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THE ORIGINS OF UNITED STATES ECONOMIC SUPREMACY IN SOUTH AMERICA:

COLOMBIA'S DANCE OF THE MILLIONS, 1923-33

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ABSTRACT

In the extension of U.S. economic supremacy from the Caribbean into South America, foreign advisers played an integral and intricate role. From 1923 through 1931, Professor Edwin Walter Kemmerer of Princeton served as a sort of one-man International Monetary Fund to the Andean countries. The stabilization missions he headed significantly revamped the financial and fiscal systems of Colombia, Chile, Ecuador, Bolivia, and Peru. Above all, the Andean republics adopted the so-called "Money Doctor's" advice to improve their access to U.S. capital externally and their political stability internally. His missions made these countries more reliant on the "Colossus of the North" but also more capable of managing domestic affairs. Thus his reforms reinforced three major trends already underway within South America in the interwar years: (1) escalating dependence on the external sector in general and the U.S. in particular; (2) corresponding elaboration of twentieth-century capitalist institutions, practices, and patterns modeled after the U.S.; and (3) consequent expansion and consolidation of the State and its role in these changes.

Following an overview of the Kemmerer missions and their context, this paper explores his first foray into Colombia, including glancing comparisons with his other four Andean clients. Like the other forthcoming country chapters in the book manuscript of which this essay will form part, the Colombian material here treats (1) the impact of foreign economic stimuli on growth of the traditional economy from World War I on; (2) lingering domestic obstacles to that capitalist expansion, especially monetary, banking, and fiscal deficiencies; (3) why and how Kemmerer's mission was invited and got its proposals accepted, including the reactions of U.S. government and business concerns as well as myriad interest groups in the host country; (4) the implementation and political-economic ramifications of the mission's recommendations on money and banking (especially the central bank, gold exchange standard, general banking, and commercial and negotiable instruments laws) and on fiscal operations (especially the budget, comptroller, taxes, customs, debts, and public works); and (5) the transformation during the Great Depression. These Andean case histories suggest that the character of U.S. influence on Latin American underdevelopment and domestic institutions will be better understood by examining the formative economic and political relations established in the 1920s.

THE ORIGINS OF UNITED STATES ECONOMIC SUPREMACY IN SOUTH AMERICA: COLOMBIA'S DANCE OF THE MILLIONS, 1923-33

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From World War I on, the United States extended its economic dominance from the Caribbean and Central America into South America. The 1920s merit greater recognition for the formation of trading, investing, and political connections which continue to shape inter-American relations. The U.S. impact on Latin American underdevelopment during the interwar years and thereafter would be better understood by paying more attention to the evolution of private and public financial institutions and practices. In that regard, further examination is needed of the integral and intricate roles of foreign advisers.

From 1923 through 1931, Dr. Edwin Walter Kemmerer, Professor of Economics at Princeton, significantly revamped the monetary, banking, and fiscal systems of Colombia, Chile, Ecuador, Bolivia, and Peru, not to mention South Africa, Poland, and China. The reforms of the so-called "Money Doctor" made these South American countries more dependent on the U.S. but also more capable of managing their own economic affairs. My interest lies not in a biography passing judgment on the man. Instead, this study will use his missions as a framework for comparative history. It will treat the political and economic dynamics of "dependent development" in those Andean republics from the first World War through the Great Depression of the 1930s. It becomes possible to cope with five countries because Kemmerer's ideas, recommendations, and the issues he addressed varied little during a short, well-defined time period in a coherent region; consequently comparisons--such as levels of foreign investment and domestic attitudes toward them--will stand out among the Andean republics.

Beginning where Kemmerer began, this paper will explore the Colombian case, including some glancing comparisons with the other four. This represents a hybrid, early draft for discussion at the Wilson Center. It combines part of what will comprise the introduction to my book with most of what will constitute the chapter on Colombia.

Before turning to Colombia, the Kemmerer missions must be placed in the perspective of broader interpretations of Latin American economic history and the influence therein of external models. Over the years, two fundamental interpretations of the Kemmerer missions took hold in Latin America. Like most Colombians during the 1920s, most later analysts praised his financial surgery and its contributions to prosperity. They lauded Kemmerer as the pioneer of scientific financial and fiscal institutions and operations, the father of such public landmarks as the central bank and the national comptroller, the catalyst of modernization and development. These enthusiasts observed that the essential outlines of the institutional reforms he implanted in Colombia spread not only to the other four Andean countries but also to all of Latin America.[1]

Like many Colombians during the Depression, a minority of later critics condemned Kemmerer's advice. They denounced him as the opening wedge for U.S. capitalist penetration and domination, the midwife of financial imperialism, the agent of dependency and underdevelopment. Opposed to "scientific and cultural neocolonialism," these interpreters complained that: "Dependency is the economic missions of foreign experts which, from the Kemmerer Mission in 1923 up to our days, have planned for us banking, commerce, and above all the tax system, and which to boot have encased us within the economic programs of the U.S.A., with the...recommendation that that is the only way to escape from 'underdevelopment,' thereby stimulating the mentality of the false technocrats of developmentalism."[2]

Both "modernization" and "dependency" perspectives illuminate the Kemmerer missions and accompanying changes in the Andean republics during the interwar years. Given Colombia's subordinate historical place within the international economic order, external industrial giants were bound to be primary causes of the growth and contours of domestic capitalism. Those outside forces filtered through an elitist domestic social-political structure which emphasized raw-material production for export. In the prosperous 1920s, almost no Colombian leaders articulated alternative strategies to capitalist expansion through increasing integration with North American commodity and financial markets. The question in the era was not whether Colombia would deepen its dependence on the "Colossus of the North," but rather how much, in what ways, how effectively the smaller country could take advantage of that inherently unequal relationship, and what ramifications it would have. South American political and economic elites brought in Kemmerer to smooth their adjustment to seemingly inevitable reliance on the emerging Western world leader. They used his missions to bring their economic techniques up to date with North American methods, to fortify indigenous money and banking institutions, and to enhance the State's extractive and distributive capacities. Above all, they desired these reforms to attract investments externally and to consolidate political stability internally. Somewhat paradoxically, many Andean leaders hoped to use greater dependence on foreign goods, capital, companies, and advisers in the short run to modernize domestic economic and political institutions as bulwarks of greater national independence for the long run.

Kemmerer's South American missions call to mind three analogous reforms of Latin American finances generated from abroad. By stimulating the open export economy, updating economic techniques and management, controlling credit, and expanding central State revenues, efficiency, and powers, his advisory teams echoed the Spanish Bourbon reformers of the latter half of the eighteenth century. Those Spaniards brought legal, administrative, and technical innovations out to the colonies from the formal imperial center to facilitate and channel economic growth. More than causing rising colonial prosperity, they helped the empire and local bureaucracies take advantage of it. The Bourbons tied Spanish American satellites more closely into the metropolitan network in the short run. Simultaneously, however, they helped set in motion forces and expectations which led to independence from the mother country in the opening decades of the nineteenth century. Thereafter Latin Americans latched on to British, to a lesser extent French, and later U.S. economic models.

U.S. policies in its informal empire in the Caribbean and Central America during the first three decades of the twentieth century provide a second analogy with the Kemmerer reforms. His private missions replicated through persuasion in South America much of what U.S. officials had achieved often through force of arms in Central America and the Caribbean: fiscal order, more efficient customs administration, punctual debt payments, monetary stability, modern banking, Anglo-Saxon commercial practices, equal rights for foreign capitalists, increased international loans and trade, and displacement of European competitors. The U.S. never exerted political-military power or direct control of fiscal institutions in South America as it did closer to its own border. Kemmerer's missions were engaged independently by the Andean governments. He maintained a professional distance from Wall Street as well as Washington. Nevertheless, his reforms served the mutual desires of South American and North American elites for increased economic interaction. In the 1920s U.S. business and government leaders hoped to obtain an "open door" for trade and investments in Latin America without resort to coercion. An advocate of laissez faire, Kemmerer convinced his hosts to remove encumbrances to the free flow of goods and capital. As in the Caribbean, the Andean countries' comparable imitation of North American economic models also aided the influx of U.S. exports, loans, companies, and entrepreneurs, whose postwar strength gave them an intrinsic advantage over European and Latin American competitors. Despite significant differences in political and economic autonomy, this structural similarity of increasing adoption of U.S. institutions and practices accompanied by increasing reliance on U.S. trade and investments pulled the South American pattern closer to that of smaller, direct client states. This systemic parallel was personified in that a few of the experts invited by the Andean republics on Kemmerer's recommendation had previously gained experience in financial cleanups in the Caribbean and Central America.[3]

Kemmerer's stabilization missions also resembled later International Monetary Fund operations. Neither the Money Doctor nor the IMF arrived as official envoys from formal or informal imperial governments. Both claimed reputations as international, neutral experts invited voluntarily by host countries. Critics attacked both, however, as tools of the U.S. who imposed unpalatable formulas on weaker nations. Kemmerer and the IMF visited foreign governments to reorder finances, stabilize the currency, and improve the balance of payments. The hosts' purpose was to obtain better access to foreign loans, although Kemmerer's influence here was less direct than the IMF's. Both Kemmerer and the Fund helped install economic policies usually desired by local elites and the U.S. Many of their prescriptions were often similar: stabilized exchange rates, controlled currency emissions, restricted credit allocations, and economized and monitored government budgets.

