Fundación para la Educación Superior y el Desarrollo

The political economy of exchange rate policy in Colombia

Juan C. Jaramillo
Roberto Steiner
Natalia Salazar

SARROLLO
BIBLIOTECA

Serie Documentos de Trabajo • Working Papers Series

Enero 1999 • Número 11

FEDESARROLLO
BIBLIOTECA

This version, February 1999
Comments welcome

THE POLITICAL ECONOMY OF EXCHANGE RATE POLICY IN COLOMBIA[1]

Juan C. Jaramillo
Roberto Steiner
Natalia Salazar

Fedesarrollo

Abstract

Since the 1960s Colombia has exhibited notorious economic stability and institutional continuity. Until recently, the political system was based on an entrenched bipartisan coalition, with little ideological confrontation. Power sharing, which was mandatory during the National Front (NF, 1958-74), lasted until 1991. Coffee, the main export, is a labor-intensive activity, taking place in thousands of family-owned small plots. Coffee producers' income depends on a complex arrangement with the government, the exchange rate being but one component. The relevance of labor unions is limited to the public sector. Following a 1968 Constitutional amendment, Congress' role in economic issues has been limited to fiscal policy, the tailoring of the budget being its main concern. Extreme economic positions seldom emerged, reflecting the non-ideological character of the political coalition. A survey of key episodes indicates that efforts have generally been geared towards delivering a moderate rate of inflation and a competitive real exchange rate. Widespread indexation has made this arrangement palatable to most interest groups. Historically, exchange rate policy was conducted in tandem with commercial-financial-fiscal policies, used as compensatory mechanisms designed to garner private sector support. More recently, when market-oriented structural reforms were introduced, most compensatory mechanisms disappeared, and interest groups became vocal regarding exchange rate policy. Institutional continuity and the longevity of the exchange rate regime suggest that political considerations might not be relevant in explaining the stable pattern of key economic variables. This intuition *is not* fully supported by the econometric evidence. The nominal rate of devaluation was *lower* during NF administrations and *higher* during Conservative governments. The first result supports the fact that political competition might imply less concern for stability. The second could be partially explained by the political influence of the Conservative Party in the coffee-growing region and to the willingness of Conservative administrations to accelerate the nominal rate of depreciation to correct for currency overvaluations. In addition, the nominal rate of devaluation seems to depend on the nature of the central bank board. In particular, it has been mainly during the tenure of an "independent" central bank that exchange rate policy has been actively used to bring down inflation.

JEL classification number: F33

---

[1] This paper is part of an IDB project on the political economy of exchange rate policy in Latin America. Previous versions were presented at Fedesarrollo, at the National Planning Department and at the 1998 meetings of the Latin American and Caribbean Economic Association. We have received useful comments from members of the project, in particular J. Frieden, E. Stein, P. Ghezzi and E. Diaz-Bonilla. Comments by F. Barrera, M. Cárdenas, A. Carrasquilla, R. Junguito, M. Urrutia, and E. Wiesner are also appreciated. Research assistance was provided by Daniel Cerquera. Correspondence to: rsteiner@fedesarrollo.org.co

I. Introduction

This paper looks into the political economy forces that helped shape exchange rate policy in Colombia since the early 1960s. As witnessed by the remarkable longevity of the managed crawl, Colombian exchange rate policies since 1967 did not take the form of major regime changes. Policy shifts came by through variations in the rate of crawl, varying degrees of administrative restrictions on capital flows and, on occasions, ad-hoc measures to generate multiple exchange rates.

The basic premise of our analysis is that economic policy in general, and exchange rate policy in particular, should not be seen exclusively as a function of its intended effects, but also as the result of the interaction between interest groups, politicians and bureaucrats, within the context of a set of institutional constraints. The fact that different economies --facing similar problems and having comparable resources-- exhibit different performances cannot be explained solely with analytical frameworks based on the existence of a social planner. Macroeconomic optimality is only one of the factors affecting the choice of exchange rate policy, and one should therefore investigate other policy determinants (Haggard and Webb, 1994).

The paper has four sections, in addition to the introduction. In the second we set out the political environment that prevailed during the period under study. In the third we describe the main phases in which the 1960-1998 period might be fruitfully divided to study exchange rate policies, and we discuss the political economy forces that helped shape policy during these periods. The fourth section empirically addresses the importance of political/institutional aspects in determining the rate of nominal devaluation and the level of the real exchange rate. In the fifth we conclude. In addition, there are three appendices. The first one deals with the 1966 confrontation with the IMF; the second with the persistence of a moderate rate of inflation; the third describes the data.

II. Some political and institutional background

This section provides a characterization of Colombia's political environment since the late 1950s. It is divided into two parts. In the first we show that, for the most part, the post-1960 era is one of power sharing between the two historical political parties. In the second we argue that the polity has been an important factor explaining the lack of extreme positions in regard to economic policy in general and exchange rate policy in particular.

A. Three decades of power-sharing

Colombia is, together with Mexico, possibly the country where the party system has least changed in the Western Hemisphere. According to Dix (1990, pp. 100), "what does distinguish the Colombian case is the failure of the country's political institutions, and notably its party system, to manifest changes comparable in magnitude to the new levels of social mobilization." On average, during the 1945-86 period the two traditional parties commanded over 97% of the vote for the House of Representatives. Only once (in 1970) did this percentage fall below 90. Between 1931 and 1982 only 12% of municipalities switched party allegiance. Almost without exception, every time dissident factions appeared, they invariably went back to their original partisan allegiance.

The non-emergence of a third party is surprising in light of the fact that since the late 1950s the two traditional ones have converged in terms of policy and ideology.[2] Furthermore, Colombia's poor distribution of income and wealth made it an ideal place for the emergence of a

[2] This description does not hold after the enactment of a new Political Constitution in 1991. In fact, in the latter part of the next section we explore the possible link between the 1994 electoral results and the distinct positions regarding economic policy between the two traditional parties.

class-based party. However, the workforce has not been heavily employed in sectors that are prone to produce a militant, class-oriented activism. Quite the contrary, coffee, the country's main product, is grown on thousands of small, family-operated parcels. This has fostered conservative, individualist values rather than radical or collectivist ones (Dix, 1990). On top of that, coffee is entirely owned by nationals, as have been other key industries. This might explain the lack of nationalistic attitudes, frequent breeding grounds for popular movements.[3]

Following Dix (1980), since 1958 Colombia can be characterized as a case of a *consociational democracy*, unique in that its subcultures do not originate in religious, ethnic, or class differences.[4] In regard to the two traditional parties, their exclusivist nature and their familial and communal roots mark them as the functional equivalent of subcultures.[5]

Historically, the two traditional parties have been composed of notables bound together through clientelistic relationships, with weak organizations and almost no programmatic content.[6] They are, nonetheless, effectively multi-class, as the elites have sought popular support in their partisan competition for government perks. Furthermore, the relative openness of the regime –in terms of elections, division of powers and freedom of the press— granted it reasonable legitimacy among all social groups.

The stronghold on power of the two traditional parties was enhanced in the late 1950s, through a political coalition (National Front or *Frente Nacional*). After several years of party violence, the leaders of the two traditional parties reached an arrangement by which both would share power for 16 years. The agreement was facilitated by several factors: (i) the usual conflict between the parties was being superseded by much higher stakes, as the masses were becoming increasingly resentful; (ii) the repressive actions of the military and their political ambitions became more uncomfortable than a coalition with a partisan foe; (iii) the Liberal's acceptance that Colombia was a catholic country; (iv) agreement that the military would not be persecuted and that the Minister of Defense would come from their ranks.

The main provisions of the National Front were: (i) the presidency would be alternated for the duration of the coalition; (ii) all seats in Congress, departmental assemblies and municipal councils, and all cabinet and government offices, as well as Supreme Court positions, would be divided in a 50-50 fashion, to the exclusion of all other parties; (iii) non-procedural decisions in all elective bodies required a two-thirds majority.

Though it can be criticized for having impeded social change, the National Front must be credited with having achieved a steep decline in inter-party violence and the return to barracks of the military.[7] The two parties stopped quarreling for the control of the state, while reaping the gains of its impressive growth. Resulting policies fostered stable growth and moderate inflation,

[3] Nelson *et al.* (1971) mention as an additional element the organizational weakness of labor federations and "the hierarchical difference between them and the entrepreneurial class." As we shall see below, labor's inability to promote a political movement did not constrain it from achieving important sporadic leverage, including the wage hike that deemed the 1962 devaluation a failure.

[4] Lijphart (1977, pp. 1) distinguished a consociational democracy as one in which "centrifugal tendencies inherent in a plural society are counteracted by the cooperative attitudes and behavior of the leaders of the different segments of the population." By means of proportionality rules, grand coalitions and mutual vetoes, leaders of different subcultures are able to provide reasonable stability to an otherwise polarized society. Other analysts have referred to Colombia as a "modified democracy", using qualifications such as "controlled", "oligarchic" or "bipartisan elitist." Some have even called it a "formally authoritarian democracy" or a "constitutional dictatorship" (Hartlyn, 1993).

[5] Writing in the early 1970s, Nelson *et al.* (1971, pp. 218, our emphasis) suggested that "the traditional style of Colombian politics invokes an emotional, moralistic, *and tenacious attachment to hereditary loyalties*."

[6] According to Supelano (1992), in Colombia there has always been resistance towards the dominant theories of the day. Policy has generally been eclectic, depending more in the need to maintain the balance of power than on theoretical principles. Dix (1978) argues that the lack of ideology is not exclusive of the two traditional parties. The same can be said of General Rojas's *ANAPO*, at least *circa* 1970, when it made an important run for the presidency. A survey of its leaders suggests that their motivations were not ideological. The movement was Christian, with Rojas being the candidate more opposed to divorce and birth control.

[7] Recent violence has occurred outside of any power dispute between the traditional parties, although many of its causes can be traced back to the exclusivist nature of the National Front. On these matters, the essays collected in Leal (1995) are very relevant.

without openly discriminating against any activity.[8] Coffee sector interests were favorably addressed, and to a lesser degree so were those of other organizations (Hartlyn, 1993).[9]

The National Front formally ended in 1974, but several of its provisions were extended for four years.[10] Informally, the coalition lasted much longer, with all the presidents that followed until 1990 being bred within its ranks, while Congress continued to be dominated by the two traditional parties. A referendum held in 1990 mandated the convening of a popularly elected Constituent Assembly which drafted a new constitution, which facilitates the creation and consolidation of new political movements, empowered citizens, and advanced political and fiscal decentralization. Though many analysts have been skeptical of its practical implications, the power-sharing schemes of the National Front did, for all practical purposes, end in 1991.

B. Economic and institutional connotations of the polity

The characterization of Colombia as a consociational democracy, in which since the late 1950s, and at least until 1991, two parties have explicitly or implicitly shared power, can go a long way in explaining the economic policies that have been implemented. According to Haggard (1994, pp. 238), Latin American countries with high inflation histories have been those in which the "urban popular sector" and labor groups have been incorporated into populist parties, within the context of relatively polarized party systems. In turn, the political difficulties of implementing macroeconomic adjustment programs have been less severe where decision making has been centralized and less subjected to rent-seeking pressures.

There are two aspects that differentiate Colombia from the typical Latin American country, as characterized by Haggard. The most influential business group produces an exportable (coffee) not linked to import substitution, and export promotion has been the cornerstone of policy since 1967. Post-1967 Colombia seems to fit in Haggard's assessment of Asia in the sense that in that region it has been important "to maintain realistic exchange rates and to shift toward the promotion of manufactured exports" (pp. 241).

According to Urrutia (1991), in Colombia there has generally been no "economic populism", at least not in the sense of Dornbusch and Edwards (1991). Macroeconomic policy has generally been conducted with the purpose of providing some minimum stability deemed necessary to promote growth, rather than with redistribution purposes. This has been made possible not by "populism", but by "clientelism", which has given politicians an important say in the distribution of the national budget, while at the same time allowing them to reap the benefits of stability, produced by a seldom politicized macroeconomic decision-making process.

As Archer and Soberg Shugart (1997) and Soberg Shugart and Nielson (1997) show, Colombia's electoral rules –in which members of Congress are elected by proportional representation rules applied on each district on factional, rather than on party lists-- provide incentives for politicians to pursue personal, service-related votes instead of party-oriented votes.[11] Voters are tied to individual legislators and their vote depends heavily on the elected official's delivery of government services. In addition, parties have almost no control over the composition of their delegations in Congress. Some three decades ago, Nelson *et al.* (1971)

[8] According to Reveiz and Pérez (1986), during the National Front heads of business associations began to occupy, in a rather large proportion, positions in the executive branch.

[9] In sharp contrast with this interpretation, Bates (1997) argues that being electorally very important, coffee producers have been highly influential in those periods in which party competition has been significant, but have been subjected to the government's redistributive purposes when there was no partisan competition in national elections (i.e. the National Front years).

[10] A 1968 Constitutional amendment prolonged parity in cabinet and administrative positions for four years and established that after this extension the party other than that of the President would receive "equitable" cabinet and administrative positions.

[11] The 1991 Constitution maintained this rules for the lower house of Congress. To facilitate matters for political minorities, Senate seats are now assigned by proportional representation rules applied in a *national* electoral district.

argued that National Front political practices were supplementing the inter-party political and ideological debate with the politics of pressure groups.

To be sure, in spite of the strong bipartisan coalition, politics does not take place in a vacuum. Different regions hold different interests, and those interests are better served by different powers within the state. As a first approximation, it is interesting to differentiate between the (mainly Andean) coffee-growing region and the rest of the country. The former is heavily dependent on a primary export; the latter has a much more diversified economic base.

Table 1 shows the regional origin of the heads of three key institutions: the Ministry of Finance, the Central Bank and the National Planning Department. The first is involved with all economic matters, the second primarily with exchange rate and monetary policy, and the third with long-term planning and fiscal policy. The coffee-growing region, with less than one fourth of population and GDP, has provided 40% of the Ministers of Finance and Governors of the Central Bank, but only 22% of the Directors of the National Planning Department.

As was just pointed out, until 1990 both houses of Congress were apportioned by proportional representation. Table 2 shows that, as a result, the regional origin of senators and representatives was very similar to the regional distribution of the population. However, the 1994 Senate elections were based on proportional representation at the national level. The last two columns of the table indicate that the Caribbean region became over represented in the senate, at the expense, among others, of the coffee growing and pacific regions.

Table 3 contains information regarding abstention during the 1990 elections. For the presidential election, abstention in the coffee-growing region was in line with the national average, and much lower than in the Caribbean region. However, in congressional elections abstention was much lower in the Caribbean region than in the country as a whole. It can be argued that the Caribbean region is a very active political actor in congressional elections, whose outcome is crucial in the formulation and distribution of the budget, but much less important in presidential elections, whose outcome is critical in the design of overall macroeconomic policy (including, until 1991, all matters related to exchange rate and monetary policy).

There is no doubt that all regions and economic interests are concerned with all types of economic policies, from the more technical issues of monetary and exchange rate management, to the more political aspects of fiscal policy. However, Tables 1-3 give some support to the idea that certain regions and economic interest are more concerned with certain types of policies, and are therefore more interested in politically capturing the institutions that undertake them.

That is to say, regardless of the fact that Colombia has had remarkable stability in economic policy and notorious longevity in the case of several key institutions (see below), it is still the case that the latter are run by people, and that those people better reflect the interests of certain regions and economic activities. In particular, the all-important coffee-growing region seems to be much more active in presidential politics –key in determining exchange rate policy— than in congressional politics –crucial in the elaboration and distribution of the budget.

1. Relative economic stability

Within the Latin American context, Colombia has been characterized as the least volatile economy. Table 4 provides information on inflation and growth for the region's largest economies. In all sub-periods, Colombia had the third lowest inflation rate. In terms of volatility, except during 1960-69, it had the most stable rate of inflation. A similar pattern emerges in the case of the rate of growth. The table indicates that Colombia's relative *stability* occurred in the context of macroeconomic results that were not particularly impressive.

