

Politics, policies, and the dynamics of aggregate productivity in Colombia[♦]

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Abstract

Aggregate productivity growth in Colombia has not been as spectacular as expected after the extensive wave of reforms of the early nineties. We suggest part of the explanation may rest in the continued use of targeted policies that reflect the political power of different sectors and regions, and that are assigned with disregard for their implications on aggregate performance. We present a description of the involvement of private actors in the policy making process. Our description shows that a series of channels grant access of specific firms and entrepreneurs to policy-making: the presence of business representatives in a wide range of government committees and boards, the lobby power of business associations and business groups, and the frequent appointment of career businessmen to high ranking government positions. The relevant channels vary depending on whether horizontal or targeted policies are under discussion, with the more transparent and formal channels being used to discuss horizontal policies, but also being less effective. As a result, vertical policies are more easily “processed” and reflect the political power of different groups more than their potential as engines for growth. We use data on targeted policies across sectors-region groups, as well as belonging to business groups and associations, and electoral importance of groups, to further characterize the weight of groups on policy making. We also conduct an empirical exercise that illustrates the negative effect of differential political strength across groups on aggregate productivity.

1. Introduction

During the last two decades the vision that has guided economic policy making in Colombia has highlighted well-functioning markets as the basis for development. The 1991 Constitution set the stage by endorsing this vision. A series of reforms adopted later have moved the regulatory framework in this direction¹.

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¹ Economic freedom, private property, and free competition have the stature of constitutional rights, while the free enterprise is considered the engine of development (Article 333). Moreover, promoting productivity growth is one of the tasks the Constitution assigns to the State (Article 334). A series of wide economic reforms adopted around the time of the 1991 constitutional reform further reflected the spirit of

From the point of view of granting conditions that would maximize productivity growth as the basis for long-run economic growth, much of the economic literature suggests the policy vision reflected by those reforms was on the right track. Theoretical models of aggregate performance with micro foundations show there are two aspects to productivity growth: within-firm productivity improvements, and reallocation of activity from less to more productive units². In terms of policies consistent with aggregate productivity growth, this vision suggests two sets of policies are important. First, property rights and free competition are crucial for creating incentives for private businesses to invest in new technologies. Pavcnik (2002) and Fernandes (2007), for instance, show that establishments faced with greater competition after trade deregulation exhibited higher productivity. On the other hand, the importance given to allocative efficiency as a determinant of the dynamics of aggregate productivity suggests well-functioning factor and output markets are another key ingredient for successful productivity growth. Both theoretical and empirical studies have endorsed the view that eliminating regulations that distort the allocation of resources also improves aggregate productivity (Melitz, 2003; Hsieh and Klenow, 2007; Restuccia and Rogerson, 2008; Pavcnik, 2002 and Fernandes, 2007). A model of aggregate productivity by Restuccia and Rogerson (2008), for instance, shows that regulations with differential effects on profitability across firms -targeted policies are the first example that comes to mind - are productivity decreasing, with the negative effect being stronger if less productive firms are favored, but present even if more productive firms are the ones receiving benefits. The basic logic behind these findings is that, since the allocation of resources across businesses should respond to the distribution of firm-level productivity, barriers to an efficient allocation of activity are detrimental to aggregate productivity as production factors may get stuck at low-productivity units.³

the new model of economic policy. Barriers to international trade were reduced, while measures were adopted to give labor and capital markets greater flexibility.

² In a consistent manner, empirical work has defined aggregate TFP as the weighted average of firms' TFP, where output shares are the weights (e.g. Baily et al. 1992; Bartelsman and Doms, 2000; Foster et al., 2008).

³ Of course, targeted policies may be productivity increasing if they contribute to the solution of other distortions with an origin outside regulations. Consider, for instance, the adjustment costs derived from the need to stop production to install new machinery. These costs discourage investment and hit harder firms that engage in large investment episodes, for instance firms in sectors where the technology frontier has

Despite the adoption of a market-oriented policy vision and of a set of policies expected to be consistent with productivity growth, the productivity performance of the country has not been as dynamic as one would expect. In particular, the wave of structural reforms of the early nineties has not had a reflection in particularly high productivity growth during the last two decades.

Figure 1 shows the evolution of GDP growth over the period 1990 to 2007. There have been periods of dynamic growth around the mid 1990s and the mid 2000s, but also periods of poor performance, with overall growth over the period averaging only 3.4% annually. Accordingly, estimates of productivity after the reforms show modest overall productivity growth. Meléndez and Seim (2006) study the dynamics of productivity over 1977-2001 for ten selected sectors within manufacturing. Grouping those sectors together, they find an increase of around 18 percentage points in the nineties compared to the eighties. Similarly, Eslava et al. (2004, 2006) find an average increase of close to 15 percentage points in aggregate productivity of the manufacturing sector between those two decades (Figure 2). These estimates suggest an average annual growth rate of aggregate productivity below 1.6%, disappointing in the aftermath to the structural reforms of the nineties.

The productivity gains from the reforms have not only been relatively small, they have also concentrated in an improvement of allocative efficiency, with little gains in within-firm productivity growth. Good part of that improvement seems related to a more efficient market selection (productivity gains from the shedding of less productive firms and the appearance of more productive ones), as the gain is much larger in an unbalanced sample compared to a balanced one (Eslava et al. 2006, see Figure 3, where TFP has been normalized to one in 1982). Greater allocative efficiency implies at least partial success of the bulk of reforms aimed at making markets more flexible. On the other hand, the fact that it accounts for basically all gains in aggregate productivity is worrisome to the extent that it reflects poor efforts by firms to improve their technology.⁴

recently moved. Regulations that encourage investment in these specific sectors are likely to boost productivity. This is also true about policies addressing the sources of sector-specific coordination failures.

⁴ Other possible reason for the poor performance of within firm productivity is entry by less efficient firms, which by construction reduces average productivity. Low within firm productivity is thus not necessarily of concern, as learning over time by young firms may allow them to quickly catch up with incumbents and

Although allocative efficiency has improved after reforms, studies suggest that the gains in this front could have been larger. Eslava et al. (2008) compare actual and potential gains in aggregate productivity for incumbent firms. Using a counterfactual, they estimate what aggregate productivity would be if these firms faced no barriers to adjusting their use of productive factors. Their estimates suggest potential gains of close to 30 percentage points at any given point in time. Of this potential increase in aggregate productivity a negligible fraction has been realized as a consequence of more dynamic adjustment after the reforms of the early nineties (Figure 4).

If Colombia was able to implement dramatic policy changes in the right direction, then why has this not resulted in a more dynamic aggregate performance? Why have the gains in productivity not been as expected?

Potential explanations to slow productivity dynamics in Colombia cannot overlook the fact that the country has been under an ongoing civil conflict since before the nineties, and that violence has been pervasive across the territory throughout the past two decades, showing signs of lessening only very recently, in 2004. While more strongly felt in rural areas, (lack of) national security has evidently challenged investment decisions everywhere (see Harker and Melendez, 2008), and is probably part of the explanation for the poor performance of aggregate productivity.

However, other explanations are also worth considering. Several authors have suggested that the policies actually adopted have not been fully consistent with the overall vision of a market economy (for instance, Edwards, 2001 and Alesina, 2005). Within that general statement, our view is that a set of potentially productivity-enhancing policies has co-existed with a large set of sector or firm specific policies that distort the allocation of resources. These micro regulations have likely eroded the positive effects on aggregate productivity of the economy-wide deregulation efforts, by distorting the mechanisms that translate a firm's poor performance into incentives to exit the market or

even surpass them. However, the fact that low within plant productivity growth in Colombia seems to have extended over more than a decade implies either that the catch up takes longer in this context, or that entry is not the sole explanation for the disappointing performance of within-firm TFP. The latter seems more plausible.

reduce the scale of its operations.⁵ Interestingly, many of these targeted policies have emerged as ways to compensate losers of the reforms, partly undoing their intended effects (Edwards and Steiner, 2008).

Explaining the emergence or persistence of targeted policies that compensate the losers of reforms and at the same time erode their effects requires an understanding of the political process behind the adoption and implementation of policies. What is the political equilibrium that explains the coexistence of economy-wide regulations aimed at increasing productivity and targeted policies with an opposing effect? The very nature of targeted policies suggests understanding the balance of political forces across sectors or other groups of firms is key to understanding the emergence of these policies.

In this paper we aim to shed light on the extent to which the influence of specific interests on the Policy-Making-Process (PMP) may have favored the adoption of targeted policies with detrimental effects of aggregate productivity. We characterize the way in which specific interests have influenced policy making in Colombia over time, with an emphasis on economic policy in general and productivity/competitiveness policy in particular. We describe the actors that participate of the PMP and the way in which they interact in the institutional context of the last two decades, and compare those characteristics of the PMP in recent times with those that prevailed before the structural reforms of the 1990s.

Our characterization of the Colombian PMP suggests that, paradoxically in the context of liberalization introduced by the reforms, the forms of private participation in the last two decades still encourages the emergence of policies with targeted benefits. Some of these benefits are embedded in sector specific policies, as in the case of subsidies and tax exemptions, while others may arise in the implementation of policies which in principle should be horizontal.⁶ The prevalence of targeted policies was natural

⁵ This effect would be consistent with models where idiosyncratic distortions, for instance from sector-specific regulations, affect aggregate productivity (e.g. Hsieh and Klenow, 2007; Restuccia and Rogerson, 2008).

⁶ Some evidence suggests that some targeted benefits are indeed assigned at the stage of implementation of policies in principle conceived to be transversal. For instance, subsidized credit from public institutions, available to all producers, tends to have concentrated in a small number of sectors. This is also true about tax benefits from investment in fixed assets. While suggestive of targeting of policies at the implementation stage, this thesis merits further investigation, which we intend to pursue in future work.

in the context of import substitution policies that prevailed in Colombia up until the early nineties; in this model of development, the level of protection different sectors receive is expected to be a function of their characteristics. In such context, there are established mechanisms to determine the level of differential protection across sectors and to compensate sectors damaged by other regulations. In Colombia, for instance, before the trade reform of the nineties there was a government agency in charge of establishing import quotas for different sectors (Incomex). On the other hand, the extended use of targeted policies is not only puzzling but also particularly damaging for aggregate productivity in the context of a more market-oriented vision of economic policy, such as the one that has prevailed in Colombia over the last two decades. The system is simply not well set up to balance out benefits to different sectors. As we will discuss, the formal mechanisms of private sector participation in policy-making currently in place are well suited for the discussion of economy-wide regulations, but not for that of policies with more narrow benefits and costs.

The economic Policy Making Process (PMP) in Colombia has been atypical in the context of Latin America in that there has been well-organized participation of the private sector, including business and labor representatives, universities, and think tanks, in arenas clearly defined. A wide and diverse array of interest groups has thus been formally represented in policy-making in an organized way.⁷ Technocrats have also been given active and extensive roles in the bureaucracy. Such set of institutions seems to set the stage for successful economic policies, and in many ways it has.⁸ In terms of policies designed to improve aggregate productivity, the participation of diverse interests ensures that a wide arrange of preferences are aggregated into the policies finally adopted, in principle favoring general welfare over specific interests.

⁷ Our starting point is that at least some private interests end up permeating policy in every plausible context. What is desirable is not to alienate private actors from policy making, but to articulate their participation in a way that allows aggregating the different interests in society into the policies that are most consistent with aggregate welfare.

