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**POLITICAL INSTITUTIONS AND POLICY OUTCOMES IN COLOMBIA:  
THE EFFECTS OF THE 1991 CONSTITUTION<sup>1</sup>**

**Mauricio Cárdenas, Fedesarrollo  
Roberto Junguito, Fedesarrollo  
Mónica Pachón, UC San Diego**

## **1. Introduction**

Until recently, Colombia was regarded as a success story in terms of economic growth, macroeconomic stability, and social progress. To a large extent, this reputation was based on the policy outcomes of the 1960s and 1970s, characterized by high economic growth, low volatility, falling inequality, and significant progress in a variety of social indicators. The economics profession, impressed with this performance, considered Colombia as a paradigm of macroeconomic management, praising the combination of able technocrats and sound institutions as the key driving elements of this success story.

In contrast to the results of previous decades, policy outcomes have deteriorated significantly since 1990. For example, GDP growth during the 1990s fell to 2.9% per year from a 4.7% annual average between 1950 and 1990. Urban unemployment rates reached 20% in 1999, almost twice the 1978-1990 average. Income concentration has increased since the early 1990s, after decades of falling inequality. In terms of poverty, various measures also suggest a reversal.

In explaining these results, most observers have rightly emphasized the role of the internal conflict, which has become more intense, fueled by the expansion in drug trafficking activities. As Figure 1 shows, Colombia's level of violence was relatively average (for Latin American standards) during the 1960's and 1970's. The data also suggest that the drug 'problem' grew exponentially during the 1980's, along with greater conflict and criminality. In 1995, Colombia's homicide rate (80 per 100,000 inhabitants) was the world's highest, according to the U.N. Demographic Yearbooks<sup>2</sup>. To end this summary of policy outcomes with a positive note, it is important to mention that inflation rates have fallen since the early 1990s, after decades of double-digit figures. The current inflation rate is 6%.

In this paper we analyze the role of the quality of policies, as well as their outcomes, in explaining Colombia's recent performance. Given that we seek to understand why policies

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<sup>2</sup> See Levitt and Rubio (forthcoming 2005) and Cárdenas (2002) on the causes and consequences of crime in Colombia.

delivered better outcomes (in terms of economic growth and social progress) in the past than now, we are specifically interested in variation across time. Rather than analyzing the details, we identify some common characteristics of policies and the policymaking process (PMP) that can be related to changes in the political institutions. More precisely, the purpose of the paper is to understand how the political institutions –such as the constitution- map into political behavior, political behavior into policymaking processes, and policymaking processes into policies and policy outcomes.

We focus on the effects of the 1991 constitution, which changed the rules of the political game along multiple dimensions. According to our analysis, the central implication of the reform for the policymaking process is that the president lost some capacity as an agenda setter. Congress, the Constitutional Court, and the board of the central bank gained relative power. As a consequence of the larger number of relevant players and the diminished presidential powers, political transaction costs increased in several policy areas. In particular, these changes in the political institutions had a significant impact on fiscal and monetary policies, two critical policy areas for macroeconomic performance.

Many observers have already suggested that the embedded rigidities in the 1991 constitution, especially in relation to fiscal policy, have been a major source of macroeconomic instability and low growth. Growing fiscal deficits, accumulation of public debt, tax uncertainty, inefficient government expenditures are some of the factors mentioned as possible causes of worsened economic performance. Key components of public expenditures, such as pensions, fiscal transfers for education and health, public sector wages, were hard-wired into the Constitution<sup>3</sup>. In addition, the constitution covers many specific, previously non-constitutional, aspects of policy. Fiscal policy is now tantamount of constitutional reform, which by definition is slow and costly<sup>4</sup>. Since deconstitutionalizing policies is even, this leaves ministers of finance promoting tax reforms and impounding by decree part of the discretionary expenditures (those that are not hard-wired) in order to avoid excessive deficits. As a result, fiscal policies are not stable and adaptable to shocks, in sharp contrast to the previous regime. The central implication is that economic authorities lost the discretion to implement countercyclical fiscal policies.

In contrast, monetary and exchange rate policies have been more stable, coherent and publicly regarded since the 1991 constitution. In terms of adaptability and flexibility we observe that during the initial stages of the new scheme (most of the 1990s), the overriding objective of lowering inflation to single digit levels restricted the capacity to adopt countercyclical monetary policies. In other words, flexibility was sacrificed in order to gain credibility. However, adjusting monetary policy to shocks has been the norm since the adoption of inflation targeting under a floating exchange rate regime in 1999, precisely the year when inflation fell to a single digit figure.

To develop the argument the paper proceeds in the following way. Section 2 presents the conceptual framework and defines those features of policies that are the dependent variable of

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<sup>3</sup> According to the IMF (2004), 80% of the budget is predetermined by constitutional or legal mandates. This is the largest figure in Latin America.

<sup>4</sup> There have been 18 constitutional amendments since 1991. The 1886 constitution was amended 63 times in 105 years.

our analysis. Section 3 describes the key political actors in Colombia: president, congress, political parties, Constitutional Court, and the board of the central bank. The idea is to show how the relative powers of the different players have evolved throughout time. Section 4 discusses the policymaking process in Colombia, with special emphasis on those aspects that changed after the 1991 constitution. Section 5 presents the empirical exercises, using a database containing 3,428 law initiatives discussed in congress during the last 20 years. The main point of the exercise is to document the relative reduction in presidential powers, measured by the increased difficulty of the executive in enacting laws in congress. More importantly, the evidence suggests that the fragmentation of congress (more lists and more parties) explains the greater difficulty in passing laws. Section 6 discusses in more detail the salient features or outer characteristics of fiscal and monetary policies, and illustrates the policymaking processes in both cases. The paper ends in section 7 with a summary of the main findings and some recommendations on the institutional changes that are required in order to improve the quality of policies and their outcomes.

## 2. Conceptual framework

Our task is not to analyze the details of specific policy areas. Nor do we plan to discuss the overall (i.e. general equilibrium) effects of the constitutional reform. Rather, we try to explain the outer features of public policies, that is, the common characteristics that are systematically present in those policies. These features refer to aspects such as the *stability/volatility* of policies. We consider that stable policies are those that can be sustained beyond the tenure of a particular government, whereas volatile policies show reversals associated with political events such elections or cabinet reshufflings. Another related and useful dimension for the characterization of policies is their *adaptability/rigidity*. This refers to the fact that sometimes political actors try to prevent future policy reversals by embedding policies with rigidities. This is problematic, since policy adjustments are sometimes desirable, in the sense of being welfare improving. The degree of *coordination* or *coherence* among different political actors (e.g., different levels of government) is another interesting dimension that reflects the nature of the political game. The extent to which policies resemble public goods and promote the general welfare (in contrast to policies that produce mostly private benefits) is another relevant distinction.

The analysis of these outer features follows the framework developed in Spiller, Stein and Tommasi (2003), Scartascini and Olivera (2003) and Spiller and Tommasi (2003). The general idea is that the ability to reach cooperative outcomes among the key political players affects the outer features of public policies. The key point here is that the specific political institutions – together with some particular aspects of the policies- determine whether cooperative intertemporal transactions are possible or not. When these transactions are feasible, public policies are more effective, more sustainable, and more adaptable. In contrast, when intertemporal political agreements are harder to strike and enforce, policies are either too unstable (in the sense of being subject to political swings) or too rigid (in the sense that players inefficiently tie their hands, rather than leaving some political discretion). As in oligopoly games,

fewer political actors and lower immediate benefits from deviating are two key factors that facilitate cooperation<sup>5</sup>.

This framework encompasses other approaches that are useful for our analysis of political institutions and policy outcomes. Tsebelis (2002), for example, focuses on the number, ideological differences, and internal level of cohesion of “veto players”. Cox and McCubbins (2001) underscore the trade-off between the ability to change policy (“decisiveness”) and the ability to commit to enacted policies (“resoluteness”). The larger the number of veto players, the closer policies would be to resoluteness rather than decisiveness. Cox and McCubbins (2001) provide another dimension to the analysis, relevant for Colombia, by distinguishing between the “separation of powers” (number of institutional veto points) from the “separation of purpose” (which refers to the diversity of interests of those controlling the veto points). This is the case, for example, when local politicians do not worry about national problems, in spite of the fact that they can act as veto points on national issues.

### 3. Key political actors

#### President

As it has been the case in most Latin American presidential regimes, the president has been the main agenda setter due to the constitutional prerogatives in most policy areas. The 1886 constitution established a highly centralized power structure. The president controlled the budget and had enormous appointment powers (governors, mayors, magistrates, heads of control entities, among others). The president was constitutionally granted extraordinary powers when invoking the “state of siege” and was delegated the organization of the Central Bank.

Regarding the executive’s legislative powers, the president could introduce legislation on all policy and had a permanent control over the agenda by using the discharge or urgency petition that required both houses to discuss bills in joint committees, limiting debates to two instead of the regular four<sup>6</sup>. Although the Supreme Court played a role by reviewing some of the legislation, presidential decisions were not frequently contested.

Even though, the 1914, 1936 and 1945 constitutional amendments tried to diminish presidential powers, the 1968 constitutional reform promoted by president Lleras-Restrepo brought them to a new level. In addition to strengthening the legislative initiation capacity of the president, the reform significantly increased executive’s control over the budget. The president could exclusively introduce legislation in key areas, issue decree-laws when in crisis, and issue

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<sup>5</sup>To add some notation, the outer features are the dependent variable (Y) of the analysis. These features are the outcome of intertemporal political transactions among political actors, which in turn are conditioned by the rules of the political game, embodied in the political institutions (X). The specific political institutions depend on constitutional and historical determinants (W), which should not be considered as exogenous to the analysis. Each policy area also has its own specificities (Z), such as their time horizons, observability, irreversibility, etc. In sum, this approach maps the interaction of X(W) and Z into Y. It should be noted that Y, ultimately, has an impact on W.

<sup>6</sup> Before 1945 there were six mandatory debates.

administrative decrees with limited judicial review. Although the executive is still the most powerful branch in the political system, the 1991 constitution effectively reduced presidential powers in the following critical aspects:

- a. *Procedural and substantive veto.* Congress can override the executive's veto with a simple majority. Before, a 2/3 majority was required to overrule a presidential veto.
- b. *Declaration of state of siege:* the executive can declare either a *state of internal commotion*, or a *state of economic emergency* for 90 days (before there was no limit), which can be extended for another 90 days if considered necessary for the state of internal commotion, and 30 days extended to a maximum of 90 days for the state of economic emergency. A third extension, however, requires previous consent from the Senate. The Constitutional Court may revoke decrees issued if considered unconstitutional in any way. Before, decrees issued under *state of siege* became laws, even after the special status had expired. After 1991, decrees only remain in force if congress enacts them in regular sessions.
- c. *Introduction of ex-ante judicial review by the Constitutional Court and the independence of the judicial branch:* The presence of the Constitutional Court has curbed the use of the president's special powers. The constitutional assembly determined that those "pro-tempore powers could not be used to decree codes, statutes, organic law or taxes." (Archer and Shugart 1997, p.123). Prior to 1991, the president only required the signatures of all his cabinet to use extraordinary powers to issue decree-laws in a 90-day time frame. Although the subject matter was supposedly narrow, in practice the president could use the emergency powers to make policy indiscriminately. The Supreme Court was the only veto gate as it had the duty to review each of the decrees enacted, but it was not as independent from the government. The judicial budget was determined by the executive, and the Supreme Court was elected from lists handed by the president to the House of Representatives and the Senate. A critical aspect was that magistrates had short terms (5 years), with the possibility of reelection. As we will discuss in detail below, now the the Constitutional Court is elected from lists by several branches of government, for longer terms (8 years), and has budgetary independence.
- d. The president lost an important number of appointment powers (e.g. governors), which in practice ended the dominant role over the career paths of regional political leaders. This means that the president lost a bargaining chip to negotiate with both national and regional leaders.

However, the president kept two very important prerogatives:

- a. *Urgency petition.* As explained previously, enables the president to prioritize a bill in the legislators' agenda. Congress then has 30 days to debate and pass or reject the bill. The president can also ask for joint sessions of house and senate committees in charge of the law in order to speed up the process.

- b. *Exclusive introduction of legislation.* The Executive has the exclusive right to introduce bills concerning the structure of the ministries, salaries of public employees, foreign exchange, budget, external trade and tariffs, national debt, among others.

Other changes introduced by the 1991 constitution that are worth mentioning include:

- a. Presidential reelection was permanently banned (prior to 1991 presidents could run again although not for consecutive terms).
- b. A majority runoff electoral rule replaced the plurality rule<sup>7</sup>. President Uribe Vélez, running on an independent platform was the first candidate to obtain more than 50% of the votes in the first round in the three presidential elections since the introduction of the second round. The average share of the vote obtained in the first round in the 1994 and 1998 presidential elections was 40.39%, in contrast to 51.01% in the 1978, 1982, 1986, and 1990 elections

## Congress

The Colombia congress can be classified as reactive more than proactive, given the large legislative powers of the executive and its lack of organization and resources<sup>8</sup>. A powerful executive combined with an extremely personalistic electoral system, implicitly delegates the national agenda to the president and the cabinet members. Notwithstanding, the legislature has always been an important veto player for the president, especially in areas where the executive does not have complete jurisdiction. The symmetric two-chamber Colombian congress is one of the oldest in Latin America. Changes have affected size, constituencies, and tenure. One of such reforms was the introduction of directly elected senators in 1930 (previously indirectly elected by departmental assemblies)<sup>9</sup>. Members of the senate were more prominent leaders in congress, mainly because they had four year terms, compared to two year terms for members of the House (extended to four years by the 1968 reform).

The 1991 reform reduced the number of representatives to 163 (from over 200), and the number of senators to 100 from 113. Prior to the reform, the so-called national territories (large portions of the territory with low population density) had minimal representation in the House. The reform transformed these territories into *departamentos* and established a minimum representation of two House members per *departamento*. Thus, seven new *departamentos* achieved representation in the House for the first time. Since 1991, senators are elected in

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<sup>7</sup> Payne et al. (2003, p. 86) argue that the abandonment of the plurality formula was motivated by partisan power strategies, such as preventing a third, minority party from obtaining the presidency. Others argue that this was a strategy of the Conservative party to take advantage from the factionalism of the Liberal party.

<sup>8</sup> See Payne (1968, p. 246) for a crude description of the lack of resources of the Colombian congress.

<sup>9</sup> Previously, legislators were not remunerated and the system of specialized committees had not been adopted. In 1945, the two chambers adopted common rules of procedure. That year, the number of readings for the bills was reduced from six to four, enhancing the role of specialized committees (see Pachón Buitrago, 2005).

national, rather than departmental, constituencies. Two senators are elected in special districts for indigenous groups, while 161 representatives are elected in departmental districts.

The formula of largest-remainders or Hare system has been used during the last 40 years and did not change 1991<sup>10</sup>. Seat quotas are calculated by dividing the number of votes by the number of seats. Seats are first allocated to lists which surpass the quota. The left over seats are then allocated to the largest remainders. The electoral law allows multiple factions to present lists under the same party label. As mentioned by Payne et al. (2003), the PR seat allocation procedure is applied in each district to factional lists instead of party lists. Thus, though the factional lists are closed and blocked, in effect the system can be considered to operate with unblocked party lists. The result is that parties have increased the number of lists over time, maximizing their seat share, while enhancing its decentralization and factionalization.

As a result, most seats are allocated by the residual system. In 1998, only 5% of senators were elected by quota, all the others by remainder. The marginal price of a seat, calculated as the minimum remainder for which a seat was allocated represents roughly only 40% of the number of votes specified by the quota and was lower in 1998 compared to 1991 and 1994. As a result, some elected senators represent less than 0.1% of Colombia's population<sup>11</sup>. The 1991 reform did not change this situation, mainly because no representation thresholds were put in place to discourage small lists. The LR-Hare system remained in place encouraging fragmentation and election by largest remainders.

Instead of achieving what Haggard and Mc Cubbins call "unity of purpose" by having more urban representation and dispersed constituencies, the national constituency furthered the political fragmentation. Rather than gathering votes across districts as initially intended by the reform, seats are gained mostly by getting regionally concentrated votes. Thus, senators are still inclined to policies that produce regional or sector-specific benefits, making it hard for the government to push policies that resemble public goods. Furthermore, state campaign funding is given directly to the candidates, creating additional incentives to form factions or movements, instead of depending on the "national party" resources. The combination of the incentives created by the electoral system and the campaign funding has resulted in a large number of movements that are essentially electoral machines (72 currently)<sup>12</sup>. Although these movements are typically affiliated with major party, the excessive fragmentation of legislators is a key characteristic of congress, with important impact on the policymaking process.

Each chamber is organized in seven (eight before the 1991 reform) *Comisiones* which have a significant role in the workings of congress (see Table 1). Since 1945, legislators can only belong to one permanent committee and have to stay in that committee during their entire four year term. Membership to the committees is determined by a "quota" system, where each legislator has one vote and needs a certain number of votes in order to get into a particular

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<sup>10</sup> See Roland and Zapata (forthcoming 2005) for the implications of the electoral rules.

<sup>11</sup> See Botero (1998) and Rodriguez-Raga (2001).

<sup>12</sup> The only requirement to form a political party is to present 50,000 valid signatures. As a result, most legislators form their own "movement", appearing on the ballot with a different party label than the traditional party to which they belong. This data can be found in <http://www.cne.gov.co/partidos/vigentes.htm>

committee. Committees dealing with constitutional and economic-budgetary matters, have a larger quota than the rest. To facilitate coordination, each party names a *compromisario* (delegate) in order to determine who goes where, taking into account the specialty and popularity of the legislator. Party membership is indispensable in order to access the committee of first preference (Pachón-Buitrago, 2003). This is important because it shows that behind a veil of fragmentation and atomization, party structures play a role in order to organize legislative activity. We will see more evidence in this direction in the next section.

Exclusive committee membership contrasts with other Latin American congresses where legislators belong to various permanent committees and, hence, do not have the incentive to specialize. The Colombian congress also a small number of standing committees, which are entrenched in the Constitution, compared to the Mexican or Argentinean legislatures which have more than 35 standing committees with overlapping jurisdictions. This means that the rules of the game are stable: there is only one route for the introduction of legislation. The only choice in the hands of the executive is the starting point, which can be the house or the senate. Plenary sessions rely heavily on what is approved by the Committees, especially in economic and budget matters. Membership to the Economic and Budget Committees is highly valued, because of the proximity to government funds. The Committee in charge of constitutional and political affairs is also highly visible, and membership a greatly disputed issue.