Economic volatility depends on several factors, prominent among them external conditions (i.e. terms of trade and capital flows) and economic policy. For a slightly different set of countries, Table 5 shows that with regard to the terms of trade, Colombia's "external

environment" has not been particularly stable. Instead, during 1970-92 Colombia had by far the most stable economic policy of the region's 22 countries under analysis by the IDB (1995).

It is important to acknowledge that in the context of this paper stability has a very precise dimension. With regard to prices, Colombia is a remarkable case of stability of *the rate of inflation*.[12] The fact that relative stability has been achieved in the context of moderate, rather than low inflation is not independent of political economy issues, since there is evidence that the inflation tax has helped finance the deficit, in itself partially the result of the resolution of conflicts among relevant economic and political interests within society.[13]

2. Institutional continuity

Table 6 shows the phases of central banking in Colombia. Banco de la República was established as private and autonomous entity in 1923, and it remained so until 1963. Up to 1931 Colombia adhered to the gold standard. It then maintained a fixed (and stable) exchange rate until 1949. In 1951 the bank's objectives were expanded, to include not only price stability but also "economic development." In the early 1960s the bank was nationalized and in 1963 the Monetary Board was created. Conformed solely by members of the government and by the government-appointed governor, the Board was given control of monetary, credit and exchange rate policies.[14]

The 1991 Constitution completely overhauled the central banking regime. The Banco de la República was organized as an autonomous state institution, independent from the government, with the sole objective of achieving price stability. Its Board of Directors is in charge of monetary, credit and exchange rate policies. It is composed of seven members: the Governor of the Bank, the Minister of Finance and five full-time members, appointed for a fixed term by the government, in a staggered fashion.

In 1967 Colombia adopted a "crawling peg" exchange rate system. Whatever is said regarding stability in Colombia's key economic variables has to take into account the fact that since 1967, and at least until 1991, it maintained the same exchange rate regime.[15] The stability of the exchange rate regime has coincided with notorious institutional stability. Table 7 shows that since 1960 the central bank has had only 6 governors, with an average tenure of 6.5 years, well above the regional average suggested in Table 8, borrowed from (Cukierman, 1992). If the tenure of the central bank governor has been notorious, it pales in comparison to that of the General Manager of the National Federation of Coffee Growers (Fedecafé, the Federación Nacional de Cafeteros). Since 1937, Fedecafé has had only three general managers.

3. The coffee revenue distribution mechanism

During the first half of the 20th century coffee producers and the government realized that it was in their mutual interest to stabilize the coffee revenue stream. To do so, two interrelated decisions were jointly adopted. In the external front, Colombia decided to vigorously support multilateral agreements seeking to regulate prices and quantities in the world coffee market through the International Coffee Agreement (ICA). In the domestic front, since the 1940s the government and the coffee sector embarked on a revenue stabilization scheme. Under this mechanism, the government taxed coffee exports at variable rates, broadly related to world prices

---

[12] Dornbusch and Fischer (1993) refer to Colombia as the *moderate-inflation country par excellence*. In the words of Williamson (1996, pp. 34), "Colombia provided the best example of a country that seemed to have learned to live with inflation." See Appendix 2 for more details on this matter.

[13] Suescún (1992) shows that Colombia's inflation and devaluation rates exhibit the time-series properties derived from an "optimal financing" model (Phelps, 1973). On the uses of the inflation tax, see Steiner *et al.* (1992).and Carrasquilla (1996).

[14] As we mention in III below, the Board's actual role in the formulation of exchange rate policy was rather limited.

[15] It is revealing to note that in 1987 the central bank organized a very well attended international seminar to commemorate the 20 years of the *Estatuto Cambiario*, the 1967 piece of legislation that laid the foundation for the crawling peg system.

and the exchange rate, and transferred the resulting collections to a stabilization fund (the National Coffee Fund, or FNC), administered by Fedecafé.[16] In turn, Fedecafé used FNC's resources to finance stock accumulation during periods of high world supplies, and to guarantee a minimum price to producers when world prices were low. Collections over and above those needed for these purposes were held by the FNC in assets of varying liquidity or used to finance social and infrastructure projects in Colombia's coffee regions. In periods of very high world prices, government and coffee growers agreed to pass-on to the Treasury part of the revenues.

The FNC was broadly successful in its stabilization role. The relation between prices paid to producers and external prices determine an implicit exchange rate applicable to coffee. During 1950-1988 this implicit rate was more stable than the general effective real exchange rate (Ocampo, 1989). Prices paid to coffee-growers, rather than the exchange rate, became the politically sensitive variable affecting coffee-producing households.[17] Of course, the sustainability of a high price to producers is enhanced through a weak exchange rate.

This highlights the fact that the coffee sector could obtain a desired goal by adjustments in other variables as long as the exchange rate was not excessively out of line. When the latter did occur --jeopardizing the FNCs financial stability— the coffee sector became quite vocal. It is an indication that coffee sector representatives had ways of obtaining stable *effective* exchange rates without getting themselves involved in the sensitive issues surrounding exchange rate policy (Urrutia, 1981). Probably Nelson *et al.* (1971, pp. 251) put it best: "the coffee sector will be more inclined to use its political influence to change the domestic support price an the exchange rate differential –specific coffee sector policy—than to lobby for a higher exchange rate structure, a strategy that would put it in direct conflict with other special interest groups."

4. The role of technocrats

Some authors have emphasized the role of "technocrats" in Colombia's economic decision-making process. To be sure, that was not always the case. Rivera (1976) persuasively argues that in the early 1960s Colombian technocrats were not considered as valuable as their Latin American counterparts. When during the Lleras administration (1966-1970) their role in policy-making was enhanced, they were vehemently antagonized by politicians.

Edwards (1995, pp. 117, our translation and emphasis) has also highlighted the role of "technocrats" in explaining Colombia's relative economic stability. According to him "Fedesarrollo (a private research institution) has been the intellectual breeding ground of an amazingly large number of those in charge of economic policy. *It could be argued that Fedesarrollo's bipartisan and non-ideological positions is a good reflection of Colombia's implicit pact according to which Liberals and Conservatives share power.*"

Fedesarrollo has been home to many of Colombia's policy-makers. More interesting than its clout, is its non-partisan orientation. Of its nine Directors, 5 have been Liberals, 3 Conservatives, and 1 independent (Table 9). In all instances but one, the Director has had a different party affiliation from that of the government in place during his tenure. It is the same people, sometimes acting as government officials, sometimes as independent analysts. It can be argued that the institution is a facilitator for achieving consensus, not because of its intellectual power, but rather because it credibly internalizes policy options that are politically viable.

---

[16] This is a very schematized explanation. Taxes on coffee exports took various (frequently complicated) forms, ranging from less favorable exchange rates applicable to coffee exports to direct taxes accruing to the National Treasury, charged on an ad-valorem basis. Other taxes were levied on coffee production or exports, earmarked to be used solely in the country's coffee-growing regions. Finally, there was the "retención cafetara" (retention), a charge applied to coffee exports. In principle, it was designed to finance coffee stocks as a result of ICA, but in practice had a wider practical scope, i..e. to absorb changes in external prices and in the exchange rate, when domestic coffee prices were fixed.

[17] This fact notwithstanding, Cárdenas and Partow (1998) have recently provided some econometric evidence in the sense that the domestic price of coffee does not depend on electoral or partisan cycles.

For better or for worse, Colombian economic technocrats, irrespective of party affiliation, have frequently been inclined to reach broad consensus on economic policy among themselves. For example, in early 1978, during the peak of the coffee boom and in the midst of a huge accumulation of reserves, the Colombian Bankers Association held a symposium. Wiesner (1978) reports that of the seventeen young economists who expressed their views during the discussions, only one of them hinted at the convenience of doing away with exchange controls. The rest, in one way or another, endorsed the then accepted economic policy paradigm: without exchange controls the economy would repeatedly enter into stop-go cycles that would curtail growth, hamper export oriented industries and promote capital flight. The voices of these economists were not simply those of academia. Of the seventeen speakers, six would eventually become finance ministers, three would hold ministries in other economic areas, and seven would become either advisors to the monetary board or members of it successor institution, the central bank board. Only in the 1990s is this trend towards consensus starting to dissipate.

5. Labor unions

Colombia's labor movement does not appear to be very important. While in 1965 close to 16% of the labor force belonged to a labor organization, that number dropped to 9.3% in 1984 and to only 7.8% in 1990. Affiliation numbers are small, and have barely increased (Table 10).

In 1990 the economic activity with the highest percentage of workers belonging to a labor union was "utilities" (at that time, basically "public utilities"), with an affiliation rate of 42%. Affiliation rates were as low as 1.5% in agriculture and 8.2% in manufacturing. The importance of the labor movement is restricted to the public sector, and even there, percentages have been declining (Table 11).

Of course, the actual relevance of organized labor might be different from what is suggested by affiliation numbers. In that respect, Wiesner (1998) argues that the rent-seeking practices of organized labor in key public sector services –health and, especially, education— have played a crucial role in retarding much needed structural reforms.

III. Exchange rate policy phases

This section focuses on the economics of exchange rate policy and on political economy issues that influenced it since the 1960s. We argue that the stability of the exchange rate regime after 1967 was systematically accompanied by the "fine-tuning" of other variables, and that when stability was not justified by economic conditions, its maintenance was the result of compromises to shelter affected groups. Because of the polity and the institutions described above, these compromises could be made in a rather credible manner.

A. Real exchange rate phases

Figure 1 reports an index of the real effective exchange rate for Colombia between 1962 and 1997. There, it is apparent that since the early 1960s there were broadly two periods when the general trend of the exchange rate was to depreciate (1962-70, and 1983-90) and another two when the general trend was to appreciate (1970-82, and 1990-onwards). Figure 2 shows the corresponding rate of nominal devaluation. In what follows, we analyze these main phases and discuss the reaction of the private sector to exchange rate management.

Phase 1: The 1960's. Instability and exchange controls

Until 1967 export earnings instability and shortcomings in domestic policies periodically led to the abandonment of the exchange rate peg and to attempts at establishing a new parity. During the 1960s Colombia experienced three such episodes. The unsatisfactory results of the first two paved the way to the adoption of less ad-hoc approaches to exchange rate management.

The first episode took place in 1962. A significant real appreciation accumulated over several years and the necessity for a parity adjustment was evident. The form that the adjustment was to take led to heated discussions, both in Congress and within the administration. After several months, the adjustment was finally made, accompanied by loose monetary policy and an increase in wages pushed by the Labor Minister. Inflation eliminated most of the effects of the parity change.[18] Memories of the 1962 mess were to linger-on for a long time, complicating the handling of the following crisis, as summarized by Diaz-Alejandro (1976, pp. 195):

> "...it can easily be seen why memories of [the devaluation's] impact were a major obstacle facing those attempting after that date to use a more flexible exchange rate as a policy tool. The argument that the event was a textbook example of how *not* to manage a devaluation made little impression. The feelings of most Colombians were accurately reflected by the then President Valencia, who throughout 1963 and 1964 would warn his economic advisors not to mention the abominable word in his presence..."

The second episode took place in 1965-66. Despite persistent foreign exchange shortages, the central bank defended a fixed rate, while simultaneously expanding domestic credit.[19] The resulting loss of reserves became unsustainable, leading to the adoption of increasingly stringent quantitative import restrictions. In October 1964 the central bank decided to let the market determine the rate, which depreciated by almost 90 percent, only to be fixed again in the second half of 1965. QRs were again eliminated and tariffs raised to curb import demand. A stand-by arrangement was agreed upon with the IMF.

By mid 1966, when the Lleras administration (1966-70) took office, practically all imports had been freed from licensing requirements and an import boom had ensued. With coffee prices declining, a large current account deficit had again developed.[20] The stand-by reserve target was not met and the IMF pressed for a new devaluation. The 1962 fiasco was still fresh in the minds of the new policy-makers, who feared that without effective monetary and fiscal instruments a new parity change would simply initiate another stop-go cycle (López, 1987a). The end result was the breakdown of negotiations with the Fund. The President moved to muster domestic support for the administration's position, issued emergency legislation imposing comprehensive exchange controls and re-established QRs. He then persuaded Congress to grant him authority to legislate on exchange rate matters.[21] On March 22, 1967, the Lleras administration issued Decree-Law 444 --the "exchange statute" as it came to be known--- which would become the basic legislation governing exchange rate policy over the next quarter century.

The new exchange rate regime imposed far-reaching controls. All foreign exchange receipts had to be surrendered to the central bank, which in turn sold them only to those showing an "acceptable need." The multiple exchange rate schemes were replaced by a unified rate that would be in place for the next 9 years.[22] In their place, more transparent mechanisms were adopted: the exchange rate differential for coffee was substituted for an *ad-valorem* tax; direct subsidies were granted to non-traditional exports; and a subsidized credit scheme, funded with a surtax on imports, was directed at non-traditional exports. The nominal exchange rate was moved in tandem with declining inflation rates, achieved through fiscal discipline and monetary policy.

[18] Congress compounded the damage by granting general wage increases over and above those decreed by the executive branch. Despite the upsurge in inflation, for the whole of 1963 *real* wage rates were 7 percent *above* those for 1962. See Diaz-Alejandro (1976) and Ocampo et. al. (1987).

[19] Among the main components of this expansion in domestic credit were loans to Fedecafé (Gómez, 1978).

[20] Imports increased 39% in 1966; the current account deficit reached 5.3% of GDP (García-García and Jayasuriya, 1997).

[21] A detailed account of the evolution of the debates in Congress is presented in López (1987c).

[22] A temporary two-tier system was initially established: one for most transactions, which was adjusted periodically and another, limited to capital transactions, which was fixed at a more depreciated level. It was agreed that when the two rates coincided, the two-tier system would disappear, which occurred 15 months later.

As the real exchange rate depreciated, non-traditional exports surged, imports were reined-in, and the balance of payments delivered surpluses. Growth rebounded to over 6 percent per year. Although protection for domestic production increased in comparison to the levels of 1966, import substitution policies were placed on a back burner.

Phase 2. The 1970s. Coffee boom and capital inflows

In July 1975 cold weather in Brazil destroyed coffee crops, causing world prices to increase five-fold, suddenly rendering the peso undervalued at the existing (managed) exchange rate. The government opposed an exchange rate policy shift as it viewed the shock as short term. Exchange and import restrictions were thus maintained, while other policies were geared to increase savings and to sterilize the increase in reserves.[23] The political decision to pass on the boom proceeds to coffee growers through higher domestic coffee prices ---a variable traditionally controlled by the government--- rendered the policy course untenable.[24] Pressure on the domestic currency to appreciate was accentuated by the increasing supply of external capital made available through the recycling of the surpluses of oil exporting countries.

To deal with the policy contradictions, multiple exchange rates were once again put in place, with a more competitive rate applied to non-traditional exports, while a vast array of administrative controls was implemented to deal with rising inflation and capital inflows.[25] Inflation surpassed the 30 percent threshold in early 1977, and continued to over 40 percent by mid-year. Tight monetary policy attracted even more capital inflows, which the central bank attempted to keep at bay by cumbersome administrative restrictions on foreign borrowing.[26] The vast array of direct intervention measures, complemented by a dose of fiscal restraint, finally arrested the momentum of inflation. A clear signal had been delivered in the sense that the government would not tolerate a dramatic increase in inflation. In all, between 1975 and early 1978, the coffee boom led to a real appreciation of the peso of over 20 percent.[27]

By 1978 coffee prices had declined, but income from coffee exports remained high as Colombia's export volumes increased significantly (Caballero, 1987).[28] Currency appreciation continued to be reinforced by abundant financial resources in international markets and by Colombia's increasing involvement in illicit drug markets (García-García and Jayasuriya, 1997). The administration that took office in 1978 finally viewed the abundance of foreign exchange as a longer-term occurrence, and moved towards a more liberal trade regime, a position consistent with the objective of increasing public investment, financed with external credit. The higher levels of public investment deteriorated the fiscal position, from virtual equilibrium in 1978 to a 6% of GDP deficit in 1982. As QRs were reduced, imports reached record highs and the current account changed from a surplus of 1.4% of GDP in 1978 to a 7.4% deficit in 1982. In the meantime, GDP growth declined from almost 8.5% in 1978 to less than 1% in 1982.