⁸ Urrutia (1983) and Meisel, (1996), for instance, partly credit the active participation of business representatives and technocrats in the economic PMP for the relatively stable and conservative macroeconomic policy that characterized the country over the twentieth century. The adoption of widespread market-oriented reforms in the early nineties is another example of successful policy making.

However, after the reforms of the 1990s there is an asymmetry in the types of policies subject to consultations with the private sector using the formal mechanisms established for private participation in policy-making: while policies that affect a wide range of interests go through these channels, more targeted policies in general do not. Moreover, the same inclusive nature of consultations with the private sector makes the adoption of general policies slow and difficult, especially in the recent context of increased fragmentation of the political actors, both private and state. The high and increasing fragmentation of political actors during the last two decades, compounded by the higher priority business interests give to regulations with concentrated benefits and costs, has led to a set of policies inconsistent with high productivity growth.

Our argument is not that the PMP has been unable to deliver productivity enhancing policies in recent years. Rather, there is a parallel track where micro-policies that respond to concentrated interests and have negative effects on aggregate productivity are more easily adopted. The adoption of productivity enhancing policies frequently follows a slow and more difficult track, partly because these are generally horizontal policies with disperse benefits. In the context of high fragmentation of private interests, it is difficult to solve the coordination problems of the set of winners of horizontal policies, to get the support necessary for their adoption. On the other hand, demands of specific interests for targeted policies are frequent and are easily met with regulations that do not require reaching agreement among diverse interests. The end result is the co-existence of a variety of distortive micro-policies with some productivity-enhancing horizontal policies.

We do not argue either that policies with concentrated benefits are now more prevalent than before the structural reforms adopted two decades ago. On the contrary, the reforms precisely meant the transition from an economy where different sectors explicitly got differential protection as a function of their characteristics, to one where open competition is expected to determine the success or failure of sectors and firms with different technologies. Consistent with this newer vision of the economy, mechanisms to guarantee inclusive participation of private actors in policy-making were put in place, with the expected result of favoring policies with widespread benefits. However, our description of the PMP suggests that those inclusive mechanisms of participation have not been sufficiently effective to deliver a set of institutions consistent with the expected

preponderance of general interest policies as opposed to targeted ones. Increasing fragmentation of private interests involved in the process partly explains the relatively poor effectiveness of the formal mechanisms of participation mentioned above.

To complement our description of the Colombian PMP, we characterize the winners and losers of the PMP in Colombia as a function of the determinants of political participation that our description of the PMP suggests matter in an empirical setting. We find that sector-region groups with significant weight in terms of the votes they contribute for the Senate are able to influence policies in their favor, as are sectors represented by a business association or a business group, much more so when their activity is located in regions affected by the armed conflict. Sector employment and prevalence of small and medium enterprises also explain ability to influence policy. High productivity sectors are not found to be favored.

Finally, using the estimated coefficients to produce a measure of the political strength of each sector-region group, we examine the effect of this variable on aggregate productivity. The results lend support to our hypothesis that aggregate productivity performance has not been as spectacular as expected after the market reforms of the nineties partly due to the persistence of targeted policy benefits granted without a clear microeconomic rationale and rather associated to the political grip of particular groups.

The paper proceeds as follows. We begin by describing the actors that participate in the economic PMP (Section 2). Section 3 then explains the ways in which these actors interact. Section 4 characterizes winners and losers of the PMP in Colombia as a function of differential political power and examines the effect of the latter on aggregate productivity performance. Finally, as a conclusion, section 5 presents a synthesis of our research and a discussion of the issues that our analysis suggests shape the making of policies that impact productivity in Colombia.

2. Actors in the Policy-Making-Process

We begin by defining and characterizing the different actors that participate in the PMP in Colombia. We divide our discussion into state and private actors.

2.1. State actors⁹

President and Cabinet

In Colombia the President is the main agenda setter in most policy areas. While he depends on Congress and the Constitutional Court (which revises that the legislation conforms to the Constitution) for adopting policies that require a Law, within that limit his power and independence are considerable given his influence over Congressmen and given first-mover advantage. In Congress, the President has the exclusive right to introduce bills concerning the structure of the ministries, salaries of public employees, foreign exchange, budget, trade and tariffs, and national debt, and has control over the legislative agenda by means of a discharge or urgency petition that enables him to prioritize bills. The president may also veto legislation, although he can be overridden with simple majority. The President can declare states of “internal commotion” or of “economic emergency” that give him the possibility of issuing decrees on areas of policy that normally require the adoption of laws.¹⁰

In terms of its relationship with other levels of government, the President does not have power to appoint mayors or governors, who frequently operate as agents of legislators. The Cabinet and all autonomous agencies are, however, appointed by the President. They execute projects arising from laws enacted by the legislators and design and execute policies directed to the specific sectors under their influence.

The President and his team set the route for the four-year presidential period in terms of policies and public expenditure through a National Development Plan. The Plan, written by the government, is subject to consultation with different groups of society by Constitutional mandate, and then brought to Congress during the first semester of the

⁹ Cardenas et al (2006) provides a complete description of the state actors that participate in the general PMP in Colombia. Here we present a summary of the aspects of that analysis that apply when considering policies that affect productivity, and complement it as necessary for the purpose of this study.

¹⁰Articles 212 to 215 of the Constitution. Presidential decrees issued under the umbrella of internal commotion or economic emergency must address the problems that motivated the declaration of the special state. They remain in force once the state of emergency has ceased only if confirmed by Congress during the year after they are issued. Both the declaration of the special state and the decrees issued under it must be approved by the Constitutional Court to be valid.

presidential period, to be enacted as Law.¹¹ If Congress delays approval more than three months, the President is authorized to enact the Plan through a "decree with force of law" (Constitutional article 341). Action plans of all public entities for the presidential period are then developed under the dispositions of the National Development Plan Law. The fact that expenditures not considered in it are not possible during the corresponding presidential period, often results, in fact, in the inclusion of broad dispositions in National Plan Laws, meant for flexibility to accommodate a wide range of unforeseen expenses.

Up to 2004 the President could only be re-elected after spending at least one period out of office. Since that year he may be reelected for consecutive terms, resulting in increased presidential power. On the other hand, the president's power has decreased with respect to the pre-nineties era. The Constitution of 1991 introduced a majority run-off rule and timed congressional elections to take place before the first round presidential election. This has resulted in a greater role of legislators in the election of the President and in a pattern of post-electoral coalitions to pass legislation. Moreover, the 1991 Constitution gave the Constitutional Court effective veto power by strengthening the process of constitutional revision.

Congress

While the national agenda is implicitly delegated to the President and the cabinet members both by a personalistic electoral system and the substantial legislative powers of the Executive, Congress is a key player in the process of implementation of all government policy initiatives for which a presidential decree is not sufficient. It is a two-chamber Congress. The House of Representatives has a minimum of two members per Department (geopolitical division akin to province or state) and the Senate is of National constituency since 1991. Seats in the Senate are, however, still gained mostly by obtaining regionally concentrated votes and senators are in consequence also inclined to advance policies that serve regional interests.

¹¹ The figure of the National Development Plan was created in 1958 (Law 19) and the first National Development Plan Law was enacted in 1961. Since 1991, by constitutional mandate these plans have two components: a general statement about the "long-run national objectives, the medium-run goals and priorities of governmental action, and the strategies and orientation of the economic, social and environmental policies that will be adopted by the government", and a public investment plan containing the budget allocations required by the main programs and investment projects of the national government, as well as the corresponding sources of financing (Article 339).

Chambers are each divided by broad legislation topics into seven permanent committees, by internal elections. A proposed bill is first discussed in the committee most relevant to its main theme, and only after committee discussion goes on to plenary session. Plenary sessions rely heavily on what is approved by the committees. Committee membership determines the relative hierarchy of congressmen; the economic, budgetary and constitutional committees offer legislators an incumbency advantage and their members are natural leaders of Congress. Party membership is necessary to access the committee of first preference, giving a role to party structures in organizing legislative activity. Party affiliation also determines hierarchy and sponsorship of key bills, and has gained further importance after the 2005 introduction of the "Ley de Bancadas" (Parties Law), which requires members of a single party to vote in block.

Political Parties

The Colombian party system has been characterized by high intra-party competition, more so after the introduction of the 1991 Constitution; although in the very last few years reforms have been introduced to strengthen parties and reduce intra-party competition, their effects are still to be fully assessed. Small parties and factional "movements" proliferate, partly due to electoral rules that introduce financial and other incentives to party fragmentation. Fragmentation in turn is reflected in weak political leadership: regional and local political machines do not depend on centralized political parties and parties have no means to control career paths of their local leaders.

Up until 2003, seat quotas in Congress and local legislatures were calculated dividing the number of votes by the number of seats, and seats were allocated first to lists that surpassed the quota. Remaining seats were then allocated to the largest remainders (Hare largest remainders system). This system generates incentives for large parties to fragment into factions; large parties are able to fragment into factions of optimal size that allow them to get multiple seats assigned by remainder (see Cardenas et al, 2006, for an example). The 1991 Constitution introduced further incentives for intra-party fragmentation via state campaign funding given directly to candidates, as opposed to parties, and by limiting the role of parties in the mechanics of elections. The Constitution also aimed at increasing competition across parties by opening spaces for the emergence

of new parties, which needed to fulfill only weak requirements to become legally recognized.¹²

A reform to the electoral rules dictated by the Constitution was approved in 2003 with the purpose of strengthening parties. After the reform, a party must obtain at least 2% of votes in elections to continue being legally recognized, and is required to present a single list for elections, by contrast to the previous possibility of presenting factional lists (Ossa, 2006a). A requirement for parties to vote in block in the legislature was also introduced by the reform, although it became active only after its regulation in 2005 through the "Ley de Bancadas" (parties law). Moreover, the rules for allocating seats in Congress and local legislatures were modified, again to reduce intra-party competition. After the reform, quotients are calculated dividing the votes obtained by a list by a series of whole numbers, with seats allocated to the resulting quotients until all are filled. Under this system parties cannot win more seats by fractioning into several lists. Parties can present either closed or open lists; the ranking of candidates in closed lists is determined by the parties, while the ranking in open lists is determined by preferences revealed by voters, who are asked to check their preferred candidate in the list when they vote for an open list.

The effects of the 2003 reform have not yet been fully understood. However, a few studies suggest it has had effects on intra- and inter-party competition, as well as on the way party members vote in legislatures. First, the number of lists and candidates has decreased in the elections after the reform (Ossa, 2006b). Moreover, Pachon and Shugart (2008) find that the reform resulted in a greater balance in the number of parties across districts; they also find that in districts where intra-party competition increased intra-party fragmentation decreased, and vice versa. In turn, Ossa (2006b) finds that after the reform parties in Bogota's Council show greater within-party cohesion in the presentation and discussion of bills.

¹² The attempt to increase inter-part competition was partly a reaction to the low competition that characterized the party system between 1956 and 1991 as a result of the Frente Nacional agreement, whereby the two main parties agreed to alternate in power and hold balanced representation in bureaucracy.

Courts

The Supreme Court is in charge of constitutional review and dispute settlement between executive and congress. It also reviews decrees issued by the executive during a state of siege or a state of economic emergency.