In contrast to the controversial IMF, Kemmerer's missions encountered a near national consensus in favor of their recommendations in every country. He obtained stunningly easy acceptance of stabilization measures which today would be considered rather painful and conflictual. One reason was that foreign loans were amply available in the 1920s to soothe the "pain." Another was that Kemmerer's hosts sometimes carried out his strictures on paper only. More importantly, in still highly agrarian societies, elitist governments could ignore many in the lower and even middle classes at relatively low political cost. In the Andean countries after World War I, the society was not yet mobilized enough nor the political arena yet crowded enough to turn inflation and stabilization policies into fierce battles among interest groups and social classes over scarce resources. In Bolivia and Peru, roughly half the population remained defined as Indians who were tangential to the cash economy and national decision-making. Also in contrast to the IMF, Kemmerer was usually seen as labor's ally against a rising cost of living which benefited only the wealthy few. South American reformers in the twenties normally viewed currency depreciation and price inflation as a device by landed oligarchs, exporters, speculators, bankers, and/or the State to achieve an inequitable distribution of income. That political-social image of inflation changed from the 1930s onward, when reformers denounced stabilization programs as schemes by the rich to maintain an unfair income distribution. Kemmerer's recommendations did not evoke labor hostility because they came prior to the days of strong unions, heavily protected industrialization, and government controls over wages and prices. Before urban labor acquired enough political muscle to become a significant actor in the inflationary spiral, stabilization seemed to mean belt-tightening principally by the State, bankers, and producers. These Spanish, U.S., and IMF analogies, however imperfect, underscore the need to analyze foreign economic missions as far more than merely technical assistance. Their greatest importance lay within the contexts of broader international relations and of individual host-country economic, social, and political configurations.[4]

Kemmerer's reforms reinforced and guided larger international and domestic forces which primarily caused the pace and character of growth in the 1920s. Many similar trends occurred in Latin American countries he did not visit. Nevertheless, his missions provide a unique, coherent, and concentrated focus on those patterns of change, which he also slanted in particular directions. His innovations responded to and encouraged three crucial transformations already underway in South America in the interwar years: (1) escalating dependence on the external sector in general and the U.S. in particular; (2) corresponding elaboraton of twentieth-century rationalized, centralized, urban capitalist institutions and practices modeled after the U.S.; and (3) consequent expansion and consolidation of the State and its role in these changes. Following an introduction to these three dimensions of the Colombian case, we will consider why and how the Kemmerer mission succeeded there.

Overview of Kemmerer's Missions to Colombia

Kemmerer ushered in Colombia's "Dance of the Millions" in 1923. Colombia contracted his mission to synchronize and capitalize on its growing dependence on the U.S. In 1930 it invited him back to rescue the country from the disastrous consequences of that dependence during the global Depression. From the turn of the century to the start of the 1920s, spontaneous growth through surging coffee exports had generated the need for more advanced capitalist laws, institutions, practices, and infrastructure to underpin, rationalize, and accelerate that growth. Therefore Kemmerer's first housecall brought Colombia's legal and financial support system into line with that of its leading foreign trading and lending partners. Those reforms spurred foreign sales and investments, which made economic growth per capita from 1923 to 1930 average 5.2 per cent per year, a rate never equaled thereafter. Colombians came to label that decade of mounting reliance on U.S. markets as "prosperidad al debe" (prosperity through debt).[5]

Kemmerer's gold-standard system and U.S. capital undergirded an era of unparalleled prosperity from 1923 through 1928. While Colombia's total circulating medium nearly doubled, foreign trade, government budgets, and banking deposits and loans roughly tripled.[6] Despite this boom, Colombia continued to lag behind the wealthier nations of South America. Smaller, poorer countries found Kemmerer missions more necessary to attract foreign investors than did larger, richer countries in the hemisphere. According to one rough and inflated estimate for the end of the 1920s, Colombian wealth totaled approximately $500 per capita, which was nearly half that of Chile, double that of Peru, and even farther above that of Ecuador and Bolivia.[7] The U.S. Bureau of Foreign and Domestic Commerce in 1929 calculated Colombia's purchasing power as 1/20th that of the U.S. and 1/6th that of Argentina. The Bureau blamed Colombia's poverty on the depressed consumer capacity of the vast majority of the population, especially in the countryside. Rising prosperity seldom trickled much beneath the upper 10 per cent of Colombian society, who could only purchase so much from the U.S. As one Bureau official explained: "If we can bring the remaining 90 per cent into the market we shall enormously increase our sales in those countries. That is why the United States, even for the most selfish commercial reasons, is desirous of helping the peoples of Latin America to attain a greater degree of prosperity. Our hopes for future increased trade with Latin America are based upon the rise of the masses, and not upon the purchases of the present wealthy ruling classes."[8]

In the 1920s the Andean countries sought North American rather than European advisers because of their dramatically increasing involvement with international markets suddenly dominated by the U.S. After the start of World War I, U.S. global activities multiplied. This expansion during the postwar years was primarily a result of general prosperity and relative European weakness. It also responded to the international restoration of basic features of the prewar economic system, especially the gold standard and currency stability. After an explosion of activity in South America during the war, the U.S. lost a little ground to renewed European competition in the early postwar years and then reaffirmed its new supremacy during the remainder of the 1920s. In that decade the main locus of U.S. overseas expansion was Latin America. There, U.S. foreign policy sought the replacement of European business interests.[9]

Following the opening of the Panama Canal at the start of the war, all the Andean countries experienced mushrooming trade with the U.S., which peaked at the end of the 1920s. More isolated from the Pacific and closer to the Argentine pattern, Bolivia was the only Kemmerer client which did not come fully into the U.S. trade orbit but rather continued to do business primarily with Great Britain; this commercial relationship persisted even though U.S. capital outstripped British in Bolivia, so trade did not always automatically follow finance. Like the rest of the Third World, Latin America accounted for a rising percentage of total U.S. trade in the 1920s, reaching 22 per cent by 1927. North American financial holdings in South America increased nearly 1,000 per cent from 1912 to 1928. Of roughly $5.5 billion of U.S. total investments in Latin America by 1929, some 30 per cent was loaned to governments; this funded a great deal of domestic State activism.[10] Latin America received an estimated 19 per cent of U.S. foreign loans from 1920 to 1924 but 32 per cent from 1925 to 1929.[11] Within the hemisphere from WWI to the Depression, U.S. investments rose more rapidly in the five Andean countries than anywhere else except Cuba and Venezuela. Eager North American financiers granted loans to equally eager Andean borrowers, partly as a result of the Kemmerer visits.[12]

The desire for foreign loans as a motivation for adopting the Kemmerer reforms was crucial in Colombia but was obscured because the central government did not incur massive external debts until four years after his 1923 mission. The national government held back during 1923-26 because sufficient foreign capital arrived in the form of U.S. indemnity payments for the loss of Panama. Moreover, the U.S. financial market became generally more willing to absorb Latin American national government bond issues in the latter half of the 1920s. Nevertheless, Colombian departments (provinces), municipalities, and banks immediately took advantage of the new credit-worthiness bequeathed by Kemmerer to acquire unprecedented foreign loans from 1923 on. Kemmerer's return visit in 1930 directly related to the central government's effort to get U.S. bankers to bail it out during the Depression.

Elsewhere in the Andes, Chile nearly tripled its foreign indebtedness following Kemmerer's 1925 mission. Bolivia's Minister of Finance explicitly urged Congress to rush through Kemmerer's legislation so that the nearly bankrupt government could obtain foreign loans. Passage of those laws directly helped Bolivia arrange financing with Dillon Read and Company in 1927-28. The Ecuadorean government hoped that Kemmerer's mission in 1926-27 would help it win recognition from the U.S. State Department and thus loans from U.S. bankers. Those financial hopes failed to materialize because of a poor past debt record and a slump in cacao exports. In 1931 Peru enacted Kemmerer's central bank legislation in one day without reading it in a desperate dash to get U.S. bankers to save the country from the Depression; when loan relief was not forthcoming, Peru shelved most of Kemmerer's other laws. Kemmerer himself steered clear of most of these loan transactions and counseled against unbridled indebtness. His clients, however, usually had less interest in his technical recipes than in his seal of approval to attract foreign capital.

