Energy austerity undermines high investment potential

by Carlos Cota Meza

From the standpoint of many large American firms, Colombia is one of Latin America's most stable and potentially lucrative investment sites. Under the 1979-83 development program known as the Plan of National Integration (PIN), the Colombian government has mapped out a series of huge infrastructural and energy projects, requiring both foreign capital and technology, to exploit the country's vast wealth of natural and mineral resources. Colombia has the largest coal reserves in Latin America, and large deposits of nickel, uranium, and copper, as well as impressive hydroelectric potential.

Despite this wealth, and a healthy $5.3 billion in foreign reserves, Colombia is in the midst of a severe political and economic crisis with serious implications for its future stability. The explanation for this crisis can be found in the policies adopted by the current and preceding administrations, which have increasingly undermined the country's industrial base, while reducing living standards and vital services. If these policies were reversed, particularly through programs that would allow Colombia access to credit and needed capital goods, Colombia could indeed become an ideal trading partner and profitable investment site.

The government's harsh energy austerity program exemplifies the problem. Since November 1980, the government has authorized an electricity-rationing program for four prime-time hours every day in the nation's major cities. During these four hours, no building elevators operate, domestic activities are paralyzed, machinery in the factories stands idle. Widespread layoffs of factory workers and heavy financial losses afflict the industrial sector, and sales of both capital and consumer goods have fallen off sharply.

The anger of industrialists, workers' protests, and housewives' hysteria are all the order of the day.

Why such harsh austerity in one of Latin Ameria's most energy-rich countries?

World Bank calls the shots

The rationing and industrial collapse are not the unfortunate consequences of energy gluttony by Colombians. Rather, they are the result of the "development" strategy that institutions like the World Bank have applied since 1949. It is a strategy designed to deindustrialize Colombia, denying it credit and technology needed for rapid growth.

It is a well-known fact that numerous utility and energy companies set up in Colombia with World Bank loans have been forced to shut down or curtail their services because they could not meet the bank's demands for increased rates charged to the public as a guarantee for debt repayment. Such institutions instantly became "uncreditworthy" in the bank's eyes.

Lacking credit and infrastructure for modernization, Colombia is left with the alternative of becoming the continent's leading exporter of marijuana and cocaine. It already supplies 80 percent of the U.S. market for these drugs, and its parallel drug economy is larger than tne real one.

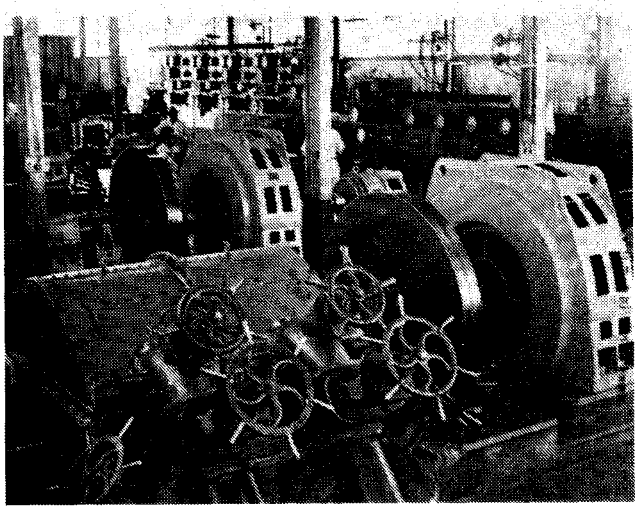
In the past, spokesmen for both the World Bank and the International Monetary Fund have told *EIR* that in their view, Colombia could just as well export marijuana as any other cash crop—as long as it generates enough foreign reserves to guarantee debt repayment.

Colombia's Paul Volcker

The electricity rationing is not the beginning of a new policy, but the final stages of what most businessmen in the United States recognize as "Volckerism."

Colombian Finance Minister Jaime García Parra, who resigned a few weeks ago to take a post at the World Bank, supervised a monetary and credit policy that would make Milton Friedman proud. His successor, Eduardo Wiesner Durán, is also an avowed Friedmanite and the architect of the same economic program that García Parra has implemented during the last two years. So there will be no changes under Wiesner Durán.

A policy of ever-tighter credit restrictions through interest rates that now top 50 percent has collapsed virually every leading industry in the country, from textiles and construction to mining, machine tools, and transport. According to official government statistics, industrial production fell by an unprecedented 50 percent from the second to the third quarter of 1980! While the economy sustained an average yearly growth rate of



A Colombian hydroelectric plant.

6 percent in the period from 1970-79, during the first two quarters of 1980 it had barely reached 3.2 percent.

Given the general unavailability of credit, many businessmen are forced to resort to the black market—whose proceeds come from the drug trade and contraband—for loans. However, the interest rates they pay are as high or higher than those on the legal market.

Not surprisingly, only speculative economic activity has shown notable growth under García Parra's regimen. What is known in Colombia as "quasi-money," the certificates and speculative paper that now make up the bulk of trade on the Bogotá stock market, has expanded at a remarkable rate of 45 percent over the past year. As one noted Colombian economist pointed out recently, the higher interest rates have made investment in speculative paper much more attractive for individuals who want to hide profits they earned from the "clandestine economy"—drugs—and other contraband activity. As of October 1980, the amount of speculative paper in circulation was *larger* than the official money supply.

Agricultural crisis

Due to aggravated decapitalization of the agricultural sector, a severe food shortage is predicted in Colombia for 1981. During the first quarter of 1980 alone, official credit to the agricultural sector was reduced by 33 percent and Colombia, traditionally an agricultural producer and *exporter*, was forced to increase food imports by a full 35 percent in order to meet domestic consumption needs. For the first time there is talk of having to import corn, a crop traditionally produced in abundance in the Andean region, and imports of items like wheat, sorghum, barley, beans, rice, and soybeans—all traditionally produced in Colombia—have greatly increased.