[23] Banco de la República, August, 1976.

[24] This policy decision was summarized in a single phrase, made famous by then President López: "La bonanza es de los cafeteros" ("The boom is for the coffee-growers"). In time, policy would have to part from this dictum. See Ocampo and Revéiz (1980).

[25] For a steadfast defense of this policy mix, see Sarmiento (1978).

[26] QRs were maintained, under the pretext that low import price elasticities precluded the search for domestic price stability by increasing the availability of foreign goods (Sarmiento, 1978).

[27] Almost a decade later, during 1986, world coffee prices again surged, propelled this time by droughts in Brazil. This sudden change again moved the fundamentals in the direction of a more appreciated currency. On this occasion, however, and in contrast with the 1975-77 episode, a clearer agreement was reached between the government and the coffee growers to avoid drastic increases in domestic coffee prices. The coffee sector's resulting surplus was thus largely saved, and its financial counterpart was invested in medium term government-backed securities. As a result, domestic spending was kept in check and the exchange rate did not significantly appreciate as had happened in 1977-78.

[28] High domestic prices provided the incentive to modernize coffee plantations, to apply increasing amounts of labor for crop maintenance and to intensify the use of fertilizers. As a result, production went from about 8 million 60k bags in 1975 to about 13 million in 1980 and exports from about 7 to 11 million bags over the same period. See Junguito and Pizano (1991).

Phase 3. The 1980s. The debt crisis
In August 1982, only weeks before the Mexican foreign debt moratorium, the administration led by conservative Betancur (1982-86) took office in the midst of the significant slowdown in economic activity. High on the new government's agenda was to "jump-start" the economy, without acknowledging that a fundamental change in the external economic environment had taken place with the virtual shutdown of international capital markets and that, under the new circumstances, the financing of the twin fiscal and external deficits was not viable.[29] Not surprisingly, the central bank began to rapidly loose reserves.

The real exchange rate had appreciated significantly between 1975 and the early 1980s (see Fig. 1). By late 1982 there was no clear decision as to the preferred policy course. As explained by Montenegro (1997) and Palacios (1997), many analysts were recommending expansionary policies. For example, Fedesarrollo insisted on the need for fiscal stimulus, and the planning department advocated the mobilization of resources towards housing construction. Only a few scattered voices in the private sector, and fewer still within the public sector, insisted on the need to pursue a major parity adjustment, before attempting to stimulate aggregate demand.

As external credit dried up and the economy came to a virtual standstill, pressure mounted to facilitate resources to ease the cash flow problems of many (particularly industrial) firms. The Monetary Board made available subsidized credit that would be largely used by the private sector to pay debts abroad and by many to take long positions in dollars. The policy was a self-inflicted wound that accelerated the loss of reserves. The central bank publicly expressed its preference for a gradual correction of the overvaluation through an increase in the rate of crawl, and favored export subsidies and QRs as temporary mechanisms until competitiveness was restored.[30] Reflecting the economic slowdown, the fiscal accounts deteriorated, despite a major tax hike. As external credits dwindled, the central bank moved to further restrict sales of foreign exchange for all but the most basic needs.

In early 1984 it had become evident that without the support of international financial institutions, external credit sources would remain unavailable. The administration thus modified the policy course drastically, engineering a significant fiscal adjustment; a monitoring agreement was reached with the IMF. Export subsidies were sharply reduced, while the rate of crawl was accelerated. By end 1985 the real exchange rate had depreciated by over 30 percent, commercial credit flows were normalized, reserves began to increase and restrictions on imports were gradually reduced to pre-crisis levels. A moratorium on Colombia's external debt was avoided.

Phase 4. The 1990s. The resurgence of capital inflows
After the 1985 adjustment, the real exchange rate remained rather stable until mid 1989, when the collapse of the ICA led policy-makers to expect a sharp decline in coffee prices, and suggested the need for a more depreciated rate. Also, the government saw the need to reduce opposition to the lifting of QRs by seeking a weaker currency. As a result, the rate of crawl was accelerated while the government committed to tighten fiscal policy and to gradually liberalize trade. In the event, the fiscal stance was not as restrained as agreed upon, and trade liberalization moved at a slower pace than had been envisaged. Furthermore, since 1989 capital markets continued to brush aside the debt crisis. Resources became increasingly available and return capital began its comeback. The authorities were slow to acknowledge this external environment. Furthermore, coffee exports did not decline, as increased volumes compensated for the decline in

[29] As had been the case since 1978. In an article extraordinary for its candor, Hugo Palacios, then central bank governor, presents a lucid assessment of the policy miscalculations made at the time by the government's leading policy-makers. See Palacios (1997).
[30] President Betancur, the Labor Minister during the 1962 devaluation-cum-wage inflation debacle, was rather reticent to consider an exchange rate adjustment.

prices. Consequently, while market forces were moving in the direction of a real appreciation of the currency, the government and the central bank were seeking to depreciate. Not unlike what had happened in 1975, the real appreciation came about through an acceleration of inflation.

Structural reforms also tended to appreciate the peso. First came the authorization of a "free" market for foreign exchange transactions below a certain limit. Although the "official" market continued to operate, the existence of a non-regulated segment effectively eliminated the reach of exchange controls. Then came the approval of a fiscal amnesty for capital resources held abroad by Colombian nationals.[31] These changes promoted the repatriation of flight capital. Finally, trade liberalization, which should have depreciated the equilibrium exchange rate, temporarily produced the opposite effect, as the announcement of *gradual* reductions in tariffs prompted importers to postpone their purchases abroad.

Capital inflows continued to exert pressure on the exchange rate. By end 1991 it had become evident that the policy of sterilized intervention was futile, as the fiscal adjustment that may have made it a workable proposition was not forthcoming.[32] In order to generate a nominal appreciation, the authorities, again as in 1977, made use of exchange certificates. Intervention points established by the central bank in its transactions in the market for certificates created a de-facto exchange rate band, and in early 1994 a band was explicitly adopted.[33]

B. Private sector reactions to exchange rate management

Throughout the period analyzed here, reactions to similar exchange rate policies by different sectors at different times, often reflected the presence, or lack thereof, of measures to compensate for direct adverse effects of the policies. For example, during the 1970s compensatory measures were adopted in favor of the industrial sector (via preferential access to external credit), of non-traditional exports (via a preferential exchange rate), and of the agricultural sector (via access to subsidized local credit), while these sectors received little relief or preferential treatment during the 1990s. As noted in what follows, their reactions to similar exchange rate policies sharply differed reflecting this fact.

The manufacturing sector.- During the coffee boom of the 1970's, the industrial's association, ANDI, did not take a position regarding the exchange rate level, largely because the rate affected industrial firms differently. Rather, it sought protection for domestic production through import tariffs and, *above all, through quantitative import restrictions,* while aggressively pushing for the use of direct subsidies and drawback mechanisms for exporting firms. ANDI repeatedly warned against an "indiscriminate" import liberalization and pushed for an industrial policy that would completely free imports of capital goods, while imposing tariffs and strict QRs on consumer goods.[34] ANDI's demands largely coincided with government policy at least until 1979, and this was reflected in the industrial sector's backing of economic policy during the second half of the 1970's.

The manufacturing sector's preferences on economic policies, however, did not seem to keep pace with changing circumstances. By 1984, almost two years into the debt crisis, ANDI insisted on further fiscal stimulus and warned against the "perils of fiscal adjustment." It advocated an expansion of public spending financed by the central bank, arguing that the decline in reserves created "room" for central bank credit.[35] The policy advocated by the industrial sector was exactly the same it had advocated (and the government adopted) during the reserve build-up

---

[31] The ethical implications of this policy were questioned, but in general the approach received acceptance. Nevertheless, the possibility that such a mechanism could serve as a means to launder drug related resources was a far more serious matter.

[32] Although the overall public sector deficit did not increase, public expenditures did so rather significantly, from 23.7% of GDP in 1990 to 26.9% in 1992 and 27.6% in 1994.

[33] The band had a width of 7.5 percentage points above and below a mid-point rate and was depreciated at a pre-announced rate.

[34] See particularly ANDI's Revista (24-27 of 1975; 28 and 32 of 1976).

[35] See Montenegro (1997), particularly in reference to the position adopted by Fedesarrollo.

of 1976-79.[36] Despite this, during the first two years of the Betancur administration, with a looming balance of payments crisis, ANDI's proposals were largely implemented.

During the first stages of the import liberalization process initiated in 1989, the industrial sector again favored existing restrictions and repeatedly expressed its opposition to the idea that QRs could be replaced by a new tariff structure with a more depreciated exchange rate. The idea of permitting the exchange rate to replace direct protection to local production was frowned upon. This downplaying of exchange rate policy ended when, after 1991, the industrial sector was longer able to maintain import liberalization at bay. From then on, the sector became very vocal in arguing for a "competitive" exchange rate.[37]

The coffee growers. During the peso's real appreciation in the second half of the 1970's, coffee producers supported exchange rate management and did not resist the creation of a dual exchange rate scheme designed to curtail part of their windfall. To some extent this reflected the fact that the sector's exports were the main cause of the peso's real appreciation. However, as explained in section IA3 above, coffee growers, rather than arguing for a preferred exchange rate policy, concentrated their lobbying efforts in affecting other variables that directly affected their income. In contrast, by the end of 1991, when further adjustments to non-exchange rate variables were no longer possible because of the breakdown of the international coffee agreement, Fedecafé decided to voice concern over the persistent appreciation. This concern was again manifested in 1993, as the financial situation of the FNC continued to deteriorate, and in 1996, for the first time in decades, Fedecafé adopted an explicit position regarding exchange rate policy. In their words, the appreciation was "the most serious threat ever faced by the coffee industry."[38] Fedecafé's' policy proposal amounted to a return to the regime prevailing before 1991 and requested temporary subsidies.[39] More remarkable than the policy proposal as such was the fact that Fedecafé modified its traditional low key attitude regarding exchange rate policy.

The non-coffee export sector. During the 1970's appreciation period, exporters of non-traditional goods (associated through ANALDEX) were not vocal on exchange rate management. This silence was due largely to the policies by which the government attempted to shield non-traditional exports from the appreciating peso. Like ANDI, non-coffee exporters showed a clear preference for subsidies, which they obtained either through the budget or by way of preferential exchange rates.[40] ANALDEX did become critical of exchange rate management during the 1990s, consistently arguing in favor of a more depreciated currency[41], when the Government adopted a market oriented policies that dismantled existing subsidy schemes.

The agricultural sector.- The non-coffee agricultural sector did not follow the protectionist preferences of the industrial sector. The differences between the two sectors regarding exchange rate policy followed the patterns one would expect a-priori: a preference for protection by the relatively inefficient import substitution sector in contrast with an emphasis on cost controls and efficiency advocated by the more export oriented agricultural sector. Thus, in the late 1970's and early 1980's, the farmer's association (SAC) openly advocated a more

[36] One exception was their proposal to restructure external public debt and to grant government guarantees on private debt. None of these proposals prospered: public sector debt would be refinanced on a voluntary basis and private sector debt was handled through a mechanism by which exchange rate risk was removed and replaced by a domestic interest rate risk. The mechanism was applicable only to those debts that banks voluntarily agreed to restructure, and did not convey a public guarantee on the obligations.

[37] ANDI, issue 107, 1991.

[38] Informe del Gerente de la Federación Nacional de Cafeteros al Congreso Cafetero, December, 1996.

[39] Fedecafé noted that historically during periods of high coffee prices, the coffee sector had made huge transfers of resources to the rest of the economy. It was now time, they argued not without reason, for reciprocity, noting the difficult situation faced by the FNC while elsewhere (i.e. oil) there was an evident boom.

[40] Another reason why exporters were not vocal about the overvalued peso was that many of them were highly indebted in foreign currency (Urrutia, 1981).

[41] They argued, for example, that interest rates and public sector tariffs --which did not enter into the price calculations used to estimate the real exchange rate, but which had increased more than general inflation- were significant costs confronted by exporters.

depreciated exchange rate as the way to recoup competitiveness, and noted that the sustainability of that policy depended on fiscal restraint. In contrast to ANDI, the agricultural sector questioned the benefits of import restrictions, envisaging the anti-export bias of such a policy, and expressed skepticism regarding subsidies as an alternative to a competitive exchange rate. SAC also advocated a strong anti-inflation stance. In a similar fashion SAC became increasingly critical in the 1990s of the peso's real appreciation. SAC argued that controls should have been imposed on capital inflows to halt the appreciation trend and noted, with reason, that revenues from illicit drug exports were being brought into the country through the capital account.[42]

Financial sector. Perhaps as a result of the draconian restrictions imposed by DL 444/1967 by which al capital flows were severely restricted for over a quarter century, the banker's association (Asociación Bancaria (AB)[43]) seldom expressed its voice regarding exchange rate management, except perhaps through papers or conferences of an academic nature. When exchange controls were lifted in the 1990's, AB became more vocal regarding exchange rate management. In commenting on the peso's appreciation, the banker's association pointed out that if "fundamentals" had appreciated the real exchange rate, then government policy was correct in allowing part of the adjustment to be done through nominal appreciation (with certificates of exchange), and not solely through inflation. However, it was critical of attempts at curtailing capital inflows by establishing a ceiling on interest rates. The association argued that such a policy would exacerbate appreciation expectations, stimulating capital inflows even more.

The central bank also changed its declared policy stance[44] policy stance during the 1990's. For the first time in decades, the bank asserted that the preservation of the real exchange rate would not continue being as primary an objective of exchange rate policy. In the bank's view, its new charter, by placing price stability as the bank's primary objective, precluded an active exchange rate management seeking to preserve the real exchange rate.[45]

At this point, two questions arise. Given Colombia's tradition of moving very cautiously in the reform policy front, how was it possible to implement the ambitious reform program of the late 1980s and early 1990s, which apparently did away with many compensating mechanisms? And second, how was it possible to have a significant real exchange rate appreciation, without using compensatory mechanisms, as had been the case in previous experiences?

With regard to the first question, interesting insights appear in Edwards (1998). He mentions several reasons why President Gaviria embarked on a structural reform program: (i) even though Colombia was not in the midst of an economic crisis, it was going through severe political and social turmoil, as warfare with leftist guerrilla's intensified, and as drug-traffickers went on an all-out terrorist rampage. In that sense, Colombia complied with the crisis-as-a-prerequisite-to-reform argument [Bates and Krueger (1993) and Williamson (1994)]; (ii) multilateral institutions, for a change, were indeed highly influential, in particular in promoting import liberalization; and (iii) on closer look, the reform process was quite incomplete, and in certain aspects tailored to shield important interest groups.[46]

---

[42] It is noteworthy that the issue of illicit drug money was very seldom mentioned as a contributing factor to the peso's appreciation, despite the fact that yearly revenues from this trade probably amounted to 5% of GDP during the 1980s and 2-3% in the early 1990s (Steiner, 1998).

[43] *Revista Banca y Finanzas*, no. 20 (April 1991) and no. 23 (January 1992).

[44] Whether the decalred and actual policy stances concided or not is another issue.

[45] Changes extended to the monetary Board. In the minutes of the Monetary Board corresponding to late 1991, a discussion of exchange rate policy is documented. More noteworthy than the issues discussed, was the fact that the issue was a matter of deliberation. Since the creation of the Board in 1963, exchange rate policy discussions were traditionally held between the Governor of the central bank and the Minister of Finance but were seldom, if ever, a matter analyzed within the Board.

[46] Many public servants –including the powerful teacher's and oil sector unions-- were excluded from labor reform. Second, pension reform did not do away with the public pension fund. Third, tariffs on key agricultural products are now determined through a "price band" mechanism, with tariffs increasing as world prices decline. Fourth, the central bank was granted independence, but the Finance Minister is the President of its Board of Directors.

