Chapter 3. The Setting: Colombia's Development, 1950-1980

'The personality of Colombia, far from excess and extremes, is that of a middle-range Hispanoamerican country'(Jaramillo Uribe, 1969, p. 247)

3.1. Introduction

During the twentieth century, Colombia played a distinctive role in the international context: serving as a case study for economic development theorists, then becoming the crucible of the anti-drugs war led by the United States government by the end of the century. Understanding the features that marked Colombian development is needed to study of the evolution of its business groups. This chapter explores both historical and economic studies and, in the process, ties together the obstacles for economic development discussed in the literature, the patterns found by the World Bank Mission, and the country's transformations during the period.

This chapter provides the context in which business groups developed in Colombia during the second half of the twentieth century. The history of twentieth-century Colombia has been accompanied by an inconclusive debate on periodisation. Economic and business historians have followed adjustments in the economic model, while political and social historians have divided the century according to both the characteristics of the political parties in power and the turbulent environment. Of principal concern for this thesis, however, is periodisation followed by economic and business historians. As in the Latin American case (see for example the periodisation in Bértola & Ocampo, 2012; Bulmer-Thomas, 2014), there have been four breaking points in Colombia's economic development since its consolidation as a republic.

A first period witnessed the slow configuration of the economy through an export-led growth model during the first globalisation (1870-1930) (Melo, 1987/2007; Ocampo, 1984). There followed the 'golden years' between 1930 and 1950 (Molina, 2000, pp. 22-26), which saw an initial industrialisation based on various light goods (textiles, cement, and manufactured food) (Brew, 2000/1977; Ospina Vásquez, 1955). The postwar era (1950-1980) saw the development of strong regional economies with great and rapid urbanisation (Safford & Palacios, 2002), but an inconclusive industrialisation (J. J. Echavarría & Villamizar, 2007). Finally, there was more liberalisation in the last two decades of the century (Ocampo et al., 1987/2007b). To some degree, there is a non-explicit agreement in the literature over the relevance of the period between 1950 and 1980 (further in this discussion see for example Bejarano, 1994; Ocampo, 1987/2007; Robinson & Urrutia, 2007; Safford & Palacios, 2002; Tirado, 1972), but there is also an understanding that it is one of the most unstudied periods in Colombian economic and business history due to its relatively stability. Therefore, this thesis builds on both literatures and fills the gap to provide the context for the business groups' consolidation.

Colombia's main economic sectors have been agriculture, mining, and commerce since colonial times (Tirado, 1972). For most of the twentieth century, the economy depended heavily on the coffee sector (Junguito, 1997; Palacios, 1980/2002; Pizano, 2003), while the manufacturing industry developed under its umbrella (Arango, 1977) and with the trade surplus it generated (Brew, 2000/1977). Coffee marked the role of the government in the stabilisation of the economy as policy making depended greatly on the coffee price booms or stagnations, which promoted unusual links between the private sector and policymakers (Schneider, 2004). The state was kept small (Ocampo et al., 2002, p. 215) and the development policy was accompanied by international missions that shaped the most significant economic adjustments (Urrutia, 2011, p. 4). Moreover, as in other cases presented by Latin American researchers (see for example the studies by Almaraz & Montiel Mendez, 2020; Belini, 2006; Cerutti, 2000; Hora & Losada, 2015; Llorca-Jaña & Barria, 2017, 2018; Moyano, 2015; Rocchi, 2006), traditional families diversified extensively, expanding their investments across industries – a pattern that persists until today

More important for this thesis is the obstacles within Colombia for the formation of the business elite. The country experienced permanent institutional transition, which accompanied the evolution of entrepreneurs and firms. However, the business groups became stronger during the second half of the twentieth century; specifically, between 1950 and 1980. This chapter explores the context for the formation of the business groups. Specifically, the transformations witnessed between 1950 and 1980 will serve as background for the analysis of the role of finance and financial markets in shaping the business groups. Following this introduction, the chapter is divided in five sections. It begins by discussing the arrival of the World Bank Developmental Mission. The following three sections present the patterns of Colombian development: geographical obstacles, economic and social trends, and economic growth by offering an overview of the most relevant processes and events influencing its economic development and their evolution during the period. Section six concludes.

3.2. The World Bank Mission

The beginning of the second half of the twentieth century was marked by the arrival to Colombia of the first International Bank for Reconstruction and Development (IBRD) – that is, World Bank – survey mission to a 'developing' country. It was led by Lauchlin Currie. After

World War II, when economists turned their attention to 'backward' or 'underdeveloped' economies, the World Bank incorporated within its remit the formulation of comprehensive development programmes. The previous success of the Kemmerer Mission[2] in the 1920s helped to create a template for the definition of policies for 'developing' countries (Alacevich, 2009, pp. 12-15); a research agenda that later served Albert Hirschman[3] as a case study for the formulation of a development strategy based on the need for 'unbalanced growth' (Hirschman, 1958/1964, 1970, 1995).

