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Colombia: effects of the adjustment policy on agricultural development

*Astrid Martínez**

Agriculture was the most important activity in the Colombian economy in the 1970s. It contributed 25% of the total gross domestic product, absorbed 32% of the labour force and generated about 75% of total exports. In the middle of the decade the country experienced an unexpected boom in coffee and certain illegal products which, in conjunction with a stronger influx of external resources, strengthened the position of international reserves. However, at the end of the decade the world recession, the fall in international export prices and the accumulated exchange rate slippage were sapping the economy's strength—a situation accentuated by the persistence of structural rigidities.

In 1981, faced with the resurgence of a trade deficit and inflation, the authorities voluntarily introduced a first programme of gradual adjustment, an initiative made possible by the availability of undisbursed loans and the offer of new resources. A second adjustment programme was carried out in 1984, this time controlled by the International Monetary Fund, which gave priority to public investment in exports projects, wage reductions, restriction of imports, and the establishment of a competitive level for the exchange rate. In 1985 the imminence of foreign-exchange crisis prompted the authorities to introduce more stringent adjustment measures in order to cut the external and fiscal deficits and check inflation and the drop in reserves.

Between 1980 and 1984 the agricultural growth rate, which had been 4% a year in the 1970s, fell to 1%, with a consequent decline in the sector's contribution to the gross domestic product to 22%. Reasons for this phenomenon were the stagnation of the production of export crops, their poor diversification, and the drop in food production. On top of this came the decline in earnings from exports other than coffee as a result of the world recession.

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Introduction

The change in external conditions from the end of the 1970s precipitated the well-known debt crisis in Latin America at the beginning of the 1980s. The increasing imbalance in international payments halted the practice of securing financial growth by means of external borrowing, and various adjustment programmes were introduced in the region.

The effects of the adjustment have been the subject of a debate, the heatedness of which is matched only by the shakiness of the empirical and theoretical arguments of the debators. The statistics and the methods are incomplete; the period of time is insufficient; there are no theoretical models that indicate in advance which coefficients will reveal the reactions that can be attributed to the use of the adjustment instruments and which indicators will reflect the presence of structural factors of economic disruption.

Furthermore, it is increasingly difficult to speak of Latin America as a homogenous whole evolving in a certain way and reacting alike to the external environment. The various countries all have their own history and their recent behaviour has been increasingly dissimilar. In the situation at the beginning of the 1980s the closure of the external financial market did not affect all the debtor economies by interrupting the flow of credit which was sustaining the economic expansion. However, the national economies had different degrees of vulnerability in the medium term and each had its own peculiar immediate reaction.

For all these reasons any analysis of the effects of the adjustment on Latin America's farming sector must proceed with caution. The faster modernization of some economies, the different starting points (in the sense that agricultural structures were organized and developed in different ways), and the differing degrees of integration with the world economy have produced, with greater emphasis in the past 20 years, a new profile of the region's economy.

The term "agricultural sector of Latin America" can only be a first approximation. The farming economies most oriented towards the external markets, towards trade crops or

production for industry have different features and react differently from the rural structures more oriented towards major domestic markets for commodities and raw materials or which have a greater proportion of traditional and family forms of ownership and farming or outmoded production methods.

The use of the term "adjustment" means restricting the scope of the analysis with respect to the period of action and reaction and the

instruments used. Furthermore, the concentration on one sector relegates the macrosystemic and dynamic elements of the process to the background. To that extent the peculiar structural factors of the agricultural sector of the Latin American countries could be of lesser importance. However, it will be seen that in the study of this situation there is constant reference back to the study of the genesis and future evolution of the economies.

I

Economic and agricultural development in the 1970s

1. *Main trends in overall economic development*

For 20 years from 1960 to 1981 the Colombian economy grew at an average rate of 6% in real terms. The per capita product increased by 3% a year and stood at US\$1 380 in 1981. Despite the drop in the infant mortality rate, the population grew more slowly than in the past owing to urbanization, literacy and greater participation by women in the labour market. Although this development brought greater pressure to bear on the jobs market, employment increased by about 6% a year between 1973 and 1978.

The rise in domestic prices accelerated from 1970. Between 1970 and 1975 inflation was double the rate of the previous decade. Its levels of between 21 and 25% were far in excess of the 12% annual average of the 1960s. The main causes of the high inflation rate were the deficit financing of public expenditure, the pressures of food supply, and the monetization of the increasing external incomes almost throughout the decade.

The external situation changed from 1967. Partly because the foreign-exchange régime adopted in that year reduced the uncertainty and instability of transactions and partly because the world situation was propitious, in the mid-1970s when other developing countries were grappling with the upheaval in external trade conditions, Colombia experienced an unexpected surge in coffee and booms in illegal products which, together with the increased flow of capi-

tal, strengthened the position of the country's reserves. The trade deficit was not to reappear until 1981, then owing to the exchange-rate slippage, the world recession and the drop in external coffee prices.

Agriculture, manufacturing and trade contributed equally to the aggregate supply, responding to the export incentives and the expansion of home demand. Coffee was the biggest source of agricultural growth in the 1970s. Manufacturing grew up to 1974 as a result of the export incentives but its growth rate slowed owing to the cutback in domestic activity, its technological backwardness sheltered by tariff barriers, the revaluation of the peso following the coffee boom at the end of the decade, and the world recession. Economic activity weakened from 1978.

In the case of demand, the biggest contribution to the expansion was made by the private sector in investment and consumption, encouraged by the government. But the great importance of spending on food restricted the capacity to diversify consumer demand.

