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# 11                    On the Absence of Economic                           Populism in Colombia

Miguel Urrutia

## 11.1 Introduction

When I first discussed the organization of this volume with Rudiger Dornbusch and Sebastian Edwards, I pointed out that populist macroeconomic policies had not been the norm in all of South America and supported that point of view by stating that in Colombia such policies had never been tried. The result of the discussion was that I was asked to write a paper showing the absence of populist macroeconomics in Colombia, and to explain that phenomenon. In the first part of this paper I try to show the absence of populist economics in Colombia, and in the second part I present some hypotheses of how this may have come about.

Colombia is an atypical Latin American country in many ways. Carlos Diaz Alejandro (1985, p. vii) wrote that “Social Scientists have had a difficult time fitting Colombian development experience of the last thirty years into fashionable categories such as monetarism, structuralism, bureaucratic-authoritarianism, and such.” Indeed, except for two short periods of military government, it has been a democracy for over 160 years. While the rest of Latin America was grappling with the difficulties of redemocratization, Colombia celebrated the 100 years of its constitution by deepening democracy through the popular election of mayors, who had been until then appointed by provincial governors. At about the same time it was celebrating the twentieth birthday of the establishment of the present foreign trade and exchange regime and the system of the “crawling peg.” In a continent characterized by very volatile economic policies, Colombia has had essentially the same economic policy since the late sixties. In the late 1970s, while foreign credit was inundating the region, Colombia, against the advice and pressure of international organizations and

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private bankers, actually decreased its foreign debt in order to facilitate monetary management during a period of high coffee prices. Finally, Colombia has not had populist economic macroeconomic policies in this century, and political groups with a populist agenda have never won the presidency or been able to obtain important minorities in Congress.<sup>1</sup>

Since populist economic policies have been followed by one or more administrations in most countries of Latin America, including Argentina, Brazil, Chile, Ecuador, Panama, Peru, Venezuela, and even Mexico, it is interesting to explore the reasons why populism has not been popular in Colombia.

## 11.2 The Macroeconomic Record

Dornbusch and Edwards (1989, p. 1) define “economic populism” as: “an approach to economics that emphasizes growth and income redistribution and de-emphasizes the risk of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive nonmarket policies.” They then describe the essential characteristics of populist programs as emphasizing three elements (p. 6): “reactivation, redistribution of income and restructuring of the economy. . . . The recommended policy is a redistribution of income, typically by large real wage increases. Inflation notwithstanding, devaluation is rejected because of the inflationary impact and because it reduces living standards. The economy is to be restructured to save on foreign exchange and support higher levels of real wages and higher growth.”

This definition of economic populism would include the economic policies of political regimes of a rather wide spectrum, going from the regimes of Velasco and García in Peru, Perón in Argentina, to that of Allende in Chile. There is no inconsistency, however, since the term “populism” has been used to cover a very wide spectrum of political phenomena. Margaret Canovan (1981), identifies as many as seven different types of populism: revolutionary intellectual populism, peasant populism, farmer’s radicalism, populist dictatorship, populist democracy, reactionary populism, and politician’s populism.

If we define populist macroeconomics as the attempt to utilize macroeconomic policies and government intervention in the price system in order to redistribute income, while deemphasizing the risk of inflation, the foreign

1. There have been, however, some close calls. After the devaluation of 1961, a much-debated decision, the government decreed a large wage increase, which accelerated inflation and wiped out many of the benefits of the devaluation. The wage increase was carried out with the announced purpose of insuring that workers would not be affected by the devaluation. The political close call was much more serious. In the presidential election of 1970, the former dictator, Gustavo Rojas Pinilla, lost the election by a few thousand votes after running a populist campaign. Interestingly enough, his main criticism of the government was its lack of decision in the control of inflation, and his promise was to stop price increases. In recent years inflation had been running at about 10% per year. It is significant that the populist political movement created by Rojas received much decreased support in the municipal elections two years later and practically disappeared by the next presidential election.

exchange constraint, and fiscal deficits, then evidence of economic populism should show up in the statistical series that deal with a country's major macro balances.

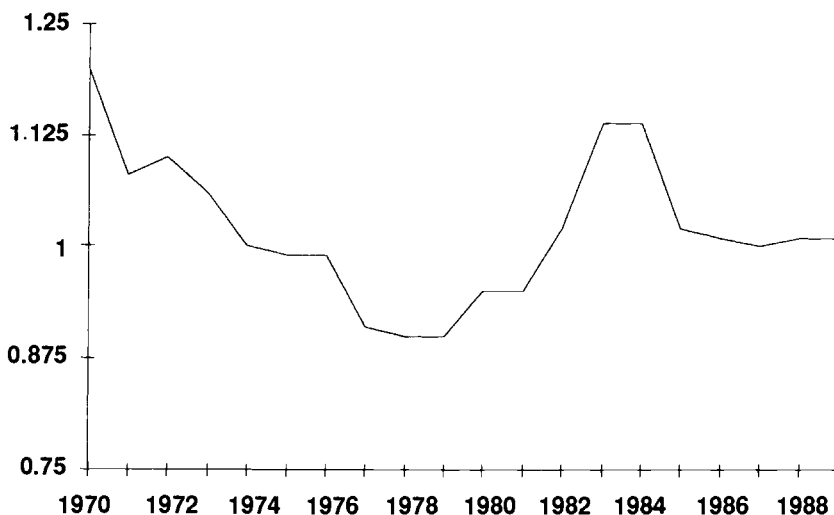
Dornbusch and Edwards (1989) utilize series on the black market exchange rate, real wages, and foreign reserves to illustrate populist processes and results in the case of Chile and Peru. Their tables show immense fluctuations in these variables and systematically show how populist economic policies improve real wages and employment in the first phase and then lead to balance of payment crises, dramatic increases in the black market exchange rate, and then sustained decreases in real wages, income per capita, and accelerated inflation.