As Currie states in the preface to the mission's report, the choice of Colombia as the first case study was thanks to the close relation between John McCloy, president of the World Bank, and Emilio Toro, a Colombian member of the board of executive directors (Currie, 1950, p. xv). Nonetheless, the choice of the country contributed to the promotion of a sense of 'uniqueness' among Colombian policymakers (Urrutia, 2011, p. 5) due to being declared by the Mission as 'one of the most interesting [economies] in the world' (Currie, 1950, p. 3).

The mission came only after a year of the period known as *'La Violencia'*,[4] which was marked by rural confrontations between liberals and conservatives, high migration from the rural areas to the urban centres, and growing demand for better social programs (Ocampo et al.,

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[2] This was a technical assistance mission to five Andean republics – Colombia, Ecuador, Chile, Bolivia, and Peru – undertaken by Princeton University economist Edwin Walter Kemmerer during the 1920s. In each case, local legislatures adopted all the main proposals virtually without debate or modifications. In the case of Colombia, Kemmerer and his team were invited by the president, Pedro Nel Ospina (1922-1926), to recommend monetary, fiscal, and banking reforms. Its recommendations became law and gave rise to different agencies through which national administrative restructuring began. In total, six major laws were enacted: the creation of the Central Bank (Banco de la República) and the Banking Control Agency (Superintendencia Bancaria), the reorganisation of the Custom Office (Oficina de Aduanas) and the National Audit Office (Contraloría General de la Nación), the design of an income tax, and new restrictions on government budget control (see Drake (1989).

[3] Albert Hirschman was sent by the bank in 1952 as a consultant and stayed in the country for almost a decade. Both Lauchlin Currie and Albert Hirschman were consultants of the Colombian governments for more than two decades after their first mission.

[4] The 9th April 1948 marked the beginning of '*La Violencia*' with the *'Bogotazo'*, when violent riots shook the capital after the assassination of Jorge Eliecer Gaitán, one of the most prominent liberal leaders. The immediate consequence was a change from a long period of one political party hegemony to a short period of a military junta (1953-1957). The latter, in contrast to other Latin American dictatorships both in the degree of influence and the long-term effect, ended with 16 years of a bipartisan agreement – the National Front – to rule the state until the inauguration of a standard democracy in the middle 1980s. During this period the two political parties (liberal and conservative) agreed to govern in turn for four presidential terms, each of four years, from 1958 to 1974.

1987/2007a; Safford & Palacios, 2002, chapters XII and XV). Only five years since the launching of the *'industrialización dirigida por el Estado'*[5] and two years before the first major redesign of the Central Bank (Meisel, 1990a, p. 423). The mission found in 1949 a country that was still dealing with the slow transition to the twentieth century, a growing private sector, a financial system calling for reform, and a government seeking to promote development while dealing with internal political disorder. In the words of Mariano Ospina Pérez, president of Colombia (1946-1950), the country was 'ready to keep the democracy going, better guarantee the rights of citizens, and stop the widespread violent acts (...) The economic and social programs developed after the 9th of April of 1948 [which marked the beginning of *'La Violencia'*] represent a first step to a progressive development' (Ospina, 1949). Designed to raise the standard of living of the growing Colombian population, the mission was a milestone for Colombia's post-war development as it identified patterns, potential areas for improvement, and set goals for the next three decades.

Historians often find the roots of a fundamental transition in Colombian life in the period 1950 to 1980 (Molina, 2000; Safford & Palacios, 2002, pp. 549-582). The most obvious transformation was the transition from an agricultural and rural economy to a semi-industrial and urban economy. The result was the emergence and consolidation of new economic activities, specifically manufacture, construction, and financial services. Ocampo et. al. (1987/2007, p. 271) identify industrialisation as the dominant element in this process and argue that it was encouraged by state intervention, especially through trade policies, foreign transactions, and the financial system. The subsequent adjustments created the environment for financial reforms that later opened investment opportunities for entrepreneurs and firms. However, these were not the only changes. There was agreement to modernise the agricultural

[5] Cárdenas et al. (2004) introduce this term as a better choice for explaining the economic changes introduced between 1945 and 1980. It replaces the traditional import substitution industrialization (ISI).

sector, develop social programs, including education and community services, pursue export diversification, increase state investment in infrastructure, and improve corporate law.

