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State Leadership in Economic Policy

A Collective Action Framework with a Colombian Case

David R. Mares

One of the major challenges in the study of political economy is to develop more nuanced and contingent arguments about how state and society interact to produce economic policy. We know that state structures can insulate policymakers from societal pressure to an important degree, that state actors may mobilize new social forces to tip the political balance in favor of their policy preferences, and that state officials may be able to influence the policy positions of societal actors by changing the terms of the policy debate.¹ What remains underdeveloped is an understanding of when and how state actors may insulate, mobilize, and influence.

This paper uses a framework developed to analyze problems of collective action to gain a more systematic insight into state leaders' abilities to build social coalitions in support of their policies. From this perspective, organized political pressure (collective action) for and against policy options helps determine which policy choices are adopted. The inherent characteristics of a political good and the institutional framework in which it is offered affect its "publicness" and raise the possibility of "free riding," that is, benefiting from the provision of the good without paying for it. The potential for free riding reduces the incentives for collective action and thus makes it less likely that a policy which would benefit the group as a whole would be adopted.²

Within this framework, the availability of "rents" provides state actors with a significant tool to influence the behavior of social groups. "Rent is that part of the payment to an owner of resources over and above that which those resources could command in any alternative use." Economic actors are constantly tempted to capture such supernormal profits, but competitive markets dissipate rents. Private or public intervention in markets tends to generate rents.³ In this article I focus on rent seeking to develop arguments about the conditions under which state actors may deliberately or coincidentally affect the incentives for collective action.

The ability of state actors to undertake major economic policy changes currently blocked by social forces should depend on their abilities to utilize rents to raise barriers to collective action by opponents of state policies, reduce barriers to collective action by potential supporters of state policies, and take advantage of social groups' commitments to institutions devised to solve their problems of collective action. Whether or not state actors specifically intend to affect a particular policy coalition, the causal mechanism is the same.

My argument is illustrated through an analysis of the transition from an inward to an outward oriented trade and development strategy in Colombia. The failure of Latin American countries to make this transition in the 1960s, combined with the success of their East Asian counterparts, has led many analysts to stress perceived irreproducible factors in

East Asia (for example, the level of U.S. aid, unique period of dynamic growth in international trade, regional dynamics, and Asian cultural attributes). But in 1966 Colombia began policy changes which led to a transition similar to, though not as dramatic as, East Asia's.⁴ Empirical analysis demonstrates that exchange rate reforms and export promotion policies were the major stimuli to export diversification and growth.⁵ Both policies produce negative short-term consequences for key constituencies and have not been pursued by other Latin American countries. How was Colombia able to implement such policies?

Examination of two periods permits exploration of the conditions for success and failure in the Colombian case. In the first period, 1958–1965, state leaders advocated economic liberalization, but social actors consistently and successfully opposed reforms. During the second period, 1966–1968, many of the reforms previously rejected were adopted, along with some new ones.

Following Gourevitch, one might seek an explanation of Colombian policy changes by looking for a shift in the historic governing coalition.⁶ If social forces effectively pushed for change in response to their poor position in the international division of labor, we do not need to focus on state actors' preferences and policy tools. But if we find that state leaders were able to utilize tools they previously lacked (for example, those affecting the distribution of rents in areas marked for reform) to build a new social coalition which would promote liberalization, my argument gains support.

The methodological approach taken in this article is particularly appropriate in evaluating competing arguments that focus on state and social actors. Detailed historical analysis is necessary to evaluate the plausibility of a contingent argument. Fortunately, a number of key Colombian actors from these periods have written about their experiences.⁷ By integrating their stories with various academic analyses we can be reasonably confident of our conclusions about the process through which foreign economic policy did or did not change.

This article has three sections. The first lays out the analytical framework derived from the literature on collective action and rent seeking. The second examines Colombian trade and development policy, paying particular attention to the evolution over the two periods of the executive's ability to adopt and implement economic policy which societal forces initially opposed. A concluding section evaluates my argument about rent seeking and collective action in light of the Colombian case.

Analytical Framework

How do societal and state interests relate to one another?⁸ Certainly, state actors need societal support for their policies. But if state actors can deploy incentives to reshape societal interests, then the direction of causality may be the reverse of that postulated by scholars who see society as the prime mover. To develop this line of reasoning, we need to examine societal interests and behavior.

Analysts who accord the primary role to social entities, whether class, group, or association, argue that common interests lead to collective demands on the government. Studies of tariff determination have found this expectation useful, but not sufficient.⁹ The decision to lobby for policy depends on the options available. If firms are confronted with options attainable without collective action, they are less likely to engage in it. They may

instead “exit,” as when entrepreneurs or workers move into an industry in which profits do not require government action. As Zysman demonstrates in his study of financial systems in advanced industrialized countries, the exit option can diminish a government’s ability to influence company choices.¹⁰

Problems of collective action, however, open up some avenues for state actors to influence the policy preferences of social actors. First, state actors may, under some conditions, be able to raise barriers to collective action for opponents of policies preferred by the state. The literature on rent seeking suggests a means by which alternatives to collective action can insulate state actors from societal interests. Rents result inevitably from state intervention in the economy.¹¹ Rent creation implies rent distribution, creating incentives for rent seeking in the domestic economy; even efficient firms will devote resources either to capture the rents or to lobby for their elimination.¹² Rents the state can distribute to specific firms, such as those generated by import licenses and some foreign exchange controls, can split a group which might have otherwise invested in collective action.