As a consequence of growing professionalization, incumbency rates have been steadily higher since the 1930s. As shown in Figure 2, from a 10% reelection rate in 1935, the incumbency rate has increased to 50% in the last ten years. Nonetheless, and possibly as a result of greater fragmentation, incumbency rates have fallen both in the house and senate after the 1991 constitutional reform. Still, when compared to incumbency rates of other Latin American countries, Colombia has one of the highest reelection rates (see for example Argentina with 17% or Brazil with 45% reelection rate). However, it remains to determine whether legislators are characterized by what has come to be known in the literature as “static” or “progressive” ambition (Samuels, 2003). Certainly, there are members of Congress which have a long tenure, and are considered to be “professional legislators”. However, the “amateur legislators” phenomenon is not foreign to the Colombian congress. We argue that certain committees (e.g. constitutional, economic, and budgetary) offer legislators an incumbency advantage as well as a differentiated level of professionalization, in comparison to other committees. As a result, members of those committees are the natural leaders of congress. Using data from 1970 until 1998, Figures 3 and 4 show that the incumbency rates for members of these committees are higher than for the rest of legislators. Professionalization seems to provide an advantage to incumbents. To a large extent, legislators dominate political life in Colombia. With important exceptions –especially in large cities and departments- mayors and governors operate more as agents of legislators, rather than the opposite<sup>13</sup>.

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<sup>13</sup> Since 1986, municipalities (currently 1069) elect their majors and (since 1991) departments (now 33) elect their governors for single three year terms (extended to four years after 2003). Previously, the president had the right to appoint and dismiss all governors and majors. Political decentralization as well as fiscal decentralization has increased the influence of majors and governors, although not the point observed in Argentina and Brazil. Governors and majors (with few notable exemptions) do not play a key role in national politics. They are highly dependent on the national budget, especially for public investment funds.



## Political Parties

The Colombian party system dates from the early years of the republic, and has also been considered one of the oldest and most institutionalized in Latin America (Mainwaring and Scully, 1995). The system has been dominated by two strong parties -Liberal and Conservative-, which the conventional wisdom associates –albeit imprecisely- with the two prominent figures of the independence campaign (Santander and Bolívar, respectively). For much of its republican history, party labels and partisan identification have played a dominant role in many aspects of life (Pinzon de Lewin 1989). Inter-party competition often ended in violence. The last -and one the worst- of such episodes ended in 1958 with an agreement of the two parties to share power. The implications of this agreement, called *Frente Nacional*, will be discussed in detail in the next section.

The party system is characterized by high intra-party competition, functional party coalitions in congress, and significant party discipline in presidential elections. Although intra-party competition was always part of Colombia's political history (see Table 2 on factions), lack of vote-pooling since 1974, political decentralization since the early 1980s, as well as the 1991 constitutional reform brought it to new levels<sup>14</sup>. In the last fifteen years, small parties and movements have proliferated. At the national level, 45 movements obtained at least one seat in the House of Representatives in the 2002 election<sup>15</sup>. The existence of high intra-party competition weakened political leadership, ultimately fragmenting party organizations<sup>16</sup>. The party no longer had means to control career paths of his party leaders in the local areas. The increasing number of movements has undermined the traditional two-party system. An example of this trend is the growing number of lists competing in congressional elections (see Figure 5). As shown in Figure 6, the percentage of lists that elect only one legislator has been growing since 1974. In 2002 only 3 lists, out of more than 300, rendered more than one senator.

To make politics even more candidate-based, the constitution established partial public funding for congressional and presidential campaigns, allowing the candidate to be directly the recipient of the funds. Prior to 1991, the party controlled the funds and distributed them among the different lists. Although the old system allowed for the competition of multiple lists of each party to any election, the introduction of direct funding to candidates has allowed for even more dispersion. The reform not only allowed new cleavages to run for elections, but lowered the costs of leaving traditional parties and their central directorates.<sup>17</sup> This, of course, has to be analyzed in conjunction with the increased availability of public expenditures at the local level as a result of

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<sup>14</sup> See Pachón (2005) on the consequences of the lack of vote pooling in Colombia since 1974. On decentralization and fragmentation of the party system see, among others, Pizarro (1995), Archer and Shugart (1997), Nielson and Shugart (1999), Fajardo, Moreno and Shugart (2004), Rodríguez-Raga (1999 and 2001) and Gutiérrez (2003).

<sup>15</sup> Gutiérrez (2003) suggests that the proliferation of lists is controlled by the party.

<sup>16</sup> Gutiérrez (1999 and 2001) argue that the internal structures of the traditional parties have changed but have not been destroyed. The value of the party label is still an important asset for politicians, although the linkage among the different levels of government has a more horizontal character where it is difficult to impose sanctions.

<sup>17</sup> In 1998, 67 parties and movements were legally recognized by the electoral authorities receiving state funds. See Posada-Carbó (2001).

fiscal decentralization. Legislators are increasingly independent from the parties and from the national government.

However, internal rules of congress enhance the role of the parties and re-centralize power on few hands. Parties are determinant for accession to specific Committee membership, hierarchical positions (presidents and vice-presidents of the plenary and the committees), and strategic roles (promoter or sponsor of a strategic bill). The president of the committee appoints one or several sponsors for each bill. Sponsors, in turn, have a decisive role in the legislative process. On key bills initiated by the executive, sponsors have large bargaining power. They are very influential in what is finally approved in the floor and act as political brokers between the executive and other legislators. The relative position in this hierarchy (president of the chamber, president of the committee, and sponsor) determines the amount of pork that a legislator receives, in the form of positions in the national government bureaucracy and funds for investment projects<sup>18</sup>. As shown in Figure 7, the number of sponsors per bill has been increasing rapidly since 1991. As we will show below, a bill with more sponsors has greater chances of success<sup>19</sup>.

These privileges are distributed with partisan criteria, and thus, legislators organize procedural coalitions in order to secure them (see Carroll Cox and Pachón, 2004). As a result, post-electoral party coalitions are the norm rather than the exception. A good example is the organization of the independents into the *Polo Democrático*. Before 1998, independents constituted 25% of the congressional seats, but had no representation in any valuable position in Congress. After forming a coalition for the 2002 elections they have been able to secure strategic positions. Thus, although the structure of parties in congress can be described as horizontal, the internal rules of congress provide a temporal hierarchical structure that also improves their bargaining power vis-à-vis the executive.<sup>20</sup> In other words, parties solve the collective action problems within congress.

Finally, Figure 8 shows the Laakso-Taagepera index of Effective Number of Parties (ENPP), which is a measure of fragmentation, calculated as the inverse of the sum of squared party shares for each legislative election<sup>21</sup>. The ENPP has increased from two political parties in

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<sup>18</sup> Unfortunately there is no data to support this point, but euphemistically legislators speak of platinum, gold, silver and regular status depending on where they rank.

<sup>19</sup> An interesting trend is seen when the government calls the joint economic committees (house and senate) to discuss a bill in which the executive has special interest. In this case the probability of success is much higher (on average 75% of the bills are approved). The cost, however, is explosion in the number of sponsors. The only bill submitted to the joint economic committees in 2003 had 36 sponsors.

<sup>20</sup> There was a constitutional reform in 2003 in which Congress approved the change of the electoral system, changing the Hare quota to the D'Hondt quota, as well as an open list system for all councils, assemblies and the national congress. The first election with the new system will take place in 2006 at the national level,. At the regional level, the first election took place in 2003. For an explanation for the reform, see Shugart, Moreno and Fajardo (2004).

<sup>21</sup>  $ENPP = (\sum s_i^2)^{-1}$ , where  $s_i$  is the seat share of party  $i$  in the legislature. We calculated it by adding movements because the traditional parties endorse these movements, and count them as party members. For example, Senator Roberto Gerlein who has been a conservative leader in congress for decades runs under the label *Movimiento Nacional* and not with the one of the Partido Nacional Conservador. The same happens with Senator Jose Raúl Rueda, who is also a conservative, runs on the label *Movimiento Político Ciudadanos por Boyacá*. However, they vote together and are part of the conservative coalition for procedural elections within Congress. The same happens with the independents who run under different movement labels but behave as a coalition once in Congress (M-19, *Movimiento Visionario*, ANAPO,

the 1970s (liberal and conservative), to three in the post-1991 period (liberals, conservatives, and the AD-M19), to four in 2002: liberals (official), liberals (uribistas), conservatives, and the *Polo Democrático* center-left coalition which includes the AD-M19.

## Courts

In the Colombian system of separation of powers, the judiciary has always played an important role in the policy-making process. Since the Constitution of 1886, the Supreme Court played an active role in terms of constitutional revision and dispute settlement between the executive and congress (for instance after a presidential veto on the grounds of unconstitutionality). The Supreme Court also revised *ex-officio* all decrees issued by the executive during a state of siege or state of economic emergency. According to Cepeda (forthcoming 2005) between 1886 and 1991, of a total of 2496 rulings of constitutional review, 1489 (that is 60%) were related to decrees issued under periods of exceptional legislative power of the executive. Of the latter, only 25% were found unconstitutional. Due to the constant use of extraordinary powers by the executive, the Supreme Court became the last instance for very contested and difficult decisions. One of the most remembered is the ruling that declared the unconstitutionality of the Extradition Treaty in 1986, after drug-traffickers threatened justices<sup>22</sup>. Before 1991, although the Supreme Court was active in terms of judicial review (probably more than other Latin American courts), with some important and notable exceptions its rulings focused more on formal review of the procedures and less on the content of the bills<sup>23</sup>. Without doubt, the appointment mechanism, as well as the strict bipartisan parity restricted the independence of the judicial defense of the constitution.

After the major reforms of 1991, the key player became the Constitutional Court. The nomination procedure changed radically, as part of an explicit attempt to make the judiciary an independent branch from the government. Nine magistrates are elected by the Senate from lists presented by the president, Supreme Court, and Consejo de Estado, for periods of eight years, without the possibility of reelection<sup>24</sup>. From an abstract *a posteriori* review of the law, Colombia changed its system to an abstract *ex officio* ex-ante review of the most important statutes, treaties and citizen's rights related bills. In addition, the Court revises *ex-officio* the emergency decrees issued by the executive, as well as the declaration of any state of emergency by the executive. Although *ex post* judicial review had been in the judicial system since 1904, the amount of bills that are reviewed each year has increased monumentally in the last ten years. In fact, since 1991 the Court has issued 2923 rulings on abstract constitutional review, more than the Supreme in Court in 104 years. The majority of these rulings result from the citizen's use of the *Acción Pública de Inconstitucionalidad*. In 27% of the cases the Court has ruled the reviewed laws or

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etc.) Currently, there exist more than 70 party labels that are recognized by the Registraduría Nacional del Estado Civil. Thus, it makes more sense to count them together even if they run on apparently different party labels. The information about these coalitions for the Conservative Party is in Pachón (2002), and in the reports done by *Congreso Visible* at [www.cvisible.uniandes.edu.co](http://www.cvisible.uniandes.edu.co).

<sup>22</sup> See Arrieta (1991).

<sup>23</sup> See Sarmiento (1985) and Cepeda (2005) for an account of some interesting exceptions where the Supreme Court opposed the government on important matters such as constitutional reform, tax initiatives, extradition, etc.

<sup>24</sup> Rosenthal and Kugler (forthcoming 2005) provide a detailed account of the workings of the judiciary branch.

decrees (or aspects of them) unconstitutional. Between 1992 and 2002, a total of 141 rulings corresponded to the constitutional revision of decisions taken by the executive under special legislative power. The relative small number (less than 5% of the total rulings on constitutional review) is indicative of the restrictions imposed by the constitution on the use of these powers by the executive. Moreover, 35% of the legislative decrees were found unconstitutional while in another 4% the constitutionality was conditioned by the Court.

Although in theory the Court is expected to have negative legislative power, in practice it exercises great influence over policymaking. The main reason is that the level of specificity and detail of the constitution has resulted in the constitutionalization of public policies. Public sector wages, mortgage interest rates, pensions, among other, are issues in which the views of the Court are determinant. In practice, this implies that constitutional reforms are necessary to change policies in certain areas. A good example is the 2003 referendum that was required in order to freeze government salaries. Given the legislative procedure that a constitutional reform entails, transactions costs are now higher and the Court has a larger jurisdiction<sup>25</sup>.

### Board of the Central Bank

Before 1963 the decisions on monetary and exchange-rate policies were undertaken by a board chaired by the Minister of Finance with majority presence of prominent private sector bankers. In 1963, this policies were handed to the government-controlled Monetary Board, presided by the Minister of Finance and with the presence of other economic cabinet members, the central bank governor, and support from two technical advisors<sup>26</sup>. The major reason given for the dual system was to eliminate conflict of interest in monetary and credit policies. In practice, from 1963 to 1991, monetary and exchange rate policy decisions were in the hands of the executive.

The 1991 constitution (article 372) established the seven-member Central Bank Board as monetary and exchange rate authority. The members include the Minister of Finance, who presides it, the governor of the central bank, who is elected by the Board, and five independent members named by the President for a period of four years<sup>27</sup>. Only two of the independent members can be changed every four years. The Board members, according to the constitutional mandate, must represent exclusively the interest of the nation. The major objective of the central bank is maintaining the purchase capacity of the currency or the control of inflation. Furthermore, the constitution established that lending to the government required the unanimous support of Board members.

Even though the Central Bank Board takes its decisions by a majority rule, where each member has one vote, the two most prominent actors within the Board are the Governor of the

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<sup>25</sup> Fiscal and disciplinary control entities (Contraloría and Procuraduría) could be considered as relevant players in the political game, through their capacity to influence Congress as well as the Court's rulings.

<sup>26</sup> The board of the central bank was kept in charge of the administration of the Bank with continued presence of private sector bankers.

<sup>27</sup> The presence of the minister of finance reduces the independence. See Alesina (2004) for a critical analysis.

Central Bank and the Minister of Finance, both of whom act as de-facto agenda setters. The Governor instructs the bank's staff on the preparation and submission to the Board of the technical papers, which gives him great influence. Even though the Minister has only one vote in the Board decision process, in practice on exchange rate issues, the Board has almost always acted with the support of the Minister and very often at his request. On the monetary policy stance, decisions are made on a majority rule basis. Notwithstanding, on most occasions, the decision taken had the acquiescence of the Minister of Finance.

#### 4. Policymaking processes in Colombia

The entire set of characteristics of the PMPs, including the role of key and veto players, the policy initiation process and the effective number of parties, showed important modifications during the late 1980s and early 1990s. This is mostly related to the end of the rules imposed by the *Frente Nacional* and the emergence of new political institutions. Since the drafting of new constitution in 1991 is the most salient of these transformations, it is analytically tempting to characterize PMPs before and after that year. However, two caveats are in order. First, some of the changes in the underlying political institutions preceded the 1991 constitution, such as the initial steps of the decentralization process, including the direct election of majors (1986). Second, the transformation was not restricted to the constitution. Other factors, such as market-oriented reforms introduced in the early 1990s or the greater interest of the U.S. in Colombia in recent years, have had an impact on PMPs.

##### 4.1 Policymaking processes during the Frente Nacional (1958-1974)<sup>28</sup>

In 1958, after ten years of political violence between the two traditional parties (*Liberal* and *Conservador*), and four years of a military government (1953-1957), the leaders of the parties agreed to share power during four presidential terms, between 1958 and 1974<sup>29</sup>. In addition to alternation in the party affiliation of presidents, the agreement (initially a referendum and later a constitutional amendment) included a strict 'parity' between the two parties in the key policymaking arenas, such as congress, the cabinet, the courts, governors and majors. Many features of this agreement survived after the 'formal' end of the *Frente Nacional* in 1974. For example, even today cabinets regularly include liberals and conservatives<sup>30</sup>. The agreement established a successful and relatively peaceful transition to a consociational regime which reactivated political competition and gave the government a more active and prominent role in the economy (see Lijphart, 1969 and 1981).

Presidents had a free hand to implement policy, even in the hypothetical absence of majorities in congress. As documented by Hartlyn (1981), the executive faced some opposition in congress during the *Frente Nacional*. Some factions opposed on ideological grounds, such as the MRL and ANAPO, and others for more ephemeral or specific reasons. Nevertheless, ample

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<sup>28</sup> See Hoskin and Leal (1976) and Hartlyn (1981).

<sup>29</sup> The agreement's goal was to bring an end to partisan confrontation which had resulted in a large number of violent deaths in the period 1948-1958. As discussed in Chacón (2004) the exact figure is a highly contested issue.

<sup>30</sup> The notable recent exception is the Barco Administration (1986-1990) that excluded the conservative party.

majorities were always secured, and presidents had leverage to pass their bills. Opposition was highest during the Misael Pastrana Administration (1970-1974), but even then it did not exceed 33% of congress. Cabinet and governorships appointments were critical in the coalition forming process. The appointment of a prominent political leader in congress (typically a regional party boss) to the cabinet or a governorship was the most effective way of securing the coalition. Presidents had the difficult task of implementing the ‘milimetría’, so cabinets and governorships had to have adequate representation by regions and political factions.

### Economic policymaking during the *Frente Nacional*

During this period, the rules of the political game constrained the role of congress in economic policy and enhanced the decision making capacity of the government<sup>31</sup>. In practice, this restricted the policy options and facilitated the adoption of consensual macroeconomic policies<sup>32</sup>. There is no evidence of major macro policy reversals, while at the same time policies were rapidly adjusted in light of external conditions.

The rules of the political game embodied the Minister of Finance with immense power. As Urrutia (1996) points out, traditionally the Minister of Finance was not a politician, but almost always a professional economist. Implicitly, liberal and conservative politicians would rather have a technocrat occupy this ministry than a potential rival (a preference that is still valid today). Other prominent actors were the governor of the Central Bank and the manager of the Coffee Federation. The very nature of the power sharing agreement, as well as the usually long tenures of these key players, prevented opportunistic behavior and favored a long-term perspective in policy making<sup>33</sup>. The insulation of fiscal and monetary policies from political cycles was effective<sup>34</sup>.

