Colombia: 'The economy is doing well, but the country is doing terribly'

by Gerardo Terán Canal

During the mid-March meeting of the Inter-American Development Bank (IABD) in Caracas, Venezuela, the World Bank delegation lauded the efforts of the Colombian government to fulfill its foreign debt obligations as proof that a country can follow the dictates of the International Monetary Fund, "keep its house in order," and still have a growing economy. A more realistic view from the inside was expressed by Fabio Echeverri Correa, president of Colombia's National Industrialists' Association (ANDI), who said: "The economy is doing well, but the country is doing terribly."

In fact, what Echeverri calls the "economy" is turning out to be little more than a collection of financial statistics doctored to keep the bankers happy.

According to the Comptroller General's December 1987 financial report, Colombia owes the international banks, as of December 1987, a total of $15.186 billion. Of a total 1987 export income of $5.002 billion, nearly $2.2 billion, or 44%, were used to meet debt service costs. According to the Comptroller, more than 50% of export earnings will be spent to service the debt in 1988.

Despite the fact that 44% of national earnings went to pay the debt, the "experts" continue to insist that Colombia's gross national product grew by 5.6% in 1987, and that the economy is doing just fine, thank you. One could well wonder how an economy which is allocating such a huge percentage of its export income to debt repayment is not on the verge of default. On the contrary, says Finance Minister Fernando Alarcón. In his address to the IABD meeting in Caracas, Alarcón insisted that "Colombia will continue to strictly meet its commitments with the international banks."

A 'successful' laundry

One key to Colombia's "success story" is that, since 1975, Colombia has been the beneficiary of a rapidly growing category of dollar income, known as "services." These dollars come in through what the government of López Michelsen created and dubbed the "sinister window" at the central bank, whose function is to launder the dollars that enter the country from the marijuana and cocaine trade. In 1987, it is estimated that at least $2 billion entered the country as "services."

It was with good reason that Colombian banker Fernando Londoño Hoyos, the former president of the Latin American Banking Federation (Feleban), wrote last year that the international creditors had deliberately invited government tolerance of the drug trade. The social cost of the drug trade, in lives lost and institutions corrupted, means little to a financial oligarchy determined to see the debt paid.

Nonetheless, it would be a mistake to conclude that the "sinister window" has by itself freed Colombia from the grievous economic conditions suffered by the rest of the continent. The economic growth the Virgilio Barco government claims, is premised entirely on the growth of exports—which were, in turn, made possible by the wholesale looting of wage levels.

Although coffee export earnings fell from $2.3 billion in 1986 to $1.3 billion last year, oil exports grew 91% from 1986 to 1987, reaching $1.65 billion. The government proudly points to growth of non-coffee agricultural exports by 11%, mining by 52%, and industrial products by 20% in that same time-frame. In agriculture, the largest boost to income was provided by the two primary export products (after coffee), bananas and cut flowers. In the mining sector, coal and nickel—two major export items—grew by 57% and 23% respectively. In industry, the primary contributors to export earnings were the textile and leather industries.

What the experts don't say is that domestic consumption of most of these products fell dramatically. Colombian agriculture has gone from being a net producer of food to an importer of the most elementary "market basket" items. Food imported by the Agricultural Marketing Institute (IDEMA), the official decentralized organization in charge of merchandizing agricultural products, grew by 30% from 1986 to 1987, at a cost of $140 million. Included in these imports were wheat, soybean oil, soybeans, lentils, milk, chickpeas, fish meal, etc.

While shrinking credits to the productive sector, the government has at the same time warned that unless agricultural producers come up with more food, it will resort to a regimen of mass importation, "to keep inflation rates down." Rice producers are already complaining that they are on the verge of being bankrupted by the government's import policy.

In fact, there is extensive disinformation being spread regarding the country's food producing capacity, which many suspect has to do with the Barco government's preoccupation with its credit-worthiness. Exemplary is the case of beef production. While the government claims the country has 24 million head of cattle, the Federation of Cattle Raisers (Fedegan) says there are only 17 million, and shrinking. Meat has already been priced out of most Colombians' diets as a result, rising 40% in 1987 alone.

The constant and permanent devaluation of the Colombian peso has driven up the price of most domestic consumption items. The minimum wage increased by a mere 25% in 1987, and more than 30% of workers in Colombia's seven main cities are earning less than the minimum.