A second way for state actors to build a winning policy coalition is to help potential supporters of state preferences overcome barriers to collective action. Through their power to tax and regulate, state actors can force would-be free riders to contribute to the provision of the collective good.¹³ In addition, Bates’ work on Africa demonstrates that, rather than simply buying off societal opposition, state actors can distribute rents to build supportive policy coalitions.¹⁴

Problems of collective action present state actors with a third opportunity to influence the policy preferences of social actors. Institutions are often created by actors to pursue collective goods. As the literature on regimes in international political economy demonstrates, actors come to value those institutions which, together with expectations of repeated interactions, facilitate cooperation.¹⁵ If state actors can make credible threats to institutions valued by social actors, they may alter the latter’s policy preferences by linking support for state policy preferences to the survival of those institutions.

In sum, state actors’ abilities to influence the policy preferences of social actors and undertake major policy changes should be related to two factors. The first is the prevalence of problems of collective action facing key groups in society. The second is the availability to state actors of institutional tools for allocating resources to exploit the opportunities presented by the problems of collective action confronting social actors.

Colombian Trade and Development Policy

The Political-Economic Context This subsection briefly reviews the Colombian situation from the Depression to the National Front agreement of 1957. The legacy of this period was weakened state authority, with parties dominating government politics and interest groups dominating government policy. The events of this period shaped the politics of the National Front and the development and trade policies, as well as societal and state interests, of the 1960s. Given the contingent nature of most analyses of economic policy, it is imperative to understand the social and institutional context within which economic policy is made.

As in most Latin America countries, Colombia’s political economy experienced fundamental changes in the 1930s. Partly as a result of the Depression and the inability of

the Conservative party to offer solutions, the Liberal party gained control over the government. Like the Conservative party, it was dominated by socioeconomic elites. The political system was effectively oriented around these two multiclass parties; electoral competition, coalition government (coalitions governed during half the years between 1900 and 1953), and civil war resulted.¹⁶

The Depression represented a threat to the established social and economic orders. Liberals sought to enhance the role of the state and increase political participation to support a new political-economic order which would support a moderately reformed socioeconomic order. Because these reforms were carried out by an established party of the upper class, mobilization and state intervention did not immediately provoke an antisystem movement of either reformers or Conservatives.¹⁷ These reforms unraveled in the 1940s, as groups on both ends of the political spectrum sought control of this newly interventionist state and its resources. The closed political system could not deal with these new demands, and a civil war (known as *La Violencia*) broke out in 1946. The leader of the left wing of the Liberal party was assassinated in 1948. The leader of the right wing of the Conservative party took advantage of the political crisis to install a quasi-corporatist dictatorship in 1950. But the new politics threatened the traditional party system, and a Liberal-Conservative alliance supported General Gustavo Rojas Pinilla's military coup in 1953.¹⁸

In this environment of great political violence, state functions were decentralized. In retrospect, this development appears to have been an effort to protect the gains of the 1930s by depoliticizing the new interventionist state and turning it into a technocratic state. This process was virtually uncontrolled: in 1963 the government did not even know how many decentralized agencies existed. The agencies defended their autonomy from the executive branch by claiming to make technical rather than political decisions. But the bureaucrats' underdeveloped technical expertise allowed private economic interests to "capture" the regulatory agencies. Consequently, state actors' capacity to use state institutions to manipulate the incentives confronting societal actors diminished after 1946.¹⁹

By 1957 Colombia had developed what was generally a single-export economy (coffee), with a small industrial sector in the early stages of import substitution industrialization. The peso was overvalued, and the tariff structure was dispersed, with high tariffs for consumer goods and low tariffs for most other goods, to facilitate the import of intermediate and capital goods utilized in the protected domestic consumer goods industries.

The economic actors with the greatest influence on trade and development policy at this time were coffee growers, industrialists, and bankers. These groups, with labor as a minor partner, shared an alliance of convenience against the trade and development policy preferences of state actors, who sought to make economic policy more efficient in order to overcome periodic balance of payments problems. The dominant social coalition was beset by an inherent tension, however, since coffee growers, as exporters, might be expected to oppose exchange rates that resulted in fewer pesos per dollar earned. We need to examine the basis for the cooperation to see why it was possible and how it could be disrupted.