The Colombian tables show, on the contrary, few large fluctuations. The smoothness of the curves is, I think, good evidence of the absence of economic populism. The most interesting table shows the black market exchange rate (table 11.1 and fig. 11.1). Not only is it usually very close to the official rate, but it has been below it in some periods. This shows clearly that the Colombian authorities have kept the exchange rate fairly close to equilibrium

**Table 11.1 Exchange Rates, International Reserves, and Imports, 1970–89**

Year	Exchange Rate	Black Market Exchange Rate	International Reserves		Imports (in Millions of U.S. Dollars)	International Reserves/Imports
			Black Market Exchange Rate	Rate/Exchange Rate		
1970	19.03	22.80	1.20	152.0	796.0	.191
1971	20.81	22.50	1.08	170.4	892.0	.191
1972	22.70	25.00	1.10	345.2	843.0	.409
1973	24.65	26.10	1.06	515.9	976.0	.529
1974	28.26	28.40	1.00	429.5	1,502.0	.286
1975	32.84	32.60	.99	547.3	1,415.0	.387
1976	36.20	35.80	.99	1,165.8	1,654.0	.705
1977	37.71	34.20	.91	1,829.6	1,969.0	.929
1978	40.79	36.80	.90	2,481.8	2,552.0	.972
1979	43.79	39.50	.90	4,105.9	2,978.0	1.379
1980	50.56	48.20	.95	5,416.0	4,283.0	1.265
1981	58.64	56.00	.95	5,630.2	4,730.0	1.190
1982	69.59	71.00	1.02	4,890.8	5,358.0	.913
1983	87.83	100.00	1.14	3,078.5	4,464.0	.690
1984	112.74	128.00	1.14	1,795.5	4,027.0	.446
1985	169.19	172.72	1.02	2,067.4	3,673.0	.563
1986	216.97	218.40	1.01	3,477.7	3,409.2	1020
1987	262.08	262.60	1.00	3,449.9	3,793.5	.909
1988	332.97	335.50	1.01	3,809.9	4,515.3	.844
1989	401.67	409.23	1.01	3,917.9		

Source: Fedesarrollo data base.



**Fig. 11.1** Relation between black market exchange rate and official exchange rate

Source: Fedesarrollo

levels throughout the period and have not tried to use the exchange rate for redistributive purposes.

Table 11.2 shows the trend in the real exchange rate, the trade balance, and the fiscal deficit since 1970. Once again, one sees substantial stability in comparison to other Latin American countries. The real exchange rate became revalued at the time of the coffee and drug export boom, despite the efforts of the government to avoid this result through limits on foreign indebtedness, continuation of the crawling peg, and massive open market operations to control inflation. This revaluation was the source of a growing balance of payments problem at the end of the seventies, when commodity prices started to decrease after 1979, but which was postponed by increases in foreign indebtedness. Although adjustment was postponed during 1982 and 1983, when international reserves started to fall rapidly, in part due to a misjudgement concerning the possibility of obtaining foreign credit after the Mexican debt crisis, adjustment took place successfully in 1984.

If one of the characteristics of populist economics is the attempt to redistribute income through the expenditure side of the budget without a concurrent effort to increase tax revenues, then the fiscal deficit columns in table 11.2 show that Colombian governments have not been tempted by fiscal heterodoxy. In the last three decades there have also not been any wage freezes with price freezes, although there have been price controls in certain goods and implicit subsidies at different times for wheat, gasoline, milk, and cement. Public services tariffs for electricity and water have also been controlled at

**Table 11.2** Real Exchange Rate, Tax Revenues, and Fiscal Deficit

Year	Real Exchange Rate	Trade Balance (in Millions of U.S. Dollars)	Current Account (in Millions of U.S. Dollars)	GDP (in Millions of U.S. Dollars)	Percentage with Respect to GDP		
					Tax Revenues	Tax Revenues*	Fiscal Deficit
1970	90.3	-20	-291.0	132,768	8.9	8.3	-4.6
1971	95.8	-150	-456.0	155,886	9.2	8.7	-4.7
1972	99.2	116	-201.0	189,614	8.7	8.2	-3.5
1973	97.5	260	-77.0	243,160	8.5	7.7	-3.3
1974	95.7	-47	-405.0	322,384	8.5	7.5	-2.6
1975	100.0	297	-127.0	405,108	10.0	9.1	-2.0
1976	97.4	560	189.0	532,270	9.7	8.6	.1
1977	83.9	705	390.0	716,029	8.9	7.6	-.5
1978	84.5	667	330.0	909,487	9.5	8.0	-1.3
1979	83.2	537	512.0	1,188,617	9.9	8.0	-2.5
1980	82.8	13	104.0	1,579,130	10.7	8.1	.0
1981	77.7	-1,333	-1,722.0	1,982,773	10.6	7.8	-.9
1982	73.2	-2,076	-2,885.0	2,497,298	10.2	7.6	-1.2
1983	75.1	-1,317	-2,826.0	3,054,137	9.8	7.8	-1.5
1984	81.9	-404	-2,088.0	3,856,584	7.9	7.9	-4.0
1985	94.8	109	-1,586.0	4,965,883	9.2	9.2	-2.0
1986	121.8	2,023.8	565.0	6,787,956	9.5	9.5	-.4
1987	133.5	1,460.5	-70.9	8,779,383	10.5	10.5	.5
1988		824.0	-364.6	11,681,819	10.6	10.6	-.1

Source: Fedesarrollo data, based on Central Bank and Tax Office statistics.

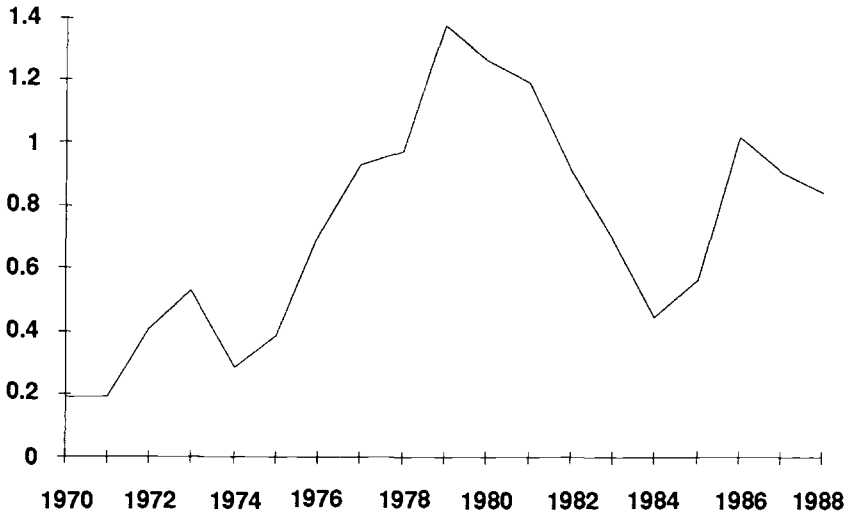
\*Without exchange gains or losses at B.R.

levels below long-term marginal costs, with redistributive arguments, but redistribution has been done more through large tariff differentials between rich and poor households than through a generalized subsidy.