The growth is also reflected in the changes in the factors of production, capital and labour. The increase in reserves of capital contributed one half of the product growth between 1963 and 1980, while construction contributed a third and more than half of the formation of capital. Four-fifths of the contribution of labour was due to increases in the active population and one-fifth to more education. A quarter of the growth

in the period was associated with the adoption of economic policies designed to create favourable investment conditions and stimulate output and exports (World Bank, 1983).

2. *Main trends in agricultural development*

Agriculture remained the most important sector of the economy in the 1970s, contributing a quarter of the gross domestic product. Thirty-two per cent of the labour force lived in rural areas and seven products (rice, cassava, bananas, tomatoes, maize, brown sugar and beans) accounted for one half of harvests.

Farm exports contributed between 68 and 75% of total exports, with coffee's share being somewhat variable. Coffee exports made up 60% of the total in 1977-1980, falling to 48% in 1981.

Agriculture grew between 4 and 5% in 1967-1979, a point or two below the average for the economy. The sector's growth was negative from 1982, falling more sharply than the rest of the economy. More than half of the increased production in the 1970s was due to exports growth, of coffee in particular; but the other farm exports also recorded increases: starting from a small base they doubled in real terms. Food imports tripled, with a consequent increase in supplies for domestic consumption (5% a year) and per capita consumption (2.7%) (World Bank, 1983).

Ninety per cent of the increased coffee production was the result of improved productivity. The introduction of the *caturra* variety brought changes in sowing practices, consumption and yields, and this altered the face of the coffee bean economy. In the other crops 56% of the increases were due to expansion of the cultivated area. The advance in tradeable products was more remarkable than in traditional agriculture, and this introduced a bias in favour of production for industry and export which reduced the capacity to supply foodstuffs. The higher yields were achieved by the use of machinery and improved seeds and required large investments in irrigation and land

improvement, whereas the peasant economy suffered official neglect, fragmentation of properties and marginalization from the market, from credit and from technological progress (Martínez, 1987).

Relative agricultural prices moved favourably, but costs tended to rise even more, impairing the profitability of operations. Rural wages improved sharply with the coffee boom in the second half of the decade. Some exports such as bananas and flowers benefitted from the export incentives between 1967 and 1974. But the overvaluation of the peso, which amounted to 47% in the last six years of the decade, the emphasis on the external promotion of manufactures, the export incentives for certain inputs which were expensive in the local market—all these factors made the export of farm goods less attractive during the period.

3. *Visible or latent structural problems at the end of the 1970s*

At the end of the 1970s the Colombian economy began to show the first signs of slower growth under the impact of the world recession and the problems of its production structure and the domestic market. Agricultural yields began their decline and farm production fell in response to the drop in the international prices of such items as coffee, cotton and sesame.

After several years of surplus the trade deficit returned, partly as a result of the drop in external demand and partly because the stabilization measures and measures to reduce the monetization of the increasing international reserves had had the effect of opening up the economy.

After easing a little in 1978, inflation ended the decade at over twice the level of the average for the 1960s (27% in 1980 against an annual average of 12%).

The main causes of the new surge of inflation at that time were the rigidities in the agricultural supply, the expansionary financing of the fiscal deficit, and the financial anomalies caused by the monetary and credit restrictions.

II

The adjustment policies: their main features

The Colombian experience has peculiarities which set it apart from the other debtor countries of Latin America. When the Mexican crisis broke the surface, Colombia still had US\$3 700 million of undisbursed loans, and the decline of new commitments in 1983 was due to the limits imposed by its authorities and not to the closure of the market. Commercial banks continued to lend and multilateral banks continued to offer programme and other loans.

This policy of gradual adjustment was adopted in Colombia voluntarily —unlike what happened in the rest of Latin America— without being subject to the rules laid down by the International Monetary Fund (IMF).

However, from 1982 the international banks were pressing for the country to win the support of IMF and to this end they reduced their new lending to the government. The banks had a powerful weapon. In addition to the resources to finance the fiscal deficit, the economy urgently needed new loans for the oil and coal projects, which were acquiring greater importance as a result of the external difficulties. The favourable

export prospects were dependent on the implementation of major works in the energy sector.

The government then proposed the alternative of IMF supervision. This option not only allowed the retention of relative independence in the design of adjustment policy but also avoided the costs of restructuring the public debt and facilitated the acquisition of new resources without having to give State backing to private obligations.

The adjustment programme sought to keep the share of public investment in the gross domestic product constant in 1985; to give priority to the oil and coal export projects; to check the unruly growth of certain public undertakings such as electricity projects; to cut real wages, but introducing measures to penalize the lower levels less; to maintain the real incomes of coffee producers; to restrict imports growth by 10% in 1985; to continue the search for a competitive level for the exchange rate gradually but firmly; and to avoid massive devaluation, the expectation of which had generated speculation against the peso and the reserves.

III

The general manifestations of the crisis and the adjustment policies

1. *The global effects of the adjustment*

Faced with an imminent foreign-exchange crisis, the government adopted in 1985 a stringent programme of adjustment. The main goals were to cut the external and fiscal deficits to check the slide of international reserves, to gain access to US\$1 000 million of credit from the world banking system with IMF support, and to reduce inflationary pressures. Once the internal and external balances had been restored, it would be possible to take the road of recovery.

