

**Winners  
and  
Losers  
in  
Colombia's  
Economic Growth  
of the 1970s**

*Miguel Urrutia*

**A WORLD BANK PUBLICATION**

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*Published for The World Bank*  
OXFORD UNIVERSITY PRESS

Oxford University Press

NEW YORK OXFORD LONDON GLASGOW  
TORONTO MELBOURNE WELLINGTON HONG KONG  
TOKYO KUALA LUMPUR SINGAPORE JAKARTA  
DELHI BOMBAY CALCUTTA MADRAS KARACHI  
NAIROBI DAR ES SALAAM CAPE TOWN

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1818 H Street, N.W., Washington, D.C. 20433, U.S.A.

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First printing January 1985

EDITOR Emmanuel D'Silva  
PRODUCTION Yamile M. Kahn  
BOOK DESIGN Yamile M. Kahn  
FIGURES S. A. D. Subasinghe  
COVER DESIGN Joyce C. Eisen

*Library of Congress Cataloging in Publication Data*

Urrutia, Miguel.

Winners and losers in Colombia's economic growth of the 1970s.

Bibliography: p.

Includes index.

1. Colombia—Economic policy. 2. Income distribution—Colombia. I. Title.

HC197.U789 1984

339.2'2'09861

84-12539

ISBN 0-19-520468-9

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## Foreword

SOCIAL SCIENTISTS HAVE HAD A DIFFICULT TIME fitting Colombian development experience of the past thirty years into fashionable categories such as monetarism, structuralism, bureaucratic-authoritarianism, and such. Here is another Latin American country without price stability, but where annual inflation has seldom gone above 35 percent. This is a nation with import and exchange controls, but where the extremes of South American protectionism have been avoided. Colombia does not allow its peso to float freely, but its crawling peg keeps it not too far from reasonable levels. Direct foreign investment is welcome, but selectively. Colombia has not launched grand social experiments, but its health and education indicators show steady improvements. Faced by this disconcerting eclecticism, too many international social scientists have ignored Colombia.

That the eclectic Colombian system has, for nearly thirty years, generated significant and steady growth while maintaining a reasonably democratic society seems to have decreased its appeal both to those fascinated by socialist revolutions and to those impatient for a restoration of pure laissez-faire in the economic sphere. Neither righteous European socialists nor eminent North American professors feel compelled to study (for two weeks) the Colombian case firsthand. Mercifully, the international press carries no articles about a Colombian miracle. It is a safe bet that *either* the Allende or the Pinochet administration in Chile has generated more pages in international journals than fifty years of Colombian growth. When the Colombian experience is brought up in learned symposia, it is more likely to be dismissed with a silly-clever remark about drugs than discussed seriously. Colombians, quite wisely, enjoy their solitude.

Miguel Urrutia is one of the few scholars who has offered the international academic community systematic and balanced analyses of Colombian development. With this book he does it again, this time challenging the notion (prejudice?) that Colombian growth during the 1970s served only to make the rich richer. He plunges into the tricky area of income distribution, unfazed by data problems, and sorts out with aplomb the bits and pieces of available evidence. His superb knowledge of Colombia and his analytical skills add weight to his cautious conclusions that in fact overall income distribution may have improved at the end of the 1970s, and that the 1970s appear to have witnessed a reduction in Colombian absolute poverty. His plausible conjecture that the Colombian democratic system may have had something to do with those two trends will not be popular among those who sneer at "bourgeois reformism" nor among those whose dogma is that politics can only worsen market outcomes.

Students of long-term development will find Urrutia's book most useful. Those anguished by the melancholy picture offered by Latin American economic performance and prospects during the early 1980s may take comfort in the long view offered by this volume. While avoiding the spectacular crises found elsewhere in Latin America, thanks largely to fairly prudent management, Colombian development has been negatively influenced by the bad news coming from abroad, especially from its immediate neighbors. At a time when the international economic system seems bent on rewarding political submission more than prudent economic management, Colombia faces difficult tradeoffs between austerity and autonomy. A serene reading of Urrutia's volume will offer an authoritative reminder that achieving both growth and the reduction of poverty, while maintaining national autonomy, is something Colombian policymakers have been able to do in the past and can continue to do in the future.