Colombian agriculture is dominated by coffee, grown by almost 200,000 producers. The international coffee market is characterized by frequent and dramatic price fluctuations, which concern not only the coffee sectors but also the government. Because of its concern over foreign exchange receipts, the government stepped in during the 1920s to help coffee growers organize themselves to respond in concert to market fluctuations. The Colombian

Coffee Federation (FEDECAFE) sought to provide collective goods ranging from production controls and guaranteed prices to agricultural research. The government, in turn, regulated and taxed coffee exports.²⁰

Coffee prices began a dramatic and prolonged downturn in 1957, and Colombia joined other Latin American countries in an effort to stop it. The chief policy concerns of coffee growers in this period, therefore, were international controls on supply, the level of the coffee exchange rate, and state funding of the guaranteed price when the coffee export tax proved inadequate. The implications of these policy concerns were twofold. Rather than fight importers interested in keeping the nominal exchange rate low, coffee growers attempted to separate discussion of the main exchange rate from the coffee exchange rate and domestic support price.²¹ In addition, coffee growers had a direct and independent impact on the money supply because the government subsidized the domestic coffee program when international prices fell.²²

In short, the characteristics of the international coffee market and the Colombian coffee growers' response to it (organizing to seek collective goods from the state) made coffee growers dependent upon public policy. As long as import substitution interests proved effective coalition partners, coffee growers could not be counted on to support either the interest of noncoffee exporters in eliminating the overvaluation of the peso or monetary restraint by the central bank.

A manufacturing sector was developing behind protection, but the import substitution process had not progressed very far. In 1958, value added in manufacturing as a percent of total manufacturing value added was 66 percent for consumer goods, 26.6 percent for intermediate goods, and 7.4 percent for capital goods.²³ The dispersed tariff structure met with little opposition from industry because only a small proportion of inputs used by manufacturers were produced by Colombian firms. In fact, industry preferred the tariffs because an overvalued exchange rate lowered the cost of their intermediate and capital goods imports without increasing competition from foreign competitors (because of the high rate on consumer goods).²⁴

There were no clear-cut export-oriented interests in Colombian manufacturing since its import substitution orientation made it largely noncompetitive. In 1957 manufactured exports, accounting for only \$11 million, were heterogeneous in their economic characteristics and consisted mainly of excess production for the domestic market.²⁵ Direct foreign investment in manufacturing was also domestically oriented.²⁶ Nevertheless, there were few incentives for a general program to extend import substitution to the intermediate and capital goods sectors ("deepening"). Despite the existing import protection and the highly concentrated industrial sectors,²⁷ a *de facto* ceiling on prices in the Colombian market existed because its small size made a decrease in effective demand (produced by the higher cost of domestically produced inputs) very costly to firms. Because the consumer would not pay the increased costs, further import substitution was a questionable investment for the firms themselves.²⁸

This obstacle to industrialists' preferences for deepening might have been overcome if state subsidies could have been secured. But industrialists lacked the political influence to push state actors to allocate resources in this manner, and state actors did not believe that Colombian development would be furthered by an expensive deepening program. This two-part answer merely begs the question why the industrialists lacked sufficient influence

to formulate industrial policy. The answer is found in the collective action problems of industrialists and their rent-seeking behavior.

The National Association of Industrialists (ANDI) represented the major firms, estimated at 540 in 1963.²⁹ Analysts disagree about its influence over policy, but a detailed case study supports the conclusion that its influence was low.³⁰ Its weakness stemmed from its fundamental inability to sustain a common policy position. Unlike the situation with coffee growers, the structure of government controls over access to import and export incentives inhibited collective action by industrialists.

Tariffs were widely dispersed, prior deposits and import licenses were required, and tax subsidies for exports were provided. But all of these were allocated and modified through a process of "administrative fine-tuning" with few hard and fast rules, with distinct bureaucratic agencies competing among each other, and with monthly foreign exchange budgets forcing choices on applications. While different studies found the entire process to be generally honorable, they also discovered that ad hoc decisions were common and distinctly biased in favor of large firms.³¹ Urrutia found that large firms responded to the administrative control of scarce resources by creating departments to deal with the maze of government regulations, thereby undermining incentives for collective action since each was pursuing individual action.³² These individualized strategies may also have been used to gain vis-à-vis domestic competitors.

Private Colombian bankers were important actors at this time. Their small numbers (thirteen in 1951, seventeen in 1963)³³ diminished obstacles to collective action, but their association's influence was generally recognized as weak.³⁴ Individually, however, bankers dominated the board of directors of the central bank and were able effectively to disregard attempts by the state to control the money supply via manipulation of reserve requirements.³⁵ They could discourage government regulation of their sector without collective action.

Though labor unions did not constitute a powerful element in the dominant policy coalition, they profited through higher wages and benefits from the protection afforded the industries in which they worked. Unionized labor, a small proportion of the labor force, consequently supported the preferences of the dominant policy coalition. While loosely affiliated with the Liberal and Conservative parties, the unions sought economic, rather than political, benefits from the political parties. They were among the chief opponents of devaluation because of its effects on inflation³⁶ and could be expected to oppose liberalization of the consumer goods sectors which provided their jobs.

In sum, during the late 1950s a shift in Colombian trade and development policy towards export promotion and exchange rate reform (which also required fiscal reform) was not on the agenda of any major economic interest groups. The failure to shift policy can be explained by the rent-seeking behavior of a dominant policy coalition made up of coffee growers faced with an unstable international market, import substituting entrepreneurs, and an oligopolistic banking sector largely in private hands. Despite their policy successes up to the 1960s, two of these antireform interests faced serious collective action problems which would limit their ability to continue successfully to contest state efforts at policy reform.

