

Economic development in Colombia since the early twentieth century

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Received: 20/02/2024

Accepted: 18/04/2024

Abstract

This article analyses Colombia's economic growth performance since the early twentieth century, the evolution of the public policies that have contributed to this and its main effects on social development and regional inequalities. Economic performance is divided into three periods: 1905–1929, 1930–1980 and 1981–2023. The first was characterized by the expansion of coffee production, an infrastructure investment boom and the beginning of oil extraction. The second saw the consolidation of industrial development and the diversification of agricultural production and exports. The last was characterized by increased State provision of social services, administrative decentralization and liberalization of foreign trade and the financial system, a combination whose economic results were deindustrialization, export reprimarization (with oil as the main product) and increased macroeconomic volatility.

Keywords

Economic development, economic history, economic growth, industrialization, economic crisis, external debt, economic liberalization, social development, regional disparities, Colombia

JEL classification

E60, I00, O10, N16

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¹ This article is based on a recent paper by the same authors (Ocampo and Romero Baquero, 2023), who are grateful to Francisco Rodríguez for his comments on an earlier version. It will also be published in F. Rodríguez (ed.), *The Elgar Companion to the Economies of Latin America and the Caribbean*, Cheltenham, Edward Elgar Publishing, forthcoming.

I. Introduction

This article analyses Colombia's economic growth performance since the early twentieth century, the evolution of the policies contributing to this and its effects on social development and regional inequalities. Since 1905, the country's per capita GDP has multiplied by a factor of 12.8. This gives a growth rate of 2.2% a year, which is slightly higher than the Latin American and world average, according to historical data from the Maddison Project Database,² leaving Colombia in the category of upper-middle-income countries in the World Bank classification.

Three quite different major phases can be distinguished in this growth record, involving profound structural changes. The country has had to cope with powerful economic cycles, associated with fluctuations in the terms of trade for its main export products and in external financing. There have also been substantial changes in economic policies and the institutions formulating them. There has been progress with human development, marred however by high levels of social inequality, labour market informality and underemployment and by limited achievements with social security. Lastly, economic development has tended to be concentrated in large cities and in the regions that are strong in the main export products.

The article is divided into seven sections, the first being this introduction. The second section discusses the major trends and changes in economic structures during the three main stages of development into which the analysis has been divided. The next three review economic trends during these three stages in more detail, with an emphasis on policy developments. The sixth section deals with the evolution of social indicators and regional inequalities, and the last section briefly concludes. Despite their importance in the country's history, only passing reference will be made to the consequences of rural violence and none to those of drug trafficking, whose economic effects have anyway been more limited than their effects on national politics and violence.

II. Trends, phases and structural change

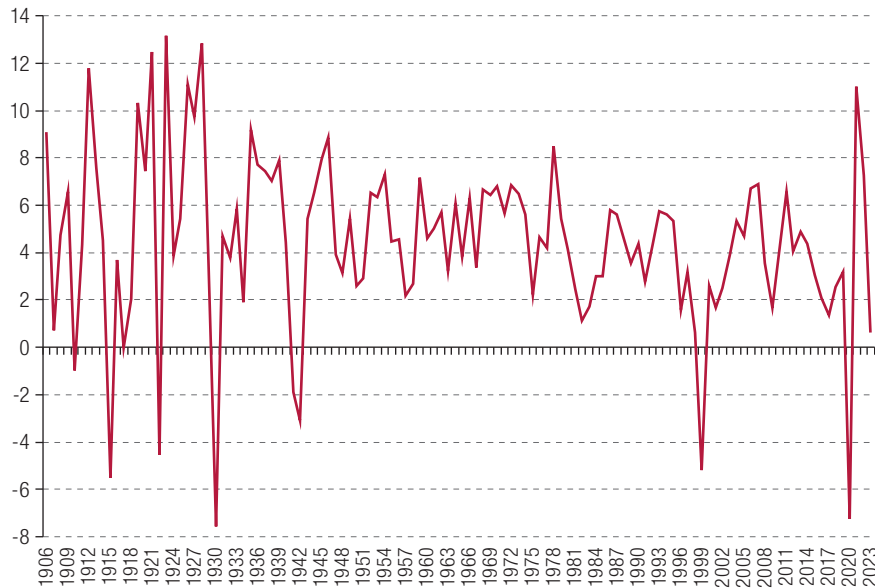
The development process has gone through three periods that differ substantially in terms of economic policies and structural change, while there have also been profound changes in the economies of Latin America and the world: 1905–1929, 1930–1980 and 1981–2023.³ They are separated by important transitional phases, encompassing the Great Depression and the Second World War between the first and second periods and the Latin American debt crisis between the second and third.

Economic growth has been markedly cyclical. Figure 1 shows annual changes in GDP from 1906 to 2023. This variable was highly volatile until the Second World War, which was followed by a period of lower variability over the next half century, with volatility returning again from the late 1990s. The first half of the twentieth century saw sharp recessions triggered by the outbreak of the First World War, the subsequent sharp fall in commodity prices, the Great Depression and the Second World War. This phase of variability in growth rates was followed by one of steadier expansion that lasted until most of the way through the 1990s. A new period of instability began in the late twentieth century, with the worst years being 1999, as a result of the successive Asian and Russian crises, and 2020, owing to the effects of the coronavirus disease (COVID-19) pandemic.

² See Bolt and van Zanden (2020). The relevant comparisons with these data are for the period 1900–2018.

³ See Bulmer-Thomas (2003), Bértola and Ocampo (2013) and Williamson (2014) on parallel processes in Latin America.

Figure 1
Colombia: GDP growth, 1906–2023
(Percentages)



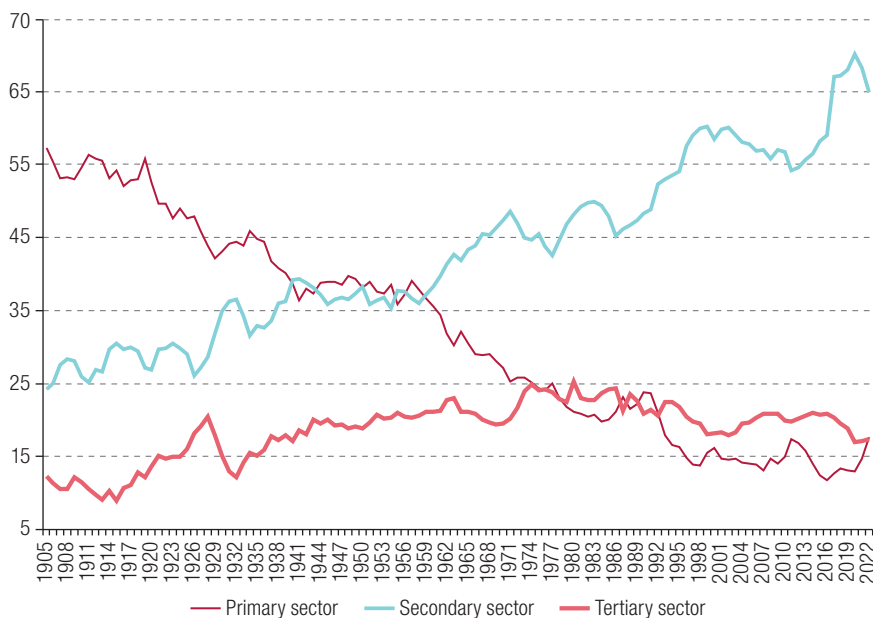
Source: C. A. Romero Baquero, “Estimación del PIB de Colombia, 1905–1960”, paper presented to the Bank of the Republic, 2018, and data from the National Administrative Department of Statistics (DANE).

The country's cycles have been closely linked to international shocks, especially fluctuations in the terms of trade for its main export products (coffee for most of the twentieth century and oil in the twenty-first century) and in external financing cycles. The latter include the boom in private sector external borrowing in the 1920s, which was interrupted by the Great Depression, renewed access to international private sector financing in the 1970s, which was curtailed for the country during the Latin American debt crisis, and the new boom in the 1990s, cut short by the crises in Asia and the Russian Federation; the international financial market has continued to be cyclical since then, but less markedly.

The dependence on external commodity price cycles and external private sector financing shows the importance of balance-of-payments dominance (Ocampo, 2016). A positive aspect is the absence of crises caused by fundamentally domestic factors. However, the policies adopted to manage booms have significantly affected the severity of subsequent crises. In other words, procyclical management of booms has meant crises having to be managed with austerity policies.