Business associations (*gremios*) had a very active role in the PMP during that period. The president, after consultation with former presidents, along with representatives from the Church, the armed forces, and the parties’ bosses, often invited the main private sector leaders for consultative sessions, in which important policy decisions were made, a tradition that is still regularly used today.

### The end of the *Frente Nacional* and the new constitution

In spite of their apparent success in terms of economic policy outcomes, the political institutions and the consequent rules of the political game derived from the *Frente Nacional* agreement were unsustainable<sup>35</sup>. The agreement between liberals and conservatives had excluded

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<sup>31</sup> Congress was not totally excluded from economic policymaking. Tax reform formally was always in its hands, although governments used the State of Economic Emergency to bypass legislative discussion.

<sup>32</sup> See, for example, Hartlyn (1981).

<sup>33</sup> It is possible to argue that the long term perspective in economic policymaking predates both the *National Front* and the emergence of the technocracy. However, we will restrict the analysis to the period that starts in 1958.

<sup>34</sup> See Escobar (1996) on the inexistence of political business cycles in Colombia.

<sup>35</sup> In the terminology of Aghion et al. (2004), during the *Frente Nacional* the traditional parties were almost sure to rule so a high level of insulation of the executive was functional. This led to economic stability, at the cost of political unrest, in a way that is reminiscent of the autocratic regimes in other countries in Latin America.

other sectors, most relevantly the left, which did not have access to a democratic channel to participate in the political process. Guerrilla activity became more intense and the political system started to lose credibility due to patronage, corruption, and the entry of drug money into the political scene<sup>36</sup>. The exclusionary nature of the system plus the lack of authority and presence of the State in parts of the country deteriorated the *Frente's* popular support, resulting in high rates of abstention. Guerrilla groups -such as the M19, EPL, ELN and FARC- as well as labor and social movements gained momentum in urban and rural areas.

During the early 1980s, president Belisario Betancur (1982-1986) proposed a political rather than military solution to the guerrilla problem. The FARC, EPL, and M-19 signed short-lived cease-fires but it was not until the Barco administration (1986-1990) that the M-19 finally agreed to incorporate into the political system, through a new political party. The FARC supported a new political party *Unión Patriótica* (UP), but many of its members (including two presidential candidates) were systematically assassinated by "paramilitary" groups and drug traffickers. The assassination of three presidential candidates of the in 1989 including Luis Carlos Galán -the likely winner- elicited a popular demand for political reform<sup>37</sup>.

The long debated idea of a constitutional reform gained momentum a response to the political unrest, at a time when great importance was given to the incorporation of guerrilla groups into the political system. Ultimately, it was the students' initiative through the *movimiento séptima papeleta* that succeeded in this effort<sup>38</sup>. Dugas (2001) describes the process,

“In the final tally, the students estimated that approximately two million Colombians had cast extra-legal ballots in favor of summoning a National Constituent Assembly. Although the seventh ballot had no legal standing it served as a striking indicator of public discontent with the existing political regime. In the aftermath of the March (1990) elections the proposal to establish a National Constituent Assembly gained momentum as all four major presidential candidates declared their support for this extra-constitutional mechanism.” (p. 382)

President Virgilio Barco in recognition of people's will, issued decree 927 of 1990 to authorize the introduction of a ballot in the May presidential elections which called for a Constitutional Assembly to reform the national constitution. The Supreme Court declared constitutionality of the decree by admitting, at the same time, the incapacity to confront the different types of violence facing the nation (Lleras and Tangarife, 1996). The ballot, which became an official plebiscite, resulted in more than 5 million votes in favor of the National Constituent Assembly. President-elect Gaviria called for elections in December to organize the Constituent Assembly. The new Constitution was adopted in July 4, 1991.

<sup>36</sup> Incidentally, the emergence of drug-trafficking made local politicians became more independent from the party bosses in Bogotá, which gradually lost control over the conformation of party lists.

<sup>37</sup> The candidates were Bernardo Jaramiillo (UP), Carlos Pizarro (AD-M19) and Luis Carlos Galán (a previous dissident of the official liberal party and then competing for the party nomination).

<sup>38</sup> This refers to the fact that the student movement asked the electoral authorities to introduce a seventh ballot in the elections of March 1990 (the other six ballots were for the election of the Senate, House, governors, departmental assemblies, majors, and city councils). The ballot in support of the constitutional reform was unofficial, in the sense that it had to be counted by the students and did not have legal implications.

## 4.2 Policymaking processes after the 1991 Constitution

The central implication of the 1991 constitution for the PMP is that the president lost some capacity as an agenda setter. Conversely, congress (which became even more fragmented), the Constitutional Court (created by the constitution), and the central bank board (made independent by the constitution) gained relative power. Although the president continues to initiate policies in the most relevant areas, congress is increasingly involved in their discussion, oftentimes introducing significant changes. The *gremios* have lost importance as key actors, in part as a result of a more market-oriented economy. In other cases, such as the Coffee Federation, the loss of power is linked to their declining economic importance. Former presidents have also lost significant ground as key players and may not be considered veto players any longer<sup>39</sup>. Two additional features that are worth mentioning are the fragmentation of congress and the loss of relative importance of the two major political parties.

Congress, on the other hand, has strengthened its position as a key player enhancing its role in the policy-making process. By-passing congressional discussion –through the use of special powers- was severely curtailed by the constitution. In addition, the passage of legislation through congress became more complex as a result of the increase in the effective number of parties, that came about since 1991. The PMP does not end with the enactment of legislation in Congress. As we will discuss in detail, the Constitutional Court acquired the status of a key and, on occasions, veto player in the PMP. The constitutional revision of laws allows the court to intervene in critical areas, such as fiscal policy.

The introduction of the Constitutional Court's review has furthered the transaction costs for the executive, which can no longer rely in "short term alignments" with congress to enact its policy. Although the president still retains exclusive rights of introducing economic bills, the polity has become more resolute with the presence of the Constitutional Court as a powerful veto gate. Even if the executive can align its preferences with congress, the Court imposes the greatest difficulty for the President's attempt to change the *stat us quo*.

Another prominent actor in the economic PMP is the central bank board, given its constitutional responsibilities as authority on monetary and foreign exchange matters. These two areas of policy-making have traditionally been considered as highly specialized and both congress and the courts have had little involvement in its policy formulation. The significant change undertaken as a result of the constitutional change that granted independence of the central bank is the diminishing influence of the executive in monetary decisions, despite the presence of the minister of finance as president of the board.

The PMP since the mid-1990s has also been influenced by the U.S. government. While the US-Colombian relations have been traditionally amiable and supportive of each other's interests, the drug problem and the domestic internal conflict -with potential regional repercussions- has put them in a new ground, as indicated by the approval of the U.S.-supported

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<sup>39</sup> The 2003 referendum illustrates this well. Although former liberal presidents unanimously supported the referendum, the liberal party officially opposed it.



Plan Colombia in 1999. The U.S. influence has also been felt through the backing of the Colombian government economic programs.

It is worth adding that, despite the well-known insecurity situation of the country neither the armed forces nor the illegal groups have become veto players. The armed forces have been subordinate and supportive of the country civilian leadership. Presidents have replaced military commanders without hesitation when signs of unrest appear. Since the restoration of democracy in 1958, obedience to the president has never been an issue. On the other hand, the long-standing and military-strengthened guerrilla movement in Colombia has not had a veto capacity, even during the periods of peace negotiations. This is probably related to their negligible popular support.

In conclusion, the political institutions brought about as a result of the 1991 constitution had significant changes in the PMP. Though the executive continues to initiate relevant policies, congress and the Constitutional Court are key actors of the process, with the capacity to change the outcomes.

#### **4.3 Effects of the internal conflict on policymaking**

This policy area is highly relevant in order to identify the outer features of policies in Colombia. As mentioned in the introduction, policy outcomes in this area are not encouraging in terms of the intensity of the internal armed conflict and drug-trafficking activities. The evidence clearly suggest that it is worth exploring the policies, as well as the underlying political institutions under which those policies are designed and implemented, that lead to such bad outcomes.

During the 1980s and early 1990s the Medellin and Cali cartels were very strong in terms of resources, controlling much of the illicit drug business, with growing political influence both regionally and nationally. The cartel's private armies, which later evolved into paramilitary groups, protected them from internal fights, extradition, and kidnapping from the guerrilla. The U.S.-sponsored response to the cartel's threat was based on the capture of the drug lords. The success of this strategy opened the door to the guerrilla and paramilitary (the so-called self-defense) groups to break into the business at a larger scale. It is now a well established fact that these groups derive an important amount of income from the drug business.

In the political arena, in 1984 the Betancur Administration signed a truce agreement with the FARC and started the negotiations with M19, the two largest guerrilla groups at the time. These efforts failed and the confrontation escalated to a higher level (the Palace of Justice was taken in 1985 by the M19, resulting in the tragic dead of the majority of the judges of the Supreme Court). Later, during the Barco Administration, the M19 (and other smaller groups) gave up the arms and entered the political contend with some success. However, the experiment of the UP (a political party with strong links to the FARC) did not have the same electoral success, and ended abruptly because many of its members were killed by paramilitary groups.

The response of the FARC was to escalate the confrontation with the drug cartels for the control of the drug business, increase the revenues derived from kidnappings and extortion (an strategy shared with the ELN) and establish strongholds in areas rich in natural resources (e.g. oil) but with relatively low State presence, from which they could derive rents. Adopting similar strategies, the paramilitaries became increasingly independent from the drug cartels. The State's policy response has been an increase in defense expenditures. In addition, there have been three other major policy instruments: extradition, drug-eradication, and, whether or not to hold peace negotiations. In all three cases, policies can be characterized as volatile, with sharp swings especially in the case of extraditions and peace negotiations depending on the political climate. Undoubtedly, the analysis of the policymaking process in these areas involves not only the relevant domestic actors, but also the role of the United States, which has been a decisive veto-player in the configuration of policies.

## 5. Empirical evidence

This section provides some empirical content to the previous discussion by using a legislative output database covering the period between 1982/83 and 2002/03<sup>40</sup>. Legislative output is the information about the bills that have been presented and enacted in a given legislature. The database consists of 3,428 bills presented in the House of Representatives, and comes –since 1992- from its annual *Informe Legislativo*. Prior to 1992, the information was collected from the archive at the Library of Congress<sup>41</sup>. For each bill initiated, the database contains the following information:

1. Number
2. Title
3. Instance of entry into Congress (i.e., House or Senate)
4. Type of author (i.e. executive, legislative, other)
5. Party of the author
6. Name and number of legislator(s) presenting it to the floor (we will use the term *sponsor*)
7. Party of the *sponsor(s)*
8. Committee where it was introduced (including the possibility of joint committees)
9. Number of debates at the end of the legislative year
10. Status at the end of the legislative year (i.e., filed, in process, or enacted)

We focus on the variables that explain why bills become laws in the Colombian congress, and compare the executive and legislative capacity of enacting policy before and after 1991. Specifically, we want to test whether the agenda setting power of the executive means greater success rates for bill initiated by the government, and whether this has changed after 1991. In this

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<sup>40</sup> See Mejia-Acosta (1998), Amorim-Neto (1997, 1998, and 2004) and Nacif and Morgenstern (2000) for similar data and analyses for other Latin American countries.

<sup>41</sup> The database is organized by legislative years, which start on July 20<sup>th</sup> and conclude on June 20<sup>th</sup> of the following calendar year (a recess goes from December 16<sup>th</sup> to March 16<sup>th</sup>). The years 1986 and 1987 were not complete in the archive. For these two years we only have complete information for the bills introduced in the first 6 months of the legislative year.

section, we want to disentangle the factors that explain changes in success ratios after 1991. As shown in Table 3, on average 179 laws were initiated annually, prior to the enactment of the 1991 constitution. Since then, congressional activity has intensified: 271 laws have been initiated per year. Bills initiated by the executive represent around 19% of the total, regardless of the time period.

To gain insight into the database, we borrowed Taylor-Robinson (1999) detailed typology to classify bills according to their target: individual, local, regional, sectoral, national, and international treaties. This allows us to differentiate bills such as the “*celebración de los 462 años de la fundación del municipio de Charalá*” (PL.091/2002C) from bills that have a national or a sector-specific impact, such as those regulating professional activities. Bills that have a local or regional target are classified as ‘local target’ in our database, while sectoral or national are classified as ‘national target’. However, it is important to mention that these classifications are based on the limited information contained in the title of the bill, so care should be exercised when interpreting the results<sup>42</sup>.

To compare the government and legislative success in enacting bills, we constructed a simple success ratio (enacted bills over bills introduced). The success ratio is calculated for each of the legislative years in the database. This is a relevant caveat since some of the bills are still being processed at the end of the legislative year, and have some probability of getting enacted in the following legislation, but are not included in the ‘bills enacted’ category.<sup>43</sup> According to, bills initiated by the executive have always had a greater success ratio, relative to bills initiated by legislators. There seems to be a pronounced ‘lame-duck’ effect where the president’s success falls down in the third and fourth year of the term<sup>44</sup>.

Table 4 shows the distribution of bills by policy scope. As expected, there is high level of specialization: legislators submit local, regional and sectoral bills, whereas the government submits national bills<sup>45</sup>. In terms of success rates, bills initiated by the executive systematically have higher success ratios. Bills initiated by legislators have relatively low chances of approval. This is true for both locally and nationally targeted initiatives. Regardless of policy scope and initiation success rates have fallen after 1991. Table 5 presents a different classification of bills according to the following criteria: taxation, budgetary matters, trade, finance and exchange rate issues, other economic bills, and non-economic bills<sup>46</sup>. As shown, budgetary bills have the highest success rate. In all cases, again, success rates drastically fell after 1991.

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<sup>42</sup> Nationally targeted bills are very diverse. Take, for example, the case of bill 183/2003C, that seeks to establish the national day for forgiveness and reconciliation.

<sup>43</sup> Thus, we underestimate success ratios, compared to what could appear by looking at an entire four year presidential or congressional term.

<sup>44</sup> Saeigh (2003) calculates annual success rates for different regimes. When compared with that evidence, the Colombian executive has a lower success rate (40.6%) than other presidential systems, including Argentina (62%). In this context, Colombia looks more like Chile or Ecuador (1979 – 1996).

<sup>45</sup> Within the government, the ministers of Foreign Affairs and Finance are the leaders in terms of bill’s initiatives.

<sup>46</sup> The subject of a bill can, in general, be easily identified on the basis of its title. However, when a bill deals with various topics, we make a judgment call on what constituted its most salient topic.

There are various limitations with the database that have to be mentioned. First, due to its annual character, bills that become laws in this database are passed in one legislature. It is possible that some of the bills included in the database become laws in the following congressional year, which is the maximum allowed by rules of procedure. Second, we use data from the House only. Nevertheless, we can follow the path of bills that go through the Senate which have been introduced in the House. Third, our unit of analysis is the bill instead of the legislator (as in the case of the databases constructed with roll-call data), so measuring party unity or party cohesion within congress is not possible.

### **Econometric results**

This section presents the results of a logit regression that uses as dependent variable the probability of a bill getting enacted. As mentioned above, at the end of the legislative year a bill can be enacted -this is what we call 'success' regardless of the impact of the law-, filed (which means that the initiative was defeated), or remain in process for consideration in the next legislative year. Unfortunately, in the latter case we do not know whether the bill is ultimately passed during the following sessions. Therefore, to avoid estimation biases we excluded bills that are still in process, mainly because it would be imprecise to treat them as cases of failure or success. The model includes all legislative years in the database, with the exception of bills dealing with the ratification of international treaties -where congress essentially rubber-stamps negotiations conducted by the executive-. It is important to warn that the success ratio assumes every bill to be of same importance. For example, a tax reform is weighted equally as an honorific bill enacted by the legislature.

The purpose of the econometric exercise is twofold. First, we want to identify the factors that determine success rates in legislative activity in general. Second, we want to know which factors account for the reduction in success rates after the 1991 constitution. In particular, we explore the role of greater polarization and fragmentation –as well as lower presidential powers-discussed in the previous section. Table 6 presents the results. Equation 1 suggests that chances of a bill being enacted significantly increases when the initiative comes from the executive. Budgetary bills have greater chances of success compared to other bills, while bills that are nationally-targeted imply a lower probability of enactment. Interestingly, the larger the number of sponsors involved in the legislative process, the greater the probability of success. This is suggestive of the fact that more pork increases the chances of passing a bill. Finally, the dummy variable after 1991 is highly significant with a negative coefficient. This indicates that other variables, different from the ones included in the model explain a reduction in success probabilities. Equation 2 includes two possible candidates: The effective number of parties (a rough measure of polarization), and the number of lists competing in the previous election (a measure of fragmentation). The evidence suggests that the increase in the number of parties has negatively affected the probability of bills becoming laws. The effect of the number of lists seems to be negligible. Lastly, equation 3 adds again the post-1991 dummy variable, which comes out insignificantly. We interpret this result as indication that the factors that explain the lower probability of success after 1991 are well accounted for by the increase in the number of parties, as well as by the increase in the number of sponsors. Table 7 performs a similar exercise. The only difference is that we differentiate bills by committee, rather than by type. The main

point here is that bills that go through the constitutional affairs committee have lower probabilities of success. The opposite is true for bills that are discussed in the foreign relations-defense and budgetary committees. Note that there is no evidence of a lame-duck effect. That is, chances of success do not seem to be affected by the president's months in office. Finally, Figure 9 shows the partial effects on the probabilities of success of the relevant explanatory variables in the regressions.

## 6. Relevant Policy Characteristics

This section describes the key policy characteristics, or in the project's terminology, the 'outer features' of some policy areas. With the purpose of exploiting variation across time and across sectors, we focus on specific aspects of fiscal, monetary, and exchange rate policies. The idea is not to provide a detailed account of these policies or a complete taxonomy, but to identify those features and characteristics that can be related to the workings of the political institutions and the policymaking process. Given that lens, the implicit notion of optimal policy involves policies that are invariant to political shocks (or, more generally, to changes in the political landscape), but that are flexible enough to adjust to economic shocks. Finally, in the description we also highlight some specific aspects of these policy areas -different from the political institutions- that are useful in order to understand their 'outer features'.