As a result of World War I and the economic tide from the U.S., Great Britain lost its preeminent position in the Andes:

UNITED STATES & BRITISH PERCENTAGE INCREASES IN INVESTMENTS & TRADE IN LATIN AMERICA, 1913-29[13]

	U.S. % increase in invs.	British % increase in invs.	U.S. % increase in trade	British % increase in trade
Colombia	12,927%	10%	520%	269%
Ecuador	150	56	61	-41
Peru	331	6	375	82
Bolivia	1,234	496	471	16
Chile	2,605	18	105	6
All South America	1,226	17	160	25
All Latin America & Caribbean	350%	18%	118%	26%

In 1913, Britain had an estimated $532 million invested in those five republics, the U.S. merely $72 million. Sixteen years later, the Andean investments of England had increased by only 14 per cent, while those of the U.S. had risen by 1,241 per cent, surpassing the British total by over $360 million. Not surprisingly, the British and French sometimes carped at the Kemmerer missions and urged South Americans to hire their experts instead.[14]

It was appropriate that his first South American mission went to Colombia, which had switched economically from Great Britain to the U.S. earlier and more decisively than had its neighbors farther down the Andes. The U.S. surpassed England as a recipient of Colombian exports by the 1890s, as a supplier of imports by World War I, and as a source of investments after the Kemmerer mission. Geographically and economically, Colombia fell into the U.S. domain in the Caribbean. As one of many North American boosters of U.S. economic expansion in Latin America boasted about Colombia in 1929: "Today it has by far the largest investment of American brains and American money of any territory washed by the Caribbean except Cuba."[15]

Kemmerer's 1923 recommendations for exchange stabilization, customs reforms, and negotiable instruments laws aimed to further Colombia's soaring foreign trade. From the inauguration of the Panama Canal in 1914 to the arrival of the Depression in 1929, Colombia quadrupled its foreign trade. Its sales, like those of tin from Bolivia, became increasingly monocultural. The value of coffee rose from 49 to 61 per cent of total exports. During 1914-30, the U.S. share of Colombia's exports to its major trading partners climbed from 67 to 87 per cent.[16]

Installation of Kemmerer's gold standard system also met Colombian desires for improved acquisition and management of foreign capital. That system, in turn, depended on foreign loans to cover shortfalls in the balance of payments and to convince Colombians of the value of exchange stability. Colombia invited Kemmerer in 1923 to advise the government on disposition of the $25 million indemnity payment from the U.S. That indemnification was supported by U.S. economic interests seeking greater access to Colombian resources, especially oil. Through 1926, the government depended on those installment payments to found the central bank and build public works, which required foreign loans thereafter to keep going. By the end of the 1920s, Colombians had ignored most of Kemmerer's prudent advice on contracting foreign loans. The total public foreign debt during the Depression loomed nearly ten times as large as it had in 1923. From 1924 to 1931, the central government's external debt leapt from 19 to 81 million pesos, overwhelmingly owed to North Americans.

Colombian public administration at every level benefited from and became beholden to U.S. capital in the 1920s. Rather than the national government, departments, municipalities, and banks incurred a majority of foreign debt obligations. Although native coffee growers (cafeteros) rather than foreign companies controlled the primary export commodity, they relied on credit from mortgage banks obtained through floating bonds in the U.S. market. Other apparently independent indigenous agriculturalists as well as urban property owners and contractors in all the Andean countries also leaned on this indirect foreign capital. This crucial dependence on credit institutions and their links to external money markets deserves more study by Latin American historians. When foreign credit sources abruptly closed down during the Depression, economic elites turned to the State. Dependence on foreign capital initially motivated Colombia to make concessions to foreign investors and to recall Kemmerer in 1930 in hopes of unleashing loans from U.S. bankers. When the central government could find few foreign lenders, it expanded its own credit facilities in the 1930s by tapping the central bank and abandoning Kemmerer's monetary system. The collapse of the export sector and foreign investments also led Colombia to default on its external debts. Therefore dependence on debt-led growth not only rendered Colombia more generous to certain U.S. interests but also paid for enormous expansion of Colombian infrastructure at the expense of U.S. bondholders.

Those foreign debts taken on by governmental units in the 1920s mainly went into public works, especially railroads. These projects also strengthened the dependence of Colombia on the external economy, the vigor of internal capitalism, and the size and scope of the central government. Colombia's woefully inadequate transportation and communications improved tremendously, increasingly under State control. Despite Kemmerer's cautions, many expenditures, however, were politically motivated, excessive, wasteful, and unproductive. This overspending spawned cumulative deficits and foreign borrowing. Foreigners often advised, built, and supplied these projects but did not own them. These expanded railroads, roads, and ports wove Colombia's regional economies together but mainly connected local markets to the export-import sector. While that stimulated native output for sale abroad, it also swamped previously isolated Colombian producers with foreign competition.

Kemmerer's 1923 legislation for central and commercial banking encouraged the entry of major foreign banks as well as loans. Whereas the North American laws he translated into Colombia virtually prohibited foreign branch banking in the U.S., he amended them to give foreign banks the same rights as natives in Colombia. Kemmerer also put foreign bankers on the board of directors of the Colombian central bank. Although significant foreign banks arrived in the 1920s, they did not achieve great prominence in Colombia compared to domestic institutions. Some foreign banks disapproved of Kemmerer's tight 1923 banking regulations, and all opposed his 1930 reduction of their rights. The U.S. State and Commerce Departments remained disappointed in their efforts to prod timid U.S. bankers to establish more branches abroad. Consequently older resident British banks remained stronger in Colombia than their North American rivals.

Along with loans, U.S. corporate investments also mushroomed in Colombia. By the end of the 1920s, they well exceeded $100 million, principally in oil and bananas. Kemmerer had little impact on these direct investments. To solidify government finances in order to protect the gold standard and service foreign debts, he did recommend increased taxation of U.S. copper companies in Chile and banana exporters in Colombia. He also played a small role in facilitating the 1930 U.S. bank loan which encouraged Colombian generosity to U.S. oil companies. Colombians normally perceived U.S. governmental and business interests in the country (for example, the State Department, Kemmerer, bankers, and petroleum producers) as a more intimately interconnected and unified presence than they were. Colombia mistakenly believed that friendly treatment toward one set of U.S. concerns would significantly help it with others. Although normally complementary, the interests of U.S. banks and corporations sometimes conflicted, not only with each other but also with the interests of U.S. advisers and government officials, especially on specific issues. Lack of coherent coordination among U.S. economic and political actors perplexed Andean leaders trying to juggle these multiple foreign forces.

Colombia and the other Andean countries in the 1920s depended heavily on a parade of foreign advisers in addition to Kemmerer. He advocated hiring outside experts for the institutions he created. More nationalistic, wealthier countries like Colombia and Chile generally rejected these suggestions, while weaker ones like Ecuador and Bolivia appointed North Americans to the administration of customs, national accounting, and banking. All brought in foreigners to advise myriad institutions, such as the military, schools, railroads, and municipalities.

South Americans contracted these foreign experts at least as much for their generally favorable impact on relations with external economic powers as for their specific technical advice. Although mainly employing North Americans by the 1920s, the Andean governments also continued hiring British, French, Germans, Swiss, and Belgians to promote business in Europe as well as the U.S. Thus Colombia and its neighbors acquired some new technological expertise without always bringing in foreign companies.

Such awesome commercial, financial, and technological dependence on the U.S. aroused little resistance in the Andes in the 1920s. Although significant strikes erupted against North American companies, economic nationalism and leftist movements remained frail until the Depression. Most of the few denunciations of excessive influence by the U.S. and Kemmerer came from conservative nationalists, who expressed as much concern about cultural-legal penetration as about economic imperialism. In Colombia, Conservatives became almost as anxious as Liberals to embrace closer economic and diplomatic ties with the new beacon of capitalism. Criticisms of subjection to U.S. tutelage usually sprang from opportunism by the party out of power. Colombian hopes to play off U.S. against European economic interests seldom materialized. Instead, North American and British capitalists--especially bankers--gradually learned to cooperate as well as compete, particularly to avoid risks. U.S. preeminence in the wake of World War I increasingly left the Europeans or the Colombians little choice.

Not only foreign but also domestic capitalists flourished in the Andes under the propitious conditions and Kemmerer system of the 1920s. Mainly in response to externally-generated growth, twentieth-century capitalism matured within the Andean countries. Kemmerer's reforms promoted the ongoing concentration, urbanization, institutionalization, and integration of each national economy. By fostering a central bank, a uniform national currency, and a government-regulated commercial banking system, Kemmerer furthered a national monetary and credit network operating under more mobile and rationalized methods. He streamlined and amplified government financial capabilities to provide greater order and security for business. The extended transportation network also helped the economy become less fragmented and regionalized. Kemmerer's credit system and the government's public works nurtured urban commerce, industry, and labor.

His rigorous regulations accelerated the concentration of banking in a few hands but also expanded overall credit availability. Native bankers and businessmen responded to his innovations and to burgeoning opportunities by improving their accounting, management, and production methods. The increasing articulation and specialization of the economy and the State encouraged by Kemmerer also inspired the various economic sectors to develop more forceful interest-group organizations. Colombia trailed Chile and even Peru in the creation of coherent sectoral institutions. Feeling slighted by Kemmerer's 1923 reforms, coffee-growers belatedly formed a national federation in 1927; this allowed them to more effectively lobby the ever more powerful government and to claim a director's seat on the central bank in 1930.

In every country, Kemmerer's legislation normally gave preferential treatment to urban bankers, merchants, and industrialists. Therefore agriculturalists and agroexporters struggled to have a larger say in his system, especially in Colombia, Ecuador, and Peru; similar conflicts took place between merchants and miners in Bolivia, where the export economy emphasized mining over farming. One of the most noteworthy phenomena during Kemmerer's missions was the inability of large landowners to wield as much influence over national financial decisions as might be expected in predominately rural Latin America; this should suggest to historians that control over credit may have been at least as crucial a source of power as was control over land. In Colombia, agriculturalists bent every effort to get Kemmerer's second mission in 1930 to favor them instead of urban bankers as in 1923.

Despite his commitment to laissez-faire, Kemmerer also contributed to notable growth of the central State in the Andean countries. Fueled by external loans and trade revenues, mounting State activism in the 1920s responded to rising internal pressures for social welfare and control as well as for economic modernization. Public works projects offered to meet both needs by providing jobs for workers and infrastructure for producers. The State also took more interest in labor-industrial relations. The central government, the bureaucracy, parastate agencies, the military, and other political institutions became more professional and influential. In particular, the Andean elites expanded and rationalized public agencies and capacities for monitoring economic activities intimately involved with foreigners: money, credit, banking, trade, and government revenues. Kemmerer tried to check the government's influence in the quasi-private central bank and to hold down its budget through fiscal restraints. Nevertheless, his creation of the central bank set the stage for modern national public management of currency and credit, over which the government extended its influence over time. Kemmerer's superintendency to oversee commercial banking broke new ground in public regulation of private property. He enhanced the government's ability to collect taxes and attract loans. In addition, he improved its data collection and management, administration of revenues and expenditures, and budget planning. He also strengthened the executive over the legislative branch. Many South Americans saw Kemmerer as a daring reformer on the side of labor, progressive taxation, and public supervision over the private economy.