The Constitutional Court is in charge of review of the most important statutes, treaties and bills and of revision of declarations of any state of emergency by the executive and of decrees issued under such status. Since 1991, this Court is the key veto player in the PMP; after the constitutional revision of new laws has blocked all or part of bills approved by Congress, many policy issues have been elevated to constitutional rank. Constitutional reforms are necessary to change policies in certain areas.

The National Planning Council

There is a National Planning Council composed by representatives of the regions, economic sectors and other groups of society. This Council is the arena in which the preliminary drafts of the National Development Plans are first discussed (Article 340). Its members are selected for 8-year periods by the President in office, from lists presented by regional authorities and legally constituted organizations (producers' associations, and similar groups representative of different sectors of society), and half of them are replaced every four years (Law 152, 1994). The National Council seats representatives of business, labor, the regions, indigenous groups, black people, the young, women, consumers, universities, ecologists, and others. There are also regional Planning Councils that provide a space for direct consultation of the National Development Plans with the regions. These spaces for consultation were added to the planning process by the Constitution of 1991. Once adjusted to incorporate the feedback from this first debate, National Development Plans are brought to Congress.

CONPES and DNP

The National Economic and Social Policy Council (CONPES henceforth, for its acronym in Spanish); and the Administrative Department of National Planning (DNP henceforth, for its acronym in Spanish) were conceived as vehicles for the development of National Development Plans (Law 19 of 1958).

The CONPES is a council that operates under direction of the President, and has the function of "studying and proposing the government's economic policy" and "coordinating all of its aspects, as well as the activities of the entities that materialize it". According to Decree 627 of 1974 and up until 2005, it was composed by the President and four full-time advisors -two of them appointed by the President, and two elected by the Senate and the Chamber of Representatives (one each) from lists presented by the government. Election of CONPES members was supposed to occur every four years with terms set at the beginning so that every two years two members were renewed. Ministers, Central Bankers, President of the Coffee Federation¹³ and any public employee invited by the President could participate in the policy debate within CONPES. Interviews with participants at CONPES meetings, however, suggest that full-time advisors were substituted in practice by Ministers since at least 1990. In 2005, president Uribe issued a decree formally modifying the structure of CONPES; the four full-time advisors were replaced by all Ministers, the President of the Central Bank, the President of the Coffee Federation, and the presidential advisors for black communities and women. The DNP Deputy Director serves as Secretary to the council since its inception.

CONPES organizes the policy debate around written documents prepared under the coordination of the DNP, that contain a motivation, usually in the shape of a problem diagnostic, and a set of proposed policies. These proposals comprise both strategies and concrete actions that some times involve decrees to be enacted, or bills to be presented to Congress that may or may not be approved in the shape originally proposed. Policy

¹³ CONPES is the only instance we know of, where the president of Fedecafe still has a formal role as private sector representative. However, his designation in this role is simply an inheritance from the previous CONPES design, and in practice he is rarely involved in the discussions. As we discuss below, over much of the 20th century, Fedecafe and ANDI were encompassing of private interests, a fact that has changed greatly with the diversification of the country's economic structure.

¹⁶ Our description is based both on government documents and other sources. The former include the National Development Plans and Conpes policy documents. We also make use of existing literature, of a series of interviews we conducted between October 2008 and January 2009, and of a recent survey on policy participation responded by executives at private firms. We interviewed former National Planning Department directors and deputy directors, economic advisors to the government, heads of offices of government relationships at large firms, high-ranking executives of multinationals, and members of the Private Council of Competitiveness. The survey we use is part of a section on productive development policies added to the October 2008 round of Fedesarrollo's Entrepreneurial Opinion Survey (EOS). It was designed by Marcela Meléndez and Guillermo Perry as part of an investigation on the policies available to mitigate restrictions for productive investment, and the ways and channels businessmen use to influence policies. We are extremely grateful to Guillermo Perry for giving us access to the results on policy participation. The EOS surveys a representative sample of business managers and owners from the manufacturing sector. 202 firms responded the full survey and 105 firms responded the questions on policy participation. A detailed description of the design of the survey, and a complete presentation of results, can be found in Meléndez and Perry (2008).

courses of action approved by the President along with their motivation are made available to the public through these CONPES documents. Passing through CONPES gives coherence to government initiatives and policies and is meant to force the government to follow a route, by planning and directing its most important policies. Its influence, however, depends in practice on the relevance the President in turn grants it, and on the political grip of the DNP director.

The DNP is the government authority coordinating and supporting all activities related to the formulation of national policies. It is in charge of compiling and analyzing economic studies relevant for policy design; leading the preparation of National Development Plan drafts; maintaining CONPES informed about the country's economic performance; instructing other national and regional government authorities about the organization of their offices in charge of investment planning; determining the studies required for adequate policy design, and performing these studies when they cannot be done by other public offices or subcontracted to third parties (mixed or private); consulting the opinion of business associations and academia about national economic problems and National Development Plans; and presenting projects of desirable policies to be adopted for debate at CONPES. The DNP Director is appointed by the President and has the stature of a Minister.

While historically DNP has been a realm of the Colombian technocracy, its weight relative to other Ministries in the policy debate is no longer what it once was. As with CONPES, the role this institution plays in practice is largely shaped by the President in office.

2.2. Private actors¹⁶

Individual businesses

Individual firms are at the highest end of disaggregation of private business actors that seek to participate in the PMP. The influence on policy of a specific firm depends, obviously, on its characteristics. Larger firms, those belonging to sectors of strategic importance (e.g. oil, utilities), those within business groups, and large multinationals have a higher chance of intervening in policy-making.

According to responses to Fedesarrollo's October 2008 EOS, 30% of businesses do participate in the design of policies that affect them (Figure 5). Of this fraction, 55% have had direct involvement through a high-ranking official of the firm, while 64% have participated indirectly through a business association (Figure 7; note that the different possible responses are not mutually exclusive). It is worth mentioning that large firms frequently have offices in charge of relationships with government.

Business groups

These are groups of companies held together through common and/or mutual ownership; it is also frequently the case that a single family owns a large fraction of these companies. An interesting feature of these groups is that they hold companies in multiple sectors (though they usually have a flag company dedicated to a specific activity), with the potential implication of disperse policy interests along the sector dimension brought together in the same group. In Colombia, four economic groups have been particularly important for their participation in economic activity: Santodomingo, Ardila-Lülle, Sarmiento-Angulo, and Sindicato Antioqueño. These groups together represented 12.5% of the country's GDP in 1998, and owned close to 25% of the 100 largest Colombian companies (Rettberg, 2001).

Business groups have been a particularly important player in policy-making during the last two decades. The mere fact that these groups represent such large share of output and employment makes them a natural counterpart for the government in the private sector. However, their influence over policies has also other roots. For one, business groups are one of the most important sources of private contributions to political campaigns (De la Calle, 2003).¹⁷ Interestingly, they frequently contribute similar (and high) amounts to different campaigns in the same elections (De la Calle, 2003). They also own media, including the two largest television and radio channels (Rettberg, 2005). Media control allows economic groups to influence public and government opinion (Dye, 2001), and also constitutes an important asset to negotiate with politicians, who are permanently

¹⁷ According to official statistics, private contributions represented 28% of the total funding of political campaigns in 2002 (Torres, 2008). The fraction of this contributions that comes from economic groups has not been measured precisely, but anecdotal evidence clearly suggests that fraction is large. For instance, in the Samper 1994 campaign, grupo Santodomingo was the main donor after (sadly) the Cali drug cartel. Ardila and Sarmiento also provided large funds (Rettberg, 2005).

interested in getting maximum visibility. Finally, since some of the largest companies in specific sectors are part of economic groups, these groups also exert great influence over some sector-specific business associations (Rettberg, 2005).

Business Associations

As mentioned above, most businesses that participate in policy-making do so through business associations. In fact, since non-members cannot be excluded from the benefits of policies business associations lobby for, in a way all firms in sectors represented by business associations participate in the PMP. However, it is also clear that larger firms and those belonging to business groups have greater influence over the views and activities of business associations. This is so because the associations' main source of funding is the contributions of its affiliates, set in proportion to firm employment or output (Losada, 2000). This gives large firms and business groups effective power over many business associations; in some cases, these firms effectively appoint the association's head, or pay some of the high-ranking officials at the association (Rettberg, 2005).¹⁸ Interestingly, even though business groups have direct influence over the PMP, they also frequently participate through business associations. One advantage of this strategy for groups is that other actors and the public at large see business associations as representative of interests that are more general than those of business groups; the views promoted by associations are thus more easily "sold".¹⁹

Business associations have the primary purpose of representing the interests of their affiliates in the policy debate. In a survey responded by heads of business associations, Losada (2000) inquired about the objectives pursued by these associations. "Obtaining favorable regulations" was the objective most frequently mentioned (77% of respondents). Moreover, the same author conducted a survey among members of business associations, who indicated that having a representative of the sector (presumably to interact with state officials) was the main reason why they joined a business association.

¹⁸ Rettberg (2005) cites one interesting example: the nephew of the head of the Ardila group has quasi-permanently held the presidency of *Asocaña*'s, while the group owns two of the largest sugarcane refineries.

¹⁹ Interestingly, sector specific regulations are not generally perceived by Colombian voters as favoring specific interests over the general interest. In many instances, these policies are successfully presented as mechanisms for protecting employment in sectors that represent a large chunk of jobs in the economy.

There are different types of business associations. First, specialized associations represent producers in a narrowly defined sector. Specialized associations are in turn represented by "peak associations"; for instance, the Society of Agriculture (SAC for its acronym in Spanish) brings together more than 20 specialized associations within agriculture. As of 2000, there were five peak associations in Colombia: a "super-peak" association -the Consejo Gremial Nacional²⁰-, and peak associations for agriculture, tourism, cooperatives, and transportation. A particularly interesting and important association that is transversal to several sectors is Analdex, which represents the interests of exporters. It is worth mentioning, however, that more than 70% of specialized associations are not members of peak associations (Losada, 2000).

Though larger and more encompassing business associations are obviously more influential, it is also the case that their domain is limited in terms of the policy issues they address. The reason is a traditional collective action problem: larger associations bring together more diverse interests, sometimes opposed to one another. It is thus difficult to create a unified front regarding policy issues with concentrated benefits and costs. As a consequence, the issues large associations address tend to be transversal in nature. This implies that specialized associations continue to play an important role, even for sectors also represented by peak or other inclusive associations.

Two particularly powerful associations, ANDI and Fedecafe, deserve especial mention. ANDI, literally the National Association of Manufacturers, actually aims to represent the private sector at large (membership nowadays includes firms from the retail, services, and financial sectors). Allegedly founded partly in response to President Lopez' request to have one spokesman for the industry (Urrutia, 2003), it has had a large involvement in policy-making, so much so that it represents Colombian private producers in international organizations such as ILO, and has played an important role in official negotiations of trade agreements between Colombia and other countries. Fedecafe, on the other hand, was created under the auspice of the government and funded through a dedicated export tax, its main funding source even today (Schneider, 2004). Fedecafe was for decades the most important business association and one of the most important

²⁰ Interestingly, the Consejo Gremial Nacional was founded in 1991 as a response to the government's request to have a unique counterpart to consult on trade negotiations (Schneider, 2004).

players of the PMP. Its power came partly from the fact that it represented what during years was the most important productive activity in the country. It administered a stabilization fund for coffee prices, and its chairman participated in several government boards and committees, usually as the representative of private businesses at large. Both ANDI and Fedecafe remain powerful, but the influence they are able to exercise nowadays over the PMP has changed. Fedecafe, in particular, is no longer considered a representative of the private sector at large; it is now perceived as representing the specific interests of coffee, still an important sector but far from the main engine of the economy.²¹ The decreased presence of Fedecafe reflects the decreased importance of coffee in the economy: while by 1965 coffee exports represented close to 80% of total Colombian exports (Arango, 1997), today they represent around 7% (Banco de la República)

Other associations besides Fedecafe and ANDI deserve specific mention. The heads of several business associations are extremely vocal, frequently consulted by media, and in general influential on public opinion. Such is the case, among others, of the president of Analdex, and the presidents of the associations of flower growers, cattle farmers, retail sellers, and the peak association of agriculture. Obviously, both the visibility media give them and the strength with which they voice their views depends on specific circumstances. As an example, Analdex and the flower growers (mostly exporters) were particularly vocal during the peso appreciation episode of 2006 and 2007.