### 6.1 Fiscal Policies

In an influential volume edited by Rudiger Dornbusch and Sebastian Edwards on the Macroeconomics of Populism in Latin America, Miguel Urrutia (1991) argued that populist macroeconomics were absent in Colombia, contrary to the norm in the rest of South America. According to the definition used in that volume, one feature of populist economics is the presence of large fiscal deficits, reflecting the use of budget expenditures for redistributive purposes without a concurrent effort to raise tax revenues. Using data from 1970 until 1988, Urrutia showed that fiscal deficits in Colombia had been relatively small (rarely exceeding 4% of GDP) and, when present, rapidly corrected<sup>47</sup>. In addition, the public sector was relatively small for regional standards (aggregate expenditures and revenues of the consolidated public sector were around 20% of GDP between 1960 and 1990).

In contrast to its past performance, aggregate public expenditures grew to 33.7% of GDP in 2003 from 21.2% 1990, reflecting a deliberate intention to use fiscal expenditures for redistribution. Total revenues have grown to 29.7% of GDP in 2003 from 20.6% in 1990, suggesting a greater tolerance toward fiscal deficits in recent times<sup>48</sup>. In explaining these trends, Ocampo (2004) argues 'the Gaviria (1990-94) and Samper Administrations (1994-98) did not

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<sup>47</sup> Urrutia argued that the particular political development of Colombia had led to clientelism, rather than populism. His hypothesis was that local politicians were not interested in populist macroeconomic policies because the electorate had very low tolerance for inflation so 'neither local politicians or the head of the state are willing to risk the wrath of the public by supporting expansionist fiscal or monetary policies'(p. 379).

<sup>48</sup> See fiscal data tables in the Appendix.

have the explicit purpose of raising the fiscal deficit, but rather to increase the size of the state in an orderly manner,” concluding that recent fiscal policy in Colombia cannot be characterized as populist macroeconomics in the sense of Dornbusch and Edwards (1991). In contrast, Carrasquilla (2003, p. 23) has recently pointed “it has not been feasible to consolidate a political agreement that excludes fiscal disequilibrium as an option for public and private agents”, a view shared by many others<sup>49</sup>.

To address these issues –and to identify the outer features of fiscal policy- we will divide the analysis in three parts. We start by discussing fiscal policies in relation to oil and coffee exports. Analytically, this is a rich area due to variation across sectors (e.g. the number of relevant actors is larger in oil than in coffee) and time (e.g. coffee being a critical source of fiscal and foreign exchange revenues until the 1980’s and oil thereafter). Secondly, we discuss issues related to the national government, which handles most of tax revenues and transfers an increasing share of those revenues to the regions. Thirdly, we look into pensions which are the fastest growing public expenditure.

### 6.1.1 Oil and Coffee

Public finances in Colombia have been highly dependent on coffee and oil taxation. In particular, coffee policy was a key component of fiscal policies before the enactment of 1991 constitution –specifically during the *Frente Nacional* years. Oil policy has been a key element of public finances in the post-1991 years<sup>50</sup>. The constitution was written a time of major oil discoveries, explaining the generosity in terms of protection of social rights and lack of emphasis on aspects related to fiscal sustainability.

Here, we explore the policymaking processes through which coffee and oil revenues are distributed among different groups in society. Also, as these export revenues are intrinsically volatile, it is critical to reach intertemporal agreements for the implementation of consistent fiscal policies (i.e. policies that prevent overconsumption during booms). The outer features of the policies that address these issues are very different in the case of oil (post-1991), compared to coffee in the previous years, reflecting differences in the underlying political institutions, but also diversity in the specific characteristics of these two policy areas.

As mentioned in Section 4, the rules of the political game during the *Frente Nacional* facilitated complex intertemporal exchanges in economic policy. No other sector illustrates better these exchanges than coffee policy. In 1958, the same year that the *Frente Nacional* was agreed, world coffee prices collapsed sending producers into a deep crisis. That year, the National Coffee Fund (NCF) became the instrument for the stabilization of producers' incomes. By its very nature, stabilization implied savings during booms and dis-saving during busts. In either case, cooperation was a prerequisite. Bates (1997) argues that coffee producers in Colombia have been traditionally at the center of the political spectrum. A candidate willing to win office requires the

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<sup>49</sup> See, for example, Wiesner (2004).

<sup>50</sup> To put this in context, oil exports have represented on average 30% of exports after 1991, while coffee represented on average 50% of exports between 1958 and 1986 (and only 15% since 1991). Due to the collapse in world prices, and the diversification of exports, coffee has lost most of its fiscal and foreign exchange relevance in recent times.

support of this group, which therefore has become pivotal in electoral turnouts. Consequently, liberal and conservative governments adopted similar policies in order to stabilize the effects of external shocks that were welfare-reducing for the median voter. Technocrats and coffee producers shared similar objectives and mutually reinforced their respective powers. The Minister of Finance (and, obviously, the President) and the leadership of coffee producers were the only relevant players in negotiating the intertemporal trades which involved a large part of the public finances.

According to the evidence presented in Cárdenas and Partow (1998), electoral and partisan cycles did not play a role in the redistribution of coffee export revenues to other groups. In this sense, one could characterize the NCF as a flexible instrument where outcomes (the amount of redistribution and the degree of stabilization of domestic prices) were the result of a two-player game (executive and coffee producers represented by the Coffee Federation), without the participation of other actors, such as congress or the courts. As a result of that interaction, coffee policy's outer features are stability (i.e. the capacity to sustain intertemporal agreements by stabilizing domestic prices) and flexibility (i.e. the capacity to adjust rapidly to changes in international and domestic conditions).

In light of the potentially destabilizing effects of an oil boom, congress approved in 1995 the creation of Oil Stabilization Fund (OSF). In contrast to coffee, the operation of the OSF is defined by rules that leave no room for flexibility. Redistribution is based on a rigid system of royalties allocated among the producing departments and municipalities (including those where the harbors are located) and the National Royalties Fund (NRF), which in turn redistributes to other departments and municipalities. Depending on the value of exports, the OSF forces saving by all the recipients of oil rents, and invests the proceeds abroad. The large number of players with power over a given decision (national and local governments, as well as Ecopetrol), the short-term nature of the interaction between the key actors (governors, mayors and the executive), the high discount rate of these actors, and the difficulty in delegating policies to a third-party, create an environment with high transactions costs. The natural consequence is that the cooperative solution that provides some stability (i.e. savings during high export years) is embodied in rigid system of rules, costly to change even if those changes are desirable. The experience of 1998-2000 illustrates this point. During those years the OSF was accumulating foreign assets at an unprecedented rate, given the high value of oil exports. However, during those years, access to international capital markets was severely reduced as a result of the Asian, Russian, and Brazilian crises, resulting in a deep recession in Colombia (GDP fell 4.5% in 1999). Because the law prevented their use, the assets of the OSF were not available as a source of funding for the government, at a time when they were highly needed from a macroeconomic point of view.

### **6.1.2 National Government**

Total expenditures of the central administration have doubled from an average of 10% of GDP during the 1980's, to an average of 20% since 1999. As a result of eight tax reforms, current revenues have raised to 15.3% of GDP in 2003, from 8.8% in 1990. The net result has

been an increase in the central government's fiscal deficit, especially after 1995. The adjustment measures adopted since 1999 (when the deficit reached a peak of 6.7% of GDP) have stopped – but not reversed- that trend. The growing gap between the overall and the primary deficit reflects the large increase in public debt and interest payments during the second half of the 1990s<sup>51</sup>.

We argue that the capacity to conduct stable and predictable fiscal policies (i.e. avoiding and rapidly correcting deficits) has been severely hindered after the 1991 Constitution. This is not only the result of additional expenditures 'imposed' by the constitution<sup>52</sup>, but the consequence of the reduction in the degree of flexibility and adaptability of fiscal policies. In turn, the greater rigidity in fiscal decisions is a natural response to the difficulty in reaching cooperative solutions in the environment created by the 1991 constitution, characterized by lower presidential powers and a larger number of relevant political actors. Along these lines, the report of the *Comisión de Racionalización del Gasto y de las Finanzas Públicas*<sup>53</sup> (1997) argued that the "growing demand of government services (education, health, justice, security, etc.) and the absolute lack of consciousness on the part of society in relation to the limited resources available" are some of the principal causes of the "difficult fiscal situation" which is characterized by a "limited room of maneuver of the administration" (p. 62). The Commission's analysis, as well as many other papers that have followed, have identified interest payments, pensions, and transfers as the key components of government expenditures that 'explain' the large imbalances in the sense of having increased faster than revenues (see Figure 10)<sup>54</sup>.

On the revenue side, it is important to understand which are the underlying political and institutional factors that explain why tax reforms have been so frequent (on average every 20 months since 1990), distortionary (introducing anachronistic taxes as well as tax expenditures), and incomplete (never closing the gap with expenditures). The 'outer features' in this case suggest high volatility (there have been some policy reversals in relation to tax rates and exemptions), low coherence of tax policies (in the sense that there is very little consistency between reforms.), and low capacity to adopt structural reforms, that solve long-term problems with measures that have short-term upfront political costs, but high long-term payoffs.

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<sup>51</sup> Rincón et al. (2003) find that the component of the fiscal deficit that results from cyclical factors was relatively small between 1980 and 1994 (fluctuating between -0.2% and 0.2% of GDP), but that the rapid expansion of the economy between 1995 and 1997, raised revenues over their long-run structural trend, lowering the fiscal deficit in as much as 0.4% of GDP. Between 1999 and 2002 revenues fell below their long run value as a result of the recession, adding between 0.2% and 0.4% of GDP to the fiscal deficit. These results are similar to those of Salazar and Prada (2003), but somewhat different from Caballero and Posada (2003).

<sup>52</sup> The 1991 Constitution was explicit about the need to increase expenditures, especially in the social sectors, with the idea of improving governance, while reducing the intensity of the conflict. Ocampo (2004) argues that the decision to raise expenditures, not only was deliberate but also had ample support, based on need to accelerate social progress while strengthening the democracy. Among the various possible ways to achieve these goals, the Constitution reinforced the model of fiscal and political decentralization, which had gained momentum during the 1980s. The Constitution also reformed the judiciary and imposed the obligation to subsidize public utilities to a large fraction of the population.

<sup>53</sup> This bi-partisan and technical commission was set by the government in 1995. The purpose was to obtain a set of recommendations for the rationalization of government expenditures. The initiative came from some legislators during the discussion of the 1995 tax reform.

<sup>54</sup> Payroll expenditures and general administrative expenses have remained relatively constant (in proportion to total revenues), while investment is the only item that has fallen (again relatively to total revenues).



## **Fiscal transfers to local governments**

The process of decentralization has evolved rapidly since 1980. In Colombia, over 40 percent of total government spending is allocated by sub national governments, against an average of 15 percent in Latin America<sup>55</sup>. Sub national governments are larger only Argentina and Brazil, the two federal countries in the region. Fiscal decentralization was pushed forward by the 1991 Constitution, that mandated a significant increase in fiscal transfers to the regions (mainly for education and health), to levels that are comparable to those of federal countries. Articles 356 and 357 of the 1991 Constitution imposed a gradual increase in territorial transfers, which were 29% of the central government's current revenues in 1990 and were expected to rise to 46.5% by the end of that decade<sup>56</sup>. In practice, however, fiscal transfers rose faster, to nearly 60% of current revenues, suggesting the presence of other factors beyond the constitutional mandate<sup>57</sup>.

In July 1999, worsening economic conditions at home and abroad, led the Pastrana Administration to initiate formal talks with the IMF. The core of the agreed program was to lower the CPS deficit to 3.5% of GDP in 2000, 2.5% in 2001, and 1.5% in 2002<sup>58</sup>. The IMF program emphasized the need of a constitutional amendment to modify the system of fiscal transfers based on a fixed proportion of current revenues (which made tax reforms partly ineffective for fiscal adjustment). The amendment was finally approved by Congress in July 2001.

The workings of that policy change illustrate well the incentives and constraints of the political actors. The initial proposal of the government was to replace the system with guaranteed 1.5% real annual increase in fiscal transfers (equivalent to population growth), regardless of economic conditions. In an effort to gather the sympathy of the political class, the government modified the initial proposal and introduced another article, extending the term in office of elected majors and governors from three to four years. Negotiations in congress raised real growth increase in fiscal transfers to 2% per year between 2002 and 2005, and 2.5% between 2006 and 2008<sup>59</sup>. The end result is that the executive had to pay a high price (securing regions with a high growth rate) in order to gain three years (2002-2004) of independence between revenues and transfers. In addition, the amendment incorporated the *Fondo de Compensación*

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<sup>55</sup> In contrast, local taxes account for about 19% of total taxes in the country.

<sup>56</sup> According to Wiesner (1995), decentralization was conceived not only as a policy to induce efficiency from an economic point of view, but as a political instrument to allow greater participation or, more explicitly, as an escape-valve to release some of the pressures that had been built during the years of centralism. The process redistributed power from the national government to the municipalities and, to a lesser extent, to departments (Acosta and Bird, 2003). Critics emphasize low accountability and waste of resources (e.g., Echavarria, Renteria y Steiner, 2003) and the excessive imbalance of social spending on health and education, which has interfered with an efficient use of resources to reduce poverty (Perotti, forthcoming 2005).

<sup>57</sup> One of those factors is law 188, enacted in 1995, which incorporated new teachers into the system, reclassified them into higher-salary categories (effectively increasing salaries by 26% in real terms). The national government paid the bill through the *Fondo de Compensación Educativa*.

<sup>58</sup> At the end of 2002, the program was extended for another three year term.

<sup>59</sup> After 2009 transfers will grow at a rate equal to the real growth in current revenues of the central government during the previous four years.

*Educativa* into the constitutionally mandated level of transfers. This shows that changing the rigid clauses of the constitution regarding fiscal transfers is politically costly. This, of course, limits the room of maneuver of the executive in economic matters, which cannot adjust expenditures at the local level to overall economic conditions.

However, other reforms introduced in the past few years have improved matters, as reviewed by Zapata, Acosta and Gonzalez (2001), by redirecting the use of the fiscal transfers. Law 549 of 1999, created FONPET (a national fund to cover primarily the pension liabilities of the regions) and forced most of the increase in fiscal transfers to the regions between 2000 and 2002, 20% of the revenues of the national royalties fund, and the resources from potential future privatizations to go to this Fund. Law 617 of 2000 created limits to the current expenditures of the local governments and has effectively reduced the fiscal deficit at the municipal and department level. Complementing the constitutional amendment, Law 715 of 2001 improved the criteria used for the allocation of fiscal transfers across local governments, using efficiency indicators (such as the enrollment rates or the actual population receiving health subsidies). To end with an optimistic note, this shows that reform has been possible on the margin. Reforms have improved the use and allocation of fiscal transfers, rather than providing some adaptability or flexibility to their overall level.

### **Other examples of embodied rigidity**

In a recent paper, Echeverry et al. (2004) discuss other sources of inflexibility in the central government's budget. They distinguish between mandatory expenditures and earmarked revenues. According to the 1991 Constitution, some of these revenues are considered *parafiscales* in the sense that they are spent by institutions not included in the budget approved by congress. As they rightly point out, these rigidities have a long tradition in the Colombian economic history. Almost every single minister of finance in the 20<sup>th</sup> century complained about the fiscal problems caused by congressional initiatives in relation to expenditures and earmarked taxation<sup>60</sup>.

For the purpose of this paper it worth noting that, apart from transfers to the local governments and pensions, earmarked expenditures currently represent nearly 1.7% of GDP. These expenditures cover almost every single sector (from sports to security), and are rigid in the sense that the budget law cannot change them. In relation to earmarked taxation the estimated figure for 2003 is 3.7% of GDP, suggesting that it is a larger problem. It is interesting to note that 79% of the existent earmarked rents were created after 1991, suggesting that the rules of the political game favor this type of rigidity given the high political transactions costs. The recipients of these taxes are a myriad of funds, created for the development of specific regions and sectors. Recently, earmarked taxation has been used as a way of funding additional military expenditures.

High transaction costs also result in the constitutionalization of fiscal policies. A good example is wage policy in the public sector. Based on its interpretation of article 53 of the

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<sup>60</sup> See the survey of *Memorias de Hacienda*, collected in Serna (1988).

constitution (which says that minimum vital remuneration is a right), the Constitutional Court has overruled the budget and has imposed minimum salary increases<sup>61</sup>. Rigidities are so pervasive that the executive had to call a referendum in 2003 in order to freeze government expenditures for two years. The referendum failed.

## **Taxation**

As discussed above, there has been a deliberate, although insufficient, effort to raise revenues in order to finance larger expenditures. The analysis of the contents of recent tax reforms, as well as the formal objectives established in the draft projects, confirm that the major objectives of the executive in the tax reform process have been the increase in tax revenues as a means of reestablishing fiscal balances. Even though the priority has been the increase in fiscal revenues, the draft tax reform projects submitted to congress have given importance to the structure of the tax system, an area in which governments have been only partially successful. There has been an increasing reliance on the VAT rate which has increased from 10% to 16% through the various reforms since 1990. However, the most recent attempt to increase the central VAT rate from 16% to 17% was rejected in congress in the debates of the 2003 reform. More importantly, most of the draft projects submitted to congress have sought to widen the VAT base, with limited success.

As a consequence of congress' reluctance to widen the income and VAT tax base, the executive has introduced new –and highly distortionary- tax sources. In 1998, a temporary 0.2% financial transactions tax was adopted through an emergency decree, which was raised to 0.3% and made permanent in the 2000 tax reform, and raised again to 0.4% in 2003 reform. In the same vein, the Uribe government adopted through an extraordinary internal commotion decree a transitory net wealth tax earmarked to the strengthening of democratic security in Colombia. This tax was extended for three additional years in 2003. The conclusion is that revenue pressures have led to decisions that disregard the basic principles of an equitable and efficient tax structure.

The role of congress as a political actor in tax reform has been significant. While in earlier decades, congress largely rubber-stamped the tax reforms submitted by the executive, oftentimes through emergency legislation, its involvement in the design of tax packages has been increasing since the early 1990s. On the positive side, one can argue that congress has been exemplary, to the extent that it has passed eight tax reforms since 1990 and that it has never rejected the approval of additional taxes as has been common in other Latin American countries. Also, congress has a solid group of distinguished members with knowledge and expertise on fiscal affairs who lead the debate and who are influential in the outcome of fiscal legislation. On the negative, congress could be partly blamed for the insufficiency of revenues that come forth from the reforms, for the increase in expenditures and for the deficiencies in the structure of the taxing system. An analysis of tax legislation submitted by the executive reveals that congress tends to water-down the proposals during the debates, both in terms of revenues, but, more importantly, in terms of the quality of the reforms.

