

# A Normal Latin American Country?\* A Perspective on Colombian Development†

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## Abstract

Colombian economic development in the 20th century poses some salient puzzles. In some dimensions Colombia looks strikingly different from other Latin American countries. Colombian economic performance has exhibited very low volatility and macroeconomic management has been excellent. However, in other dimensions Colombia looks entirely normal. Specifically, overall growth in income per-capita is remarkably close to the Latin American average, as are other socio-economic outcomes, such as inequality. In this paper I propose a simple political economy framework for explaining this paradox. I argue that political elites can adopt different strategies for maintaining power, making a distinction between clientelism and populism. I argue that the distinct features of Colombia come from the dominance of clientelism over populism, but this substitution of one instrument for another has little effect on income per-capita or inequality. Rather, underperformance in these dimensions is driven by historical processes of institution creation common to Latin American countries. The reason that in Colombian clientelism substitutes for populism are mostly to do with the continuity of the traditional political parties and governing elites.

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\*With apologies to Andrei Shleifer.

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## 1 Introduction

As the essays in this book document, the economic history of Colombia departs in many ways from Latin American stereotypes. Yet modern theories of comparative economic development tend to emphasize the similarity of the trajectories of Latin America societies (Engerman and Sokoloff, 1997, Coatsworth, 1998, Acemoglu, Johnson and Robinson, 2001, 2002). Though there was certainly heterogeneity within Spanish colonies in the way institutions functioned and the types of interests or ideas that emerged, there is also a clear sense that Latin American countries were collectively on similar paths, at least relative to the path taken by North America. There has been no ‘Latin American miracle.’ The economic success of Argentina before 1930 seems only to demonstrate that in fortuitous circumstances even quite long spells of prosperity are consistent with bad underlying institutions. The long-run sustainability of the rapid economic growth in Chile since the mid 1980s are still an open issue, as is the question of whether the country can manage the crucial transition to industrial exports.

There are of course many sources of variation so that it is possible that the differences between Colombia and the rest of Latin America which the chapters of this book have illustrated could be accounted for by various idiosyncratic factors. Nevertheless, as social scientists, we thirst for a theoretical framework which can help us place Colombian exceptionalism within the wider Latin American context, which can explain how Colombia can be both different and normal at the same time. In this essay I propose such a framework and use it to interpret some of the findings of the chapters in this book. I first briefly revisit the different senses in which Colombia is exceptional (section 2) and normal (section 3). I draw some conclusions from this and in section 4 develop a model which can reconcile these two positions. My model builds on an intellectual tradition in Colombia which has tried to develop positive theories of why Colombia is different (see particularly, Urrutia, 1991, and Meisel, 1996).

## 2 Colombian Exceptionality

A large body of literature speaks to the apparent exceptionalism of the Colombian economic and political experience in the 20th century. As illustrated by the chapters of this book, Colombia has had extraordinarily prudent macroeconomic policy. In a continent which is the apogee of bad macroeconomic policy, Colombia has not had an inflation problem since the War of 1,000 days which ended in 1902 (Sánchez, Fernández and Armenta, 2005). Fiscal policy has been prudent in the extreme. Not only has the size of the state been kept small, but the country never borrowed in unsustainable ways either domestically or externally (Junguito and Rincón, 2005). In the 1980s Colombia was the only Latin America country not to have to re-schedule its international debt and completely avoided the debt crisis which crippled most of Latin America (Avella, 2005).

Possibly as a consequence of this, Colombian economic growth has been very steady. The fall in real GDP that Colombia experienced in 1998 was the first since 1932 (Urrutia, Pontón and Posada, 2002, p. 26). Steady growth seems to have led to steady increases in stature and welfare (Meisel and Vega, 2005) and Colombia did not experience the declines seen in other places, for example Mexico (López Alonso and Condey, 2003) or Guatemala (Bogin and Keep, 1999). In addition, when capital markets are imperfect, lower volatility of growth may in itself increase welfare (though Lucas, 1987, famously disputed how important this was).

Apart from fiscal and monetary policy, other economic policies in Colombia have been very good. There has been none of the discrimination against agriculture and the rural sector so characteristic of developing economies (Lipton, 1977). In fact the producers association (the National Federation of Coffee Growers) has controlled the main export industry, coffee, since 1927. As a consequence the exchange rate has also been kept near equilibrium levels and there has not been the massive discrimination against agriculture so prevalent elsewhere (Bates, 1981).

Turning to the political realm, there has been a continuity unique in Latin America. The Conservative and Liberal parties have persisted since their foundation in the 1840s and there have been only brief spells of military rule since independence. The only one which happened since the end of the War of 1,000 days took place in the 1950s when elements of

both political parties supported the 1953 coup by Gustavo Rojas Pinilla. Though the 19th century parties of Uruguay, the Blancos and the Colorados, have also persisted into the present, they were unable to avoid long spells of military rule. In many ways, Colombia has also had a very democratic tradition. When the Liberals came to power in 1850 they introduced universal male suffrage and Bushnell (1971) calculated that around 40% of adult males voted in 1856 in an election which took power from the Liberals and transferred it democratically to the Conservatives. Though a presidential election did not transfer power peacefully again until 1930, an important intellectual tradition in Colombia points to sustained democratic practices (Deas, 1993, Posada-Carbó, 1997) and clearly elections were a vital part of political life. Indeed it is clear that the dynamics of democracy in Colombia certainly are distinct. For example, while democracy was collapsing in the 1930s and 1960s everywhere in Latin America it was being deepened in Colombia and the country stood completely outside the ‘waves’ of democracy and authoritarianism much studied by political scientists (Huntington, 1991).

Has Colombia been exceptionally violent during the 20th century? Colombia is the only Latin American country which still has a strong Marxist guerilla group fighting for Revolution and it is also the kidnapping capital of the world. However, in comparative perspective I am not sure how distinct these patterns are. During the century revolutions took place in Mexico, Bolivia, Cuba, and Nicaragua and Peru had the Sendero Luminoso. Far more people died during the Mexican Revolution than during *La Violencia* and in the 1920s Mexican politics was riven with violence and political assassination. There were also large losses of life in Guatemala and El Salvador during the insurgencies of the 1980s. Moreover, the recent period in Colombia is masked by the take-off of the cocaine economy which is a shock of huge proportions to the political stability of the country.

### 3 Colombian Normality?

At a factual level much of the discussion of the last section is clearly correct. Colombian economic performance and political history has been unusual in many ways. However, I now argue that in many other dimensions Colombia is highly normal. The puzzle is how to reconcile exceptionality with normality.

The first and most basic piece of economic evidence suggesting that Colombia is a normal Latin American country in Figure 1. This shows aggregate economic performance (GDP per-capita) of Colombia in the 20th century compared to the Latin American average. Interestingly, this figure shows that Colombia is right where you'd expect a Latin American country to be. Despite how good macroeconomic policy has been, there is little evidence in this Figure which shows that this led to a payoff in terms of aggregate performance. Colombia's growth may have been stable, but it has also been just as disappointing as that of every other Latin American country in the 20th century.

More generally, economic performance in the long-run in Colombia fits very well with recent theories of comparative economic development. What we know about the 19th century suggests that income per-capita stagnated until the coffee economy finally began to flourish until the 1880s and 1890s. Though this is often attributed to Colombia's uniquely difficult geography by Colombian scholars (e.g., Safford and Palacios, 2003, Chapter 1), in fact zero per-capita income growth is the norm in Latin America over this period (Coatsworth, 1993). Moreover, in line with theories of Engerman and Sokoloff (1997) and Acemoglu, Johnson and Robinson (2001, 2003) the relationship between historical initial conditions and contemporary institutions and economic outcomes in Colombia is right where you'd expect it to be. Figure 2, drawn from Acemoglu, Johnson and Robinson (2001) shows the relationship between the historical rate of mortality of European settlers in the colonial world and a current measure of the security of property rights. In this figure Colombia is very close to the regression line. A similar situation emerges if we instead look at the relationship between population density in 1500 and institutions today (Acemoglu, Johnson and Robinson, 2002). Thus the relationship between historical initial conditions in Colombia and current institutions seems entirely consistent with available theories. Colombia is not an outlier. Figures 3 and 4 investigate these ideas by looking at within-Colombia variation. Figure 3 plots the relationship between the proportion of the population of a department that were slaves according to the 1843 Census (Secretaria del Interior de Nueva Granada, 1843) against departmental income per-capita in 2002. This picture suggests that more intensive slavery in the past is associated with lower income per-capita today. Figure 4 plots the log of the density of tribute paying Indians in 1560 (taken from Tovar, 1988)

against the land Gini at the departmental level in 2002 (calculated from data in Offstein, Hillón and Caballero, 2003). This shows that greater densities of indigenous peoples in 1560 are associated today with higher land inequality, again in line with the cross-country theories. Thus some simple correlations suggest the long shadow of the past, just as many conjecture in theorizing about Latin American economic history.

If one examines income distribution and inequality more generally Colombia looks like an entirely normal Latin American country. Table 1 shows data from the Deininger and Squire dataset at the World Bank of internationally comparable income Ginis. Income inequality in Colombia is actually significantly above the Latin American average and close to Paraguay and Brazil two of the most unequal countries in the world. Figure 5 looks at regional inequality within Colombia. In 2002, ignoring Casanare whose income per-capita is inflated by the presence of natural resources and very low population density, the difference between the poorest departments, such as Guajira or the Chocó and Bogotá is about a factor of 4. This difference is actually smaller than that between Buenos Aires and Santiago del Estero, the poorest department in Argentina, where income per-capita differs by a factor of 6. However, it is greater than the difference between the poorest and the richest department in Bolivia (Potosí and Tarija respectively).

What about *La Layenda Rosada* of Colombian democracy? The extent to which Colombia was democratic historically is contested. Argentina and Mexico both had universal male suffrage on paper after the 1860s, but in practice elections were stage managed and riven with fraud and very low voter turnout. For instance, Engerman and Sokoloff (2005, Table 3) calculated that in 1896 only 1.8% of the population were voting in Argentina while this figure was 6.9% in 1918 for Colombia. After 1856 election studied by Bushnell political power did not peacefully change hands between the parties until 1930 and even after this period elections were marred by intensive fraud and coercion and often presidents were elected unopposed. It is interesting, for example, that when Liberal Alfonso López Pumarejo was elected president in 1934, the vote total he received (938,808) was larger than the entire number of votes cast for the Liberal and two Conservative candidates in the highly competitive 1930 elections (823,877) (see Bushnell, 1993, p. 291).<sup>1</sup> This almost

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<sup>1</sup>I thank Jorge Orlando Melo for pointing this fact out to me.

certainly indicates the presence of ballot stuffing.

Indeed, Chaves, Fergusson and Robinson (2005) shows that in the 1922 presidential election where Conservative Pedro Nel Ospina defeated Liberal Benjamín Herrera, in 415 of the 816 municipalities for which they had votes, the total number of ballots cast was greater than the total number of literate adult males in the municipality according to the 1918 population census (adjusted for population growth). In 1922 one could vote in Colombia if one was a literate adult male, had property worth more than 1,000 pesos, or an annual income of more than 300 pesos. However, given that these wealth and income restrictions were large numbers, the number of literate adult males is a good approximation to the maximal possible number of people who could have been eligible to vote. Adding up the number of ballots that were certainly stuffed (a clear underestimate since it assumes 100% voter turnout) Chaves, Fergusson and Robinson (2005) found that the number of stuffed ballots was 196,257, which was greater than the margin by which Herrera was defeated.