The immediate aim of the external adjustment policy was to reverse the outflow of capital and goods. The country agreed to accelerate the devaluation, dismantle its systems of exports subsidies and protectionist tariff barriers, and the volume controls on imports.¹

¹The policy actually put into practice was heterodox partly in that it continued to use controls as simple exchange-rate management was not cutting the demand for essential imports or stimulating exports of non-manufactured goods. Colombia has abundant past evidence of lack of response to changes in the exchange rate; it is admitted, however, that excessive and permanent overvaluation produces undesirable distortions in the allocation of resources.

It also made a commitment to reduce the fiscal deficit and keep wage increases below inflation. The devaluation accelerated to a real 25% in 1985, and reserves rose for the first time since 1982 (US\$280 million).

The trade deficit fell to US\$417 million in 1985. Exports had begun to grow in 1984 and imports to fall in 1983. The strongest exports growth was in coffee, coal, ferronickel, gold and flowers. The growth of other exports was nullified by the fall in oil and derivatives. In view of the seriousness of the crisis, an 8% tax was imposed on all imports and the volume controls were extended.

Most of the saving on the current account went to increase the payment of interest on external obligations. In any event, a reduction of US\$500 million in the current deficit was achieved in 1985.²

Colombia's foreign debt continued to increase (at 11% a year) in 1985, mainly as a result of new official borrowing. The ratio of foreign debt to exports (250%) remained more or less unchanged as the two items increased at similar rates.

In the fiscal area the government obtained authorization from the National Congress to alter the tax structure, and an attempt was made to cut expenditure. Fiscal revenue increased by 47% in 1985, operating expenditure by only 16%, and investment by 47%. The fiscal deficit fell from 35% of total government spending in 1984 to only 22% in 1985.

The price stabilization targets ran up against difficulties in 1985. Despite the stringent policy of real wage and salary cuts by means of faster devaluation and a tight wages policy, several factors nevertheless fuelled inflation. The devaluation itself, increased between May and June to the equivalent of a nominal 60% a year, caused price rises which were promptly checked by the government by means of imports and price controls. But the recovery of the international price of coffee and the new external loans meant that reserves were no longer a constraining factor.

²In local currency the current deficit rose from 6.0 to 6.6% of the gross domestic product. The devaluation helped more towards reducing the fiscal deficit by increasing the peso revenue of the National Coffee Fund.

The consumer price index had risen 18.3% in 1984; the inflation rate of 22% a year in 1985 was achieved at a high cost in terms of equity and the financial equilibrium of public enterprises.

The greater negative impact of the adjustment policy was evidenced by the regressive nature of wages policy. Real wages fell between three and 5% in 1985. The cut in real wages was needed because of the emphasis on making the exchange-rate policy a success. The lower wage costs offset the increase in the costs of imported inputs caused by the devaluation and made a real adjustment of the exchange rate possible.

Farm and commercial wages fell by 4 and 5% respectively, and industrial wages by 3%; all wage earnings fell in real terms, but the biggest losses were among the lower paid.

The government's vigorous action in the financial market and the sharp devaluation prevented a fall in real interest rates, with consequent undesirable effects on investment.

In short, the 1985 adjustment was successful in that it attained the proposed external and fiscal targets, although at the cost of cutting activity to a dangerous level of gross domestic product (2.5% a year).

To judge by developments in 1986 and early 1987, the adjustment was sufficient. Several factors contributed to the 1986 results. The coffee boom and external credit resources improved the payments indicators. The tax reform increased fiscal revenue while at the same time freeing the purchasing power of wage earners.

Economic activity recovered in all sectors except construction, and the gross domestic product grew by 5%. If the current talks result in the granting of new foreign loans and if private investment and production consolidate their recent growth, the way would seem to have been cleared for a return to longer-term policies.

2. Effects of the adjustment on income distribution

The adjustment policy has altered both the composition of demand and relative prices since 1983. The impact of the shifts in the pattern of demand was not serious between 1983 and 1985, according to the only available assessment (Lora and Ocampo, 1986).

The most important effect was the changes in the relative prices of inputs and goods. Real rural wages fell, reflecting according to Lora and Ocampo the low agricultural growth rate and the lag in the minimum wage. The real wages of urban and public sector workers increased up to 1984. In that year they began to fall. The changes in relative prices at the same moment affected other non-wage incomes. The Lora and Ocampo study distinguishes the impact of the rise in relative prices on income distribution from other impacts, and it finds that it benefitted rural landlords most and peasants a little, while impairing wage incomes; the first two groups gained 1.5% in total income in 1985.

Urban landlords also had to lose because the rent surcharge was fixed at 10% from 1983, below the inflation rate of between 17 and 23% in the 1980s.

A recent assessment of the impact on incomes calculated the results in terms of the

real income and employment level of the groups studied. This work shows that the capitalists bore the weight of the recession and the macro-economic adjustment as they lost income from 1981, while peasants and rural landlords had better incomes in real terms, with a remarkable jump in 1985 producing increases of 30% over the real 1980 levels.

The excellent performance of the economy in 1986 led to an improvement in private profits which was not accompanied by a rise in the share of wages in the national income.

Activity maintained a recovery rate in 1987, but the wages lag and the paralysis of important public investment programmes have generated civil and trade-union pressure for proper provision of services and wage increases which should lead to a change in the distribution of the benefits of the economic recovery.