Both major political parties in Colombia gradually accepted an enlarged role for the State. They went beyond Kemmerer's intentions in using his system to inflate the central government, as did the leaders of Chile, Ecuador, and Bolivia. The central governments in the Andes took advantage of his fiscal reforms, rising customs and tax revenues, and soaring foreign loans to expand their budgets, bureaucracies, and public works. In the 1920s the size of the bureaucracy in Chile roughly doubled and in Peru tripled. The State in Colombia multiplied its ordinary revenues from 44 million pesos in 1923 to 75 million in 1928. It extended its clientelistic political reach as a major employer of the urban middle and working classes. It established wide influence over transportation and took charge of the nation's railroads. During the Depression, the government moved for the first time into direct domestic credit operations, again advised by Kemmerer.

When the Depression arrived, it proved very difficult to reduce the bulging government. If the strapped administration cut foreign debt payments, that would destroy any hope of being rescued by external creditors. If it sliced public works, bureaucracy, and military, that would endanger social and political stability. The overextended State had become heavily reliant on revenues from foreign trade, loans from foreign bankers, and advice from foreign experts. This dependence momentarily prompted acquiescence during the Depression to U.S. government and business demands. Then the Andean governments decided to suspend service on the foreign debt and jettison the gold standard; they did not want to incur the economic and political costs of adjusting the government budget and the balance of payments through exacerbating domestic recessions. Instead, the State in the 1930s twisted Kemmerer's institutions to serve even greater government expansion by inflating the internal money and credit supply. By using revenues and advisers from abroad during the 1920s to enlarge its scope and capacities, the State emerged from that decade as a more powerful instrument of national integration and policy, a potential counter to foreign penetration. Building on those foundations, the central government played a far more dynamic interventionist role from the Depression onward.

Few foreign advisers have ever had such far-reaching recommendations so voluntarily, eagerly, and fully accepted as did Kemmerer in South America. A product of the Progressive era in the U.S., he believed that scientific, technical advances in institutions managed by public-spirited experts could bring about generalized economic and social improvements in any country. Although his economic beliefs coincided with those of U.S. government and business leaders, there was virtually no evidence of collusion. Kemmerer was a true believer in the gold-standard system not only as a practical mechanism but also as a moral virtue. In accord with the accepted thinking of the age, he independently gave the Andean republics the advice they wanted. He performed that task brilliantly. From that perspective, the Money Doctor should not be accused of malpractice. Neither he nor his clients foresaw either fundamental drawbacks to dependent capitalist development or the coming severity of the Depression.[17]

The success of Kemmerer's missions must be judged at three levels. At the first level of getting their U.S. models adopted without serious revisions, his advisory teams experienced spectacular success. Their record of legislative passage was especially impressive in the first three countries advised (Colombia in 1923, Chile in 1925, Ecuador in 1926-27) before soaring indebtedness and the Depression undercut their effectiveness (Bolivia in 1927-28, Colombia in 1930, Peru in 1931). Above all, his missions had such an extraordinary impact because they came from the new predominant source of foreign trade and capital. While Kemmerer saw his major purpose as monetary stabilization, most Andean elites saw it as reassuring foreign investors. His reforms also met the desires of local capitalists, especially in the urban sector. In the era, faith in foreign technocratic economic solutions to national problems was widespread. In most of his South American visits, Kemmerer arrived during a perceived temporary economic crisis (banking collapse, export recession, fiscal bankruptcy, runaway inflation, etc.) and seemed to offer a speedy escape.

The image of Kemmerer succeeding because he parachuted into backward areas with surprisingly superior North American technology which dazzled the natives is misleading. Although Kemmerer landed with valuable innovations, he mainly succeeded because he helped local elites polish and legitimize proposals they already expected, favored, and in many cases had initiated anyway. For example, all the countries had already laid the groundwork for a central bank before he showed up. His missions largely helped the South Americans do what they already needed and wanted to do anyway to progress further along the path of twentieth-century capitalism.

The Andean governments also invited Kemmerer and enacted his legislation to improve their political leverage at home. The mission's prestige attracted additional local and foreign support for government proposals. Most literate South Americans viewed these outside experts as above local partisan divisions, as more trustworthy and skilled than native elites, and therefore able to override domestic opposition to reforms. Host governments hoped that Kemmerer's currency stabilization and credit expansion would defuse rising discontent on the part of new urban economic elites, middle groups, and workers.

His arrival usually coincided with the beginning of a fresh government willing and able to embark on sweeping reforms. His administrative innovations allowed new governments to reshape and restaff bureaucracies more to their desires. Most of the administrations which rammed through his legislation were stable, normally authoritarian, and strengthened by his presence. The chief executives represented a new breed of business-like, technocratic leaders. They believed in government by experts rather than by traditional politicians. Their vision of orderly, planned, efficient, disciplined capitalist modernization harmonized with Kemmerer's. Moreover, these governments had little choice but to implement the bulk of his recommendations after having invited such a stellar mission with great fanfare, exposed their financial flaws to it, and staked their foreign credit rating and domestic political credibility on its success.

Contracting Kemmerer was slightly risky for any government. The mission's potential positive effects included focusing public attention and support on issues of concern to the administration, making the government appear above petty politics in its technical approach to the problems, providing or helping choose among competing blueprints for solutions to those problems, fine-tuning those solutions, compromising the opposition (which often trusted foreign experts more than it did the government) in inviting the mission and approving its recommendations, and attracting foreign backing for the administration's programs. Conversely, the potential negative repercussions of a foreign mission included exposing government malpractices (though that might serve to discredit previous administrations), locking the government into undesired programs, providing exotic solutions whose mechanisms and consequences were unsuited to local conditions, and leaving the administration open to the charge and reality of excessive reliance on foreigners. Kemmerer's teams, however, encountered few native experts or nationalists capable of challenging their recommendations.[18]

His missions' composition and operating procedures also contributed to their success. Kemmerer's teams contained experienced, distinguished, "scientific" specialists. They were normally economists unconnected directly to U.S. agencies or companies that were the targets of nationalist suspicions. The same advice became more acceptable from his experts than from official representatives of U.S. government and business, who therefore generally shared Kemmerer's desire to maintain a discreet distance. Because the State Department was eager to see Kemmerer's recommendations adopted, it usually instructed local embassies to avoid giving any public impression of official involvement with his missions.

The missions' tactful and industrious behavior during their visit also generated local confidence in the reforms. Conducting selective private interviews with native political and economic elites served to sell the mission's preconceived programs at least as much as to gather information. The mission members avoided public discussion of their deliberations. Until the results of their labors were ready to unveil, they maintained an aloof aura of scientific investigation and priestly secrecy. Simply handing down the projects from on high at the end of a few months preparation inspired awe, averted constant debate along the way, and won approval for the legislation as an integrated package. They cast their proposals in rigorous, detailed legislative form ready to be passed into law virtually intact. In the process, these U.S. experts avoided sharp clashes with native customs, vested interests, or politicians. Kemmerer's diplomatic skills impressed his hosts almost as much as his technical talents.

At the second level of getting their laws properly carried out, the missions proved less successful. Some of their legislation never functioned as intended because it was hastily drafted with little knowledge of the host country and scant participation by natives. Thereafter local authorities usually rubberstamped the recommendations with minimal adaptation to indigenous conditions. Consequently the mission's influence was often short-lived. For example, the Colombian government only followed its cautious advice on public indebtedness and budgeting for four years. That was the only Andean country where Kemmerer fully followed up his reforms with a subsequent evaluation and revision; his 1930 return visit validated his oft-repeated warning that implementing the laws was far more important than writing them.

Some of Kemmerer's legislation fit poorly with the legal, linguistic, cultural, economic, and political heritage of the Andean countries. Importing virtually unadulterated foreign institutions and practices, those nations applied them too rigidly to less developed economies. For example, the negotiable instruments law functioned inadequately because many of its terms translated badly and conflicted with older commercial legislation. Open market operations by the central bank proved ineffective in the absence of a viable market. A highly liquid commercial credit system provided little for farmers in countries far more agricultural than the U.S. In monocultural economies dependent on volatile export markets, strict and nearly automatic mechanisms for managing money and the national budget worked erratically. These countries also lacked sufficient financial resources and trained personnel to make all of Kemmerer's complex institutions operate properly.

Implementation also broke down at times because local political and economic interests reshaped Kemmerer's reforms after his departure. His money and banking laws usually worked out better than his fiscal renovations. In Colombia, for example, partisan, clientelistic, and regional demands undermined the comptroller's independence and led to spiralling budget deficits even before the Depression arrived. However technically sound, financial institutions could not be insulated from politics in an economy of scarcity with a governing system based on spoils. Moreover, some of the countries simply had little interest in carrying through the details of Kemmerer's financial and fiscal reforms as ends in themselves. After passing his bills to please foreign investors, host governments often circumvented the spirit and even letter of those laws to satisfy domestic political and economic pressures. Bolivians called such legislation designed for foreigners to admire more than for citizens to obey "laws for export."