Leaving aside the issue of how democratic Colombia has been historically, political scientists have typically had no trouble in incorporating Colombia into their standard models of Latin American politics. For instance, Colombia is a basic case the comparative work of Collier and Collier (1991) and basic concepts such as clientelism and even populism (Dix, 1978) are applied to Colombia without comment. It is hardly controversial to describe Colombian politics as clientelistic and a large academic literature has studied this.<sup>2</sup> Indeed, according to the influential paper of Carey and Shugart (1995) Colombia has the most clientelistic institutions of any Latin American country.

## 4 An Attempted Reconciliation

I now propose a simple analytical framework to try to reconcile the idea that Colombia is both exceptional and normal at the same time. In the text I shall use a series of diagrams to convey the main messages of the framework without spelling out the mathematical model or the microfoundations underlying the reasoning. Consider a simple model with two groups, who for want of better terms (and with apologies to Malcolm Deas) I shall call the elite and

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<sup>2</sup>See for instance, Schmidt (1977), Losada (1984), Diaz (1986), Archer (1990), Leal and Dávila (1990), Deas (1993), Martz (1997) and Duarte (2003).

the citizens. In the background we can think of a standard economic environment where factors of production are distributed in different ways and can be combined to produce output. Economic institutions determine the incentives of people to undertake productive activities and the constraints under which they act. In consequence they will determine the equilibrium level and distribution of income. By economic institutions I mean things such as the nature of property rights and their security and the extent to which there is a level playing field in society and free entry into profitable economic activities. I also mean things such as the security of contracting and whether or not there is equality before the law.

Political institutions are also important because they allocate political power and I shall assume that they allocate the preponderance of power to the elite who thus have a large influence over the determination of economic institutions. Nevertheless, institutions are highly inertial and tend to persist over long periods of time. The perspective I take follows Engerman and Sokoloff (1997) and Acemoglu, Johnson and Robinson (2001,2002) in arguing that critical aspects of Latin American institutions were formed in the colonial period and endured over time.<sup>3</sup> In consequence though economic and political institutions can be changed at the margin, I shall proceed by taking the institutional nexus as fixed and try to deduce some consequences of it. As I noted above, some broad facts about Colombian history are consistent with such an approach.

Though the elite dominate politics, they must deliver something to the citizens in order to stay in power. For example, the citizens may be able to engage in collective action and threaten social disorder or in the limit revolution. Thus to maintain power I assume that the elite must provide the citizens some level of utility  $U^*$ . I assume that the elite have sufficient instruments that they can always provide  $U^*$  and that it is always optimal to do so in equilibrium. In consequence I shall not dwell on what happens if they do not do so. The main focus of interest will be on the trade-offs between different instruments they can use to transfer  $U^*$  to the citizens.

The more the institutional nexus favors the elites, the lower will the utility of citizens will

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<sup>3</sup>This work builds of course on long traditions in history and economics which emphasize the persistence of historical conditions in Latin America (see for instance Furtado, 1970, Stein and Stein, 1970, Lockhart and Schwartz, 1983).

be below  $U^*$  and the more attention the elite will have to pay to staying in power. I assume that to satisfy the constraints the elite can use two instruments in different combinations - clientelism or populism. Political scientists make a distinction between policy which is 'clientelistic' and that which is 'programmatic' and these are conceived of as two polar political strategies that parties or groups contesting power might adopt. On the one hand, political parties can compete for support by offering different types of public goods which affect the entire population. These policies might concern ideological issues, such as human rights, or they may be more economic, such as law and order, trade and macroeconomic policy, or regulatory regimes. On the other hand, instead of focusing on such collective or public goods, parties can concentrate on offering particularistic benefits or private goods to groups of supporters. Shefter (1977, p. 403) provides a classic statement of this dichotomy;

“A Political party may employ two basic strategies in its efforts to induce voters to support its candidates..It may distribute divisible benefits-patronage of various sorts-to the individuals who support the party. Alternatively, it may distribute collective benefits or appeal to a collective interest in an effort to elicit...votes.”

A more recent statement, Kitschelt (2000, pp. 845-846) distinguishes between

“pursuit of policy programs that distribute benefits and costs to all citizens regardless of whether they voted for the government of the day or not (programmatic linkages). Alternatively, does accountability and responsiveness have to do with delivering specific material advantages to a politicians' electoral supporters (clientelistic linkage)?”

In contrast to clientelism, Dornbusch and Edwards (1991, p. 9) define populism as “an approach to *economics* that emphasizes growth and income redistribution and de-emphasizes the risks of inflation and deficit finance, external constraints, and the reaction of agents to aggressive nonmarket policies.” A more useful definition is proposed by Kaufman and Stallings (1991, pp. 15-16) who argue that populism

“involves a set of economic policies designed to achieve specific political goals. These political goals are (1) mobilizing support within organized labor and

lower-middle class groups; (2) obtaining complementary backing from domestically oriented business; (3) politically isolating the rural oligarchy, foreign enterprises and large scale domestic industrial elites. The economic policies to attain these goals include ... (1) budget deficits to stimulate domestic demand; (2) nominal wage increases plus price controls to effect income distribution; and (3) exchange-rate control or appreciation to cut inflation and raise wages and profits in nontraded goods sectors.”

They emphasize, in line with my approach here, that populism is a rational political strategy which has been used relatively intensively in Latin America because of high levels of inequality, conflicts between urban and rural sectors whose roots lie in the integration into world markets as exporters of agricultural goods in the late 19th century, and the choice to move to inward looking development in the 1930s (see Conniff, 1999, for more perspectives). In contrast, Dornbusch and Edwards’ explanation of the origins of populism involves strong doses of psychology (“there is a strong feeling that things can be better” p. 9) and irrationality (“Policymakers..ignore the existence of any type of constraints on macroeconomic policy” p. 9).

Basically clientelism and populism are two types of inefficient redistribution motivated by the desire to buy political support. Both are socially wasteful. Clientelism leads to the undersupply of micro public goods, such as roads, sanitation, schools and equality before the law. Populism leads to an undersupply of macro public goods such as price stability and an equilibrium exchange rate and prudent debt policy. Both are bad for the economy but are politically attractive.<sup>4</sup>

Figure 6 shows how different combinations of clientelism and populism can be combined by the elite to satisfy the constraint of giving the citizens  $U^*$ . The elite will choose the point which maximizes their utility, thus as well as the indifference curve of the citizens corresponding to  $U^*$  I have also drawn an indifference curve of the elite. One should think of these as social indifference curves which are conditional on some implicit process of preference aggregation. For example, to pose an effective revolutionary threat, the citizens

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<sup>4</sup>I do not delve here into why redistribution must take an inefficient form. Beginning with the work of Stigler (1972) there is a large literature on this, for instance Bates (1981), Coate and Morris (1995), Acemoglu and Robinson (2001), Lizzeri and Persico (2001), and the references therein.

must have formed groups which can solve the collective action problem. In this case one can think of  $U^*$  as stemming from the welfare function of the group, which is perhaps a weighted sum of the utilities of the members.

Note that from the private point of view of citizens, both clientelism and populism are goods - they are redistribution that raise their incomes - even though they are socially costly. From the point of view of the elites however they are both bads since they cost resources and create deadweight loss. Since we can think of the elite in a hierarchical society as the residual claimants on output the elite would prefer not to create distortions if they could. The fact that these things are goods for the citizens and bads for the elites explains the shape of the indifference curves. To satisfy  $U^*$  the elite choose a combination of clientelism and populism that maximizes their utility which of course occurs where the marginal rates of substitutions between clientelism and populism are the same for both the elite and the citizens.

To understand Figure 6 better, consider what would happen in a situation where institutions are better. Imagine that the playing field is more level so that citizens have better economic opportunities and the elite get fewer monopoly rents. This implies that the citizens will be better off under the status quo and that the elite will have to engage in less inefficient redistribution to stay in power. This is illustrated in Figure 7 by moving  $U^*$  closer to the origin. Now the elite can maintain power by choosing less clientelism and less populism.

What are the implications of different combinations of clientelism and populism for income per-capita? Both instruments create economic losses, but it is unclear whether one is more distortionary than the other. Thus we can think of there being little effect on output as one instrument is substituted for the other. Hence Figure 8 plots an isoquant in clientelism-populism space. The curve drawn shows all the combinations of clientelism and populism that generate a particular level of income per-capita.

Figure 9 completes the basic model by showing the implications of economic institutions, clientelism and populism in output-inequality space. Institutions favoring the elite, hypothesized to exist in Latin America, lead to inefficient redistribution, low output and high inequality. Even though the mix between clientelism and populism may differ between

different Latin American countries, once we map them into output-inequality space they all look rather similar. I contrast here the situation in OECD countries. Here institutions, both economic and political, are far less biased in favor of the elite. In consequence there are better economic incentives, citizens get a surplus over  $U^*$  and there is far less or even no incentive to engage in inefficient redistribution. As a result, output per-capita is higher and inequality is lower. Of course even without inefficient redistribution, institutions that favor the elite will create social losses.

I now use this model to reconcile Colombian exceptionalism with Colombian normality. As noted above, though some argue that there have been elements of populism in Colombia (e.g., Dix, 1978) it has certainly been much less intense than elsewhere. On the other hand Colombia certainly has intensive clientelism. On the other hand Peruvian elites (to take just one example) seem to have engaged in relatively more populism. In Figure 10 I show how this situation could arise. Put simply, we can think of this happening when the marginal rate of substitution between clientelism and populism is different for the Colombian elites than it is for the Peruvian elites. The deeper question is why the indifference curves look the way they do.

#### 4.1 Why would Colombia choose a different policy combination?

What explains the shape of the indifference curves of the elites in Figure 10? Why do the Colombian elites have a different marginal rate of substitution between clientelism and populism? There are two basic ways of thinking about this. Either, populism might be relatively costly for elites in Colombia as opposed to Peru, or clientelism may be relatively efficient in Colombia. Both arguments are probably right and the key to understanding why the indifference curves look the way they do is to tie them to the persistence of the two traditional parties.

As I noted above the long endurance of the two-party system and the extraordinary ability of political elites to maintain control of the political system is a distinguishing feature of Colombian politics. In consequence, Colombian elites have long-developed social networks and specific investments in delivering patronage. Thus clientelism is relatively more efficient in Colombia for the Liberal or Conservative parties than it is for most other

Latin American political parties which have not enjoyed such an unbroken history, such as for example APRA in Peru, or the MNR in Bolivia. Moreover, unlike the Liberals and Conservatives, the fact that ‘populist parties’ like APRA and the MNR are of relatively recent origin suggests precisely that they lack the types of organizations capable of delivering clientelistic goods (though they have certainly to some extent constructed them). They thus substitute into using macroeconomic instruments to generate support. Hence it is the fact that political parties come late to the political scene that induces them to choose specific policy instruments to gain support and thus become ‘populist.’ Indeed, populism is associated empirically with entry into politics of new political forces and it is the absence of these in Colombia which explains the relative lack of populism. This explanation for the incidence of populism contrasts with a conventional one based on the fact that ‘populist parties’ reflect different interests in society.