IV

The impact of the adjustment policies on agriculture

Colombia's agriculture sector grew only 1% between 1980 and 1984, whereas in the two previous five-year periods it had grown at an average annual rate of about 4%. At the same time the share of the farm product in the gross domestic product fell from 23.9% in 1975 to 22% in 1985. But these figures do not convey the qualitative changes in the sector's output. Food self-sufficiency declined in the period, and the value of food imports rose steadily. The improved productivity of tradeable crops recorded up to 1975 came to a halt, and the diversification of farm exports slowed down. The concentration of income, the smaller domestic market and the technological model adopted in farming are what shape the sector's present profile, which is largely a result of the development route chosen by Colombia, which has stimulated the urban economy and production for export.

For the purposes of evaluating the impact of the adjustment policy on Colombia's farming

sector and on rural society, it is important to distinguish within the model the results which constitute responses to the *ad hoc* shock measures used in the management of the external imbalance in the 1980s from the effects of other phenomena which are merely the age-old expression of historical difficulties of the farming sector in the Colombian economy and consequences of the development model.

Traditional exports of farm and manufactured goods were affected more by the world recession than by the domestic measures. The fall in export earnings as a result of the drop in prices and demand for agricultural exports was accentuated by the reversal of the coffee boom when external prices fell sharply, and it revealed in the first years of the current decade the scale of Colombia's industrial and exports weakness (Misión de Empleo, 1986).

The recession has bitten deep in recent years: the product grew at barely 2.2% a year between 1979 and 1985; the slow population

growth rate of 1.8% a year led to a small increase in the per capita product, in contrast to the Latin American experience of the 1980s. Industry and the farming sector showed little growth (1.4% a year on average). Although services grew faster than the average at 3.2% a year, this growth was two points lower than in the previous period.

Coffee earnings increased little in real terms in the 1986 coffee boom and their effect does not seem to be very great. The smaller harvest, a result of the age of the modernized estates, will reduce the demand for labour by 65 000 temporary and 16 000 permanent jobs between 1987 and 1988, and this will come on top of the past reduction of 139 000 and 35 600 jobs respectively between 1983 and 1985. Unless investment is made in infrastructure or transfers are made through the National Coffee Fund, the Agricultural Financial Fund and the DRI Fund to maintain coffee productivity, reduce the social inequalities and guarantee a stronger demand for farm products in the years to come, any coffee booms will lose a large part of their impact on the aggregate demand.

1. *Agricultural employment*

Agricultural employment accounted for 59.2% of the total in 1938, 49% in 1964, and 32.7% in 1984. The sector's contribution to the creation of new jobs was 18% between 1951 and 1980, but it contributed only 12% in the first four years of the 1980s. This loss of strength was also found in manufacturing. Industrial jobs provided 17.5% of the total in 1980 but had fallen to 16.4% by 1984. Industrial growth generated 21.3% of new jobs between 1951 and 1980, but between 1980 and 1984 industry provided barely 4% of the new jobs in the labour market. Services generated over 70% of the new jobs between 1980 and 1984, 80% of them concentrated in the urban areas of the country. This "tertiarization" of the economy, which is apparently in line with world trends, has peculiar features in the Colombian economy, as in other developing countries. The increasing importance of services conceals forms of underemployment, temporary work, changes in hiring practices, and own-account activities of varying profitability, the analysis of which demands not only a breakdown of figures but

also, and more importantly, a redefinition of categories for a services economy, and a treatment which incorporates "informality" and "tertiarization" as simple economic manifestations in the present phase of the cycle. The similarity between the farming sectors's contributions to job creation and to production growth in the country (around 20%) for three decades indicates stability in the growth of the sector's productivity, which reduces underemployment and reveals the degree of modernization of farming. More so than in other Latin American countries, in Colombia agricultural growth is due to the incorporation of technology and capital (Elías, 1985).

The demand for labour for maintenance and harvesting work fell by about 10% in the 1984-1985 coffee year. As the Misión de Empleo notes, coffee-growing has not had the ability assigned to it by some people to compensate for the loss of vigour in the non-coffee farming sector; the increase in its demand for labour has not been large, nor has it absorbed migrant workers. Increases in labour productivity have limited the expansion of coffee jobs resulting from the more intensive use of labour in the cultivation of the *caturra* variety. The labour demand for the harvest is concentrated in October and November and only at that time can there be any question of taking on more migrant workers in the coffee zone (Errázuriz, 1986).

The estimates of employment in the non-coffee sector do not allow any conclusions to be drawn about the behaviour of the labour demand in other crops, but they do indicate trends: mixed crops determined the cycle of farm jobs; tradeable crops provided increasingly fewer days of work per hectare; the lower demand for cotton and rice was not made good by the higher output of bananas (for export), sugar cane, African palm oil and sorghum.

At the regional level, there was a redistribution in favour of the eastern zone, which provided more than 35% of the jobs in mixed crops, whereas in 1976 its demand for labour was only 27.5%, and to the detriment of the Atlantic zone where the share in the demand for labour fell from 16.5 to 12.5% between the two years in question. The central and Pacific zones lost a small part of their shares.

2. Expenditure in the agricultural sector

Changes in public expenditure and the administrative and institutional capacity of the State are the principal reasons for the sector's recent loss of strength.