Business associations have been traditionally a key player in the Colombian PMP. Schneider (2004) presents Colombia as the case of most well-organized business participation in the Latin American context. Colombia has had relatively strong associations, compared for instance to Argentina and Brazil, where organized business representation has not flourished. Also, in comparison to other countries with strong business associations, like Chile and Mexico, the main associations in Colombia are found to be much larger in terms of staff (over 3,000 in Fedecafe and 150 in ANDI

²¹ The one important exception is the role the president of Fedecafe plays as representative of the private sector in CONPES. This role is an inheritance of the past: it was assigned to Fedecafe in 1974. While a 2005 decree modified the structure of CONPES, what it did was to make all the “specially invited members”, one of whom was Fedecafe’s president, into permanent members of CONPES.

compared to less than 100 in the large associations of other countries), and to represent more concentrated interests by being sector-specific rather than economy-wide.²²

The State played a key role in the foundation of the main associations in the first half of the 20th century. Governments helped organize business interests as a means of supporting the development of strategic sectors and delegating some policy responsibilities to entities that had greater technical capabilities and were subject to less political pressures (Schneider, 2004). Between 1940 and 1990, business associations were conferred authority to administer import licenses and sector-specific development funds created and financed by the government, and participated in a myriad of consultative bodies created by successive governments. Urrutia (1983), in fact, partially credits the strength of business participation in Colombia for the relatively successful macroeconomic performance of the country.²³

Traditional business associations continue to be key players in the Colombian PMP.²⁴ However, they have lost importance in the aftermath to market-oriented reforms. Several reasons explain this phenomenon. Business associations were particularly important in a context of strong government intervention, where development programs were naturally targeted at specific sectors, and some of the associated policy responsibilities were delegated to sector associations. The reforms dismantled many sector-specific benefits that were administered by specialized associations.

It is also the case that business interests have become increasingly fragmented, as the productive structure of the country has become more diversified. As an example, consider a Herfindal index of exports at the three digit level of sector disaggregation. This number went from 0.48 in 1980, to 0.08 in 2007 (own calculations from data provided by Banco

²² Compared to what it used to be, however, ANDI has changed in this respect. Diversification away from manufacturing has limited its ability to push for some specific policies. We discuss this aspect in greater detail below.

²³ Of course, this points to a certain degree of endogeneity of the support to business associations with respect to the preference for good policies. Elected politicians deliberately created independent private institutions and delegated some policy making functions to them to isolate policy from political and other short-run pressures. This mere fact suggests those elected officials were mainly driven by general interest considerations.

²⁴ A telling episode occurred in the context of a major scandal about the financing of president Ernesto Samper's campaign by the Cali drug cartel. The Consejo Gremial Nacional publicly asked for the president's resignation. This comes in contrast to the passive attitude of the business community during the scandals that affected Brazil's Collor de Mello and Argentina's Menem (Schneider, 2004).

de la República). Probably as a reflection of the greater fragmentation of business interests, the number of business associations in Colombia has grown from just a few in 1950 to more than 220 in 2000 (Urrutia, 1983; Losada, 2000), and their reach extended to many more sectors. The proliferation of business associations has also implied that the presence of the private sector in policy-making has become disperse. Different associations have begun to compete for access to the government, another factor behind the weakening of their power.

Moreover, business groups, not subject to the collective action and free rider problems that prey business associations (Giacalone, 2005), and with greater financial capability to make campaign contributions, have overshadowed increasingly atomized associations. In words of Revéz (1997), "the presidential power is exerted now more around business groups than around business associations". In fact, Losada (2000) finds that heads of business associations perceive "competition from business groups and multinationals" as one of the main threats to their associations. Out of 164 different mentions to threats that affect these organizations, 5% referred to this type of competition, the same fraction represented by "disperse interests of members".²⁵

Private Council for Competitiveness

There is a recent private initiative to organize participation in the PMP, the Private Council for Competitiveness, which must be mentioned in closing. The Council was founded by a group of private businesses with the purpose of promoting competitiveness-enhancing policies, following the model of the US's Council on Competitiveness.

Several characteristics make the Council interesting and likely influential in future policy initiatives on productivity. First, it represents a selected set of large firms, both national and multinational, allegedly interested in pressing for transversal policies and the elimination of distortions from targeted policies, rather than for protectionist policies or other preferential treatments. Its main purpose thus suggests a shift in the lobbying activities of private interests which, as discussed, have in the past not had policies

²⁵ Competition by other associations and disperse interests of member rank fifth among the more than 20 "threats" perceived by heads of business associations. The four factors mentioned by more heads of business associations were bad economic performance of the country as a whole, bad performance of the sector, weak support from the government to the association, and hostile regulation for the sector.

designed to increase aggregate productivity as a priority.²⁶ Second, the Council has gained a privileged position as member of the technical secretariat to the National Competitiveness Commission (see FYI Box 1), together with the National Planning Department. The secretariat is in charge of preparing the policy documents for discussion at the NCC. As one of its members, the Private Council for Competitiveness has a leading voice in the policy debate in that arena. Third, the president and vice president of the Consejo Gremial Nacional -ANDI's and SAC's presidents, respectively- have seats in the Competitiveness Council's board of directors.

The above features make the Private Council for Competitiveness likely to become influential in the PMP. In fact, since its foundation in 2007, it has had a great deal of influence on some policy initiatives specifically targeted to increase competitiveness (with expected consequences on aggregate productivity as well).²⁷ The Private Council for Competitiveness may prove fundamental to guaranteeing the continuity of some of these programs, and other initiatives that have emerged in the context of the National System for Competitiveness (see FYI Box 1).

Labor Unions in the PMP

There are three "peak" labor unions, all of them composed of smaller unions representing group-specific labor interests. Confederación de Trabajadores de Colombia (CTC), founded in 1937, is the oldest labor union in Colombia. It nowadays groups 250,000 workers from ten regional and six national worker "federations" and has offices ("seccionales") in three cities. Workers from agricultural, manufacturing (agro-industry, textiles, metal-mechanics, chemicals, wood) and services sectors (telecommunications, construction, transport) are represented, as well as informal workers and government employees. The largest, however, is Central Unitaria de Trabajadores (CUT), founded in 1986, that groups about 800,000 workers from all economic sectors organized in eleven

²⁶ This does not mean that the lobby for targeted policies has lost steam in the very last years. Only a few firms and associations are active members of the Private Council for Competitiveness, and even those members continue lobbying for interests that are specific to them. However, organized private action to promote policies of general interest is an encouraging sign.

²⁷ For instance, a recent government initiative seeks to support sectors of high productivity growth and strategic interest in developing their international operations. The Private Council was, together with some government agencies, in charge of picking the winners of the competition to choose the sectors to be considered "strategic" under this program.

"federations" and four sector unions. CUT has offices in all Departments of Colombia. Finally, Confederación General del Trabajo (CGT), founded in 1971, groups 300,000 workers. This is the union to which workers in the flowers and sugar sectors are affiliated. Unionized workers amount today to only 5% of the active workforce. At their best, during the 1970s, they reached 13% (Cuesta, 2006).

Universities and think tanks

Some academic and other research institutions have had active participation in economic policy-making in Colombia. Faculty members in economics and law departments at several universities are active players in the economic policy debate. Many of them have graduate training in Economics in universities in the US and Europe. Something similar can be said of researchers at several think tanks, most notably Fedesarrollo.²⁸ Fedesarrollo's directors are among the experts on economic policy most widely consulted by the media. Many researchers affiliated with universities and think tanks have had or eventually get to hold high-ranking positions in government.

3. Arenas and modes of interaction

In this section we describe the manners in which different actors participate in the PMP. While in the main text we refer to the "economic" PMP in general, FYI Box 1 describes aspects specific to the making of policies directed at promoting productivity growth.

3.1. State actors interact

The rules of the game laid out in the Constitution of 1991 and laws that have followed, imply some interesting features of the PMP in terms of the interactions between different state actors. Given the agenda-setting power of the president, policy projects frequently come from the executive. These initiatives then make their way to Congress, where the government needs to build support for the project. Appointments to public positions and budget allocations for targeted projects are used to build coalitions in Congress, and the increasing degree of fragmentation in Congress has made this process more costly after

²⁸ The department of Economics at Universidad de Los Andes, for instance, currently has in its Faculty more than 25 PhDs, all of them trained internationally (most in the US). As for Fedesarrollo, many of its directors and deputy directors, as well as associated researchers, have hold PhD degrees as well. Meisel (1996) argues these two institutions have played a key role in leading the academic debate in economics in the country.

the adoption of the 1991 Constitution (Cardenas et al., 2006). Moreover, the fact that Congress can modify bills presented by the government opens an additional space for coalition-building. For instance, Congress included in the 2002 Labor Reform bill articles that increased the demand for students graduating from the public institution in charge of training blue-collar workers, SENA. SENA has been traditionally used by career politicians to serve their clientele. This modification to the Labor Reform bill contributed to making the bill politically feasible (Echeverry and Santamaría, 2004).

Another interesting feature of the interaction between Congress and government is the fact that the costs and feasibility of coalition-building depend on a combination of the political and the business cycles. Policies that impose more structural changes demand more political muscle, and are then frequently adopted during the initial years of the government (a "honeymoon" effect). For instance, the Labor Reform adopted in 2002 (the first year of president Uribe's first mandate) followed in the footsteps of a bill proposed to Congress in 2001 when the Pastrana government was coming to an end. That first bill was defeated in Congress, but the spirit of the 2002 Reform closely resembled the 2001 proposal. It is also apparently the case that coalition-building is less costly during economic downturns, when the government is known to be short on resources to deliver pork. Moreover, economic downturns are particularly good times to propose policies intended to solve structural problems of the economy. These are times when congressmen need to convince their constituencies that they are seeking solutions to the crisis; this makes them more prone to accepting the advise of government technocrats.²⁹

FYI Box 1: Arenas for the interaction of political actors in the context of productivity policies

In the context of the increasing liberalization of the early nineties, and aware of the need to promote the adjustment of the country's productive structure to compete in international markets, the government included in the National Development Plan for 1994-1998 a chapter entitled "Competitiveness for internationalization". This chapter gave way to a change in the

²⁹ This feature of the Colombian PMP is consistent with part of the theoretical literature on the timing of reforms. In many of these models reforms are undertaken when further delaying them becomes sufficiently costly (e.g. Alesina and Drazen, 1991). Crises are likely to be times of this type.

policy-making of policies explicitly designed to increase productivity and competitiveness by introducing new actors and arenas to this particular policy debate.³⁰ The most notable change was brought about by the creation of a National Council for Competitiveness in 1994 (Decree 2010), a council advisor to the President on all matters related to "quality, productivity and competitiveness improvement for the country and its regions". In its first version, the Council included seven representatives of the entrepreneurial sector, three representatives of the academia, and three representatives of the workforce, all of them appointed by the President. This Council was to operate under the coordination of a "Presidential Advisor for the economy and competitiveness", and to "work with the relevant authorities in each particular matter, promoting the creation of regional Competitiveness Councils as necessary". Under the ruling of this Council, the government entered the negotiation of Competitiveness Agreements with selected sectors, whereby both parties committed to particular actions for competitiveness improvement.