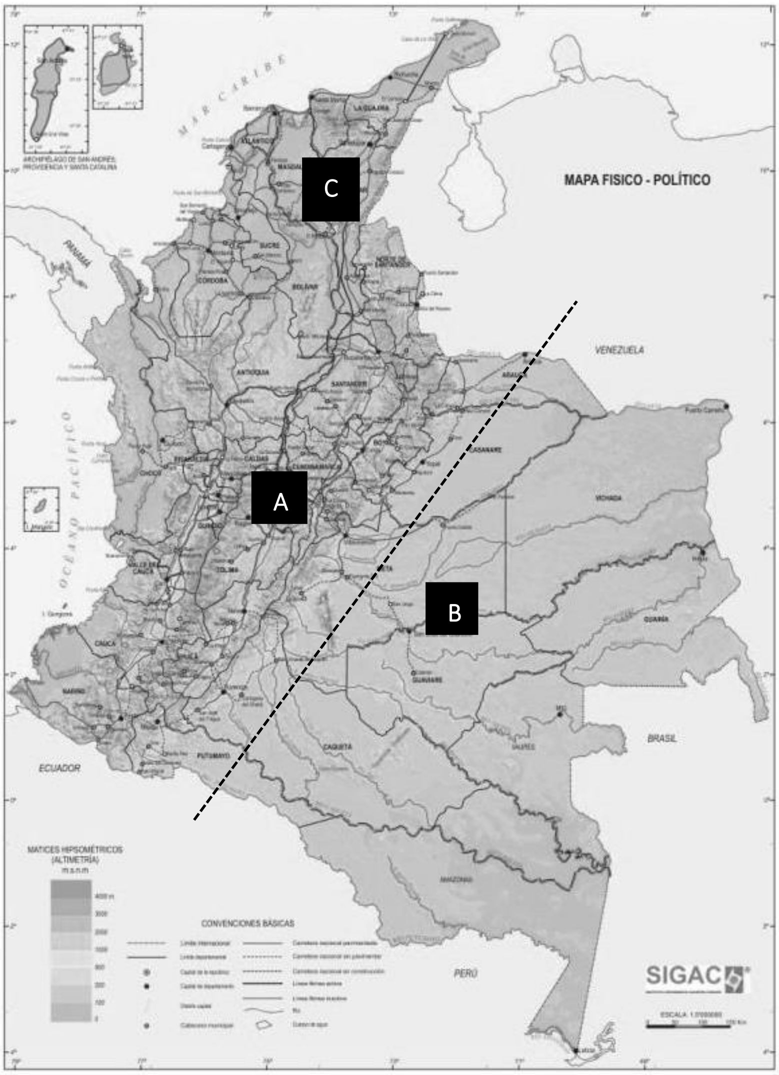
The mission first completed a survey which resulted in the identification of Colombia's strengths and the obstacles to its development. The findings reflected several of the characteristics of Colombia's development identified by the son of a foreign sugar industrialist in 1913 (Eder, 1913), the Colombian government in 1918 (Posada, 1918), and a US government official in 1921 (Bell, 1921; Eder, 1913; J. Posada, 1918). It also confirms the weak access to capital, the lack of a consolidated domestic market and the missing national transport network, which are still agreed on by the Colombian economic history literature.

3.3. Geographical obstacles

Geography has played a central role in Colombia's economic and political history (Bushnell, 1996, p. 21), as the World Bank recognised. Currie (1950, p. 3) noticed that 'the same factors which permit diversity and specialisation in agricultural production impose obstacles to taking full advantage on a national scale of this diversity'. Although there is no consensus in the literature on the effects of its climatic, topographic and hydrological characteristics, there is agreement on the point that Colombia has been a divided nation in self-contained regions since pre-Columbian times. Divided by an imaginary line in the middle, the country is half mountains and half flat areas (see map in Figure No. 3.1, left and right hand, respectively), with a territory that extends in the northern region of South America (1,1 km^2), having access to both the Atlantic and Pacific oceans and the Amazonian.

The most prominent topographical feature is the Andean mountain system. Located on the western side of the country, the Andes range breaks up in the Pasto Knot, branching out into three cordilleras running south to north. These three ranges are the source of the river system, with a number of small rivers rising in the western cordillera and flowing into the Pacific. Between the eastern and central cordilleras flows the Magdalena, the main river and commercial highway of Colombia since colonial times. Between the Central and Western cordillera flows the Cauca, an important tributary to the Magdalena, which joins it where the Central cordillera dies out. To the east of the Andes are extensive lowland plains through which flow many large rivers, tributaries either of the Orinoco or of the Amazon.

Figure 3.1.
Map of Colombia



Colombia is half mountains and half flat areas (left and right hand, respectively). The mountainous west (A), the flat east (B), and the northern Caribbean coast (C). Source: Instituto Geográfico Agustin Codazzi. Retrieved from http://geoportal.igac.gov.co/ssigl2.0/visor/galeria.req?mapaId=22.

This peculiar topography, together with its position near the Equator, permits a diversity of mineral and agricultural production. Eder (1913, p. 2) describes Colombia as a country 'rich with promise of vast mineral wealth, whose varied climate is capable of nurturing vegetation of every zone'. Indeed, climates of the inhabited zones range from tropical at low altitudes to temperate at higher altitudes, permitting the simultaneous growth of diverse crops – a condition that has also contributed to the division of the country into autonomous regions. As Safford and Palacios (2002, pp. 13-34) explain, a dispersed population, combined with the lack of a strong transport network and an increasing number of urban concentrations, reinforced the division into three major regions that has been the case since pre-Columbian times (Eder, 1913, p. 6; Safford & Palacios, 2002, p. 15): the mountainous west, where 80% of the population has lived in less than half of the territory since colonial times, the flat east, and the northern Caribbean coast (see Figure 3.1).