Analysis of the budgetary allocations to the agricultural sector, the implementation capacity of the institutions and the distribution of spending on operation and investment produced the following results:

- a) The percentage of budgetary funds allocated to the Ministry of Agriculture fell steadily between 1975 and 1982 from 2.96 to 1.58%; it then recovered to 3.4% in 1984 but in 1985 fell back to 2.39%, below the 1975 level;
- b) The farming sector and its decentralized institutions showed a poor implementation capacity both in the central nucleus, which suffered definite reductions in its allocations, and in the subsidiary institutions, which received increasing amounts;
- c) With respect to the distribution of expenditure, there was a sustained rise in the budgeted and actual spending on operation. The growth rate of these two items was positive throughout the period 1975-1985, with a relative slowdown between 1980 and 1982, and in 1984-1985 it was the reason for the increase in transfers as a percentage of operating expenditure at the expense of personal services. Transfers amounted to under 2% of the farming sector's spending in 1975 but almost 10% in 1985. The proportion of operating expenditure in the sectoral total grew to the same extent from 8% in 1975 to 15% in 1985. The proportion of investment spending changed little. It lost five points in 1983 from its 1975 share of 85%, but in 1985 it recovered to 83%. The share of investment was fairly stable in the 1980s except in 1983 when, owing to the adjustment, the budgeted and actual debt service both increased;
- d) Public investment in land improvement has fallen 65% in real terms since 1971; in 1970 it represented 0.6% of the agricultural gross domestic product, but in 1983 only 0.14%; since 1973 spending on irrigations works

has practically ceased (Balcázar and Supelano, 1986). Spending on physical infrastructure, including operation and maintenance of the irrigation zones and the supplementary works, fell from almost 2% of the agricultural gross domestic product in 1981 to under 0.5% in 1985. Expenditure on agricultural research, according to the Office of Agricultural Sector Planning (OPSA), which includes the management of the centres and stations, retained its share of about 0.4% in the agricultural gross domestic product between 1970 and 1985. But when expenditure on research and development is compared strictly with the sectoral product, it falls appreciably from 6.51% in 1970 to 0.25% in 1981-1982 (Balcázar and Supelano, 1986).

- e) The resources of the institutes responsible for maintaining the expansion of the commercial farming subsector, the Colombian Institute of Hydrology, Meteorology, and Land Improvement (HIMAT) and the Colombian Agricultural Institute (ICA), increased much more than those of the Colombian Institute of Agricultural Reform (INCORA) which is concerned with the peasant economy (table 1); this demonstrates once again the bias of spending policy in favour of commercial agriculture and production for export;
- f) The external debt of the decentralized institutions rose at a dizzying rate, making independence in programme implementation more difficult and increasingly subject to directives from international financial institutions, and undermining the co-ordination capacity of the Ministry of Agriculture.

The macro-economic policies designed to facilitate the working of market mechanisms in the allocation of resources in economies such as Colombia's affect farming activities in several ways. The overall reduction of expenditure in order to correct the fiscal deficit has a greater impact on a sector in which the public contribution is crucial in the provision of physical infrastructure, basic research and development, price stabilization, commercial intermediation, the supply of inputs and loans on terms which guarantee average profitability, and the promotion of exports.

Table 1
**COLOMBIA: INVESTMENT BUDGET AND IMPLEMENTATION
 OF NATIONAL PUBLIC BODIES, 1975-1983**

	1975	1976	1977	1978	1979	1980	1981	1982	1983
ICA									
PD	897	1 031	1 486	...	2 121	2 636	3 428	4 192	5 547
EP	83.7	83.6	71.6	-	84.9	91.4	83.6	98.8	84.8
INDERENA									
PD	368	348	502	639	869	1 186	1 419	1 492	2 070
EP	71.8	80.4	74.7	71.9	84.6	97.9	81.5	90.3	95.3
INCORA									
PD	1 884	1 690	1 903	1 669	2 071	2 706	3 776	4 274	5 932
EP	74.9	74.4	66.9	60.5	53.4	63.5	52.0	86.1	65.0
HIMAT									
PD	57	110	343	676	980	1 339	1 623	1 788	3 715
EP	92.2	71.9	66.2	65.4	73.1	79.6	75.3	91.2	75.0

Source: *Informe financiero*, May 1986, p. 64.

Note: PD: Final budget, in millions of pesos.

EP: Implemented, in percentages.

Table 2
**COLOMBIA: SHARE OF AGRICULTURAL CREDIT IN TOTAL CREDIT
 AND RATIO TO ITS CONTRIBUTION TO THE PRODUCT**

Year	New loans to the sector/total	Agri. port- folio/total (%)	Sector GDP/ total GDP (%)	Lending to sector % agri./GDP %
1978	21.8	29.2	23.0	19.5
1979	19.9	31.3	23.0	19.3
1980	14.8	27.5	22.7	21.2
1981	19.0	25.4	22.9	21.9
1982	21.4	27.8	22.1	24.2
1983	22.1	27.0	22.3	25.5
1984	21.5	26.6	22.3	25.8

Source: Bank of the Republic (1985).

3. Agricultural credit

The share of the farming sector in total credit was slightly higher than its contribution to the product (table 2), and its growth was in step with the growth of the sector and of total credit (Sarmiento, 1986).

However, the general policies adopted in the 1980s changed the nature of the sector's borrowing and accentuated biases which were already emerging in earlier decades.

The acquisition of resources became more expensive, as in the end did the financial terms of the official funds which were formerly instruments of agricultural promotion. The quest for realistic interest structures in the credit market and for homogeneity in the treatment of different activities reduced the credit subsidy in the areas in which it was still available. The resources for farm marketing are insufficient, and the official lending institutions are not entirely com-

mitted to making the machinery work better, nor are they carrying out their original functions. The Caja Agraria (Agricultural Savings Bank), the official intermediary specializing in small and medium-sized savers, is looking increasingly like a commercial body and the Agricultural Financial Fund discriminates in its lending against persons not assisted by banking intermediaries.