Table 11.3 shows the gradual growth in real wages and cyclical increases and decreases that are much less abrupt than in those countries of the region that have experimented with populist economics. One does not see the 50% drop in real wages from 1971 to 1974 shown for Chile by Dornbusch and Edwards (1989), or the similar drop in real wages in Peru in 1988. The large real wage decreases during the recent adjustment in Mexico are also of a much larger magnitude than anything ever seen in Colombia.

Table 11.3 also shows the inflation record in Colombia, which, although high by international standards, is low by Latin American standards. The inflation rate is also surprisingly constant, once one takes into account the upward ratchet of the early 1970s. The smoothness of all these statistical series is good evidence of the absence of populist economic policies.

Jeffrey Sachs (1989) has postulated a relationship between populist macroeconomics and income distribution. He has argued that the bitterness of class and sectorial conflicts throughout Latin America reflects the extreme unequal-



**Fig. 11.2 Relation between net international reserves and imports in the same year**

*Source:* Fedesarrollo

ities of income in the region, and that the large group of people that feel they are not benefiting from economic development tend to support those politicians that promise a different strategy for improving the general welfare. In Latin America, according to Sachs, that alternative strategy has been populist economics.

Colombia, like the majority of the countries of the region, has had a very unequal distribution of income. According to Chenery and Syrquin (1975), around 1965, the highest earning 20% of the labor force in Colombia received about 60% of total income, a proportion similar to that found in Mexico, Peru, and Brazil. Since then, however, while the income distribution has changed little or deteriorated in other countries of the region, it has improved substantially in Colombia. Londono (1989) has shown that the Colombian Ginis have decreased significantly both in the urban as well as the rural areas, and for the country as a whole. He shows a decrease in the Gini coefficient from 0.57 in 1964 to 0.45 in 1988. Even more interesting is his estimate that, according to international patterns, Colombia should have had a Gini of 0.47 in 1964, a figure much lower than that actually observed, while at the level of per capita income of 1988, the expected Gini was 47%, a level above the observed statistic. In summary, there seems to have been a significant improvement in income distribution in Colombia in the last two decades. We will come back to this phenomenon, since it may have something to do with the absence of populist economics in the country.

**Table 11.3 Real Wages and Unemployment**

Year	Yearly Change in Consumer Price Index	Real Wages,	Real Wages,	Real Minimum Wages (in 1978 \$)	Unemployment in Bogota	
		Industrial Workers (in 1978 \$)	Agricultural Workers (in 1978 \$)		Month	Rate
1960	—	186.3	73.0	—	—	—
1961	5.7	—	76.9	—	—	—
1962	6.3	248.7	83.3	—	—	—
1963	33.7	266.5	84.1	—	June	8.7
1964	8.8	257.6	84.8	—	June	7.2
1965	15.1	281.8	84.3	—	June	8.8
1966	12.2	259.5	84.6	—	March	10.1
1967	7.2	265.4	83.3	—	June	12.7
1968	6.5	272.4	81.9	—	—	—
1969	8.6	279.4	87.8	—	—	—
1970	6.6	301.2	85.0	81.2	June	13.1
1971	14.1	295.3	81.1	70.7	July	9.2
1972	14.0	286.4	—	62.1	September	7.4
1973	24.1	262.6	—	49.6	October	10.7
1974	26.4	249.5	—	39.1	June	11.1
1975	17.8	244.7	—	76.7	March	10.2
1976	25.8	250.6	103.5	79.2	June	8.4
1977	28.7	236.7	116.4	69.5	June	7.8
1978	18.4	262.6	127.1	78.0	June	6.7
1979	28.8	280.3	126.2	88.6	June	6.1
1980	25.9	236.7	127.8	91.3	September	6.8
1981	26.3	210.7	122.4	91.3	June	4.9
1982	24.1	216.4	116.8	95.8	September	6.6
1983	16.6	229.5	120.0	102.6	June	9.3
1984	18.3	242.9	119.3	105.8	June	12.0
1985	22.4	243.4	117.5	103.5	June	13.1
1986	21.0	239.8	123.4	106.3	June	14.1
1987	24.0	236.5	134.0	104.1	June	11.8
1988	23.6	—	137.3	105.2	June	10.9
1989	26.1	—	—	105.9	June	8.5

Sources: Fedesarrollo data, based on National Department Office Statistics. Unemployment Bogota: 1963–1975, in Miguel Urrutia, “Los de arriba y los de abajo,” Fedesarrollo, 1984.

### 11.3 Populism and Clientelism

We have defined populist economics as the attempt to redistribute income and power with the tools of macroeconomic management: the use of exchange rates, wage policy, price policy, and monetary policy. The political science literature would not find the use of the term populism inadequate to describe this phenomena, since there seems to be consensus in considering, as Nicos Mouzelis (1985, p. 330) does, that “All forms of populism without exception



involve some form of exaltation of and appeal to the 'people' and all are in one sense or another anti-elitist."

Mouzelis (1985, p. 332) also writes that there are two fundamental modes of vertical political inclusion that are typical in the parliamentary semiperiphery: clientelism and populism. The argument I would like to make is that in Colombia political development has led to a rather sophisticated form of clientelism instead of toward populism.

Clientelism is one way to solve the problems created by political mobilization and enlarged political participation. It consists of the use of vertical networks of patron-client relationships for bringing lower-class strata into national politics. In its more advanced forms, the private patron-client network is expanded dramatically through the use of the government budget to multiply the patron's favors. Leal (1989), writing on clientelism in Colombia, differentiates its modern version from the more traditional basis of personal political power, which was also based on the exchange of favors and obligations. Traditionally, however, in the absence of a strong state with command over substantial economic resources, this relationship was of a private nature. Thus the large landowner was the patron, and he provided his clients favors out of his own command over economic resources. The political system that resulted from this network of favors versus political support at election time was known during the nineteenth century as *gamonalismo* or *caciquismo*.