Colombia's labor force has watched while basic food items were priced out of its income range, rent subsidies were lifted, and factory jobs disappeared. Over the past two years, the price of the average monthly market basket has increased by approximately 65 percent. According to recent estimates, the new minimum wage of 5,700 pesos (U.S. $120) can cover only about half the price on the market basket, forcing workers to work longer hours and encouraging more members of families, including children, to enter the work force.

Government agencies say unemployment is now officially at 10 percent. Unofficially it is closer to 20 percent, and an estimated one million people are categorized as underemployed, working as street vendors and the like. The skilled worker category has virtually disappeared from the wage scale, indicating the growing pauperization of the work force, whose wages have fallen increasingly below the minimum wage.

Profile

Colombia's new financial czar

by Valerie Rush

Last month, Colombian President Turbay Ayala handed the financial reins of his administration over to Eduardo Wiesner Durán, formerly the head of the National Planning Department. Wiesner is well known in the capital city of Bogotá, where his family owns substantial chunks of real estate through Wiesner & Company.

Wiesner assumes his new post with the fullest confidence of the Colombian financial community, given his tenure as head of Asobancaria, one of Colombia's most powerful cartels of finance capital. In addition, Wiesner's resumé boasts a stint at the World Bank, where he was groomed for his present job.

Wiesner's promotion from planning to superminister of finance was in the works for over a month, as his predecessor and colleague Jaime García Parra readied himself a cushy job at the World Bank as a hoped-for steppingstone to the Colombian presidency. Observers both in Colombia and in the international financial community agree that little change in the handling of the economy will occur.

The one change expected under Wiesner Durán's direction is the acceleration of the Plan of National Integration (PIN), the four-year development program authored by Wiesner and his staff in the planning department for the Turbay administration.

De-urbanization focus

Despite the potential of the ambitious PIN program to serve as the vehicle for massive high-technology and capital-goods transfers to the Colombian economy, its architects in fact have a different purpose in mind. Designed to span 1979-83 and pump some $21 billion of domestic and foreign resources into largely public works projects in Colombia's more outlying regions, the PIN is explicitly intended to bring about the "decentralization" of the Colombian economy. *Decentralization,* in World Bank terminology, means "reversing the flow of migration to the cities" or, to be more precise, de-urbanization. "The ultimate goal," according to the PIN's author, "is regional autonomy."

Once that goal is achieved, one World Bank researcher observed, local financing needs will increasingly become the responsibility of local entities. Under such conditions, the highly lucrative drug trade could become an irresistible option. As one professor from Bolívar province told *EIR,* 10 bushels of corn is worth barely 1,000 pesos, while 10 bushels of marijuana can bring in 175,000 pesos!

The other primary focus of the PIN is construction of transportation and communications infrastructure to facilitate the extraction of Colombia's vast mineral and energy wealth, as with the Cerrejón coal project contracted to Exxon. Advanced technologies will be used only in such foreign enclaves, while "appropriate technologies" will be encouraged for the domestic economy.

Perhaps most significant is the fact that the austerity regimen to which Wiesner is pledged is a built-in aspect of the PIN. As one eonomist has noted, domestic financing of the PIN as Wiesner envisions it can only occur through certain policy options: "One option is realizing reforms that increase the elasticity of regional and local income: another is austerity and greater efficiency in public expenditures, especially in labor costs and other general expenses; a third option is more rapidly increasing rates on public services."

In fact, all three options are already in the implementation stage. The passage of a "tax reform" is the new finance minister's stated first priority, a reform which is expected to give carte blanche to the drug-tainted financial community in its drive to take over what remains of Colombia's bankrupt agricultural and industrial sectors. Figures just released by the government reveal that profits of Colombia's finance corporations *doubled* in 1980 alone while those of the productive sector plummeted, and were even negative in some industries.

Wage gouging has been a preferred method of government-dictated "belt-tightening" under García Parra and will continue under Wiesner. And even while the PIN has been touted for its plans to extend basic social services to the deprived outlying regions, in major urban centers like Bogotá those same services are being priced out of reach. Last week, the Bogotá city government announced a whopping 17 percent hike in electricity rates. This comes on top of the automatic 3 percent monthly rate increases which were imposed by the World Bank four years ago.

Wiesner Duran challenged by Bogota industrialist

A leading industrialist and former head of the Federation of Metallurgical Industries, Fernando Sanz Manrique, registered his protest against the government's deindustrialization strategy in a Jan. 11 column in the leading Bogotá daily El Tiempo:

There was a time when the industrialist was the darling of the country. It was a noble activity, praised by all. The children wanted to become industrialists when they grew up. The politician saw industry as the national redemption. . . . Chimneys were a vision of progress and not an ecological nightmare.

And basically everything that is modern in the country was made by industry. The cities of the country were made by industry. The process of industrialization made it possible to supersede the two greatest problems of the century: the population explosion of the fifties and sixties, and the mass migration from the countryside to the cities.

But times have changed. And industrialization became an antiquated idea in some circles of the new technocrats [like] Milton Friedman. . . .

And today the style is public works, certainly necessary for a country under construction. It is possible that public works can substitute . . . for industry in the generation of employment, in the number of jobs. But not in terms of quality of life or wages. The wages of a construction laborer are not comparable to those of an industrial worker. . . .

Industrialization continues to be in a bad way. When will it come into fashion in foreign universities so that we can think about it again on a national level?