 per cent, a level which at best is unlikely to exceed by very much the degree of overvaluation of the peso.

The simple mean of the duties in 1971 for the 367 items that make up Chapter 84 of the Colombian tariff (nonelectrical machinery) is 27 per cent, which is similar to that for capital goods in the sample. The corresponding figure for the 161 items of Chapter 85 (electrical machinery) is somewhat higher, 38 per cent, but this chapter includes many consumer goods.

Francisco Thoumi has called attention to another feature of the tariff—

TABLE 4-4

Colombian Duties and Other Restrictions on Selected Nonexempt Imports from Non-LAFTA Sources, 1962, 1971, and 1973
(standard deviations in parentheses)

Import	Ad Valorem Duties (Per Cent)			Ad Valorem Prior Import Deposits (Per Cent)		Number of Items in Group Subject to Each Regime		
	1973	1971	1962	1973	1971	1973	1971	1962
Unprocessed foodstuffs	53	53	185	67	96	13	13	13
	(29)	(29)	(217)	(44)	(54)			
Prohibited	69	64	272	100	130	7	8	8
Prior license	34	35	23	29	40	6	5	4
Free list	—	—	145	—	—	0	0	1
Industrial materials	18	19	35	53	72	10	10	10
	(12)	(16)	(32)	(50)	(59)			
Prohibited	44	44	72	100	130	1	1	3
Prior license	15	16	20	48	66	9	9	3
Free list	—	—	19	—	—	0	0	4
Capital goods	31	26	19	27	32	27	27	27
	(21)	(16)	(15)	(30)	(36)			
Prohibited	—	—	30	—	—	0	0	1
Prior license	33	26	26	30	35	23	24	12
Free list	23	25	12	8	7	4	3	14
Semimfd. products (incl. processed fuels), other than products of traditional industries	27	27	27	50	67	32	32	32
	(17)	(16)	(37)	(41)	(51)			
Prohibited	29	29	200	100	130	2	2	1
Prior license	26	27	23	45	63	26	25	14
Free list	28	27	19	58	58	4	5	17
Processed foodstuffs	90	91	341	95	116	14	14	14
	(53)	(51)	(326)	(19)	(28)			
Prohibited	102	100	426	100	120	9	9	10
Prior license	69	74	90	86	110	5	5	3
Free list	—	—	250	—	—	0	0	1
Durable consumer goods	74	80	108	90	97	11	11	11
	(40)	(26)	(31)	(30)	(39)			
Prohibited	—	84	114	—	100	0	1	4
Prior license	74	79	93	90	96	11	10	6
Free list	—	—	175	—	—	0	0	1

TABLE 4-4 (*concluded*)

Import	Ad Valorem Duties (Per Cent) 1973	1971	1962	Ad Valorem Prior Import Deposits (Per Cent) 1973	1971	Number of Items in Group Subject to Each Regime 1973	1971	1962
Other consumer goods (incl. semimfd. products of traditional industries)	87 (66)	87 (66)	163 (145)	80 (36)	99 (47)	17	17	17
Prohibited	142	142	247	100	130	6	6	10
Prior license	62	62	44	75	90	10	10	4
Free list	—	—	45	1	1	1	1	3
Total	49 (44)	49 (44)	104 (174)	60 (43)	75 (52)	124	124	124
Prohibited	94 (62)	91 (58)	265 (247)	100 (0)	126 (11)	25	27	37
Prior license	40 (31)	39 (31)	39 (32)	52 (42)	64 (50)	90	88	46
Free list	23 (17)	24 (16)	31 (50)	29 (41)	35 (55)	9	9	41

SOURCE: Data for 1962, as well as the classification scheme and product list, were obtained from Santiago Macario, "Protectionism and Industrialization in Latin America," *Economic Bulletin for Latin America,* March 1964, pp. 61–101. Data for 1971 (September) were obtained from República de Colombia, *Arancel de Aduanas* (Bogotá: Alfonso Valderrama A., 1971). Data for 1973 (March) were obtained from ibid. (Bogotá: Gustavo Ibarra Merlano, 1973).

All figures shown are simple arithmetic averages. When an item (say, forklifts) had been subdivided into more than two classes, each with its own duty or prior deposit, sometimes determined not by the *nature* of the product but by its *final use,* a simple average of all the classes was taken. (In several cases there were large differences among the duties averaged.) When a given item had been subdivided into just two classes, only the duty applied to the class judged most common was recorded. In cases of subdivision, the predominant import regime was recorded. In all cases of doubt, the more liberal regime was used.

Import duties include the standard ad valorem rates plus consular fees and across-the-board surcharges. During 1971, the fees and surcharges amounted to 4 per cent ad valorem: consular fees were 1 per cent ad valorem, and the surcharges for financing PROEXPO and the Coffee Fund were 1½ per cent each.