With regard to the second question, two issues are worth highlighting. First, restrictions emanating from GATT curtailed the possibility of using subsidies as a compensating mechanism for a strong exchange rate, and that was a publicly acknowledged constraint. Second, and more importantly, the appreciation of the early 1990s came after the substantial and deliberate weakening of the peso in 1989 and 1990 (Cárdenas and Steiner, 1997). As mentioned above, the under-valuation of the peso was an integral part of trade liberalization since its very beginning. Of course, any subsequent appreciation is more palatable if the starting point is a weak currency.

IV. Quantitative analysis and evidence

Having described the polity in Section II, the economics and the political economy responses in Section III, in this section we econometrically explore the determinants –both economic and political—of exchange rate policy in Colombia.

In the Colombian context, there are several studies regarding the determinants of the real exchange rate, and even a few regarding the determinants of the nominal exchange rate. A recent summary of the most relevant ones appears in Cárdenas (1997). While nominal variables such as relative money supplies between Colombia and the US or relative price indexes satisfactorily explain the nominal exchange rate, real variables such as the terms of trade and relative factor productivity explain variations in the real exchange rate (RER). These results are, of course, clearly supported by several theories on exchange rate determination.

The most important econometric work regarding political determinants of economic outcomes is that of Escobar (1996). He focuses on the political business cycle governing fiscal and monetary policy, not explicitly addressing issues of exchange rate management. Moreno (1998) reports that the real exchange rate seems to follow a political business cycle, appreciating throughout a presidential period. He does not perform a similar analysis for the nominal exchange rate, which is, after all, the control variable. Both authors use annual data (1950-1995), perhaps not the ideal frequency to analyze political business cycle issues (see below).[47]

The purpose of this section is to complement the usual approach to exchange rate determination by including, in addition to the usual "fundamental" variables, others that should capture elements of political economy. In most cases, we will use dummy variables –i.e. to distinguish between a Liberal and a Conservative government. In others we will use continuous variables –i.e. the "fiscal incentive to depreciate" (see below).

The section is divided into three parts. In the first we briefly summarize some analytical considerations regarding the political economy of economic policy in regard to *nominal* variables. In the second we focus on the statistical description --across different political/institutional phases-- of the dependent variables and of some plausible explanatory variables. In the third part we present the results of the econometric estimations.

The second part, in conjunction with section III above, provides us with a feeling about the expected importance of political considerations by looking at whether a dependent variable differs across political phases. This gives a basis for the exclusion in the econometric estimations of certain variables (i.e. public expenditure) as determinants of the endogenous variable, while supporting the inclusion of political dummy variables. After all, if political economy considerations are relevant, it is likely that the link stems from their relevance over variables traditionally included as explanatory variables in a non-political economy econometric approach.

A. Motivation of political/institutional dummy variables

The new political economy literature –for a survey, see Alesina (1994) – suggests the possible existence of two types of political economy models:

[47] Political economy analysis of exchange rate policy based on descriptive rather than on econometric analysis is undertaken, among others, by Nelson *et al.* (1971), Diaz-Alejandro (1976) and Wiesner (1978).

1. Political-business cycle

According to early models of political business-cycles (Nordhaus, 1975, 1980) parties manipulate policy in order to maximize their chances at re-election, stimulating economic activity prior to elections, and stabilizing afterwards. This theory is questionable, and has found little supporting evidence. Rogoff and Sibert (1988) and Rogoff (1990) offer a model in which the informational asymmetries between government and citizens produces a political-business cycle. According to this model, support at elections might be related to the government's delivery of short-term benefits. In this strand of literature, governments, in order to gain re-election for their party, manage economic policy in such a way that policy is expansionary during the last year in office, and contractionary in the next. In terms of four-year governments, this is captured through a dummy variable that is –1 the first year, +1 the last, and 0 in between.

While Nordhaus and Rogoff and Sibert mainly refer to fiscal policy, Sections II and III of this paper indicate that in Colombia such a pattern might be observed in regard to exchange rate policy, under the assumption that, at least since 1967, a weak currency seems to have been politically appealing.[48] It should be noted that there is an important time-dimension difference between fiscal and exchange rate policy. While the stance in the former is well approximated by the yearly budget, the stance in the latter cannot be captured with low-frequency observations.

2. Partisan theory

The original formulation is due to Hibbs (1977). Alesina (1988) proposed an alternative model, in which parties are rational, and in which differences in behavior can be ascribed to differences in the underlying party coalitions. In both cases, ideology is the driving force. Parties left of center implement policies that favor growth as opposed to stability, while parties at the right of center favor low inflation. Empirically, if the dependent variable is in nominal terms (i.e. the rate of devaluation) the dummy variable is 0 throughout a right-of-center government, 1 otherwise.

3. Other political dummy variables

In addition to the above models, our previous discussion suggests that in the particular case of Colombia, some additional political/institutional dummy variables should be considered. Such is the case of differentiating between (i) National Front governments and non-National Front administrations to capture the fact that in the former there was no active political competition; (ii) the exchange rate regime (fixed until 1967, crawling peg until 1993, and crawling band ever since); (iii) the nature of the central bank's board (private until 1963, fully controlled by the government until 1991, and "independent" since 1991).

B. Descriptive analysis throughout alternative political/institutional phases

Before presenting the results of the econometric analysis, a brief description of the evolution of the dependent variables is useful. Table 12 uses monthly data to calculate the *means* for the nominal rate of devaluation and the real exchange rate. We want to examine whether the variables considered exhibit important differences throughout four of the five political/institutional dummy variables mentioned above.[49]

The data in the table is quite revealing. Regarding the rate of devaluation, it has been higher during Conservative than during Liberal administrations, and much higher after the National Front political arrangement. In addition, it was similar during the period of fixed (but

[48] This hypothesis is in sharp contrast to the intuition in Nelson *et al* (1971, pp. 248), according to whom "the identification of the exchange rate with national prestige is a phenomenon found in virtually every country. Devaluation is never a popular act with the electoral majority, although it may be in the interests of certain minority groups."

[49] Below, the political business cycle model is analyzed using monthly data, not annual averages based on monthly data.

frequently adjusted) parities and during the crawling peg, but it has been smaller during the crawling band years. Finally, nominal devaluation has been smaller during the tenure of an independent central bank.

With regard to the RER, it has been weaker (higher) during Liberal administrations and following the National Front. In addition, it was lower during the fixed exchange rate regime, coinciding with the private nature of the central bank's board. The RER estimated by the central bank has an upward trend (Figure 1).[50] That being the case, any political/institutional event occurring towards the end of the sample period will be associated with a weaker real exchange rate, all other things constant. This upward trend is not a matter of concern, since the econometric exercises reported below use "RER misalignments" as the dependent variable.

C. Empirical analysis

Before presenting the econometric estimations, it is interesting to make reference to the possible existence of a political business cycle (PBC) in two key variables: devaluation and inflation.

Figures 3 and 4 show the average (monthly) nominal rate of devaluation and the average (monthly) rate of inflation. The exact month of each of the last 10 presidential elections (from 1958 until 1994) was identified. Elections took place either in May or in June ("election time" in the graphs). For both variables, two averages were calculated for every month of the year: one includes all months in the sample (i.e. all Januarys from 1958 until 1994, yielding the "average year" line in the graphs); the other includes only those months of an election year (i.e. every fourth January from 1958 until 1994, yielding the "election year" line in the graphs).

For both variables, the months prior to an electoral period are similar regardless of whether it is an election year or an average year. That is to say, once controlling for seasonal elements (which seem to be quite relevant in the case of inflation), there seems to be no particular change in exchange rate policy or in inflation in the months leading to an election.

Interestingly, differences do emerge in the monthly pattern of exchange rate policy in the months *following* an election. New presidents take office in early August. Figure 3 does show that in an election year the nominal rate of devaluation is *lower* than in an average year during the 2-3 month period between an election and an inauguration. Consequently, in the 2-3 months following inauguration, the nominal rate of devaluation is *higher* than during an average year.

One can therefore argue that although exchange rate policy does not seem to be altered as a function of a presidential election, it is still the case that outgoing administrations prefer to strive for nominal stability in the months prior to the transferring of power. In Colombia, as in many other countries, the new administration is generally left with the responsibility of correcting for (some degree of) exchange rate overvaluation.

We now proceed to present the results of the econometric exercises. Two explanatory variables have been considered. In Table 13 we have the (quarterly) nominal rate of devaluation of the Colombian peso against the US dollar. In Table 14 the dependent variable is the deviation from trend of a PPP-version of the real exchange rate.

Nominal devaluation: The OLS estimation uses quarterly data for the 1960:2-1997:4 period. The strictly exogenous explanatory variables are the terms of trade (TOT); the lagged values of Venezuela's nominal inflation (INFVEN), Venezuela being Colombia's most important non-coffee trading partner; and foreign interest rates (proxied by TBILL, the nominal rate of interest on 3 month US Treasury bills).[51]

The dummy variables included are: DPBC is the "political business cycle" dummy (0 in the first and fourth quarters, 1 in the second and –1 in the third); DFN is the "Frente Nacional"

[50] Estimations not reported confirm that it is a non-stationary variable.

[51] For details on the precise definition of all variables, including sources, see Appendix 3.

dummy (1 during the front, 0 otherwise); DCONS is the "partisan" dummy (1 during conservative administrations, 0 otherwise); DFIXED is the "exchange rate regime" dummy (1 if fixed, 0 otherwise); DUMIND is the "central bank" dummy (1 if independent, 0 otherwise). In addition, RERMISAILG captures the degree of misalignment in the RER, as defined above.[52]

In the five estimations reported, no less than 65% of the variance of the nominal rate of devaluation is explained by the variables under consideration. The inclusion of the lagged dependent variable removes any problems of first-order serial auto-correlation. Consistently, TOT is significant and has the expected negative sign. Neither the foreign interest rate nor the Venezuelan inflation rate showed up as significant.

Turning to the political/institutional dummy variables, two consistently do not appear as significant, DPBC and DFIXED. The latter result suggests that the fixed but unsustainable peg regime in place during 1960-67, yielded average quarterly rates of devaluation that were no different than those obtained during the crawling peg and crawling band periods.

In all but one estimation, the nature of the board of the central bank was significant. In particular, and controlling for all other variables, the nominal rate of devaluation is lower during the tenure of the independent central bank. This result is not very surprising, in light of what was described in the third section. In particular, the independent central bank has as its sole objective the control of inflation, a task that has prompted it to adopt several policies, including a deliberate strengthening of the currency.

More interestingly, DFN is highly significant in all the estimations, and has the expected negative sign. In the spirit of Bates (1997), the smaller the degree of political competition –as during the National Front period—the more likely governments will pursue policies that do not compromise economic stability. The National Front formally ended in 1974. In the previous two years world oil prices dramatically increased and several indexation mechanisms were introduced in Colombia, including an indexed unit of account for certain financial transactions, and the consolidation of yearly adjustments of the minimum wage. In addition, after allegations of fraud, the president elected in 1970 pushed for an important increase in public expenditure, increase that went on to become permanent. Since these events have been mentioned as possible determinants of the increase in Colombia's rate of inflation from single to double digits in the first half of the 1970s, it is possible that our DUMFN variable is actually capturing these events. Even if that were the case, our basic premise would still hold, in the sense that lack of commitment for nominal stability came about precisely when political competition became a reality. After all, most countries faced the same shock as Colombia, but most saw only temporary, not permanent increases in the rate of growth of key nominal variables. If whatever sparked this increases is uncertain, the propagation mechanisms, including most prominently the generalization of indexation, can certainly be understood as a political reaction geared towards minimizing the adverse re-distributive effects usually ascribed to inflation.

Finally, DCONS is significant and positive in 3 of 4 estimations. As we saw in the latter part of the previous section, the corroboration that Conservative administrations have witnessed higher nominal devaluations might have something to do with politics –i.e. in spite of the a-political nature of the coffee growers federation, the Conservative Party has always been dominant in the rather traditional, and more religious coffee growing region.

During our sample period, there were very few Conservative administrations, and one of them (Betancur, 1982-86) engineered the most important nominal depreciation in recent memory,

[52] It is important to note that certain obvious explanatory variables have been excluded. In particular, the domestic rate of inflation and the stance in terms of monetary and/or fiscal policy have been excluded. This has been so, because it is precisely thorough this variables that all political economy determinants express themselves. For example, if it is the case that DCONS is positive and significant, then it follows that during conservative administrations control variables such as fiscal and monetary policy are set in such a way as to accommodate a higher rate of nominal devaluation. It is highly unlikely that, if these control variables were explicitly included in the estimations, any political economy dummy variable would show up as significant.

in order to correct for a highly overvalued exchange rate and to avoid an imminent balance of payments crises (see section III). It would be highly inappropriate to suggest that this event was motivated by the Conservatives' lack of commitment to nominal stability. In fact, when controlling for the misalignment in the RER (estimation 4), DCONS is no longer significant.[53] However, it is still possible to argue that when confronted with an overvalued exchange rate, Conservative administrations are readily willing to implement a nominal depreciation, and that readiness has to do with the fact that the party's most important constituents are the main beneficiaries of a weak currency.

Real exchange rate deviations from trend: We compute the difference between the "observed" RER and the forecast from an estimation (available upon request) in which the level of the RER depends on the terms of trade, productivity in the tradable and in the non-tradable sector, the fiscal deficit and the capital account balance. The misalignment is positive when the observed RER is above (i.e. more depreciated) than its forecast value.

OLS estimations using annual data for the 1961-94 period are reported in Table 14. Both in terms of goodness of fit and of auto-correlation, these results are less satisfactory than those reported in Table 13. The first result that should be highlighted is that the misalignment is positively correlated with the fiscal incentive (FISINCENT, as defined in Appendix 3). This finding suggests that when tailoring exchange rate policy, the fiscal consequences of a devaluation are taken into account. As described in the appendix, the fiscal incentive is affected both by stocks (government foreign assets and liabilities) and by flows (public sector imports and exports and trade-related taxes).

While the nominal rate of devaluation was lower during National Front administrations, the RER misalignment was *positive*. This rather surprising result suggests that, notwithstanding nominal exchange rate policy, other determinants of the RER (in particular, fiscal policy) were probably being conducted in such a fashion that competitiveness in real terms was enhanced.

As expected given the results reported in Table 13, DCONS does not show up as significant in Table 14. It is important to recall that Table 13 used quarterly data, whereas Table 14 uses yearly observations. If it is true that conservative administrations actively use nominal exchange rate policy to correct (quarterly) misalignments in the RER, then it should be the case that yearly RER misalignments do not depend on which political party holds power.

The MISALIGN is negatively correlated with DIND, a result that is hardly surprising, given the discussion presented in the third section. Similarly, the fact that DFIXED shows up as negative and significant suggests that, as is generally accepted, one of the drawbacks of a fixed exchange rate regime in the context of a moderate inflation is that it tends to strengthen the currency in real terms (in our context, it keeps the RER below its forecast value).

D. The 1994 Presidential election

As was noted above, the National Front's bipartisan coalition for all practical purposes lasted until 1990. In that sense, during the last forty years Colombia has only witnessed two truly contested presidential elections, that of 1990 and that of 1994. The first one was a run-away by Liberal candidate Gaviria, who was not only running on the coat tails of slain anti-drug campaigner Galán, he also faced a divided Conservative opposition.

The 1994 debate was certainly more interesting. It featured Ernesto Samper from the Liberal party, Andrés Pastrana from the Conservative and Antonio Navarro from AD-M19 (a leftist coalition). The 1991 Constitution mandated that the winner had to command an absolute

[53] In this case, the misalignment is computed at every point in time (i.e. for every quarter) as the difference between the (log of the) RER and its permanent component, the latter constructed with a Hodrick-Prescott filter.

majority, thereby instituting run-off elections. That of 1994 featured Samper, the eventual winner, and Pastrana.