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<sup>61</sup> A ruling in 2000 established the previous year's inflation as the minimum increase. In 2001 a new ruling stated that for public employees with above-average salaries, the wage increase could be less than inflation (but positive in any case). In 2003, the Court determined that the minimum increase could not be less than 50% of inflation.

The growing involvement of congress in fiscal issues is also illustrated in the significant number of sponsors that are assigned to the analysis of the draft proposals from the executive. As discussed above, the interest in becoming sponsor also has to do with the distribution of pork, or with benefits obtained from the private sector as a result of political favors. The Constitutional Court has also been a significant actor in tax policy outcomes. Tax issues have represented around 10% of the total legal claims on economic matters handled by the Court since 1991. As shown in Table 8, among the 50 most important rulings on economic matters made by the Court since 1992, 19 have dealt with fiscal issues. In 1999, the ruling on the financial transactions tax limited the scope in the use of resources. More recently, the Court denied the approval of the generalization of the VAT and the taxation of specific activities. At the same time, the Court has given its full legal support to important reforms.

### 6.1.3 Pension policy

As mentioned above, pensions have been the fastest growing public expenditure since 1991. The policymaking process provides another example of an entrenched status quo – unsustainable and unequal- yet extremely hard to reform. Law 100 of 1993, a major reform that had as its main goal the replacement of the pay-as-you-go defined benefit (DB) system for a defined contribution (DC) and individual capitalization scheme, illustrates well the workings of the political process. What came out of the legislative discussion is quite different from the initial government proposal. In particular, the DC regime is not mandatory for new entrants and was offered only as an alternative to the DB system. The reform scaled down some of the benefits of the DB system, especially by raising the retirement age, but the system is structurally unbalanced. In addition, the political compromise was to phase in very slowly the new conditions, which will be fully effective only in 2014. Such a long transitional period has implied growing fiscal deficits. In addition, workers of the oil sector, teachers, and members of the armed forces kept their privileged pension regimes, something that has been impossible to change until today. The initial proposal, eliminated the DB system, leveled the benefits of all systems in 2004 and only excluded the military from the standard regime.

Even though the reform lowered the implicit pension debt by 38% of GDP, mainly as a result of the increase in contribution rates from 6.6% to 13.5% of wages; the fiscal costs of the new pension system were still unsustainable. As early as 1997, the report of the *Comisión para la Racionalización del Gasto Público* (1997), Ayala (1998), Clavijo (1998), among others, proposed shortening the transitional period, raising the retirement age, increasing contributions, reducing the replacement rate, and adopting stricter eligibility criteria. Although in the 1999 IMF program the Colombian authorities had made strict commitments to submit to Congress a second-generation pension reform, it was not until December 2002, under the Uribe administration, that the pension reform was finally approved in congress. Notwithstanding the political capital of the new administration, the proposed increase in retirement ages starting on 2009 was rejected in congress. Contributions went from 13.5% of wages to 15.5% by 2006, while the minimum required number of weeks of contribution was increased. The replacement ratio was also reduced gradually from levels in the range of 65-85% to the range 50-70%, and

new public workers were obliged to remain in the public pension system for at least the three initial years. Here also, the Constitutional Court rejected some of the changes<sup>62</sup>.

In addition, the referendum voted in October 2003 included a specific question –which was not approved- proposing the elimination of all exempted and special public sector pension regimes and the alignment of all new entrants to the general pension regime as from 2008. A balance of results in pension reform indicates this is a politically delicate and costly issue. As in the case of tax reform, draft proposal submitted by the administration are watered down in the congressional debate, especially in relation to changes in retiring ages or eliminating the ISS. The conclusion is that the executive has initiative but without control on the final output.

## **6.2 Monetary and Exchange Rate Policies**

The main objective of this section is to show the changes in the PMP in regards to monetary and exchange rate policy. We find that these changes led to a reduction of presidential powers in the definition of monetary policy. Furthermore, we show that the increasing independence of the central bank devolved political power to congress not only because the Bank Board became accountable to congress, but also because of the restrictions imposed on the executive for a discretionary use of monetary policy. The executive's capacity to manage monetary and foreign exchange policies was functional to the government as it oftentimes substituted fiscal policy reforms. As a consequence, the president surrendered an important bargaining chip as he lost his capacity to use and, on occasions, manipulate monetary policy as a means to negotiate with pressure groups and even with congress, by providing selective exchange-rate and directed cheap sector credit policy treatments in exchange for compliance or support.

In relative terms and compared to other Latin American countries, Banco de la República (central bank) had been relatively independent from other branches of government. Nevertheless, such independence was far from complete. In fact, monetary and exchange rate policies undertook a significant turnaround as a result of formal independence, established under the 1991 constitution. Notwithstanding, monetary policy continues to be a shared responsibility between the Minister of Finance and Banco de la República. Congress, on the other hand, fared well with the independence of the central bank to the extent that, in terms of Executive-Legislative relations, it gained relative power since in the financing of government, the Executive would no longer be able to recur to monetary financing from the central bank and would be forced to recur to the Legislative, both in the case of taxes and in authorizations to undertake public lending. Although Congress involvement in monetary and exchange-rate issues had traditionally been weak and less important than on fiscal matters, the independence of the central bank increased the dependence relationship between congress and the executive on fiscal matters. Finally, it is worth pointing out that the courts, particularly the Constitutional Court, have also had a significant role in the definition of the central bank policies after 1991.

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<sup>62</sup> The increase in the minimum number of weeks of contributions was declared unconstitutional, but it was approved again in the following legislature (Law 860/2003).

To discuss the hypothesis, this section is divided into two major sub-sections. The first sub-section deals with the monetary and exchange rate policy framework. It starts with the review of the PMP in the exchange rate and monetary policy areas before 1991. It then goes to review the motives of discontent and the contents of the constitutional reform. The second deals ends with the analysis of the new institutional arrangement. The section ends with a sub-section on policy outcomes.

### **6.2.1. Monetary and Exchange Rate Policy Framework**

Before 1991, access to central bank liquidity facilities benefited greatly the government through monetary deficit financing. The system gave preferential credit access to particular activities, according to sector problems and pressures. Since 1991, the central bank is banned from extending direct loans to the private sector, except in the case of liquidity facilities to the financial sector. Although lending to the government is theoretically possible, it requires the unanimous vote of the board members. Exchange rate policy from 1967-1991 was based on a crawling-peg regime, supported with a strict exchange control. The key policy decision -the rate of crawl- was made by the Minister of Finance in consultation with the President and transmitted to the Governor of the central bank for implementation.

Discontent with the old regime became evident around 1987. Urrutia (1994) notes that by the end of the 1980's the strongest argument for maintaining the controls was the fact that Colombia had only had one exceptional balance of payments crisis since the controls were adopted in 1967 (also no distinguishable interest group was being favored by the control scheme). Despite this, President Gaviria's reform proposal found support in congress and among public opinion because the effectiveness of the foreign exchange control system had decreased. Even though the crawling-peg regime coped with periods of booms and busts, it was unable to prevent prolonged periods of over and under-valuation of the currency. Besides, exchange controls provoked misallocation of resources.

Although it is tempting to suggest that monetary independence was a strategic decision by the constitutional assembly, in order to curb the fiscal deficit (especially after a constitution so rich in additional mandatory expenditures), the reality is that monetary reform was pushed directly by the central bank, inspired by the changing international attitudes towards monetary and exchange-rate regimes. According to the Washington Consensus, central bank independence gave priority to the control of inflation and prevented monetary financing of government fiscal deficit. The change in the central bank regime in Colombia was just one of a significant set of structural reforms covering taxes, labor, trade liberalization, decentralization, social security, and the financial sector adopted at the beginning of the nineties under the Gaviria Administration (see Edwards and Steiner, 2000).

Consequently, since 1991 Banco de la República has managed the exchange rate policy with large independence. In order to allow for flexibility and market orientation in the determination of the nominal exchange rate, the Board in 1991 allowed the nominal appreciation of the currency (see Jaramillo et al., 1999). From 1994-1999 the Central Bank Board established

an explicit exchange rate band. During that period, the Colombian authorities established controls on short-term capital inflows, of the Chilean type<sup>63</sup>. It should be noted that since 1999 the determination of the nominal exchange rate has been fully market based. The central bank only intervenes in the market sporadically and, mainly, as a response to known and explicit intervention rules, through option mechanisms. On the monetary front, it should be added that, on a monthly basis, the central bank staff presents to the Board an Inflation Report and recommendations on the policy stance. The decisions to adjust the central bank interest rates (i.e. Lombard and intervention rates) are made by the Board of Directors on a majority rule basis.

In regard to the institutional organization, it seems important to highlight that although the Minister of Finance is formally the person in charge of conveying the Government view on exchange policy and interest rate matters, it has not been uncommon, but rather the rule, that the President himself provides his own views on these issues. Congress also has an important role in the institutional organization but not in monetary and exchange rate policy formulation. In the first place, the Colombian constitution (article 371) establishes explicitly that the central bank should present reports to Congress on matters of responsibility to the Bank, which include exchange rate issues and the management of international reserves, and “on other issues that may be required”. The constitution also establishes that one of the roles of congress, besides dictating the central bank law that regulates the constitutional mandate to the Board, is its responsibility of determining the exchange rate ‘regime’. In 1991, Congress approved two important pieces of legislation regarding central bank board functions (Ley 31 de 1991) and the exchange rate regime (Ley 9 de 1991). On every legislative period, Congress discusses the Banco de República Reports and summons the Minister of Finance, the Governor and the Board members for difficult and strict questionings regarding central bank policies.

Initiatives to modify the central bank’s mandate have not been uncommon (see Table 9). However, only one initiative (out of seventy) was approved by congress, but it was later rejected by the Constitutional Court. Two of these were debated in the Senate commissions and fourteen did not have any course through Congress. The one approved was presented by President’s Samper administration in 1996 and was clearly directed to modify the role of the Board of Banco de la República as the exchange rate authority of the country. Other initiatives have been geared towards the explicit acceptance of the “employment” objective as one of the main goals of the actions of the Board and to subject its members to a censure vote, a political action that Congress can apply to cabinet ministers. While it is true that the number of initiatives to change the exchange rate authority of the Central Bank Board has increased in recent years, it is also a fact that the number of senators and representatives that try to push these initiatives through Congress is quite small and that two or three of them generally insist, every year, in repeatedly presenting them to Congress. At the end of the day, however, Congress has not been successful in reforming the framework established by the Constitution in 1991 and by the central bank’s law of 1991 (Ley 31 de 1991).

Reference should be made on the role of the judiciary branch of government. Two major decisions adopted by the Constitutional Court since 1991 have had an important bearing on

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<sup>63</sup> Cárdenas and Barrera (1997) and Ocampo and Tovar (1999) discuss their effects.

exchange rate and monetary policy in Colombia. In the first place, in 1993 it ratified that the law defining the exchange rate regime (Law 9 of 1991) was valid, even though it had been previous to the formal approval of the 1991 constitution. The second decision refers to the Court interpretation in regard to the priority that should be given to the stabilization of the currency or inflation objective vis a vis the objective of economic growth. The Court interprets that the central bank objectives should cover both the control of inflation and the economic growth objective set by the government. The Constitutional Court also involved itself in interest rate policies, by dictating to the central bank the criteria that should be followed for the indexing of mortgage loans.

Table 10, refers to the Constitutional Court Rulings that are thought to have had major implications upon economic policy making in Colombia. It can be seen that out of 50 major rulings by the Court between 1992 and 2003, covering a wide range of areas related to the economy, only six had to do with the workings of the central bank and one (N°481 of 1999) had a substantial implication for the Board, since the Court interpreted that the objectives of the Bank should include both inflation control and economic growth. Normally, the court has ruled in favor of the central bank's independence by limiting the role of the government in exchange rate and monetary matters. While defending that, the Court has also become more active in issues that were previously reserved to economic authorities, such as the cap on mortgage interest rates.

Table 11 works out a similar exercise but regarding decisions made by Consejo de Estado, the judiciary institution which controls the complying of the law by the executive branch of government. In general, its rulings have confirmed and reiterated the role of the Board of Banco de la República Board as the foreign exchange and exchange rate authority in the country. The major conclusion found in the case of the Consejo de Estado is that it has acted as an enforcer of inter-temporal agreements.

The role of multilateral organizations, particularly the IMF, as well as the US Treasury has also been important. In 1999, during the final stages of negotiation of the IMF program, both the IMF and the Treasury were of the view that Colombia should switch from the exchange rate band system to a flexible regime. This view ultimately prevailed. Colombian private sector interest groups, the academic community, the press and public opinion in general have limited influence on the formulation of exchange rate policy. On the interest rate front, public opinion was highly critical of the central bank board decision to raise interest rates in 1998-1999 as a means to prevent a run on the currency, and as an attempt to sustain the exchange rate band system. As expected, private sector opinion largely favors low interest rate policies.

### **6.2.3 Monetary policy: features and outcomes**

Monetary and exchange rate policies have tended to be stable in Colombia. In the pre-1991 years, policies were ultimately in the hands of the President and the Minister of Finance (usually a technocrat), with the expert advice of the central bank governor and a small group of advisors. Political interference was limited to the president (and ministers in charge of agriculture and industry), while congress was excluded from this policy area. Post-1991, policies have been



formally delegated and, thus, have become more independent. Volatility or policy reversals associated with changes in the political landscape have been avoided by the type of institutional design, which stresses large coordination between the executive and the monetary authority.

The possibility to accelerate the rate of the exchange rate crawl made the crawling peg regime, in principle, a very flexible system. Political constraints, however oftentimes did not allow the implementation of required adjustments in the nominal rate. This explains the failures to adjust and the prolonged periods of over and undervaluation observed. The exchange rate band system was managed in a more flexible way: Both the width of the band and its central parity were changed when fundamentals required it. Nonetheless, the system was still too rigid and a run on the currency occurred in 1999. Authorities moved to a flexible regime with explicit intervention rules since.

Overall, the inflation-targeting framework adopted in the mid-nineties allows for more flexibility when compared to the rigid rules that guided the increase in monetary aggregates, which prevailed since the 1960's. Inflation targeting allows the monetary aggregates to fluctuate according to the changes observed in money demand. Under inflation targeting interest rates are policy variable. Coordination between the government and the monetary authorities both on exchange-rate management and interest rate policies has been high under both the pre-1991 and post-1991 systems. The presence of the Minister of Finance and the Governor of the Central Bank in the (1963-1991) Monetary Board and in the post-1991 Central Bank Board assures the required coordination.

The crawling peg system reduced the short-term costs of nominal exchange-rate volatility by managing the rate of daily crawl. It, nevertheless, led to longer-term costs measured in terms prolonged periods of over and undervaluation of the currency. The present flexible regime has short-term costs in terms of more volatile nominal exchange-rate fluctuations, with longer-term gains linked to lesser departures from the equilibrium exchange rates and reduced international reserves fluctuations. Without doubt, the current system has much less political interference. In the same vein, it can be shown that the pre-1991 monetary framework presented lesser interest rate fluctuations, with the cost of having a moderate yearly inflation rates in the range of 20%-30% from the 1960's to the mid-1990. With the adoption of the inflation-targeting framework, deliberate interest rate adjustments adopted by the Central Bank Board have been more frequent with resulting gains in terms of reducing inflationary expectations and achieving a one-digit inflation for a number of years.

A final distinguishing aspect between the pre and post-1991 regimes relates to differences in public or private regard or orientation. The crawling peg system was often accompanied by multiple rates favoring specific groups. While a tax was generally imposed on coffee exports (and also on oil proceeds), importers of certain types of goods (i.e. capital imports) obtained foreign exchange at relatively more favorable terms. The actual flexible regime leads to a single market- determined rate for most goods and services.

Finally, it does not appear that changes of government in Colombia, or political ideology, have made a substantial difference in the way exchange rate policy has been conducted and

implemented. Under the crawling-peg regime the variation of the nominal exchange rate responded to a discretionary management, but the real rate followed economic fundamentals. The behavior of the exchange rate between 1991 and 1999 and afterwards -when the exchange rate band was eliminated- was more strongly determined by fundamentals and market perceptions. There is no evidence that political pressures or party orientation had influenced the evolution of the exchange rate. Even presidents who wanted to see a higher rhythm of real devaluation in order to promote exports did not have any major or lasting influence in the exchange rate movement and watched, to their regret the real rate appreciate during their mandate.

## 7. Conclusions

At the end of the 1980s, the Colombian political institutions were under severe strain. Large segments of the population demanded more political participation and inclusion after decades of bi-partisan control. Regional political leaders -with the support of the electorate- advocated fiscal and political decentralization, after more than a century of comprehensive concentration of powers in Bogotá. The claim for increased security and political stability was particularly loud, after a decade of growing unrest and conflict that ended with the assassination of three presidential candidates in 1989. Moreover, the expectation of greater resources available for the discovery oil, as well as the exacerbation of social tensions, created momentum for the long-debated need of a new constitution. The sentiment around this issue captured the elections of 1990 that included an unofficial vote in favor of rewriting the constitution.

The new constitution became an escape valve that released some of the pressures that had been built in the previous decades. More sectors were brought into democratic life, the barriers for political participation were lowered, and regions gained autonomy and independence. In sum, this was a reform from within the system that guaranteed its own survival.

The new political institutions had a significant effect on the policymaking process and the policy outcomes in a variety of areas. In particular, we are interested in identifying the causes of lower growth, higher volatility, higher unemployment and lower inflation that have characterized the Colombian economy in recent years. Much of the explanation has to do with external shocks, especially in relation to capital flows. But coping with those shocks is a key role for macroeconomic policies, so it is important to understand to what extent the new political institutions has affected the design, implementation, and effectiveness of those policies. In particular, we focus on fiscal, monetary and exchange rate and find some interesting results.