When the World Bank mission arrived, Currie recognised that Colombia was a collection of heterogeneous regions with distinctive features in respect to climate, transportation, living conditions, industrialisation, and other economic and social factors. He distinguished between four main economic areas (or trading zones, in his words): the Eastern Cordillera (Tolima-Huila and the high eastern plateaus), the Atlantic littoral, Antioquia, and the Cauca Valley. Still regarded as distinctive economic regions today, each of these zones has a sufficient availability of diverse agricultural and manufactured produce within relatively close distances, which renders long-distance interregional trade less urgent. As presented by C. Dávila (2003a, pp. XV- LXXVIII), the regionalisation of the country evolved on the basis of the cultural, social, and economic status of each, giving as a result strong regional economies with defined business elites. By the 1950s, each region held specific groups of entrepreneurs and firms, with a concentration of the main activities in the major urban centres in these areas (Bogotá, Barranquilla, Medellín, and Cali, respectively). However, during the next three decades the pattern of regional development underwent major modifications. Accordingly to Bonet and Meisel (1999), Bogotá, Cali, and Medellín continued as urban and industrial centres, but the Atlantic littoral was left behind and the trend towards greater concentration of economic activity in Bogotá was accentuated.

3.3.1. Transport

Given the high levels of geographical fragmentation and the great distances between the main ports and large population centres, Colombia faced serious challenges. Significant improvements in transportation were indispensable to overcoming geography. As both Bell (1921, p. 24) and Eder (1913, chapters VII and VIII.) observed more than two decades before the World Bank mission, transportation was extremely difficult and costly, mainly because of the lack of highways and railroads. Railroads began to spread across the country on a regional basis from 1855 and the motorways from 1919. The railroads themselves were financed mainly by concessions given to experienced foreign engineers who associated with Colombian merchants (for example, Mayor, 1999 presents the case of the pioneer Francisco José Cisneros, a Cuban engineer trained in the United States); the roads were financed by the government, which later in the mid-century approved concessions to domestic firms (Ramírez, 2007, p. 386). Nonetheless, as Table 3.1 shows, within 50 years from 1855, the rail network only had 565 km dispersed around the country and still needed the complementary services of the steam boats, mules, and cable cars.[6] By 1950 only 3,071 km were built of more than 12,000 km planned,

[6] The Magdalena river, which crosses the country from deep south to north, witnessed the major investments in steam boats, mainly by foreign entrepreneurs. The fluvial system was used during the nineteenth century, but is now forgotten and most cargo is moved by air. The use of mules for transport started since the colonisation and was actively used until the mid-twentieth century. The cable car was one of the greatest innovations of the transport system, also promoted by foreign entrepreneurs. Researchers have discussed the transportation system in full, see for example Pachón and Ramírez (2006), E. Posada (1989) and Ferro (2003).

whilst the road network was already six times longer. Accordingly to Ramírez (2007, p. 403, Table No. 8), compared to other Latin American countries, Colombia had the lowest index of railway km per 10,000 inhabitants. While in Argentina, Costa Rica, Chile, Bolivia, Venezuela, and Uruguay the index was higher than 10, Colombia only reached 2.1. Similarly, the index of road km per 10,000 inhabitants was 1.7, higher than only Paraguay (1.4), Ecuador (1.6), and Bolivia (1.7).

Table 3.1.
Rail and road network, 1880-1980 (km)

Network	1880	1900	1930	1950	1960	1970	1980
Railroad	203	565	2,549	3,071	3,462	3,462	3,462
Road	-	-	6,856	18,040	18,940	19,915	22,917

Source: Pachón and Ramírez (2006).

Table 3.2.
Cargo movement, 1950-1980 (thousand tons)

Transport system	1950	1970	1980
Railway	4,690	3,963	2,189
Road	9,534	14,693	36,600
Airway	134	107	72
Waterway		2,780	5,478

Source: Pachón and Ramírez (2006)

The absence of a national transport network has been regarded as a major obstacle for development. Currie (1950, p. 4) advised that ‘the zones are not clear-cut and improvements in transportation will permit greater specialisation and more interzonal trade’. Pachón and Ramírez (2006, chapters 4 and 5) explain that the volume of goods moved between zones was small and trade was limited to products of relatively high value because of the high costs, which contributed to the slow integration of the domestic market. However, during the years 1950 to 1980 the transport system did finally become a national network through the extension of the roads, new airports, and improved ports. Thus, there was a decline in the costs of transportation and an increase in the movement of cargo, especially by road (see Table 3.2). Railroads and the Magdalena River faced competition from parallel roads. The rates were higher but surpassed in quality, safety, punctuality, speed and lower labour costs. Road transport was more profitable for its private and competitive character, while the railways were subsidised but still went bankrupt. The rates of road transport were established in the market, while the railways were set by political negotiation. This spurred the number of private firms in the transport industry, which built infrastructure and moved cargo.