Promotion laws exempt many imports from all duties, but this is not taken account of in the table.

which frequently makes it more protectionist than it appears at first sight, and always more distortive—involving the treatment of used goods, particularly used durable consumer goods. Many second-hand goods are valued when imported as if they were new, on the feeble grounds that otherwise valuation would be difficult to ascertain exactly, thus allegedly opening the door to all sorts of "irregularities." The tariff legislation explicitly states, for example, that used automobiles are to be valued at the prices they had when they came fresh from the factory. When these regulations are applied to capital goods not produced in Colombia, they tend to reduce the effective protection given to their users, while discouraging a more efficient use of the nation's available foreign exchange (and probably of its labor force also).

There appear to be at least two conflicting considerations in establishing interactions between tariffs and import controls. On the one hand "essentials" tend to be treated more leniently by both instruments, while "luxuries" are penalized by both, as evidenced by the mostly redundant high duties on items on the prohibited list. On the other hand, some attempts have been made, particularly during 1965–66, to raise tariffs on items on the free list, consciously coordinating the use of both tariffs and import controls. While that coordination is assured on paper, the facts are that tariffs and import control regimes are each set by a different bureaucratic organization. As a result, except during periods of major policy changes, when high-ranking authorities are very conscious of this issue, each policy variable is handled without much regard to how the other is being manipulated.

As a member of the Andean Common Market, Colombia has agreed to bring its tariff schedule in line with the Andean *Minimum* Common External Tariff (AMCET) by 1975 and to adopt the Andean Common External Tariff (ACET) by 1980. The AMCET, agreed upon by the member countries in December 1970, is in fact fairly close to the Colombian tariff schedule, but with a lower average tariff and less spread.[7] It is far from clear, however, what the final ACET will look like.

The net changes in the tariff between 1962 and 1971–73, according to Table 4-4, may be summarized as follows: a lowering of average rates, mainly by the reduction of very high rates for items on the prohibited list, and a narrowing of the spread of duties, not only by the elimination of extravagantly high ones but also by the increase of very low ones. This may be seen more clearly in Table 4-5: by 1971–73, duties had on average fallen on those items which in 1962 had duties of 40 per cent or more; at the same time, duties were on the whole higher on those items which in 1962 had duties of less than 40 per cent. These changes are more dramatic among goods which in 1962 had duties above 99 per cent and below 20 per cent. By 1973, of the 124 sampled items, 71 per cent had duties within the range from 20 per cent to 70 per cent; in 1962, that percentage was only 42 per cent. This information is complemented by the data in Table 4-6, which shows that the most arithmetically significant tariff cuts occurred among items that were on the prohibited list both in 1962 and 1971, and that there were less extensive cuts in the items transferred from the 1962 prohibited list to the 1971 prior license list. Duties were raised on the few items which were on the free list both in 1962 and 1971.

The trend between 1962 and 1971–73, then, has been toward a rationalization of the tariff and a diminution of its distorting effects. The changes of the

TABLE 4-5

Average Ad Valorem Duties of Selected Imported Products in 1962, 1971, and 1973, Grouped by Their 1962 Duties

	Average Duties for Group of Same Products			Number of Products in Each Group		
Level of 1962 Duties	1962	1971	1973	1962	1971	1973
100% and higher	276%	87%	87%	38	16	14
70% to 99%	81	54	49	9	7	8
40% to 69%	48	38	38	13	30	32
20% to 39%	27	26	30	30	41	48
Zero to 19%	6	15	15	34	30	22

SOURCES AND METHOD: Same as Table 4-4.

last decade, furthermore, leave Colombia with a tariff schedule which would require relatively few changes if import controls were abolished, particularly if ad hoc tariff exemptions were also eliminated.[8]

It should be added that the Colombian sales tax also contained protectionist elements, as its rates bore more heavily on imports than on domestic production for a (small) number of commodities, such as alcoholic beverages, canned goods, and clothing. The Musgrave Report recommended abolishing the use of the sales tax as a supplementary instrument of protection as well as instituting a better coordination of tariffs with luxury taxation, but as with most of the other recommendations in the report Congress had failed to act as of 1971.[9] Indeed, during December 1970 Congress levied a heavy sales-consumption tax on foreign cigarettes, which led to a drying up of registered imports of these goods and a dramatic increase in contraband traffic in them, which became a subject of scandalized public discussion during August and September 1971.[10]

Another institutional fact of some interest concerns the frequent complaints of law-abiding importers regarding the actual management of some customs offices, which allegedly impose not only normal tariff burdens on some, but also costly delays and petty nuisances, while freeing luckier or less scrupulous importers from their taxes. Even with the best will confusion can arise over product specification, but it is not unusual for an importer to face a hostile stance from customs officials. Furthermore, warehouses and other facilities in major ports are said to be in poor shape, inducing losses.[11] These circumstances, of course, are also widespread in other countries, and are hardly unique Colombian features.