Economic interests and policy coalitions operated within a political arena dominated by party politics. The civil war resulted in the parties' losing control of both societal policies (as evidenced by *La Violencia*) and the state (as the military refused to return power to the

civilians after the 1953 coup). By 1957, however, an opportunity for the parties to regain their previous standing in Colombian politics presented itself.

After initial gains in controlling the rural violence, even the military government proved unable to prevent renewed insurgencies. Rojas Pinilla himself became a threat to the political elite when he adopted populist policies to perpetuate himself in power. Confronted with successive challenges to their social and political dominance, Liberal and Conservative party leaders called a truce and helped persuade the military to oust Rojas Pinilla in 1957.

The failed attempts at national unity in the 1940s and the enormity of the threats in the 1950s stimulated the two parties to make a truly innovative change in their institutional relationship. Party leaders found themselves in a prisoners' dilemma.³⁷ The defect-defect cell was represented by the situation of 1953–1957. The parties had been out of power as a result of the military coup. Counterelite mobilization during the *Violencia* and by Rojas Pinilla threatened to end Liberal and Conservative domination of Colombian society and politics. The parties thus had an incentive to cooperate in controlling the *Violencia* and convincing the military that civilian control of politics was viable once again.

The problem was that the defect strategy had become the preferred option of the parties. The polarized political environment since the late 1940s had made it probable that the party in power would use the increased interventionist capacity of the state to consolidate its hold on power. A truce between the parties and cooperation in defense against the counterelites, therefore, raised the likelihood that one party would contribute to its own demise (the "sucker" payoff). Consequently, the defect strategy dominated party policies. The solution adopted in 1957 was to create a societal institution to enforce agreements and turn a single shot play into an iterated game.

The National Front coalition government was unique in Colombian history because it was significantly more institutionalized than any of its predecessors. It was approved by a plebiscite (95 percent in favor)³⁸ and written into the constitution. It contained a number of provisions designed to meet the counterelite challenge and to avoid any "sucker" payoffs.

The counterelites' threat was handled in two ways. First, the political pact between the two parties gave the military an opportunity to return to its preferred place, the barracks (1953–1957 was the only period of military government in this century). Second, most counterelites were forced into the traditional party structure by a stipulation that only the Liberal and Conservative parties could compete in the elections. Party factions could compete with different electoral lists, but in this way counterelites could be watched, diluted, and coopted. The career of Alfonso Lopez Michelson demonstrates the success of this strategy. From 1958 to 1966 he led a Liberal list dedicated to abrogating the National Front; in 1967 he accepted the National Front; and as president (1974–1978) he oversaw an extension of the National Front past its original tenure. Guerrilla groups, however, continued to reject legal paths to political power.

To diminish the possibility of defection from the agreement, it was necessary to ensure that the state was not "captured" by one party and used to that party's advantage during this period of relegitimation of the system and socialization of counterelites and their followers. A variety of safeguards was introduced. All elected positions, as well as cabinet posts and supreme court positions, were to be evenly divided between the two parties. The presidency would alternate between the two parties for twelve (later changed to sixteen) years. And a

century-old trend was reversed through increased congressional independence of, and veto power over, presidential policies (legislation required a two-thirds majority).

This political arrangement has been alleged to have eliminated political competition and to have resulted in very conservative economic policies.³⁹ I shall argue below that important changes in economic policy were actually facilitated by this societal institution. But political dynamics also were not frozen. De facto third parties, linked to the Liberal and Conservative parties in order to meet legal requirements but opposed to the National Front, gained 23 percent of the presidential vote in 1962 and 28 percent in 1966 and almost won with 39 percent in a four-way race in 1970.⁴⁰ Each party also experienced significant electoral competition among its own members at the local level.⁴¹ Because voters chose among multiple lists of candidates belonging to the same party, congressmen were even more concerned with distributing benefits to particular constituencies than if the party had been a source of electoral support.⁴²

Consequently, executive branch policymakers during the National Front were not insulated from a broad range of societal pressures but did have a stable institutional format within which to address their demands. Given the preceding ten years of civil war, this stability was no mean feat.

Case 1: Failed Policy Reform 1958–1965 Economic policy under the National Front began conservatively, drawing heavily upon past policies, especially import substitution. Nevertheless, the administrations of both Alberto Lleras Camargo (1958–1962) and Guillermo Leon Valencia (1962–1966) began to reclaim control over state functions from interest groups and congress. Some of these steps merely entailed making use of provisions in the constitution, such as the ability to declare a state of siege, during which the president could make policy by decree and congress was limited to asking the supreme court to rule on constitutional issues. In 1958–1974 Colombia was under partial or total state of siege 75 percent of the time, as presidents responded to legislative stalemate in economic policy as well as to sporadic outbursts of political violence.⁴³

But to make major changes state actors had to diminish the constraints on executive action created by the political solutions to *La Violencia* (that is, private control of state functions and congressional domination of the executive through the National Front arrangements). One of the important early steps in increasing the executive's policy independence was the development of a technocratic bureaucracy. The planning department was reconstituted after a five year lapse and a national council of economic policy and planning was created during Lleras Camargo's tenure. The first national development plan also dates from this period.