CARLOS F. DIAZ ALEJANDRO  
*Columbia University*

*September 1984*

# Preface

THIS BOOK IS THE RESULT of a collaborative effort among various researchers connected with Fedesarrollo, a private nonprofit research institute in Bogota, Colombia. A good part of the research was financed by the World Bank, but the last phase of preparation was possible thanks to the time the United Nations University allowed me to take away from my duties as vice rector for development studies at its headquarters in Tokyo.

Clara Elsa de Sandoval, an old friend who was my research assistant in my previous book on income distribution in Colombia, helped me to calculate the rural income distribution trends. Mauricio Carrizosa analyzed poverty levels, based on data from household surveys, and Martha de Higuera and Maria del Rosario Sintes helped put together the data on wages by occupation. Hernando Gomez Duque managed the data and the field work for the Cali survey of rich and poor families. Finally, Rakesh Mohan and Alvaro Pachon kindly made available much valuable data from their own research projects.

That the book is better than the first draft is largely due to the thoughtful comments of the anonymous peer reviewers assigned by the World Bank. They made me work hard to produce the revised version, but it was worth it. Finally, I am grateful for the comments and support of Fred Jaspersen, Nicholas Carter, and Guy Pfeffermann.

Because I am old-fashioned, I still write in longhand. My secretaries, Arcelia Ramirez, Yoshie Sawada, and Akiko Hara, have been very patient and helpful.

My only regret is that the deep economic crisis of the early 1980s will make it necessary for me to reexamine the income distribution trends in Colombia to see whether the improvements in income distribution

registered in the late 1970s have continued into the new decade. For the first time in Colombian postwar history, the nation has had three years in a row of low economic growth, and the impact of this disaster on income distribution is not clear. The very rich have not done well since 1980, and many of the owners of the new financial groups are now in jail or in exile, having been able to take little money with them. Profits are down and many industries have gone broke. Unfortunately, the situation for the poor is not good either. Rural real wages have stopped increasing and unemployment is up. But since the inflation rate has come down, some real wages have increased. Consequently, it is difficult to tell what has happened to income distribution as a whole. In this book I analyze the trends in income distribution during a period of rapid economic growth. Toward 1986, I will have to analyze what happened to Colombia when economic stagnation set in.

MIGUEL URRUTIA

*September 1984*



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# Introduction

COLOMBIA EXPERIENCED SUBSTANTIAL ECONOMIC GROWTH during the decade of the 1970s, but the question of who has benefited from this growth is the subject of some discussion. The weight of opinion is that the growth in the 1970s did not help the poor or improve the distribution of income. This study examines a wide array of data and arrives at a different conclusion—namely, that the income distribution did not deteriorate and that the real incomes of the poorest workers did, in fact, improve significantly during the decade.

An examination of who wins and who loses when a developing country experiences economic growth is always important. It is also appropriate for Colombia for two reasons. First, two governments in the 1970s—the administrations of Misael Pastrana (1970–74) and of Alfonso Lopez Michelsen (1974–78)—followed policies specifically designed to improve the distribution of income. Second, the democratic nature of Colombia's political institutions should help eliminate biases toward income concentration.

## Pessimistic Opinions

Many informed people in Colombia believe, however, that the recent experience of economic growth has not clearly benefited the lower-income families. A few sample statements will illustrate this. In September 1980, the Colombian weekly *Consigna* characterized the country's development process as follows:

For the Colombian people—except the elite—the decade from 1970 to 1980 was a bad experience: the quality of life did not improve; disparities among regions and between urban and rural areas widened; child labor was an appalling phenomenon; and the middle class was proletarianized

because of the worsening situation of the white-collar workers. These are the conclusions reached by one of the most respected research institutes in the country, under the direction of the National Association of Financial Institutions (ANIF).<sup>1</sup>