In addition it is probably always true that populism is worse for traditional elites and thus tends to arise as a strategy when elite loose partial control of system due to entry. This is because unstable macroeconomic policy threatens the value of assets in ways that clientelism does not. With this interpretation, the different slope of the indifference curve of the elite in Peru reflects the fact that it aggregates not just traditional groups, but also the preferences of APRA or the Fujimoristas. In Peru, as elsewhere, and by an application of Michels *Iron Law of Oligarchy* (Michels, 1911) one could consider that APRA has become part of the elite, although a part with different characteristics and preferences.

Note that Figure 8 drives home the point that even if Colombia has more clientelism and less populism than Peru or Bolivia, this may not matter very much in terms of aggregate output. Different combinations of populism and clientelism have different implications for inflation, whether or not you have a debt crisis, but given the institutional nexus, they lead to the same levels of income per-capita and inequality.

#### 4.2 Why was there no entry into Colombian Politics?

The next question is therefore why there has never been entry into Colombian politics? Usually, this question is articulated in terms of why there has never been a socialist party in Colombia. There are quite a few ideas about this in the academic literature. One is the

“myth of the egalitarian frontier expansion.” In the 1870s and 1880s as the coffee economy expanded Liberal governments passed laws giving rural campesinos access to land. Hence there was a large class of small landowners who did not favor socialism or populist parties. It is certainly true that the pattern of landholding is different in coffee growing departments such as Caldas and Quindío. However, the connection between this and the absence of socialism of a third party is obscure. As a matter of fact overall land inequality in these departments is actually higher than in most others. As Figure 11 shows, land inequality in the departments of Cundinamarca and Boyacá, is in fact slightly lower. Nevertheless, this aggregate statistic does mark some important differences. Specifically, Caldas and Quindío do have a smaller average farm size and they have a relatively large number of small holdings. The reason that this does not show up in the land Gini is that these departments also have a relatively large number of large farms! Of course such a fact is consistent with more revisionist interpretations of the Antioqueño expansion (e.g., Christie, 1978). If these patterns can be formed into an explanation for the absence of a third/socialist party they have yet to be so. One could just as easily argue that the pattern of landholdings in Caldas and Quindío would lead to radicalism rather than contentment.

An alternative explanation for the absence of a third party focuses on the importance of leaders. The potential Perón of Colombia, Jorge Eliécer Gaitán was murdered in 1948 and using some counterfactual history we can imagine that had he not been killed Colombia would have had its own populist party. Indeed, we now know that while imprisoned before the famous ‘revolution’ of October 17 1945, Perón proposed to Evita that they abandon politics and buy a farm (see Torre, 2005). Moreover, the assassination of key political leaders did not of course end in 1948, notable events being the murder of Luis Carlos Galán in 1990 and the practical obliteration of the Unión Patriótica in the 1980s. Not just assassination but also possibly fraud was used to derail populist challenges, such as during the attempt by Rojas Pinilla to win the 1970 presidential election.

Possibly then the absence of entry in Colombia is explained by the recourse to violence or venality. Nevertheless, as I noted above, it is not evident that Colombia has been really more violent than other Latin American countries in the 20th century and venal political practices have been at least as common elsewhere. More plausible as an explanation of

the absence of entry than the murder of Gaitán is the way the electoral system created incentives for dissidents to stay within the traditional parties. Time and time again in the 20th century, political entrepreneurs, like Gaitán and subsequently Alfonso López Michelsen and Galán, considered forming a third party but then always returned to the fold. Indeed, it is quite likely that the assassination of Gaitán was precisely because he had finally emerged as the leader of the Liberal party, not because political rivals anticipated the creation of a third party. Various features of the system may have led to this outcome. For example, the traditional parties did not control their own names so that “dissident lists” could run. One interpretation of this system is that it acted as a credible commitment to potential dissidents that they would be represented within the traditional parties and in consequence worked as a sort of entry deterrence. Similarly the much derided feature of the electoral system which meant that candidates could be elected with far fewer votes than the electoral quotient, may have had the effect of guaranteeing elite factions that they would get representation. In line with these ideas Dix (1967, p. 250) noted “proportional representation may have helped to a degree to reinforce the two-party system by allowing dissident factions to gain representation according to their strength in the electorate while still not forcing them from the party. Retaining the party label, or some version of it, they have usually been reabsorbed into the officialist ranks after one or two elections.” It may also be the case that the entry of third parties may also be tied to non-cooperative behavior by traditional parties. In Colombia these parties showed an amazing ability to collude on numerous occasions.

A final reason for the persistence of the traditional political parties is that the military were kept in the barracks.

#### 4.3 The Trade-Off between the Guerilla and Military Coups

There is a clear connection between the persistence of the 19th century parties in Colombia and the weakness of the military. Since at least the aftermath of the 1854 coup of General José María Melo, there appears to have been a conscious decision by both Liberal and Conservative parties to keep the military small and weak (see Deas, 2005). Hence the military has never been a credible alternative government. Clear evidence of this is the

fragility of the military regime of Gustavo Rojas Pinilla between 1953 and 1957. Large elements of both parties supported his coup against the increasingly authoritarian and polarizing government of Laureano Gómez, and when Rojas Pinilla made attempts to institutionalize his regime, the parties buried their differences in a series of meetings in Sitges in Spain and joined together to remove the military from power.

A weak military guaranteed that the traditional parties and elites would maintain control of the political system, but it also had costs. Most obviously a weak military was unable to provide social order or effectively suppress guerillas in the countryside. Figure 12 shows the trade-off for political elites. A stronger military means that there is social order, but it also increases the likelihood that the military will end up running the country. Where would the elite want to be on this trade-off and why did the Colombian elite choose a weak military at the risk of social chaos? Obviously the elite don't like military governments because their rents will be taken away. Moreover, there is always the possibility of radicalized military governments such as that of General Velasco in Peru in 1968 or General Torres in Bolivia in 1970. Citizens don't like the military either, but they have less to lose and may even make a career in the military and see it as a channel of upward social mobility (Stepan, 1971, 1988). In consequence the marginal rates of substitution between coups and guerilla are different for the elite and the citizens. A society, like Colombia, where the power of the elites persists will tend to have a weaker military and more guerilla. One of the secrets which allows this outcome is that the military are only needed for internal purposes. If external threats are sufficiently large then the elite may be forced to build a strong military to protect the country. But, though there have been border disputes in Colombia, for example with Peru in the 1930s, Colombia has never faced any real external threats (see Centeno, 2002, on the relative absence of inter-state conflict in Latin America).

The fact that the Colombian elite could live with a weak military and that they were able to implement such a policy undoubtedly reinforced the persistence and dominance of the traditional parties. Note that entry into the political system and the build up of the military may be complementary. Once populist parties enter and become part of the elite then this will lead to a different social indifference curve for the elite, and one with a different marginal rate of substitution between coups and the guerilla. The consequence will be a

stronger military and a greater threat of coups. In addition, entry into the political system takes place both elite and new groups may develop the military – the elite fear populism and may want to organize coups to oust the new politically organized groups, while these new groups fear the elite and may want to try to suppress them. Hence populism and military coups tend to go together.

This simple framework can also help to explain why there has been a recent build up of the military in Colombia. There seem to be two reasons for this. First there has been a massive shock – the rise since the 1970s of the cocaine and the drug economy. In general one could imagine that the effects of this on the elite go in either way. For instance, the drug mafias provided resources for President Samper’s 1994 election campaign. However, the main effect of the drug economy seems to have been to put a large amount of money into the hands of different guerillas and paramilitary groups which has intensified the conflict in rural areas. In consequence conflict has become more costly for the elite and this has changed the marginal rate of substitution for the elite between coups and the guerilla. Social disorder is now more costly (drug money buys more guns, soldiers) so the elite are more willing to risk a coup. Second, since the end of the cold war, the United States no longer supports anti-communist military regimes in Latin America and no longer actively foments or encourages coups against democratic governments, as it once did. This implies that so there may be a lower probability of a coup at any given strength of the military. This again encourages the elite to support a military build up and moves Colombia to a different point on the trade-off which is illustrated in Figure 13.

## 5 Applying the Framework

Let me now use the framework to think through a few of the many issues raised in the chapters of this volume.

### 5.1 Clientelism and Financial Repression

The clientelistic nature of redistributive politics seems to have played an important role in monetary policy. As I have argued, traditional political elites in Colombia favored low inflation and they were able to get this policy by their enduring control of the political

system. Nevertheless, as many have argued (Haggard, Lee and Maxfield, 1993) monetary and financial policy can be attractive tools for clientelism. For instance, financial repression and holding interest rates below market clearing levels, by causing disequilibria in financial markets, allows politicians to allocate a scarce resource - access to finance. Thus Colombian politicians used the allocation of Central Bank credits as a tool of clientelism. Nevertheless, such a policy risked igniting inflation and to avoid this they engaged in severe financial repression. Indeed, as Sánchez, Fernández and Armenta (2005) show, this happened most fiercely after the creation of the Monetary Board at the Central Bank in 1963. This institutional change led to the complete control of monetary policy by the government and went along with a massive increase in financial repression, for example increases in the reserve requirements levied on private banks. The resulting misallocation of finance is surely an important contender for a micro distortion created by clientelism.

## 5.2 The Absent Debt Crisis

The persistence of traditional elites may also help to explain the fact that, as documented in the chapter by Avella (2005), Colombia was the only Latin American country to escape the debt crisis in the 1980s. The great relaxation of international lending that took place following with first oil shock of 1973 did not lead to unsustainable borrowing by the Colombian government, despite the fact that the 1970s also saw a boom in coffee prices. The most plausible explanation for this outcome reflects the fact that even though the formal National Front agreement finished in 1974, power sharing continued until the mid 1980s. The cooperative nature of relations between the two main parties meant that they were able to avoid accumulating inefficiently large debts once constraints on borrowing were relaxed. For example, standard political economy models of debt accumulation suggest that inefficient debt accumulation will occur when political parties are highly polarized (e.g., Alesina and Tabellini, 1990), or major interest groups behave non-cooperatively (Velasco, 2000).

### 5.3 Educational Policy and Political Competition

The nature of the National Front agreement may help explain another of the puzzling findings in this volume (see Hartlyn, 1988, for an overview of the National Front). As Ramírez and Téllez (2005) show in their chapter, the proportion of national income spent on education doubled in the early 1960s. Interestingly, this came about because of a constitutional amendment that forced the government to allocate 10% of expenditure to education. Further expansion of spending on education as a % of national income had to wait another constitutional reform in 1991. An interesting question then is why constitutional amendments have been used as a tool to expand spending on education and indeed other public goods. If this is what citizens want then why isn't this just a natural outcome of political competition? One possibility relates to the National Front agreement and the subsequent clientelistic nature of politics. Under the National Front, the Conservatives and Liberals divided power 50-50 in order to avoid fighting. One consequence of this was a huge decrease in the effective amount of political competition between the parties. Despite the relatively collusive nature of the party system in Colombia, it is plausible that on the margin political competition was good for society. Indeed, there is some evidence that competition between Liberals and Conservatives was key both to the passing of laws distributing land to smallholders in the 1870s and 1880s and also to strengthening the power of the coffee growers (Bates, 1997) both of which may have promoted economic development. For instance Bergquist (1986, p. 328) concludes his discussion of the land laws by arguing "the clientelistic structure of party politics and the competitive struggle between the parties for control over local affairs was enlisted by individual smallholders in their efforts to create a social field ... favorable to their interests." Given the nature of the National Front agreement and the huge reduction in political competition, the parties realized that they could not commit themselves to offer policies the voters preferred when it came to elections. Since the lack of this commitment was dangerous, particularly in the politically unstable aftermath of *La Violencia*, the safe solution was to use the constitution to mandate such social spending.