3.4. Economic and social trends

The last official census before the arrival of the World Bank mission was in 1938 and indicated a population of 8.7 million (Censo, 1938). Between 1900 and 1938 population increased at a rate of 2.1 per cent annually. By contrast, the census of 1951 found a total population of 11.5 million inhabitants with an annual growth rate of 2.4 per cent since 1938. This was an indication of the rapid demographic growth to come in the following three decades and the resultant changes in the socioeconomic indicators (see Table 3.3). Between 1950 and 1980 the population grew at a rate of 2.6 per cent annual, multiplying two and a half times by the end of the period. The 1950s and 1960s in particular presented the highest average population growth rate in the century: 3.0 per cent per year.

Following World War II, Colombia underwent rapid urbanisation. Currie (1950, p. 6) mentioned that Colombia was still predominantly rural in 1949: '71 per cent of the people lived in farms and in villages under 1,500 inhabitants. 40 per cent of the people lived in the hot tropical districts, 36 per cent in the moderate zones, and 24 per cent in the cool uplands'. The subsequent period witnessed rapid urbanisation, however, as was expected by both the government and the World Bank. The total rural population grew by less than 10 per cent whilst the urban population more than tripled, from four to thirteen million. This urban expansion reached its maximum velocity in the 1950s, such that a predominantly rural country became a ‘nation of cities’ (Safford & Palacios, 2002), with almost 60 per cent of the population concentrated in less than half of the territory by 1980.

Table 3.3.
Principal socioeconomic indicators, 1951 – 1985

	1951(1)	1964	1973	1985
Population (thousands)	11,548	17,914	22,973	29,481
Annual population growth rate (%)	2.4	3.0	2.9	2.4
Population growth rate (%)(2)	3.0	2.9	2.4	2.2
Urban population as % of total	38.7	52.1	59.5	67.2
Population of Bogotá as % of total	5.4	8.3	12.5	13.8
Population of the four largest cities as % of total (Bogotá, Cali, Medellín, Barranquilla)	12.9	20.0	25.4	26.8
Fertility rate(3)		6.7	4.7	3.5
Birth rate		44.2	34.5	29.2
Life expectancy (years)		57.9	61.6	67.2
Mortality per thousand	16.7	11.5	8.7	6.8
Child mortality per thousand (<5 years)	123.2	92.1	73.0	41.2
Homicide rate per 100.000 inhabitants (%)	56	31	23	40
Agricultural employment as % of labour force	55.5	48.9	35.2	33.8
Manufacturing employment as % of labour force	15.8	17.1	22.4	21.4
Services employment as % of labour force	28.7	34.1	42.5	44.8
Construction employment as % of labour force(4)	3.0		6.6	6.4
Underemployment as % of labour force(5)	48.3			41.0
Illiteracy rate (%)	38.5	26.6	17.7	12.5
Primary education (thousands)	674.4	1,786.6	3,199.5	3,450.9
Secondary education (thousands)	45.7	344.9	1,096.8	1,490.8
Higher education (thousands)	7.3	35.1	129.4	209.6
Total enrolled (thousands)	727.4	2,166.6	4,425.7	5,151.3
Families owning their homes (%)(6)	43			66
Homes with piped water (%)	28.8	38.7	62.7	69.7
Homes with electric service (%)	25.8	34.5	57.6	78.2
Homes with sewer service (%)	32.4	40.7	68.1	77.0

(1) Census years: 1951, 1964, 1973, 1985.
(2) The population growth rate refers to the average rate of period following the date. That is, the figure for 1951 represents the years 1951-1964
(3) Fertility and birth rate for the periods 1960–1965, 1970–1975, 1980-1985, 1985-1993.
(4) Construction employment corresponds to data from the seven main cities.
(5) Underemployment includes the urban informal sector and traditional agriculture in 1950 and 1980, as presented by García and Tokman (1984). According to the authors, the urban informal sector accounted for 15.3 in 1950 and 22.3 in 1980.
(6) The data shown in 1951 corresponds to the average in 1947-1952, and in 1985 is the average for the whole decade
Sources: Censo poblacional (1951, 1964, 1973, 1985, 1993), Clavijo et al. (2004), Flórez (2000), Palacios (1980/2002), and World WorldBank (1985).

A quarter of the Colombian population was concentrated in the four major cities by the end of the period, with Bogotá as the largest city; having had only 623.593 inhabitants in 1951, the capital had grown to more than four million at the beginning of the 1980s. Another half of the population was distributed in 17 cities with more than 150,000 inhabitants. As explained by Bértola and Ocampo (2012, pp. 191-192), 'the large-scale flow of rural-urban migration that took place [in Latin America] during this period reflects the generation of a labour surplus'.