A brief summary of Samper and Pastrana's positions regarding key economic issues is provided in Chart 1. It clearly shows that if it had been the case that for some three decades ideological differences had all but vanished, these differences were quite explicit in 1994. In terms of the partisan model described below, Colombians clearly were faced with a left of center option in Mr. Samper and a right of center alternative in Mr. Pastrana. While Samper favored growth promotion through nominal policies, Pastrana run on a supply-side oriented platform. More specifically, Samper was well in favor of enhancing international competition through active management of the nominal exchange rate. On that account, Mr. Samper, the liberal candidate, should presumably have done better in those parts of the country which are more outward oriented in their productive structure, while Mr. Pastrana should have done relatively better in those parts more heavily dependent on non-tradable production.

Table 15 has two sets of information. Columns (1)-(5) report the results of presidential elections at the Department level; column (6) indicates the degree of tradability of each department's output (according to the 1992 National Accounts; see note to the table). Columns (1)-(3) show the ratio of the conservative to the liberal vote for the 1986, 1990, and 1994 elections[54]; column (4) reports the average for this ratio for 1986/1990; column (5) indicates the *change* in the ratio between 1994 and the 1986/1990 average. Even though the liberal candidate won all three elections (the average for the conservative/liberal ratio for the entire country was always below 1), it is quite evident that conservatives have made consistent, significant progress at the national level as well as in most departments. Certainly, one would like to control for this general trend. That is the purpose of column (5), which shows that the average improvement by conservatives at the national level between 1986/90 and 1994 was 29.7%. Of course, in some departments the improvement was larger than this average, while in others it was smaller.

In 7 of the 10 departments in which the improvement by conservatives in 1994 was *above* average, the share of tradables in GDP was *below* the national average (48.05%). Correspondingly, in 10 of the 13 departments in which the 1994 improvement by conservatives was *below* average, the share of tradables in GDP was *above* the national average. In conclusion, once correcting by an improving trend by conservatives since 1986, the table shows that whether the marginal improvement in 1994 was above or below average seems to be associated with the expected economic impact of announced exchange rate policy on departmental economic well-being, given each departments productive structure. This was true in 17 out of 23 cases.

V. Summary and conclusions

By regional standards, since the 1960s Colombia has exhibited notorious economic stability and institutional continuity. Until recently, the political system was based on an entrenched bipartisan coalition, with little ideological confrontation between the Liberal and the Conservative parties. Power sharing, which was mandatory during the National Front (NF, 1958-74), lasted until 1991. Extreme economic positions seldom emerged, reflecting the non-ideological character of the political coalition.

Coffee, the main export, is a labor-intensive activity, taking place in thousands of family-owned small plots. Coffee producers' income depends on the domestic price of coffee, in turn the result of a complex arrangement with the government, the exchange rate being but one component. Overall, the relevance of labor unions has been declining, although in key public sector activities there relevance has probably been enhanced. Following a 1968 Constitutional

[54] During the 1990 elections Conservatives were divided. There was an "official" candidate as well as an "independent" one. For our purposes, the sum of the two is the relevant outcome.

amendment, Congress' role in economic issues has been limited to fiscal policy, the tailoring of the budget being its main concern.

A survey of key episodes from 1962 to 1997 indicates that efforts have generally been geared towards delivering a moderate rate of inflation and a competitive real exchange rate. Widespread indexation has made this arrangement palatable to most interest groups. Historically, exchange rate policy was conducted in tandem with commercial, financial, and fiscal policies. The latter were used as compensatory mechanisms, designed to garner private sector support for the chosen path of the exchange rate. More recently, when market-oriented structural reforms were introduced, most compensatory mechanisms disappeared, and interest groups became vocal regarding exchange rate policy. This description holds true for all business associations, including the coffee growers federation.

Institutional continuity and the longevity of the exchange rate regime –which basically remained unaltered during the 1967-91 period-- suggest that political considerations might not be relevant in explaining the stable pattern of key economic variables. This intuition *is not* fully supported by the numbers. Econometric estimations indicate that the nominal rate of devaluation was *lower* during NF administrations and *higher* during Conservative governments. The first result supports the fact that political competition might imply less concern for stability. The second could be partially explained by the political influence of the Conservative Party in the coffee-growing region and to the willingness of Conservative administrations to accelerate the nominal rate of depreciation to correct for currency overvaluations.

In addition, the nominal rate of devaluation seems to depend on the nature of the central bank board. In particular, it has been mainly during the tenure of an "independent" central bank that exchange rate policy has been actively used to bring down inflation.

Appendix 1. Political aspects of the 1966 confrontation with the Fund

According to local lore, the confrontation originated in a disagreement on abruptly devaluing the peso.[55] Twenty years later President Lleras confirmed this view (Lleras, 1987). However, other analysts have offered interpretations of the affair that, without contradicting the President's explicit explanation, suggest other motivations on the part of the administration.

López (1987a) notes that the disagreement did not arise from the Government's stated preference for a crawling peg as opposed to a step adjustment, as the crawl had been suggested by the Fund since 1965. He argues that the impasse had its roots in different interpretations of the crisis: while the IMF viewed the situation as caused by lax fiscal and monetary policies --which could be solved with restrictive measures, complemented with an exchange rate adjustment-- Lleras and his team believed the problem was structural, and could not be solved without a complete overhaul of monetary, fiscal, exchange and trade policy instruments.

Maullin (1967) viewed the confrontation as the administration's attempt to muster public support that would bear on Congress to accept the draft legislation it would later place before it.[56] He considered Lleras' nationalistic arguments as designed to subdue those opposing him, noting that the government soon accepted the Fund's position, as indicated by the swiftness with which an arrangement was reached in early 1967 ---a view not contradicted by IMF spokesmen at the time.[57] This is consistent with statements later made by the then Finance Minister, according to which "since September [1966], the President [and his team] had been leaning toward requiring prior permits for all imports, eliminating import liberalization, and reestablishing exchange controls, eliminating as a first step the free market for foreign exchange..."[58]

All these interpretations seem quite consistent with viewing Decree-Law 444 as an expression of the presidential power-enhancing nature of policies preferred by the Lleras administration. In this regard, Findley *et al.* (1983) describe how the constitutional amendments adopted in 1968, about a year after the events we have been analyzing, led to the almost complete loss of power by Congress regarding initiative in economic issues.[59]

Appendix 2. The persistence of inflation

Although exchange rate policy was not determined solely by what was happening to domestic prices, the rate of inflation did have significant influence on exchange rate management. Consequently, an analysis of the political economy dimensions of inflation can shed light on the political economy dimensions of exchange rate policy.

In 1970 conservative leader Misael Pastrana won the presidency with an extremely narrow margin. Seeking a wider base of support, the new government expanded public expenditure, in an episode that has been labeled "el Pastranazo." As aggregate demand increased, domestic markets overheated and inflation, which had been kept at single digit levels for several years, accelerated. [60] The 1973 oil shock further compounded price pressures. The response to

---

[55] Nelson *et al.* (1971) argue that policies adopted by the government were radically different from what the IMF had proposed.

[56] Maullin (1967), abridged and profusely cited in López (1987b).

[57] A devaluation had in fact taken place with the November 1966 emergency legislation, albeit in a roundabout form (López, 1987c). García- García and Jayasuriya (1997) go even further, asserting that the confrontation with the IMF was simply the way by which President Lleras and his team rallied political support for what in effect were IMF inspired economic policies.

[58] Espinosa (1970), cited in López (1987b, pp. 16, our translation).

[59] A more benign interpretation of the reforms would argue that what was done was to establish solid constitutional grounds for practices that had been going on for decades, under the guise of emergency measures adopted within periods of "state of seige". In any event, Archer and Soberg Shugart (1997) argue that Congress felt comfortable with the arrangement –after all, it later resisted presidential attempts at restoring economic powers to congress!!— given that the party system allowed politicians to concentrate on serving clientelistic interests and maintaining patronage, rather than participating in nationally oriented programs.

[60] It also coincided with the explicit indexation of certain financial variables , as the Pastrana administration created a fully indexed segment in the financial sector in order to channel resources towards housing. Whether or not this policy decision was key in establishing the new "inflation plateau" has been a subject of intense debate.

the first oil shock was similar to that observed in other nations, but differed in its persistence: while within two years inflation had begun to subside in most countries, or had definitely skyrocketed in others, Colombia was among the few countries where inflation remained stable at its new levels.[61] Over the next 20 years, Colombian inflation would continuously hover around this new range. Figure 5 shows the rate of inflation, detailing the structural change of the early 1970s.

Recent literature originating at the Colombian central bank has explored the persistence of inflation since its upsurge of the early 1970s. Echeverry (1996) analyzes in a systematic way the policy responses that accompanied different inflation episodes since 1970. He concludes that, in general, the Monetary Board accommodated increases in inflation, except on those occasions when inflation approached (or briefly surpassed) the 30 percent threshold. When this happened, his analysis shows that instruments were adjusted to confront inflationary pressures even when, by doing so, other policy goals (such as employment) had to be temporarily forgone. This study adequately describes why inflation, despite its persistence, never surpassed certain upper limits.[62]

Carrasquilla (1996) has gone further in this analysis by postulating rational behavior on the part of the government and the private sector in reaching agreement on "acceptable" limits of inflation. He hypothesizes that members of society have reached an implicit agreement under which they are willing to accept a certain inflation (between 20 and 30%) *which yields significant inflation tax revenue (about 2% of GDP),* in exchange for the latter's commitment to provide stability in key real variables such as growth, employment and the exchange rate. The evidence is consistent with these postulates: between 1975 and 1995, the private sector faced significantly less variability in key variables than it did before 1975; and the government, in turn, has been able to maintain a lower level of debt than would otherwise have been the case. Carrasquilla then applies Krugman's (1992) insight on exchange rate bands to general price behavior. His results indicate that Colombia's inflation depends on its fundamental determinants and that since the mid 1970s it has behaved as a *credible* "inflation band" model.

[61] Carrasquilla (1996) shows that only Portugal and Greece had a similar pattern in the 1970s. However, their new rates of inflation did not persist into the 1990s as was the case in Colombia.

[62] It fares less well, however, in explaining the persistence of lower limits in the inflationary process, i..e. why the government does not push disinflation below the lower bound of the band.

References

- Alesina, A. 1988. "Macroeconomics and politics". In *NBER Macroeconomics Annual.* National Bureau of Economic Research. Cambridge: Mass.
- --------- 1994. "Political models of macroeconomic policy and fiscal reforms". In: S. Haggard and S. Webb, editors. *Voting for reform: democracy, political liberalization, and economic adjustment.* Oxford University Press.
- Archer, R.P. and Soberg Shugart, M. 1997. "The unrealized potential of presidential dominance in Colombia". In S. Mainwaring and M.Soberg Shugart, editors, *Presidentialism and Democracy in Latin America.* Cambridge University Press. pp. 110-159.
- Asociación Bancaria de Colombia. *Revista Banca y Finanzas.* several issues.
- Asociación Nacional de Exportadores (ANALDEX). *Exponotas.* Bogotá. several issues.
- Asociación Nacional de Industriales. (ANDI) *Revista ANDI.* Medellín. several issues.
- Banco de la República. *Revista del Banco de la República.* Bogotá. several issues.
- Banco de la República. 1993. *Principales Indicadores Económicos 1923-1992.* Bogotá.
- Bates, R. 1997. "Instituciones y Desarrollo". In: D. Pizano and J. Chalarca, editors. *Café, Instituciones y Desarrollo Económico.* Bogotá: Federación Nacional de Cafeteros de Colombia.
- Bates, R. and Krueger, A.O. 1993. *Political and Economic Interactions in Economic Policy Reform: Evidence from Eight Countries,* Cambridge, Mass: Blackwell.
- Caballero, C. 1987. *50 Años de Economía: de la Crísis del Treinta a la del Ochenta.* Bogotá: Editorial Presencia.
- Cárdenas, M. 1997. *La Tasa de Cambio en Colombia.* Cuadernos Fedesarrollo, no. 1.
- Cárdenas, M. and Steiner, R. 1997. El flujo de capitales privados en Colombia. *Cuadernos de Economía,* Pontificia Universidad Católica de Chile, no. 103.
- Cárdenas, M. and Partow, Z. 1998. "Oil, coffee and the dynamic commons problem in Colombia." Fedesarrollo. Working Paper Series. No. 5.
- Carrasquilla, A. 1996. "Dimensiones Fiscales de una Inflación Moderada". *Mimeo.* Bogotá, Banco de la Republica.
- Cukierman, A. 1992. *Central Bank Strategy. Credibility and Independence: Theory and Evidence.* Cambridge: MIT Press. Mass.
- Diaz-Alejandro, C. 1976. *Foreign Trade Regimes and Economic Development: Colombia.* New York: NBER-Columbia University Press
- Dix, R.H. 1978. "The varieties of populism: the case of Colombia." *The Western Political Quarterly.* XXXI (3): 334-351.
- -------- 1980. "Consociational democracy". *Comparative Politics.* 12 (3): 303-321.
- -------- 1990. "Social change and party system stability in Colombia". *Government Opposition.* 25. Winter: 98-114.
- Dornbusch, R. and Edwards, S. 1991. "The macroeconomics of populism." In: R. Dornbush and S. Edwards, editors. *The Mecroeconomics of Populism in Latin America.* NBER and Unviversity of Chicago Press.
- Dornbusch, R. and Fischer, S. 1993. "Moderate Inflation." *The World Bank Economic Review.* 7(1).
- Echeverry, J.C. 1996. "The Rise and Perpetuation of a Moderate Inflation, Colombia 1970-1991." *Borradores Semanales de Economía.* No. 50, Bogotá: Banco de la República.
- Ecopetrol. *Estadísticas de la Industria Petrolera.* Bogotá. several issues.
- Edwards, S. 1995. "Un cuarto de siglo de Fedesarrollo: una perspectiva personal." In: H. Gómez B., editor. *Economía y Opinión.* Bogotá : TM Editores-Colciencias.
- ------------- 1998. "The political economy of incomplete market-oriented reform: the case of Colombia", mimeo, UCLA-NBER.

- Escobar, A. 1996. "Ciclos políticos y ciclos económicos en Colombia: 1950-1994." *Coyuntura Económica*. 26(1): 115-141.
- Federación Nacional de Cafeteros. *Boletín de Estadísticas sobre Café.* Bogotá. several issues.
- Federación Nacional de Cafeteros. *Informe del Gerente*. Bogotá. several issues.
- Fedesarrollo. *Coyuntura Económica*. Bogotá. Several issues.
- Findley, R., Cepeda, F. and Gamboa, N. 1983. *Intervención Presidencial en la Economía y el Estado de Derecho en Colombia*. Bogotá: CIDER- Universidad de los Andes.
- García-García, J. and Jayasuriya, S. 1997. *Courting Turmoil and Deferring Prosperity - Colombia Between 1960 and 1990*. Washington DC: World Bank.
- Gómez, H. 1978. "Comentarios al Artículo de E. Wiesner." In: Wiesner, E., editor. *Política Económica Externa de Colombia.* Bogotá: Asociación Bancaria de Colombia.
- Haggard, S. 1994. "Inflation and stabilization". In: G. Meier (ed.) *Politics and policy making in developing countries: perspectives on the new political economy.* San Francisco: ICS Press.
- Haggard, S. and Webb, S. 1994. "Introduction". In: S. Haggard and S. Webb (eds.) *Voting for reform: democracy, political liberalization, and economic adjustment.* Oxford University Press.
- Hartlyn, J. 1993. *La Política del Régimen de Coalición*. Bogotá: Tercer Mundo Editores-UniAndes-CEI.
- Herrera, S. 1998. "Determinantes y composición del endeudamiento público en Colombia." Mimeo. Fedesarrollo.
- Hibbs, D. 1977. "Political parties and macroeconomic policy." *The American Political Science Review* 7. December:1467-1487.
- Inter-American Development Bank. 1995. "Overcoming Volatility." in Economic and Social Progress in Latin America. Washington: IDB.
- International Monetary Fund. *International Financial Statistics Yearbook*. several issues.
- Junguito R. and Pizano D. 1991. *Produccion de Café en Colombia*. Bogotá: Fondo Cultural Cafetero-Fedesarrollo.
- Krugman, P. 1992. "Target Zones and Exchange Rate Dynamics." *Quarterly Journal of Economics*. 106. 3. august.
- Leal, F. 1995. *En Busca de la Estabilidad Perdida*, Bogotá: Tercer Mundo Editores-IEPRI-Colociencias.
- Lijphart, A. 1977. *Democracy in Plural Societies: A Comparative Exploration*. New Haven: Yale University Press.
- Lleras, C. 1987. "Discurso de Instalación." In: *Colombia - 20 Años del Régimen de Cambios y de Comercio Exterior*. Vol. 2. Bogotá: Banco de la República.
- Londoño, R. 1986. "La estructura sindical colombiana en la década del 70" in Gómez. H., Londoño, R. and G. Perry eds. *Sindicalismo y Política Económica*. Bogotá: Fedesarrollo y Fescol.
- López, A. 1987a. "El Estatuto Cambiario y el Gobierno." In: *Colombia - 20 Años del Régimen de Cambios y de Comercio Exterior.* Vol. 1. Bogotá: Banco de la República.
- --------- 1987b. "El Estatuto Cambiario y la Prensa." In: *Colombia - 20 Años del Régimen de Cambios y de Comercio Exterior.* Vol. 1. Bogotá: Banco de la República.
- --------- 1987c. "El Estatuto Cambiario, el Ambiente Político y el Congreso." In: *Colombia - 20 Años del Régimen de Cambios y de Comercio Exterior.* Vo. 1. Bogotá: Banco de la República.
- Maullin, R. 1967. "The Colombia I.M.F. Disagreement of November-December, 1966: An interpretation of its place in Colombian Politics." The Rand Corporation. Mimeo.
- Meisel, A. 1996. "Autonomía de la banca central e inflación: La experiencia colombiana, 1923-1995." *Borradores Semanales de Economía*. No. 49. Bogotá: Banco de la República.
- Ministerio de Trabajo y Seguridad Social. *Boletín Estadítico del Trabajo y la Seguridad Social*. Bogotá. several issues.