In May 1980, the liberal newspaper *El Tiempo* summarized the introduction of a new book by Senator Hernando Agudelo Villa, an ideologist of the left wing of the Liberal party, in which he states:

The social situation in Colombia is more distressing and unfortunate every day because economic growth has not meant a growing and equitable improvement for the low-income sectors of the population, because inflation has deteriorated real wages, and because the phenomenon of a bad distribution of income has become more clear.<sup>2</sup>

Even the major employer federations seem to be concerned about the problem of a deteriorating income distribution. In April 1981, five major employer pressure groups drafted a joint document in which they criticized the government's economic policy. The document stated that "in relative terms, the growth of the economy in the 1970s produced results unfavorable to the low and middle classes."<sup>3</sup>

In general, academic opinion concurs. In 1981, J. A. Bejarano argued that the deterioration in income distribution that began in 1970 continued until the end of the decade.<sup>4</sup> Foreign economists agree. Albert Berry and Ronald Soligo, in their 1980 study, assert: "The tentative judgement must be that inequality has increased during the 1970s, and possibly during the late 1970s as well."<sup>5</sup> This finding has profound policy implications, especially in view of the fact that the authors begin their book by stating:

Ironically, inequality increased in Colombian society precisely when those responsible for economic policy began to take a more direct interest in the problem of income distribution. Both the Pastrana and Lopez administrations formulated and carried out at least some policies whose purpose was to improve the distribution of income. Yet most of the empirical evidence suggests that income distribution worsened in the 1970s.<sup>6</sup>

This statement would suggest that government efforts to improve distribution have not been effective.

## Methods and Conclusions of This Study

Fortunately, the Colombian data do not support such a pessimistic opinion. First of all, distribution policies were given varying degrees of emphasis in the two administrations mentioned earlier. These policies

clearly were more important in the Lopez Michelsen administration than under Pastrana. Furthermore, redistribution policies in the fields of education, health, nutrition, foreign trade policy, financial policy, and fiscal policy cannot yield results in the short run. Therefore, assessing the impact of policies put into effect in 1974 on the basis of 1975 data—the most recent statistics available to Berry and Soligo when they published their study—may not be methodologically correct.

Second, a complete analysis of all the existing statistical data shows that the income distribution did not worsen in the 1970s and that the real incomes of the poor improved significantly, especially in the latter half of the decade.

The reason the results of this study differ so much from the opinion of many observers is that the most commonly available statistics suggest a process of income concentration. National income data on salaries and statistics on real industrial wages show little improvement in an economy with rapidly growing income per capita. This seems to suggest a worsening of the relative income position of labor. A simple comparison of income distribution derived from labor force surveys suggests the same thing.

Gustav Ranis, for example, in a 1980 study analyzes income survey data and, on the basis of the distributions derived from these surveys for various years, concludes that there has been some income concentration throughout the Colombian development process. Although he warns about the quality of the data, he uses the survey information without adjustments to arrive at conclusions on income distribution trends. He believes that “some deterioration can be seen prior to the early 1960s, followed by a slight improvement in the late 1960s and early 1970s, with a new worsening trend thereafter.”<sup>7</sup>

But the income data for Colombia used by Ranis and others are incomplete and of highly variable quality. This means the estimates of income distribution are not comparable and, therefore, cannot be used to estimate changes in the indexes of concentration over time. Instead, a detailed analysis must be made of the coverage and the quality of the surveys used to obtain the primary income data, and a decision must then be made on which information is comparable.

Chapter 4 of this study follows such a methodology. I first analyze the quality and the coverage of the various household surveys and then compare the income distribution derived from similar surveys. These comparisons do not support the hypothesis of a worsening income distribution.

To complement the analysis based on income surveys and censuses, it is advisable also to analyze the information on earnings obtained from periodic surveys of salaries and wages. This latter analysis should not,

however, be limited to wages in the manufacturing sector. This sector clearly generates the most abundant and best-known statistics, but it is highly probable that trends in manufacturing wages do not coincide with those in other sectors.