Moreover, the financing of the foreign debt of the Agricultural Marketing Institute (IDEMA) leaves no room for more flexible treatment from the standpoint of the monetary implications of the expansion of agricultural credit.

The mixture of the promotion and monetary functions in the Bank of the Republic (the central bank) has always been a source of conflict between the objectives of the policies of stabilization and of sectoral stimulus, laying the investment plans and the production of the products financed open to uncertainty (Sarmiento, 1986).

The drop in agricultural activity and the higher cost of imported machinery and credit caused a slowdown in the growth of lending for land-improvement and infrastructure works and for farm machinery from 1982, which can be seen from an analysis of the demand for inputs and the scale of the increase in farm costs in the sector's crisis.

V

Restrictions and determinants of agricultural development

1. Agricultural production

Agricultural production has been weakening in the past 15 years. Table 3 shows its growth broken down by group of farm products. The most important groups of products (oil crops, grains and sugars) followed the agricultural cycle described above. Output increased in the first five years of the 1970s; in the following period it stabilized and fell slightly, and in the first years

of the 1980s the growth rates became zero or negative. The production of legumes, which was three times the growth average in the early 1970s, has fallen spectacularly in the past 10 years.

The 20 crops which account for 95% of the country's agricultural production (without coffee recorded substantial falls in physical production between 1980 and 1985. Of the most important crops, only African palm oil and sugar cane showed any improvement.

The areas sown and harvested tended to decline or remain unchanged, so that the production increase in the past five years was due to higher yields.

Livestock production achieved better results, with falls between 1981 and 1982 and a relative recovery from 1983 (table 4). Taking the products individually, only milk and chicken production can be considered acceptable during the 1980s. Beef production fell 1.5% as an annual average; pork production rose 0.6% a year and egg production 1.6% (Balcázar and Supelano, 1986).

There are several reasons for the decline in the agricultural product in recent years. The most important on the supply side is the neglect of the importance of the peasant subsector,

Table 3

COLOMBIA: GROWTH OF AGRICULTURAL PRODUCTION BY GROUP OF PRODUCTS, 1970-1984
(Annual rates)

Group	1970/ 1975	1975/ 1980	1980/ 1984
Cereals	9.4	3.9	-
Oils	1.0	-2.1	-8.8
Legumes	18.2	-0.2	0.1
Tubers	3.0	4.0	0.2
Fruits	2.4	7.7	-0.3
Sugars	7.0	7.1	1.7
Others	1.2	9.0	-1.2
Total	5.7	3.8	0.7

Source: Balcázar, 1985, p. 72.

Table 4

COLOMBIA: VALUE OF AGRICULTURAL PRODUCTION, 1981-1986

	1981	1982	1983	1984	1985 ^a	1986 ^a
Millions of 1981 pesos						
Agriculture with coffee	272 134.8	260 319.5	265 838.1	260 437.3	267 508.1	285 750.8
Agriculture without coffee	213 159.7	207 228.7	205 615.1	209 815.9	218 208.9	233 211.7
Biannual crops	86 739.7	84 133.1	80 896.1	85 056.3	83 813.2	91 557.0
Permanent crops	126 420.0	123 095.6	124 719.0	124 759.6	134 395.7	141 654.6
Coffee	58 975.2	53 090.8	60 223.0	50 621.4	49 299.2	52 539.1
Livestock	144 396.2	145 659.8	143 604.1	151 986.4	155 993.1	161 501.2
Slaughter	62 379.3	59 243.5	54 970.0	59 744.1	61 295.2	63 153.8
Other livestock	82 016.9	86 416.3	88 634.2	92 242.3	94 697.9	98 347.4
Total agriculture without coffee	357 555.9	352 888.5	349 219.2	361 802.3	374 202.0	394 712.8
Total agriculture with coffee	416 531.1	405 979.3	409 442.2	412 423.7	423 501.2	447 252.0
Percentage variation						
	1981/1982	1982/1983	1983/1984	1984/1985	1985/1986	
Agriculture with coffee	-4.3	2.1	-2.0	2.7	6.8	
Agriculture without coffee	-2.8	-0.8	2.0	4.0	6.9	
Biannual crops	-3.0	-3.8	5.1	-1.5	9.2	
Permanent crops	-2.6	1.3	-	7.7	5.4	
Coffee	-10.0	13.4	-15.9	-2.6	6.6	
Livestock	0.9	-1.4	5.8	2.6	3.5	
Slaughter	-5.0	-7.2	8.7	2.6	3.0	
Other livestock	5.4	2.6	4.1	2.7	3.9	
Total agriculture without coffee	-1.3	-1.0	3.6	3.4	5.5	
Total agriculture with coffee	-2.5	0.9	0.7	2.7	5.6	

Source: Calculations by the National Planning Department/UEA on the basis of Ministry of Agriculture data.

^aPreliminary figures.

which has suffered the full force of the fiscal and monetary correction policies adopted by the government in this decade. The calculations made by the Conference of Governmental Statisticians of the Americas (CEGA) and by A. Machado show that the peasant economy provides between 35 and 43% of livestock production, between 27 and 42% of foods for direct human consumption, and between 19 and 23% of raw materials for industry.

Second in importance is the technological model adopted in farming, which produced high yields in the 1970s but began to run out of steam at the end of that decade and moved into crisis in the 1980s. This model, characterized by its high component of imported inputs, bias in favour of the intensive use of capital, imitation of the cost structures of the input-supplier countries, and

required investment levels incompatible with domestic resources produced, respectively, increasing dependence on and vulnerability to changes in the external sector of the economy, a fall in farming jobs, a failure to advance towards a more competitive supply at the international level, and a need to support activities with subsidy and exemption measures (as in cotton and beans) which ended by increasing and fuelling a structure of relative prices which distorted the allocation of resources (Balcázar, 1985).