Nevertheless, similar to Venezuela, Costa Rica and Panamá, Colombia displayed a steep increase in urban employment and a reduction of total underemployment. Agricultural employment decreased sharply from 55.5 per cent of the labour force in 1951 to only 33.8 per cent in 1980, with the coffee sector continuing to have the largest share. Consequently, there was a rise in the labour force employed by industry and services. The industrial labour force increased from 17 per cent in 1951 to 22 per cent in 1980. From 1957 to 1974, the workforce in manufacturing industry grew from 135,400 to 447,900 (Dane, 1957-2019), leading to the consolidation of wage labour. There was also an increase in the proportion of unionised workers and the labour unions were regularly able to push for legislative changes for the working class (Urrutia, 1969, p. 246). However, from that year that proportion began to decline in the cities due to increased entrepreneurial individual activities, which later in the century would be considered part of the 'informal economy'.

Ocampo et al. (1987/2007a, p. 276) argue the migration process to the cities in this period was traumatic, since the cities were not prepared to accommodate the new inhabitants. As a result, there was a call for improved living standards and job creation for a population eager to migrate to the cities due to the desire of families to gain better education for their children, to own a home, and increased wages. The demographic transition resulted in a fall of the fertility and mortality rates, which led to a rise in life expectancy. Home ownership increased from 43 per cent in 1951 to 66 per cent in the 1970s, whilst the percentage of homes with piped water, electricity, and sewerage service grew from 29 per cent in 1951 to 74.9 by the beginning of the 1980s. Nonetheless, one of the aims of the government was to deal with the increasing levels of poverty in Colombia. By 1978 the percentage of the population under the indigence and poverty line was 59.1 (Pearce, 1990, p. 69), showing a concentration of income which could be related with the concentration of ownership. An example of this was the high concentration of land ownership: according to Lorente et al. (1985, p. 12), between 1960 and 1984, holders of less than 20 hectares accounted for 87 per cent of total landowners, but only owned 18 per cent of the land. Conversely, 4 per cent holders of more than 100 hectares were the owners of 60 per cent of the rural areas.

Although Colombia did not suffer from populism (Kaufman & Stallings, 1991; Urrutia, 1991) or authoritarianism (O'Donnell, 1979), as in other Latin American countries, democracy was pursued in the context of political and social turbulence. New political actors, such as workers' unions, appeared and 'the broadening of political and social rights became inevitable' (Safford & Palacios, 2002, p. 266). These years saw the beginning and the end of a period of partisan violence (1946-1964), followed by the emergence of revolutionary guerrillas (1960s) who immersed the country in a long period of social instability, leading to the appearance of paramilitaries and drug cartels in the early 1980s. Nonetheless, there was considerable stability in terms of the constitutional framework. Until 1950 all changes of government occurred within the framework of the Constitution of 1886, that was reformed an average of once per decade between 1951 and 1991, when a new Constitution was introduced.

3.5. Achieving economic growth

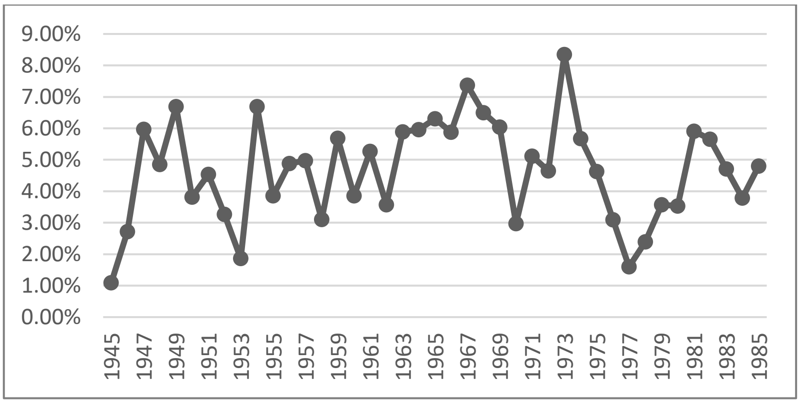
Based on the World Bank's own estimates of the national income from 1939 to 1947, Currie (1950, p. 25) concluded that the country possessed 'tremendous possibilities for growth as yet unexploited'. However, the Colombian economy suffered from low levels of capital accumulation along with erratic or cyclical profits. Agriculture was the most important segment of the economy, although growth in manufacturing was accelerating.

In general, agriculture was characterized by the 'use of a disproportionately large amount of labour in relation to land and the lack of mechanized methods of cultivation' (Currie, 1950, p. 70). Productivity advances in agriculture were only partially achieved by coffee; many landowners introduced technological advances in agriculture but failed to fully achieve major transformations (Mejía Prado, 2003). The focus on coffee exports that followed after 1930 did not help diversify exports (Ocampo, 1991, p. 215), although they did facilitate the country's integration into the world economy (Ocampo, 1984, chapter 5). Consequently, coffee exports became the main source of revenues for the economy, financing the import of manufactures and capital goods needed for the expansion.