We start by documenting the reduction in presidential powers that resulted from the 1991 constitution. In the case of fiscal policy, although the president still has the initiative, the constitution operates as a straightjacket that limits the room of maneuver, especially in relation to expenditures. Naturally, the constitutionalization of fiscal policies favors the status. Moreover, in those cases in which there is some constitutional flexibility, the executive has faced a more divided and fragmented congress. As we show empirically, this has increased political transaction costs and has lowered the probability of approval of bills initiated by the executive. Apart from the quantitative aspect, bills that are approved are typically water-down relative

executive proposal. In addition, the use of special legislative powers by the executive was severely restricted. Therefore, the executive cannot by-pass legislative debate, as it was frequently the case before 1991. Finally, the constitutional review of laws and decrees is more independent and detailed, often ending in rulings of unconstitutionality. Unsurprisingly, the degree of adaptability and flexibility of fiscal policies is practically inexistent. Fiscal policy lost its stabilization properties, precisely at the time when the economy became exposed to larger shocks. In terms of the reforms that could improve the quality of fiscal policies, we argue that deconstitutionalizing some aspects, strengthening the role of parties (vis-à-vis political movements and factions) which requires changes in the electoral procedures, are to be considered.

The reduction in presidential powers has also affected monetary policy. Although the president is still influential -through the presence of the minister of finance in the central bank's board-, policies often deviate from the preferences of the executive. The greater focus on inflation, relative to employment, is a natural consequence of the lack of credibility in monetary policy after two decades of high inflation. Although disinflation has been the overriding goal of monetary policy since 1991, the evidence suggests that monetary policy has become more flexible and adaptable since 1999, the year when inflation returned to single-digit figures, a flexible exchange rate was adopted, and the inflation targeting model was implemented. In this case we do not propose major reforms to the political institutions that are relevant for monetary policy.

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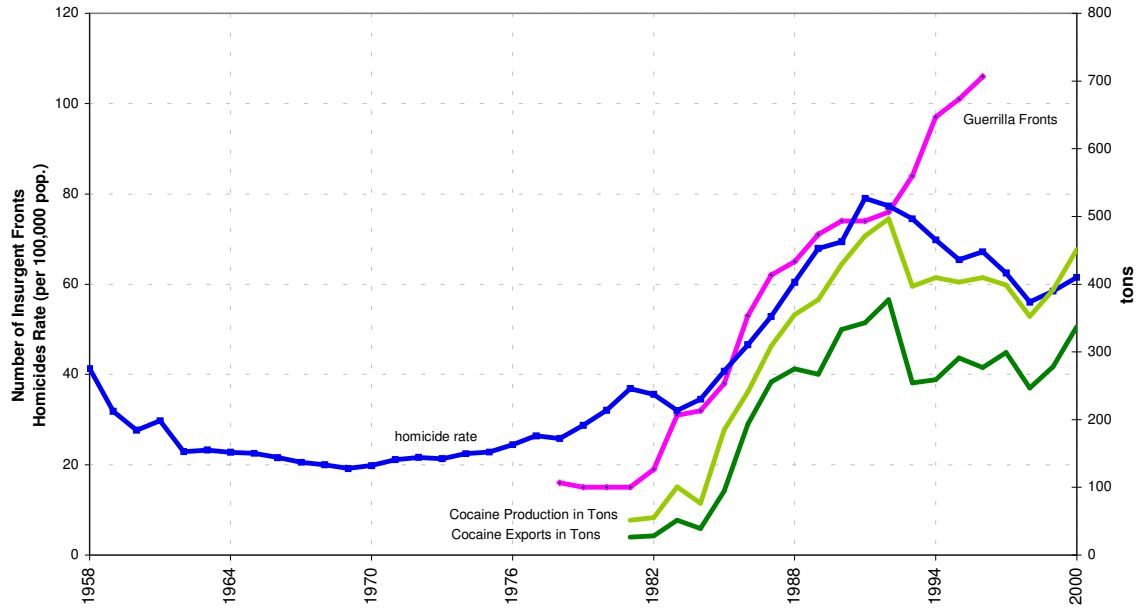
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### Figure 1

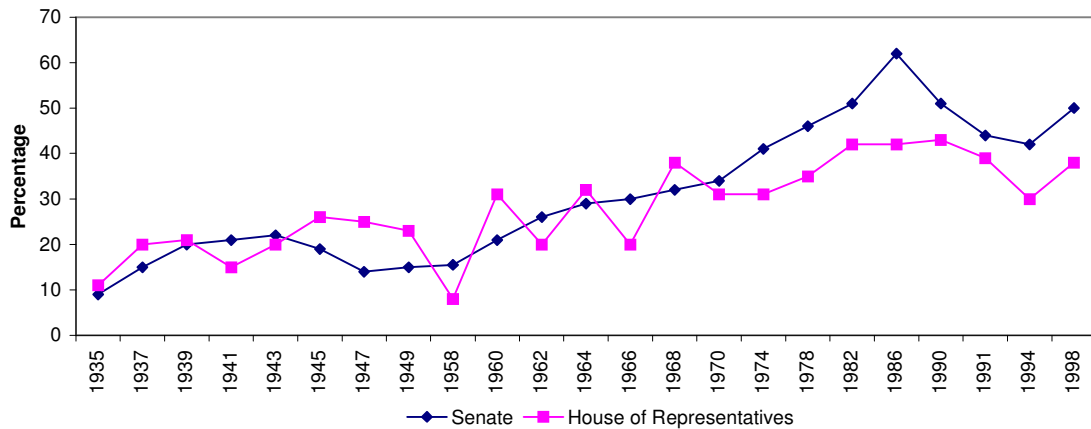
#### Illicit Drugs, Crime, and Conflict



Source: Homicide Rate comes from Informes de Criminalidad (Policia Nacional) various years. Cocaine production and exports from Rocha (2000)

### Figure 2

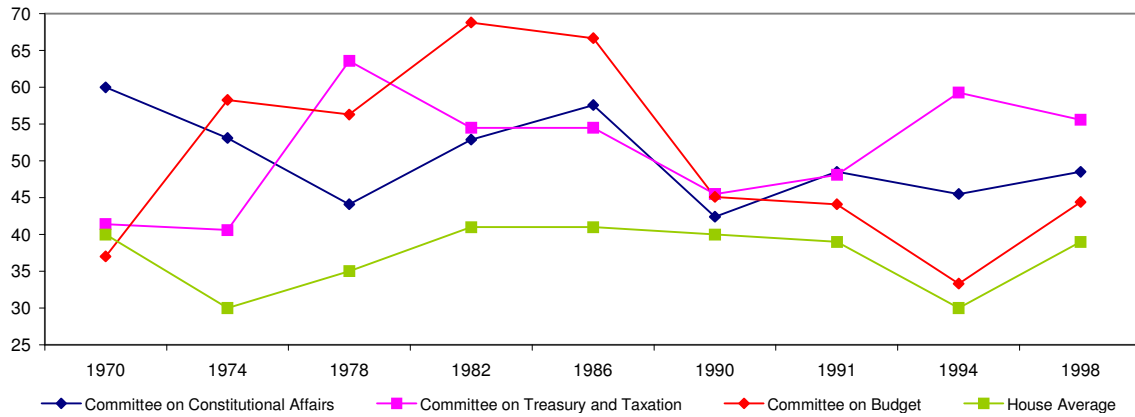
#### Reelection Rate in Congress 1935 - 1998



Source: Archer, Ronald (1995)

**Figure 3**

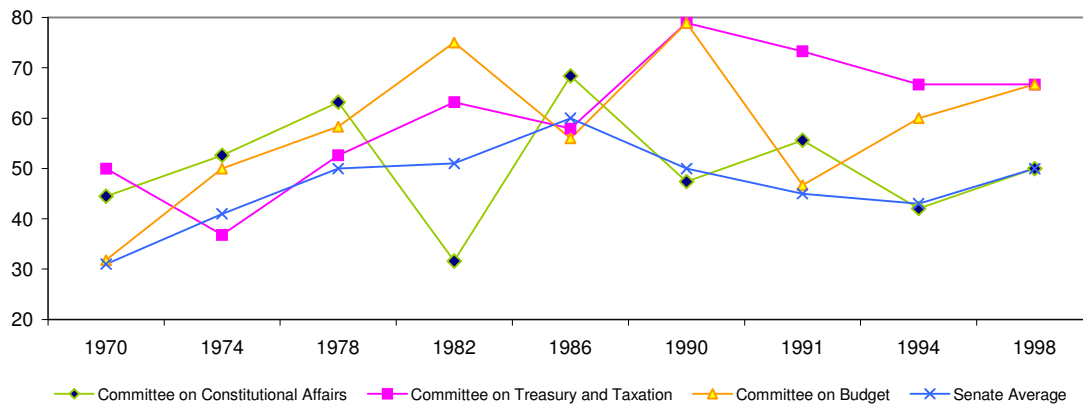
Incumbency Rate for the Constitutional, Treasury and Taxation and Budget Committees Compared for the Lower Chamber, 1970 - 1998



Source: Author's Calculation - Data from Gacetas del Congreso

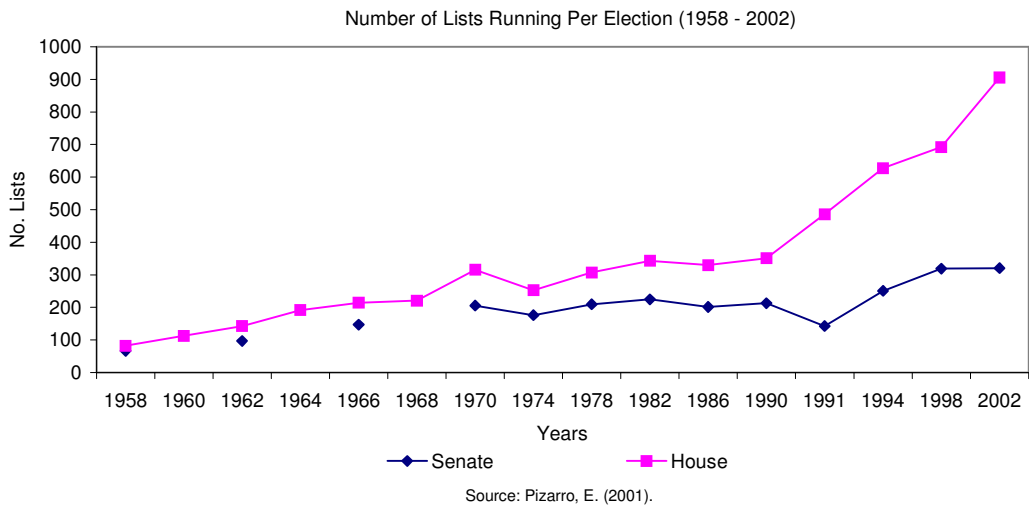
**Figure 4**

Incumbency Percentage for Constitutional, Treasury and Taxation and Budget Committees Compared for the Senate, 1970 - 1998

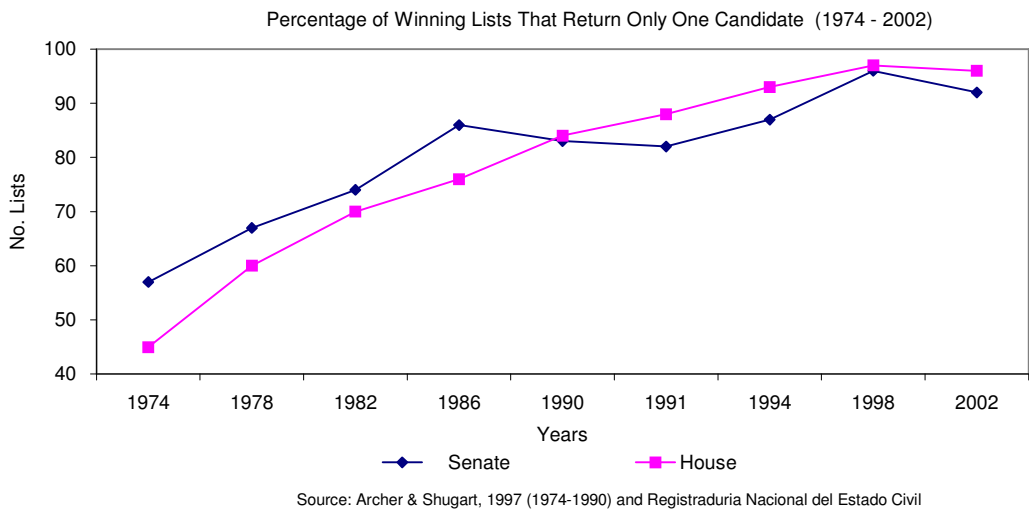


Source: Author's Calculation - Data from Gacetas del Congreso

**Figure 5**

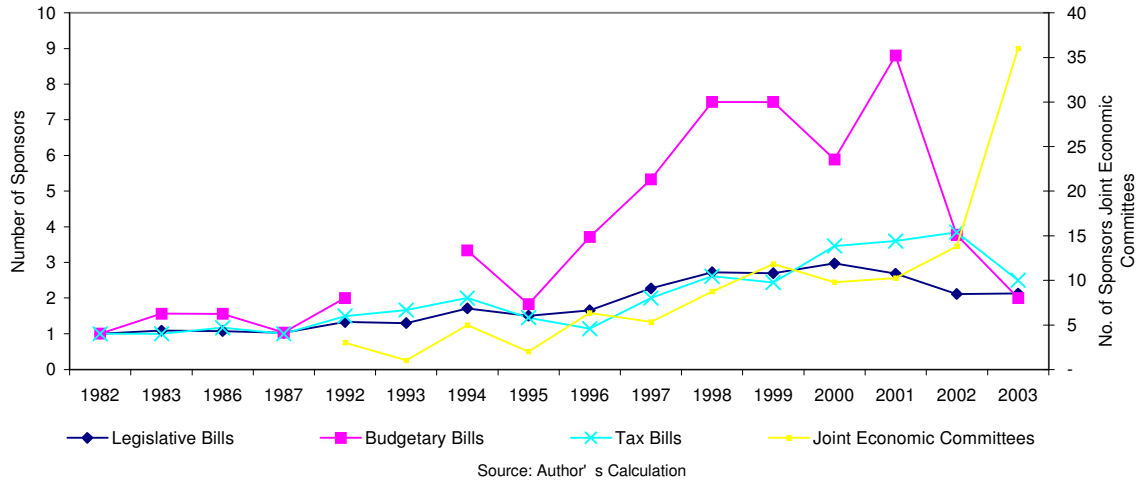


**Figure 6**



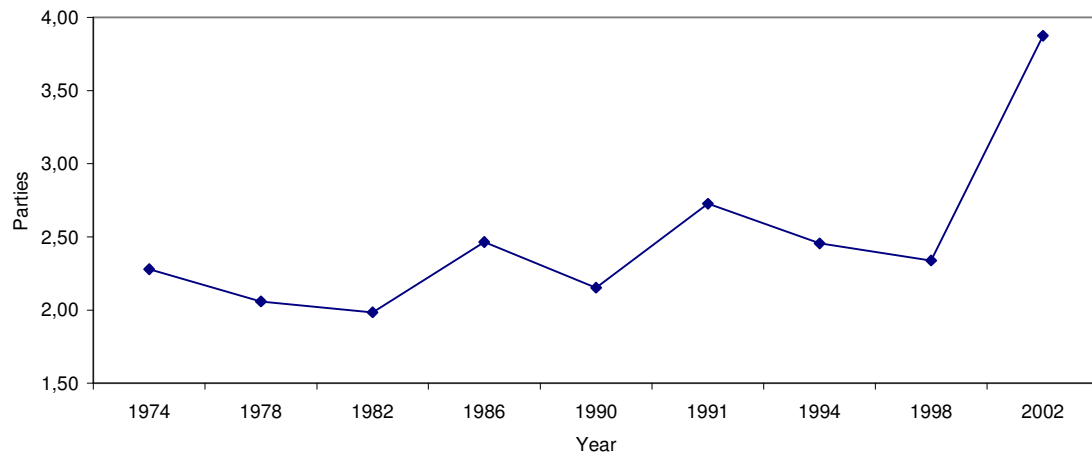
**Figure 7**

Average Number of Sponsors  
(1982-2003)