#### 5.4 Clientelism and the Size of the State

A striking fact about the economic history of Colombia in the 20th century is how small the state was. As Junguito and Rincón (2005, Figure 1) show, until the 1990s the government was astonishingly small in Colombia. Until 1950, taxes were about 3-4% of GDP and though they rose after that, by the end of the 1960s they had returned to 5%. Though after this there was again a tendency to increase, tax receipts seem to have been stable at around 7 % of GDP until the 1990s after which they increased rapidly to about 14% now. At the same time total government debt oscillated at around 5-10% of GDP with no tendency to increase until the 1990s. The data in Junguito and Rincón show that the much celebrated 'Revolution on the March' of Liberal President Alfonso López Pumarejo in the 1930s ought perhaps to be renamed the 'Revolution on the Cheap'!

In fact it is clear that in Latin America, increases in the relative size of the state coincide with a move towards more populist governments. This is true for example in Brazil after the rise of the Estado Novo in the 1930s and Figure 14 shows the evolution of government expenditure as a % of GDP in Argentina and Chile. One can see that with the rise to power of Perón after 1943 the size of the state increased by about 50% in Argentina. Though this process was reversed by military regimes after the 1955 coup, the return of Perón in 1973 led to a doubling of the size of the state. After falling under the military and the hyperinflationary collapse of Alfonsín's Radical administration, the return of the Peronists in 1989, this time in the guise of neo-populism, again led to a sustained expansion in the size of the state. In Chile the state began to expand during the populist regime of Carlos Ibañez in the 1950s but the dramatic change occurs with the highly populist government of Salvador Allende after 1970. Hence populism coincides with an increase in the size of the state. Why?

One possible explanation for this comes from noting that clientelism often functions by using existing social networks and people's dependence through market relations. For instance Baland and Robinson (2003) show that before the introduction of the secret ballot into Chilean elections in 1958, dependent rural laborers (*inquilinos*) were forced by their landlords to support right wing parties. Here, clientelism did not involve redistribution and government expenditure. Another related example comes from Alston and Ferrie (1999).

They show that clientelism in the Southern United States involved landlords guaranteeing protection to their black laborers against violence and lynching, a form of ‘redistribution’ which again used existing social networks and guaranteed social control without necessitating public expenditures. These examples suggest why the size of the state may expand with populism - parties for which populism is a politically attractive form of redistribution are those without access to the traditional forms of control described by Baland and Robinson or Alston and Ferrie. Thus almost by definition, populism as a form of redistribution has to use public funds to generate political support and thus leads to an expansion of the size of the state.

## 6 Some Implications and Conclusions

In this essay I have argued that Colombia is both exceptional and normal. Apart from the usefulness of applying the framework I developed in the essay to particular issues, I think there are many other useful implications of seeing Colombia as a normal country. Let me just discuss one. As I mentioned above, standard accounts of 19th century economic development in Colombia emphasize “difficult geography.” The most reproduced picture from Colombian history is that of a human porter in 1869 carrying a man on a litter over *La Monte de la Agonía*. Colombian elites were supposed to eat on wooden plates because porcelain broke when carried by mules and it cost as much to transport goods from Liverpool to Honda, the upper limit of navigation on the Magdalena river, as from Honda to the Sabana de Bogotá (Safford, 1965). But these arguments suggest that in the 19th century Colombian economic performance ought to have been much worse than other Latin American countries with easier geography, such as Venezuela. Moreover, once the advent of railways and subsequently roads and the internal combustion engine, Colombia ought to have done much better. Neither of these things are true. When the coffee economy expanded, coffee was taken out by mule. When the Liberal government of José Hilario López drastically cut tariffs after 1850, the supposed isolation of Bogotá did not stop the artisans going out of business in the face of competition from imported British goods. When finally railroads were built, Ramírez (2005) calculated that they did not generate large social savings. There are of course two interpretations of this. Maybe the geography

of Colombia was so difficult and in consequence railways so costly to build that they were hardly worth it. Alternatively, Colombia was not so isolated as has been supposed. The normality of Colombian economic performance suggests rather that its economic behavior can be explained by the same factors which are generally believed to explain the long-run evolution of Latin America: a matrix of economic and political institutions which did not create the incentives necessary to generate sustained investment and economic progress.

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**Figure 1: Colombia's Long -Run Comparative Performance, 1900-2000 (GDP per capita, PPP dollars of 1990)**

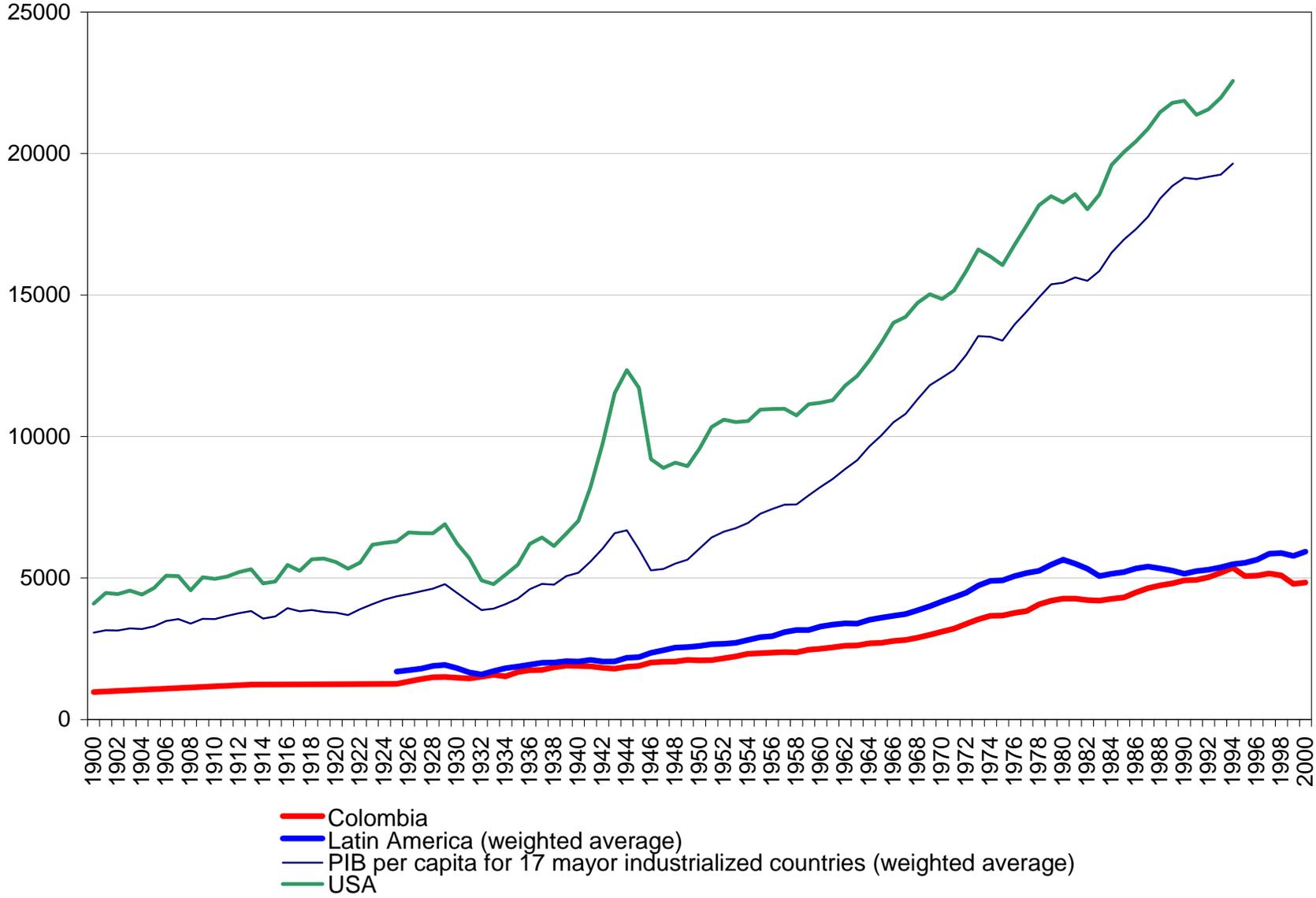
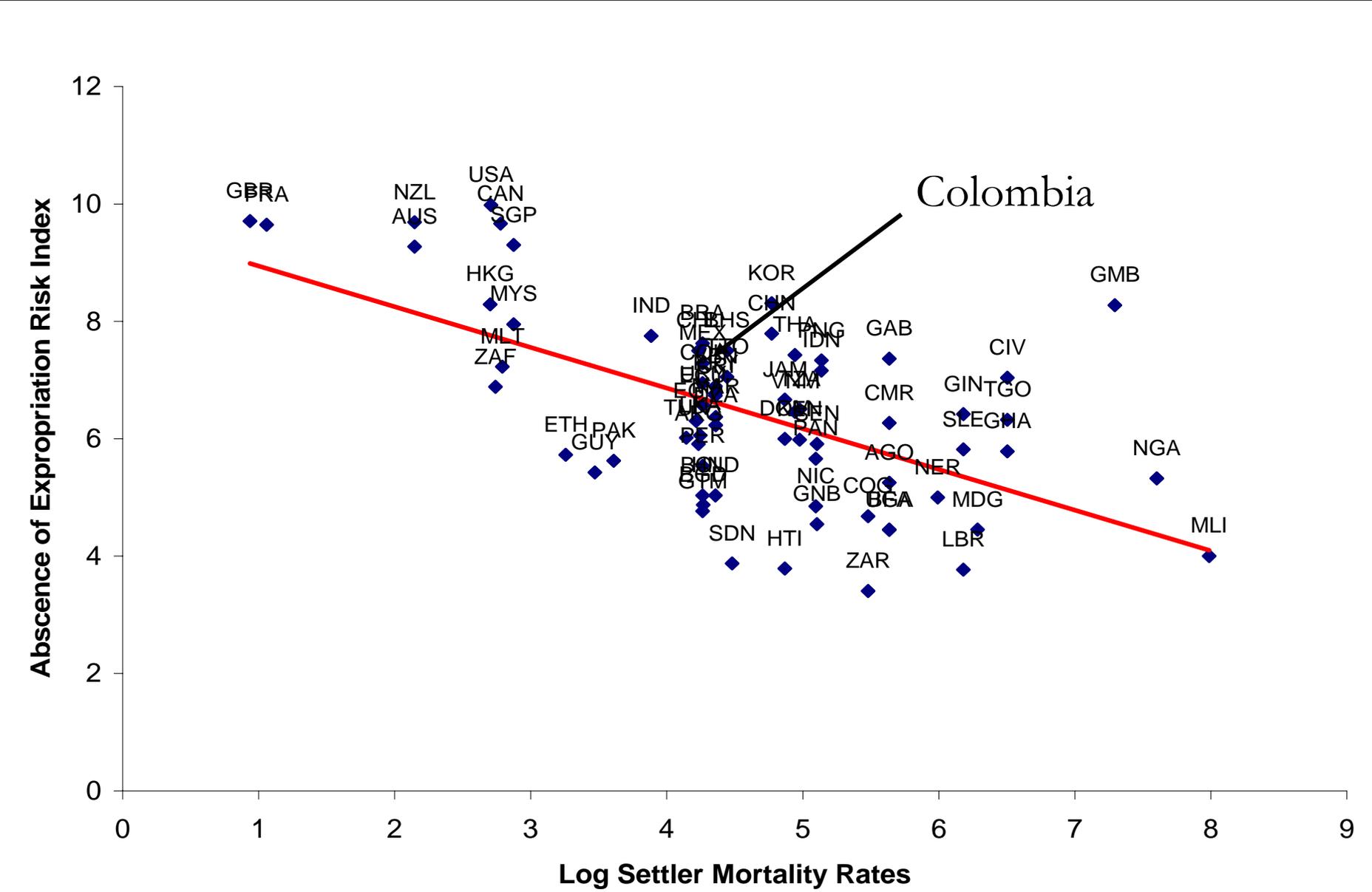
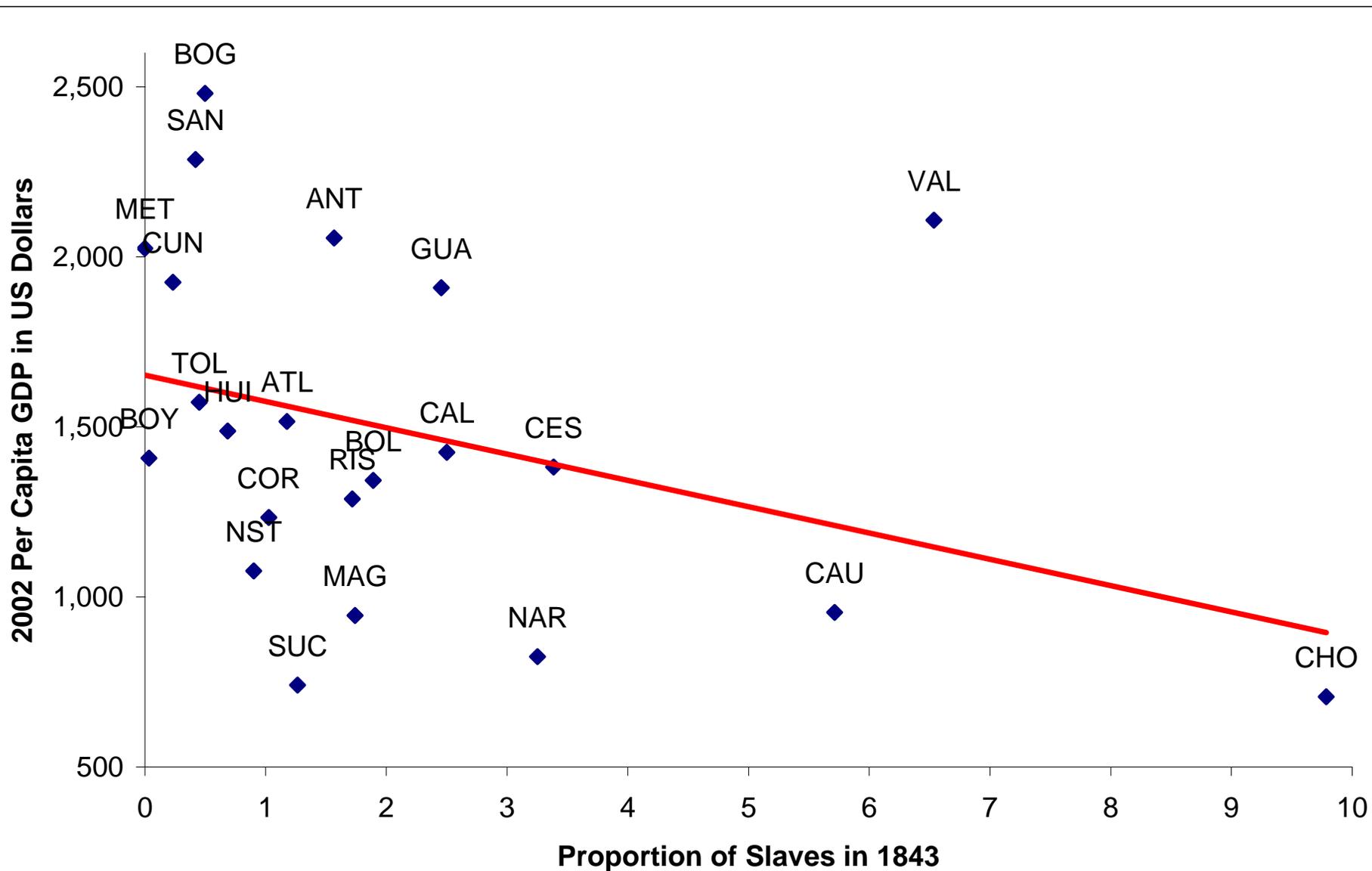