If the executive would later use this bureaucracy to increase its influence over policy, why did congress acquiesce in its creation? Although Currie describes these agencies as though they were merely executive branch creations,⁴⁴ the political history of these early years demonstrates that congress played a fundamental role in their creation and operation. Congress expected to use this bureaucracy for its own purposes, and it appeared that the president would have minimal control over the new agencies. Congress appointed two of the four members of the council and diminished the planning department's effectiveness by constantly feuding with it.⁴⁵ The agencies also reported directly to the relevant ministries rather than to the president,⁴⁶ and under the National Front arrangements the president had minimal authority over his cabinet.⁴⁷

Congress also had its veto power, which it could use if a minister sought to be independent of congress. An important example occurred in 1961. The finance minister proposed responding to the deteriorating international payments situation by preempting the standard austerity package favored by the International Monetary Fund (IMF) and adopting a much needed tax reform and a crawling exchange rate. But congressmen, defending their constituencies, rejected these measures in both 1961 and 1962. Ironically, Carlos Lleras Restrepo led the congressional veto; as president, he himself would force congressional acceptance of the exchange rate measures in 1967.⁴⁸ The legislature also contributed to the economic crisis by increasing benefits for certain interest groups. The export tax on coffee was eliminated, and budgetary relief to departmental (state) governments was provided by nationalizing the police force and teachers.⁴⁹

Colombia was unable to resolve the balance of payments crisis with domestic measures, and international constraints became determinant. Valencia was forced to devalue in November 1962. Once again congress was presented with an alternative to the IMF program, which included using differential exchange rates to finance both the federal budget and export incentives. But congress rejected the reforms, which threatened to give the executive more independence, and adopted the IMF program with minor modifications.⁵⁰

At this point, it seems clear that Colombian trade and development policy is best explained by the interests of societal forces and the bargains which they made among themselves. State actors had alternative policies, but lacked the means to adopt or enforce them.

Valencia, nevertheless, was able to utilize these setbacks to increase executive autonomy. The attempt by the economic planning council to restrain executive independence initiated Valencia's offensive. Council members resigned to protest the lack of executive consultation on the devaluation.⁵¹ Acting on the advice of a foreign economic advisor, Valencia replaced the council with a cabinet group, increased the planning department's role, and made it report directly to him.⁵²

The executive's ability to create its own economic plans was an important, though still minor, step. Congress still held tight control over legislation to implement these plans and continued to reject the economic reforms favored by the technocrats. Valencia sought foreign support (studies by the IMF, Alliance for Progress, and the Organization of American States) to convince congress to adopt legislation which would increase national revenues and the executive's policy independence.

Congress refused to budge until the devaluation of 1962 produced unprecedented rates of inflation. Congress then acquiesced in the creation of a monetary council, but with the expectation that its recommendations would have to be approved by congress before they could become binding. The executive then stacked the council's membership in favor of the state and gave it a number of administrative powers to control interest rates, direct credit, and limit rediscounting. Congress objected to the executive's alleged usurpation of its legislative powers, and the bankers accused the president of attacking the private sector.

Valencia's administration, however, successfully argued that the *legislative* act lay in authorizing the creation of the monetary council while its functions belonged to the *administrative* sphere, which the constitution granted to the executive branch.⁵³ In what was to become a process which would be repeated over the next decade, congress was beginning to find that astute state actors could make important policy reforms even while congress

defended its control over legislation. At the same time, bankers became the first private sector group to find its influence over relevant policy threatened.

Valencia's bureaucratic victory, while important in the longer run, proved inadequate in the short term. Inflationary pressures from societal forces proved unmanageable and not only thwarted the use of resources for export promotion and import liberalization, but also undermined the entire stabilization program. Congress and interest groups continued to oppose reform policies and retained the ability to frustrate their implementation. Congress responded to union demands and raised wages 7 percent in real terms. Even though they fell in 1964, real wages remained 2 percent higher than in 1962. The coffee support price could not be funded by the tax on the coffee exchange rate, and federal subsidies increased. Private banks frustrated efforts to restrain credit by ignoring the central bank's reserve requirements.⁵⁴

The monetary council suggested a technical response: devaluation. But unionized labor was already protesting inflation and a sales tax and threatening a national strike. The minister of war was rumored to be contemplating a coup. Student riots in Bogota resulted in the mobilization of 10,000 troops and the declaration of a state of siege.⁵⁵ Valencia felt too vulnerable to societal pressure and rejected devaluation as too costly politically, potentially leading to "revolution."⁵⁶ Licensing became a fundamental tool in controlling imports.⁵⁷ Restrictions proved futile, and in a desperate attempt to combat inflation and restore confidence in the president and the Colombian peso, the monetary council proposed a dramatic liberalization program in September 1965.⁵⁸

Liberalization of imports was adopted but was modified significantly by the distribution of power in Colombia's political economy. The list of imports free of licensing requirements expanded to cover 80 percent of all registered imports by October 1966. But the remaining 20 percent were explicitly excluded to favor import-substituting interests. The liberalization effort was financed in part by the weaker societal interests who had gained in the early 1960s when congress refused to make any choices. Exporters of products other than coffee were increasingly taxed via the exchange rate. Labor experienced a fall in real wages.