A detailed FEDESARROLLO study[12] of tariffs as they stood on December 1972 and June 1974 on the whole confirms the results described above. The average nominal tariff rates, including the charges implicit in prior

TABLE 4-6

Changes in Regime and Average Duty Between 1962 and 1971 for Selected Imported Products

Regime in 1962	Regime in 1971	Number of Products	Average Ad Valorem Duty 1962	1972
Free list	Free list	5	6%	19%
Free list	Prior license	35	33	33
Free list	Prohibited	1	88	24
Prior license	Free list	4	42	30
Prior license	Prior license	42	38	37
Prior license	Prohibited	0	—	—
Prohibited	Free list	0	—	—
Prohibited	Prior license	11	116	65
Prohibited	Prohibited	26	328	93
All products		124	104	49

SOURCES AND METHOD: Same as Table 4-4.

deposits, are lower than those shown in Table 4-4 (35 per cent for 1972 and 29 per cent for 1974). But the same pattern is observed in duties classified according to import regimes; for 1972, for example, the averages of nominal duties for items on the prohibited, prior license, and free lists were, respectively, 60 per cent, 39 per cent, and 12 per cent. Weighting methods did not change results significantly.

The average effective rate of protection generated just by these nominal rates (including the opportunity costs of prior deposits) were calculated, using the Corden method, at 34 per cent in 1972 and 35 per cent in 1974. But a large dispersion of effective rates of protection was also found, a dispersion that apparently increased between 1972 and 1974. Sectoral rankings according to effective and nominal rates of protection are *not* significantly different at the 5 per cent confidence level; rankings with and without the tariff implicit in prior deposits are also similar. No significant links could be found between rankings according to protection and economic characteristics of various sectors, such as labor intensity.

PRIOR IMPORT DEPOSITS

Prior import deposits were initiated in 1951 and set at a modest 10 per cent of the desired import value. Thus, during most of the period under study, before an importer could even apply for an import license, he had to deposit a stipulated amount, expressed as a percentage of the import value, with the Banco de la República, and the money had to remain on deposit, earning no interest and eroded by inflation, until after the specific merchandise had cleared Colombian customs. During 1971–72 the advance deposit was calculated on the f.o.b. value of imports, at the average exchange rate for the previous month. The time elapsing between deposit of the money and its return has varied from period to period. During 1958 the lag began to be deliberately stretched, with a decree stating that deposits would not be returned to the importer until sixty days after the goods had reached a Colombian port. By 1963, import deposits were immobilized for an average of ten months. The lag was about six or eight months during 1964, with free-list imports typically involving shorter deposit periods than those approved under the prior license regime. By 1966 the corresponding figure was estimated at nine months. Around 1971, the lag averaged roughly seven or eight months.

Beginning in 1964, additional advance deposits have also been required for obtaining the foreign exchange needed to pay for the imports once they cleared customs. The advance payments deposits in about 1971 were equivalent to 95 per cent of the import value and had to be placed with the Banco de la República at least twenty days prior to the issuance of the exchange license needed to obtain the foreign currency.

Prior deposits were originally introduced as one more mechanism to repress imports, but their increased use during the balance-of-payments troubles of the second half of the 1950s, particularly since mid-1957, turned them into a critical tool of monetary policy. By 1960, as may be seen in Table 4-7, the stock of import deposits reached 24 per cent of the import flow for that year, and 16 per cent of the stock of total domestic credit (or 22 per cent of the money supply). At least since that time, prior deposits became a widely disliked institution, by both businessmen and policymakers. Only the weakness of more orthodox monetary tools, such as reserve requirements and rediscounting, arising from the power of commercial banks and some other private groups, such as the Coffee Federation, vis-à-vis the central bank, induced the survival of prior deposits. Nevertheless, the importance of prior deposits has, on the whole, been declining since 1960, although that trend has not been smooth. During prosperous 1973, prior import deposit rates were sharply reduced and almost eliminated. Advance deposits for buying foreign exchange, however, were increased.

As tools of monetary policy, prior import deposits and advanced deposits for buying foreign exchange are clumsy and inflexible and can lead to serious conflict between the goals of import liberalization and monetary stability. For example, the reductions in prior deposit rates adopted beginning in October 1965, as part of the import liberalization program, resulted, with a lag, in an unwanted increase in the money supply, particularly after June 1966, in spite of the import surge. Fears of undesirable monetary repercussions still keep

TABLE 4-7

Prior Import Deposits as Percentages of Merchandise Imports and Domestic Credit, 1950–72

	Deposits as Percentages of Imports, c.i.f.	Deposits as Percentages of Domestic Credit		Deposits as Percentages of Imports, c.i.f.	Deposits as Percentages of Domestic Credit
1950	5.3	4.1	1962	22.0	11.1
1951	4.6	4.3	1963	21.2	11.1
1952	3.4	2.9	1964	20.7	10.6
1953	3.4	3.3	1965	25.8	9.3
1954	4.3	4.1	1966	14.6	8.8
1955	7.4	5.5	1967	14.0	5.8
1956	10.1	5.7	1968	12.8	6.7
1957	11.0	5.9	1969	13.2	7.0
1958	17.7	10.2	1970	13.5	6.1
1959	22.6	12.9	1971	11.0	5.3
1960	23.9	16.0	1972	9.4	4.1
1961	20.0	12.6			