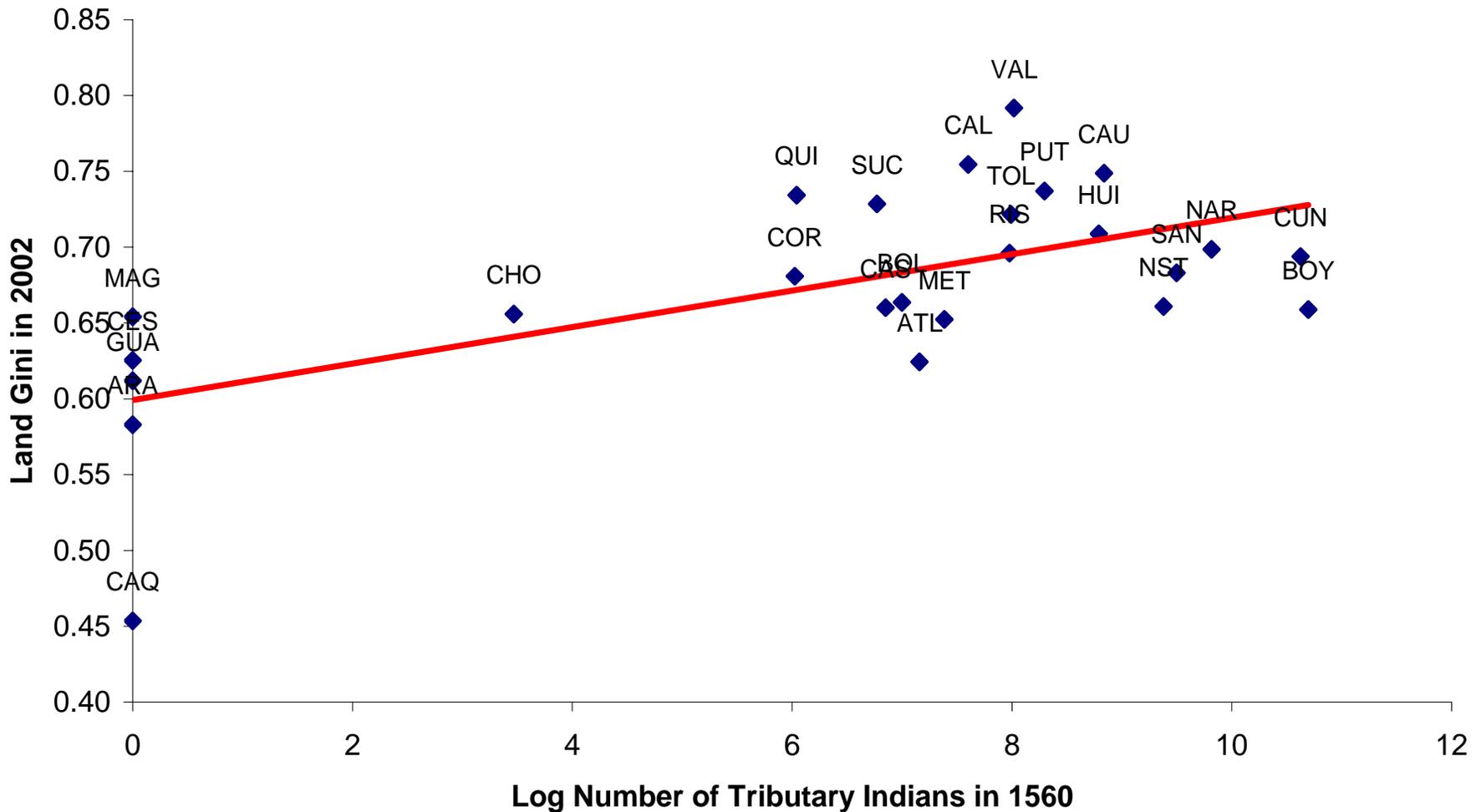
Figure 2: Historical Settler Mortality and Security of Property Rights