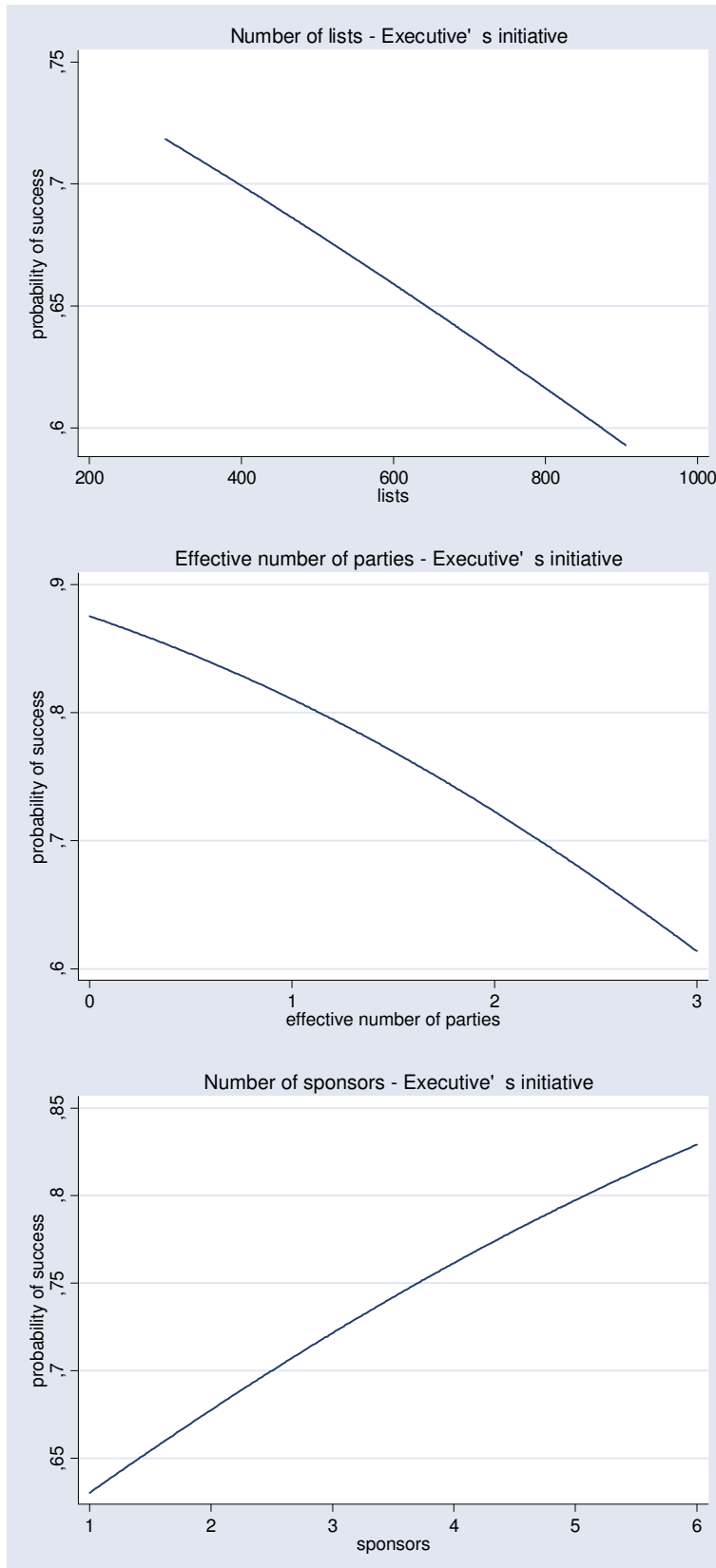


**Figure 8**

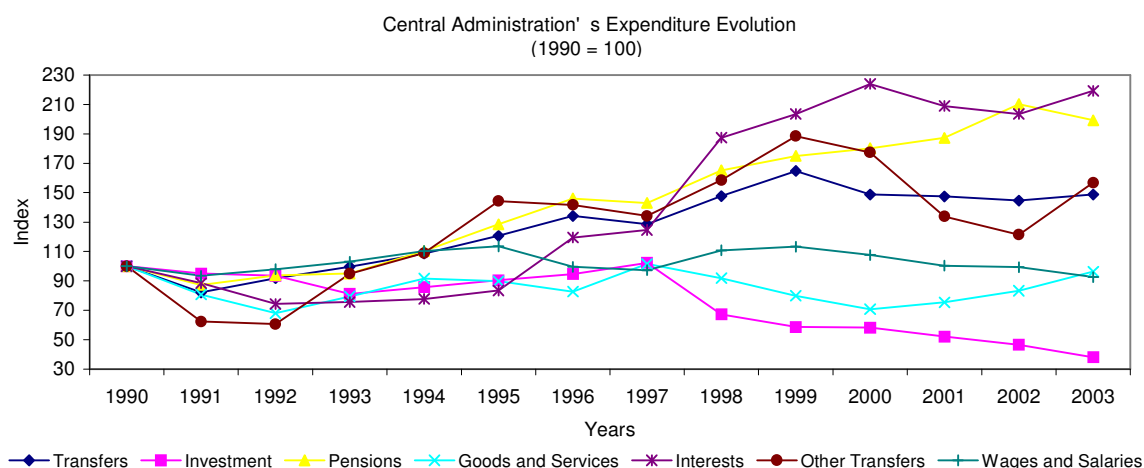
Laakso-Taagepera Index of Effective Number of Political Parties in the House of Representatives  
(1974-2002)



**Figure 9**



**Figure 10**



**Table 1**

Description of Committee's Jurisdiction		
Committees	Jurisdiction	House
Committee 1	Constitutional Reforms, Statutory Laws, District Organization, peace strategies	33
Committee 2	International Relations, National Security and Defence, Treaties, Diplomacy issues	19
Committee 3	Treasury, Taxation, subsidies	27
Committee 4	Organic Budget Law, Financial System Control, Sale of National Assets	27
Committee 5	Agriculture regime, ecology, environmental issues, and regional development agencies	18
Committee 6	Mass media, communication, public emergencies, public services, transport, and public works	18
Committee 7	Public service regime, union organizations, societies, social securities	19
<b>TOTAL</b>		<b>161</b>

**Table 2**  
**Parties and Factions for the National Front**

	1958	1960	1962	1964	1966	1968	1970	1974
Presidential Period	Alberto Lleras (1958 - 1962) Liberal		Guillermo Valencia (1962 - 1966) Conservative		Carlos Lleras (1966 - 1970) Liberal		Misael Pastrana (1970 - 1974) Conservative	Alfonso López (1974 - 1978) Liberal
<b>Pro-government</b>								
Liberal Party								
Oficialistas	50%	38%	32%	32%	36%	38%	27%	57%
Conservative Party								33%
Laoreanista faction	33%							
Ospinista faction		24%	27%	35%	18%	24%	14%	
Sub total	83%	62%	59%	67%	54%	62%	41%	90%
<b>Disidents</b>								
Liberal Party								
Disidents						8%		
Belisaristas							2%	
Sourdistas y otros							7%	
Conservative Party								
Laoreanista faction								
Alvarista faction		25%	25%		14%	10%		
Ospinista faction	13%							
Sourdista faction							6%	
Belisarista faction							9%	
Sub total	13%	25%	20%	0%	14%	18%	25%	0%
<b>Anti- National Front</b>								
Liberal Party								
MRL		12%	18%	17%	11%	1%		
Anapo				0.50%	2%	3%	13%	
Conservative Party								
Alzatistas o Leyvistas	4%	0.60%		0.50%	0.50%			
Anapo			3%	14%	17%	14%	20%	7%
Sub total	4%	13%	21%	32%	30%	18%	33%	7%
Total	100%	100%	100%	100%	100%	100%	100%	98%
Seats	148.00	152.00	184.00	184.00	190.00	204.00	210.00	199.00

Source: Hartlyn, Jonathan. "Consociational Politics in Colombia : Confrontation and Accommodation in Comparative Perspective." Thesis Ph D --Yale University, 1981.



Table 3

## Bill Initiation by Author

Legislative Year	Author			TOTAL	Author		
	Legislator	Government	Other		Legislator	Government	Other
	Bills	Bills	Bills		%	%	%
1982-1983	99	39	2	140	70,7	27,9	1,4
1983-1984	151	47	1	199	75,9	23,6	0,5
1986-1987	115	19	3	137	83,9	13,9	2,2
1987-1988	202	32	4	238	84,9	13,4	1,7
1992-1993	270	67	13	350	77,1	19,1	3,7
1994-1995	211	49	4	264	79,9	18,6	1,5
1995-1996	271	58	2	331	81,9	17,5	0,6
1996-1997	273	59	8	340	80,3	17,4	2,4
1997-1998	166	64	8	238	69,7	26,9	3,4
1998-1999	202	46	10	258	78,3	17,8	3,9
1999-2000	250	48	12	310	80,6	15,5	3,9
2000-2001	188	37	7	232	81,0	15,9	3,0
2001-2002	99	17	-	116	85,3	14,7	-
2002-2003	221	49	-	270	81,9	18,1	-
<b>TOTAL</b>	<b>2.718</b>	<b>631</b>	<b>74</b>	<b>3.423</b>	<b>79,4</b>	<b>18,4</b>	<b>2,2</b>
Average pre-91	142	34	3	179	79,4	19,2	1,4
Average post-91	215	49	6	271	79,4	18,2	2,4

\*Laws introduced between 20/07/82 and 27/06/03.

\*Total amount of bills is 3428, the table presents 3423 because 5 bills are not classified by author.

Source: Authors' calculations based on Informes Legislativos del Congreso, several issues.

Table 4

## Bill Initiation by Policy Scope

Scope of the Bill	Initiative								
	Congress			Executive			TOTAL		
	Before 1991	After 1991	All Periods	Before 1991	After 1991	All Periods	Before 1991	After 1991	All Periods
Individual	46	114	160	5	5	10	51	119	170
Local	79	255	334	7	2	9	86	257	343
Sectoral	24	263	287	3	14	17	27	277	304
Regional	70	160	230	4	3	7	74	163	237
National	348	1.356	1.704	76	265	341	424	1.621	2.045
Int. Treaties	-	3	3	42	205	247	42	208	250
<b>TOTAL</b>	<b>567</b>	<b>2.151</b>	<b>2.718</b>	<b>137</b>	<b>494</b>	<b>631</b>	<b>704</b>	<b>2.645</b>	<b>3.349</b>
<b>Success ratios</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Individual	36,96	19,30	24,38	40,00	20,00	30,00	37,25	19,33	24,71
Local	7,59	1,96	3,29	71,43	50,00	66,67	12,79	2,33	4,96
Sectoral	25,00	10,27	11,50	33,33	42,86	41,18	25,93	11,91	13,16
Regional	38,57	10,63	19,13	100,00	66,67	85,71	41,89	11,66	21,10
National	11,78	8,92	9,51	63,16	49,43	52,49	20,99	15,55	16,67
Int. Treaties	-	-	-	66,67	54,63	56,68	66,67	53,85	56,00
<b>TOTAL</b>	<b>17,11</b>	<b>8,93</b>	<b>10,63</b>	<b>64,23</b>	<b>51,21</b>	<b>54,04</b>	<b>26,28</b>	<b>16,82</b>	<b>18,81</b>

\*Laws introduced between 20/07/82 and 27/06/03.

\*\*There are 79 bills presented by other instances.

Source: Authors' calculations based on Informes Legislativos del Congreso, several issues.

Table 5

Year	Tax			Budgetary			Trade, Finance and Exchange Rate			Other Economic			Non Economic			TOTAL		
	Presented (Bills)	Enacted (Bills)	Success (%)	Presented (Bills)	Enacted (Bills)	Success (%)	Presented (Bills)	Enacted (Bills)	Success (%)	Presented (Bills)	Enacted (Bills)	Success (%)	Presented (Bills)	Enacted (Bills)	Success (%)	Presented (Bills)	Enacted (Bills)	Success (%)
	1982	5	0	-	17	9	52,94	8	3	37,50	11	2	18,18	99	45	45,45	140	59
1983	24	12	50,00	19	13	68,42	8	0	-	28	8	28,57	120	58	48,33	199	91	45,73
1984	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-
1985	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0	0	-
1986	6	1	16,67	11	4	36,36	2	1	50,00	22	3	13,64	96	10	10,42	137	19	13,87
1987	6	0	-	27	12	44,44	1	0	-	33	13	39,39	171	32	18,71	238	57	23,95
1992	6	1	16,67	7	5	71,43	7	2	28,57	9	2	22,22	161	45	27,95	190	55	28,95
1993	6	1	16,67	1	-	-	2	0	-	7	1	14,29	130	34	26,15	146	36	24,66
1994	5	0	-	5	2	40,00	4	0	-	9	0	-	141	9	6,38	164	11	6,71
1995	15	4	26,67	11	4	36,36	6	0	-	8	1	12,50	316	55	17,41	356	64	17,98
1996	20	2	10,00	10	6	60,00	7	1	14,29	2	0	-	283	46	16,25	322	55	17,08
1997	15	0	-	4	1	25,00	10	1	10,00	4	1	25,00	255	19	7,45	288	22	7,64
1998	20	2	10,00	7	3	42,86	8	4	50,00	5	1	20,00	174	24	13,79	214	34	15,89
1999	27	11	40,74	10	6	60,00	4	0	-	10	5	50,00	257	75	29,18	308	97	31,49
2000	29	5	17,24	10	5	50,00	3	1	33,33	6	1	16,67	170	28	16,47	218	40	18,35
2001	20	0	-	8	3	37,50	6	1	16,67	9	1	11,11	176	6	3,41	219	11	5,02
2002	13	2	15,38	13	4	30,77	2	0	-	10	2	20,00	124	12	9,68	162	20	12,35
2003	6	1	16,67	1	-	-	2	0	-	5	1	20,00	113	26	23,01	127	28	22,05
Before 1991	41	13	31,71	74	38	51,35	19	4	21,05	94	26	27,66	486	145	29,84	714	226	31,65
After 1991	182	29	15,93	87	39	44,83	61	10	16,39	84	16	19,05	2300	379	16,48	2714	473	17,43
<b>TOTAL</b>	<b>223</b>	<b>42</b>	<b>18,83</b>	<b>161</b>	<b>77</b>	<b>47,83</b>	<b>80</b>	<b>14</b>	<b>17,50</b>	<b>178</b>	<b>42</b>	<b>23,60</b>	<b>2786</b>	<b>524</b>	<b>18,81</b>	<b>3428</b>	<b>699</b>	<b>20,39</b>

Source: Authors' calculations based on Informes Legislativos del Congreso, several issues.

Table 6

## RESULTS

Equation	1	3	5
Dependent variable (=0 if bill filed, 1 if enacted)			
Effective number of parties	-	-0,647 *** (0,177)	-0,634 (0,179)
Executive' s initiative	2,091 *** (0,164)	2,133 *** (0,167)	2,129 *** (0,167)
Tax related bill	-0,172 (0,226)	-0,176 (0,229)	-0,169 (0,229)
Budgetary bill	0,446 * (0,232)	0,445 * (0,233)	0,459 ** (0,234)
Monetary or comercial policy bill	-0,265 (0,486)	-0,324 (0,481)	-0,325 (0,481)
Bills targeting national constituencies	-1,115 *** (0,135)	-1,073 *** (0,136)	-1,075 *** (0,135)
President' s months in office	0,002 (0,005)	-0,003 (0,005)	-0,005 (0,006)
Number of sponsors	0,198 *** (0,041)	0,187 *** (0,043)	0,189 *** (0,044)
Number of lists	-	0,000 (0,000)	-0,001 (0,001)
Dummy after reform	-0,410 *** (0,141)	-	0,182 (0,295)
constant	-0,506 *** (0,142)	1,12816 *** (0,373)	1,247 *** (0,423)
Number of obs	1778	1778	1778
LR chi <sup>2</sup>	331,59	353,28	353,66
Pseudo R <sup>2</sup>	0,15	0,16	0,16
Log likelihood	-925,02	-914,18	-913,99

\*\*\* significant at 1%, \*\* significant at 5%, \* significant at 10%

**Table 7****RESULTS**

Equation	1	2	3
Dependent variable (=0 if bill filed , 1 if enacted)			
Effective number of parties	-	-0,495 *** (0,181)	-0,476 *** (0,183)
Executive' s initiative	2,151 *** (0,165)	2,173 *** (0,167)	2,173 *** (0,167)
First committe	-0,534 *** (0,156)	-0,546 *** (0,157)	-0,550 *** (0,157)
Second committe	1,199 *** (0,192)	1,160 *** (0,193)	1,164 *** (0,193)
Third committe	0,120 (0,180)	0,086 (0,181)	0,091 (0,181)
Fourth committe	0,653 *** (0,227)	0,622 *** (0,228)	0,612 *** (0,228)
Bills targeting national constituencies	-0,653 *** (0,146)	-0,626 *** (0,146)	-0,631 *** (0,146)
President' s months in office	0,004 (0,006)	-0,002 (0,005)	-0,005 (0,007)
Number of sponsors	0,207 *** (0,042)	0,209 *** (0,044)	0,212 *** (0,044)
Number of lists	-	-0,001 ** (0,000)	-0,002 * (0,001)
Dummy after reform	-0,489 *** (0,144)	-	0,255 (0,302)
constant	-0,917 *** (0,177)	0,572 (0,395)	0,741 * (0,448)
Number of obs	1778	1778	1778
LR chi <sup>2</sup>	403,47	421,05	421,76
Pseudo R <sup>2</sup>	0,1849	0,193	0,1933
Log likelihood	-889,09	-880,29	-879,94

\*\*\* significant at 1%, \*\* significant at 5%,\* significant at 10%

**Table 8**

<b>Constitutional Court Ruling With Major Fiscal Implications</b>				
Type of Sentences	Year	Number	Topic	Decisión
Constitutional	1994	408	Objected law of social security (Law 100/93)	Unanimous
Constitutional	1994	520	Limits of the destination by sectors of the social cost of the territorial organizations	Four side vote
Constitutional	1996	511	Objected tributary amnesty (tributary benefits directed exclusively to weak people)	Unanimous
Constitutional	1997	219	Objected destination of originating resources of territorial tributes by means of law	One side vote
Constitutional	1999	136	Two by thousands. Objected tariff differentiated for financial operators	Three side votes
Constitutional	2000	1433	Indexing of wages of employees public	Two side votes
Constitutional	2001	404	Territorial Approved of requirements for external indebtedness of nation and organizations	One side vote
Constitutional	2001	540	Approved of the Law of territorial fiscal adjustment	Two side votes
Constitutional	2001	737	Vices of proceeding of the law that modified the regime of exemptions. Deferred effects	Four side votes
Constitutional	2001	1064	Greater margin for wage policies of servants public	Four side votes
Constitutional	2002	876	Approved tax to the patrimony by inner commotion	Three side votes
Constitutional	2003	155	Objected national valuation. Effects no deferred from the sentence	Four side votes
Constitutional	2003	776	Objected indiscriminate VAT (products of first necessity)	Unanimous
	2003	975	Limit to the pensional readjustment of magistrates (50% of the pension to 1994)	Unanimous
Constitutional	2003	1056	Objected regime of pensional transition (proceeding vices)	Three side votes
Constitutional	2003	1114	Approved (i) limit to free rents, (ii) compensation of fiscal losses of societies, (iii) regime simplified for retail retailers and lenders of services public, (IV) passage of the regime simplified to the regime common in the tax on the sales, (v) tariffs of the tax to the consumption of liquors, (vi) cession of the VAT of liquors to territorial organizations, (vii) tariffs of over-percentage to the gasoline, and (viii) new penal classification against the contraband	Unanimous
Constitutional	2003	1114	Objected the Bottom of Balance and Social Protection (proceeding vices - matter unit)	Unanimous
			Objected environmental over-percentage for terrestrial routes that affect the ecosystem (violation of the principle of legality of the tribute)	Unanimous
			Objected transitory allocation of exemptions that have not been approved of Exemptions (proceeding vices at heart National - matter unit)	One side vote
Constitutional	2003	1147	Objected the tax on the sales for the games of luck and chance (proceeding vices)	One side vote
Constitutional	2003	1152	Objected special tariff on the sale of the beer (proceeding vices)	One side vote
			Objected deduction of taxes of industry and commerce, and predial (proceeding vices)	Two side votes
<b>Indirect Economic Incidence</b>				
Constitutional	2003	1201	Approved the entailment of indebted shared in common of the tributary obligation, with the notification of the payment to order slip, with not need of which the constitution of additional individual titles is required	Unanimous
Constitutional	1992-2003	Total Major Sentences 50	All economic areas	