SOURCE: Data for prior import deposits and for domestic credit refer to average stocks during the year. The former were obtained from Alberto Roque Musalem, *Dinero, Inflación y Balanza de Pagos: La Experiencia de Colombia en la Post-Guerra* (Bogotá: Talleres Gráficos del Banco de la República, 1971), p. 153; and from BdIR-RdBdIR, various issues. Peso values for imports and total domestic credit obtained from IMF-IFS. Advance deposits for exchange needed to pay for imports are not included in any of the preceding figures. Measured as average stocks during the year, those deposits amounted in 1968 to 39.5 per cent of prior import deposits; 1969, 33.0; 1970, 28.7; 1971, 26.5; and 1972, 33.2.

authorities from totally eliminating prior deposits; as late as 1968 a plan to eliminate these deposits within a year was abandoned for that reason. On the restraining side this tool has on occasion been the only available instrument capable of rapidly stemming excessive monetary expansion, as during 1962. The practical elimination of prior import deposits during 1973, as part of the continuing liberalization process, was undertaken in the midst of an inflationary boom, and the authorities, quickly becoming fearful of the monetary consequences of that move, raised the advance deposits for buying foreign exchange as an offsetting measure.

Both prior import deposits and prior deposits required for buying foreign exchange have been relatively less effective in repressing imports than as monetary tools. The exact opportunity cost of the immobilized balances, including the advance payments deposits expressed as ad valorem tariff equivalents, is difficult to establish exactly, and given capital market imperfections it is likely to differ considerably among firms. Some companies may obtain foreign suppliers' credits for that purpose (it has even been argued that the 1959–60 increases in prior deposits led to an inflow of "hot money" into Colombia), others can obtain credit from their banks, but still others, particularly smaller ones, may suffer severe hardships in raising the needed cash. Colombian businessmen, who complain constantly about shortages of working capital, find the prior deposits particularly obnoxious. Alberto R. Musalem has estimated the ad-valorem-equivalent incidence of prior import and advance payments deposits at 11 per cent, on average, for 1960–67.[13] For more recent years the corresponding figure is lower, below 5 per cent. An across-the-board tariff increase of a few percentage points or a slightly faster rate of exchange depreciation seems like a small price to pay for the elimination of prior deposits, whose regressive incidence accentuates the concentration of economic power in Colombia.

Prior import deposits during January–May 1971 ranged from 1 to 130 per cent ad valorem. As shown in Table 4-4, on average, items on the prohibited list bore the highest rates (as with tariffs) and those on the free list had the lowest rates. As noted when discussing the tariff, the tendency to penalize "luxuries" and encourage "necessities" frequently prevailed over the policy of choosing between alternative, nonduplicating instruments to restrain imports. The spread in prior deposits was somewhat narrower than for tariffs, and the ranking by incidence on different commodity categories was also slightly different. Capital goods, for example, whose tariff rates are roughly in line with those for industrial raw materials and semimanufactured products, bore lower prior deposits on average.

As with tariffs, there are many exemptions from prior import deposits, including aid-financed imports, those made by the government and public entities, some capital goods, imports from LAFTA, and most nonreimbursable imports. Prior import deposits are regulated by the top monetary authority, the Junta Monetaria, presumably in coordination with the Consejo de Política Aduanera, which is in charge of the tariff, and with INCOMEX, which manages import controls. In fact, many inconsistencies exist in the use of these instruments; for example, in some cases, the prior deposit for inputs is higher than for the finished products using those inputs, while the tariff situation is more normal. Those cases are reviewed on an ad hoc basis, as producers complain of the situation to the Junta Monetaria.

THE AVERAGE EXCHANGE RATE APPLICABLE TO MERCHANDISE IMPORTS

By 1971 the exchange rate applied to imports had in real terms reached its highest sustained postwar levels, as can be seen in Table 4-8. The basic single nominal rate had also been unified with the rates applicable to minor exports (excluding CAT) and to capital transactions; minor statistical discrepancies show up nowadays only because of timing differences in the recorded transactions. As indicated in the second column of Table 4-8, the real rate has also been quite stable around a gently rising trend since the reforms of March 1967.

Matters were not always this tranquil and orderly. There were times, as during the 1965–66 liberalization episode, when two major rates were applied to imports: a preferential rate of 9 pesos per U.S. dollar, the old rate, and a new intermediate rate of 13.50 pesos, to which all imports were gradually transferred, while most private capital transactions took place in an uncontrolled free market. An earlier switch, from the precarious exchange stability of the mid-1950s to more realistic levels after mid-1957, can also be observed in Table 4-8.

