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Winners and losers in the allocation of credit during the era of import-substitution industrialisation in Colombia, 1940–1967

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ABSTRACT

This paper examines the structure and dynamics of institutionalised flows of credit between economic sectors – with a distinct emphasis on industry – during the era of import-substitution industrialisation. Using the debate between "balanced vs. unbalanced growth" theories as prompting guide, the paper challenges conventional wisdom sustaining that the state supported industrialisation by providing ample/subsidised credit to industrialists. The argument in this article is that the relative share of institutionalised credit flowing to manufacturing was significantly lower than hitherto assumed, when the sectoral allocation considers the financial system as a whole. In fact, it is argued that industrialists were the losers in a financial system in which key players – the Central Bank (CB) – represented competing interests. This proposition is substantiated with a combination of newly constructed datasets integrating credit series for public and private banks, as well as data discriminating the sectoral allocation of resources originating in the CB.

Perdedores y ganadores en la asignación del crédito durante la era de industrialización por sustitución de importaciones en Colombia, 1940–1967

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RESUMEN

Este documento examina la estructura y las dinámicas de los flujos de crédito institucionalizado entre sectores económicos —con particular énfasis en el industrial— durante la supuesta era de Industrialización por Sustitución de Importaciones. Utilizando como guía el debate entre las teorías del «crecimiento equilibrado y desequilibrado», el documento desafía la sabiduría convencional que sostiene que el Estado respaldó con crédito amplio/subsidiado a los industriales. El argumento asevera que la parte relativa del crédito institucionalizado que fluyó al sector manufacturero fue significativamente menor que al hasta ahora asumido cuando la asignación de todo el sistema financiero es tenida en cuenta. De hecho, se argumenta que los industriales fueron los perdedores en un sistema financiero en el que jugadores clave —como el Banco Central— representaban intereses de la competencia. Esta proposición se sustenta con una combinación de datos nuevos construidos para el crédito público y privado consolidado, así como de datos discriminados sobre la asignación de recursos originados en el Banco Central.

In the aftermath of the Second World War and the West's struggle against Communism prominent economists began to think, model, and prescribe recipes for the economic development of backward nations. A particularly contested debate emerged between proponents of what came to be known as "balanced" and "unbalanced" growth strategies. Although the key elements of the discussions centred around the identification of specific elements or "prerequisites" for economic take-off (such as capital and entrepreneurship) on the one hand; and the discovery of "hidden rationalities" and the mobilisation of potential or latent forces on the other; the issue of credit allocation – of both ordinary and subsidised resources – was part of the academic exchange. The

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implications for the distribution of financial resources originating in the banking sector – which at the time accounted for most of the assets of the financial systems of developing nations – are worthy of closer examination, for the differences in growth strategies entailed specific and distinct allocations of credit amongst economic activities. This paper establishes the distribution of banking-credit resources accorded to different economic sectors in Colombia during to so-called age of import-substitution industrialisation using as background the above-mentioned debate. It contributes to the literature in four concrete aspects. First, it presents data on new and outstanding loans from private and public banks in integrated fashion for a period for which consolidated numbers remained absent. Secondly, it offers newly constructed statistical series that discriminate the allocations of loans, discounts and rediscounted resources from the Central Bank. Thirdly, it presents primary evidence collected from archival research about the unsatisfactory conditions faced by national industrialists regarding credit sources from public and private banks. Lastly, and most importantly, the paper challenges conventional wisdom regarding the support that the state lent to the manufacturing sector during the ISI years.