According to the industrial census of 1945, the number of industrial plants founded between 1929 and 1940 was five times the number created between 1921 and 1929 (Censo, 1945; J. J. Echavarría & Villamizar, 2007, p. 175, cuadro 1). More than 842 industrial establishments employed about 115,000 workers, with food and textiles accounting for nearly half. The first firms were created with domestic capital and produced a range of consumer nondurables such as beer, cigarettes, soap, matches, hats, paper, food, and textiles. A few diversified into the production of construction materials and basic chemicals, such as cement. In terms of location, the industry was concentrated in and around the four regional capitals, which had 70 per cent of the production. However, Colombian manufacturing industry still suffered from high costs, limited markets, and a shortage of capital (Ocampo et al., 1987/2007a).

Between 1950 and 1980, Colombian GDP grew by 5.1 per cent annually (see Figure 3.2), multiplying about six times in the period. Economic and demographic growth was accompanied by a structural change of important proportions (see Table 3.4), which followed the trend in Latin American countries: manufacturing was the engine of economic growth, but modern services also expanded swiftly (Bulmer-Thomas, 2014, chapter 9). At the same time, there was robust institution-building via legislation, new government control agencies and strengthened of business associations (Thorp, 1998, chapter 5). In the case of Colombia, the decrease of the agricultural sector from 40 per cent of GDP in 1940-1945 to less than 25 per cent by the end of the period meant new economic activities such as financial services, transport, telecommunications, and public utilities saw increasing roles.

Figure 3.2.
Annual real GDP growth, 1945-1985



Source: Adapted from Greco (2002, chapter 2)

Table 3.4.
Economic structure by sector as percentage of the GDP, 1945-1984

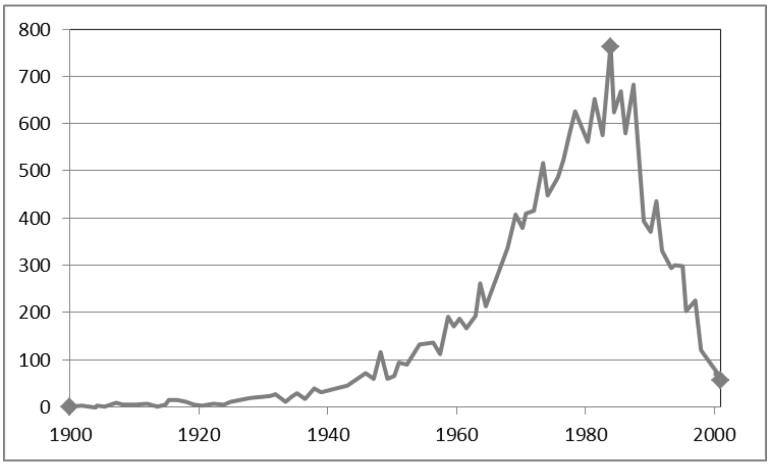
	1945-49	1950-54	1955-59	1960-64	1965-69	1970-74	1975-79	1980-84
Agriculture(1)	40.5	33.6	31.3	28.9	26.6	23.9	23.4	22.5
Mining	2.8	3.2	3.2	3.1	3.0	2.3	1.4	1.4
Manufacture	14.8	17.4	19.4	20.6	21.1	22.5	22.9	21.4
Construction	3.4	2.8	3.4	2.9	3.2	3.6	3.3	3.6
Commerce	11.6	10.4	9.8	9.8	9.9	10.4	10.4	9.8
Financial services		3.5	4.0	5.0	5.6	6.5	6.8	7.7
Transport	4.9	6.6	6.9	6.9	6.9	7.3	7.9	8.1
Telecommunications	0.5	0.3	0.4	0.5	0.7	0.8	1.0	1.5
Electricity, gas and water		0.3	0.4	0.6	0.7	0.8	0.9	1.0
Government services	6.1	7.3	6.9	7.1	7.0	7.2	7.3	8.2
Other activities(2)	15.5	7.8	7.6	7.3	7.2	7.3	7.8	7.7
Private homes(3)		6.7	6.7	7.3	8.0	7.5	7.0	7.0

(1) Includes fishing, hunting, cattle and forestry.
(2) Social, communal and personal services
(3) Rental, private housekeeping.
Source: Adapted from BanRep (1930-1982) and Dane (1957-2019)

Adding to traditional industries, new manufacturing industries appeared. Similar to other medium-size Latin American countries, traditional industries still accounted for about half (49.3 per cent) of Colombia's manufacturing value added in 1974, despite the emergence of new industries such as paper and chemicals (23.3 per cent) and metal mechanics (10.4 per cent). Consequently, the country production's structure was still influenced by important traditional sectors, especially food, beverages, and tobacco (27.6 per cent) and textiles, apparel, leather, and footwear (15.7 per cent) (Bértola & Ocampo, 2012, pp. 171-172, table 4.7).