The crucial hesitations in exchange policy which occurred during 1958–59 can also be seen in this table. During late 1957 and 1958 a relatively high import rate was achieved by means of a fluctuating basic "certificate" rate, combined with, for most imports, a 10 per cent remittance tax, which can be incorporated into the exchange rate. From April 1958 until early 1959, that tax had to be paid with U.S. dollars purchased in the fluctuating free market. In January 1959, importers were given the option of making payments through the free market, in which case they were exempted from the 10 per cent remittance tax. In May 1959 that tax was absorbed, in principle, into customs duties, with the first ten percentage points of the duty insofar as applicable, being payable in U.S. dollars. The wise de facto flexibility which had existed for the average effective import rate during 1958 and early 1959 was dead. After May 1959, the basic selling certificate rate of 6.4 pesos, which had been reached by October 1958 after attaining a high of 6.8 in June 1958, became the

TABLE 4-8

Nominal Exchange Rate (NER) on Merchandise Imports, 1948–72

	Average NER (pesos per U.S. dol.)	PPP-NER (1963 prices)	Instability Index
1948	1.75	5.64	—
1949	1.95	5.58	—
1950	1.95	5.13	—
1951	2.36	6.43	—
1952	2.50	6.74	—
1953	2.50	6.25	—
1954	2.50	5.87	2.61
1955	2.50	5.77	0.98
1956	2.50	5.39	2.59
1957 I	2.50	5.10	2.31
II	2.51	4.64	3.89
III	5.33	9.26	28.24
IV	5.74	9.80	28.90
1958 I	6.48	10.80	31.16
II	7.43	11.79	31.19
III	7.23	11.30	7.34
IV	7.11	10.77	7.06
1959 I	6.87	10.36	5.46
II	7.64	11.02	4.76
III	6.40	9.10	8.07
IV	6.40	9.03	7.09
1960 I	6.40	9.01	6.20
II	6.64	9.22	5.19
III	6.70	9.31	1.08
IV	6.70	9.18	1.23
1961 I	6.70	9.02	1.61
II	6.70	8.59	2.22
III	6.70	8.59	1.98
IV	6.70	8.59	1.63
1962 I	6.70	8.59	1.19
II	6.70	8.48	0.32
III	6.70	8.48	0.32
IV	7.30	9.13	2.24
1963 I	9.00	10.00	4.62
II	9.00	8.91	7.03
III	9.00	8.74	7.50
IV	9.00	8.41	6.53

TABLE 4-8 (*concluded*)

		Average NER (pesos per U.S. dol.)	PPP-NER (1963 prices)	Instability Index
1964	I	9.00	8.04	5.25
	II	9.00	7.56	4.02
	III	9.00	7.56	3.54
	IV	9.00	7.56	2.59
1965	I	9.00	7.58	1.56
	II	9.00	7.34	0.86
	III	9.37	7.54	1.54
	IV	12.21	9.25	7.21
1966	I	12.42	9.12	7.50
	II	12.68	8.88	7.36
	III	13.13	9.22	7.64
	IV	13.53	9.31	2.21
1967	I	13.32	9.03	2.61
	II	13.68	9.12	2.21
	III	14.34	9.45	2.15
	IV	15.05	9.80	2.83
1968	I	15.64	10.17	3.03
	II	15.96	10.14	2.85
	III	16.26	10.35	2.46
	IV	16.50	10.53	1.97
1969	I	16.78	10.68	1.38
	II	17.02	10.64	1.40
	III	17.30	10.75	1.14
	IV	17.65	10.78	0.78
1970	I	17.79	10.92	0.75
	II	18.08	10.82	0.88
	III	18.37	11.02	1.09
	IV	19.10	11.28	1.61
1971	I	19.44	11.32	1.37
	II	19.82	11.28	1.23
	III	20.30	11.37	0.97
	IV	20.80	11.38	0.40
1972	I	21.32	11.60	0.79
	II	21.82	11.57	0.77
	III	22.23	11.55	0.61
	IV	22.71	11.47	0.76

SOURCE: Average nominal exchange rate is obtained by dividing import peso value, c.i.f., by import dollar values. The purchasing-power-parity-

Notes to Table 4-8 (*concluded*)

adjusted rate (PPP-NER) is obtained by dividing the nominal rate by the ratio of Colombian to U.S. wholesale prices. The index of instability of the purchasing-power-parity-adjusted rate is computed as in Chapter 2, i.e., it is the average of the absolute value of quarter-to-quarter percentage changes for four consecutive quarters. When the index is given for a year, it covers the four quarterly changes during that year; when it is given for a quarter, it refers to the percentage changes during that quarter and the preceding three quarters. Basic data were obtained from IMF-IFS; figures for 1958, 1959, and 1960 have been revised frequently in that publication. Those shown here include the temporary remittance tax for those years; all others include only the nominal exchange rate.

pegged effective import rate. This rate was below the rates reached during 1958; even after it was raised to 6.7 pesos, in 1960, it remained substantially below the late-1958 de facto levels.