At the third level of the reforms producing beneficial effects, these missions certainly improved exchange stability, bank security, commercial prosperity, and fiscal health. It is difficult, however, to weigh the impact of Kemmerer's laws as opposed to the larger impact of general economic growth in the twenties on such measures of success as rising bank loans and swelling government revenues. Those boom years rendered his reforms affordable, productive, and more efficacious in appearance than in actuality, as the Depression revealed. Undoubtedly, the Money Doctor would have been less successful in a less prosperous decade.

The gold-exchange standard--the centerpiece of Kemmerer's system--facilitated temporary prosperity in the 1920s by assuring exchange stability for international movement of goods and capital. It did not, however, serve debtor countries relying on primary exports as well as it did an industrialized creditor nation. Kemmerer stabilized the Andean currencies at approximately the existing average exchange rates so as not to unduly favor any competing groups, such as importers or exporters, creditors or debtors. To guarantee that rate, he had the central bank pursue essentially passive, automatic policies. When a favorable balance of payments caused gold inflows to the bank, it lowered discount rates and expanded the supply of money and credit to encourage imports and thus restore equilibrium. Conversely, when an unfavorable balance of payments caused gold outflows from the bank, it raised discount rates and constricted the supply of money and credit to discourage imports. This system accentuated Andean dependence on foreign credits and on mercurial export fluctuations as determinants of national income and State revenues. The internal economy was at the mercy of the external sector. Rather than stabilizing Colombia's national economy, the gold standard exacerbated domestic inflation in the late twenties. It also aggravated deflation in the early thirties, as Colombians clung to that monetary system even more devoutly than did its foreign creators. Under the Kemmerer formula, Colombia and its neighbors rode on a rollercoaster, zooming up with the U.S. economy in the 1920s and careening down with it during the Depression.[19]

The Great Crash then drove the Andean countries to develop their economic systems in more statist, nationalistic, protectionist, and expansionist directions than Kemmerer ever intended. From the 1930s on, they placed greater emphasis on elaborating the internal economy under insulation from external shocks. Nevertheless, Kemmerer's institutions continued to serve as major instruments of economic planning, execution, and development. The Andean republics also maintained the trajectory of reliance on U.S. markets and models, articulation of capitalist modes and patterns, and amplification of the central State. To understand the acceleration of those trends following World War I, we will now examine in depth the Colombian case, especially the broader economic forces at work, the impact of the Kemmerer missions upon them, and the climactic crisis of the Great Depression.

Foreign Factors in Colombian Growth

Blessed with political stability, vast untapped resources, and rising prosperity, Colombia in the 1920s offered an ideal laboratory for the Kemmerer experiment. The period of greatest annual average growth in the total value of exports in the history of independent Colombia took place from 1911 to 1929. Colombian trade grew faster than that of the other major South American countries in those years. Nevertheless, it remained a late-blooming export economy. By 1924 foreign commerce accounted for roughly \$20 per capita in Colombia compared to \$30 in Peru, \$100 in Chile, and \$180 in Argentina. Since imports grew more than exports, the balance of payments turned unfavorable during a majority of the years in the 1920s, especially 1926-29. Foreign loans and gold reserves covered those shortfalls. A trade deficit in 1923 underscored the urgency of Kemmerer's reforms.[20]

Kemmerer entered an economy becoming more monocultural. The 1920s constituted the decade of greatest dependence ever on coffee as a percentage of total exports. By the end of the 1920s over 90 per cent of those coffee exports went to the U.S. In addition, North American firms dominated the export of the native-grown coffee to the U.S. and took many of the profits.[21]

The first nation reformed by Kemmerer, Colombia led all of South America in increasing its commerce with the U.S. in the 1920s. From 1921-22 to 1926-27, U.S. exports to Colombia rose 213 per cent, to Chile 147 per cent, and to Peru 133 per cent; U.S. imports from Colombia grew 163 per cent, from Chile 64 per cent, and from Peru 36 per cent. In the twenties, the U.S. consolidated a preeminent position never relinquished thereafter. Although pleased with this mushrooming exchange, the North American government saw the persistently unfavorable balance of trade as its major economic problem with Colombia on the eve of Kemmerer's visit. His reforms, however, failed to expand U.S. sales there as much as hoped. The U.S. purchased over 80 per cent of Colombia's exports and furnished nearly 50 per cent of its imports in the 1920s; Great Britain ranked second in both categories.[22]

In the 1920s, total U.S. investments in Colombia reached well over $300 million; a majority went into public loans. Both indirect and direct North American investments increased most after the 1922 indemnity treaty and the 1923 Kemmerer visit. According to various estimates, U.S. direct investments in Colombia soared from roughly $24 million (2 per cent of the U.S. total in Latin America) in 1914, to $45 million (2 per cent of the U.S. total) in 1919, to $84 million (3 per cent of the U.S. total) in 1924, to $133 million (5 per cent of the U.S. total) in 1929. The United Fruit Company (UFCO) came to control roughly half of Colombia's banana lands and virtually all foreign sales, which led Latin America and accounted for 6 per cent of Colombian exports by the mid-1920s. At least half of U.S. direct investments poured into petroleum, which comprised 20 per cent of exports before the end of the decade.[23]

President Pedro Nel Ospina, his Minister in Washington Enrique Olaya Herrera, and most Colombian businessmen hoped that Kemmerer's seal of approval would unleash U.S. loans for public works, especially railroads. The existing tiny foreign public debt in 1922 was mainly acquired prior to World War I and overwhelmingly owed to the British. Thereafter virtually all indirect investments emanated from North America. The U.S. government favored enlarging private loans to Colombia. Extending credits for public works induced Colombians to turn to U.S. rather than British know-how and materials for those projects.[24]

As the U.S. Trade Commissioner in Colombia noted at the start of the 1920s, contracting North American advisers for developmental projects also increased the likelihood of adopting U.S. models, capital, and goods. Therefore he urged more U.S. professionals to come to Colombia not only to provide specific skills but also to improve general economic relations. By the same token, Colombians realized that employing foreign technicians enhanced their country's economic visibility and reputation abroad. They also perceived that borrowing technology by hiring experts rather than admitting foreign companies involved less risk of exploitation or diplomatic entanglements. As the U.S. Embassy hoped, Colombia responded to multiplying North American economic influences by increasingly importing U.S. advisers.[25]

Kemmerer's mission marked a significant improvement in U.S.-Colombian relations. Colombia had closely observed and suffered from U.S. interventions in Central America and the Caribbean. Therefore it exhibited the most anti-American attitudes of any country Kemmerer would advise. The Thomson-Urrutia indemnity treaty created a friendlier atmosphere, but strained relations persisted when Kemmerer arrived.[26]

Domestic Hindrances to Colombian Growth

Colombia invited Kemmerer to bring its banking, monetary, and fiscal systems up to date with the expanding needs of economic growth. When he arrived, native banks remained few in number, concentrated in Bogotá, unstable, and poorly managed. Credit was scarce, capital mobility restricted, and interest rates astronomical (12 to 18 per cent per year) for the era. No detailed banking legislation existed.[27]

Nevertheless, domestic banks far overshadowed foreign institutions in Colombia. Only two small British banks, the Banco Francés e Italiano, and the struggling U.S. Mercantile Bank of the Americas operated there in 1923. Foreign, especially British, branch banks established themselves more solidly after Kemmerer's reforms, but they never captured much of the market. U.S. institutions fared poorly throughout the 1920s, contrary to the hopes of the U.S. Department of Commerce.[28]

Colombia's slow economic growth and horrendous civil wars had doomed previous attempts to found a true central bank, the cornerstone of Kemmerer's system. During the 1890s, the government had spewed forth paper money to cover deficits incurred in the throes of civil strife. Currency emissions snowballed from 9.4 million notes in 1887 to 850 million by 1902. This catastrophe convinced public opinion into the 1920s that any central bank stabilization would have to be firmly shielded against government meddling. From 1905 on, the restoration of political peace allowed devaluations and stabilization. Opposition to inconvertible paper money became so fervent that a 1910 constitutional amendment prohibited any more government emissions of fiat currency. Exchange fluctuations of the Colombian peso in terms of U.S. dollars became minimal. The peso was worth 96 cents in 1905 and in 1923. Although it fell to an unusual low of 86 cents during the 1920-22 recession, its value was rebounding when Kemmerer arrived. Colombians desired a central bank primarily to get on the gold standard.[29]

As throughout the Andean countries, Kemmerer reached Colombia when the foundations for a central bank were already in place. Economic dislocations occasioned by World War I heightened desires for monetary and banking stabilization. After several years of debate, Congress passed central bank legislation in 1922 which contained many of the same provisions as Kemmerer's in 1923. Colombia invited him to correct any deficiencies in the law, persuade the public to accept its implementation, and add luster to it in foreign eyes.[30]

Colombians favored the gold standard to curb exchange and price instability, but these were not the burning concerns Kemmerer would later encounter in inflation-ridden Chile. Colombians mainly invited him to stabilize government finances rather than the currency. Above all, however, agriculturalists, merchants, and government leaders wanted a stronger monetary system to facilitate the orderly expansion of currency and credit. Stabilization since 1905 had left the country with an insufficient and inelastic money supply. Regional shortages became particularly acute during the coffee harvest. Monetary circulation per capita of 4.08 pesos in Colombia in 1917 contrasted with paper money circulation per inhabitant of 45.76 pesos (or their equivalent) in Argentina, 43.45 in Brazil, and 15.66 in Chile in 1916. Colombians also desired a unified, regularized national currency to replace the polyglot types of money which had accumulated over the years and among diverse regions.[31]