The foreign sector also contributed to the new policy. Trying to shore up its image following the Cuban revolution and its invasion of the Dominican Republic, the U.S. government provided exceptional levels of aid to Latin American democracies, including Colombia.⁵⁹ Colombian negotiations with the IMF also began anew.

Import liberalization, however, proceeded faster than anticipated, leading to a drain on the country's foreign exchange holdings. Valencia's administration was forced to return to congress for help in restraining demand. Tax increases were proposed, but congress was willing to accept only a sales tax.⁶⁰ A further fall in coffee prices in April 1966 doomed Valencia's attempt to deal with the underlying economic roots of the crisis within the constraints set by the social coalition.

Case 2: Successful Policy Change 1966–68 Having failed anew to overcome domestic constraints, the executive once again confronted international constraints. The IMF, with support from the World Bank and AID, began calling for the devaluation it believed had been promised in the 1965 Colombian letter of intent. Carlos Lleras Restrepo, newly elected president, once again opposed a devaluation because of its political consequences. This time

the finance minister apparently opposed it for its inflationary impact and questionable structural value. They overrode their own technical advisors, who could see no alternatives, and rejected devaluation. Nevertheless, they understood that their ability to negotiate a different bargain with the IMF and its international allies depended upon economic policy reform at home.⁶¹

In a televised address the president informed the country that the nation remained sovereign because he had rejected the policies of the international monetary authorities. He declared a state of siege and announced his own vague stabilization program, without devaluation. The president and his advisors did not have a considered alternative to the IMF and reviewed the proposals put forth between 1957 and 1963 by previous Colombian administrations that congress had rejected. Between December 1966 and March 1967, the executive developed a program combining liberalization, export promotion, and an exchange rate that would devalue by a small amount each day (a "crawling peg").⁶² This program did not dismantle import substitution; liberalization would take place mainly in the intermediate and capital goods sectors, where Colombian industrialists were only minimally represented. Export promotion was to be built upon a minimal industrial base, rather than at its expense.

The March 1967 program initiated a dramatic shift in Colombian trade and development strategy. Policymakers did not know how successful the economic reforms would be, but they believed that the liberalization of economic policy represented by these reforms was necessary. Their expectations proved well-founded: "[h]igher growth rates in foreign-exchange receipts, primarily derived from merchandise exports, allowed the government systematically to follow more expansionary fiscal and monetary policies than had been possible during 1956–67. Such stimuli, and the positive reactions they triggered in private expenditure, led to a higher level of resource utilization almost across the board within the Colombian economy."⁶³

But why was Lleras Restrepo successful in securing congress' acquiescence while his predecessors failed? Most explanations point to the individual as key.⁶⁴ Lleras Restrepo certainly knew the system well, and he appears to have taken full advantage of his opportunities. He had guided an agrarian reform law through congress in 1961, which earned him the respect of Albert O. Hirschman, who called him a "Master Reformmonger." Hirschman noted a number of conditions conducive to reform mongering.⁶⁵ But the understanding and motivation necessary to be a reform monger were not lacking in Lleras Camargo, his finance minister, or that of Valencia. Nor was the existence of a crisis new. Nor the emergence of a new problem, which stimulated the formation of new alliances by interrelating various problems, unique to 1966–1968.

The difference between 1957–65 and 1966 was Lleras Restrepo's ability to take advantage of these conditions. He benefited from institutional changes in both state and society as well as an external threat to "national interests." The institutional changes brought about by his predecessors made options available and facilitated the building of new policy coalitions. In and of themselves, however, they did not make the 1966–68 changes inevitable. The new institutions provided tools which could be used to support a variety of policy options; they could also be used inefficiently and ineffectively. Institutional changes were necessary, but not sufficient.

The policies Lleras Restrepo adopted were essentially those that had been developed by

the new bureaucracy but rejected by congress and interest groups. The individual could make a difference, but only in the context of institutional resources which provided him with the means to change the incentives of those societal actors with whom he needed to strike deals so that the reform package could be implemented. In Colombia during the mid 1960s, the major obstacles to reforms were coffee growers and congress.

By creating an international crisis for Colombia with his rejection of a typical devaluation/austerity IMF program, Lleras Restrepo deliberately imbued his program with nationalist overtones. In the absence of other factors, the nationalist appeal would not have been enough to create a winning alliance domestically, but it certainly increased the costs to any group which opposed him. Potential allies were thus "softened up" to his appeals, demands, and side payments.

The Colombian constitution allowed the president to make certain policy decisions without congressional approval during a "state of siege." Coffee growers were the first target of the executive branch. As noted above, FEDECAFE wanted to separate discussion of the coffee exchange rate from discussion of the main rate. The configuration of exchange rate policy meant not only that coffee growers were not part of an export coalition, but also that they supported an overvalued exchange rate in return for industry and labor's acceptance of coffee price supports.

The creation of a monetary council with the ability to set exchange rates (achieved only after a struggle with congress and the banks) altered the institutional context of exchange rate policy. The president now linked the coffee and main exchange rates, and shortly thereafter the monetary council reincorporated an export tax to reduce federation borrowing to support the domestic price.⁶⁶ These measures gave coffee growers an incentive to support a crawling peg exchange rate policy, which would give them more pesos to support domestic prices.