Structural changes have been driven by both exports and production activities. In the first case, the main developments have been the growth and consolidation of the coffee economy in the first three decades of the twentieth century, relatively successful export diversification from the late 1960s to the early years of the twenty-first century, and the boom in oil exports since the end of the twentieth century. Other periods have been dominated by trends in domestic production activities, notably the emergence and development of manufacturing as an engine of growth between the 1930s and the mid-1970s and the rise of the service sector in recent decades. Thus, changes in the composition of output show a decline in the share of agriculture, which dominated production activity at the start of the twentieth century, first because of industrialization and then because of the rise of the service economy since the late twentieth century (see figure 2).

Figure 2
Colombia: sectoral GDP shares, 1905–2022
(Percentages)



Source: C. A. Romero Baquero, “Estimación del PIB de Colombia, 1905-1960”, paper presented to the Bank of the Republic, 2018, and data from the National Administrative Department of Statistics (DANE).

Agriculture and agro-industry have created a business ecosystem that, while reasonably developed, has not been able to ensure competitiveness for a number of sectors and substantial opportunities for small-scale producers. In addition, there have been problems with distribution chains and road transport, especially on the municipal-level road infrastructure. The coffee sector has developed the best commercial and technological infrastructure and the best opportunities for small producers. After the coffee boom that characterized the early decades of the century, the agricultural sector diversified even as the country industrialized. Conversely, the trade liberalization of the 1990s had adverse effects not only on industrial activity, but also on a number of agricultural products, especially grains (maize, wheat, barley and soybeans). Thus, the behaviour of agriculture and industry has been complementary in periods of both good and poor performance (Ocampo, 2015; Kalmanovitz and López, 2006).

Cattle farming is a traditional line of business, but both milk and meat producers have managed to diversify, especially over the last 50 years. However, this sector has had a large environmental impact owing to deforestation and inappropriate land use, with even flat land being used for cattle farming, while hillside areas are used for agriculture. Other livestock activities have been dynamic, poultry farming first and pig farming later, but have been characterized in recent decades by an excessive dependence on imported inputs and thus weak national value chains (Lorente, 1986; DNP, 2015).

Modern manufacturing industry came into existence in the late nineteenth century but only began to take off in the 1930s, with its development consolidating in 1946–1974. It achieved only an intermediate level of diversification by Latin American standards, however: traditional branches still accounted for a quite large share by the end of the period of rapid industrialization, far more so than in Brazil and Mexico, although less than in the region’s smaller economies (Bértola and Ocampo, 2013, table IV.7). Since its GDP share peaked in the second half of the 1970s, manufacturing industry has

experienced what has come to be known in the international literature as premature deindustrialization (Rodrik, 2016).⁴ This is partly explained by the weakening of productive development policies, the very limited development of a science, technology and innovation system to link up with the productive sector, and a relative failure to cope with competition and find a place in the new forms of international trade organization.

Services are a growth alternative because of their resilience, their job-creating capacity and their cross-cutting contribution to productive modernization. This sector includes both traditional services such as commerce, transport, communications and tourism, and modern services linked to the use of information and communications technologies which have begun to transform traditional ones, such as e-commerce and financial and insurance services. A key challenge now is to consolidate modern services by way of increased coverage, the availability of technology and an education system that is aligned with this purpose.

Since the closing decades of the twentieth century, Colombia, like many Latin American and especially South American countries, has faced two major barriers to growth: premature deindustrialization and oil-led export reprimerization. Statistical estimates of the Kaldor-Verdoorn law (Kaldor, 1957 and 1968) show a clear relationship between productivity growth and industrial growth in the main Latin American economies, including Colombia (Ocampo and Romero Baquero, 2023, chapter 2). This relationship was strongest between 1925 and 1975, and then weakened in a context characterized by a slowdown in industrial growth and lower productivity gains. Very limited investment in research and development is undoubtedly an essential part of this story. According to data from the United Nations Educational, Scientific and Cultural Organization (UNESCO, 2024), this expenditure does not exceed 0.3% of GDP, which places it at half the Latin American level and one tenth that of the high-income countries of the Organisation for Economic Co-operation and Development (OECD), of which Colombia is a member.

III. Economic take-off, 1905–1929

The Thousand Days' War (1899–1902), the worst of the nineteenth century civil wars, brought three-digit inflation (the first instance in Latin American history) as a result of money being issued to finance conflict-related expenses. This led to a ban on paper money issuance and adoption of the gold standard in 1903 and to a tradition of monetary conservatism that would manifest itself whenever inflation rose above a certain level. The government decreed (moderate) new issues in 1904, which were timely in the context of the country's severe economic crisis of those years. The ban on paper money issuance would finally be confirmed in 1910 by a constitutional amendment. Monetary stabilization led on to substantial growth in the country's banking sector.

The most salient development in the first decades of the century was the rapid expansion of coffee production in the west of the country, also known as the central coffee-growing region.⁵ This followed the expansion which had taken place mainly in the east of the country in the nineteenth century and created more scope for small producers than that earlier development. Coffee exports began to increase at the end of the first decade of the century, rising by a factor of just over 4.5 between 1900–1904 and 1925–1929. The opening of the Panama Canal in 1914 and the completion in 1915 of the Pacific Railway, which drove the emergence of Buenaventura as a port, were also beneficial for coffee exports, partly thanks to the gradual integration of this railway with those of the central coffee-growing region.

⁴ See also the studies by Fajnzylber (1983), Palma (2019) and Torres and Ahumada (2022) dealing with Latin America.

⁵ The central coffee-growing region includes the departments of Caldas, Quindío and Risaralda, along with the north of Valle del Cauca and Tolima. For the history of Colombian regional development, see the study by Jiménez and Sideri (1985).

In 1906, once the foreign debt bequeathed by the war of independence had been paid off (Junguito, 1995), and after punctually making its debt service payments in the following years, Colombia regained access to the international capital market, albeit still only to a moderate degree. After this initial impetus, the country gained large-scale access to that market, which led to a considerable amount of international borrowing, especially between 1926 and 1928 (some US\$ 200 million).

These resources largely went to infrastructure investment, especially in the railway network, which was, and remained, very underdeveloped. The financing mechanism was the issuance of bonds by the national government, some departments and municipalities and some banks on the New York Stock Exchange. The overall transfer of resources through the capital account was equivalent to 35% of exports in 1925–1929.

The coffee and external financing booms were accompanied by other developments that included banana exports,⁶ the start of oil exports and the payment by the United States between 1923 and 1926 of a US\$ 25 million indemnity for Panama's independence. No less importantly, in 1923 the country set up several modern economic institutions in the aftermath of the Kemmerer Mission: the Bank of the Republic (the central bank) and the Banking Superintendency, to manage the country's monetary, financial and exchange-rate policies, and the Office of the Comptroller General of the Republic, to oversee the civil service. The Bank of the Republic was created as a public-private institution, with the private sector having a majority on its board, to forestall the problems caused by National Bank money issuance at the end of the nineteenth century. This institution also had the task of replacing the heterogeneous monetary mass that the country still had with its own banknotes and coins, completing the efforts made in this direction since the beginning of the century.⁷

Economic growth was rapid (5.5% per annum for the whole period 1905–1929 and 3.0% per capita) but unstable, as noted in the previous section (see figure 1). Three phases can be distinguished. The first is the recovery from the end of the civil war to the outbreak of the First World War. The second encompasses the effects of that war, which reduced coffee prices and imports, and hence customs revenues, which were the main source of government financing, and rendered the main European currencies non-convertible. While the price of coffee rose significantly after the war, this was followed by the collapse of all international commodity prices in 1920–1921, one of the worst in world economic history.