Loyalty and faithfulness, as the basis of the exchange of services, constituted the social values that supported and gave ideological content to the system. These values are still present now and are reflected in the strong allegiance of individuals to the political party of their families. In Colombia, it is still unacceptable for any politician to shift parties, and few individuals would in the past openly declare that they have voted for a candidate of a different party, although this is beginning to happen more frequently now.

Modern clientelism differs from the more traditional forms of political allegiance because politicians now do not have to finance the favors to their clients out of their own assets. The growth of the state has given politicians command over public funds, and these are used to maintain the political networks. Leal (1989, p. 12) correctly points out that the new political leader, born of modern clientelism, is no longer dependent on the prestige and economic power of his position in the productive system.

In other words, he no longer has to be a *latifundista*, or a prestigious professional. This has led to the development of a professional class of politicians specialized in intermediating between the state and the voter. As we will see, one of the results of the system is that in Colombia public expenditure is very redistributive, and the poor have greater access to public services and programs than in other countries of Latin America.

Ideologues and intellectuals find clientelistic democracy repugnant, and in Colombia clientelism has a very bad name. It is considered immoral to have a system in which the resources of the state are used in part in the interest of

maximizing individual political support. Internationally, clientelism also has a bad name. Japanese democracy, which is very close to the ideal clientelistic regime, does not have a very good name in the international press or among Japanese intellectuals or the Japanese press, and yet the system has produced a very egalitarian society, spectacular economic growth, and the voters seem satisfied with the system.<sup>2</sup>

Mouzelis (1985) considers that the second major and often antagonistic mode of political inclusion prevalent in capitalist developing countries is populism. The most obvious, as well as the most-often discussed, difference between clientelism and populism stems from the ideological themes of populist discourse, which focus predominantly on the antagonism between the “people” and the “establishment,” “the poor” and “the rich,” which, as a rule, plays a lesser role in nonpopulist ideologies. Populism also emphasizes the leader’s charisma and the necessity for direct, nonmediated rapport between the leader and his or her “people.”

In this perspective, the Sachs hypothesis of a close relationship between unequal income distribution and the popularity of populism makes sense. It is therefore necessary to explain why in an unequal society such as that of Colombia populist politics have not prospered. Various factors may explain why Colombian politics have developed in the direction of clientelism and not populism.

#### 11.4 The Impact of Clientelism on Economic Policy

The first factor that has worked against the development of populism has been the strength of the traditional political parties. Before the Colombian territory was integrated into a modern nation-state and a national market—the latter did not occur until the 1930s—there already existed two strong political parties. When the two parties emerged in the 1840s, the country was divided into fairly autonomous and economically independent regions. Before the complete consolidation of the nation-state and of a national market, one of the

2. The Japanese political system is also based on loyalty and networks of reciprocal favors, and politicians mobilize the vote through organized support groups of individuals who are tied to the individual politician by receiving favors from him. These may vary from the presence of the politician at a wedding of a relative, including the cash gift that he must provide, to the pressure on the Ministry of Public Works to build an expensive tunnel that will shorten substantially the distance from a village to the nearest provincial capital. Books and articles on the Japanese political system make fascinating reading for a Colombian, both because of the similarities but also because of the way clientelism in Japan seems to have achieved greater efficiency and respectability by being more closely integrated into aspects of the culture that are highly valued, such as loyalty and the system of mutual obligations. According to Dore (1958, p. 210), “The receipt of favours acknowledged to create an obligation of indebtedness but in no way detracting from the individual’s sense of self respect, and the granting of favours in conscious expectation of a return in loyal service, the genuine and positive approval of the sentiments of personal loyalty to superiors and protective solicitude for inferiors, . . . all these features of the patron-client relationship . . . are a useful tool for ‘getting on’ in Japanese society.” For more on Japanese politics and society, see Curtis (1983), Dore (1973), Fukutake (1982), Ike (1978), and Thayer (1973).

main integrating forces was the existence of the national political parties. These parties, in turn, were strengthened by the fact that access to political power occurred throughout the nineteenth century and the twentieth century through the ballot box.

Although the only way to gain control of the national government was through political parties that cut across provincial lines and class and occupational lines, the political power base was local. This meant that the political parties were a federation of local political bosses, and a national party political machine never developed. The presidential candidates of the parties have been chosen by the most powerful local political barons, who usually controlled blocks of senators and representatives, who in turn controlled the party nominating conventions.

Partisan newspapers and magazines played an important role in maintaining both unity and enthusiasm in the parties or party factions, and the owners of those newspapers were also influential in the choice of candidates and in the political agenda of the parties. Given the importance of the partisan press for the loosely organized and decentralized political parties, the principle of a free and independent press was maintained throughout the country's republican history. As we shall see, the existence of an independent press has been important for economic policy, because it has insured a permanent auditing of the government's economic decisions.

Although ideology played a part in the two traditional parties, the Liberal and Conservative parties, at election time the votes were mobilized by the local boss. He did this essentially by building a political machine that would reward him with votes at election time in return for favors rendered throughout the years. The boss's network of political debts is created by helping people get jobs, sometimes in the private sector but mostly in the public sector, by getting scholarships for the children of members of his support group, and by having the state build infrastructure or extend public services to the municipality or urban neighborhood where the clientele is being built up. In some cases, although they are less frequent than claimed by editorializers or opposition candidates, the local boss will actually pay for votes. More often, he has been expected to pay for food, drink, and musicians at political rallies.

As can be seen, the functions of the local political boss do not differ very much from those of the traditional urban political boss in the United States, and it must be remembered that the local political machines in that country played the important role of integrating immigrants and minorities to the economy. In the United States public works contracts not only created jobs for the immigrant minorities, and more recently the black minorities, but also helped to create businessmen and capitalists out of those minorities. In Colombia, politics has also been an important source of social mobility.