These administrative actions changed the preferences of coffee growers but by themselves did not create powerful social support for the reform. If the coffee growers had been unorganized, they would have benefited from the reforms but would have been of little use to the president. Because state actors had earlier helped coffee growers solve their free rider problem, they were now in a position to benefit from this group's collective action.

What about industrialists? Did they push for extending import substitution into the intermediate and capital goods sectors? Or were they actually the driving force behind a policy which maintained the import substitution levels reached in the consumer goods sector and subsidized exports of surplus or spin-off production? In short, how did the state-industrialist relationship play out in this period of major policy reform?

Industrialists, individually or within their major association (ANDI), had not been advocates of export promotion before 1966. If industrial firms were not supporters of export promotion initially but could not block the adoption of it because of the collective action problems noted earlier, why not block it at the implementation stage? Essentially, state actors distributed rents to induce industrialists to export. Tax certificates (CATs) for exporters of nontraditional products were included in the new policy; they provided an average taxable equivalent subsidy of 18–20 percent. A program to exempt the import content of exports from duties had been around since 1956; when used in conjunction with the CATs, it offered an effective subsidy of 30 percent and became a major contributor to the export boom. And a program of import licenses which both facilitated access to licenses

and lowered duties was created in 1969 and used to stimulate nontraditional exports by lowering the cost of imported inputs.⁶⁷ Each of these programs was administered by a different state agency, and two of the major ones favored large firms.⁶⁸ The incentives thus continued to be allocated on a selective basis, thereby diminishing the possibility of a collective response by industrialists to state policy.

Industrialists, therefore, were encouraged by state actors to see that their interests could be served by the new policies. What they had achieved under import substitution was preserved, but the possibility of extending it was limited by the industrialists' own collective action problems, perpetuated by the state's distribution of rents at the level of the firm. While state subsidies were not cheap, they did help produce a boom in exports and, perhaps more important, created an interest in exporting in a social group. When export incentives were rationalized eight years later, Colombian entrepreneurs continued to pursue export opportunities.⁶⁹

The November 1966 and March 1967 reforms were not sufficient to reorient Colombian trade and development policy. The state of siege articles of the constitution in effect at this time allowed the president to issue decrees that suspended laws of congress, but they held only during the emergency.⁷⁰ Consequently, congress retained important veto power and could be expected to utilize it once the nationalist euphoria dissipated and the harsh realities of the development process were experienced. Lleras Restrepo understood that these economic reforms would survive only if the locus of economic policymaking could be shifted to the executive branch.⁷¹

The proposed constitutional reform of 1968 presented the executive with an opportunity to accomplish this transfer of economic policymaking authority. While this constitutional reform touched on a number of different issues, the relationship between the legislature and executive in economic policymaking was central.⁷² In an effort to defend the status quo, the Colombian constitution required that a constitutional amendment be approved in two consecutive years by the congress. As the 1967–68 legislative year was drawing to a close, however, congress would not approve the constitutional reform.

One might argue that congress was responding to constituency pressure in rejecting these economic policy reforms. But some major constituencies favored the new policies: coffee growers now had an interest in maintaining the new exchange rate policies, while industrialists were allowed to keep the rents generated by import substitution even as export promotion policies offered new opportunities to profit from exports. Labor and the banks were hurt, but congress had already demonstrated a willingness to sacrifice their interests. Among the stakes in 1968 was the parties' ability to use economic policy as a political resource; the constitutional reforms threatened to put executive branch technocrats in control.⁷³

The constitutional reform broadened and strengthened the executive's role in economic policy, while narrowing that of the legislature. At the same time it strengthened the legislature's oversight of extraordinary executive decrees. The constitutional prohibition against delegating legislative powers to intervene in the economy to the executive was repealed. The president was given exclusive power to initiate national development and public works plans, as well as legislation concerning public and private investment, the allocation of public revenues, tax exemption, and the provision of services by the state. Congress could modify the proposed plans, but only by a two-thirds majority of both houses.

Congress was prohibited from adding or increasing any item in the annual appropriation bill without the approval of the finance minister. (In 1961 congress had helped departmental [state] governments by nationalizing police and teachers, thereby upsetting the executive's austerity budget).

The president was also given authority to regulate public credit, the national debt, foreign exchange, foreign trade, and tariffs. Among regulatory policies, only these were unencumbered by detailed congressional guidelines. In addition, the president was given the constitutional prerogative to regulate both public and private activities which tapped into private savings. In exchange for losing authority over economic policy to the executive, congress would get increased authority to oversee the president's decrees during states of emergency and siege.⁷⁴

If the constitutional reform fundamental to ensuring the transition in trade and development policy was to be successful, Lleras Restrepo had to restructure the terms of the debate from a question of who distributes what under the National Front to the continued existence of the front itself. The president precipitated a domestic political crisis by firing all of his ministers and governors and threatening to resign if congress rejected the amendment.⁷⁵ Resignation was a severe threat only because it put at risk a societal institution (the National Front) believed fundamental (even by the president) in maintaining elite rule in general. With the *Violencia* still a vivid memory and the issue recast as a referendum on the National Front, the president emerged victorious: members of the National Front parties voted 134 to 3 to support the amendment; the Independent Conservatives, which opposed the National Front agreement, voted 32 to 1 against it.⁷⁶