In 1998, to eliminate duplicities across arenas, the functions of the National Council for Competitiveness were assigned to the Trade Mixed Commission, an instance of similar composition and purpose assigned to the Ministry of Trade since 1976. The Trade Mixed Commission was expanded to include two representatives of the academia and two of the workforce, appointed by the President, to match the original structure of the disappearing Council (Decree 2222).

Subsequent National Development Plans continued to underscore productivity and competitiveness enhancement as motors for economic growth. Following the mandate of the 1998-2002 National Development Plan to strengthen and revise the national policy for productivity and competitiveness, in 1999 CONPES approved the proposal of the Ministry of Trade to articulate public and private efforts through actions in three fronts: transversal, sector level and regional. The transversal policies front brought with it another arena for policy debate:

³⁰ "Productivity" and "competitiveness" have been used alongside and often interchangeably in public speech. These semantics are not innocuous to the extent they reflect upon the types of policies that emerge in equilibrium.

³¹ Besides the arenas for participation described above, since 2002 the Uribe government runs Communal Councils, not directed at policies for productivity, but frequently arenas for the discussion of policies with side effects on productivity. These Communal Councils are meetings conceived with the purpose of facilitating interaction between citizens, and regional and national authorities to promote dialogue about problems facing the community and to reach agreements about potential solutions. They take place every Saturday at a different municipality, with the presence of President, Cabinet members, and local and regional authorities. The Presidential Advisor for Regions and Competitiveness is responsible for organizing these meetings and setting their agendas. National Development Plans for presidential periods 2002-2006 and 2006-2010 provide the guidelines for this government program.

the discussion of transversal policies was assigned to specialized thematic networks within the wider Colombia Competes Network, which brought together government authorities, entrepreneurs, workers, academia, legislators and representatives of the judiciary. The sector level front continued to be covered with the figure of Competitiveness Agreements described above. The discussion of regional policies, in turn, was assigned to Regional International Trade Advisory Committees (CARCEs for their acronym in Spanish), new instances to be created, in a spirit similar to that of the regional Competitiveness Councils that they would replace.

This national policy for productivity and competitiveness resulted in increased knowledge about bottlenecks, and was somewhat successful in bringing regional actors closer to the policy-making process. It, however, was unsuccessful in influencing transversal policies, because sector Ministries did not abide by its recommendations and the Ministry of Trade did not have the hierarchical stature to influence the policies implemented by other Ministries. Coordination across the multiple actors and arenas involved in the policy-making process also proved difficult.

In 2004 CONPES created the Domestic Agenda for Productivity and Competitiveness with the objective of defining short-run and medium-run plans, programs and projects to "take advantage of the opportunities and mitigate the risks associated to increased integration under the Free Trade Agreement with the U.S.", under negotiation at the time (CONPES, 2004). This Domestic Agenda, to be coordinated by the DNP, would rely for policy design upon open dialogue with all interested public and private actors, in the three dimensions, transversal, sector level and regional. The overlap with the objectives and activities of the policy for competitiveness and productivity ran by the Ministry of Trade is evident.

The Domestic Agenda was an input for the 2006-2010 National Development Plan, and to that extent proved an effective venue to put forth particular policy requests. Under the new institutional setting of policy-making for productivity and competitiveness (described below) it is no longer a relevant venue.

In 2006, and with the purpose of giving coherence to the institutional setting of policy-making for productivity and competitiveness, CONPES approved the organization of a National System for Competitiveness. The system was to be the set of "guidelines, regulations, resources, programs and public and private institutions that foresee and promote the design and adoption of a policy for productivity and competitiveness" (Decree 2828 of 2006).

The System is supported by the National Competitiveness Commission (CNC for its acronym

in Spanish), a consultative body of the government. The Commission was designed to articulate the participation of public and private actors in the formulation of policy recommendations to CONPES. The CNC acts under direction of the President and is composed by the Ministers, and representatives of the regional governments, private sector, workforce and academia. The Presidential Advisor for Regions and Competitiveness coordinates the Commission (Decree 2828 of 2006), and there is a Technical Secretariat shared by the National Planning Department, the Trade Ministry, and the Private Council for Competitiveness. Regional chapters of the CNC are in process of organization. They will coexist with CARCEs.

The description above should illustrate the variety of instances for participation of private actors in the design of policies aimed at increasing productivity.³¹ It should also show how unstable and difficult to understand the different instances for participation have been. The frequent changes and the lack of a stable and powerful head for productivity policy have implied lack of coordination and several instances of duplication that render these mechanisms largely ineffective.

3.2. Modes of participation of socio-economic actors

An interesting feature of the PMP in Colombia, of great importance for our analysis, is the existence of ample formally established spaces for the participation of private actors in the process. For instance, the Constitution requires National Development Plans to be formally discussed with different groups of society before being approved.³² As described above, the national and regional Planning Councils are bodies created with this purpose, and include private sector representatives. Moreover, in some policy areas there are specific consultative bodies designed to open a window of participation for the private sector and other socioeconomic actors; The National Competitiveness Council is a case at hand (see FYI Box 1). There are also ad-hoc commissions for the discussion of specific policy initiatives. One example is the Discussion Table created in 2000 for the discussion of the labor reform then in progress; business associations, labor unions, universities and political parties were part of that Table. Another example is the Domestic Agenda for

³² Private participation in the discussion of policies is taken seriously. For instance, in 2008 the Constitutional Court decided that a “Forests Law” approved by Congress did not abide by the Constitution. The reason was that the bill was not discussed with indian and black communities, main inhabitants of the forests, before being brought to Congress (Constitutional Court, Press Release 1, January 23rd, 2008). The Constitution states that one goal of the State is facilitating the participation of citizens on decisions that affect them.

Productivity and Competitiveness, an initiative to channel policy requests from sectors and regions in the context of the negotiation of the Trade Agreement with the US.

3.2.1. Business in the PMP

The private sector intervention in policy-making follows a two-track strategy. There is a “formal track”, whereby firms use the formal mechanisms of participation described above (representation in the boards of government agencies and in government-led consultative committees). There are also less formal venues and instruments for participating in the PMP. In fact, as we discuss below, in recent times the latter avenues of participation are perceived as more effective and seem preferred by private producers for discussing policy issues they give most relevance to.

The formal track:

As described above, one characteristic of the Colombian PMP is the existence of ample channels of participation for the private sector. In principle, the existence of these formal vehicles for participation provides direct access to policy-making. The effectiveness of these mechanisms and the actual access of private firms to them is, however, an open question. The evidence at hand actually down-plays the importance of these formal mechanisms, or at least suggests they are not the main avenues private producers use to try to influence policies.

Consider, for instance, Table 1. The table reports the types of events of participation referenced by firms that responded the EOS’ Policy Participation questions (Meléndez and Perry, 2008). The reported figures indicate that less than 40% of the events of participation occur using these formal channels (even recognizing that some of these channels may fall in the “others” category). When firms are divided into size categories, large firms follow roughly the overall pattern mentioned above. Medium-sized firms, meanwhile, report using even less often the formal channels: less than 20% of their events of participation occurred within the context of the formal consultative mechanisms. Small firms are the ones that use most often formal mechanisms: over 70% report having participated through one of the formal mechanisms mentioned in the survey (Competitiveness Agreements negotiations, National Development Plan discussions, Domestic Agenda discussions, and Communal Councils).

There seems to be a whole host of reasons why firms do not use these mechanisms of participation as actively and exclusively as one might expect. First, the types of policies discussed in these arenas are frequently of second order of interest to private sector representatives; specific interest groups give priority to policies whose costs or benefits are concentrated on the corresponding group, especially if those costs or benefits are felt in the short run. The "formal track", with few exceptions, provides a space for consultation of government initiatives that many times have origin in recommendations by government's technocrats. It is frequently the case that the policy priorities of governments and their technocrats do not correspond to the --short run and narrow-- policy priorities of private producers. In a related manner, the policies discussed in these arenas are frequently transversal in nature, and consequently tend to have benefits and costs that are not sufficiently concentrated to make them of central interest to specific private actors. Given the above, when firms make use of the formal mechanisms of participation in the PMP it is following the government's lead, and for policy problems they find less pressing than others.³³

Second, the interviews we conducted reveal a perception of little effectiveness of the mechanisms that allow private producers to participate in the PMP. In the case of policies directed at improving productivity, this perception may derive from the somewhat chaotic evolution of the system for competitiveness (see FYI Box 1). Little effectiveness is also probably a natural consequence of the fact that many of these mechanisms open spaces for the private sector to present their positions, but are tied to no clear mandate to incorporate them into policies.

The EOS also asked the opinion of firms about formal mechanisms of participation. Only 15% of respondents find them adequate. The rest of respondents characterized those mechanisms as either restricted or ineffective due to a lack of mechanisms to implement the policies derived from consultations (Figure 8). Interestingly, affiliation to powerful business associations is seen as important for having access to participation mechanisms by around 60% of respondents (notes to Figure 8).

³³ An exception is the Domestic Agenda, designed precisely to identify the policy priorities of different productive sectors. Also, debate in the National Competitiveness Council is apparently following another logic so far, but that seems associated more to momentum than to structural conditions. This arena is still too recently created to judge its efficacy.

It is also worth mentioning that the formal mechanisms of participation are often an arena for consensus building around government initiatives. Officials are aware of the fact that these initiatives, many of which have origin in technical advice, need to be "sold" to socioeconomic actors before their passage through Congress. Without the support of these groups it is unlikely they will make a successful pass through Congress. For instance, the debate initiated in the Discussion Table for the Labor Reform of 2000 was instrumental for the final adoption of the reform in 2002 (Echeverry and Santamaría, 2004). The Discussion Table brought labor reform, which was not a policy priority of either political parties or socioeconomic actors, to the forefront of the policy debate. It also gave technocrats the opportunity of explaining the arguments that supported the reform. Making gains from the reform explicit in the public debate empowered winners and gave them incentives to defend the initiative. Finally, the Discussion Table was also a space to struck deals that made the reform politically feasible (such as the creation of an unemployment subsidy as part of the bill).

The informal track

As described above, although formal mechanisms of participation are important spaces for the private sector to influence policy, they are by no means perceived as sufficient by private producers and their representatives. In particular, policy issues that are specific to the interests of a sector or group are generally not discussed in these formal venues. The very fact that these formal mechanisms seek to bring together diverse perspectives within the private sectors, sometimes including opposing points of view, makes these inappropriate spaces for the discussion of initiatives with highly concentrated benefits and/or costs. Also, as discussed above, some businessmen perceive the formal mechanisms as ineffective in the sense of debates not being translated into actual policies.