The local politician needs favors from the state in order to extend his clientele, but he also needs political conditions that will not drive that clientele to abandon him or the party out of exasperation with the prevailing state of the

economy. In particular, inflation seems to be very unpopular with the voters. It affects everybody, at all times. Thus both the local politician, and the head of state, have a very limited tolerance for inflation. As has been mentioned, the one time that a populist candidate came close to winning a presidential election was in 1970, when General Gustavo Rojas Pinilla ran on a platform of diminishing the cost of living. Since within the political class there has been sufficient economic literacy for the spread of the belief that there is some relationship between money supply and fiscal deficits and inflation, neither local politicians or the head of state are willing to risk the wrath of the public by supporting expansionist fiscal or monetary policies in order to obtain the doubtful political gains generated by faster growth or less unemployment, if the possible cost is inflation. In fact, President Alfonso Lopez Michelsen, of the majority liberal party, ran and won on a platform of sound money (*moneda sana*), and the present presidential candidate of that party (Cesar Gaviria), declared in his acceptance speech at the party convention that sound money was one of the most important historical commitments of his party.

The Colombian system works with a well-defined division of labor. Industrialists, bankers, and traders produce goods and services in the private sector and sometimes lobby government for privileges, but they have little influence in Congress and with the political class, although this may be changing due to the increasing costs of waging political campaigns in a mass society. The division of labor is less clear between farmers and politicians, since in certain regions people have both occupations. But, in general, there is a political class quite distinct from the entrepreneurial class and from the labor unions. The business of this class is to get elected, and politics is its source of income.

The political class is therefore pragmatic and nonideological. In addition, since politics is a very efficient road to social advancement, the political class is not only not obsessed with ideology, but it also feels fairly committed to the system (*las instituciones*). Although often reformist, the politicians of the traditional parties, who always win over 80% of the vote, do not find leftist and populist calls for a radical restructuring of the economy attractive. Traditional politicians are not enthusiastic about radical income or asset redistribution plans, but do believe strongly in distributing the budget widely to reward their clientele.

Since there are clearly contradictory attitudes between entrepreneurs and politicians with respect to the way the government budget should be distributed, with entrepreneurs pushing for subsidies that will favor production, while politicians will prefer expenditures that will maximize the number of votes in their favor, it makes a difference which group has the most influence in government. When businessmen and labor unions have more influence, public expenditure will concentrate on subsidizing the rather small formal sector of the economy. When the local politicians have more influence, public expenditure will concentrate in subsidizing government services to the greatest number of poor voters. The Colombian political system concentrates

power in the local politician, and therefore there are few subsidies to the private sector or state enterprises—if we do not count the implicit subsidies of the protection afforded by trade policy—while the government budget is spent in a fairly progressive way.

In the early seventies, (Urrutia and Berry 1976, pp. 172–73) I tried to calculate the redistributive impact of the public sector in Colombia and concluded that the tax system was slightly progressive and that public expenditure redistributed income significantly to the poorest 50% of the population. It would appear that, around 1966, the lowest quintile of the income distribution increased its income by 72% after taxes and the explicit and implicit subsidies of public expenditure, with respect to its pretax income.

Selowsky (1979) carried out special surveys in 1974 to determine the redistributive impact of government expenditures, and he too gets results that suggest that such expenditures benefit the poor more than proportionally. However, this may be the case in many countries, and Colombia may therefore not be exceptional. Comparing the impact of social expenditures in Colombia with similar estimates for other Latin American countries that have similar levels of development and different political systems would be interesting, but the data is not readily available, although it could, in the future, be put together. Table 11.4 is a first approximation. It shows that Colombia spent a smaller proportion of GDP on education than Argentina, Costa Rica, and Chile, but only Chile distributed that expenditure in a clearly more progressive way. Given that all of the countries in the table, with the exception of the Dominican Republic, have the most equitable income distributions in the region, and much better than that of Colombia, the progressiveness of public expenditure in education in Colombia is impressive. Expenditure on health, on the other hand, is both low and not particularly progressive.

However, in the discussion on the methods of clientelism, it was suggested that the government services that were used to expand the clientele were typically public services such as electricity, water, and telephone services, as well as the distribution of subsidized agricultural credit, scholarships, and employment in the public sector.

Selowsky (1979) explored who benefited from these types of public expenditures. The results of that research are interesting. Although the rich had more services in 1974, the proportion of households that received these services between 1970 and 1974 was much higher in the first quintile of the income distribution. While 11.3% of new connections to the electricity grid was for households in the upper quintile of the income distribution, the proportion reached 26% in the first quintile. Access to piped water was even better for the poor. While 31.4% of all new households receiving piped water belonged to the lowest quintile of the income distribution, only 5.6% of new connections benefited the top quintile in those four years.

Subsidized agricultural loans also benefited primarily small farmers. Fully 82.8% of the credit subsidy went to the first three quintiles of the income

**Table 11.4** The Impact of Social Expenditure on Income Distribution

	Argentina (1980) (1)	Costa Rica (1982) (2)	Chile (1982) (3)	Dominican Republic (1980) (4)	Uruguay (1982) (5)	Colombia (1974) (6)
Proportion of educational subsidy with respect to pre-tax income:						
Income quintiles (poorest to richest):						
1	28.5	30.8	77.0	7.0	17.3	18.0
2	12.9	18.2	31.4	5.1	7.1	11.0
3	8.4	10.6	17.5	4.5	4.8	7.0
4	5.7	9.3	8.2	4.3	3.3	5.0
5	3.0	3.9	2.9	2.1	1.2	2.2
Average	7.6	9.2	9.9	3.4	4.0	5.0
Poorest quintile divided by the average						
	3.75	3.35	7.77	2.05	4.3	3.6
Proportion of health subsidy with respect to pretax income:						
Income quintiles (poorest to richest):						
1	15.6	42.1	31.5	23.8	16.5	5.0
2	3.4	14.0	19.1	5.3	8.8	2.5
3	2.7	12.0	9.7	4.4	3.8	1.6
4	.8	6.8	4.1	2.0	1.5	.9
5	.2	2.3	.9	.5	.9	.2
Average	2.3	8.4	4.7	3.0	3.5	1.0
Poorest quintile divided by average						
	6.8	5.0	6.7	7.9	4.7	5.0

Sources: Cols. 1-5, Petrei (1987); col. 6, Selowsky (1979).

distribution. Educational scholarships, on the other hand, did not seem to be distributed in a progressive manner. No analysis has been made of the social origins of public employees, but there is clear evidence that the different levels of government pay above labor-market rates for unskilled work, and below market rates for skilled and managerial public employment.

