Will Colombia's private banks get the Mexico treatment?

by Valerie Rush

Mexico's bank nationalization is reverberating across Colombia, as a nationwide debate on how to deal with that country's drug-tainted financial system has produced a series of legislative proposals for nationalizing Colombian banking. Colombian President Belisario Betancur has been sending a series of messages to the Reagan administration that Colombia is no longer within its "sphere of influence," and those moves have begun to elicit a mass response the kind of which would make it possible to carry out such nationalizations.

In addition to reiterating his commitment to bring Colombia into the Non-Aligned Movement, Betancur has on several occasions since his Aug. 7 inauguration reminded the Reagan administration that Colombia, in the aftermath of the Malvinas war, will define its own national priorities from now on. In an interview this month with a Miami radio station, Betancur charged the United States with treating Latin America with "Olympian disdain, as its own back yard," and unexpectedly announced that he was prepared to consider renewing relations with Cuba should that country demonstrate a parallel interest.

A 'National Development Bank'

Foremost among the financial reform proposals now before the Colombian Congress is the one drafted by Betancur's economic adviser Hernando Agudelo Villa, entitled "An Alternative to Nationalization of the Financial Sector." Agudelo Villa, a close associate of the new Finance Minister, Edgar Gutiérrerz Castro, insists that the country's central bank be turned into a national bank whose task is to guarantee priority funding for vital development projects, including hydroelectric installations, mining, heavy industry, agricultural modernization, and low-income housing.

The goal, writes Agudelo Villa, is "to guarantee that a substantial portion of national savings and banking credit is oriented through forced investment by the financial corporations . . . to the financing of basic development activities of the country. Thus a distinct reordering of financial resources would be achieved, which now go in unsuspected quantities for speculation."

Agudelo Villa's title for his plan, "An Alternative to Nationalization," was intended as a warning to Colombia's private banks. At a meeting of the Colombian Banking Association on Sept. 5, Agudelo Villa's colleague on the presidential advisory team, Joaquín Vallejo Arbaláez, declared that unless the chaos threatening the country's financial institutions was resolved, the banks would face Mexican-style nationalization.

Backing up Vallejo's statement, another legislative proposal has been submitted to the Congress from the anti-monetarist faction which Agudelo leads, calling for full-scale nationalization. The proposal, authored by Liberal Senator Lara Bonilla, calls for the central bank to either convert reserves held by private banks into central-bank stocks, or purchase majority control outright, thereby taking over management of the private banking sector. The Colombian Communist Party, which has long included bank nationalization as part of its program, has issued an informal endorsement of the Lara Bonilla proposal.

Nationalization plan draws support

Support for the nationalization drive is coming both from the powerful labor movement and the press. In a document presented by the UTC labor federation, Colombia's largest, to a Sept. 6 meeting of the National Labor and Wages Council convoked by the President, the usurers and speculators who dominate the country's financial institutions are targeted as the number-one enemies of the nation. The document asserts that what is required is "a financial and fiscal reform" that will guarantee that all national capital is dedicated to development, "and not to speculation and other such activities."

Elements of the press are similarly undertaking the job of educating the population on the desirability of nationalization of the banks. An example is a series of articles by the widely-read economics columnists Jorge Child and Jorge Méndez, detailing the histories of banking houses in Colombia whose speculative activities have successively collapsed whole chunks of the Colombian economy.

In his latest column in the daily *El Espectador* of Sept. 10, Jorge Child endorses the Mexican nationalization measures, noting that the Mexican decision "has dealt the fiercest blow to Milton Friedman and his 'Chicago School' they have ever suffered in Latin America." Observing how López Portillo generously offered to compensate the expropriated Mexican bankers, Child wryly comments that were the Colombian government to nationalize the private banking system there, it could discount the mass of fictitious wealth accumulated by the speculators, and thereby get off cheap.

Colombia's private bankers have made their initial response to the nationalization proposals. Drug-tainted financial czars like Ardile Lulle and Jaime Michelsen have publicly insisted that the chain of financial scandals in the country were "isolated incidents" and that nationalization was "unacceptable."

The arrest of 13 senior bank executives earlier this month, related to one such "isolated incident" of fraud committed by the sixth largest financial house in the country, has been followed by the arrest of another financial magnate and his coterie of vice-presidents, whose unveiled organized-crime connections threaten to lead to still another banking house.

A plan for creating a real credit system

In the past two weeks, numerous national political figures have submitted legislation to the Colombian Congress urging some form of state intervention or control of the financial sector. One of these proposals, entitled "An Alternative to the Nationalization of the Financial Sector," was submitted by Hernando Agudelo Villa, a member of President Betancur's economic advisory council and spokesman for the anti-monetarist faction within the Liberal Party. Excerpts follow from the Agudelo Villa proposal. Emphasis has been added.

The entire banking system, including that of savings, by essentially constituting a service derived from the State, is a public service . . . by virtue of which the State delegates management of credit and of savings, retaining the right to oversee fulfillment of those activities it has transferred such that service for the necessities of the community is guaranteed; and also retaining the right to cancel the concession when it believes that the services rendered no longer meet the criteria fixed by law. . . .

The free market, based on high interest rates . . . cannot without the decisive intervention of the State allot resources in an efficient and rational manner such that investment is made in areas advantageous for the country . . . . If high interest rates are maintained, if enormous sums are permitted to go to speculation, if savings, credit and resources in general are permitted to remain in the hands of small groups or individuals, it will be impossible to stimulate development and reactivate the economy. And if the State does not direct its monetary policy adequately, it will be impossible to control the inflationary process which is distorting the entire economic process.