The "balanced" and "unbalanced" growth strategies that emerged from the nascent sub-discipline of development economics were conceived of to lift backward countries out of poverty. At the heart of "balanced growth" proposals lay "investment criteria – coordinates for policy makers and lenders to allocate capital to pull societies out of their corner." (Adelman, 2013, p. 329). To spring out of underdevelopment poor nations needed to mobilise and accumulate savings in order to attempt a "Big Push" in investment across sectors. As Nurkse, leading representative of this strategy, put it: ". . . it seems to me that the main point is to recognise how a frontal attack of this sort – *a wave of capital investments in a number of different industries* [italics added]–can economically succeed." (Alacevich, 2007, pp. 69–70). Although it was clear to "balanced growth" advocates that the industrialisation of any economy was the certain road to riches, no overt bias in favour of one particular sector was stressed. Capital should flow where its shortage was greatest. Due to complementarities and coordination issues, the investment effort should be aimed at all fronts. Rosenstein-Rodan, foremost figure of this stream, illustrated the point between agrarian and industrial activities, for instance, noting: "One might consider the industrialisation of these countries [Eastern and Southern Europe] as one chapter of agrarian reconstruction, or one might treat the improvement of agrarian production as one chapter of industrialisation. What matters is to remember that the two tasks are interconnected parts of one problem." (Rosenstein-Rodan, 1943, Fn, 2.) In practice, however, a certain preference evolved for social overheads, such as roads, ports and power grids (Adelman, 2013, p. 346). The role that "balanced growth" theories accorded to the state differed substantially from current neoliberal prescription: minimal intervention. State action was critical in order to sustain systemic transformation. Following on the above-cited authors, Chang argues: "the basic insight behind the Big Push theories was that people in developing countries do not invest in new industries because they do not know whether other, complimentary investments will come along; therefore there needs to be a centralised coordination of investment plans." (Chang, 1999, p. 192). In short, for "balanced growth" strategists the road to development passed through outsized investment plans across economic sectors engineered, to a significant degree, by public authorities.

At the other end of the spectrum, "unbalanced growth" theorists, in particular its main exponent Albert Hirschman, considered development a *process*, and as such, sudden spurts of investment as one-off economic transforming formulas were viewed as misleading. His analyses of the weaknesses of poor nations differed significantly from "balanced growth" advocates. Therefore, his suggestions for action too. Rather than investing in social overheads, he proposed direct outlays in agriculture, industry and trade; letting the pressure exerted by the very growth in these activities to put pressure upon investments in infrastructure (Adelman, 2013, p. 346; Hirschman, 1955). In similar and complementing fashion, Amsden noted, that successful late-industrialisers benefitted handsomely from extensive allocation of intermediate assets (subsidies). Here the role of the state was paramount, for it befell to governments committed to industrialisation to create effective control mechanisms to discipline firms, extracting from the recipients of financial support the desired performances in terms of productivity, returns, local content, technological transfer, etc., that would benefit society at large (Amsden, 2001). It seems that in this respect, i.e. the role attached to the state, both "balanced" and "unbalanced" growth theories found common grounds.

Using the "balanced vs. unbalanced growth" framework as prompting guide and their hinted allocations of resources as background, this paper examines the dynamics of institutionalised, ordinary and subsidised, flows of credit between economic sectors in the Colombian context of the mid-twentieth-century; that is, amidst the era of import-substitution industrialisation. It is important to set the historical record straight. Colombia's industrialists are said to have enjoyed an ample and cheap supply of financing during the state-led and/or import-substitution industrialisation (ISI) era circa 1940–1967. Several assumptions underlie this view. First, that the Colombian state was deeply committed to industrialisation. Second, that the state was capable and willing of channelling ever increasing financial resources to manufacturing at the expense of other economic sectors. Third, that industrialists had the political clout and influence to force the financial system to lend to them at subsidised prices. These postulates are often supported with evidence leading one to believe that financing was not a real problem for manufacturers. This paper challenges the assumptions and evidence supporting this interpretation. It sustains that such view is misconstrued and the empirical evidence used to support it is only partial. The arguments goes as follows: the relative share of institutionalised credit flowing to manufacturing was significantly lower than assumed by proponents of the above view, when the sectoral allocation considers the financial system as a whole. In fact, it is argued that industrialists came to represent the losers in a financial system whose structure was bank-based and in which key players – the Central Bank (CB) and the biggest publicly owned bank – represented competing interests, those of agriculturalists in general and coffee growers and cattle farmers in particular. The state, contrary to what the literature claims, advocated chiefly for the financial interests of primary producers and only in a marginal sense catered to those of manufacturers, at least until 1967.

The paper divides in five sections. The first section reviews the current literature on the issue of industrial credit in Colombia. The second provides historical evidence by industrialists indicating that both short- and long-term credit availability were sources of concern for the sector – and deemed insufficient. This is validated by the display of further primary evidence from the CB, government sources and foreign experts coinciding with the assessments of industry. The next section characterises the Colombian financial system as a credit-based one, dominated by private commercial banks with an increasing role for public financial institutions. It also reviews and analyses the legislation shaping the flows of credit. The fourth part offers new calculations of the sectoral shares of credit by commercial banks, the CB, and public institutions, such as the Agrarian Bank, demonstrating that state support in financing matters was largely directed at agrarian, not industrial interests. The last section concludes.