Third in importance are factors associated with movements in farm profits; these factors have still not been sufficiently evaluated but they do seem to explain the temporary falls in the supply of certain goods. The higher cost of inputs caused by the faster rate of devaluation, and the effects of the commercial and tax policies

which exposed the sector to disastrous competition from imports and raised its taxes may have discouraged agricultural production in 1984 and 1985; changes in these policies reversed their impact from 1986.

On the demand side, exports of farm products other than coffee have fallen in recent years and the home demand has risen very slowly. Final personal consumption rose barely 1.9% a year between 1980 and 1984 (Balcázar and Supelano, 1986)

The value of farm imports grew by 26.4% a year between 1970 and 1975, 24.2% between 1975 and 1980, and only 2.5% between 1980 and 1983. Their volume followed a different trend: the average annual growth was only 1.2% in the first five years, 20.5% in the second, and 16.7% in the last four years. The most seriously affected group was direct-consumption products, imports of which increased in volume by 25% a year in the first years of this decade.

The value of farm exports other than coffee rose by 26% a year between 1970 and 1975 and only 11.2% between 1975 and 1980; it fell 1.5% between 1980 and 1983. High prices were the reason for the increases in these exports in the 1970s, but in the 1980s the opposite has happened. Between 1970 and 1975 the volume exported increased only 4.9% and in the next five years by 9.9%, a rate below the increment in the value. In the present decade, despite the improvement of 2% in volume, the value of exports without coffee has fallen to almost the same extent. The foreign sales which suffered most (after coffee) were of raw materials. They had been the second strongest item in the 1970s (after direct consumption) with an average annual increase in value of 28%; in the 1980s they fell by the same amount.

In 1984, as a result of the trade policy and the low international prices, farm and agro-industrial exports without coffee increased 8% and imports fell 16%. When coffee is included the increase in exports jumps to 14.5%.

The domestic market, with its weak growth, is the high demand component which may explain the feebleness of the agricultural response in the medium term. Rural wages ceased to be an important element in costs; despite their relative increase, in the crops which

pay the minimum, their share in production costs was less than 10% of the share of tradeable crops.

More than 80% of farm output is for direct consumption and the rest for industrial consumption; this proportion has remained unchanged in the past two decades. Hence the importance of increased personal spending on food as a driving force of the sector's development. According to CEGA calculations, households which earn up to two minimum wages, which account for half of the households surveyed by the National Bureau of Statistics (DANE), spent 98% of their monthly income on food in 1981. When it is remembered that food prices have risen faster than the 1979 total average, except in 1972, it becomes obvious that the policies designed to stabilize prices must be reconciled with the policies to stimulate farm production and jobs and the expansion of the domestic market as a whole. For these reasons any assessment of the short-term adjustment policies adopted to cover the fiscal and external deficits must take into account the knock-on effects which can reverse the positive results in the medium term by fuelling the forces which generated the original imbalances.

2. Prices

Food production is affected less by the movement of input prices than by stability of demand and policies of price support and subsidy which guarantee the producers some certainty in the medium term (Balcázar and Supelano, 1986).

The implicit prices of agricultural value added fell between 15 and 20% between 1975 and 1985 and this fall must have influenced production decisions in the sector. Other factors affected relative farm prices in the past decade. The overvaluation of the peso, barely corrected in 1985, the tariff policy which has removed the sector's protection in recent years, the protectionist practices of trading partners, and the exchange-rate and sectoral changes made by Colombia's neighbours all aggravated the loss of competitiveness of agricultural production in relation to the rest of the world. The faster rate of devaluation and the adjustment of tariff and trade policies in 1985-1986 helped to reverse the

negative effects of the earlier measures and offset the impact of smuggling in neighbouring countries and of farm production subsidies in those countries and in the developed countries. However, the imbalances are so pronounced in the cases of Venezuela and Colombia that in the past year Venezuelan products served to hold down the inflation rate in neighbouring areas, at a time when there was a degree of disorder in fiscal and monetary management.

Although relative prices favoured the farming sector more than manufacturing in 1970-1985, the output response did not occur, because producer prices moved differently. Initially the decline in producer prices was due to increased productivity resulting from the introduction of improved seeds and investments in infrastructure and land improvement. Nevertheless, in 1980 the technological model began to show signs of exhaustion.

The price trend, together with the unfavourable ratio to input costs, meant lower profits from farming activities that were also hit by the trade and tariff policies which exposed domestic production to competition and sought to eliminate State support in the form of subsidies and lower taxation. The tendency to "de-administer" support prices and restrict the supply of credit and fiscal resources for development of an adequate storage and marketing infrastructure exposed agricultural investment to even greater uncertainty.

With respect to support prices, in 1982 82% of the purchases by IDEMA (Agricultural Marketing Institute) (excluding the cotton marketed directly by textile producers) were of tradeable products. The rice support differential caused the Institute great losses. The activities of IDEMA do not bear analysis from the standpoint of purely commercial profit; they must be assessed in terms of the policies of price support and exports promotion.

Despite the attempted general change of direction in the price support policy in the mid-1970s, IDEMA continued to pay high prices, above production costs, which encouraged high stocks; this applied more to tradeable crops than to traditional crops (beans) in the past decade (Chaparro, 1982, cited in Misas and others, 1986).