It is well known that savings constitute the indispensable foundation for investment and growth of the productive sector. But when it is channeled into speculation, it becomes a dangerous factor for the economy. This is what has happened in Colombia. During the seventies it is undeniable that the financial sector demonstrated great dynamism with respect to the rest of the economy in terms of growth of resources, new services and institutions, and participation in the Gross Domestic Product . . . . Nonetheless, one must be warned that the sector strengthened itself on the basis of repeated speculative cycles with financial resources from within the sector itself, to the detriment of the financing required for productive investment; and a huge volume of resources flowed to highly profitable short-term stocks, to the buying and selling of real estate, to importing and financing of durable consumer goods, particularly automobiles. The Colombian economy was converting to an economy of speculation and idleness, based on usurious interest rates. . . .

Faced with this situation, it becomes difficult to envision the process of industrialization the country requires to increase and diversify its exports, develop its mining program with largely national capital, encourage hydroelectric plans, etc.

Therefore . . . a change of direction which would channel an important part of national savings to basic investments for developing the country becomes imperative. And, since it is demonstrated that the free market has been unable to channel these resources appropriately, it will require compulsory measures such as forced investments to give a social orientation to investments, even while they remain fundamentally in private hands. . . .

The new functions of the Monetary Board will include: regulating admissable and obligatory investments of the commercial banks, insurance companies, financial corporations, savings banks and, in general, all financial intermediaries with the object of channeling part of the national savings to the financing of high priority development projects. . . .

The functions of the Central Bank, in its role as *National Development Bank,* will include:

assigning, through yearly budgets, resources to go for financing the five principal sectors: agriculture, industry, non-coffee exports, energy and mining projects, and low-and middle-income housing; . . . fixing and varying interest and discount rates according to the importance of the respective operations; allowing the banks to keep part of their reserves in operations favorable to the development of the national economy; consigning official deposits in banking institutions to a credit policy designed to strengthen production . . . and exercising control over those investments made with resources provided for financing its programs. . . .

The resources of the Central Bank, for its activities as *National Development Bank,* will come from . . . a "National Development Bond" whose purchase by all financial intermediaries will be obligatory. . . .

Colombian labor federation proposes industrialization push

At the Sept. 6 meeting of Colombia's Labor and Wages Council, which is a policy-making body convened by President Betancur and including his entire cabinet as well as representatives of the nation's labor, business and financial sectors, the president of the largest Colombian trade-union federation, the Colombian Workers Union (UTC), read a document condemning monetarism as immoral and calling for rapid industrial development of the country. Excerpts from that document follow.

The past congress of the UTC adopted a presentation on the Colombian economy which formulated various proposals for the industrialization of the country. As its first point it refuted the monetarist economic theories which claim that inflation is caused by wage increases. . . . We want to clarify the two underlying causes of inflation:

First, is that employment such as services and bureaucracy, is increasing at the expense of the productive sector of the economy. Fewer productive workers are forced to sustain a larger non-productive population, and this is an inflationary burden on the economy.

The second is the high interest rates which channel capital into "high-profit" activities, an elegant name given to investment in real estate speculation, UPACS and other speculative papers. At the same time it makes investment in industry and agriculture prohibitive, creating a situation of maximum quantity of financial paper with minimal tangible goods from production. . . . The speculative bubble is about to burst. . . .

Monetarism has done much damage to our country, not only because of the reduced consumption but because it has created a moral crisis in which lust for profit and easy gain predominates. For example: Why do the businessmen see wage increases as an expense that will diminish their profits? No! Salary is not an expense but an investment in the labor force to enable it to have living conditions necessary to be productive. If you invest in health, education, food and housing you guarantee an increase in productivity and scientific and technological advances will expand more rapidly.

We must improve wages! Improve technology! Fight for lower interest rates and encourage heavy industry! Thus one will see one's business prosper and on this basis we can forge an anti-monetarist worker-industrial alliance.

Another clarification: There are many people who believe in good faith that technology causes unemployment. . . . Think for a moment of Japan. There, instead of feudal techniques, they are using and producing the most advanced science and technology. They have territory half the size of Colombia, and besides, almost all its territory is mountainous. It has to import its food and raw materials, but it is nonetheless an industrial power. Has industrial development caused unemployment in Japan? No, on the contrary, although they have 120 million inhabitants, they need more workers; they have a labor deficit. The government is asking parents to have more children. . . .

We want the country to become an industrial power between now and the year 2000 and for this we require:

1. Develop heavy industry, steel, machinery, machine tools, capital goods, construction materials and electrical-generating equipment. The Atlantic Coast must become the center of national heavy industry with a steel complex to use the coal from the Cerrejon project. . . . For this we will need nuclear power.

2. Develop the agricultural potential of the Magdalena river basin presently used for extensive cattle grazing. Through the construction of dams and other water control projects we can prevent floods, guarantee irrigation throughout the year and thus recover millions of hectares for mechanization. Thus, we could double agricultural production. . . .

3. Expansion of the transportation infrastructure. . . .

This program will guarantee growth in the population's living standards and enable the absorption of the unemployed population. . . .

Now the question is, how to finance this industrialization program? Very soon our country is going to be exporting coal, nickel and other minerals. We must have strict exchange controls to guarantee that not a single dollar or peso leaves the country to import perfume, candies, liquor and other such things. . . . All earnings must go to import capital goods and high technology. That is the only means of abandoning technological dependency. Having machines that produce machines. . . .

5. Finally, we require a financial and fiscal reform that will guarantee that all national capital is dedicated to this program and not to speculation. . . .

There is absolutely no technical or financial problem with this program. The problem is political, deciding to do it and defeating those who oppose it. If President Belisario Betancur decides to take these steps, he can be absolutely certain that he will have the unanimous support of the entire Colombian labor movement.