The Colombian government hoped Kemmerer could help it handle spiralling expenses and deficits. Especially following World War I, an urbanizing, growing economy and society increasingly called for expanded government services, employment, and contributions to infrastructure. The spreading State's antiquated fiscal methods produced perennial budgetary crises. Unstable import duties generated roughly 75 per cent of government revenues; the rest came mainly from small stamp and stamped-paper levies or from State monopolies. The miniscule role of internal taxes on income, profits, or property revealed the low level of development of twentieth-century capitalism and of State extractive capabilities. Government leaders envisioned Kemmerer fattening their coffers not only by improving internal taxation but also by attracting foreign lenders. Thus the State might become more dependent on external economic factors in the short run but stronger and more autonomous internally in the long run.[32]

Conservative President Pedro Nel Ospina (1922-26) emerged as one of the first Colombian chief executives to view the government as an engine for economic development. Much like presidents Ibañez in Chile, Ayora in Ecuador, Siles in Bolivia, and Leguia in Peru, Ospina cast himself as Colombia's first modern, technocratic leader. He vowed to solve problems through economic efficiency and expertise rather than partisan political wrangling. He brought to the presidency a businessman's (founder of a textile factory in Antioquia) belief in technology and financial responsibility, an Army General's devotion to administrative order, an Antioquian cafetero's commitment to sound money, and a former University of California student's eagerness to link his country's future with the U.S. As in the other Andean countries, Kemmerer encountered a fresh administration attuned to his vision of economic reform.[33]

The First Kemmerer Mission

In 1922 the Conservative President preceding Ospina asked Congress to authorize not only a central bank but also a commission of Colombian experts to overhaul the fiscal system. Liberal as well as Conservative congressmen instead approved contracting a foreign mission. They believed that foreigners could better overcome local opposition by guaranteeing that new banking, customs, and tax regulations were not designed primarily to serve narrow political, economic, and regional interest groups. As President Ospina told Congress in his 1923 message, the same reforms already under consideration by Colombians would have more chance of being carried through if recommended by foreigners, "whose prestige would not be haggled away as would happen with our own professionals in a backward environment like ours, in which nothing and no one escape the objections and pettiness of politics."[34]

Although favoring and facilitating the private contracting of the Kemmerer mission by the Colombian government, the U.S. Department of State neither initiated nor controlled it. The U.S. government played a larger role in arranging this mission than the later ones, but all were independent. Under orders from the Minister of the Treasury, Colombia's ambassador in the U.S., Olaya Herrera, obtained enthusiastic State Department assistance in procuring an economic adviser. The Department did not want to recommend anyone formally tied to the government or previously connected with enforced financial refurbishings in Nicaragua or Panama. It suggested Kemmerer because of his writings on money and banking, his past advising experience in the Philippines, Mexico, and Guatemala, his working knowledge of Spanish, and his tact and judgment. Another reason was his service in 1922 as a special commissioner of the Department of Commerce to survey financial conditions in Argentina, Uruguay, Brazil, and Chile. The Secretary of State recognized the significance of the Colombian mission. He approved Departmental assistance in arranging it. He also personally urged Princeton to grant Kemmerer the necessary leave of absence.[35] Despite its lively interest in the success of Kemmerer's expedition, the Department realized the importance of stressing that the "mission is an expert mission engaged by the Colombian government, and...is in no sense connected with the government of the United States."[36]

The mission included as general banking expert Howard M. Jefferson from the Federal Reserve Bank of New York. Fred R. Fairchild, Professor of Political Economy at Yale, advised on taxation for the mission, as he had previously done for the Connecticut legislature and the U.S. military regime in the Dominican Republic. Thomas R. Lill, a member of the New York accounting firm of Searle, Nicholson, Oakey and Lill, provided accounting and financial expertise; he had earlier advised Mexico on fiscal reorganization, the Philippines and Cuba on accounting and auditing procedures, and U.S. municipal governments. While serving as Chair of the mission, Kemmerer himself specialized in currency, banking, and public-debt questions. Finally, Yale Professor of Spanish Frederick B. Luquiens went along as secretary and translator. Drawing on experts with some experience where the U.S. had intervened militarily to reorder finances in the Caribbean was logical but opened the mission to charges of imperialist connections; more importantly, it personalized the structural parallel between the financial recasting achieved under duress in the Caribbean and Central America and voluntarily in South America.[37]

Government ministers and newspapers of all stripes warmly received the mission upon its arrival in Colombia on March 10, 1923.[38] The mission's diligent operating methods contributed to its success. Prestigious former and future finance minister Esteban Jaramillo, an Antioqueño lawyer linked to manufacturing and coffee interests, furnished invaluable contemporary and later support for the Kemmerer reforms by serving as legal adviser to these U.S. experts. Liberals and others soon complained, however, that native participation in the mission's deliberations was too limited. They urged Kemmerer to involve more Colombians in his decision-making so as to check the influence of the Conservative administration and to educate a new generation in modern economic techniques; the transfer of technology would be more effective if more Colombians gained first-hand experience with the mission; thus they could implement Kemmerer's plans effectively after his departure and solve their own problems in the future. Not unlike U.S. corporations abroad in the era, however, the mission included very few natives in its high-level operations.[39]

The mission members knew little about Colombia. Therefore they studied existing economic legislation, gathered data and opinions from government and economic leaders, and urged the public to send in suggestions. This information-gathering refined their recommendations. It also helped convince skeptical natives that foreigners could adapt general economic principles and mechanisms to peculiar local needs. In a country so vast and regionalized, the mission regretted its lack of time to visit more of the provinces. Therefore nearly all the departments sent special commissions of local economic and political leaders to meetings with the mission in Bogotá. As Kemmerer said, "If Mohammed could not go to the mountain, the mountain could come to Mohammed...." A trip by Kemmerer to the major coffee and industrial zone of Antioquia, however, proved mandatory at least as much to reassure those regional elites as to assess conditions there.[40]

As in some of the other Andean countries, a crisis during Kemmerer's visit contributed to rapid implementation and acceptance of his system. Three days after Congress passed his central bank bill, a fluke run on the banks in Bogotá threatened economic chaos and social upheaval. Kemmerer convinced the government to rush the central bank (Banco de la República) into operation in four days. He not only supervised that Caesarean birth but also obtained the support of U.S. banks for it. After declaring a special three-day national holiday, stock subscriptions were taken, directors elected, statutes and bylaws adopted, funds transferred from the government mint in Antioquia and from the indemnity account in the U.S., and central bank notes and rediscount papers prepared. These lightning measures provided instant rediscount privileges for beleaguered commercial banks. The panic stopped immediately. At that same moment, Colombia suddenly became the only South American republic on the gold standard. Remaining doubters, especially bankers, now applauded Kemmerer's system. It might have taken months for the Bank to wrestle with debilitating arguments over its organization and exchange rate and years for it to earn public confidence. Instead, it fortuitously won high esteem in a matter of days. This emergency rescue burnished Kemmerer's reputation as a miraculous financial savior.[41]

Kemmerer also helped establish his reforms by publicly exuding optimism--both in Colombia and back in the U.S.--about the reforms and about Colombia's consequently bright economic future. For example, he bought shares in the new central bank. Throughout the 1920s, he kept informed on Colombia's economic progress and praised it to U.S. investors.[42]

During Kemmerer's visit, most Colombians from both political parties enthusiastically supported the mission and its reforms. A few critics and skeptics, however, spoke out within both parties. They usually expressed concern about technical deficiencies in the Kemmerer laws or potential political or regional favoritism in their application.[43]

The most virulent attacks on Kemmerer came from a handful of nationalists. Former President Carlos E. Restrepo led a few Conservative dissidents in charging that the mission served as the vanguard for U.S. imperialism. A right-wing representative of the upper class, Restrepo feared U.S. cultural, economic, and even territorial absorption. In his view, the mission designed its reforms to force Colombian "economic and fiscal dependency" on the U.S. A few Liberal nationalists in Congress also attacked Kemmerer as an accomplice of foreign bankers enslaving Colombia in "chains of gold." They also worried about him revealing their national secrets to the U.S. government. Kemmerer's defenders retorted that his contributions to economic organization and prosperity would help Colombia resist foreign domination with a stronger State and indigenous banking system. This minor debate illustrated a dilemma of the Kemmerer reforms: they made the Colombian economy and its key institutions both more open to external influences, especially in the short run, and more capable of managing internal developments, especially in the long run. The mission itself simply ignored charges of being "paid agents for Wall Street."[44]

By the end of its stay, the mission had proposed revolutionary changes in Colombian finances. They presented their recommendations as exquisitely detailed laws ready to be enacted. An "exposition of motives" accompanied every bill to explain and defend all its provisions. As a result, much discussion, revision, or repackaging by Colombians appeared unnecessary. On money and banking affairs, the mission proposed (1) a central bank of issue and rediscount modeled after the U.S. Federal Reserve system; (2) the gold-exchange standard; (3) general banking legislation with a national superintendent of banking, copied from the New York system; and (4) adaptation of the North American uniform negotiable instruments law. On fiscal matters, Kemmerer advocated (1) an organic budget law; (2) reorganization of financial ministries; (3) new procedures for collecting and administering government revenues; (4) a fiscal accounting system centered around a national comptroller; (5) new taxes on stamps, stamped paper, passenger transportation, and income; (6) modernized customs administration; and (7) policies on public loans and public works.[45]