**Figure 3: Departmental Income per-Capita in 2002  
and the intensity of Slavery in 1843**



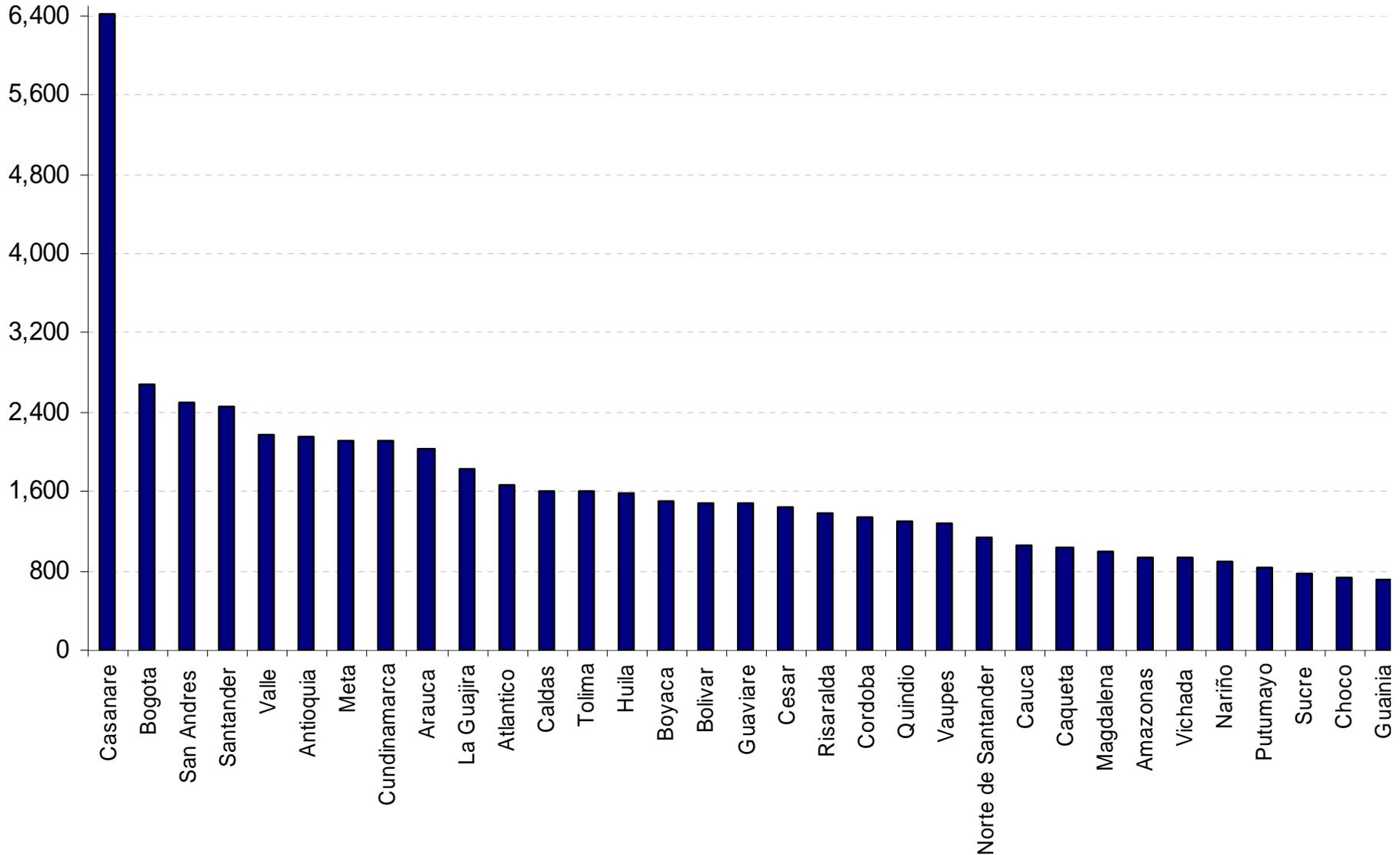
**Figure 4: Departmental Land Inequality in 2002 and Number of Indians paying Tribute in 1560**



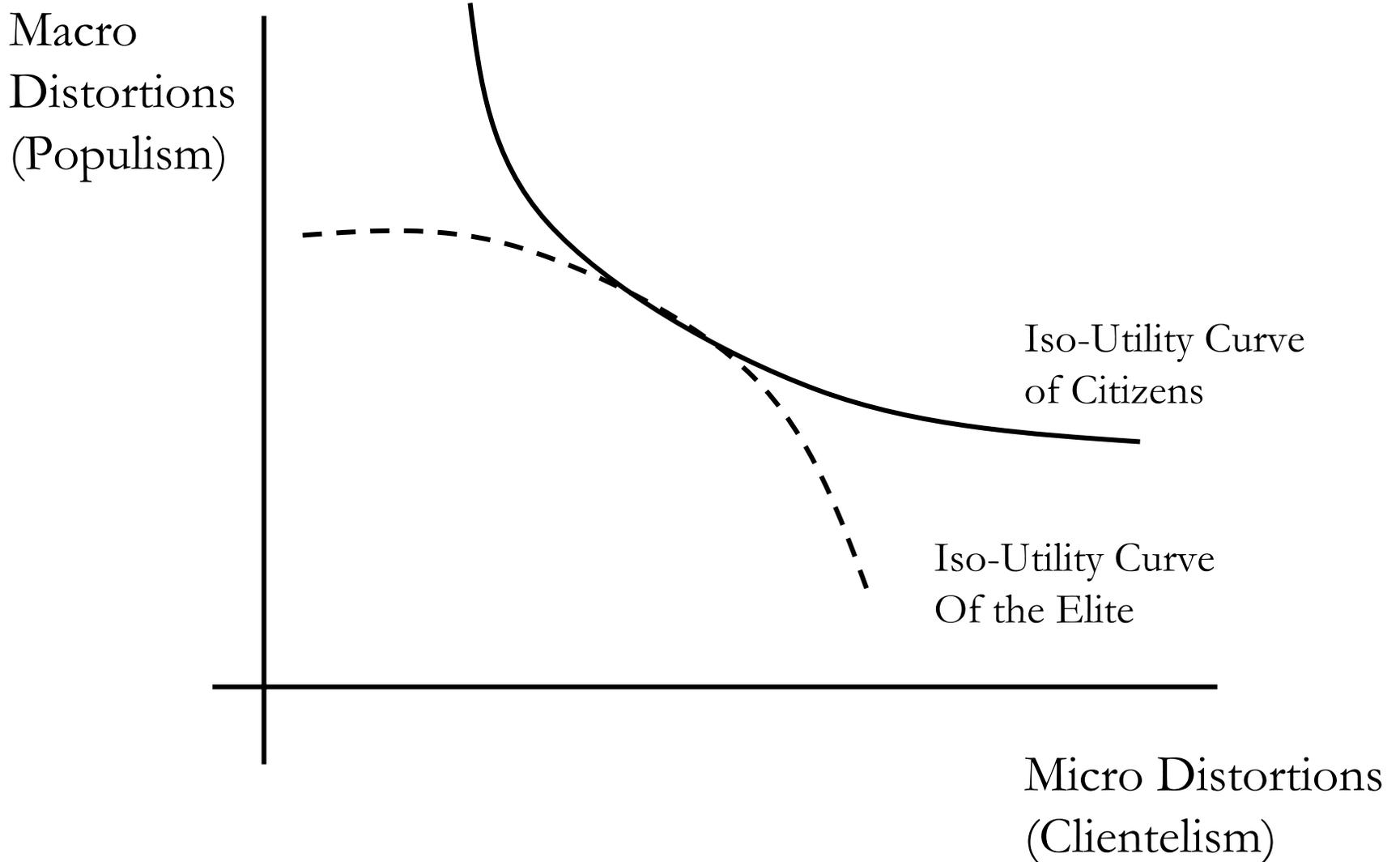
**Table 1: Colombian Income Distribution in Comparative Perspective**

<b>Region</b>	<b>Gini Index</b>
Latin America	50.7
Sub-Saharan Africa	46.5
Middle East & N. Africa	36.9
OECD Countries	31.5
<b>Country</b>	<b>Gini Index</b>
Brazil	60.7
Nicaragua	60.3
Paraguay	57.7
Colombia	57.1
Chile	56.7
Mexico	53.1
Venezuela	49.5
Bolivia	44.7
United States	40.8
United Kingdom	36.8

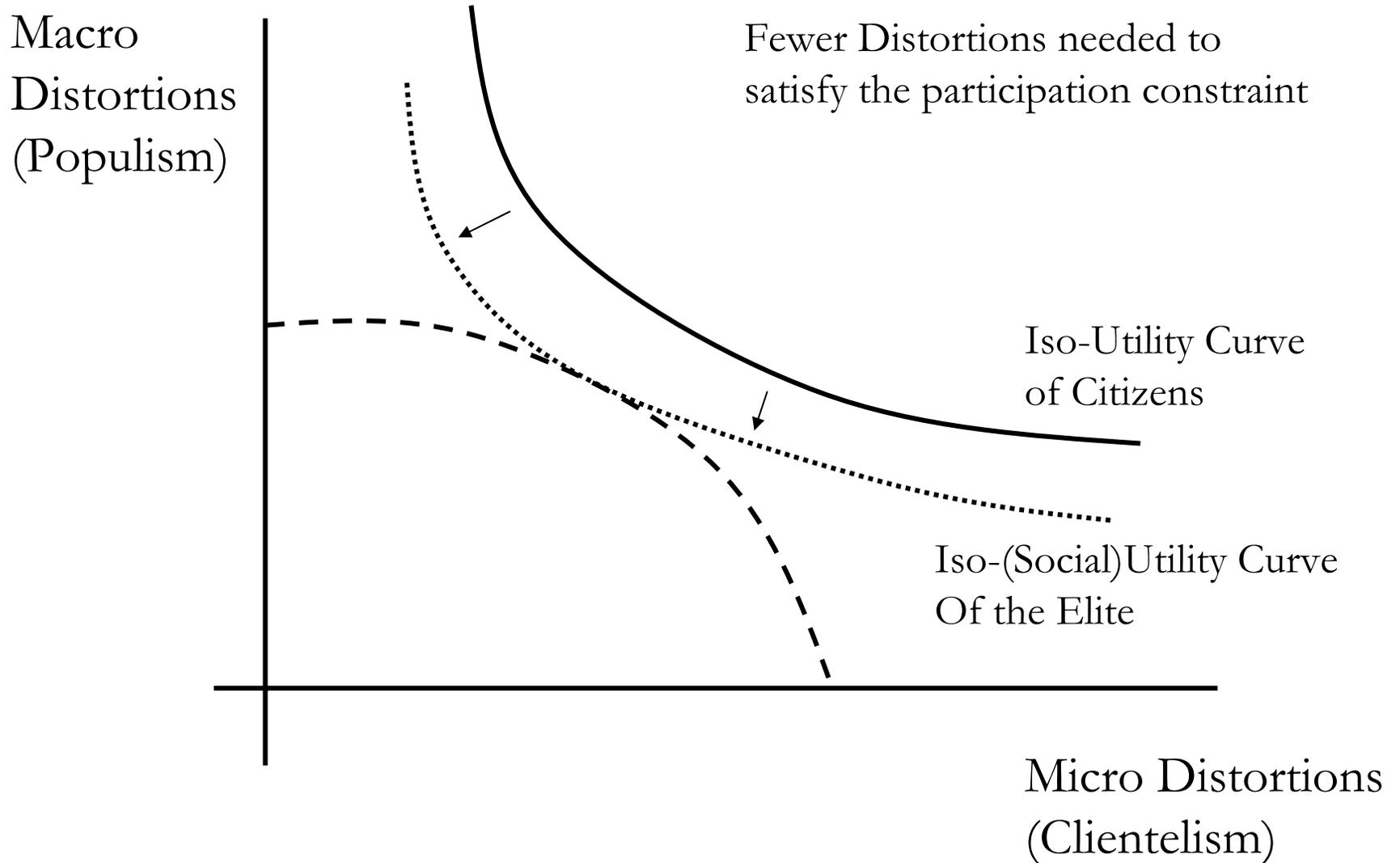
**Figure 5: Colombia - GDP per capita 2002 (US dollars) at Department Level**