Accordingly, in Chapter 2, the present study uses various wage series as a complement to analyses of changes in distribution based on data obtained from household income surveys. These data also do not reflect a worsening of the distribution. The real wages of the very poor—the landless agricultural laborers—increased rapidly in the decade, as did the wages of various categories of unskilled urban workers. The sluggish trend of real wages in large manufacturing establishments and among white-collar workers is therefore not typical. Furthermore, all the data point to little growth in real income for the poor in the first part of the decade and to rapid progress in their standard of living in the second part of the decade, after economic policy started to be consciously designed with distributional goals in mind.

Income surveys and wage series show average conditions and changes for different categories of the population, but they do not show what has happened to the real incomes and to the economic welfare of families and individuals over time. For that reason, an attempt is made in Chapter 3 to follow the fortunes of a group of poor families in Cali through the entire decade. The real incomes for this sample of poor families increased by about 100 percent in the decade.

Obtaining information on the wealthiest group of the income distribution is difficult. On the basis of the survey conducted in Cali, however, and a comparison of the rates of increase in the incomes of the poor and the middle class relative to the national per capita income, it can be concluded that the richest 5 percent of the families certainly did not suffer any loss in their share of the national income during the last two decades. But it is also possible that this share did not increase as much as is commonly believed.

In Chapter 5 an effort is made to measure the proportion of families in absolute poverty at various times during the decade. This exercise again shows a deteriorating situation in the first part of the decade and clear improvements after 1976. It thus appears that different sets of data provide a fairly consistent picture of short-term changes in income distribution, and none of the data sets used confirm a deterioration in income distribution during the 1970s.

In Chapter 6 I suggest some hypotheses that may explain why income distribution did not become less equal in the decade, and discuss some



policy implications of the Colombian growth experience of the 1970s. This last chapter is tentative, because the main objective of this stage of my research was to find out what had really happened with the income distribution in Colombia between 1965 and 1980.

In summary, the main finding of this study is that in the decade and a half after 1964, income distribution in the country did not deteriorate, and the real income of the poorest families increased significantly. Many people have criticized the economic policies followed in the 1970s, asserting that they led to a worsening of the income distribution and did not benefit the poor. The data collected here suggest the contrary: that if economic policy had an impact on distribution, it was to favor the poor.

It is possible, however, that factors other than official economic policy, such as high coffee prices and the rapid growth of coffee production, helped to avoid a deterioration in income distribution. Nevertheless, a case can be made for the hypothesis that official policies helped to channel some of the incomes from the export boom of the late 1970s toward low-income families. There is no question, however, that exogenous factors, such as decreasing rates of population growth and the adoption of new technology in agriculture, affected distribution significantly. This study does not try to determine how each of these phenomena and each policy affected income distribution.

From a historical perspective, the finding that a resource-rich country that followed fairly orthodox economic policies in the 1970s was able to achieve rapid growth, with no deterioration in income distribution and without increasing its foreign debt, may be both unexpected and significant.

## Notes to Chapter 1

1. *Consigna*, September 15, 1980.
2. *El Tiempo*, May 10, 1980, p. 15A.
3. ANDI (Asociacion Nacional de Industriales), ANIF (Asociacion Nacional de Instituciones Financieras), CAMACOL (Camara Colombiana de la Construcción), FEDEMETAL (Federacion Metalurgica Nacional), and FENALCO (Federacion Nacional de Comerciantes), "Documento Dirigido al Presidente de la Republica," April 1981.
4. J. A. Bejarano, "Crecimiento, Distribucion y Politica Economica" (Paper presented to the Congreso de Economistas de la Universidad Nacional, Melgar, May 1980; processed).
5. Albert Berry and Ronald Soligo, *Economic Policy and Income Distribution in Colombia* (Boulder: Westview Press, 1980), p. 17.
6. *Ibid.*, p. 1.
7. Gustav Ranis, "Distribucion del Ingreso y Crecimiento en Colombia," *Desarrollo y Sociedad*, no. 3 (January 1980).