Given the above, the private sector also uses informal channels to influence the PMP at different stages. These informal mechanisms most frequently take the form of trying to establish direct contact with either government officials or congressmen. For instance, Losada (2000) presents evidence that these direct contacts are the instrument that business associations use most frequently to influence policy. In a survey responded by heads of business associations, he finds that almost all of them (93%) establish direct

contact with congressmen and government officials to present the sector's point of view. Interestingly, this is despite the fact that 91% of those associations report being able to participate in formal consultative bodies created by the government.

The form taken by these direct contacts depends on various factors: 1) whether the intention is to have a private initiative included in the policy agenda, or rather block, support, or modify an initiative already under course; 2) the access that the particular private group has to different levels of government and congress; 3) the personality and government style of the president in office.

Bringing own policy initiatives to the forefront of the policy agenda is one of the main objectives of lobbying activities by private actors. Note for instance, that according to the EOS more than half of the events of participation in policy-making by private businessmen correspond to initiatives of business associations, only one form of private policy initiatives (Table 1). Given the fact that most policies in the economic sphere must be either proposed or endorsed by the executive, establishing direct contact with the executive is the preferred avenue for private groups to present their own policy initiatives. For instance, the EOS asks firm managers to identify their counterparts in events of participation in policy-making. Figure 6 shows that 83% of the firms that reported having participated in policy-making since 2002 mentioned government officials as their counterparts; 65% interacted directly with cabinet members, around 33% interacted directly with the president.

The specific manner in which a private sector representative interacts with the executive depends, of course, on whether he has direct access to high-ranking officials, including the president. For instance, each president has an inner circle of private businessmen who are close to him; members of this group tend to share geographical origin with the president, or come from sectors or business groups to which the president has personal ties. The views of these businessmen are highly valued by the president; they are also likely candidates to be Ministers or presidents of Ecopetrol (the main oil company, largely owned by the government). Modes of interaction with the executive also depend on the way in which the government of the moment conducts business. To give a flavor of the differences between governments, consider presidents Pastrana

(1998-2002) and Uribe (2002-present). While during the Pastrana administration cabinet members had large room to propose and take forward their own initiatives, President Uribe tends to handle a large number of issues directly. Therefore, during the former administration there was a rationale for the private sector to try to channel its initiatives through high ranking officials in the Ministries. Meanwhile, president Uribe has appointed a High Economic Advisor whose office directly handles and takes to the president concerns put forward by private sector representatives.³⁴

Besides including their own initiatives in the government's policy agenda, private interests also intervene in policy-making to support, block or modify initiatives already being discussed by Congress. Thus, direct contacts with congressmen are also a frequent strategy of private sector representatives. Close to 30% of the firms that reported having participated in policy-making in the EOS indicated congressmen were among their counterparts in the events of participation (Figure 6).

A variety of instruments are used by private sector representatives to influence government officials and congressmen. In a survey responded by heads of business associations, Losada (2000) attempts to identify lobbying activities frequently conducted by these associations. A large number of respondents mention intervening directly in the drafting of a law bill or decree, and presenting the group or sector's position on a given issue to congressmen and government officials (either by handing *position papers* to them, or via direct conversations and presentations), as two of the most important activities. In contrast to economic groups, campaign contributions are only marginally important as a lobbying instrument for business associations. Less than 10% of the business associations surveyed by Losada indicate they have contributed to political campaigns.

It is interesting to compare the perceived effectiveness of different informal channels of access to policy-making. Table 2 summarizes responses to a question about the outcomes of participation events in the EOS. Private sector representatives who have had

³⁴ The fact that the effective channel to policy-making during the current administration is the president himself is perfectly clear to the business community. A direct line to the High Economic Advisor is a highly valued political asset. Also, the president is now a key participant of the regular meetings of business associations, which have become venues for the private sector to present its demands.

the president among their counterparts seem quite successful in shaping policies: none of these respondents characterized their participation as unsuccessful, and close to 40% of them indicated that a policy similar to the one they requested was adopted "in most cases". Next in line are those who have interacted with cabinet members: 17% report their requests were unsuccessful, while 20% report a policy similar to the one they requested was adopted in most cases. Of those interacting with congressmen 25% characterize their participation as unsuccessful and roughly other 25% report a policy similar to the one requested was adopted in most participation episodes. The least successful seem to be those that interact with lower ranking government officials: 46% say they were unsuccessful and 23% said they obtained a policy similar to that requested in most cases.

3.2.2. Other private actors

Labor unions and other social groups

As is the case with business representatives, labor unions and representatives of social groups also hold seats in many policy consultative bodies and commissions. Labor unions, for instance, participate in the committee in charge of negotiating minimum wage increases. They also participate, together with representatives of women, black and indigenous people, and other social groups, in the National Planning Council.

Similar to business, labor unions and other social groups also intervene in the PMP through informal channels. Informal participation in their case takes the form of trying to exert pressure through strikes and street protests. This form of participation was legitimated by the Constitution of 1991 that through its statement of fundamental rights gave workers the right to participate as a political force. The influence workers have achieved through this type of pressure is, however, limited by the abstract and general nature of the views they express. Besides quite general labor demands, unions frequently call for the protection of human rights, public education, state ownership of productive firms, etc. The emergence of ethnic pressure groups that have overlapping interests with labor unions, has contributed to broaden the range of issues in which unions are interested.

Technocracy

One peculiar aspect of economic policy-making in Colombia has been the high influence of well-trained economists on policy making. There have been various avenues for the transmission of their expertise. First, economists at universities and think tanks participate actively in the policy debate. Their views are frequently reported by the media, and many of them write regular columns for the most widely read newspapers and magazines. Many of those views end up shaping policy proposals, for instance because of their impact on politicians' views as a result of media coverage and the subsequent public pressure.

It is also the case that high ranking positions in government have frequently been held by technocrats. Meisel (1996), for instance, documents that 50 of the 55 people in top economic policy positions between 1974 and 1996 pursued graduate studies abroad; 13 of them held PhD degrees in Economics from universities in the US or northern Europe.³⁵ Moreover, economists trained both abroad and in the best economics departments in the country also frequently go to work for the government. The flow of highly trained economists between academia and government works both ways. The heads of Fedesarrollo and the Department of Economics at Universidad de Los Andes, for instance, frequently have had previous experience as ministers or deputy ministers. Interestingly, the revolving door also has stops at business associations, frequently headed by highly recognized technocrats who have held or eventually get to hold government positions.³⁶

The active participation of business representatives and technocrats in the making of economic policies in Colombia has been partly credited for the relatively successful and stable economic performance of the country over the twentieth century. The influence of these groups placed economic stability as a policy priority (Urrutia, 1983). Moreover, it helped in isolating the economic policy-making process from partisan politics (Schneider,

³⁵ Meisel (1996) includes in this list of top positions the minister of Finance, the president of the Central Bank, the director of the National Planning Department, the advisors to the Monetary Board (up to 1991), and the members of the Board of Directors of the Central Bank (since 1991).

³⁶ As an example, the current president of the association of insurance companies is a US trained economist who previously was Minister of Finance and director of Fedesarrollo. Similarly the current president of the association of pension funds was previously dean of the department of Economics at Los Andes, and director of the National Planning Department.

2004). Scholars have also argued that high-level technical advice and the strong technical and/or entrepreneurial background of policy-makers improved the quality of policies (Meisel, 1996).

It is important to mention that worrisome signs of a deterioration of the quality of the bureaucracy have started to emerge in the last few years. On one hand, president Uribe has shown signs of disregard for technical advice.³⁷ As an example, the responsibility of design and implementation of key policy programs (and associated budget) historically under the scope of action of DNP and other Ministries has been reassigned to special presidential agencies³⁸. Besides making much of the work by the government technical agencies futile, this has also reflected in the fact that people appointed to key positions in the government economic team show less technical strength than their predecessors. The low valuation of technical advice has also resulted in reluctance on the part of many highly trained economists to work for government agencies.

4. Quantifying group influence as a function of political characteristics

The above description of formal and informal elements of the PMP makes clear that different private interests (firms, sectors, regions, business groups, etc.) participate in that process at different stages and through different mechanisms. Their ways of participating make them more or less influential in the actual policies adopted, and the resulting imbalance implies that policies are generally not transversal to these groups. Here, we focus on that characteristic of the political equilibrium --the fact that different groups have different degrees of influence over the PMP-- and try to measure their political strength, defined as their ability to affect policies for reasons related to their participation

³⁷ We attempt to make a general characterization of the PMP, beyond the specificities characterizing the government of a specific president. However, it is impossible to not focus at times in the current administration. Of the less than 20 years after the reforms, seven have been under the Uribe administration, while before his administration the Constitution banned presidents for remaining in power for more than four years at a time. Moreover, a new Constitutional Reform to allow president Uribe to remain in power for an additional four-year period is under discussion.

³⁸ An outstanding example is the Presidential Agency for Social Action and International Cooperation (“Acción Social”), created by Decree 2467 of 2005, to “channel and execute all social programs that depend from the Presidency”, that is in fact responsible of crucial poverty alleviation policies and programs as well as of all policies and programs aimed at vulnerable population affected by drug dealing and violence. A complete list of the programs currently under direct control of the presidency can be found at <http://web.presidencia.gov.co/programa/>.

in the PMP (as opposed to what could be characterized as “legitimate economic reasons”, at least following the logic of public debate). Then, we examine the effect of the “distribution of political strengths” on aggregate productivity.

4.1. Measuring political strength

4.1.1. Model and data

We focus on groups defined as sector-region combinations. We define a sector at the three-digit level of sector disaggregation, and only for sectors in manufacturing, due to data availability. Our regional unit is the *departamento*. Following our description of the PMP, there are several reasons why the region and sector dimensions are relevant as a focus for policy targeting. First, a variety of policies are inherently directed at specific sectors, even products; this is the case, for instance, of tariffs to imports and tax exemptions. Second, business associations, many of them sector-specific, are important representatives of business interests in the PMP. On the regional dimension, congressmen are elected on votes concentrated in specific regions (even senators, who in principle are elected nationally), so that the regional dimension captures the constituencies of the different congressmen. Moreover, some of the targeted policies adopted in Colombia over the last few years have been directed at overcoming the obstacles violence has imposed to development; many such instruments are targeted at specific regions, given the regional concentration of violence.

Our aim in this section is to measure the political ability of a (sector-region) group to influence relevant policies. For this purpose, we run a "policy index" of group-specific policies against indicators of group participation in the political process and alleged economic determinants of group-specific policies; the part that is explained by participation in the PMP is what we will call political strength. The strategy is summarized in equation (1) below:

$$\tau_{s,r,t} = \alpha + \beta' * PMP_{s,r,t} + \gamma' * Ec_{s,r,t} + \varepsilon_{s,r,t} \quad (1)$$

where $\tau_{s,r,t}$ is the policy index for firms in sector s and region r during year t , $PMP_{s,r,t}$ is a vector of variables that measure the group's involvement in the policy-making process, and $Ec_{s,r,t}$ is a vector of economic characteristics that are usually seen as the legitimate determinants of whether a sector in a given region is favored by government protection.

All of these variables are explained in greater detail below. Our estimation covers the 1998-2006 period.