After six months' stay, the mission left Colombia on August 20, 1923. Lill stayed behind as a technical adviser to the government. The Minister of the Treasury extolled the mission's recommendations as "happy and opportune adaptations of what is current in civilized countries to the exigencies of our progress and the idiosyncrasy of the Colombian people."[46]

Prior to Kemmerer's departure, both the executive and legislative branches of the Colombian government rubberstamped most of his recommendations. It had taken the mission only two months to submit the bulk of its reports to the chief executive; both Kemmerer and Ospina knew the major projects they favored before the mission arrived. All the laws--except those for taxes on passengers (tabled) and incomes (passed in watered-down form in 1927)--sailed through Congress in two weeks with only minor, principally stylistic, revisions. According to the Minister of Finance, "Never before in the history of Colombia, and probably never before in the history of any other country, has there been realized in so brief a period of time a legislative labor so intense, so deep, and so transcendental in importance."[47]

Congress passed these monumental reforms with such celerity under great pressure from the President and the press. In his 1923 message to Congress, Ospina undercut nationalistic critics by describing the projects as the embodiment of "the most advanced principles of science." Colombians bought Kemmerer's shrewd argument that all his projects and their components were delicately interdependent and therefore had to be adopted as an integrated, unadulterated, "scientific" package. Ospina also praised the Kemmerer bills because they would elicit foreign loans which would underwrite prosperity and thus social peace. He urged rapid passage before vested interests could emasculate or torpedo the reforms as they had in the past. Congress responded swiftly because the President's party was in control, opponents were few, and some of the bills were only mild readjustments of existing or pending legislation.[48]

Newspapers affiliated with both parties admonished the government not to meddle with the reforms or delay their enactment. The Liberal press expressed the greatest urgency because it had greater faith in

Kemmerer than in the Conservative administration.[49] One Liberal newspaper warned the President and Congress to make sure the mission succeeded because "its failure would be the failure of the credit of Colombia in the United States for many years...."[50]

Despite the chorus of acclaim, a smattering of critics espoused alterations in the Kemmerer legislation. Some Liberals as well as Conservatives denounced legislators so smitten with modernization that they were eager to toss out centuries of their own jurisprudence in favor of poorly translated U.S. laws. Even the government admitted by September of 1923 that some of the bills had been passed too hastily and were already in need of reforms.[51]

One Conservative congressman, especially upset about the exotic negotiable instruments law, brimmed over in defense of Latin against Anglo-Saxon culture: "We believed from the beginning...that the error consisted in bringing in the mission. Everyone knows the motives of sovereignty, of legitimate national pride, of recollections of the past and of preoccupations for the future which made us look poorly on this official immigration of the imperialist science of the United States." Quoting Uruguayan José Enrique Rodó on the dangers of Yankee cultural penetration, he asserted, "We must defend our juridical legacy like our race, religion, language, nationality." This Conservative complained, "The historian of the future will doubtless explain the international fact that the United States pursued the acceptance of its civil and commercial legislation in Hispano-America, but he will not be able to give the justification for our passive and joyous acceptance of these strange and incomprehensible models...." While conceding that North Americans were experts on economics and had brought them generally sound recommendations, he insisted that Colombians were experts on laws and had to recast those recommendations. Even this unusually harsh attack on Kemmerer's legislation, then, constituted a largely legalistic criticism clothed in nationalism rather than a fundamental assault on the new system.[52]

The top Colombian aide to the Kemmerer mission expressed the more typical view: "Colombia has welcomed these missions of experts and has given them wholehearted and effective assistance, without feeling her independence in any way affected or her national dignity wounded because foreigners of great distinction and eminence have offered her their knowledge and experience with a view to the reorganization of the country. In addition to the prestige of distinguished attainments, these missions have enjoyed the moral authority which attaches to their impartiality and their freedom from the manifold influences which tend to warp the judgment of natives. These experts are looked upon with confidence, and this is in itself a guarantee of success." After all, he pointed out, Europeans also hired U.S. financial wizards.[53]

In addition to bringing about legislation, the Kemmerer mission awakened Colombian interest in collecting and studying data on economic questions. Kemmerer, the institutions he fostered, the expanding government, and foreign investors needed better national statistics. Consequently the quantity and quality of available economic indicators, information, and analyses greatly improved. This helped with later economic planning in Colombia and the other Andean countries. It precursed the influence of international organizations such as the United Nations on advancing data-gathering in underdeveloped countries.[54]

Kemmerer's Money and Banking Reforms

The main result Colombians desired from the proposed central bank's sanitation of currency and stabilization of exchange was expended availability of money and of domestic and foreign credits.[55] When Kemmerer arrived, the loudest outcry for loans came from agriculturalists. They employed over two-thirds of the active population. Like many urban producers, most Colombian rural elites really wanted a developmental bank dedicated to allocating credit more than a central bank consecrated to stabilizing exchange. Kemmerer dashed agriculturalist hopes that his project would be more favorable to them than the 1922 congressional bill. His belief in high liquidity needs of the central bank and commercial banks militated against loans tied to agricultural mortgages.[56]

During debate over Kemmerer's central bank, some agriculturalists, coffee growers, and industrialists complained that it would mainly benefit bankers and merchants. One Conservative agriculturalist denounced the project as a takeover of the economy by domestic and North American bankers. Throughout the 1920s, exorbitant interest rates helped keep domestic food production costs high and therefore noncompetitive with U.S. imports, which rose along with the cost of living. Some critics drew the lesson that the central bank's short-term lending policies better suited the industrialized United States than underdeveloped Colombia, where agriculture, manufacturing, and transportation desperately needed longterm credits. The scarcity of such loans domestically made foreign credit sources more important.[57]

From 1923 through 1929, the government and central bank mainly encouraged urban investments and public works. This reduced the supply of cheap labor in the countryside. Thanks to bankers dominating its board of directors, the central bank did not make use of its right to deal directly with the public. Even when the Banco de la República began extending loans to agriculturalists at special low discount rates in 1930-31, it only conducted these limited operations with coffee and tobacco producers. Small agriculturalists and those producing for domestic consumption remained displeased with the banking system.[58]

Agriculturalist apprehension about banking reforms in 1922-23 dovetailed with regionalist fears. Businessmen and bankers in Antioquia were wary of credit control by the central bank and government in Bogotá. Coastal provinces also voiced suspicions. Provincials, however, placed more faith in Kemmerer than they did in Bogotá politicians. His mission won over many regional elites even though it promoted centralization and concentration of modern financial activities; banking expert Lill advised that "in Colombia it is necessary to think nationally."[59] Kemmerer favored centralism over regionalism by dropping the 1922 requirement that the Bank of the Republic establish a branch in every departmental capital, no matter how small.[60]

Compared to agriculturalists, merchants and to a lesser extent manufacturers became more avid backers of the central bank. By 1923, chambers of commerce and industrialists in provinces such as Antioquia and Cartagena joined their colleagues in Bogotá behind the Kemmerer project. The Banco's rapid expansion of currency and lower-interest urban loans confirmed their optimism. Merchants appreciated greater monetary uniformity as well as elasticity.[61] Growth of native manufacturing in the 1920s paved the way for more rapid industrialization from the Great Depression onward. Expansion of credit, infrastructure, and urban labor and consumers helped Colombian industry's productive capacity grow more than 50 per cent during 1925-29.[62]

Although initially divided and hesitant over creation of the central bank, Colombian bankers became its primary directors and beneficiaries. In his conferences with Colombian bankers, Kemmerer discovered that most of them favored a central bank at least as conservative as he did. He tried to ease their worries about competition from the Bank, excessive government participation, stringent requirements on their reserves and lending policies, inspections of them under both the central bank and general banking laws, and potential favoritism by the central bank for cronies, politicians, foreigners, or Bogotá. Smaller and provincial banks, for example in Antioquia, retained the most reservations about the Kemmerer projects. Larger and more solid institutions hoped his banking legislation would weed out adventurous, smaller competitors. Most supported the 1922-23 legislation in order to get stable money and rediscount privileges.[63]

Most foreign bankers in Colombia also endorsed the central bank. Kemmerer gave foreign banks the same rights as Colombians. He also included them as members and even directors of the central bank. This stirred fears of a takeover by U.S. banks because they were more powerful and better able to meet the new requirements. Most Colombian commentators, however, argued that his regulations would expand contributions of foreign banks under better controls.[64]

Won over by Kemmerer's provisions and by patriotic public pressures, the major domestic commercial banks (19 out of 22) and all the foreign banks (4) immediately subscribed the required 15 per cent of their total paid-up capital and reserves to join the central bank in 1923. Throughout the 1920s, the security and credit provided by the Banco de la República pleased the member banks.[65] Kemmerer's warnings against their domination of his system came true. Criticisms mounted against the commercial banks for controlling the central institution, monopolizing its credit facilities, and favoring urban economic elites.[66] The Banco itself lamented the bankers' long-standing and continuing preference for making a few big loans at high interest rates instead of numerous loans at lower rates which might cumulatively bring in as great a profit.[67]

All these criticisms focused on the bankers' dominance of the board of directors. Numerous interviews with Colombians had reinforced Kemmerer's conviction that government should have a minimal role in the central bank. Colombians saw insulating the Bank from government interference as the paramount consideration because of past inflationary abuses, because of monetary orthodoxy in the period, and because neither Liberals nor Conservatives trusted each other to manage money and banking for the general welfare.[68]