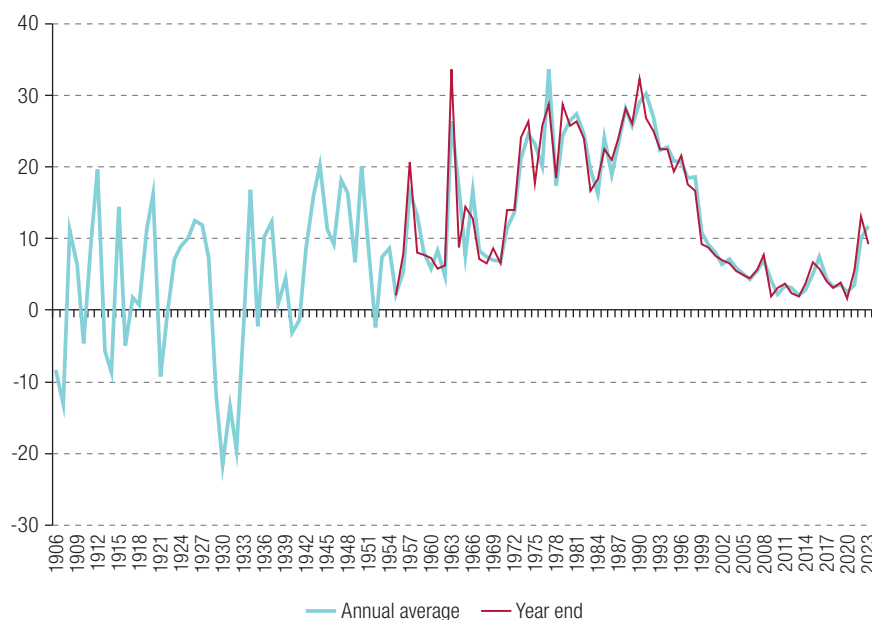
The third period began in 1923 and was among the most successful in Colombian economic history. Notwithstanding a dip in 1924, GDP grew very quickly between 1923 and 1928, by 8.5% annually, the highest in the country's economic history for a similar period, with particularly rapid growth between 1926 and 1928. The simultaneous expansion of the export sector and of public works financed by foreign debt were the driving forces behind this boom, which was reflected in a large build-up of international reserves and a huge monetary and credit expansion within the rules of the gold standard. Customs revenues and foreign borrowing facilitated the expansion of public spending, and annual inflation rose above 10% in 1925, 1926 and 1927 (see figure 3), but the only measures taken to curb it were the Emergency Act of 1927, which reduced tariffs to facilitate food imports, and the imposition of limits on rediscounting by the Bank of the Republic in January 1928 (Ocampo, 2021, chap. II).

The boom really ended in the second half of 1928 with the start of the decline in coffee prices and external financing, reflected in a large reduction in growth in 1929. However, the definitive slump came with the Wall Street Crash in October 1929.

⁶ This expansion, which had begun in the late nineteenth century, was stopped by a major labour strike in 1928, one of whose effects was to displace production to other areas of the Caribbean in the following decades. For an appreciation of this process, see Bucheli (2005).

⁷ See Ocampo (2021) and Uribe Escobar (2023) on these Bank of the Republic policies and those mentioned later.

Figure 3
Colombia: consumer price inflation, 1906–2023
(Percentages)



Source: Colombian Economic Growth Study Group (GRECO), *El desempeño macroeconómico colombiano: series estadísticas 1905-1997*, Bank of the Republic, 1999, and data from the National Administrative Department of Statistics (DANE).

IV. The industrialization era, 1930–1980

1. The Colombian economy between two international crises

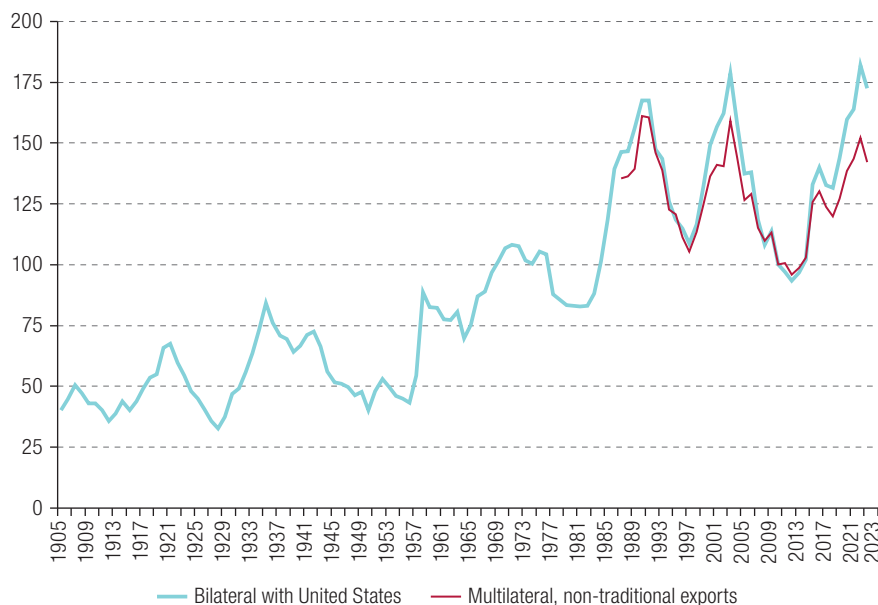
The boom of the 1920s was followed by two major global economic crises: the Great Depression, which broke out worldwide in 1929 with the slump on the New York Stock Exchange, and the one linked to the Second World War.⁸ The most striking impact of both was the worldwide intensification of State intervention in different spheres of the economy, which in Colombia was reflected in monetary, financial and exchange-rate policies and, owing to the collapse of international trade, in the reorientation of the development model towards the opportunities offered by the domestic market. The most important result of the latter process was the take-off of manufacturing industry, when the country caught up with other major Latin American economies in this area. The process also benefited from the integration of the domestic market, which was challenging given Colombia's geography. Major steps forward were the construction of railway infrastructure in the 1920s and the move towards the construction of a road network in the 1930s. The country thus embarked on "State-led industrialization", to use the terminology of Cárdenas, Ocampo and Thorp (2000) and Bértola and Ocampo (2013).

⁸ See Ocampo (2015) for a discussion of the country's economy between the Great Depression and the Second World War. See also Ocampo and Montenegro (1984) and Sánchez Torres (1994) on the Great Depression.

Initial management of the Great Depression was within the rules of the gold standard, generating a strong contractionary effect that succeeded the expansionary management of the 1920s, i.e. procyclical behaviour in both situations. The effects were dramatic: international reserves dropped by almost four fifths and the money supply and prices by half (see figure 3). GDP contracted only moderately in 1930 and 1931 (see figure 1), not least because of the continued expansion of coffee production. It was shown that the country had the flexibility to manage the gold standard, as there was no loss of confidence in the Bank of the Republic, and the financial sector was able to handle the crisis, except for the mortgage banks, which went bankrupt, triggering the first of the country's financial crises.

The turning point was the decision by the United Kingdom to leave the gold standard on 4 September 1931, leading Colombia to establish exchange controls on 24 September. A sequence of decisions taken from 1932 onward resulted in the exchange rate undergoing a devaluation of 71% in real terms between 1931 and 1935, one of the largest in the country's economic history (see figure 4). Thereafter, a fixed but adjustable exchange rate was applied, including multiple rates at various times, a pattern the country would maintain until 1967. A moratorium on the foreign debt of the departments and municipalities was introduced in early 1932, followed by a total suspension of debt servicing in 1935. Protectionism was also part of the agenda, but had no significant effects because the 1931 tariff reform maintained a system of specific tariffs that lost their value with inflation. Much more important were exchange controls from 1931 and direct import controls from 1937.

Figure 4
Colombia: real exchange rate, 1905–2023
(Index: 2010=100)



Source: J. A. Ocampo and C. A. Romero Baquero, *Crecimiento económico colombiano y sus efectos sobre el desarrollo social y regional 1905-2019*, Bogotá, Bank of the Republic, 2023, and data from the Bank of the Republic.

Note: The exchange rate is estimated in pesos per dollar and adjusted for consumer prices in Colombia and its trading partners.

The most ingenious monetary measure taken in response to the crisis was to hand over the administration of the State salt mines to the Bank of the Republic so that it could advance the revenue expected from them to the government, allowing public spending to increase. The money supply

increased by more than 20% annually between 1931 and 1934, generating strong inflation in 1934 (see figure 3), which led to greater monetary and fiscal austerity from 1935 onward. A major tax reform adopted in this latter year introduced income and wealth taxes. Three public financial institutions were created in 1931 and 1932: the Caja de Crédito Agrario, an agricultural bank; the Banco Central Hipotecario (BCH), to deal with the collapse in mortgage lending; and the Corporación Colombiana de Crédito, to purchase bank portfolios.