Despite the fact that the mining sector—the government's pride and joy—produced foreign exchange to the tune of $433 million in 1987, it is in serious crisis, since both coal and nickel are being sold abroad at prices below production costs. Coal, which at its best was selling for $28/ton, suffered a reduction of 23.5% in 1987, while still paying operating costs of $30 per ton. In the case of nickel, while prices recovered somewhat at the beginning of this year, rising from $2.20/pound to $2.50/pound, production costs were still estimated at $2.46/pound, of which two of those dollars went to service the industry's foreign debt.

In the industrial, and especially the textile sector, companies like Coltejer, Fabricato, and Tejicondor showed record profits, but those profits were drawn in large part from a wage-looting scheme known as "the informalization of jobs." These companies, for example, with the blessings of the government, hire cheap but skilled labor from temporary employment pools, establishing a fixed-term hiring regimen which temporarily increases the employment index but ultimately shrinks real income.

The steel sector, which contributed significantly to the growth of the Colombian GNP, in fact sold most of its product either to the mining and oil export sectors, or to meet the "conspicuous consumption" needs of drug traffickers addicted to airplane runways, sports stadiums, underground bunkers, and mansions. The public sector, meanwhile, has eliminated from the budget such long-awaited projects as a mass transit rail system for the overcrowded and neglected cities of Bogotá and Medellín. The National Highway Fund has not constructed a single important new road in Colombia for years.

Then, of course, there is the real estate industry, whose 34% increase in sales in 1987 moved it into third place in contributing to the GNP. The president of Fedelonjas, the real estate industry federation, was nonetheless forced to admit recently that the boom had everything to do with a huge influx of "money of doubtful origin."

Paying the debt

The figures presented by the Comptroller's office reveal how all this "growth" has gone to service the foreign debt. From 1980 to 1987 (in constant 1980 pesos), the government's budget has grown from 195 billion pesos to 256.5 billion pesos. Of the 60 billion pesos increase, 35 billion pesos went to service the debt, 24 billion pesos went to operating expenses, and less than one billion pesos went to investment.

The illusion of the growing economy appears to be crumbling in 1988. In only the first two months of the year, accumulated inflation reached 7%. Unable to count on the shot-in-the-arm benefits of the 1986 tax reform, which amnestied clandestine capital and hiked taxes, Colombia is facing a budget deficit estimated at 165 billion pesos. According to the comptroller's office and central bank, the Colombian government has already surpassed the limits set by the international banks, which could seriously endanger desperately-needed disbursements of the "Concord" ($1 billion) credit, which the government won in 1986 at the cost of accepting International Monetary Fund oversight of the national economy. Another $1.5 billion credit sought by the Barco government for 1988 is already being viewed skeptically by many.

To meet the demands of the banks, the government has just announced a series of "macro-adjustment" measures prepared by World Bank/International Monetary Fund advisers. First of all, they will reduce the money supply by 30 billion pesos, which will seriously affect credit availability. Approved credits for such projects as the Medellín metro will not be used, allegedly because monetarization of those credits would further foster inflation. The same argument was used to cut $20 million in new equipment from the Armed Forces' budget, $63 million from the state electricity sector, $41 million from the state-run telecommunications sector, and $65 million from the investment plans of the state oil company Ecopetrol.

A tax measure undertaken by the Barco government, which requires the declaration of personal bank accounts of more than 6 million pesos, and their possible investigation for tax evasion, has triggered a panicky buying of dollars—and strongboxes—by the country's wealthier depositors. This has led to an unprecedented increase in the black-market dollar, which for the first time has risen 30 pesos over the official dollar. Some of Colombia's most prominent economists are already predicting "dollarization" of the economy. At a recent prestigious forum, Gilberto Arango Londoño asked rhetorically: "Will the use of the dollar as a means of payment increase?. . . Will the number of Colombians who will enter the world of the underground economy grow?" ANDI's Echeverri Correa was more direct, accusing the government of "creating a clandestine economy" with its new tax measures.

The maneuvering room of the Colombian government has shrunk considerably, leaving it but two options. It can take the advice of the political opposition to pursue the Mexican road, refinancing and reprogramming its foreign debt. The other is to adopt the Peruvian model, taking export earnings otherwise allocated to debt repayment, and dedicating them instead to the real economy.