In summary, the Colombian political system, very dependent on clientelistic practices, is not admired by national and foreign intellectuals, but it receives support from more than 80% of the voters in election after election. In the last two decades it has produced economic growth, an improved income distribution, and fairly progressive government expenditures. Its very success is the main source of its weakness, since voters have systematically excluded minorities that want radical change from power, and this has driven such mi-

**Table 11.5 GDP Growth: 1965–86**

Year	Nominal GDP	Real GDP (\$ DE 1975)	GDP Per Capita	
			Nominal	Real
1965	60.488	235.051	3.191	12.399
1966	73.285	247.360	3.764	12.705
1967	84.504	257.588	4.230	12.895
1968	97.102	272.871	4.742	13.327
1969	111.728	289.523	5.329	13.809
1970	132.768	307.496	6.190	14.336
1971	155.886	325.825	7.108	14.857
1972	189.614	350.813	8.456	15.644
1973	243.160	374.398	10.611	16.338
1974	322.384	395.910	13.753	16.890
1975	405.108	405.108	16.902	16.902
1976	532.270	424.263	21.728	17.319
1977	716.029	441.906	28.610	17.657
1978	909.487	479.335	35.584	18.754
1979	1.188.817	505.119	45.565	19.360
1980	1.579.130	525.765	59.316	19.749
1981	1.982.773	537.736	73.021	19.803
1982	2.497.298	542.836	90.207	19.608
1983	3.054.137	551.380	108.252	19.543
1984	3.856.584	569.855	134.187	19.828
1985	4.965.883	587.561	169.684	20.077
1986	6.701.425	617.527	224.973	20.731

Source: National Department of Statistics.

norities to violence and guerrilla activity. Since many in the political class have experienced upward mobility, these political leaders have not been very eager to increase tax burdens and to increase public expenditure in social safety nets. What is clear, however, is that such a political class does not find the populist appeal to restructure the economy very attractive, and it prefers microeconomic redistribution of income through the budget to massive redistribution through macroeconomic policy and the radical restructuring of the economy.

### 11.5 The Political Process of Electing Presidents

To understand the absence of populism in Colombia, it is necessary to analyze the sources of power of the head of state, since populism is closely related to the charisma and the direct relationship of the head of state with “the people.”

In Colombia it is very difficult for a politician to win a presidential election if he is not from one of the two traditional parties; the exception might arise if, for some reason, there emerge serious divisions within both parties, and

they field various candidates. This is unlikely, but not impossible. Since the sixties, the liberal party has been a majority, and for a conservative to win the presidency he has to appeal to the uncommitted voters and to some liberals who may switch their allegiance, and therefore there is more of a tendency for the conservatives to field populist candidates.

However, since political power is dispersed among regional political barons who are jealous of their colleagues, these political operatives tend to choose presidential candidates at the party convention or support candidates during national primaries who are different from themselves and who will not create a personal power base at their expense. They need a sympathetic president, who will name their friends to positions of power and give them access to the budget, but they are not interested in a head of state who will create a power base of political leaders dependent directly on him, thus making it possible to bypass them. They tend to choose presidential candidates who have high prestige, and this usually means intellectuals or technocrats who have been in politics, but who have kept somewhat above the day-to-day clientelistic work.

The system, therefore, tends to produce presidential candidates who are very well read and informed, well traveled, but with some practical experience of politics. Although two or three presidents since the thirties have been more interested in poetry or international affairs than in economics, and have actually disliked having to deal with economic decision making, as a rule Colombian presidents are well versed in economics and understand that populist economics or postponing the political costs of certain inevitable economic decisions only produces short-term benefits.

The political structure of the parties produces a congress and city councils mostly interested in distributing the budget to the largest number of potential clients, but who are also aware that fiscal deficits are dangerous because of the unpopularity of inflation. Politicians love fiscal deficits in local governments or public enterprises that they control, if these can be transferred to the nation, since this is an efficient way of forcing a redistribution of the budget in their favor, but they expect the national government to avoid generating a fiscal deficit, since this will be inflationary, and it has been shown that inflation hurts incumbents. A good part of the job of a minister of finance is to avoid being forced to make unplanned expenditures to bail out local authorities who have managed to spend more than they have and then also manage to force the nation to come to their help by the application of political power or the threat of street disruptions or violence.

At the same time that the political structure creates a low tolerance for inflation, the system produces heads of state who are knowledgeable about economics and who will not try to create large new political movements on the basis of large-scale redistribution programs based on populist economics; after all, they are working within established political parties, and there is little chance of retaining influence without the support of the political barons. (As the conservative party becomes weaker among the voters, there is a phe-



nomenon that is becoming more serious: that is, the temptation for a Conservative president, who has won an election against a divided liberal party or on a populist platform, to try to use populist economics to maintain the minority party in power and thus rebuild that party's clientele by producing short-term economic benefits before an election.)

On the contrary, the political class and the voters are very suspicious of excessive popularity. A good proof of this is that few presidents have been named for a second term; only one was elected for a second term since the 1920s and he had to resign halfway through that term due to lack of political support from his own party and very virulent opposition from the other party. Thus Colombian presidents have achieved the maximum of their power when elected, and they cannot increase it through the tools of populism. This is a large disincentive to populist economics. As a rule it is also more likely for a candidate to be elected through the support of the local political bosses than by appealing over their heads to "the people" in the populist tradition.

The optimistic hypothesis presented here is, therefore, that populist economic policies will not emerge in well-established democracies, where there is no possibility of rapidly consolidating a new political movement. In Argentina or Peru, where, in a democratization process, a head of state is willing to gamble in the short run with economic policy in order to consolidate a new political movement, populist economics, which produces short-term gains and long-term losses, may be more attractive than in Colombia, where no amount of short-term prosperity will transform a political system and political parties that have been in power for over 160 years.

### **11.6 The Role of Technocrats**

In the Japanese system of political clientelism the role of the technocrats in economic policy has been important. Although the characteristics of the civil service and the system of recruitment is very different in Colombia, technocrats have played an important role in forming economic policy there as well.

One interesting feature of the Colombian system is that, given the danger of concentrating all of the clientelistic potential of the Ministry of Finance in the hands of a politician or a political faction, there has been, since the war, the practice of naming an industrialist or a technocrat as minister of finance. In addition, institutional innovations, such as the creation of the Monetary Board to handle monetary policy, and the contracts with the Coffee Federation have given the minister of finance virtually total power in the areas of monetary, fiscal, and exchange policy. These areas have therefore been isolated from day-to-day politics and put in the hands of technocrats. Since the early seventies many of the ministers of finance have had postgraduate degrees in economics, and the rest have worked at some time as economic consultants. Since the minister of finance is not a politician, and his capacity of building a power base from scratch at the ministry is limited, the temptations of populist economics are weak.