It is noteworthy that such a return to "stability" was partly promoted by those who after 1967 became champions of the crawling rate. The reasons given for the new pegging in 1959 were the usual ones: fear of inflation, need for "stability," and the impact of a more devalued peso on public and private foreign debts denominated in dollars. Naturally, as erosion of the *real* or purchasing-power-parity import exchange rate continued from its 1958 levels, increasing use was made of prior deposits, tariffs, and import controls, until, late in 1962, the pressures became too great. The unfortunate 1962 episode will be reviewed in detail later; here it is enough to note that its origins can be traced back to the misguided repegging of 1959. From the end of 1962 until September 1965, the mirage of a stable import rate was again sought; the pegged 9-peso rate was buttressed primarily by tight import controls.

Primarily because of the existence of import controls applied with fluctuating severity in different periods, there is little systematic link between the real effective import exchange rate and actual imports. Correlations between percentage changes in imports and in the exchange rate and the stability index presented in Table 4-8, similar in structure to the regressions presented in Chapter 2 for minor exports, yield only insignificant coefficients and very low R^2s, whether the period is considered as a whole or is broken up into subperiods.

The first two columns of Table 4-9 contain annual summaries of the quarterly data shown in Table 4-8. In column 3, the nominal import exchange rate is also compared to that prevailing in the legal free or capital market; the latter was often pegged. The comparison shown in column 4 is with rates that were always free, if not always legal; the source for that column is *Pick's Currency Yearbook*, which publishes black market rates. The figures in the

TABLE 4-9

Characteristics of the Average Import Exchange Rate, 1956–72

Year	Average PPP-NER for Merchandise Imports (pesos per U.S. dol.) (1)	Instability Index (2)	Legal Free or Capital Market Rate as Per Cent of Col. 1 (3)	Free, Capital, or Black Market Rate as Per Cent of Col. 1 (4)
1956	5.39	2.59	198.4	200.8
1957	7.20	28.90	157.0	160.2
1958	11.17	7.06	107.5	107.5
1959	9.88	7.09	112.7	113.3
1960	9.18	1.23	104.7	104.2
1961	8.70	1.63	123.9	124.3
1962	8.67	2.24	133.3	134.0
1963	9.02	6.53	111.3	112.6
1964	7.68	2.59	115.9	116.4
1965	7.93	7.21	170.1	168.5
1966	9.13	2.21	131.1	134.9
1967	9.35	2.83	115.6	136.1
1968	10.30	1.97	101.6	112.6
1969	10.71	0.78	—	110.6
1970	11.01	1.61	—	118.5
1971	11.34	0.40	—	118.2
1972	11.55	0.76	—	109.6

SOURCE: Figures in columns 1 and 2 are from quarterly data in Table 4-8. Exchange rates for the *legal* capital or free markets, used in column 3, from A. R. Musalem, *Dinero, Inflación y Balanza de Pagos: La Experiencia de Colombia en la Post-Guerra* (Bogotá: Talleres Gráficos del Banco de la República, 1971), Table XXIV, p. 160. Exchange rates used in column 4, which also include black market rates, from *Pick's Currency Yearbook*, various issues. Figures in both columns 3 and 4 are based on monthly data, although their timing may not be identical. In 1968 the official capital market was merged with the certificate market.

last column should always be equal to or greater than those in the third column; the anomalous observations for 1960 and 1965 are due to differences in the timing of monthly observations on which the data are based.

The course of the rates in the last two columns of Table 4-9 clearly signals troubled years, such as 1956–57, 1961–62, and 1965–67, but that in the last column also reflects the success of the crawling peg instituted in 1967.[14]

The bureaucratic agencies officially in charge of establishing exchange rate policy have differed from time to time. During the Lleras Restrepo administration, the President himself kept a close watch over the exchange rate. According to Decree Law 444 of March 1967 (Article 21), the Junta

Monetaria, acting through the central bank, is charged with regulating the market for foreign exchange. The key personalities in the junta are the Minister of the Treasury and the manager of the central bank. The certificate or basic rate is typically modified (raised) twice a week, by small amounts.

Monthly changes in the certificate rate since the reforms of March 1967 are shown in Table 4-10. At the start of the new system, the monthly changes were fairly irregular, apparently in an attempt to establish the principle that this was indeed a fairly unregulated market, closer to "dirty floating" than to a crawling peg system, and that it could even appreciate, as it did during January 1968. These early exchange-rate movements were anxiously watched by Colombia's creditors and aid donors, who doubted the firmness of the Colombian commitment to a crawling peg. It is said that the slowdown in the rate of depreciation during December 1967 and January 1968 caused telegrams to fly between Washington and Bogotá, and fear was expressed that once the certificate rate reached the capital market rate (which had been pegged at 16.3 pesos since the capital market replaced the free market early in December 1966) and was unified with it, there would be a return to a fixed 16.3-peso peg. The unification point was reached in June 1968, but the upward crawling continued, although not without an unusually low depreciation rate during that month, which must have caused a few jitters. But the low depreciation rates of June, July, and August 1968 apparently had more to do with the endeavor of creating a calm atmosphere for the visit of His Holiness Pope Paul VI to Colombia, during August 22–24, than with any attempt to return to a fixed peg. Similarly, the difficult political situation that developed between the election and inauguration of President Misael Pastrana Borrero (April–August 1970) seems to account for the slowdown in the depreciation rate observed in those months. After the new President was inaugurated, the rate of depreciation became steadier, seldom falling outside a range of 0.6 to 0.9 per cent per month. The acceleration of inflation since 1971, and the improvement at the same time of Colombian terms of trade, led some to call for a slower upward crawl in the exchange rate, as part of anti-inflationary policies. It remains to be seen whether the crawling peg will work as well (or will be allowed to work) under conditions of accelerating inflation, as it did when inflation rates were low or decreasing.