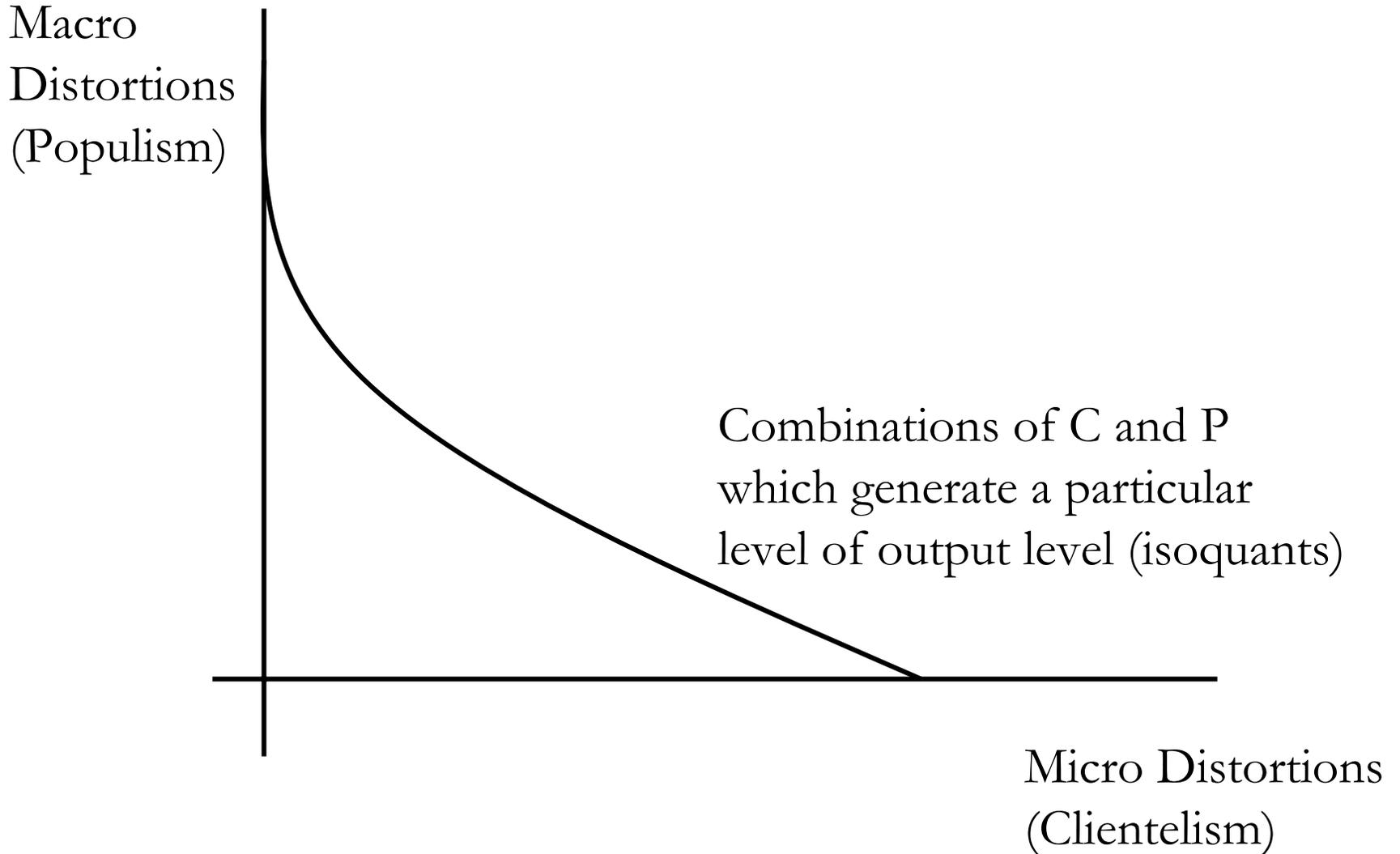
**Figure 6: Providing  $U^*$**



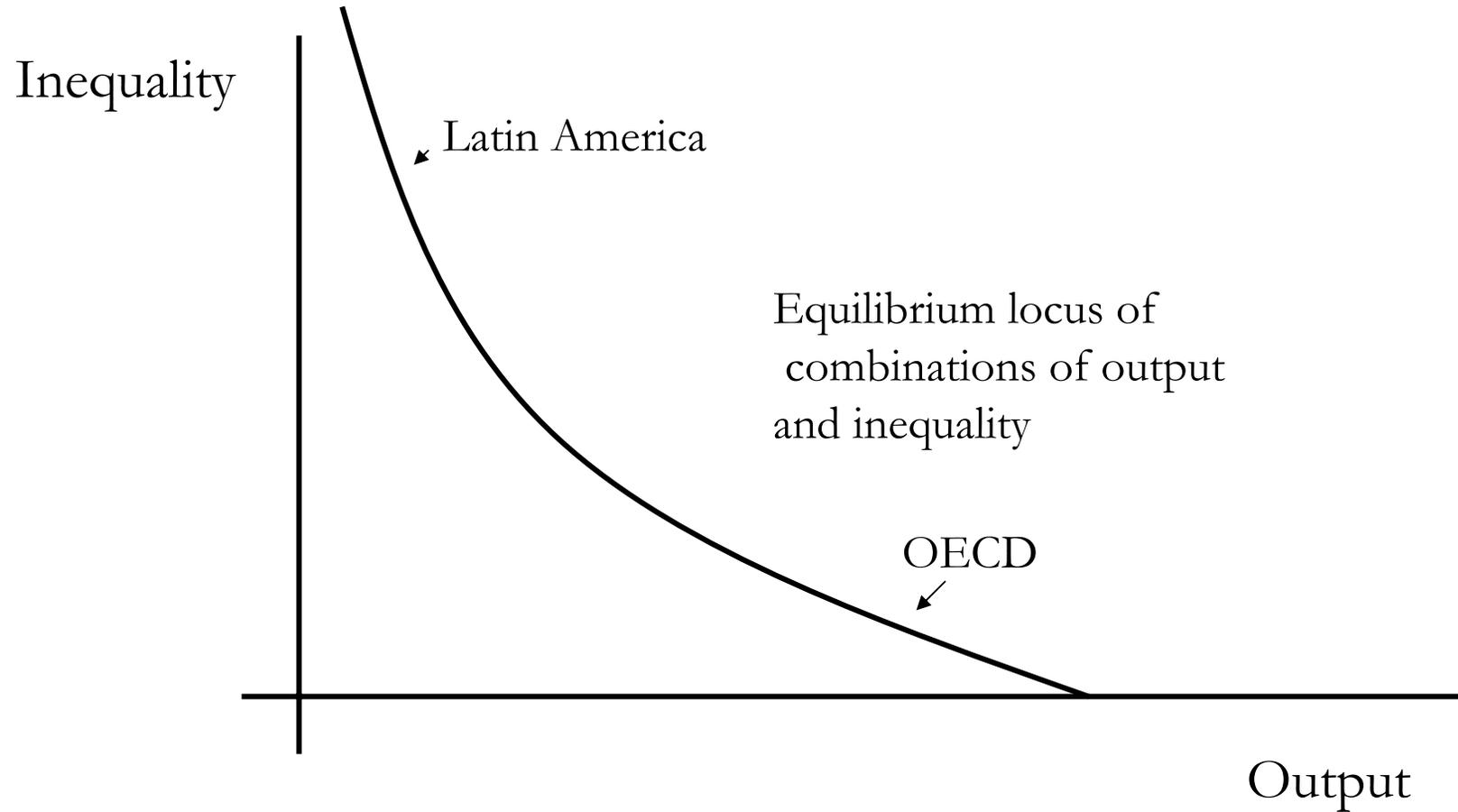
**Figure 7: Providing  $U^*$  with better institutions**