Another area where technocrats have dominated is the Planning Department, an agency that has been responsible for the government investment budget, the management of foreign credit (with the Ministry of Finance), and the production of the government's Development Plan, which serves as a framework for economic policy. When in 1967 the department was reformed, the precedent was set that recruitment to all high posts in the agency required postgraduate studies, and, to reach head of division, the candidate had to be at least a Ph.D. candidate. (Even now there are no Ph.D. programs in the country, so the candidates had to have done postgraduate work abroad.) Thus the Planning Agency has been essentially a technical department, advising the president on economic policy, and its officers by and large remain out of politics. Politicians often complain bitterly about the lack of realism and responsiveness of the planning department to "popular needs," but they have not pressured to make it a clientelistic bastion, and, as a rule, presidents have defended its decisions and used its staff in the process of economic decision making.

The role of the international institutions in strengthening and giving legitimacy to the technocrats in the economic area has also been important. The decisions of the technocrats gain legitimacy when they can produce loans to back them up.

### **11.7 The Role of the Fourth Estate**

The other phenomenon that has worked against populist economics is the existence of complete freedom of the press. When populist economics is tried—as it often is at the micro level and sometimes economic policy does drift towards populist macroeconomics—there is substantial criticism, first from the specialized press, and then more generally from newspapers, television, and radio commentators.

If the criticism is justified, upon being alerted, private pressure groups mobilize against such policies. When independent experts criticize economic policy, private pressure groups can more legitimately attack the government since they are presumably not doing it from a narrow self-interest point of view, but are instead backed by independent, expert opinion.

Another factor that makes possible open debate of economic policies is that economists have alternative sources of income to the government. In the first place, some of the best universities are private, and so government censorship is more difficult. Second, the private pressure groups utilize independent economists to argue their case before the bureaucracy, and this is an alternative form of employment to the government. Finally, since the parties are not highly centralized, and different factions come to power at different times, economists that criticize the government now may be in the next government, and this makes the persecution of dissenters less attractive.

Finally, it must be admitted that governments that try to implement populist economic policies usually have economic advisors that justify those policies.

Although they may be in the fringe of the profession, they tell the populist politician what he wants to hear. The free press and frequent public debates in Colombia means that most economists have to face the market test for their ideas. By the time an economist reaches an important position in government or as advisor to a presidential candidate, he has had to explain his ideas in public, and his peers have had a chance to let people know whether those ideas are completely on the fringe or not. Foreign observers are therefore always surprised to find that Colombia's best-known economists are never those who held extreme ideological positions, and that although they disagree sometimes strongly on the specifics of economic policy, they continue to talk to each other. There are Colombian structuralists, but all of them dislike fiscal deficits of more than 3.5% of GNP.

Another factor that has made Colombian economists antipopulist is that many of them have had short experiences in the public sector and thus learned the limits of power of the state and how difficult it is to make government regulations effective. Due to low salaries, professionals cannot stay long in the public sector, and so there is a large pool of economists who have returned to the private and academic sector more than willing to use the press and specialized publications to discuss the latest changes in economic policy.

Criticism from abroad is also an additional factor that works against populist macroeconomics. Maybe due to the lack of control by foreign investment of important sectors of the economy, Colombia is not terribly nationalistic, and Colombians in general respect foreign opinion. Criticism of certain policies by international institutions such as the World Bank or Inter-American Development Bank does not generate support for those policies, as it does in other countries of Latin America. Foreign experts and academics also have prestige and are often used to legitimize reforms in which the president of the technocracy are interested. Since economic populism has not been fashionable among the foreign experts that deal with Colombia, this has been an additional factor that has created disincentives to populist economics.

## **11.8 Conclusion**

In conclusion, the presence of well-established political parties, the clientelistic nature of politics, the concentration of political power at the local level, and the existence of a free press are factors that help explain the absence of populist macroeconomics in Colombia. This suggests the optimistic hypothesis that as democracy is consolidated in the region, the plague of populist macroeconomics will disappear. The process will be hastened, however, if the analysis of the inevitably disastrous effects of these policies by Latin American and foreign economists becomes more widely known.

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## Comment Juan L. Cariaga

With the twenty-first century fast approaching, it is incredible that in Latin America—not to mention elsewhere—some governments are still attempting to adopt populist policies. It is almost as though we were dealing with a more or less unconscious predisposition on the part of some politicians to treat government power as if it were there only to benefit one or more specific pressure groups. In the final analysis, this amounts to little more than an attempt to achieve a certain desired vote count in the next election, coupled with a pro-

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found ignorance of the rudiments of economics—not to mention the rules of common sense.

Consequently, it is not surprising to see that in some countries populist politicians who have realized their past mistakes are now returning to public life to apply more orthodox measures to the running of the government. The unfortunate thing is that this process of on-the-job training in the art of government has incurred high economic and social costs that the countries in question are now obliged to pay.

In his interesting and thorough paper, Miguel Urrutia takes up this subject to postulate that Colombia, unlike other Latin American countries, has been characterized by a lack of populism. Urrutia begins this task by gathering together various definitions of “macroeconomic populism” and eventually sketches out a definition of his own. He then goes on to evaluate the macroeconomic variables in Colombia. Given the conspicuous absence of fluctuation in the black market for foreign exchange, in real wages, or in foreign reserves, he concludes that this country does not represent a typical case of populist behavior like Chile or Peru. Urrutia also describes how, in Colombia, the expenditure side of the budget has not been used as a means of redistributing income and how even the most recalcitrant political circles have been ill-disposed toward the idea of inflation.

In addressing the subject of clientelism and its impact on the economy, Urrutia notes that the Colombian political system does depend upon clientelistic practices, but that the strength of the political parties, the clearly defined process for electing the president, the existence of complete freedom of the press, the educational level of the leadership, and the highly important role played by the technocrats have effectively precluded populism in Colombia.