It is not clear how much the demand for import licenses and for imports on the free list influences the decisions to alter the exchange rate. It is said that foreign creditors, and in particular the IMF, annually agree with Colombian authorities on a minimum target for imports so as to decrease any temptation to slow down the depreciation rate and tighten import controls. It is known that authorities also try to maintain some sort of link between depreciation and inflation in Colombia and abroad but, given the weaknesses of price indices (and of the rigid purchasing power theory), that link is deliberately kept loose.

TABLE 4-10

Monthly Percentage Changes in the Certificate Rate, 1967–73

	1967	1968	1969	1970	1971	1972	1973
January	0	−0.13	0	0.39	0.63	0.76	0.75
February	0	0.95	0.59	0.67	0.57	0.71	0.52
March	0.07	0.57	0.71	0.89	0.93	0.89	0.52
April	2.81	0.75	0.18	0.27	0.67	0.75	0.52
May	2.23	0.81	0.47	0.38	0.41	0.74	0.43
June	1.97	0.12	0.58	0.55	0.81	0.74	0.43
July	1.24	0.62	0.46	0.43	0.91	0.50	0.64
August	2.39	0.43	0.92	0.54	0.85	0.73	0.84
September	1.93	0.73	0.06	0.70	0.74	0.59	0.75
October	0.92	0.85	0.40	0.75	0.79	0.76	0.96
November	1.36	0.84	0.51	0.48	0.88	0.62	0.78
December	0.70	0.36	0.73	0.74	0.97	0.80	1.31
Average	1.73[a]	0.58	0.47	0.57	0.76	0.72	0.70
December-to-December change	16.74	7.11	5.75	7.00	9.53	8.94	8.78

SOURCE: Certificate rate quotations taken at the end of each month. Basic data from IMF-IFS. (The buying rate or "other export rate" has been used; the principal selling rate behaves almost identically.) Fourth-quarter to fourth-quarter percentage changes in Colombian and U.S. price indices (averages for the quarter; basic data from IMF-IFS) have been as follows:

	Colombia		*U.S.*	
	Wholesale Prices	*Consumer Prices*	*Wholesale Prices*	*Consumer Prices*
1966–67	6.0	6.9	0.4	2.9
1967–68	5.2	5.7	3.0	4.7
1968–69	9.2	12.8	4.6	5.8
1969–70	6.3	3.3	2.8	5.6
1970–71	11.7	13.5	3.4	3.5
1971–72	21.0	17.2	5.6	3.4
1972–73	31.5	18.9	15.4	8.4

a. April through December only.

Note, however, how the depreciation rate accelerated during 1971 and 1972 as the Colombian inflation picked up. It appears that broad depreciation targets are set on a yearly basis, depending on expected inflation, imports, exchange earnings, and other factors, and from then on the monthly rate is determined "by ear." On the whole, once inflation is taken into account the policy has more in common with that based on a firmly pegged exchange rate, under conditions of price stability, than with one allowing a freely fluctuating rate. So far, the results of the policy appear to have been favorable.

NOTES

1. See particularly Luis Ospina Vásquez, *Industria y Protección en Colombia, 1810–1930* (Medellín: E.S.F., 1955).

2. It is easily forgotten that high internal transport barriers so fragmented the Colombian markets for goods and factors of production that, until fairly recently, aggregate data for the whole nation had a misleading synthetic quality. Even today, just as the abrupt Colombian geography generates a myriad of microclimates, it continues to hamper factor and commodity price equalization within the country.

3. This paragraph is based on David S. C. Chu. "The Great Depression and Industrialization in Latin America: Response to Relative Price Incentives in Argentina and Colombia, 1930–1945" (Ph.D. diss., Yale University, 1972), Chap. 2 and App. B-2; and on UNECLA, "The Economic Policy of Colombia in 1950–66, *Economic Bulletin for Latin America*, October 1967, especially pp. 90–95. The protectionist intent of pre-1930 Colombian tariffs, however, is probably underestimated in the literature.

4. According to Departamento Administrativo de Planeación y Servicios Técnicos, *Plan Decenal de Desarrollo Económico Industrial, 1960–1970* (Bogotá, n.d.), Chap. IV.