With the outbreak of the Second World War, the growth seen since 1931 was halted, but there were also profound changes in economic policy. The most salient were policies aimed at sterilizing the monetary impact of the accumulation of international reserves owing to falling imports due to United States export restrictions during the war. These policies were considered by the great economist Robert Triffin (1944) to be the most complete and balanced anti-inflation system devised at the time in Latin America. The first development bank, the Instituto de Fomento Industrial (IFI), was also created in 1940. The United States pursued two strategies that had major effects on Colombia: the Inter-American Coffee Agreement and the renegotiation of Latin American foreign debts. To manage the former, the National Coffee Fund was created in Colombia.

Economic growth throughout this transitional phase was lower than in the previous period of economic take-off, but not slow, despite the contraction in GDP that resulted from the initial effects of the two crises (in 1930 and 1941–1942). For the period 1929–1945 as a whole, growth was 4.1% per annum, or 2.0% per capita. This was made possible by the rapid expansion of manufacturing production, the fastest in Latin America between 1929 and 1945 at about 8% per year (Bértola and Ocampo, 2013, table IV.2.B).

2. Industrialization on a firm footing

The last years of the War were the beginning of a long period, ending in the 1970s, whose central elements were intensifying industrialization, agricultural diversification, the development of numerous services and moderate growth of the State. In contrast, the coffee sector ceased to be key for growth as plantations aged. The growth of the State was associated with the expansion of social and infrastructure services, including in the latter case State provision of public services that had been provided in many areas by private companies, but on an inadequate scale.

There were also significant changes in monetary and credit policy. The most important were the monetary reform in 1951, the creation of the Monetary Board in 1963, which gave the government control over monetary policy, and the nationalization of the Bank of the Republic in 1973. The 1951 reform included the creation of new monetary management tools, among them the active use of bank reserve requirements and the ability to regulate interest rates, and endowed the Bank with development banking functions. For the performance of these latter, besides the functions already exercised by the Industrial Development Institute (IFI), new official banks were also created: Banco Popular in 1950, Banco Cafetero in 1953 and Banco Ganadero in 1956. Two new types of financial institution were likewise created: financial corporations in 1957 and saving and housing corporations in 1972.

A persistent feature of the situation, though, were recurrent balance-of-payments crises and the policies adopted to manage them, including devaluations, protection and, after a delay, diversification of the export base. These crises often reflected intermittent cycles, i.e. cycles of procyclical macroeconomic policy behaviour: expansionary measures when the external situation allowed, followed by retrenchments when balance-of-payments problems arose, with this second phase including the management of inflationary problems caused by devaluations.

The first crisis came in 1948 as a result of the sharp increase in import demand that followed the War and of the political crisis triggered that same year by the assassination of liberal leader Jorge Eliécer Gaitán. These events led in December 1948 to the first post-war devaluation, from 1.75 to 1.95 Colombian pesos to the dollar, preceded a few months earlier by the introduction of an unrestricted parallel foreign-exchange market that benefited non-traditional exports.⁹ A further devaluation, from 1.95 to 2.50 Colombian pesos to the dollar, was implemented in 1951 to counter the effects of inflation on the real exchange rate; as part of this, however, the operation of the unrestricted parallel foreign-exchange market was suspended. The first post-war tariff reform, enacted in 1950, significantly raised the level of protection via a mixed system of specific and ad valorem tariffs. These measures were invariably supplemented by direct import controls, especially at times of foreign-exchange shortages.

After the coffee boom of the early 1950s came the coffee price collapse of the middle of that decade, which led to the reintroduction of the parallel market in 1955 and, especially, the largest devaluation in Colombian history in 1957: from 2.50 to 6.70 Colombian pesos to the dollar. As figure 4 shows, this devaluation and the ones that followed, unlike those of the first half of the 1930s, had a lasting effect on the real exchange rate. To this were added the Vallejo Plan, which allowed exporters to bring in the inputs they needed to make export products without paying import duties, the introduction of tax incentives for these activities and other production sectors in 1960, and the privilege for exporters of products other than coffee and oil of selling their foreign exchange on the open market.¹⁰ The subsequent devaluations in 1962 (to 9 pesos) and 1965 (to 13.50 pesos) had no lasting real-term effects because of the inflation they generated. The tariff reforms of 1959 and 1964 heightened the protectionist trend, with the latter finally adopting a pure ad valorem tax system with a very high level of protection (an average tariff of 65.6%).

The most important measures came in 1967, when the system of mini-devaluations was adopted, together with a policy of exchange-rate unification. In addition, a clearly defined export promotion regime was introduced to expand the Vallejo Plan: the Export Promotion Fund (PROEXPO) was created at the Bank of the Republic to finance non-traditional exports, and the tax-free Tax Savings Certificate (CAT) was created to replace the tax advantages and preferential exchange rate that these exports had benefited from for several years. This shift in economic policy not only made it possible to cope better with the external crisis, but also opened the way, as will be seen, to the most rapid economic expansion of the post-war period.

Criticism of the State-led industrialization model became increasingly open in Colombia, as throughout Latin America, from the early 1970s. However, reforms to protectionist policies were gradual and did not extend to certain areas (exchange controls, for example). They included cuts in tariffs, especially very high ones, and reduced use of import controls. By the early 1980s, the average tariff had been cut to 26% (compared to 65.6% in 1964 and 48.5% in 1973), and 70.8% of tariff items were on the tariff-free import schedule (compared to 29.6% in 1974).

In the financial sphere, the basic objective was to adopt liberalization measures to do away with “financial repression”. The first decisions in this area were taken in 1974 but were largely suspended by the strong stabilization policy implemented to manage the coffee boom of 1975–1978, which included fiscal austerity and firm measures to curb the build-up of international reserves and offset the monetary expansion this generated, including large-scale saving in the coffee sector and a virtual ban on new

⁹ Colombia's exchange-rate history from those years onward is clearly recounted in Wiesner (1978) and Cárdenas (1997).

¹⁰ The now classic treatment of the external sector of the Colombian economy during the period analysed in this section is in Díaz-Alejandro (1976).

external borrowing. This policy was followed by expansionary measures from late 1978, including an expansionary fiscal policy, further-reaching financial liberalization and a large increase in external financing, especially of the public sector (Junguito and Rincón, 2007).

One of the consequences of the new policy package was that between 1980 and 1982 Colombia, fortunately as a latecomer, joined the external financing boom that other Latin American nations had already embarked upon. The country's position when it began this borrowing phase was advantageous, thanks to its relatively small external debt and the considerable amount of international reserves that had been built up during the years of the coffee boom. Indeed, in contrast to the Latin American pattern, Colombia's external debt as a percentage of GDP was still smaller in 1982 and 1983 than in 1975. This would give the country a margin of protection that other Latin American countries did not have when the debt crisis struck in 1982.

In sum, economic growth between 1945 and 1980 was dynamic, averaging 5.1% a year. While somewhat lower than during the economic take-off, this was much more stable than the growth the country had experienced up to the Second World War (see figure 1). Per capita growth fell even more in comparison with the boom at the turn of the century, to 2.2% annually, because of accelerating population growth. The period of strongest growth was between 1967 and 1974, when the economy expanded at an annual rate of 6.3% a year, although this was also lower than during the boom of 1923–1928.

Industrialization progressed, peaking as a share of GDP in the mid-1970s (see figure 2); it was undoubtedly the engine of economic growth during this period.¹¹ The export sector's share of the economy declined, but it also diversified (see table 1). Coffee's share of exports fell from around three quarters up until the 1950s to half in the years before the coffee boom of 1975–1978. The share of oil and fuel oil dropped even more rapidly. The share of non-traditional exports, however, rose from less than a tenth in the 1950s to just over 40% in 1970–1974, with manufactured goods accounting for slightly more than commodities, which were mainly agricultural. At the same time, imports fell as a proportion of GDP and became concentrated in intermediate and capital goods. From the 1970s onward, the economy experienced moderate but steady inflation which lasted for almost three decades (see figure 3).

¹¹ See Garay and others (1998) on the evolution of manufacturing industry from 1967 and during this period.