Urrutia’s paper is unquestionably of great interest and sheds a great deal of light upon the lessons that the rest of Latin America can learn from Colombia. I would like to contribute just a few brief comments on this subject:

1. First, a word about definitions. Urrutia in his paper reviews several definitions on macroeconomic populism and adds one of his own. It is on this basis that he concludes that there is an absence of populism in Colombia. The question then is: Are these definitions applicable to all other cases? For example, how populist are we to consider the so-called orthodox program in Bolivia, under which an ill-advised reactivation program was put into effect in 1987. The problem with definitions in general—and not just with this specific definition—is that they cannot specify precisely the essential nature of what they are defining. As a result, they leave gray or undefined zones in which their validity is limited, giving rise to a host of exceptions. On the other hand, I believe that Urrutia’s claim that populism is entirely absent from Colombia may be a bit too rigid. This certainly appears to be the case when the author himself explains that Colombia still maintains price controls and implicit subsidies—practices that, as we all know, have as their fundamental purpose the redistribution of income for populist ends.

2. When Urrutia claims that there is a lack of populism in Colombia, but that the system depends upon clientelistic practices, it is pertinent to ask the following question: To what extent is clientelism a form of populism? Until an adequate answer can be found to this question, it is difficult to state categorically whether or not some form of populist expression has manifested itself in Colombia. This is all the more true when one considers the manner in which politicians in Colombia seek to bestow political favors with public money.

That being said, it is important to stress that Urrutia's description shows us that Colombia does constitute an atypical case in Latin America. It is as if one were dealing with a unique island in a region where uninhibited political dealing and irresponsible use of national budgets are time-honored traditions among political parties. In Colombia, the magic word is "gradualism." All the actions of pressure groups, whether they be trade unions or regional interests, have always been characterized by the gradual nature of their demands. These demands have always respected the principles of good government and shown a steadfast aversion to the risk of inflation. In this respect, Urrutia's paper is an important piece of work that allows us to describe a relatively durable and significantly long-lasting phenomenon atypical of Latin America as a whole.

3. Despite the fact that Colombia has made significant progress against populist economic practices, it still has some major barriers to surmount before it can truly accommodate itself to the new international economic order. For all its virtues, and for all the profound differences from the rest of Latin America described in Urrutia's paper, Colombia still has a legacy from the past. Among other things, this legacy manifests itself in domestic industrial protectionism, import prohibitions, tariff restrictions, and other such measures, which Colombia needs to change in light of what is transpiring elsewhere in the world.

Moreover, Colombia and Latin America will face a new challenge in the coming decade. This challenge is posed by the sweeping changes now underway in Eastern Europe and the Soviet Union. As these economies resolve their convertibility and stabilization problems and consolidate their free-market reforms, they will become a sizable market for the countries of Latin America. Once this large new market gets established, it will need agricultural commodities, foodstuffs, and energy-related products to support its development. Colombia and the other Latin American countries must prepare themselves for this eventuality. Doing so will require profound structural adjustments in their economies in order to breathe new life into the economic structures and orient them toward exporting the resources those emerging market may require.

## Comment Guillermo A. Calvo

Why has Colombia succeeded in avoiding the bouts of very high inflation that have beset its neighbors in the postwar era and, particularly, during the last decade? This is the central question that this most-inspiring paper by Miguel Urrutia attempts to answer.

Urrutia's thesis is that a country's institutional characteristics play a central role in policy making. For Colombia, he notes, for example, that: (1) politicians have a strong incentive to assure that the *party*, not themselves, be re-elected; (2) the Central Bank and the Planning Institute have relatively high technical standards. Moreover, they are relatively free from political pressure or pressure from vested economic interests.

Thus, an implication of the paper is that politicians/economists ("policonomists," for short) tend to have a longer-term perspective than they would in the absence of the above type of institutional framework, which can help to explain Colombia's low inflation and low fiscal deficits relative to other Latin American countries.

However, typical populist experiments are characterized by *inflationary cycles*: inflation rises dramatically for a while and then comes down dramatically after a strong stabilization program is adopted. Why is Colombia relatively free from inflation cycles?

The absence of inflation cycles cannot be explained by the presence of low-subjective-discount-rate policonomists, as the Time Inconsistency literature shows.<sup>1</sup> Point 2 above, however, suggests the existence of a highly structured and bureaucratized class of policonomists in Colombia. The latter, in turn, is likely to contribute to the emergence of a relatively slow policy-making machinery, which makes it more difficult to implement "surprise-type" policies (like a surprise, not preannounced, devaluation). Since surprise-type policies appear to be at the heart of high-inflation episodes, the institutional aspects emphasized by Urrutia are, thus, potentially capable of explaining the lack of inflation cycles in Colombia. (Incidentally, the theorist should take note because there seems to be some interesting theory to be developed in this respect.)

I strongly feel that the institutional aspects stressed by Urrutia should go a long way into explaining cross-country inflation experiences. However, I think that a more complete explanation should also account for policy mistakes—either as a result of sheer incompetence or because of incomplete information. I suspect that policy mistakes leading to high inflation have become more prevalent in recent times. The reason being that financial

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1. See Torsten Persson and Guido Tabellini, "Macroeconomic Policy, Credibility and Politics," April 1989, typescript.

innovations may have shrunk the base of the inflation tax beyond the expectations of policymakers. Thus, the same budget deficit gives rise to larger inflation (like it is the case in Colombia, as shown in Urrutia's paper), and it may actually no longer be consistent with steady inflation. The latter would happen if the deficit to be monetized exceeded the maximum steady-state revenue from the inflation tax. Thus, a not-fully-expected shrinkage of the base of the inflation tax could place otherwise stable economies into an hyperinflationary path.

Policy mistakes are more likely to happen, the closer the government is from extracting the maximum steady-state revenue from inflation. Closeness from this maximum could be dictated by the institutional aspects emphasized by Urrutia, but it could also be the result of higher government expenditure due to, for instance, higher service on foreign debt or a deterioration in the country's terms of trade. Consequently, "size of government"—especially, the unanticipated part—could also be positively correlated with populist episodes, even when governments have the incentives not to utilize surprise-type policies.

Urrutia's paper opens new and very interesting vistas on the populism issue, and especially on high-inflation episodes. Let us hope that other similar studies will soon follow to be able to test more thoroughly the proposition that, as Urrutia's paper implies, "inflation is an institutional phenomenon" (with apologies to Milton Friedman).