5. According to Benjamin I. Cohen, "An Analysis of Colombia's Exports," mimeographed (AID, September 22, 1965), p. 3. Toward the end of 1959, according to the data presented in ECLA. "Custom Duties and Other Import Charges and Restrictions in Latin American Countries: Average Levels of Incidence," mimeographed (n.d., E/CN.12/554 and Add. 1-11), the arithmetic means of customs duties and other charges (including the cost of financing prior deposits) in ad valorem equivalents in Colombia were as follows (in percentages): total, 41; unprocessed foodstuffs, 68; raw materials, 31; intermediate products, 36; processed fuels, 11; capital goods, 27; processed foodstuffs and tobacco, 138; chemical and pharmaceutical products, 31; durable consumer goods, 101; and other consumer goods, 57.

6. In his influential article "Protectionism and Industrialization in Latin America," *Economic Bulletin for Latin America*. March 1964, pp. 61–101.

7. See David Morawetz's writings on this subject, particularly "Common External Tariff for the Andean Group," mimeographed (Cambridge: Harvard Development Advisory Service, 1972). Colombia apparently succeeded in obtaining a minimum common tariff close to its own in exchange for going along with a common code for direct foreign investment that was tougher than it wished.

8. Other tariff summaries confirm, in general, these conclusions. See in particular, Instituto para la Integración de América Latina, Banco Interamericano de Desarrollo, "Instituciones e Instrumentos de Política Económica Colombiana en Materia de Comercio Exterior," mimeographed (November 1968), Table 2; and David Morawetz, "Harmonization of Economic Policies in Customs Unions: The Andean Group, mimeographed (Cambridge: Harvard Development Advisory Service, December 1971), p. 11a.

9. See Richard A. Musgrave, President, and Malcolm Gillis, Editor, *Fiscal Reform for Colombia: Final Report and Staff Papers of the Colombian Commission on Tax Reform* (Cambridge: Harvard Law School, International Tax Program, 1971), especially Chaps. 12 and 13. Important tax reform measures were adopted during the second half of 1974.

10. See, for example, *El Tiempo* of September 10, 1971, where it was reported that the Executive had asked Congress to eliminate the heavy consumption tax on imported cigarettes decreed in Law 19 of December 1970, arguing that otherwise smuggling could not be stopped. The Minister of the Treasury sensibly argued that " . . . public and ostentatious smuggling weakens national morality, weakens the prestige of public institutions, and discredits the country in the eyes of foreigners." In 1971, national tax revenues from cigarette imports were running 60 per cent *below* those of 1970, as a result of the *higher* tax.

11. In a remarkable move, the Director of Customs called a press conference during August 1971 to denounce widespread corruption and inefficiency in the nation's customs administration and its harbors, particularly in those of Buenaventura. He announced measures to control such ills, but complained that import and sales taxes provided very strong stimuli to contraband, referring in particular to Law 19 of December 1970, whose approval he had opposed. He denounced conditions in the harbor of Buenaventura, where there were ten known organizations dedicated exclusively to stealing goods in transit, often in complicity with public employees in customs, the railroad, and harbor. Even eighty tons of steel were stolen! Such raids are often sponsored by the owners of the merchandise, so that they can obtain insurance payments as well as new import licenses. See *El Tiempo*, August 26, 1971.

12. See Luis J. Garay S. et al., *Análisis de la Estructura de Control a Las Importaciones en Colombia*, 2 vols. (Bogotá: FEDESARROLLO, August 1974). This valuable study was based on a large sample covering about 75 per cent of all items in the tariff. The data refer to imports actually realized, i.e., those for which permits had been obtained from INCOMEX, a procedure the authors regard as underestimating nominal and effective protection (I, 63). The calculations take into account only tariffs plus an estimate of the opportunity cost of prior import deposits; the latter, however, accounts for only about 10 per cent of the ad valorem rates mentioned in the text.

13. It appears that Musalem computes the opportunity cost of the idle deposits at the rate of inflation *plus* average yields on the Bogotá stock exchange. The latter, however, may already allow for inflationary expectations, in which case the figures overestimate opportunity cost. See Alberto Roque Musalem, *Dinero, Inflación y Balanza de Pagos: La Experiencia de Colombia en la Post-Guerra* (Bogotá: Talleres Gráficos del Banco de la República, 1971), p. 154. In his calculations Musalem also includes the opportunity cost of the prior deposits required before the central bank hands over the foreign exchange needed to pay for imports. In the FEDESARROLLO study mentioned earlier in this chapter, it is estimated that the ad valorem equivalent opportunity cost of prior deposits for imports that had been granted licenses was 4 per cent in 1972 and 3 per cent in 1974.

14. During 1972–74, the narrowing of the gap between the official and black-market rates, coupled with the CAT, gave rise to charges of fake export registrations with INCOMEX and BdlR. Thus, one could buy dollars in the black market at rates, say, 10 per cent higher than the certificate rate. He could then go to the authorities to register exports (such as pieces of glass), surrendering the dollars, for which he would obtain the certificate rate *plus the CAT*.