Table 1
Colombia: GDP shares and composition of exports and imports
(Percentages)

	1945– 1949	1950– 1954 ^a	1955– 1959	1960– 1964	1965– 1969	1970– 1974	1975– 1979	1980– 1984	1985– 1989	1990– 1994	1995– 1999	2000– 2004	2005– 2009	2010– 2014	2015– 2019	2020– 2022
A. GDP shares^b																
Exports/GDP	21.6	19.0	17.8	16.5	15.8	14.9	15.1	14.2	17.3	20.7	22.0	26.8	28.3	27.9	26.1	22.7
Imports/GDP	16.7	21.4	18.4	16.3	15.5	16.8	16.0	19.1	15.6	21.2	28.9	26.5	34.7	42.6	44.4	46.6
B. Composition of exports^c																
Coffee	72.1	78.7	76.2	68.9	61.0	50.5	57.9	48.7	37.4	18.7	16.3	6.5	5.7	4.0	6.4	7.4
Gold	5.6	2.7	2.5	2.8	1.7	1.8	2.7	6.4	7.4	4.1	0.9	2.0	2.3	5.1	5.2	7.4
Oil and fuel oil	14.6	13.6	14.3	16.1	13.5	6.9	3.9	6.6	17.5	19.9	25.2	28.2	28.1	50.1	37.6	31.2
Minor commodities ^d	7.7	5.0	7.0	9.1	15.0	19.8	16.6	19.0	19.0	26.9	23.2	23.8	28.0	20.6	25.4	28.0
Manufactures ^e				3.1	8.7	21.0	18.8	19.3	18.6	30.4	34.4	39.5	35.9	20.2	25.5	26.0
C. Composition of imports																
Consumer goods	14.6	9.4	7.3	7.9	9.9	13.2	11.9	10.2	13.9	19.1	19.6	19.8	21.9	23.6	22.4	
Intermediate goods	48.9	54.0	48.7	50.2	51.7	52.1	52.3	55.0	49.5	44.8	47.6	43.4	42.9	44.9	48.0	
Capital goods	36.5	36.6	44.0	41.9	38.4	34.7	35.8	34.7	36.6	36.0	32.8	36.8	35.3	31.5	29.6	
D. Current account deficit																
Current account deficit/GDP	-1.8	-0.5	0.7	-2.6	-2.4	-3.3	1.1	-4.6	-0.8	0.0	-3.6	-0.6	-2.1	-3.5	-4.6	-5.2

Source: For GDP shares: C. A. Romero Baquero, “Estimación del PIB de Colombia, 1905-1960”, paper presented to the Bank of the Republic, 2018, and data from the National Administrative Department of Statistics (DANE); for export and import composition: Comptroller-General’s Office (up to 1970) and Bank of the Republic (from 1970 onward); for the current account deficit: C. A. Romero Baquero, “El tipo de cambio en Colombia 1932-1974”, doctoral thesis, Autonomous University of Barcelona, 2005, C. A. Romero Baquero, 2018, and data from the Bank of the Republic and DANE.

^a Excludes 1951 for export composition.

^b Goods and services at constant 1975 prices.

^c Goods and gold.

^d Bananas, flowers, other agricultural products, coal, ferronickel, emeralds and other mining products.

^e Standard International Trade Classification (SITC) groups 5 to 8: chemicals and related products, n.e.s.; manufactured goods classified chiefly by material; machinery and transport equipment; and miscellaneous manufactured articles.

V. The Colombian economy during the Latin American debt crisis and economic liberalization, 1980–2023

1. The effects of the Latin American debt crisis

Colombia's moderate external borrowings meant that it was not exposed to the consequences of the Latin American debt crisis, but it was affected by the coffee price fall, large balance-of-payments current account deficits and more limited access to external financing. These effects were compounded by the need to stem the sharp deterioration in public finances caused by the expansionary fiscal policy adopted since late 1978, which moreover could no longer be financed on a large scale by external borrowing. The combination of a severe economic slowdown with large deficits in the balance of payments and public finances, compounded by a new domestic financial crisis,¹² was the keynote of the early 1980s.

Two completely different policy packages were adopted to deal with the macroeconomic crisis. The first, implemented in early 1983, essentially aimed at economic recovery. The government launched a social housing plan and created multiple Bank of the Republic credit lines for crisis-hit sectors, as well as a new fund, the business capitalization fund. On the external front, crisis management involved a radical reversal of the trade liberalization measures of the 1970s, with higher tariffs, strict direct control of imports, increased export subsidies, a moderate acceleration of the pace of devaluation and strong exchange controls. The financial crisis was handled by nationalizing a number of ailing institutions and providing liquidity to others.¹³

In mid-1984, the ongoing depletion of international reserves prompted a shift towards a more radical policy to correct the external imbalance. Although the import controls and subsidies for non-traditional exports that had been applied in the previous programme were maintained and exchange controls were tightened, the basic elements of the new policy were a lower fiscal deficit and, above all, a quickened pace of exchange-rate adjustment, which led to another of the largest real-term devaluations in the country's history (see figure 4). The worsening of the financial situation, owing to a crisis at Grancolombiano group, the country's largest, also led to the adoption of more radical measures to clean up the sector. This second phase was supervised (though not financed) by the International Monetary Fund (IMF) and supported by the President of the Federal Reserve Bank of New York, Paul Volcker, so that international banks would commit to granting new credits in proportion to their existing loans to Colombia.

The increase in coffee prices in late 1985, which was also managed with a view to encouraging saving in the coffee sector, allowed the economy to recover in 1986. Although the coffee boom was very short-lived, the economy managed to maintain an acceptable rate of growth in the following years thanks, in particular, to a rapid increase in mining and non-traditional exports, which substantially raised the export ratio after a long period of decline since the 1930s (see table 1). As a result of agreements with the World Bank in the middle of the decade, the economy was gradually opened up to imports (Ocampo and Romero Baquero, 2015).

There were two new developments at the end of the decade: the collapse of the International Coffee Agreement quota arrangement in 1989 and the decision to initiate a process of gradual import liberalization in February 1990. Because of the adverse effects of both events on the balance of payments, it was thought that a highly competitive exchange rate was key to the success of

¹² This crisis was moderate by international standards. See Ocampo (2021, figure IV.6).

¹³ See Caballero and Urrutia (2006) and Ocampo (2021) on the financial crises and their management.

this trade liberalization. By the end of 1990, however, it was obvious that high rates of devaluation were translating into accelerating inflation (see figure 3). This prompted a strong monetary stabilization programme.

In sum, although Colombia was a relative success story during Latin America's lost decade, this was a period of sharp economic slowdown: at 3.5% per annum and 1.1% per capita, growth was the lowest of any period analysed and, in particular, lower than during the other transition phase, from 1930 to 1945.

2. The Colombian economy since 1990

The most recent period began with the combination of a new constitution and the implementation of a rapid liberalization process: "economic opening" in Colombian parlance. In 1991, the principles of social rights and decentralization were incorporated into the constitution, leading to growth in the size of the State to expand the provision of social services and delegate the provision of some of these services and other functions to the departments and municipalities. The growth of the State was accompanied by a sequence of tax reforms and decentralization, with the regions taking a large share of the nation's revenues.

From the economic point of view, the constitution granted autonomy to the Bank of the Republic and established that its responsibilities would be limited to central banking, stripping it of the development banking functions it had been carrying out since the financial reform of 1951. The constitution established that control of inflation would be the main objective of the Bank of the Republic, but that this function would be exercised in coordination with general economic policy. In an important judgement,¹⁴ the Constitutional Court ruled in 1999 that this meant that monetary policy could not be set without regard to its effects on employment and growth. Thus, the model adopted occupied a middle ground between banks whose sole objective is inflation control, such as the Central Bank of Chile, and the United States Federal Reserve, which has three objectives: maximum employment, stable prices and moderate long-term interest rates.

Trade liberalization, meanwhile, resulted in a sharp reduction in tariffs to an average of 11.7%, the abolition of direct import controls and the removal of subsidies for non-traditional exports. This process was accompanied by the negotiation of the free trade agreement in the Andean Community, followed by agreements with other Latin American countries. The average tariff was subsequently reduced somewhat further, to 8.5% by 2010, and several free trade agreements were concluded, starting with the agreement with the United States, which entered into force in 2012, six years after it was signed, owing to the difficulty of securing the approval of the United States Congress.

Economic liberalization also involved rationalization of the State enterprise system, including the privatization of several enterprises in the electricity and telecommunications sectors and the adoption of different forms of partnership with the private sector on infrastructure projects. This was accompanied by a far-reaching liberalization of the financial sector favouring universal banks over the specialized banking system that had existed since 1923, a significant reduction in reserve requirements, the privatization of first-tier public banks, with the exception of the Caja de Crédito Agrario, and the disappearance of most of the development lending mechanisms and the conversion of those that remained into development banks. Of the directed lending arrangements of the past, only the allocation of a portion of the bank portfolio to the agricultural sector remained (Ocampo, 2021, chapter V).