Our policy index summarizes policies in four dimensions: trade policy, tax regime, export incentives, and policies derived from the Domestic Agenda. Our trade policy measure is the average nominal tariff for goods that the group produces calculated from the record kept by the National Planning Department. Our tax-regime measure is the income tax exemption rate that results from subtracting the income tax rate effectively paid by each sector, from the nominal corporate income tax rate in force at each point in time.³⁹ Our measure of export incentives is the ratio of the CERTs' value to group output reported by each group in the EAM (the Annual Manufacturing Survey);⁴⁰ we calculate this value for the group adding firm-level CERT values and output values for the firms in a group. Finally, our measure of policies derived from the Domestic Agenda is a variable that takes the value of 1 when there is record of a sector participating in the discussion tables in a specific region and requesting policies that were later incorporated in the National Development Plan for the 2006-2010 presidential period, and zero otherwise. This variable is made always equal to zero before 2004, when the Domestic Agenda discussion tables took place.⁴¹ We average these four measures to obtain an index that varies between 0 and 1 and is increasing in benefits received by the group. Note that our measures of tax and trade regulations vary by sector and year, while our measure of export incentives varies by sector, region, and year, and participation in the Domestic Agenda varies across sectors and regions (and over time only because before 2004 it takes the value of zero for all groups). Table 3 contains summary statistics of these policy variables across groups.

Following our discussion of the policy-making process, the variables that we include in $PMP_{s,r,t}$ are:

³⁹ The income tax rate effectively paid was computed as the product of the nominal tax rate and the ratio between the effective tax payment and the tax payment that would have resulted in absence of exemptions. These variables were calculated from data made available by the Ministry of Finance (DIAN) disaggregated by ISIC 3-digit sector and year.

⁴⁰ CERTs are tax reimbursement instruments available to exporters and granted at differential rates over exports across goods. We use the value of these reimbursements reported by firms in the EAM.

⁴¹ Data to create this variable comes from the Domestic Agenda dataset provided by the National Planning Department. The dataset lists all the petitions by sector and region representatives, and the policy consequences they have had.

- Dummy variable indicating whether there is a specialized business association representing the sector (taken from Losada, 2000; the information is dated as of the end of the nineties).
- Dummy variable indicating whether one of the four main business groups owns firms in the sector (taken from Gutierrez et al, 2005; the authors list companies in different groups based on information for different years, all close to 2000).
- A measure suggested by Quintero (2006) that summarizes the sector's weight in regional employment and the region's importance in providing votes for senators. More specifically, the author suggests:

$$vote_weight_{s,r,t} = S_{s,r,t} I_{r,t}$$

$S_{s,r,t}$ is sector s ' share of region r 's employment in year t . $I_{r,t}$ is the average share represented by region r in the votes obtained by the senators elected in the last election (votes in region r for senator e /total votes for senator e averaged over the candidates that made it into the Senate). We construct $S_{s,r,t}$ from the EAM and $I_{r,t}$ from the 1998 and 2002 Senate election data. This variable is intended to capture the relative importance of different groups in generating votes.

For $Ec_{s,r,t}$ we follow the rhetoric of industrial policies. One frequent argument is that particularly productive sectors, and those that show rapid productivity growth, must be protected to boost long run aggregate growth. As discussed in the introduction, theory does not support in general the argument that benefiting more productive sectors or firms increases aggregate productivity, but different models at least consistently show that favoring less productive units is damaging to aggregate productivity. It is also argued that groups that employ large numbers of workers must be favored as a means of protecting employment.

We thus include in $Ec_{s,r,t}$ measures of total factor productivity (TFP) and average growth of total factor productivity, and in some regressions total employment, for sector s in region r in year t . We obtain these measures from plant-level data from the Annual

Manufacturing Survey for each year in 1995-2006. The Survey has sector and region (departament) identifiers for each plant, which we use to aggregate at the group level. Our average sector-region TFP measures are calculated from micro data, where plant-level TFP is a residual from a standard production function, where we use Eslava et al's (2006) estimates of factor elasticities; those estimates are obtained using instrumental variables methods and the EAM data for 1982-1998. In alternative model specifications we also include in $Ec_{s,r,t}$ a measure of average plant size in terms of output for each sector s and region r at time t (constructed from the EAM), intended to capture whether larger firms have privileged access to policy-making after controlling for other determinants of political power.

Finally, we estimate a second set of equations intended to capture the role of the civil conflict in granting political power to particular groups. In these regressions we include as an additional regressor a measure of regional violence from the conflict --number of armed-contact events recorded by DAS, and obtained from Observatorio de Derechos Humanos y Violencia (Office of the Vice President of Colombia)--. We also interact this measure with the business associations and business groups' dummies.

After estimating equation 1, political strength for each sector-region group can be estimated by projecting:

$$\hat{\tau}_{s,r,t} = \alpha + \hat{\beta}' * PMP_{s,r,t} \quad (2)$$

4.1.2. Estimation strategy and results

All models include year dummies as controls for omitted variables. To mitigate biases in estimation, variables with potential endogeneity problems enter the equations lagged. Model specifications vary slightly including and excluding the average firm size. Table 4 presents estimation results for the simpler set of regressions, where we do not include the potential effect of the armed conflict. Table 5 presents the estimation results for the second set of regressions, including our measure of regional violence and its interactions with the business association and business groups' dummies.

Our main focus on these regressions is the role of the “political” determinants of group success: our *vote_weight* measure and the dummies for business association and business group. The coefficient on the vote-weight measure is always significant and has the expected positive sign indicating that sector-region groups that are important in providing votes are able to influence policy making tilting policies in their direction. The estimated coefficient implies that a one standard deviation change in the vote-weight measure affects the policy index in 0.02, and important effect considering that the mean of the policy index is 0.06. Results also show that sectors represented by a business association or a business group, or both -since all sectors in which the presence of a business group was identified are also sectors for which there exists a business association- are able to influence policy-making. Being represented by a business association or business group increases the policy index of a group in 0.02 or 0.01, respectively, again a sizable effect given the range for the policy index. These findings are consistent with the description of the policy-making process above.

In the regressions accounting for the effect of violence, the results just described vary only slightly: a group’s vote-weight continues to be important, and the effect of business associations and business groups is significant for the sector with average violence. Most interesting, interactions of regional violence with the business association and business group dummies also show positive significant coefficients, indicating that the location of a sector member of either of these groups (or both) in a region affected by the armed conflict increases its political grip. Finally, violence on its own displays a negative significant coefficient in all regressions. Sectors located in regions affected by the conflict that are not represented by business associations or backed by business groups, are unable to tilt policy benefits in their direction.

In terms of “economic” determinants, our findings suggest that high or increasing productivity are not main drivers of policy in Colombia. If anything, policies tend to favor sectors lagging in terms of TFP and TFP growth. The coefficients on TFP and TFP growth measures are always negative, but significant only in the model specifications that do not control for the sector’s average plant-size, with which these variables have a strong correlation. Sector employment displays a positive and significant coefficient only when we control for the sector’s average plant-size, where the latter is found to affect

negatively and significantly policy benefits. These two findings together suggest that smaller plants are targeted, but once this effect is controlled for policy favors groups that generate more jobs. Note that the latter effect is found even though we are already controlling for the vote-weight of a group given by its participation in votes and employment.⁴³ Thus, the direct effect of employment we find seems to suggest a genuine concern to protect employment, beyond the electoral gains that this protection may generate.

Finally, to illustrate our results, Table 6 presents rankings of the 40 sector-region groups most favored by policy, according to our Policy Index, and with more political strength, according to the strength measure estimated as in equation (2).⁴⁴ Our ranking is based on averages over the 1998 - 2006 period, and is restricted to sectors within manufacturing, since we only have data for this sector. Coincidences between the two rankings are striking: thirty-seven out of forty sector-region groups in Table 6 rank among the first forty by both measures. These are the winners of the Colombian PMP.

It is also interesting to note in these rankings that of the 23 3-digit sectors present in our data, only five (seven) show up in the first (second) ranking, even though our measures permit in principle targeting different sectors in different regions differently. Of these targeted sectors, food products, textiles, and apparel appear in both rankings. However, in terms of the political strength that explains the targeting, textiles and apparel producers in Antioquia lead the sector; the strength of the food products sector, meanwhile, seems to come from its organization as a sector (or collection of sub-sectors) across the Colombian territory, rather than the power of producers only in a specific region. Note that of the top 15 groups classified according to political strength, only four do not belong to the food products sector, and two out of these four correspond to textiles and apparel in Antioquia. Given the construction of our political strength measure, this

⁴³ In turn, including total employment represented by the sector safeguards us against potential biases in our vote-weight measure, arising from its correlation with a sector's employment.

⁴⁴ Five manufacturing sectors are missing from our data, due to problems in the tax database that impeded the calculation of their Policy Indices: Beverages, Rubber products, Glass and products, Machinery (electric), and Professional and scientific equipment. We calculated policy indices for 402 region-sector groups, but estimated political strength measures for only 371 because of missing data.

⁴⁶ Schneider (2004) argues that of five countries he analyzed (Argentina, Brazil, Chile, Colombia, and Mexico), Colombia had the weakest labor movement.

reflects the high employment share the sector represents in a state that is important for electoral purposes.

4.2. Effect on aggregate productivity

In this section we present some suggestive evidence supporting the argument that targeted policies are detrimental to aggregate productivity. We use our estimated political strength measures and measures of aggregate productivity for ISIC 2-digit manufacturing sectors to examine how the relative ability of groups (ISIC 3-digit sector, region) to tilt policy in their favor affects productivity at a more aggregate level. One word of caution is in place: given our limited estimation horizon and the small number of 2-digit sectors, our estimations have a small number of observations. We thus consider the evidence we present here as simply suggestive of a phenomenon worth of further investigation.

To calculate aggregate TFP from micro data we follow practices that are standard in the literature (Olley and Pakes, 1996; Bartelsman and Doms, 2000; Foster et al. 2008; Baily et al. 1992). Accordingly, we calculate aggregate TFP measures at the ISIC 2-digit sector level as weighted averages of plant-level TFP, where the weights are the plants' shares of output in the corresponding 2-digit sector. Plant-level TFP, in turn, is calculated as explained in section 4.1.2.

Our empirical model includes three explanatory variables: the ISIC 2-digit sector standard deviation of groups' political strength measure (equation 2); the average ISIC 2-digit sector political strength measure; and the ISIC 2-digit sector correlation between our political strength measure and the TFP of the average plant in the group. Using these three measures, we intend to capture the extent of targeting, and the degree to which targeting is or not directed at the most productive units. Following Restuccia and Rogerson (2008), for a given distribution of plant-level TFP idiosyncratic policies harm aggregate productivity, with the negative effect being stronger if less productive units are the most benefited by policies. Both the standard deviation and the mean of political strength capture the extent of targeting (as opposed to horizontal policies) since deviations from the average political strength result, as we know from the previous section, in deviations from the average policy benefits obtained. These two variables are thus expected to display a negative sign in our results. The correlation between TFP and

political strength is higher the better targeting is, in the sense of focusing on more productive businesses; we thus expect this variable to be positively correlated with aggregate TFP.

Table 7 presents summary statistics for these variables. It is worth noting that TFP and targeted policies are virtually uncorrelated. The fact that targeted policies are not aimed at favoring the most productive businesses suggests disregard for the aggregate productivity consequences of targeted policies.