- Montenegro, A. 1997. "Lecciones de la Crisis y el Ajuste Macroeconómico de la Administración Betancur." In: C. Caballero, editor. *La Pasion de Gobernar*. Bogotá: ANIF-Tercer Mundo Editores.
- Moreno, A.M. 1998. "Ciclo político y política económica: un análisis del caso colombiano 1930-1995." Informe Financiero. Contraloría General de la República. Bogotá. Pp. 13-72.
- Musalem A. 1971. *Dinero, Inflación y Balanza de Pagos: la Experiencia Colombiana en la Post-Guerra*. Bogotá: Banco de la República.
- Nelson, R.R., Shultz, T.P. and Slighton, R.L. 1971. *Structural Change in a Developing Economy: Colombia's Problems and Prospects*. Princeton University Press. Princeton, NJ.
- Nordhaus, W. 1975. "The political business cycle." *Review of Economic Studies* 42 (April):169-190.
- -----------. 1980. "Alternative approaches to the political-business cycle." *Brookings Papers on Economic Activity*. 2: 1-68.
- Ocampo, J.A. 1989. "Ciclo Cafetero y Comportamiento Macroeconómico en Colombia, 1940-1987." *Coyuntura Económica*. 3. september.
- Ocampo, J.A., and Revéiz, E. 1980. "Bonanza Cafetera y Economía Concertada." In: E. Reveiz, editor. *La Cuestión Cafetera*. Bogotá: CEDE-Uniandes.
- Ocampo, J.A., Bernal, J., Avella, M. and Errázuriz, M. 1987. "La Consolidación del Capitalismo Moderno - 1945-1986." In: Ocampo, J.A., editor. *Historia Económica de Colombia.* Bogotá: Fedesarrollo-Siglo XXI Editores.
- Palacios, H. 1997. "Estabilización Económica con un Banco Central Intervenido: la Experiencia del Gobierno Betancur." in Caballero, C. ed. *La Pasión de Gobernar*. Bogotá: ANIF and Tercer Mundo Editores.
- Phelps, E. 1973. "Inflation in the theory of public finance." *Swedish Journal of Economics*. 75: 67-82.
- Registraduría Nacional del Estado Civil. 1994. *Elecciones de Presidente y Vicepresidente, Mayo 29 y Junio 19 de 1994*. Bogotá.
- Reveiz, E. and Pérez, M.J. 1986. "Colombia: moderate economic growth, political stability, and social welfare". In: J. Hartlyn and S.A. Morley, editors. *Latin American political economy: financial crisis and political change*. Boulder CO: Westview Press,
- Rivera, A. 1976. *The Politics of Development Planning in Colombia*. Ph.D. thesis. State University of New York, Buffalo.
- Rogoff, K. 1990. "Political budget cycles." *American Economic Review*. March:1-16.
- Rogoff, K. and Sibbert, A. 1988. "Elections and macroeconomic policy cycles". *Review of Economic Studies*. 55 (1): 1-16.
- Sánchez, F., Rodríguez, J.I. and Núñez, J. 1996. "Evolución y determinantes de la productividad en Colombia: un análisis global y sectorial." In R. Chica, coordinador, *El Crecimiento de la Productividad en Colombia*. Tercer Mundo Editores.
- Sarmiento, E. 1978. "Estabilización de la Economía Colombiana Diciembre 1976-Junio 1978." *Revista del Banco de la República*: 1108-1121.
- Soberg Shugart, M. and Nielson, D.L. 1997. "Constitutional change in Colombia: Policy adjustment through institutional reform." *Comparative Political Studies* (forthcoming).
- Sociedad de Agricultores de Colombia (SAC). *Revista Nacional de Agricultura*. Bogotá. several issues.
- Steiner, R. 1998. "Colombia's income from the drug trade", *World Development*, June, Vol. 26, no.6.
- Steiner, R., Rincón, H. and Saavedra, L.A. 1992. "Utilización del impuesto inflacionario en Colombia." *Monetaria*, Vol. 15 (2): 195-212.

- Suescún, R. 1992. "Inflación y devaluación como un fenómeno fiscal: la financiación óptima del gobierno a través de la tributación, el senoraje y las utilidades por compraventa de divisas." *Ensayos Sobre Política Económica*. 22: 7-50.
- ------------- 1997. "Bonanzas, Enfermedad Holandesa y Ciclo Económico Real en Colombia." *Coyuntura Económica*. 2. june.
- Supelano, A. 1992. "The political economy of Latin America: The Colombian experience during the 1980s". *Journal of Economic Issues*. XXVI(3): 845-864.
- Urrutia, M. 1976. *Historia del Sindicalimo en Colombia*. Medellín: Editorial La Carreta.
- ------------- 1981. "Experience with the Crawling Peg in Colombia" in J. Williamson, editor. *Exchange Rate Rules*. New York: St. Martins Press.
- ------------ 1991. "On the Absence of Economic Populism in Colombia." In: R. Dornbusch and S. Edwards, editors. *The Macroeconomics of Populism in Latin America*. NBER and University of Chicago Press.
- Wiesner, E. 1978. "Devaluación y Mecanismo de Ajuste en Colombia." In: E. Wiesner, editor. *Política Económica Externa de Colombia*. Bogotá: Asociación Bancaria de Colombia.
- ----------- 1998. "Transaction cost economics and public sector rent-seeking in developing countries: toward a theory of government failure." In R. Picciotto and E. Wiesner, editors. *Evaluation & Development: The Institutional Dimension*. Published for the World Bank by Transaction Publishers, New Brunswick, NJ.
- Williamson, J. 1994. *The Political Economy of Policy Reform*. Washington DC: Institute for International Economics.
- -------------- 1996. *The Crawling Band as an Exchange Rate Regime: Lessons from Chile, Colombia, and Israel*. Washington DC: Institute for International Economics.
- Yanovich, D. 1997. "Regionalismo y déficit fiscal en Colombia: 1930-1995." Master's Thesis, Universidad de los Andes, Bogotá.

Table 1. Regional origin of policy-makers

Región	Finance Minister[a]		Central Bank Governor[b]		Head of Planning Department[c]		Population 1993	GDP 1992
	Number	%	Number	%	Number	%	%	%
Antioquia	11	20			3	13	13.1	14.5
Atlántico					2	9	4.9	4.1
Boyacá	4	7					3.5	2.8
Caldas	9	16	1	25			2.8	2.1
Cundinamarca	16	29	2	50	13	57	19.7	27.4
Magdalena	1	2					3	1.6
Nariño					1	4	3.9	1.5
N. Santander	1	2					3.1	1.8
Quindío	1	2	1	25			1.3	1.5
Risaralda	1	2			2	9	2.3	2.4
Santander	4	7					4.8	5.5
Tolima	1	2					3.4	3.0
Valle	2	4			2	9	10	11.6
N.A./Others	4	7					24.2	20.2
Coffee growing region	23	42	2	40	5	22	22.9	23.6

[a] 1930-1998

[b] 1969-1998

[c] 1958-1998

Source: Own claculations based on Meisel(1996) and Yanovich(1997).

Table 2. Regional composition of Congress

	1974	1986	1990	1994	Population Distribution (1993)
Number of Senators	112	114	114	100	
Regional composition (%)					
Caribbean region	22.3	21.9	21.9	25.0	21.2
Antioquia region	21.4	21.1	21.1	17.0	19.5
Pacific region	18.8	18.4	18.4	15.0	18.0
Central region	28.6	28.1	28.1	34.0	30.6
Santander region	8.9	8.8	8.8	9.0	8.0
Other regions	0.0	1.8	1.8	0.0	2.8
Coffee growing region	25.9	25.4	25.4	20.0	22.9
Number of Representatives	199	199	199	163	
Regional composition (%)					
Caribbean region	20.1	20.1	20.1	21.5	21.2
Antioquia region	21.6	21.6	21.6	18.4	19.5
Pacific region	18.1	18.1	18.1	16.0	18.0
Central region	29.1	29.1	29.1	26.4	30.6
Santander region	8.5	8.5	8.5	7.4	8.0
Other regions	2.5	2.5	2.5	10.4	2.8
Coffee growing region	26.1	26.1	26.1	21.5	22.9

Source: Own calculations, based on Yanovich (1997) and Dane.

Table 3. Abstention in the 1990 elections
(as percentage of potential voters)

Region	Presidential Election	Congressional Election	
		Senate	House
Total 1/	56.4	43.9	44.8
Coffee growing region 2/	56.7	45.2	45.0
Caribbean region 3/	66.5	36.1	37.2

1/ Excludes Amazonas, Arauca, Casanare, Consulados, Guanía, Guaviare, Putumayo, San Andrés, Vaupés and Vichada.

2/ Includes "Viejo Caldas" (Caldas, Quindío, Risaralda), Tolima y Antioquia

3/ Includes Atlántico, Bolivar, Cesar, Córdoba, Guajira, Magdalena y Sucre.

Source: Own calculations based on Registraduría Nacional del Estado Civil.

Table 4. Inflation and growth in Latin America*

Country	Variable	1960-69	1970-79	1980-89	1990-96
Argentina	Inflation	22.9	132.9	565.7	361.3
	*Ranking: level***	4	5	6	5
	c.v.	1	5	6	6
	Growth	4.04	2.66	-0.75	4.85
	*Ranking: level***	1	2	1	5
	c.v.	6	5	1	3
Brazil	Inflation	45.9	30.5	319.6	1329.6
	*Ranking: level***	6	4	5	6
	c.v.	3	2	5	5
	Growth	9.19	8.01	3.11	1.60
	*Ranking: level***	6	6	4	1
	c.v.	5	3	3	6
Chile	Inflation	25.1	174.6	21.4	14.7
	*Ranking: level***	5	6	1	1
	c.v.	4	6	2	3
	Growth	4.51	2.22	3.67	6.83
	*Ranking: level***	2	1	6	6
	c.v.	4	6	5	1
Colombia	Inflation	11.2	19.3	23.4	24.9
	Ranking: level*	**3**	**3**	**3**	**3**
	c.v.	**5**	**1**	**1**	**1**
	Growth	4.92	5.77	3.40	4.14
	Ranking: level*	**3**	**4**	**5**	**4**
	c.v.	**1**	**1**	**2**	**2**
Mexico	Inflation	2.7	14.7	69.1	21.6
	*Ranking: level***	2	2	4	2
	c.v.	2	4	3	4
	Growth	7.16	6.48	2.26	2.60
	*Ranking: level***	5	5	3	2
	c.v.	2	2	4	5
Venezuela	Inflation	1.2	6.6	23.0	52.2
	*Ranking: level***	1	1	2	4
	c.v.	6	3	4	2
	Growth	5.64	5.19	0.2	3.12
	*Ranking: level***	4	3	2	3
	c.v.	3	4	6	4

* Annual percentage change in CPI and in GDP, respectively.

** An entry of 1 (6) indicates the lowest (highest) level of the variable and of the coefficient of variation (c.v., computed as the ratio between the standard deviation and the mean).

Source: Author's calculations based on IMF.

Table 5. Terms of trade in Latin America

Country		1960-69	1970-79	1980-89	1990-96
Argentina	Coefficient of Variation	0.16	0.20	0.21	0.14
	*Ranking**	6	3	3	6
Brazil	Coefficient of Variation	0.07	0.09	0.13	0.12
	Ranking	2	1	2	5
Chile	Coefficient of Variation	0.08	0.26	0.09	0.04
	Ranking	3	5	1	3
Colombia	Coefficient of Variation	0.11	0.22	0.31	0.03
	Ranking	**4**	**4**	**6**	**2**
Mexico	Coefficient of Variation	0.14	0.18	0.22	0.03
	Ranking	5	2	4	1
Venezuela	Coefficient of Variation	0.04	0.43	0.25	0.10
	Ranking	1	6	5	4

* An entry of 1 (6) indicates the lowest (highest) level of the variable or coefficient of variation.

Source: IMF, "Supplement on Trade Statistics", Supplement Series, 15, and World Bank, "World Development Indicators on CD-Rom", 1997.

Table 6. Central banking phases in Colombia

Period	Nature of the board	Main objective
1923-1951	Private and independent from government	Price Stability
1951-1963	Private and independent from government	Price stability and economic development
1963-1991	Official and dependent from government	Monetary, exchange and credit management
1991-	Official and independent from government	Price stability

Source: Meisel (1996)

Table 7. Governor tenure at the central bank of Colombia

Starting Date	Name	Tenure (years)
15/Dec/1960	Eduardo Arias	8.8
22/Oct/1969	Germán Botero	8.8
24/Aug/1978	Rafael Gama	4.0
26/Aug/1982	Hugo Palacios	3.1
26/Sep/1985	Francisco Ortega	7.4
22/Feb/1993	Miguel Urrutia	
Average tenure		**6.4**

Table 8. Turnover rate of central bank governors

Country	Turnover rate [1]
Argentina	0.93
Honduras	0.13
Costa Rica	0.58
Chile	0.45
Colombia	0.20
Mexico	0.15
Panama	0.24
Brazil	1.33
Uruguay	0.48
Venezuela	0.30
Averge rate	**0.48**

[1] Average changes per year

Source: Cukierman (1992)

Table 9. Partisan orientation of Executive Directors of Fedesarrollo

Executive Director	Partisan orientation	Partisan orientation of the government in place
Rodrigo Botero	Liberal	Conservative
Roberto Junguito	Conservative	Liberal
Carlos Caballero	Liberal	Conservative
José Antonio Ocampo	Liberal	Conservative-Liberal
Guillermo Perry	Liberal	Liberal
Miguel Urrutia	Conservative	Liberal
Eduardo Lora	Independent	Liberal
Mauricio Cárdenas	Conservative	Liberal
Juan José Echavarría	Liberal	Conservative

Table 10. Organized labor

Year	Membership rate*	Number of unions	Number of members
1939	2.80	571	76274
1947	5.50	809	102023
1965	15.80	892	165595
1980	15.70	3781	600000-700000
1984	9.32	2172	873442
1990	7.80	2265	880155

* Organized labor force as % of total

Source: Urrutia (1976), Londoño (1986) and Ministerio de Trabajo y Seguridad Social

Table 11. Labor union membership rate by economic sector

Economic sector	1984	1990
Agriculture	1.8	1.5
Mining	12.7	4.9
Manufacturing	8.1	8.2
Public utilities	53.2	42.0
Construction	3.9	3.0
Commerce	3.0	2.6
Transportation and communications	51.4	27.4
Financial intermediaries	12.8	14.3
Services	19.6	18.4
Total	9.3	7.8

Source: Ministerio de Trabajo y Seguridad Social

Table 12. The political/institutional phases of the dependent variables
(annual average of monthly data)

Phase	Nominal devaluation	RER (dec 86=100)
Partisan model		
1. Liberal	12.69	82.05
2. Conservative	19.88	71.81
Political competition		
1. National Front (1958.08-74.07)	10.22	69.32
2. Post-National Front (1974.08-)	18.24	87.44
Exchange rate regime		
1. Fixed (1951.01-67.03)	15.79	63.38
2. Crawling peg (1967.04-93.12)	16.84	82.89
3.1. Crawling band (1994.01-97.12)	9.98	94.78
3.2. Crawling band (1994.01-94.12)	5.19	96.18
Central bank board		
1. Private (1951.01-63.03)	15.52	62.69
2. Official (1963.04-91.08)	17.08	78.69
3.1. Independent (1991.09-97.12)	11.43	98.16
3.2. Independent (1991.09-94.12)	11.3	101.54

Source: Author´s calculations based on Appendix 2.