3. *Agricultural costs*

Lower farm profits have been cited as one of the main causes of the sector's loss of vigour in the 1980s. An important factor in these lower profits seems to have been the higher costs of production with both local and imported content.

The implicit deflator of intermediate farm consumption grew more than the sector's product between 1978 and 1985, and farm prices to the producer fell in relation to industrial prices. Accordingly, the proportion of intermediate consumption increased at the expense of the value added in farming.

The recent economic adjustment measures go some way to explain the movement of farm production costs. Fertilizer prices initially rose in 1985 by 3.2% owing to the 8% surcharge on imports; when the exemption was extended to private as well as official imports of nutrients, the price fell 5.2%. This surcharge also explains the 3.4% increase in the cost of pesticides in 1985. The tax on imported machinery and equipment was in practice increased by the additional tax of 10% on value added introduced under Law 50 in 1984.

The accelerated devaluation in 1985 accounted for 23.7 and 27.3% of the increase in fertilizer prices. The very short payment periods for imports also affected the prices of raw materials and machinery and equipment. The already short periods of 180 days and three years were reduced to 90 days for fertilizers and to six months for farm machinery and equipment at the end of 1984. The discontinuation of the measure from January 1986 reduced the impact of this restriction on price formation and contributed to the drop of 4.8% in pesticides and 1% in synthetic fertilizers. In 1985 it had contributed to the rises of 5.8% for pesticides and 2.9% for synthetic fertilizers. The additional requirement of 20 days advance deposit increased the cost of these two items by 0.7% in 1985.

The decline in the peso's purchasing power affected production costs in other ways. This was true of the tariffs of the Colombian Ports Corporation (COLPUERTOS), charged in dollars, making inputs even more expensive. The importer paid US\$26.82 per ton of urea, 14% of its CIF price. When import is permitted via private wharves, prices fall almost 20%, and if the raw

materials are imported by the owner of the wharf for processing by himself, the port costs can fall up to 2.4 pesos *ad valorem* and US\$10 a ton. If urea was handled in this way, these costs would amount to only 8.1% of the CIF value (Ministry of Agriculture - National Planning Department, 1986).

The price adjustment policy for natural gas affects the cost of fertilizers produced in the country. The 25% adjustment in January 1986 raised the price of ammonia, a basic component in fertilizers, by 11.5%. The price of synthetic fertilizers, under the combination of these two effects, rose by 1.7%.

Colombia had 1.1 million unemployed in 1985, of whom 100 000 had joined the line

between 1980 and 1985. The level remained at about 8% even in the boom periods of recent decades, indicating a structural component in Colombian unemployment. However, the increased unemployment in the past five years must be attributed to temporary factors of the recession.

Real rural wages grew sharply between 1958 and 1962, then remained stable until 1976, after which they rose with the 1977 coffee boom and fell with the coffee depression. The different directions taken by the coffee and inflation cycles helped to reduce the difference between rural and urban wages at the end of the last decade. Recently, however, the gap between these two wage incomes has begun to widen again.

VI

Agriculture in the context of future world developments

1. Immediate and longer-term prospects of the overall economy

The increase in unemployment from 10% in 1980 to 14% in 1985 is one of the most important manifestations of the economic and social decline in this decade. Similarly, the 10% drop in real rural wages is worrying in its implications for living standards in the countryside.

In the strategy outlined in the study by Chenery, commissioned by the government of Belisario Betancur, farming is given new importance both because it will benefit from the global policies for recovery of economic activity and because its characteristic feature as a powerful source of foreign exchange and demand for labour and domestic resources places it in a prominent position with respect to branches which are less competitive internationally or which have different technical profiles in the use of the factors of production (Misión de Empleo, 1986).

It remains to be seen whether the exports promotion policy will make the necessary choices to encourage the external sales of products which, since they complement the output of the purchaser countries, are not subject to protec-

tionist measures; whether this policy will be backed up by a reduction of internal costs by technical means and by tariff, credit and tax management; and whether priority will be given to the goal of food self-sufficiency in order to reduce the inflationary pressure of the inadequate food supply and permit greater diversification of the home market. In short, it is to be hoped that economic policy will become stable and take a long-term view, in order to remove the structural shackles on the country's development.

2. The farming sector in the next few years

The farming sector has suffered a serious loss of vigour since the last decade. The next few years are intended to see the eradication of absolute poverty and the resumption of growth in Colombia. In view of the backwardness described above and the magnitude of the challenge, the farming sector must make radical changes in its structures, assume a leading position in economic policy, and accept the rise of new groups to cater to the needs which will emerge in this process.

The solution of the crisis depends on the outcome of the diagnosis which will determine farming policy in the immediate future. If the debate is won by the argument that agriculture's performance is due mainly to the slower growth of commercial production brought about by exchange-rate and foreign trade policies, then an attempt will be made to reduce the discriminatory impact of the industrial protection policies and the exchange-rate overvaluation which produced this decline in agriculture.

If the crux of the matter lies in the restriction imposed by food production on economic expansion, emphasis will be given to the complement-

arity of farming and industry, and an effort will be made to correct the shift in relative prices resulting from the restriction of the farm supply which has acted against the industrial sector in the past (Ocampo, 1986).

The most sensible thing would be to admit the importance of both these variables and produce a diagnosis which integrates the economic policy factors that work for or against agricultural development with developments in trade and the food subsector (which were part of the reason for the sector's performance), and to devise a policy to promote agriculture's recovery.

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