¹⁴ Judgement C-481 of 1999. See Constitutional Court (1999).

Economic policy, both monetary and fiscal, was expansionary from 1991 to 1997, generating strong growth in aggregate demand, especially between 1992 and 1994, which prompted a moderation in monetary policy. The increase in national government spending was largely financed by tax reforms and surpluses in the rest of the public sector. In fact, the fiscal deficit only started to rise in 1996, and remained at low levels.

Economic growth accelerated. The strong increase in imports (see table 1) that resulted from the combined impact of trade liberalization and sharp peso appreciation (see figure 4) helped to moderate inflation but led to a significant deterioration in the current account of the balance of payments: from a surplus in 1990–1992 to a deficit ranging between 3% and 6% of GDP for six consecutive years from 1993 onward (see table 1 for the evolution of the current account deficit). One of the components required to finance this deficit was a rapid increase in private sector external debt. By contrast, public external debt increased only moderately.

The end of the boom was triggered by the measures taken to deal with the sequential effects of the Asian crisis of 1997 and the Russian crisis of 1998. Monetary policy acted in a clearly procyclical way, generating a sharp rise in interest rates, which reinforced the recessionary pressures from abroad. This decision was taken to avoid a disorderly devaluation of the kind that had occurred in some East Asian economies. The exchange-rate band was altered twice (September 1998 and June 1999), but continued pressure on the ceiling of the band from the first half of 1998 led to a contraction of the monetary base and a rise in interest rates to one of the highest levels in the country's history (Bank of the Republic, 1999; Villar, Romero and Pabón, 2015).

Against this background, the financial boom of the 1990s ended with the third Colombian financial crisis, which broke out in 1998 and was dealt with by restructuring and capitalizing the public banking system and winding up some institutions, providing guarantee capital, buying up distressed assets and supplying liquidity.¹⁵ The financial cycle fuelled the macroeconomic boom, especially during the first half of the 1990s, but also accentuated the crisis that erupted in mid-1998, leading in 1999 to Colombia's worst recession of the twentieth century (see figure 1). The effects of both the financial crisis and the recession would take several years to heal. Only in 2004 did the country's per capita GDP return to 1997 levels. Inflation declined sharply as a result of the demand crisis, cutting short the history of inertial inflation in the country that had lasted almost three decades (see figure 3).

Loss of confidence in the exchange-rate band that had been adopted in 1993 forced the Bank's Board of Directors to do away with this in September 1999 as part of an agreement with IMF, which demanded a free float before signing. A large devaluation and rapid correction of the balance-of-payments current account deficit allowed the Bank of the Republic to cut interest rates over the following years, thereby implementing a countercyclical monetary policy. Thus, following international trends, the Bank changed the way it conducted monetary policy from 1999 onward, using the base rate as its main tool while leaving the exchange rate to float, albeit with occasional interventions in the foreign-exchange market.

Economic activity recovered between 2004 and 2013, with a brief interruption caused by the 2008–2009 international crisis. High oil prices and plentiful external financing supported the economic boom. This growth process was cut short in 2014 when oil prices fell, and the Colombian economy quickly faced a sharp deterioration in the current account of the balance of payments and a large real devaluation that affected inflation. This led to an interest rate rise, i.e. an economic policy that was initially procyclical because the Bank of the Republic raised the base rate to combat price increases, while there was a moderate fiscal adjustment. As inflation fell, the Bank was able to reduce the interest rate from 2017. This policy change, coupled with a partial recovery in the terms of trade, set the stage for a moderate recovery.

¹⁵ This crisis was also moderate by international standards (Ocampo, 2021, figure V.9).

The COVID-19 pandemic caused a severe recession, in response to which expansionary monetary and fiscal policies were adopted. The unwinding of these policies following the international inflationary effects triggered by the Russian Federation's invasion of Ukraine in February 2022 was more gradual than in other Latin American countries, which resulted in two years of strong economic growth but also a sharp slowdown in 2023.

In sum, the Bank of the Republic can be said to have pursued a generally procyclical policy during the last decade of the twentieth century, then a generally countercyclical one since the policy change in 1999, but with some phases of procyclical management and pronounced real exchange-rate volatility (see figure 4). Fiscal policy has been moderately expansionary on average, leading to a rise in public debt, particularly since the oil price drop in 2014 and, to a much greater extent, as a result of the pandemic.

Overall, economic growth in the twenty-first century has depended on external conditions: expansion between 2003 and 2014 followed by a slowdown between 2015 and 2019 and a strong cycle caused by the pandemic and subsequent recovery. In any case, economic growth over the whole of the economic liberalization phase has been slower than during the industrialization phase: 3.3% per year in 1990–2023 compared to 5.1% in 1945–1980. Owing to a sharp decline in the rate of population increase, per capita GDP growth has fallen by much less, from 2.2% to 2.0%.

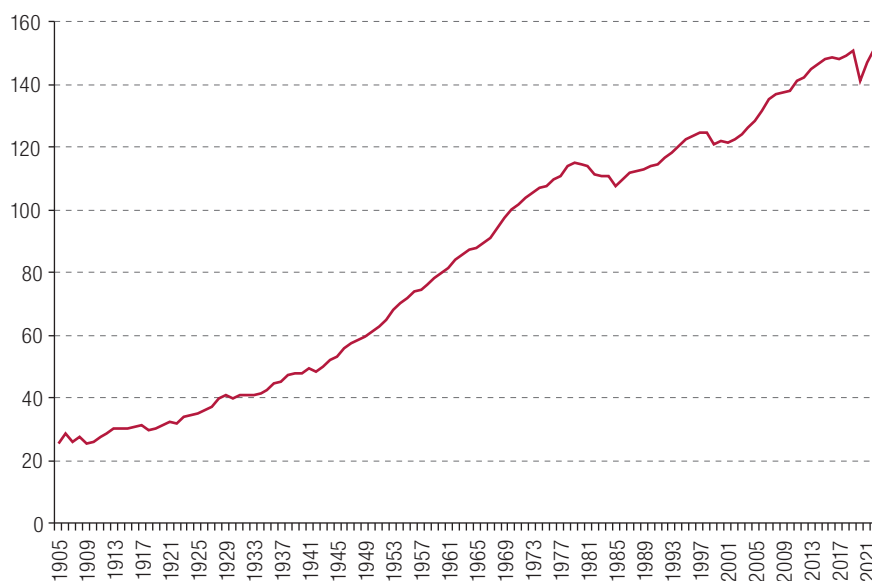
Thus, the expectation among advocates of economic opening that market reforms would accelerate economic growth did not materialize. Premature deindustrialization and limited productive sophistication leveraged on low investment in science, technology and innovation have significantly affected the growth process. Moreover, the dominance of the oil sector in the export basket has cut short the process of export diversification and thence more productive integration into the world economy (see table 1). Export diversification and the rise in exports as a share of economic activity that had begun in the mid-1980s, i.e. before economic liberalization, continued in the 1990s and peaked during the crisis at the end of the century, but were cut short by the oil boom of 2003–2014 and have not resumed (see table 1). Oil-driven reprimarization, coupled with real exchange-rate volatility, has not been conducive to the country achieving a better positioning in the global context that would also boost economic growth. The boom in strategic minerals is expected to lead to a new process of reprimarization in the region, and Colombia is no exception (ECLAC, 2023).

VI. Social development and regional inequalities

1. Social development

The great long-term structural transformations in the Colombian economy have also brought about major social improvements. The historical index of living standards, which summarizes the evolution of education, health and income indicators, rose sevenfold during the long century analysed (see figure 5). The life expectancy of a Colombian in 1905 was 30 years, the fertility rate was 7.35 children per woman, infant mortality was 187 children per 1,000 live births and the illiteracy rate in the population aged over 15 was 66%. By 2022, life expectancy had increased to 77, while the fertility rate had dropped to 1.72 children per woman, infant mortality to 12 children per 1,000 live births and the illiteracy rate to 4.2%. This had been accompanied by increased access to public services in the cities and, to a lesser extent, in the countryside. In other words, social progress has been considerable. As will be seen below, one exception to this trend has been the limited progress made with the social security system.

Figure 5
Colombia: historical index of living standards, 1905–2023
(Index: 1970=100)



Source: J. A. Ocampo and C. A. Romero Baquero, *Crecimiento económico colombiano y sus efectos sobre el desarrollo social y regional 1905-2019*, Bogotá, Bank of the Republic, 2023.