Table 13. Determinants of the nominal rate of devaluation
Dependent variable*: Devnom*
(Quarterly data, 1960.2-1997.4, OLS estimations)

Explanatory variable	(1)	(2)	(3)	(4)	(5)
Constant	11.61**	9.41***	9.38***	8.31***	8.13***
TOT	-0.02*	-0.02*	-0.02*	-0.01*	-0.01*
INFVEN (-1)	-0.007				
TBILL	-0.21				
RERMISALIG[a]				-0.70***	-0.73***
DPBC	0.48	0.42			
DFN	-6.46***	-5.70***	-5.66***	-3.80***	-3.33***
DCONS	3.89**	3.82**	3.81**	0.94	
DFIXED	0.57	1.03	1.01		
DUMIND	-3.95	-3.31**	-3.29*	-3.41**	-3.47***
DEVNOM(-1)	0.67***	0.68***	0.68***	0.75***	0.76***
Adjusted R^2	0.65	0.66	0.66	0.71	0.72
Durbin Watson	1.62	1.62	1.63	2.18	2.21

* (**) (***) statistically significant at 90% (95%) (99%)
a Difference between "observed" and "permanent" RER, using a Hodrick-Prescott filter

Table 14. Determinants of real exchange rate misalignement
Dependent variable: ***MISALIGN***
(Annual data 1961-1994, OLS estimations)

Explanatory variable	(1)	(2)
Constant	-0.10	-0.08**
FISINCENT	0.021**	0.02**
XMXT	0.01	
DFN	0.07**	0.07**
DCONS	-0.01	
DMIND	-0.09*	-0.09**
DFIXED	-0.13**	-0.14***
Adjusted R^2	0.47	0.51
Durbin Watson	1.37	1.37

* (**) (***) statistically significant at 90% (95%) (99%)

MISALIGN=RER-RER(forecast)

RER(forecast)=f(TOT, PFT, PFNT, KAC, DEFICIT)

Table 15. Electoral results and composition of GDP

Department	Conservative/Liberal					Output
	1994	1990	1986	Average 1986/90	((1) - (4))*100	Tradable GDP
	(1)	(2)	(3)	(4)	(5)	(6)
Antioquia	1.32	1.01	0.74	0.87	44.77	43.29
Risaralda	1.23	0.48	0.69	0.58	64.82	49.43
Caldas	1.41	1.02	0.96	0.99	42.46	46.78
Quindío	0.82	0.65	0.45	0.54	28.04	50.56
Tolima	0.85	0.70	0.54	0.62	23.45	49.70
Huila	1.39	0.84	0.95	0.89	49.36	46.61
Córdoba	0.67	0.50	0.50	0.50	16.78	57.67
Sucre	0.60	0.44	0.50	0.47	13.23	50.58
Bolivar	0.76	0.63	0.46	0.54	22.14	41.47
Atlántico	0.67	0.57	0.47	0.52	15.49	38.56
Magdalena	0.78	0.57	0.42	0.49	28.33	43.44
Cesar	0.84	0.73	0.47	0.59	25.34	56.88
Guajira	0.81	0.65	0.56	0.60	20.96	59.62
Chocó	0.54	0.33	0.33	0.33	20.74	51.77
Valle del Cauca	0.93	0.76	0.59	0.67	26.10	38.95
Cauca	0.72	0.53	0.58	0.56	16.63	53.65
Nariño	1.28	0.77	0.98	0.87	41.17	41.08
Norte de Santand	1.38	1.06	0.85	0.95	42.58	37.22
Santander	0.92	0.74	0.67	0.70	21.25	51.06
Boyacá	1.27	1.05	0.87	0.96	30.86	43.90
Cundinamarca	0.90	0.77	0.52	0.63	27.05	51.56
Meta	0.88	0.79	0.58	0.68	19.84	51.12
Caquetá	0.99	0.60	0.55	0.58	41.04	50.31
Total	**0.96**	**0.71**	**0.62**	**0.66**	**29.67**	**48.05**

(2) Independent candidate considered as Conservative vote.

(6) As % of total in 1992. Tradable GDP is the sum of agriculture, mining and industry.

Source: Author's calculations based on Registraduría Nacional del Estado Civil and DANE.

Figure 1. Colombia: Phases of the real exchange rate - 1962-1997 (1975=100)

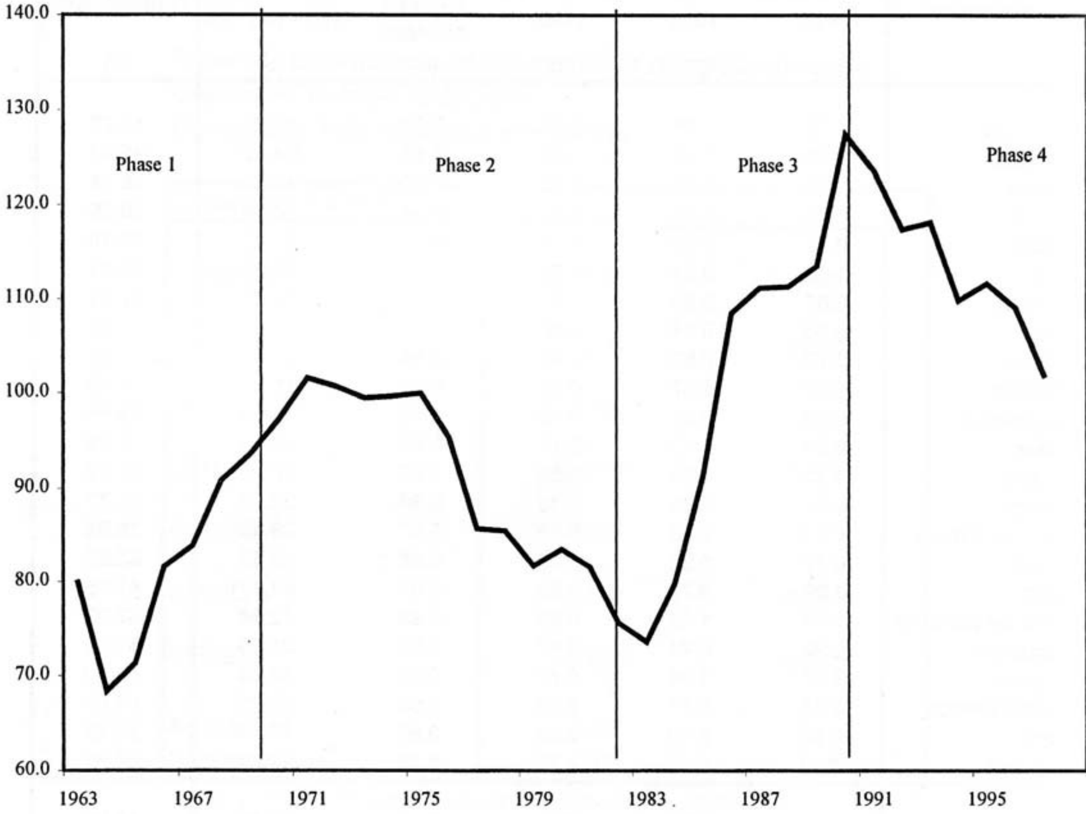
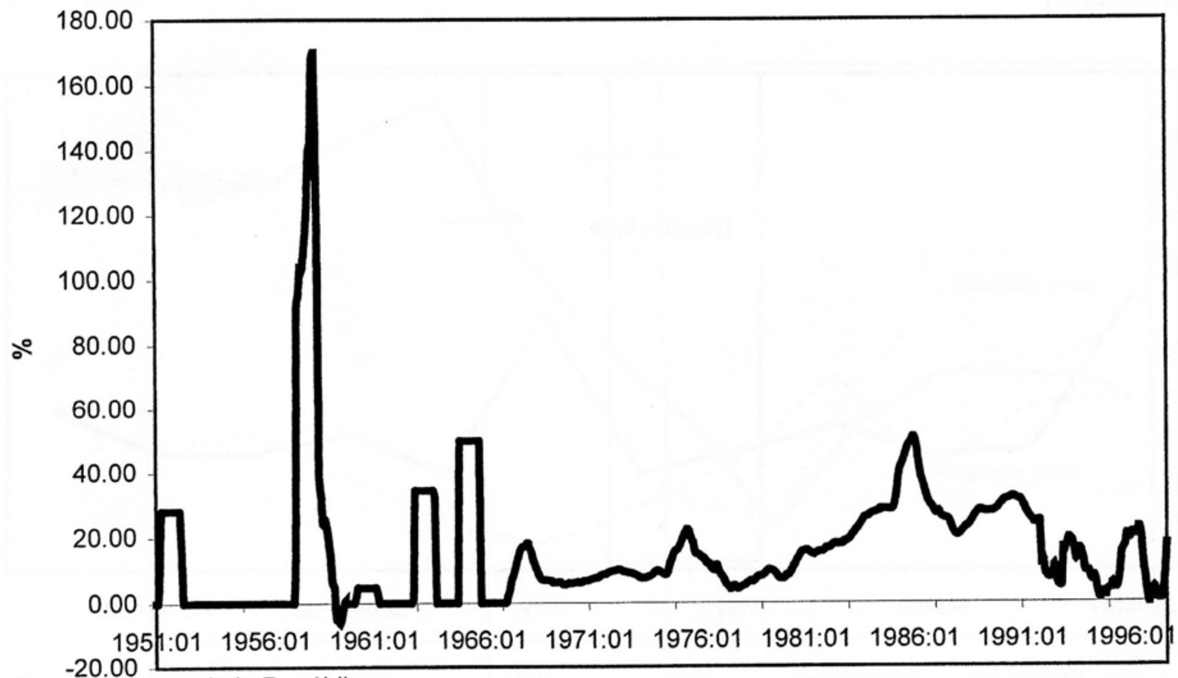


Figure 2. Annual rate of nominal devaluation (1951-1997)



Source: Banco de la República

Figure 3. Monthly rate of devaluation
(Election year vs. average year)
(1958-1998)

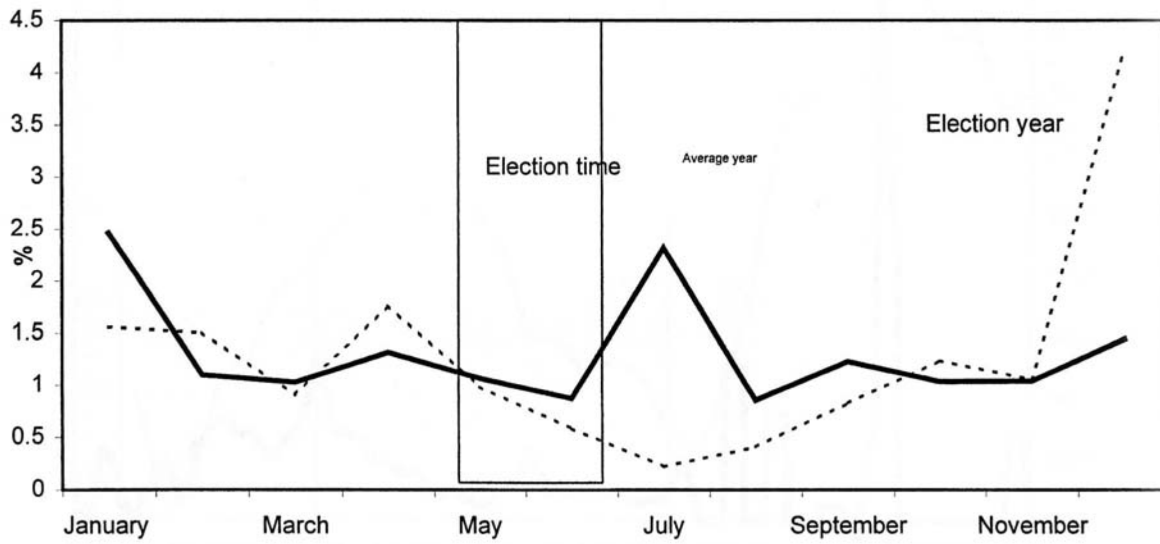


Figure 4. Monthly rate of inflation
(Election year vs. average year)
(1958-1998)

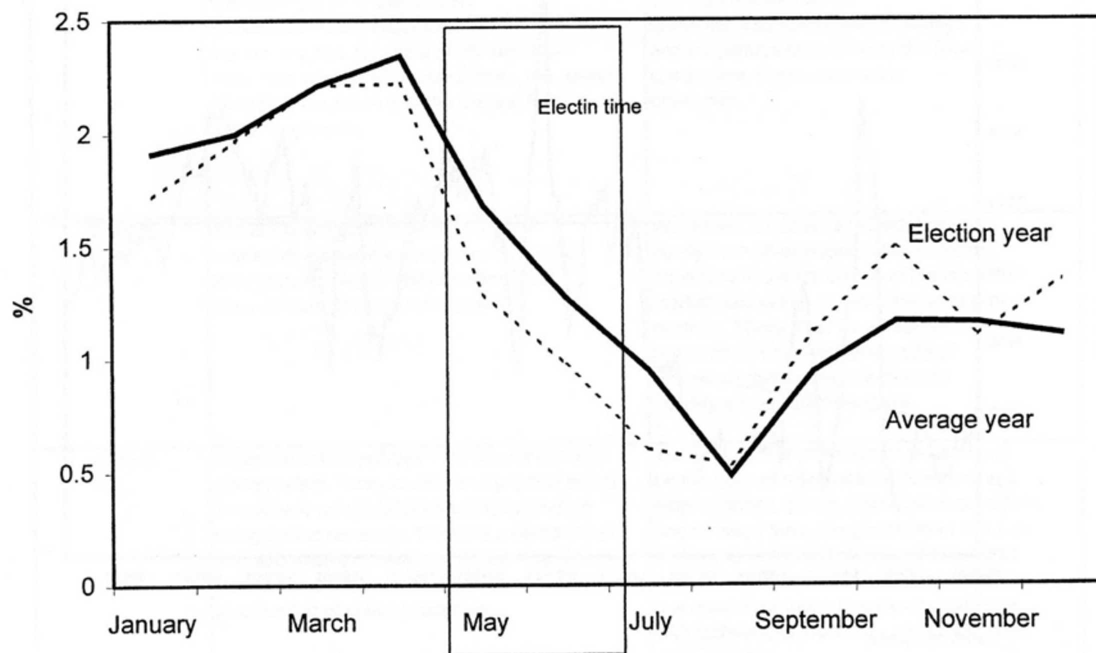
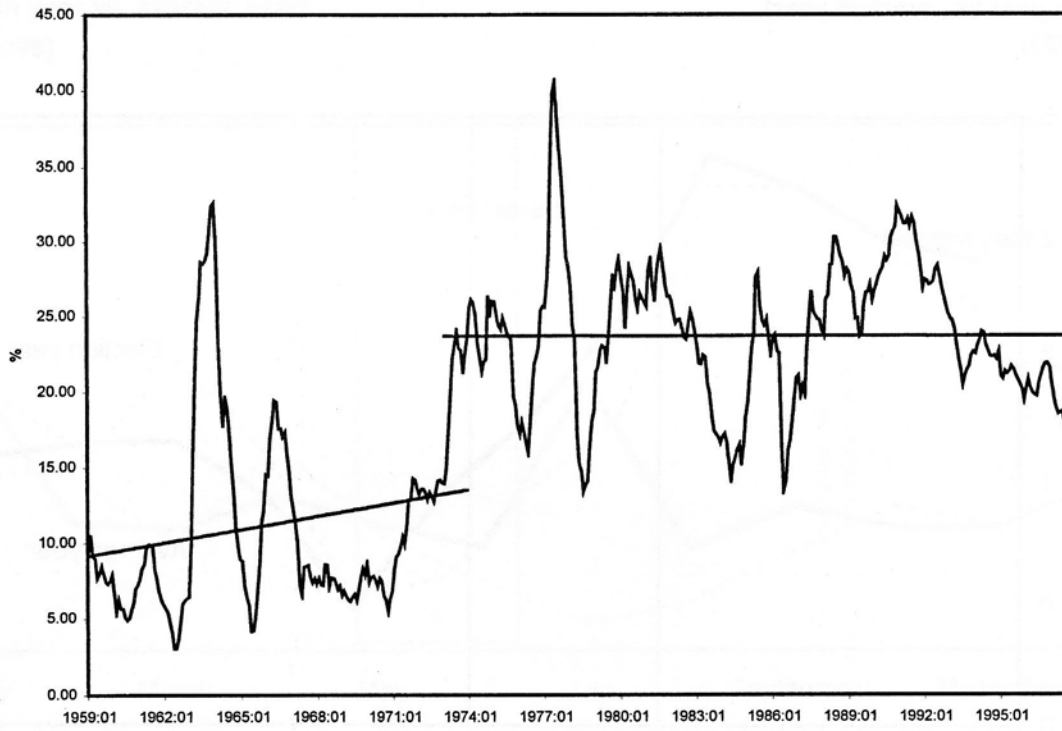