The general shift in trade and development policy instituted by Lleras Restrepo endured after he left office, although he did not resolve all of the legislative-executive tensions. (In 1974 the president declared a state of siege in order to implement a major tax reform which came down particularly hard on nonproductive assets.⁷⁷) Some slackening occurred with respect to the exchange rate.⁷⁸ Although export incentives were diminished, this decrease represented a move toward greater market allocation because many of the export incentives under Lleras Restrepo were biased toward capital-intensive products.⁷⁹ Outward orientation was consequently reaffirmed and made more efficient.⁸⁰

Conclusion

I have argued that state-societal interaction on foreign economic policy is fundamentally affected by the prevalence of rents and collective action problems at the level of society, as well as by the institutions societal actors create to resolve those problems. Analysis of Colombia's shift in trade and development policy during 1966–68 demonstrated that there were no significant societal interests behind these policy changes; actually, powerful interests had opposed them continuously since 1951. On the other hand, state actors had been attempting to produce such a shift since 1951.

State actors utilized rents generated by state intervention in the economy to keep an important potential opponent (industrialists) collectively weak and individually satisfied. Coffee growers, whose collective action problems state actors had earlier helped resolve in order to gain the growers' support, had become powerful enough in the old institutional

arrangements to constitute an obstacle when state policy preferences shifted. Making use of a new institution (the monetary council), state actors were able to shift coffee growers' preferences and thus once again benefit from the political clout of the coffee sector acting in concert.

Whether we conceive of the National Front as an institution devised to resolve the prisoners' dilemma game represented by the *Violencia* or merely as a mechanism to obtain monopoly rents for the political parties (by restricting legitimate participation to themselves), this institution was fundamental to the Colombian story. Only by threatening the institution which provided security or rents could state actors bring the political parties to accept the creation of new institutions which would insulate policymakers and create new rents to distribute.

But what does the Colombia case suggest? Specifically, which of the lessons learned in the Colombian case about rents, institutional change, state actor independence, and collective action might be more broadly applicable?

If my argument is correct, without rents to distribute and withhold, state actors' abilities to influence societal collective action should be diminished. Thanks to the work by Krueger, Buchanan, Bates, and others, we know the conditions under which rents are likely to be created: when societal groups which find themselves losing in an economic and political competition have the ability to manipulate public policy and when government officials (state actors) intervene in markets in pursuit of their own interests. In the presence of a dynamic international economy, we should expect rent creation to be the norm.

Of course, the existence of institutions and rents by themselves is not an indication of state actors' control over societal preferences. Even in the Colombian case, there were important public policy cases in which state actors could not change societal preferences, for example, the national savings fund and urban reform programs.⁸¹ Rent distribution has to be under the control of state actors if rents are to be used to reshape preferences and build new societal coalitions. Otherwise, rent distribution will correspond largely to the original societal preferences which created the rents in the first place.⁸²

The question of who controls rent distribution raises the issue of the relationship between institutions and their outputs. Gowa notes that the institutional context within which policy is made will be a fundamental determinant of the publicness of a policy good and therefore will influence collective action.⁸³ For a societally focused analyst, such as Gourevitch, this fact would imply societal dominance, for the institutions would be changed if their effect on policy resulted in an outcome distinct from that desired by the ruling coalition.⁸⁴

In this paper I have suggested, and the Colombian case confirms, a more nuanced view: state actors may be able to use institutions to alter particular societal preferences. The necessary condition is that those institutions or the state-societal relationships from which they emerge be valued independently of the proposed policy changes. One important way to think about the role of institutions, therefore, is to relate them to societal collective action problems and not to specific policy roles.

I will conclude by addressing the obvious question that arises after establishing that the concepts of rents and collective action problems contribute to our understanding of the making of foreign economic policy. Are we really discussing "state actors" with preferences and interests arising from the nature of the office, or are we better served by thinking of individuals situated in a particular place at a particular time? Without denying the possibility

that an individual may make some difference, my argument has been that all state leaders can be expected to use these opportunities to alter societal preferences to some degree, even if they do not see themselves as "statists."

The Colombian case provides strong evidence in support of this argument. Most analysts of Colombian public policy focus on the president. Lleras Restrepo had policymaking talent and an understanding of economics, while Valencia had neither. But although Valencia's administration may have been "weak," he and his advisors pushed through changes in institutional arrangements which would alter the policy process itself. Lleras Restrepo, the alleged "hero" of the 1966–68 transformations, had opposed Valencia's proposal of the same economic policies when he was in congress. As a former president, he opposed Alfonso Lopez Michelson's use of emergency powers to pass a tax reform opposed by congress which would make the 1966–68 economic reforms more efficient. In short, a man who, before and after he became a state actor, fought attempts to increase state policy autonomy became the most famous of all state policymakers. There can be fewer more powerful arguments for the need to understand the impact of state actors on policy.

NOTES

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