This process of structural transformation was accompanied by an unprecedentedly large accumulation of private and social capital (Molina, 2000, p. 32). Accordingly to Misas (1973, p. 13), the expansion was accompanied by 'high private investment, some foreign direct investment, as well as large firms' diversification and concentration'. The private sector built large industrial plants and agricultural depots, the number of vehicles increased and the stock of housing and office buildings in the cities grew sharply. Construction expanded fast, becoming a key sector of the economy. As presented in Figure 3.3, there was an increase in the number of industrial plants being built: the numbers increased yearly, as an average of 130 plants were founded per year until the liberalisation of the economy in 1990. The change in the economic model implied a reduction in the number of new industrial plants and the expansion of the ones created in the previous years. Moreover, the number of commercial establishments also increased during the period, with the number of new these establishments growing from 973 in 1949 to 1,272 in 1963 (BanRep, 1930-1982).

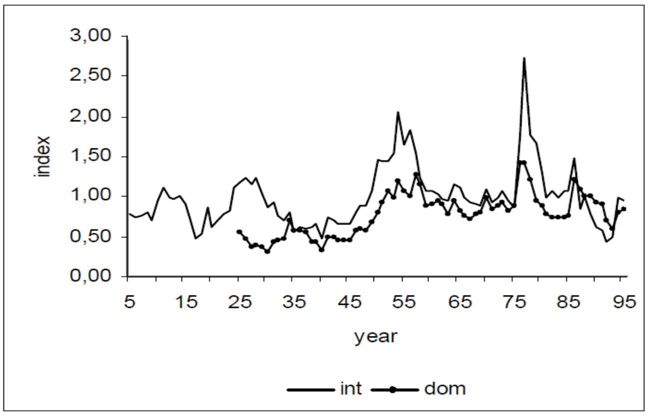
Figure 3.3.
Number of industrial plants created per year, 1900-2000



Source: J. J. Echavarría and Villamizar (2007, p. 179, gráfico No. 3).

Nonetheless, the economic cycle continued to be shaped by coffee exports (Ocampo et al., 1987/2007a, p. 283). The effect of the fluctuation in external coffee prices (see Figure 3.4) was twofold (Junguito, 1997, p. 19). First, an increase in the coffee prices meant coffee growers had greater purchasing power and there was also a rise in the government revenues, both of which increased demand for manufactured goods. Conversely, a decrease in external coffee prices had an adverse effect on domestic demand. Second, there was an effect on the availability of imported intermediate goods and capital due to the impact of coffee prices on disposable income and exchange rate. The phases of rising coffee prices meant great availability, while low prices produced a shortage. Consequently, the economic cycle was affected.

Figure 3.4.
Real coffee prices: domestic and international indices, 1905-1995



Source: Adapted from BanRep (1930-1982)

Table 3.5.
Economic cycle macroeconomic indicators, 1945-1980. Growth rates (%)

	1945-1953	1954-1965	1966-1973	1974-1980
Exports	2.0	3.2	5.7	6.3
Exports' purchasing power	10.8	0.3	8.5	7.9
Imports	10.8	0.6	6.5	7.3
GDP	5.0	4.4	6.4	5.0
Domestic market production	5.8	4.7	6.5	4.7
Industrial production	9.1	5.3	7.9	4.6

Source: Ocampo et al. (1987/2007a, p. 284, cuadro 7.5)

As presented in Table 3.5, there are four distinct periods. In the first period (1945-1953), there is a decade of rapid industrialisation – indeed, it is the fastest of the twentieth century with a 9.1 per cent annual growth rate – and high coffee prices. A second period (1954-1965) is marked by a decline in coffee prices and the slowdown of industrial production. Although annual GDP growth was satisfactory at 4.4 per cent, industrial growth declined to 5.3 per cent. In the next period (1966-1973), the country experienced a second period of rapid economic growth (6.3 per cent), and industrial production increased to 7.3 per cent, while the third period (1974-1980) saw an increase in coffee prices, but a lower rate of industrial growth. Decisive until the 1960s, it weakened from the beginning of the 1970s, and by the end of the period further openness was required (Ocampo et al., 1987/2007a, p. 271).

3.6. Concluding remarks

This chapter provided the basic historical background and contexts in which entrepreneurs and firms operated in Colombia. Since the 1950s, Colombia has witnessed major transformations. The improvement in physical infrastructure accelerated, foreign exchange resources expanded, and regional markets finally integrated. A growing population triggered the consolidation of Colombia as a ‘country of cities’, forcing the government to implement policies to provide better education, health, and basic services. A mission from the World Bank selected the country as a template for testing development policies. The private sector grew, diversifying its investment into new industries, with the structure of the economy changing gradually from manufacturing to services, whilst retaining a focus on the coffee economy. The private sector accumulated capital and became more sophisticated in diversifying portfolios. Thus, the key characteristics of the period constitute the factors for the proliferation of the business groups.

The World Bank mission proposed three major changes. The first one was related with the liberalisation of the financial sector to give more access to the population to capital for investment and to house ownership. The second one was related with the reform of the agriculture by promoting a research and development centre to support products different from coffee. The third one was related with education and health services, mainly to increase de access and quality of primary and secondary education. As the concern of this thesis are the financial reforms, the changes of the financial legislation are presented in Chapter 5.