Table 8 presents our econometric results. The regression estimated includes ISIC 2-digit sector and year dummies, to control for sector-specific characteristics that may affect aggregate TFP performance, and for the macroeconomic cycle. The coefficient on the standard deviation of the political strength is significant and has the expected negative sign, confirming that deviations from a leveled playing field have indeed been costly to aggregate productivity in Colombia. The estimated coefficient implies that a one standard deviation change in the political strength dispersion measure affects the ISIC 2-digit aggregate TFP measure in -0.63. We consider this effect large, given the 2.11 mean of the aggregate TFP measure. The coefficient on the political strength average variable is not significantly different from zero; this probably reflects that the extent of targeting is best captured by the dispersion of targeted policies, as opposed to their level --if all sectors were equally targeted, even through a different combination of specific policies, the policy stance could be considered horizontal--. Finally, the coefficient on the correlation of political strength and average plant TFP is positive and significant as expected. The estimated coefficient implies that a one standard deviation change in this correlation positively affects the ISIC 2-digit aggregate TFP measure in 0.2.

While only suggestive, our results in this section lend support to our hypothesis that the less than spectacular aggregate productivity performance after the market reforms of the nineties is partly due to the persistence of targeted policy benefits granted without a clear microeconomic rationale, and rather associated to the political grip of particular groups.

5. Synthesis and discussion

The business sector has been and continues to be a key player in Colombian policy-making. Business associations have representatives on the boards of several public institutions, and on government committees created to open spaces of consultation with the private sector. This feature generates established spaces for participation of the private sector in policy-making on multiple policy areas. Private interests also influence policy-making via direct informal contacts with government officials and congressmen. Various reasons explain the existence of ample and effective informal channels of communication. High-ranking public officials, including ministers and even the president, frequently have a history as prominent businessmen. This implies direct representation of business views as well as fluent communication between business and government, and even exchange of favors with businessmen. Moreover, the private sector, and in particular large business groups and conglomerates, are key contributors of funding for political campaigns.

Other private actors are also important players in economic policy-making in Colombia. First, universities and think tanks generate and disseminate technical expertise that forms the basis of many policy proposals initiated by the government. There is a revolving door between public office and academics (including think tanks) that increases the quality of technical advice within the ranks of government. Labor unions are also relevant actors. These groups have representatives in some of the same government committees in which business representatives participate, and thus have access to the same means of formal participation. However, they are less successful than the business community in influencing policy through informal channels. Labor unions try to intervene in policy-making through strikes and street protests, but they tend to organize these protests around disperse goals, which reduces their effectiveness. Indigenous groups and other social crowds follow a similar model for voicing their views. In general, labor unions and other social organizations are less influential on policy than business representatives.⁴⁶

In the aftermath of the market reforms of the 1990s, the specific mechanisms used by the private sector to influence policy-making depend on the types of policies under discussion. The types of policies generally discussed at government committees in which

private sector representatives participate are most frequently "horizontal" (economy-wide) policies, characterized by disperse benefits and costs. Many of these also take the shape of public goods. Examples of these policies are labor regulations, development of transport infrastructure, red-tape reduction, and quality certification and control. Some of them can be implemented directly by the Executive, but more often they require passing through Congress to materialize, which adds one layer of complexity to their adoption. Active consultations with a wide array of private sector representatives, from both the workers' and the businesses' sides, representing very different interests, contribute to reducing capture by specific private interests. However, they also make policy-making in these areas slow, since consensus building is difficult and frequently unsuccessful. That is, if agreement is reached in these consultations, policy proposals enjoy wide private support and are frequently inclusive of diverse interests as a result of exchanges in the consultation process. But, the inclusion of diverse interests in the discussion makes agreement unlikely.⁴⁷

The pace of adoption of productivity-enhancing policies is also negatively affected by lack of coordination and lack of clear leadership among the different government entities whose realm includes the design of policies directed to increase productivity. The creation in 2006 of the National System for Competitiveness is partly directed at solving this problem. Though promising, however, this reform is not yet consolidated.⁴⁸

The other important dimension of economic policy-making is that of vertical policies, defined as policies whose benefits are concentrated in specific sectors or other groups. By their very nature these policies distort the allocation of resources in the economy, frequently implying negative effects on aggregate productivity. Targeted policies tend to reflect the political influence of specific groups, as suggested both by qualitative

⁴⁷ Another factor that makes reaching agreements difficult in these discussions is the fact that budget inflexibilities create greater difficulties for political exchanges. Echeverry et al (2008), for instance, show how the central government has little budgetary space.

⁴⁸ There are already examples that suggest the reform has made the formally established arenas for private participation more effective. For instance, there have been recent government initiatives to provide horizontal or sector-specific public goods in response to private demands made in the context of the Domestic Agenda, a formal consultation mechanism, or of Business Plans, a recently introduced policy instrument by which selected sectors are being called to put forth their policy requests and to develop medium to long run business strategies with the aid of the government authorities. This policy track is nonetheless still very marginal in terms of both reach and budget allowance.

evidence and by some quantitative exercises discussed above. In particular, sectors and regions represented by business associations and/or business groups, and those that have a higher electoral weight for senate elections are favored with targeted benefits. Among these benefits there are tax exemptions and benefits, and protection from international competition in the form of product-specific tariffs to imports. Interestingly, the influence of business groups and business associations on policy benefits to a given sector in a given region is stronger for sectors located in regions more subject to violence, reflecting attempts to create economic conditions under which violence can be more effectively dealt with. As a whole, the fact that different groups have different power to affect policies is reflected in the adoption of targeted policies that, according to our empirical findings, are detrimental to aggregate productivity.

Since the adoption of targeted policies in Colombia is frequently the result of direct lobbying activities and other forms of political influence of private agents, these policies tend to follow a faster track than the productivity-enhancing policies discussed above.⁴⁹ Given the relatively high costs of this form of participation (compared to interaction in established consultative bodies), this mechanism is generally used to influence policies with more concentrated benefits and/or costs ("vertical" or "micro" policies), such as sector-specific tariffs, import quotas, tax exemptions, and sector-specific subsidies. Many of these policies take the form of exceptions to general regulations, implying that policy in areas originally dominated by horizontal regulation ends up frequently captured by specific interests.

We argue that the imbalance between productivity-enhancing but hard-to-pass horizontal policies and productivity-decreasing easier-to-adopt vertical policies may be part of the explanation for the questionable success of the economy-wide reforms of the last two decades in terms of increasing aggregate productivity. One may question this

⁴⁹ The greater difficulties inherent to the adoption of productivity-enhancing policies are also reflected in the relatively minor budgets allocated to horizontal programs directly designed to increase aggregate productivity, compared to some sector-specific policies. For example, in 2006 the budget of Colciencias, the public institution in charge of fostering technological innovation, was less than 1/3 of the amount allocated through tax incentives to three manufacturing sectors. Colciencias' budget for that year was of 81,000 million pesos, while the tax benefits accruing to ISIC sectors 31, 32 and 35 amounted to 284,670 million pesos.

argument on the basis of comparison with the pre-nineties era, when sector-specific policies were if anything more prevalent, concentrated private business interests had higher formal influence on policy, and productivity-enhancing market reforms were still not in place. There are several reasons, however, why policies that respond to specific interests may be more damaging in the recent era.

In our view the relative importance and effectiveness of formal channels of participation vis-a-vis less transparent informal mechanisms have changed over time. Before the market reforms of the 1990s, seats held by business representatives in boards and committees of public institutions (Incomex, Sena, Banco de la República, Conpes, ad-hoc committees to study specific government initiatives, among other) guaranteed that the voices of the private sector were taken into account in the decision-making process. Though representatives from only a few business associations participated (generally ANDI and Fedecafe), the private sector was much less diversified at the time, so representation through the main associations was sufficient to put forth most relevant private sector interests.

Market liberalization in the 1990s brought about not only a deliberate effort from the government technocracy to transit towards a more leveled playing field in all policy areas, but also the replacement of arenas for sector-specific policy-making by others that intended to be encompassing of both a wider range of interests and a wider range of policy areas. This transition was consistent with the move to a development model in which exposure to competition, as opposed to protectionism, was to be the motor for growth. The new model for private participation in policy-making is also consistent with a more diversified private sector in which interests are more disperse and specific to particular sectors, and hardly voiced by business associations at a high aggregation level. Despite its potential virtues, however, in practice this new model for the participation of private actors has been largely ineffective to translate policy requests by the private actors into actual policies. The main reason is in the difficulties inherent to solving the more intense coordination problems that arise in the context of more fragmented private interests. In this framework, the established spaces for participation play a more relevant role as arenas for validation of policy initiatives from the government. The relative weakening of the established spaces for participation as channels to materialize private

interests into actual policies has translated into increasing participation in policy-making via direct informal contacts with government officials and congressmen.

On the political side, the need of private funding for political campaigns has increased, leading to an increased importance of business groups relative to the more encompassing business associations. Senate political campaigns are more costly now that senators are elected nationally rather than regionally. Moreover, mayors and governors are now elected rather than appointed, implying a whole new source of funding needs. Since business groups are a crucial source for campaign financing, this feature of the political system has given them increased importance in policy-making vis-a-vis business associations. In turn, business groups represent more concentrated interests than business associations.

Table 9 below summarizes our view of some important changes in the participation of business interests in the PMP between the pre- and post-reform eras. Formal access to the PMP through participation in permanent and ad-hoc commissions is present in both periods, as are informal lobbying activities. Before the reforms, and consistent with the model of development that guided economic policy, even the formal channels involved the discussion of targeted policies. By contrast, in the last two decades formal mechanisms of consultation with the private sector have focused on the discussion of horizontal policies, while informal lobby continues to concentrate on targeted policies. Moreover, while in the pre-reform era participation of private interests through formal mechanisms concentrated in a few relevant representatives, after the nineties it has become more inclusive and as a result less effective. This has led to a relative greater importance of participation through informal lobbying activities, less transparent and more exclusive (especially given the greater ability of business groups, compared to business associations, to conduct effective lobby in the last years). In terms of policies, targeted policies have been prevalent during both periods. However, in the pre-reform era formally established venues for the discussion of these policies with private interests ensured some balance in the adoption of these policies. Moreover, the overall policy stance was consistent with the adoption of these types of policies. In the last two decades, by contrast, targeted policies result from the influence of a few important actors and emerge in contradiction with the overall policy stance. In a way, they are not conceived

in general equilibrium, and their impact over other sectors and the economy as a whole is then disregarded.

In closing it is important to mention that the internal conflict to which the country has been subject has also been associated with the emergence of policies with concentrated benefits. Substantial amounts of aid under the form of subsidies and tax incentives have been targeted to economic activities that contribute to keeping the guerrilla out of particular regions.

To summarize our view of the current state of private participation in the PMP, in the aftermath to reforms there are important differences in the way the private sector participates in policy making depending on whether the policies under discussion are horizontal or vertical in nature. Productivity-enhancing policies frequently fall in the former category, come by government initiative, and the participation of private interests in their adoption tends to follow formal channels. Meanwhile, private actors propose, often successfully, the adoption of vertical policies with concentrated benefits. For this purpose, they take advantage of informal channels of direct contact with high-ranking officials and politicians. Given the former, institutions that favor formal, transparent, mechanisms of private sector participation, relative to informal channels, tend to also favor a generally productivity enhancing policy stance. The increasing fragmentation of political actors in the last two decades has made political exchanges in formal encompassing arenas difficult, increasing the relative importance of informal participation. The resulting success of vertical policy initiatives that contradict the general trend of dismantling targeted benefits is, we argue, part of the explanation for the lack of success of reforms in boosting productivity growth.

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