Source: Constitutional Court 2004

**Table 9****Legislative Initiatives To Modify The Central Bank Mandate**

Type of Proposal	Year	Initiative	Contents of Proposal	Result
Constitutional Reform	1996	Government (Samper)	Exchange Regime as Presidential Function	Not approved
Constitutional Reform	1996	Government (Samper)	Modifying Central Bank Objectives	Approved but rejected by Constitutional Court on Procedural Matters
Constitutional Reform	1999	Government (Pastrana)	Central Bank Functions Employment Objective	Without procedural course in Congress
Constitutional (Acto Legislativo 08)	1998	Congress (H.S. Camilo Sánchez)	Modifying Central Bank to functions article 373	Without procedural course in Congress
Constitutional (Acto Legislativo 76)	1998	Congress (H.S. Camilo Sánchez)	Censure motion to Central Bank Board Members	Without procedural course
Constitutional (Acto Legislativo 06)	1999	Congress (H.R. Pablo Ardila)	Censure motion to Central Bank Board Members	Retired
Constitutional (Acto Legislativo 06)	1999	Congress (H.S. Camilo Sánchez)	Central Bank Functions- Growth and employment Objectives	Without procedural course
Constitutional (Acto Legislativo 10)	2000	Congress (H.S. Flora Sierra)	Censure motion to Central Bank Board Members	Without procedural course
Constitutional (Acto Legislativo 203)	2001	Congress (H.R. Rafael Amador)	Modifying Central Bank functions	Without procedural course
Constitutional (Acto Legislativo 08)	2002	Congress (H.S. Camilo Sánchez)	Censure motion and Central Bank functions	Passed first Debate in Senate. Without additional procedural course
Legal (Proyecto 76)	1998	Congress	Central Bank Board Barred From Office	Without procedural course
Legal (Proyecto 83)	1999 2000 2002	Congress (H.S. Camilo Sánchez)	Central Bank Board Members Barred From Office	Without procedural course
Legal (Proyecto 178)	2001	Congress (H.S. Humberto Gómez)	Faculty to establish interest rate margin ceilings	Without procedural course
Constitutional (Acto Legislativo 12)	2003	Congress (H.S. Juan Fernando Cristo)	Central Bank Functions, Board Accountability, Bank Board Structure.	Approved by Senate Commission, without additional Procedural Course
Constitutional (Acto Legislativo 03)	2001	Government (Uribe – Political Reform)	Congress - Amendment to include censure motion to Board members	Amendment was retired from project
Constitutional (Acto Legislativo 168)	2003	Congress (H.R. Francisco Pareja)	Central Bank functions (employment)	Retired
Legal (Proyecto 235)	2003	Congress (H.R. Francisco Pareja)	Disqualification to	Retired

Source: Tabulated based on Hernández (2004)

**Table 10****Constitutional Court Rulings With Major Exchange Policy Implications**

Type of Sentences	Year	Number	Topic	Decision
Constitutional	1993	408	CONPES Functions on exchange rates issues	Unanimous
Constitutional	1999	481	Central Bank Objectives (Growth)	One side vote
Constitutional	1999	383	Interest rate indexing – DTF	Two side votes
Constitutional	1999	702	Interest rate capitalization	One side vote
Constitutional	2000	208	Central Bank powers to control interest rates (Inexequible)	Three side votes
Constitutional	2000	955	Indexing with UVR - ceilings	Four side votes
Constitutional	1992-2003	Total mayor sentences: 50	All economic areas	

Source: Constitutional Court

**Table 11****State Council Rulings on Exchange Rate Issues**

Reference Number	Year	Magistrate	Demand	Topic	Decision	Content Comments
5185	1993	Dr. Guillermo Chahin Lizcano	Luis Carlos Sáchica Aponte	Exchange Houses	The Central Bank established regulations on exchange houses without legal support attempting against freedom in economic activity.	Clears aspects and limitations of Central Bank board as exchange authority.
5530	1995	Dr. Delio Gómez Leyva	Luis Giovanni Barbosa Becerra	Free Trade Zones	The Government invaded a competence that the Constitution established exclusively on the Central Bank Board. Articles 46-52.	Confirms the Central Bank Board as authority on foreign exchange matters.
8406	1997	Dra. Consuelo Sarria Olcos	Luis Carlos Sáchica Aponte y José Roberto Sáchica Méndez	Foreign Exchange Intermediation	The Central Bank Board as authority in exchange rate matters does have the competence to select the intermediaries of the exchange market and to regulate their operations in those of exchange houses.	Confirms the Central Bank Board as authority on foreign exchange matters.
5015	1998	Dr. Juan Alberto Polo Figueroa	Cía. de Vigilancia Nacional de Créditos S.A.- COVINOC	DFI	Resolution 60/93 from CONPES does not have the character exchange norm since that competence had been transferred. It is the Central Bank Board that has the competence to establish exchange regulations. The Government has the competence on DFI and direct Colombian in foreign Nations.	Confirms the Central Bank Board as authority on foreign exchange matters and the Central Government as authority on direct foreign investment.
12311	2002	Dra. Ligia López Díaz	Aura María Espinosa de Vargas	Direct investment of Colombians outside	The Central Bank acted based on its competence as authority on foreign exchange matters (absolute mandate to regulate the foreign exchange market) in its actions limiting a term to approve the substitution of foreign investment.	Confirms the Central Bank Board as authority on foreign exchange matters.

Source: Consejo de Estado

## Table A 1

Colombia: Operations of the Central Administration  
1981-2003  
(% GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Total revenue</b>	7,3	6,8	6,1	6,5	7,5	8,6	9,0	8,9	8,4	8,8	10,1	10,4	11,2	11,5	11,3	12,1	12,6	11,9	12,5	13,0	14,6	14,8	15,3
<b>Current revenue</b>	7,3	6,8	6,1	6,5	7,5	8,6	8,9	8,8	8,4	8,8	10,1	10,4	11,2	11,5	11,3	12,1	12,6	11,9	12,5	13,0	14,6	14,8	15,3
Tax revenue	6,3	6,1	6,0	6,2	7,2	8,0	8,1	8,3	7,8	8,1	8,9	9,2	9,6	9,9	9,7	10,2	10,8	10,8	10,3	10,9	12,6	12,1	12,1
Net income tax and profits	2,2	2,1	2,5	2,5	2,6	2,8	2,9	3,0	3,0	3,3	4,2	4,3	4,6	4,2	4,0	3,8	4,4	4,3	4,2	4,3	5,3	5,2	5,2
Goods and services	2,4	2,3	2,2	2,3	2,7	2,9	3,0	3,0	2,9	3,1	3,4	3,8	3,9	4,7	4,6	5,3	5,3	5,0	4,9	5,3	5,9	5,7	5,8
Value-added tax	-	-	-	-	-	-	2,4	2,4	2,4	2,5	2,8	3,2	3,3	4,1	4,1	4,7	4,8	4,6	4,4	4,8	5,3	5,2	5,3
Gasoline tax	-	-	-	-	-	0,6	0,6	0,6	0,6	0,6	0,7	0,6	0,6	0,6	0,6	0,6	0,5	0,5	0,5	0,5	0,6	0,5	0,5
International trade	1,5	1,4	1,1	1,1	1,5	1,9	2,0	2,1	1,8	1,6	1,3	0,9	1,1	1,0	1,0	0,9	1,0	1,2	0,9	1,0	1,1	1,0	1,0
Import tariffs and surcharges	-	-	-	-	-	1,9	2,0	1,8	1,6	1,3	0,9	1,1	1,0	1,0	1,0	0,9	1,0	1,2	0,9	1,0	1,1	1,0	1,0
Coffee exports tariffs	-	-	-	-	-	0,1	0,1	0,1	0,1	0,1	-	-	-	-	-	-	-	-	-	-	-	-	-
Stamp and other taxes	0,2	0,2	0,2	0,2	0,4	0,4	0,2	0,2	-	-	-	0,2	0,1	0,0	0,0	0,2	0,1	0,3	0,3	0,3	0,2	0,2	0,2
Non-tax revenue	1,0	0,7	0,1	0,4	0,3	0,6	0,7	0,5	0,6	0,8	1,2	1,2	1,6	1,5	1,6	1,9	1,8	1,1	1,6	1,5	1,3	1,4	1,3
Property income	0,9	0,6	(0,1)	0,0	0,1	0,2	0,1	0,1	0,2	0,2	0,4	0,3	0,0	(0,1)	0,0	-	0,1	0,2	0,2	0,3	0,2	0,1	0,1
Other	0,1	0,1	0,1	0,3	0,2	0,2	0,3	0,2	0,2	0,2	0,3	0,9	1,6	1,6	1,9	1,7	0,9	1,4	1,2	1,1	1,3	1,2	1,2
Current transfers	-	-	-	-	-	0,2	0,3	0,2	0,1	0,4	0,5	-	-	-	-	-	-	-	-	-	-	-	-
Financial Transitions Tax and others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0,6	0,6	0,8	1,3	1,9
<b>Capital receipts</b>	-	-	-	-	-	-	0,1	0,1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total expenditure net of interests</b>	8,9	9,6	8,8	9,3	8,9	8,9	8,3	8,5	8,8	8,6	9,2	11,1	11,1	11,6	12,3	13,8	14,2	14,0	15,9	15,0	16,8	16,6	17,0
<b>Total expenditure and net lending</b>	9,5	10,2	9,4	10,1	9,7	9,8	9,4	10,1	9,9	9,7	10,4	12,1	12,2	12,8	13,6	15,7	16,3	17,0	19,2	18,9	21,0	20,8	21,4
<b>Current Expenditure</b>	6,5	7,2	7,2	7,9	7,3	7,4	7,4	8,2	7,8	7,8	8,4	9,8	10,6	11,3	13,0	13,5	15,1	17,1	16,9	18,6	18,7	19,7	
Wages and Salaries	1,6	1,6	1,7	1,8	1,7	1,7	1,6	1,6	1,6	1,7	1,8	2,0	2,3	2,4	2,5	2,3	2,3	2,5	2,7	2,7	2,8	2,8	2,7
Goods and Services	0,7	0,7	0,7	0,8	0,7	0,7	0,7	0,8	0,8	0,7	0,7	0,6	0,8	0,9	0,9	0,8	1,1	0,9	0,9	0,8	0,9	1,1	1,3
<b>Interest</b>	0,6	0,7	0,6	0,8	0,8	0,9	1,1	1,6	1,1	1,1	1,2	1,0	1,1	1,2	1,2	1,9	2,0	2,9	3,3	3,9	4,2	4,1	4,4
External	0,5	0,6	0,5	0,6	0,6	0,7	0,8	1,1	0,8	0,8	0,9	0,7	0,7	0,6	0,5	0,5	0,6	0,9	1,0	1,3	1,7	1,8	2,0
Domestic	0,1	0,1	0,1	0,2	0,2	0,2	0,3	0,4	0,3	0,3	0,3	0,3	0,5	0,6	0,8	1,4	1,5	2,1	2,3	2,6	2,5	2,4	2,4
Current transfers	4,4	4,5	4,2	4,5	4,1	4,1	4,0	4,3	4,3	4,3	4,1	4,8	5,7	6,1	6,8	8,0	8,0	8,7	10,2	9,6	10,7	10,6	11,3
Adjustment	(0,7)	(0,3)	(0,2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Capital Expenditure</b>	2,6	3,0	2,2	2,2	2,4	1,9	2,0	1,7	1,7	1,8	2,0	2,0	1,9	2,0	2,1	2,3	2,6	1,6	1,5	1,5	1,5	1,4	1,2
Fixed capital formation	0,3	0,2	0,3	0,2	0,4	0,2	0,2	0,1	1,0	1,8	2,0	1,1	1,9	2,0	2,1	2,3	2,6	1,6	1,5	1,5	1,5	1,4	1,2
Capital transfers	2,6	2,9	2,4	2,0	2,0	1,7	1,7	1,5	0,8	-	-	0,9	-	-	-	-	-	-	-	-	-	-	-
Other Capital Expenditure	-	-	-	-	-	-	0,1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment	(0,2)	(0,1)	(0,5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Lending</b>	0,3	-	-	-	0,1	0,4	0,0	0,1	0,3	0,2	0,6	1,7	0,5	0,2	0,2	0,4	0,2	0,2	0,6	0,5	0,8	0,7	0,5
Overall balance	(2,2)	(3,5)	(3,3)	(3,6)	(2,2)	(1,2)	(0,4)	(1,2)	(1,5)	(0,9)	(0,3)	(1,7)	(1,0)	(1,3)	(2,3)	(3,6)	(3,7)	(5,0)	(6,7)	(5,9)	(6,3)	(6,0)	(6,1)
<b>PRIMARY BALANCE</b>	(1,6)	(2,8)	(2,7)	(2,8)	(1,4)	(0,3)	0,7	0,4	(0,4)	0,2	0,9	(0,7)	0,2	(0,1)	(1,0)	(1,7)	(1,7)	(2,1)	(3,4)	(2,1)	(2,2)	(1,8)	(1,7)

Source: DNP

## Table A 2

Colombia: Operations of the Overall Public Sector  
1981-2003  
(% GDP)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Total revenue</b>	13,35	13,22	15,59	16,81	17,61	20,91	19,02	18,85	18,99	20,61	21,68	21,43	24,39	24,43	27,58	30,18	30,32	30,61	29,66	29,51	29,64	29,17	29,68
<b>Current revenue</b>	13,19	12,97	15,40	16,62	17,35	20,74	18,92	18,65	18,77	20,52	21,02	21,23	23,06	23,16	26,81	28,74	28,54	29,01	26,73	27,52	27,25	27,96	28,60
Tax revenue	9,99	9,71	9,79	10,19	11,45	13,43	12,49	12,65	12,47	12,97	13,57	13,95	15,40	15,41	17,00	17,29	17,83	18,22	17,01	17,85	17,92	17,70	18,74
Non-tax revenue	4,95	5,48	6,00	6,70	6,37	8,33	5,75	5,89	6,22	7,03	7,15	7,82	8,93	9,13	11,11	14,40	13,14	13,40	11,55	13,71	11,63	11,70	10,98
Property income	1,44	1,21	0,61	0,63	1,07	0,88	0,93	1,15	0,89	1,10	1,24	0,94	0,79	0,35	0,78	1,19	1,42	1,26	0,63	1,10	0,98	0,61	0,64
Operating surplus	2,00	2,57	2,62	3,01	3,40	5,85	3,99	4,26	4,97	5,58	5,48	6,82	5,93	5,10	5,71	6,87	5,10	6,21	5,16	6,22	5,42	5,40	5,33
Other	1,50	1,70	2,78	3,05	1,91	1,61	0,83	0,48	0,37	0,36	0,43	0,07	2,21	3,68	4,61	6,34	6,63	5,93	5,76	6,38	5,23	5,69	5,01
Transfers	0,04	0,05	0,12	0,12	0,07	0,04	0,98	0,19	-0,05	0,23	0,28	-0,02	-0,45	-0,73	-0,49	-1,95	-1,67	-1,89	-2,00	-2,68	-2,16	-1,29	-1,02
Adjustment	-1,80	-2,28	-0,51	-0,38	-0,54	-1,06	-0,30	-0,08	0,13	0,28	0,03	-0,53	-0,83	-0,66	-0,81	-1,00	-0,75	-0,73	0,17	-1,36	-0,13	-0,15	-0,10
<b>Capital revenue</b>	0,16	0,26	0,18	0,19	0,26	0,17	0,11	0,21	0,22	0,09	0,66	0,20	1,33	1,27	0,77	1,45	1,77	1,60	2,93	1,99	2,38	1,20	1,08
Sale of fixed assets	0,00	0,00	0,00	0,00	0,00	0,00	0,06	0,04	0,08	0,01	0,04	0,21	0,25	0,11	0,06	0,15	0,03	0,00	0,00	0,00	0,00	0,00	0,00
Transfers	0,00	0,00	0,00	0,00	0,07	0,05	0,05	0,05	0,03	0,03	0,01	0,03	0,02	0,03	0,03	0,01	0,01	0,01	0,00	0,03	0,00	0,00	0,00
Adjustment	0,16	0,26	0,18	0,19	0,19	0,12	0,00	0,12	0,10	0,06	0,64	0,13	1,09	0,98	0,64	1,38	1,61	1,56	2,93	1,96	2,38	1,20	1,08
<b>Total expenditure net of interests</b>	18,37	19,47	21,62	22,24	19,91	21,76	19,93	20,19	20,65	21,18	21,56	21,54	24,35	23,62	28,07	31,91	33,59	33,81	34,55	33,73	33,89	32,73	33,64
<b>Total expenditure and net lending</b>	18,66	19,46	21,62	22,24	19,98	21,98	20,24	20,45	20,66	21,24	21,54	21,61	24,16	23,72	28,07	31,91	33,54	33,75	34,70	33,73	33,98	32,80	33,72
<b>Current expenditure</b>	12,09	12,71	13,48	14,01	12,87	14,21	14,33	13,99	13,99	14,50	15,28	15,45	16,21	16,54	20,49	21,38	22,09	24,42	25,07	25,08	25,13	25,02	26,10
Wages and salaries	5,01	5,20	6,03	6,06	5,28	5,21	5,04	4,97	4,93	5,68	5,10	5,35	5,73	5,29	5,66	6,64	6,61	6,84	7,60	7,02	7,29	7,79	7,86
Goods and services	2,18	2,36	2,25	2,27	1,44	2,34	2,32	2,49	2,80	2,48	2,66	2,61	2,85	3,16	2,36	2,12	2,37	2,43	4,25	2,82	3,19	3,36	3,31
<b>Interest</b>	1,40	1,45	1,41	1,73	2,39	2,76	3,27	3,25	3,02	3,29	3,55	3,16	2,75	2,65	2,73	3,46	3,38	4,16	4,96	5,10	5,22	4,85	5,31
External	1,01	1,12	1,15	1,21	1,65	2,00	2,42	2,34	2,15	2,36	2,19	1,93	1,40	1,17	0,99	0,96	0,92	1,05	1,46	1,63	2,02	2,03	2,32
Domestic	0,39	0,32	0,26	0,52	0,74	0,76	0,85	0,91	0,87	0,93	1,36	1,23	1,36	1,48	1,74	2,50	2,46	3,12	3,50	3,47	3,20	2,81	2,99
Transfers	3,63	3,51	3,52	3,57	3,30	3,26	3,48	3,12															