Figure 5. Structural change in the rate of inflation
(monthly data)



Source: Dane

Chart 1. The economics of the 1994 presidential election

POLICY	SAMPER	PASTRANA
Exchange rates	Avoid exchange rate revaluation by investing Cusiana oil revenues and maintaining part of this abroad. Revaluation is the major risk the country has. Because of its negative consequences on economic activity, the government in accordance with the Central Bank must avoid revaluation.	Consolidate structural reforms and liberalization of the economy. Create a foreign account for oil revenues, estimulate private savings and investment by reforming the financial system. Clear pro-market orientation.
Wages	Social Agreement: All salaries, in real terms, will increase in proportion to productivity growth. Wages and pensions must keep at least its purchasing power.	Wages will be determined independently from other prices in the economy, according to the conditions of the labor market, taking into account the labor productivity. There must be agreements between all actors to achieve goals of reducing inflation, macroeconomic stability and productivity gains.
Coffee	Separate coffee policies from macroeconomic performance. Finance infrastructure and social investment with fiscal ressources instead of using coffee revenues. Promote a deregulated and aggressive commercial policy. The National Coffee Fund will be used for price and income stabilization of coffee producers.	The evolution of international prices must be the point of reference for determining internal prices. During unfavorable conditions and for short term, the government can provide credit to the National Fund to avoid fluctuations or falls of the producers income. It is more appropiate to support producers with technology, marketing and credits than with subsidies.

Source: El Tiempo, April 1994.

APPENDIX 3. Database

Year	Inflation Rate (%)	Nominal xchange Ra (%)	Nominal Devaluation (%)	RER (1975=100)	Public Expenditur (% of GDP)	Fiscal Deficit (% of GDP)	oney Growt (M1) (%)	Capital Flow (% of GDP)	Terms of Trade (1975=100)	External Coffe Price (USc/pound)	Mining Exports (% of total exports)	Import Tariffs (%)	Import Licences	Productivity of Non Tradable (1951=100)	roductivity of Tradable (1951=100)	Venezuelan Inflation (%)	Venezuelan Devaluation (%)	Dollar Appreciation (against the D-Mark)	TB Rate (%)	US Inflation (%)	iscal Incentive to devaluate (% of GDP)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
1951	2.8	2.5	28.1	58.9	9.1	0.1	16.4	-0.2	158.1	58.7	15.2	25.0	25.0	100.0	100.0	6.3	0.0	0.0	1.6	10.6	
1952	2.6	2.5	0.0	58.1	8.7	1.4	16.9	0.3	163.5	57.0	14.8	19.4	20.0	98.2	100.1	0.0	0.0	0.0	1.8	-2.9	
1953	6.8	2.5	0.0	54.8	10.0	1.1	18.3	-0.1	167.9	59.8	12.6	21.0	15.0	95.0	100.4	-2.0	-3.5	0.0	1.9	-1.0	
1954	4.4	2.5	0.0	50.9	10.3	0.2	19.3	1.6	209.9	80.0	11.4	21.8	10.0	95.9	98.2	2.7	14.5	0.0	1.0	0.2	
1955	2.3	2.5	0.0	50.4	11.5	1.2	4.7	2.2	178.6	64.6	10.7	23.8	15.0	95.6	98.9	0.8	-12.0	0.4	1.8	0.2	
1956	7.8	2.5	0.0	48.6	10.7	2.0	24.9	0.6	184.6	74.0	13.2	21.1	22.1	96.1	99.0	-2.4	0.4	-0.4	2.7	3.4	
1957	20.2	5.4	114.3	60.0	9.5	3.4	13.6	-5.1	172.9	63.9	15.9	16.7	29.1	97.3	98.4	0.4	3.4	0.1	3.3	2.7	
1958	8.1	6.4	19.0	87.5	9.0	0.3	20.9	-1.9	164.6	52.3	16.6	18.3	42.2	97.2	97.8	1.4	0.0	-0.6	1.8	1.5	
1959	7.9	6.4	0.0	73.0	8.5	0.0	12.0	-1.0	123.4	45.2	17.3	18.5	39.0	96.9	95.0	2.6	0.0	-0.2	3.4	0.2	
1960	7.2	6.7	4.7	75.4	8.6	-0.1	10.4	2.1	87.8	44.9	18.8	17.8	40.1	95.0	95.5	0.8	0.0	0.0	2.9	0.2	
1961	5.9	6.7	0.0	75.4	9.0	1.7	24.6	2.9	87.8	43.6	16.8	16.4	39.4	95.6	94.1	1.5	0.0	-4.2	2.4	-0.4	4.4
1962	6.4	9.0	34.3	79.1	9.0	4.2	20.7	3.0	65.9	40.8	14.6	15.5	47.4	95.4	94.4	4.9	0.0	0.1	2.8	0.2	3.9
1963	32.6	9.0	0.0	79.9	8.7	1.9	12.2	3.3	75.3	39.6	18.1	13.7	62.4	94.7	94.6	3.1	0.0	-0.6	3.2	-0.4	4.1
1964	8.9	9.0	0.0	68.4	8.3	2.2	20.9	2.3	94.1	48.8	15.0	12.7	62.7	95.1	93.1	4.2	34.4	0.1	3.6	0.2	3.8
1965	14.6	13.5	50.0	71.3	8.4	3.0	15.7	0.6	82.4	47.4	17.7	15.8	84.9	94.5	94.8	3.4	0.0	0.7	4.0	2.0	3.3
1966	13.0	13.5	0.0	81.6	9.4	0.5	14.0	5.2	65.9	44.1	15.8	22.7	43.6	94.2	95.0	1.3	0.0	-0.7	4.9	3.4	5.9
1967	7.3	15.8	16.9	83.9	10.2	2.1	21.9	2.0	83.8	41.1	14.4	16.1	96.2	93.6	94.7	1.3	0.0	0.6	4.3	0.2	5.3
1968	6.5	16.9	7.0	90.8	9.9	0.7	14.8	2.6	81.1	41.3	8.8	12.9	83.0	93.2	93.3	1.7	0.0	0.0	5.3	2.4	5.3
1969	8.6	17.8	5.6	93.6	10.5	2.0	19.5	3.5	75.3	41.8	11.8	14.1	82.8	92.5	92.3	1.6	0.0	-7.8	6.7	3.9	5.7
1970	6.8	19.0	6.7	97.2	14.5	2.2	17.2	4.8	99.3	54.0	9.8	15.6	81.0	90.5	93.3	1.5	0.0	-1.1	6.5	3.6	5.9
1971	13.6	20.8	9.4	101.6	17.1	3.0	10.9	4.6	92.5	47.0	9.9	15.7	71.7	89.4	93.3	3.5	0.1	-10.4	4.3	3.3	5.0
1972	14.0	22.7	9.1	100.7	14.8	3.0	24.4	2.7	97.3	52.3	7.1	16.7	71.9	89.5	90.9	3.4	-2.2	-2.0	4.1	4.4	5.3
1973	23.5	24.7	8.6	99.5	17.4	2.8	29.3	2.2	103.9	64.3	4.9	15.9	68.8	87.2	91.0	6.4	-2.2	-15.6	7.0	13.1	5.5
1974	26.0	28.3	14.6	99.7	14.1	3.1	19.6	2.5	108.1	67.8	7.8	12.8	56.4	87.0	89.4	16.5	-0.5	-10.9	7.9	18.8	4.5
1975	17.7	32.5	15.1	100.0	14.1	3.2	27.8	0.9	100.0	67.4	7.1	13.0	57.2	87.8	89.8	14.3	0.0	8.8	5.8	9.3	4.4
1976	25.7	36.2	11.2	95.4	14.4	0.7	34.7	1.4	140.5	144.8	4.0	12.8	60.2	86.9	90.2	7.2	0.1	-9.9	5.0	4.6	3.0
1977	28.4	37.7	4.2	85.7	18.5	1.8	30.4	-0.1	194.8	236.7	3.9	13.4	58.8	87.4	90.8	10.5	0.1	-10.9	5.3	6.1	3.3
1978	18.8	40.8	8.1	85.5	16.2	0.1	30.3	0.6	145.4	164.8	4.2	12.7	57.2	87.1	88.3	7.3	0.0	-13.2	7.2	7.8	2.9
1979	28.8	43.8	7.4	81.7	14.1	1.5	27.8	3.6	129.9	175.5	3.9	12.6	55.6	86.4	87.7	9.3	0.0	-5.3	10.0	12.5	3.6
1980	26.0	50.6	15.5	83.5	14.4	2.3	34.7	3.0	132.1	156.2	2.6	12.0	56.0	86.0	87.6	19.9	0.0	13.1	11.6	14.2	3.6
1981	26.3	58.6	16.0	81.6	18.5	5.5	30.4	6.0	111.4	130.2	1.3	11.4	47.8	86.4	88.9	13.9	0.0	15.1	14.1	9.1	3.4
1982	24.0	69.6	18.7	75.6	16.2	6.0	30.3	6.2	108.1	142.1	7.0	11.4	45.3	85.3	90.5	8.1	0.0	5.4	10.7	2.0	2.7
1983	16.6	87.8	26.2	73.6	21.2	7.4	26.0	4.1	110.8	134.1	15.3	10.7	58.6	86.0	90.6	6.9	0.1	14.6	8.6	1.2	2.6
1984	18.3	112.8	28.4	79.9	20.0	5.9	23.4	2.8	114.6	146.6	14.6	10.4	71.9	86.5	88.2	17.5	63.3	15.6	9.6	2.4	3.9
1985	22.5	169.2	50.0	91.4	19.7	4.4	28.2	7.6	113.5	148.1	15.1	16.1	85.2	85.9	88.1	15.2	6.9	-21.8	7.5	-0.5	4.8
1986	20.9	217.0	28.2	108.5	18.0	0.3	22.8	3.4	138.3	196.7	15.9	18.9	57.6	86.3	83.5	17.6	7.8	-21.1	6.0	-2.9	9.8
1987	24.0	262.1	20.8	111.2	17.6	1.9	32.9	0.0	106.7	116.1	31.1	24.0	54.7	88.1	80.0	44.8	79.4	-18.5	5.8	2.6	6.5
1988	28.1	333.0	27.0	111.3	18.5	2.5	25.8	2.7	107.3	142.9	26.7	21.1	52.8	87.6	80.8	19.3	0.0	-0.1	6.7	4.0	4.1
1989	26.1	429.3	28.9	113.5	18.7	2.4	29.1	1.4	85.2	116.2	33.5	19.5	55.3	88.8	78.5	97.5	139.2	7.4	8.1	5.0	5.0
1990	32.4	563.4	31.2	127.4	16.8	0.5	25.8	0.0	92.3	95.1	39.3	18.0	38.3	87.7	77.7	27.2	35.2	-12.0	7.5	3.6	5.9
1991	26.8	630.4	11.9	123.7	17.3	0.0	30.6	-1.9	89.6	90.8	31.4	5.9	11.8	89.4	77.1	22.3	21.1	1.5	5.4	0.2	3.6
1992	25.1	733.4	16.3	117.4	19.1	-0.1	41.0	0.3	84.2	69.0	30.1	6.4	10.0	88.1	78.6	23.6	20.3	6.5	3.5	0.6	1.6
1993	22.6	803.5	9.6	118.2	18.4	-0.1	30.0	4.8	85.2	76.8	28.0	6.4	9.0	83.3	78.9	34.9	32.8	0.8	3.0	1.5	3.0
1994	22.6	829.2	3.2	109.8	23.4	0.0	25.3	4.0	101.3	157.3	23.4	6.4	8.0	78.8	79.2	78.1	63.5	-4.8	4.3	1.3	3.7
1995	19.5	988.2	19.7	111.7		0.4	20.2	5.8	99.0	158.4	29.3	6.4				57.8	19.1	-7.4	5.5	3.6	4.2
1996	21.6	1000.4	1.2	109.1		1.9	16.5	8.2	95.8	131.2	36.7	6.4				103.2	136.0	8.5	5.0	2.3	5.8
1997	17.7	1296.9	29.6	101.9		3.1	21.7	6.7	96.4	194.3	32.6	6.4				29.3	20.6	15.3	5.2	0.1	4.9
1998																					

(1) Percentage growth in CPI.
(2) End of period. Source: Banco de la República.
(3) Percentage growth in nominal exchange rate.
(4) From 1951 to 1974 it corresponds to the RER calculated with information for 10 trading partner countries. From 1975 to 1994 it corresponds to the RER publishe the Banco de la República. Source: Revista del Banco de la República, IMF Statistics and author's calculations
(5) Consumtion and investment expenditures of public administrations. Source: Herrera and Steiner (1997) and Dane.
(6) Source: Banco de la República (1993) and Dane.
(7) Source: Banco de la República (1993) and Revista del Banco de la República.
(8) Capital account of the balance of payments. Source: Banco de la República (1993), Revista del Banco de la República and Dane
(9) Source: IMF
(10) Source: Federación Nacional de Cafeteros de Colombia, Boletín de Información Estadística sobre Café, several issues, and Junguito and Pizano (1997).

(11) Include oil, coal and ferroniquel exports. Source: Banco de la República Source: Banco de la República (1993).
(12) Source: Sánchez, Rodriguez and Nuñez (1996).
(13) Imports under licence requirement as percentage of total imports. From 1992 to 1994 we assumed that this percentage decreased gradually. Source, Ocampo (1989b),
(14) and (15) Source: Suescún (1997).
(16) to (20) IFM. TB is the 3 month Treasury Bill rate.
(21) It is computed as the following ratio (Import taxes + tax on coffee exports + annual change on external public debt - interests on external public debt + Ecopetrol net exports + coal exports) / PIB. Source: Banco de la República, Ecopetrol and Musalem R. (1971).