Note: Constructed as an average of per capita GDP, life expectancy at birth (with a minimum of 20 years and a maximum of 85 years) and the percentage of the population aged between 7 and 11 with primary education.

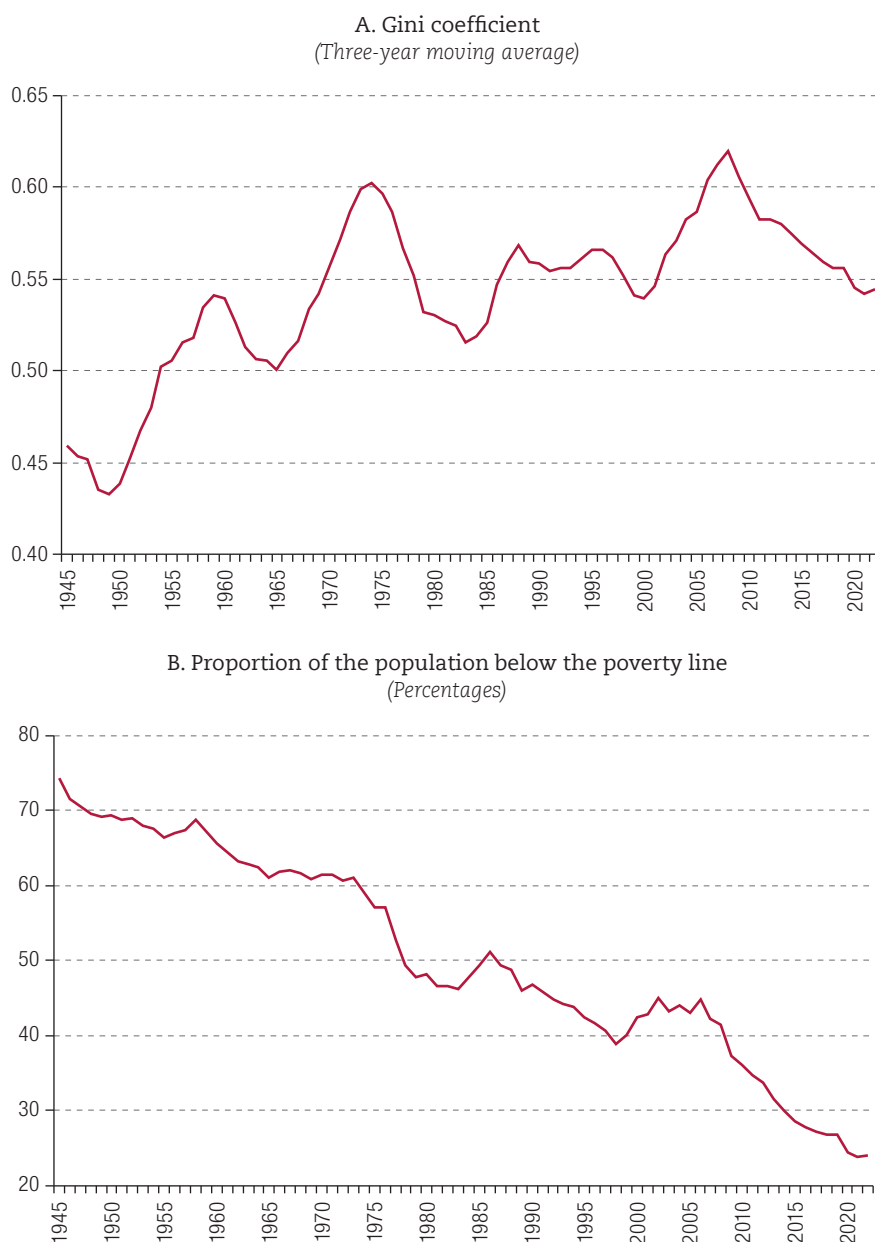
However, social development indicators conceal profound inequalities. Indeed, the evolution of the Gini coefficient shows a deteriorating trend throughout much of the twentieth century, with some partial improvements in certain periods.¹⁶ New estimates of this coefficient in historical periods for which data were not previously available show a deterioration between 1940 and 1960, reflecting, among other factors, large-scale migration of unskilled rural workers to the cities (which kept these workers' incomes low in both urban and rural areas), inequitable land distribution and rural violence. This deterioration was followed by an improvement in the ratio between the mid-1970s and 1980, thanks to a reduction in income differentials by educational level and between urban and rural areas. The reforms of the early 1990s and the crisis of the late twentieth century led to a further deterioration. Lastly, the Gini coefficient declined slightly from 2009 to 2019 and has held fairly steady since then. Overall, the Gini trend since the mid-1970s has been one of fluctuation between the values of 0.5 and 0.6, which has not reversed the previous deterioration and is among the highest levels in Latin America and the world (see figure 6A).

Rural-urban inequality manifests itself in dimensions other than income. Drinking water supply coverage in 1938 was 37.9% in urban areas and 1.3% in rural areas, and 85% and 37% in 2020, respectively. Access to sewerage services in the latter year was 81% in urban areas and only 16% in rural areas, whilst access to refuse collection services was 81% and 20%, respectively. It is also important to note that access to digital services constitutes a new form of inequality. In 2022, only 38% of households had a computer and 61% had access to the Internet, mostly in cities and among those affluent enough to afford them.

¹⁶ See Urrutia and Berry (1975), Londoño de la Cuesta (1995) and Ocampo and Romero Baquero (2023, chap. 6) on the evolution of income distribution.

Monetary poverty has declined substantially over the long term, from about three quarters of the population in 1945 (and a higher proportion before that) to less than a quarter today. The determining factors have been economic growth and increased labour force participation, especially among women, but the downward trend has been affected by problems of income distribution and the effects of economic slowdowns or crises in the mid-1950s, the Latin American debt crisis, as well as those at the turn of the century, and the effect of COVID-19 (see figure 6B).

Figure 6
Colombia: inequality and poverty, 1945–2023



Source: J. A. Ocampo and C. A. Romero Baquero, *Crecimiento económico colombiano y sus efectos sobre el desarrollo social y regional 1905-2019*, Bogotá, Bank of the Republic, 2023; and P. Astorga, "Functional inequality in Latin America: news from the twentieth century", *Discussion Papers in Economic and Social History*, No. 135, University of Oxford, 2015.

Note: The Gini coefficient is calculated using the methodology of Astorga (2015).

From a more detailed perspective, there has been substantial long-term progress with education services. The gross coverage rate for primary education was 35% in 1905, and full coverage was achieved in 2019; for secondary education, the rate rose from 4.6% to 97% between 1905 and 2021, and for tertiary education, although progress has been more limited, it rose from 0.1% to 53% in the same period (going by 2018 census projections). There has also been an increase in Colombians' average years of education over time, albeit a more modest one because of the number of older people who had no education as children or adolescents. The average Colombian had 2 years of education in 1900 and 8.5 years in 2019.¹⁷

However, increased educational coverage has been coming up against problems of quality, reflected in high repetition and drop-out rates and poor results in knowledge tests by international standards. There are also problems with teacher training and inadequate resourcing for education, particularly in rural areas.

Where health services are concerned, the epidemiological conditions of the population are known to have changed over time. The main causes of death during the first half of the twentieth century were intestinal infections, typhoid fever, malaria, leprosy, viral diseases such as smallpox and measles, and lung diseases. With the predominance of urban life from the 1970s, diseases of the circulatory system, diabetes and cancer became the main causes of death. In the last three decades, immune system diseases such as human immunodeficiency virus (HIV) and more recently COVID-19 have claimed human lives. Violent homicides are also a major cause of death in Colombia.¹⁸

2. Social development debates

There are multiple debates about the evaluation of social outcomes, of which four may be highlighted. The first relates to social security outcomes. In the area of health, benefits began with the creation of social insurance in 1946, but only reached formal workers. In the regions, official health services were provided in parallel for other people. The organization of this activity was thoroughly restructured by virtue of Act No. 100 of 1993. Thanks to the combination of the contributory regime with the subsidized regime introduced by this law, the health insurance system achieved universality, a very important historical result. However, the system faces serious difficulties owing to evasion and avoidance of contributions, delays in payments by the government to service providers for beneficiaries of the subsidized system, inefficient hospital care in a number of cases, and very widespread use of the expedited judicial rights protection procedure known as *tutela* to gain access to certain specialized services and medicines.