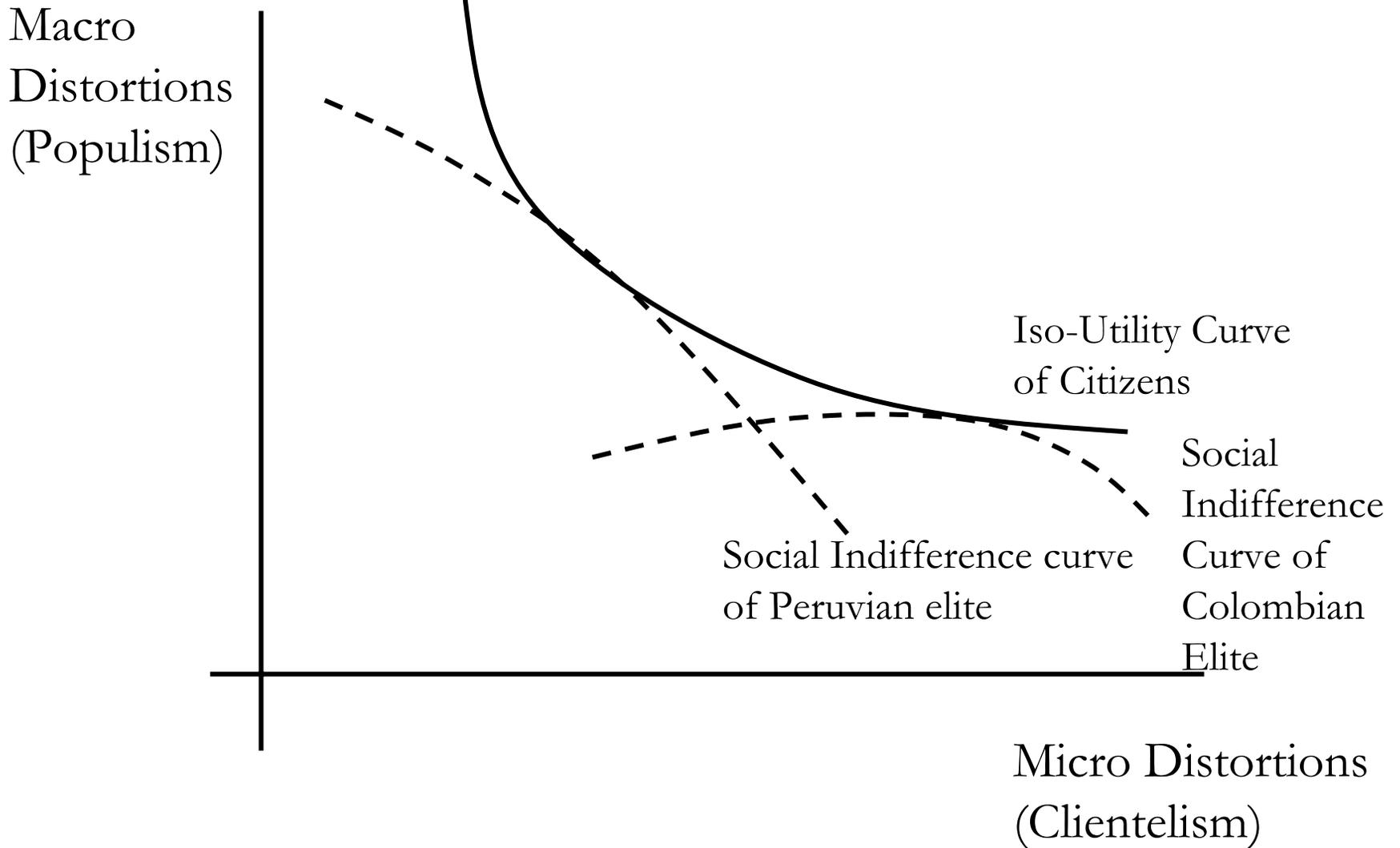
**Figure 8: An Iso-GDP Curve**



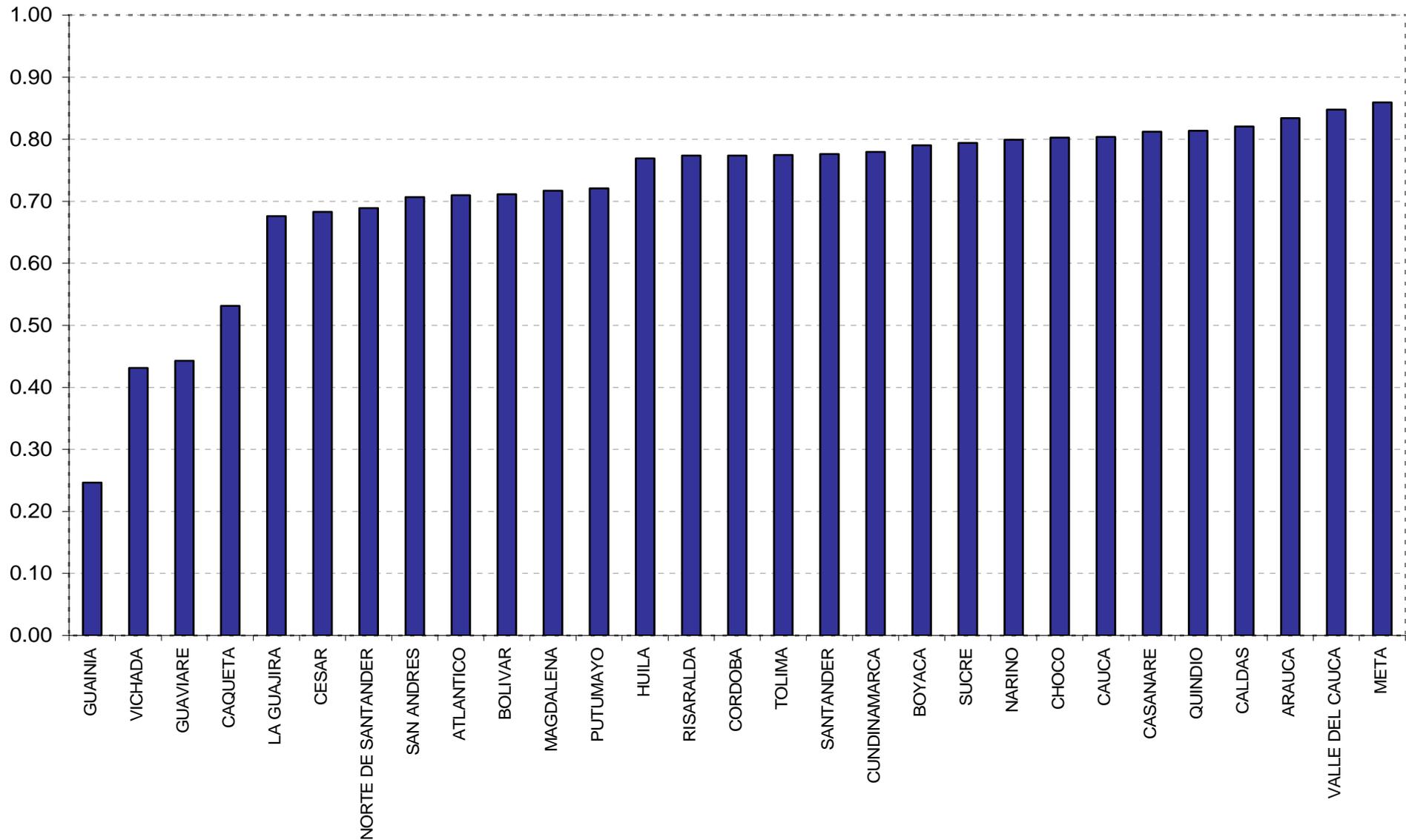
**Figure 9: Equilibrium Output and Inequality**



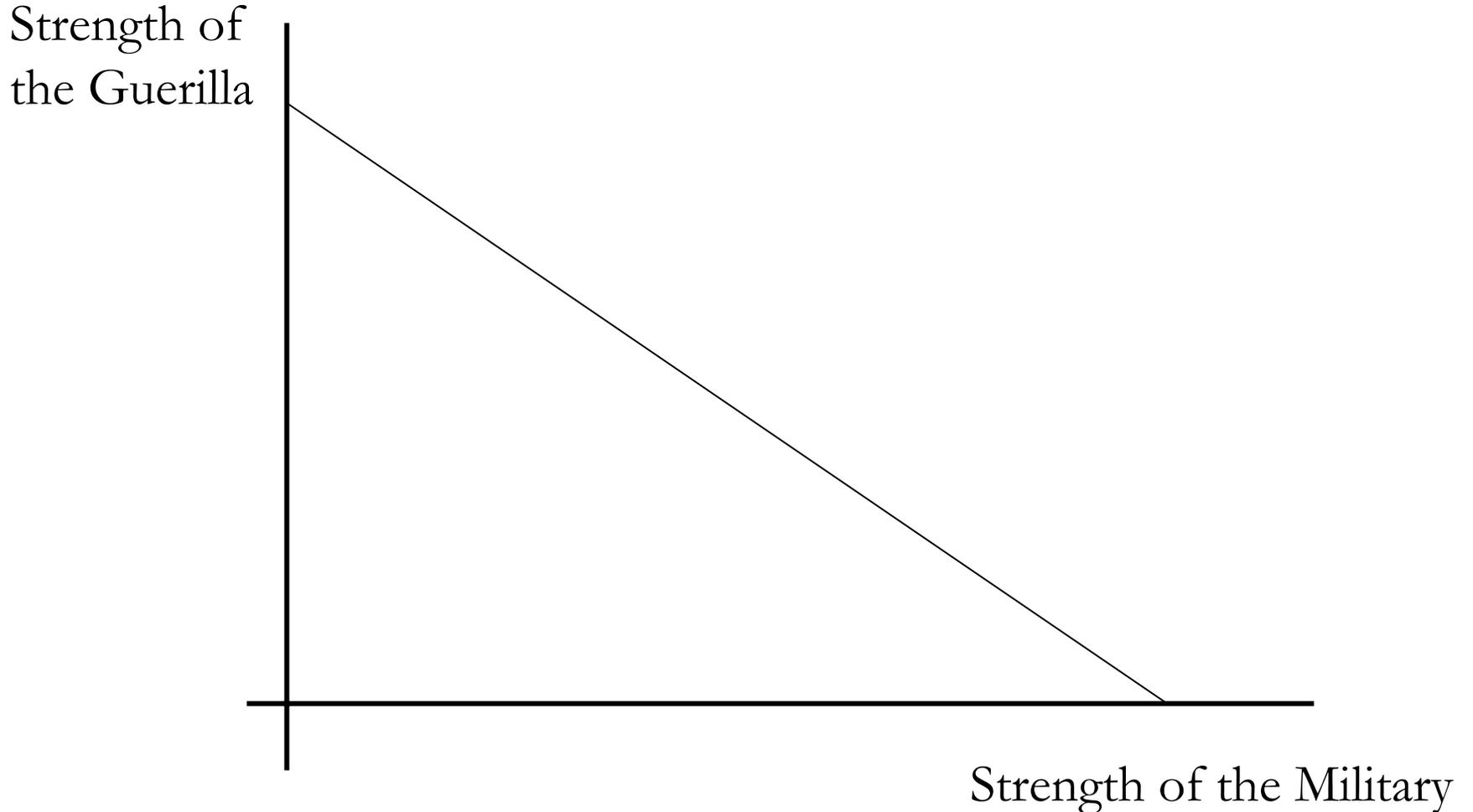
**Figure 10: Within Latin America**



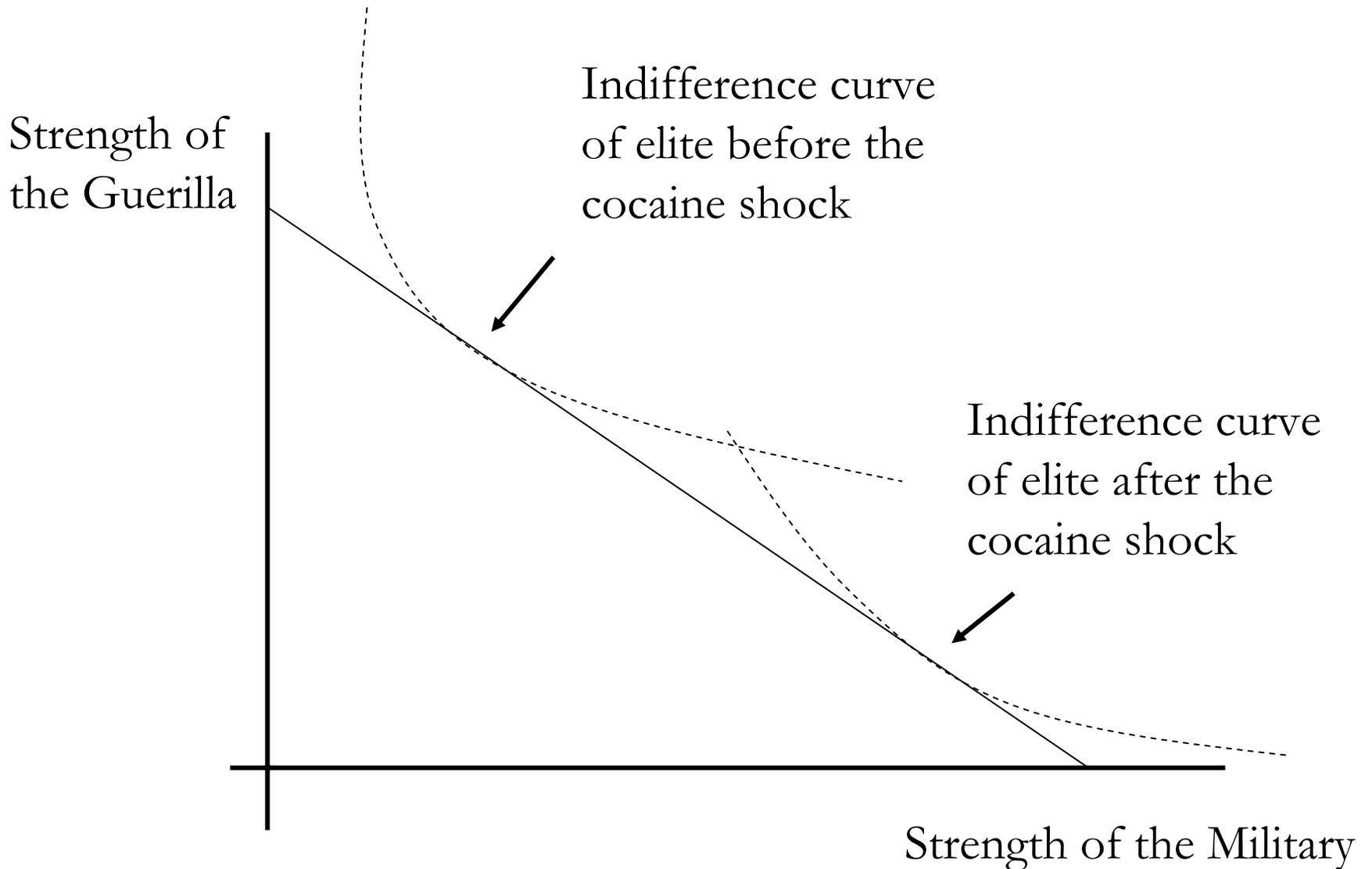
**Figure 11: Land Inequality in 2002 (measured by the Gini coefficient) for Colombian Departments**



**Figure 12: The Trade-Off between Coups and the Guerilla**



**Figure 13: The Cocaine Shock**



**Figure 14: Consolidated central government expenditures as a % of GDP in Argentina and Chile**