Pension coverage under the social security system was also concentrated on formal workers from its inception.¹⁹ In contrast to the progress with health care, the passing of Act No. 100 of 1993 failed to solve this problem and introduced competition between the public system, now the Colombian Pension Administrator (Colpensiones), and the pension funds, most of which are private companies. This arrangement combines the pay-as-you-go system of Colpensiones with individual savings managed by the pension funds, resulting in very different benefits. Furthermore, about three quarters of older persons still do not have access to a pension and receive government support. There is a system that encourages pension saving for informal workers, but both mechanisms provide very limited benefits (Azuero Zúñiga, 2020).

A second debate is about the persistence of high levels of labour market informality and underemployment. A team of experts recently conducted an analysis of this issue, presented to the government in 2021 (Employment Mission, 2021), the thrust of which is that the Colombian labour

¹⁷ See Helg (2022) on the evolution of the education sector.

¹⁸ On these subjects, see Abel (1994).

¹⁹ It should be noted that there were already company pension schemes in place in 1946, some of which still exist today.

market is dysfunctional. One in 10 members of the labour force is unemployed, and most of the rest are own-account workers or are employed in small enterprises with low productivity levels. Consequently, almost 6 out of every 10 employed persons work informally, meaning that they do not pay social security contributions, and 8 out of every 10 enterprises have between one and three workers. Some analysts consider that a fundamental reason for the low level of formal employment creation are the non-wage costs for companies, and accordingly efforts have been made to reduce these; others believe that the causes are multifaceted and originate in the sectoral structure of production, its location and the role of female employment and youth unemployment.

The third debate concerns the inequity of income distribution and the persistence of poverty. While poverty has been falling for more than a century, it is also true that wealth remains in the hands of a few. In the case of the most traditional asset, land, although the high concentration of ownership is an inheritance from the colonial period, studies show that the agrarian reforms applied so far have produced few results. Furthermore, armed violence in the countryside has manifested itself strongly in illegal land occupation. All this has hindered progress towards better distribution of rural income.

The fourth debate centres on the extent of regional public spending on education and health. The data indicate that regional health spending has historically been lower and more volatile than education spending. At the same time, there is a long-term relationship between the allocation of resources to these services and departmental per capita GDP, but for much of the twentieth century there was a degree of regional convergence, which stalled in the mid-1970s. Moreover, subnational public spending on education and health has been procyclical in relation to economic growth, tending to increase more during economic booms and increase less or even contract during crises (Ocampo and Romero Baquero, 2023, chap. 6).

3. Regional inequalities

Efforts have been made in many countries over recent years to reconstruct historical regional GDP, quite often involving revisions of the available series with new estimation methodologies such as that of Geary and Stark (2002 and 2019). These have been used for Colombia, with the estimation of regional GDP since 1918, just as they have for other countries around the world (Rosés and Wolf, 2019; Tirado-Fabregat, Badia-Miró and Willebald, 2020).

Departmental GDP has traditionally been concentrated in the wealthy cities making up the “golden triangle”, namely the three largest cities (Bogotá, Medellín and Cali) with the central coffee-growing region in the middle, and a fourth city in the Caribbean (Barranquilla). More recent additions have been the cities close to the departments where oil production occurs (Bucaramanga, Villavicencio and Yopal). The medium-growth departments are located along the rest of the Caribbean coast and in the central zone, and the poor ones on the north and south Pacific coast and in the north-east.²⁰ These regional imbalances have been accompanied by low convergence between departments. By subperiod, there was weak convergence between 1925 and 1965, regional inequalities stabilized between 1965 and 1990, and there has been relative divergence since 1990 (Ocampo and Romero Baquero, 2023, chap. 4).²¹

This very uneven regional development is associated with different causes. Because of its mountainous geography, Colombia is more culturally and spatially diverse than many Latin American countries and has a variety of climates. This situation forced people to concentrate in the highlands (more than 1,000 metres above sea level) to protect themselves from the prevalence of disease in

²⁰ The departments with average GDP are the former Bolívar (which includes Bolívar, Córdoba and Sucre), Boyacá, Tolima, Cauca, the former Magdalena (which includes Magdalena, César and Guajira) and Huila, and the poor departments are Chocó, Nariño and Norte de Santander.

²¹ Other studies have also found regional divergence in recent years. See Acosta and Bonet-Morón (2022) and Galvis-Aponte, Galvis-Larios and Hahn (2017).

the lowlands. Moreover, the cold highlands were better for agricultural production, and the bulk of manufacturing industry was located there. Two thirds of Colombia's population still live in the highlands today, even though they make up much less than half the country's land area. The service sector has become more regionally diversified, but connectivity constraints have discouraged the creation of modern service enterprises on the Pacific coast or in the Colombian Amazon.

Another element of regional imbalance, especially since 1950, has been violence, which has been concentrated in rural areas, leading to heavy migration into the areas that make up the golden triangle. Lastly, the limited progress made with technological transformation and innovation is also concentrated in certain regions. For example, the departmental innovation index with information from 2019 and 2020 for the country's 32 departments has found a strong concentration of science, technology and innovation activities in the major cities of the golden triangle, the central coffee region and the Caribbean region, while the science and technology ecosystem is weak in the south-west, the Orinoco region and the Amazon region (DNP/OCyT, 2022).

VII. Conclusions

Since the early twentieth century, Colombian development has gone through three periods characterized by significant differences in respect of economic policies and structural change: 1905–1929, 1930–1980 and 1981–2023. The most important features of the first period were the rapid expansion of coffee production in the west of the country, the beginning of oil exports, and high public investment in transport and communications, underpinned by good external borrowing conditions during the 1920s. This was accompanied by the development of improved State institutions for monetary, credit and exchange-rate management in 1923, which boosted the financial sector, and the search for new sources of central government revenue, given the vulnerability of customs receipts to international trade restrictions.

The second period was characterized by the consolidation of the industrial sector, especially between 1946 and 1975, and the diversification of agriculture and, with a lag, of the export structure. These processes were supported by protectionist policies, gradually supplemented by measures to strengthen non-traditional exports. It was also a period in which modern services were developed, often by the State, and social service provision was expanded. Meanwhile, the Bank of the Republic created a large array of monetary instruments and underwent a transition to State control with the creation of the Monetary Board and subsequent nationalization. The new instruments, together with exchange-rate shifts, were essential for managing recurrent balance-of-payments crises until the 1960s. The Bank also began to perform the functions of a development bank in 1951, and between the 1930s and 1950s a number of State-owned financial institutions were created.

The last period began with the effects of the Latin American debt crisis. The early 1990s saw the combined effects of the new constitution, which laid the groundwork for further growth of the State to expand social services provision and pursue decentralization, and liberalization of the economy in respect of foreign trade and the financial system. Contrary to the assumptions of those who promoted the latter measures, rapid economic growth did not occur. On the contrary, the Colombian economy has faced two major obstacles to development: the abandonment of industry as a driver of the productive sector, and the reprimarization of the export structure, now dominated by oil. The former led to premature deindustrialization, with negative effects on the diversification of the economic structure and productivity. The latter had the effect of halting export diversification and generating instability associated with oil price fluctuations.

Overall, a positive feature of Colombian development was a relative aversion to inflation and a stronger tradition of macroeconomic stability than in other countries of the region, the most important effect of which was to allow the country to avoid the Latin American debt crisis of the 1980s; the most

salient exception to this tendency was vulnerability to the successive Asian and Russian crises of the late twentieth century. Growth was slightly above the regional average and structural transformation was positive, albeit with weaker diversification of the manufacturing sector than in the larger countries of the region. Deindustrialization followed from the 1980s onward and was characterized by very limited investment in science and technology, both being typical of Latin America. Export diversification was only successful from the 1960s until the beginning of the twenty-first century. As a result, heavy dependence on coffee and later oil exports has been an important feature of the country, as has the frequency of balance-of-payments crises during periods of decline in the prices of these commodities, accompanied in some cases by disruptions to external financing.

Lastly, this economic growth process has benefited the country's various social strata and regions in very different ways. In social terms, there has been progress with living standards and poverty reduction, albeit in a context of great social inequalities, high levels of labour market informality and a poorly developed pension system. Inequalities are also reflected in access to State services in the most disadvantaged regions, especially in rural areas, which in a number of cases have also been affected by violence. At the regional level, inequality has been characterized by the concentration of production, population and employment in the cities that make up the golden triangle and Barranquilla and, since the beginning of the twenty-first century, in the oil-producing departments.

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