Therefore Kemmerer's bill established a board of directors numbering 10: 3 chosen by the government, 4 by Colombian banks (2 of whom had to represent business, agriculture, and the professions outside banking), 2 by foreign banks (1 of whom also had to represent nonbanking economic interests), and 1 by general public shareholders. Kemmerer justified bankers selecting nonbanking board members because other economic sectors lacked well developed interest organizations. Most Colombians praised the composition of his board. They even accepted inclusion of foreign bank representatives out of proportion to their weight in the domestic economy. Kemmerer insisted on seats for foreign bankers because they shielded the Banco from local political influences; he also contended that "the prosperity of Colombia for many years in the future will depend in great part on its ability to attract foreign capital, and the success of the country in this regard will be more likely through strong foreign representation on the board of directors of the Bank."[69]

While stipulating that a majority of the central bank directors had to be Colombians, Kemmerer erased the 1922 requirement that the manager had to be a native. Instead he suggested hiring a foreign expert. A few Colombians agreed with him that a foreign manager might be more efficient and impartial. But nationalistic opponents scuttled that proposal.[70]

With these organizational issues temporarily resolved, the Banco de la República began operations in July of 1923. During its opening months, Kemmerer and Jefferson attended all meetings of the board of directors, which closely followed their advice. Kemmerer reported that "the board took action to the effect that they would adopt no measures while we were there to which we were opposed."[71] Thereafter the bank from time to time solicited their opinions through correspondence but basically ran its own affairs. Public confidence in the institution, which had always been high, grew so that by 1927 congressmen were no longer discussing or attacking it.[72]

The bank's capital came mainly from abroad, and its reserves were mainly deposited abroad. Playing a larger role than in the U.S. system, the Colombian government used the first North American indemnity installment to supply half the bank's initial capital. By 1927, 50 per cent of the bank's 10 million pesos in capital came from government, 20 per cent from national banks, 9 per cent from foreign banks, and 20 per cent from public shareholders.[73]

The central bank maintained higher reserves and more of them abroad than even Kemmerer had recommended; its officials became more extreme in their devotion to the system than were its foreign creators. To gain domestic and foreign confidence in the new institution, Kemmerer established the highest reserve requirement (60 per cent of circulating notes and deposits) of any central bank in the world. To earn interest and facilitate exchange transactions, the bank stashed more than the Kemmerer limit of two-fifths of these reserves in major New York and London banks. This could prove risky in a crisis. Critics also complained that it benefited foreign bankers at the expense of the domestic supply of money and credit: "The bank is the product of a law that North Americans sent us--the same ones who snatched Panama from us--in order to ruin us, debase us, and leave us under their control or dependence." The bank replied that location of the reserve made no difference in domestic monetary circulation and that Colombia would be even better off with more held abroad under the gold exchange standard.[74]

CENTRAL BANK RESERVES AND MONETARY CIRCULATION IN ROUNDED-OFF MILLIONS OF PESOS[75]

Year	Gold Reserve in the Central Bank	Gold Reserve in Foreign Banks	Total Gold Reserve of the Central Bank	Central Bank Notes in Circulation	Total Gold Reserve as a Percentage of the Notes in Circulation
1923	1.9	5.5	7.5	2.2	332%
1924	7.0	16.3	23.3	17.9	130
1925	15.0	21.3	36.3	29.8	122
1926	18.4	24.6	43.0	40.7	106
1927	20.5	23.7	44.2	46.4	95
1928	24.9	39.7	64.7	56.2	115
1929	22.4	15.4	37.8	39.1	97
1930	19.7	8.6	28.3	26.1	108

Many Colombians expressed disappointment that the bank did not expand credit and lower interest rates more. Using quotes from Kemmerer, the bank constantly reiterated its inability to arbitrarily reduce interest rates because its discount rate was mainly determined by the balance of payments in defense of the gold standard. During its first year, the central bank did slash its rate for member banks and the government from 12 to 7 per cent, which lasted until the Depression. Consequently, private banks, largely because of the influx of foreign capital, dropped their rates from around 15 per cent to around 10, still double what borrowers had hoped for.[76]

Until the Depression, credits extended from the bank to the government stayed well within Kemmerer's 1923 limit of 30 per cent of capital and reserves:

CENTRAL BANK CREDITS TO THE GOVERNMENT IN MILLIONS OF PESOS[77]

Year	Credits	Year	Credits
1923	3.8	1929	1.9
1924	2.8	1930	4.0
1925	3.6	1931	10.2
1926	2.0	1932	24.0
1927	2.1	1933	35.9
1928	2.4	1934	41.4

Despite public fears, the government during 1923-29 did not try to take advantage of the bank and maintained very harmonious relations with it. The ample availability of trade revenues and foreign capital made bleeding the bank unnecessary.[78] Even without providing hefty loans, the bank helped the government by handling service on the public debt, supervising currency, managing U.S. indemnity payments, and attracting foreign credits. In turn, the bank's solidity depended not only on the export economy but also on the fiscal and political stability of the government.[79]

The central bank's greatest success was achieving its primary objective of stabilizing exchange rates by preserving the gold standard:

EXCHANGE RATE OF COLOMBIAN PESO IN TERMS OF CURRENT DOLLARS[80]

Year	Value	Year	Value	Year	Value	Year	Value
1880	.836	1912	.982	1921	.855	1930	.966
1904	.424	1913	.966	1922	.915	1931	.966
1905	.961	1914	.959	1923	.960	1932	.952
1906	.943	1915	.929	1924	.993	1933	.803
1907	.971	1916	.961	1925	.984	1934	.645
1908	.943	1917	.990	1926	.983	1935	.561
1909	.980	1918	1.067	1927	.976	1936	.571
1910	1.042	1919	1.077	1928	.979	1937	.566
1911	.972	1920	.890	1929	.968	1938	.559

Colombians also hailed the increasingly unified, elastic, and ample domestic money supply.[81]

The bank stabilized exchange but not domestic prices. Although satisfactory statistics are unavailable, imperfect price indexes show basic agricultural goods going from a base of 100 in 1923, to a peak of 127 in 1928, to a low of 67 in 1932; average weekly prices of construction materials in Bogotá soared from a base of 100 in 1923, to 162 in 1928, and then fell to 78 in 1932; weekly cattle sale prices in Antioquia jumped from an index of 100 in 1923, to 152 in 1928, and then plummeted to 50 by 1932.[82]

Ironically, Kemmerer's system attracted foreign investments which helped cause inflation and balance-of-payments problems which his reforms had been expected to prevent. The central bank's weak discount-rate mechanism failed to contain price inflation fueled by U.S. indemnity payments and foreign loans during 1923-28. Under the gold-exchange standard, this net importation of foreign capital automatically pumped up the circulating medium and bank credits.[83] The stream of foreign capital also expanded government budgets and public-works projects. This raised demands for labor, consumer goods, and imports, thus elevating wages and prices. Agriculturalists, who favored foreign-funded public works to improve transportation, soon complained that those projects increased competition for and costs of labor. Rural elites also blamed the paucity of credit available through the Kemmerer system for their inability to keep the food supply up with spiralling demand. Rising domestic food prices led to increasing food imports from the U.S., which threatened balance-of-payments equilibrium. Despite increasing commercialization and modernization of agriculture in the 1920s, its output for domestic consumption lagged behind demand because of antiquated production methods and because the export boom pulled more lands into coffee cultivation. That inflated land values, as did easier placement of mortgage bonds in foreign markets. Although real wages and salaries also climbed, consumers suffered from runaway inflation. In 1927 the Minister of Finance and Public Credit (former aide to the Kemmerer mission) complained that "perhaps nowhere else is there such a monstrous disproportion between the incomes of the vast majority of citizens and the price of basic necessities." By the end of the decade, Colombians increasingly blamed first inflation and then deflation on the Kemmerer system's creation of excessive openness to external economic forces.[84]

Iron-clad defense of the gold-exchange standard provided the overarching purpose of all Kemmerer's reforms. His system guaranteed the stable, free international flow of currency, capital, and goods. Its maintenance required tight regulations not only for the central bank but also for private banking and government financial operations.

Much more than the central bank law, Kemmerer's general banking legislation established public control over private banks. He intended it to solidify all banking in order to facilitate domestic capitalism and reassure foreign investors. Paid for by quotas from the private banks, a Banking Superintendency under the Minister of Finance and Public Credit now would make sure that all banks were properly and securely managed.[85]

This law aroused resistance from many Colombian banks. In newspaper articles and a memorandum to Congress, they excoriated the proposed Superintendent of Banks as dictatorial State interference in their private business. Particularly smaller provincial institutions feared they would not be able to survive government inspections, raised reserve requirements, and restrictions on their multiple financial activities. Opponents unsuccessfully tried to discredit the bill by branding Kemmerer an "imperialist" imposing financial reforms on Colombia previously forced on Central America and the Caribbean at gunpoint. Supporters of the legislation replied that the Colombian masses trusted U.S. academics more than they did U.S. or domestic bankers. Even some bankers favored the law to help clean up their own operations, to inspire greater public confidence in them, to attract more foreign credits, and to drive out shaky competitors. The bill zipped through Congress in four days with only meager modifications. This Kemmerer legislation worked so well that its essential framework endured for decades thereafter.[86]

Contrary to some fears and hopes, Kemmerer's law giving equal rights to foreign banks did not significantly increase their number or the size of their operations in Colombia. Many foreign banks were not attracted by the new requirements in Kemmerer's central and general banking legislation, although the most lasting foreign institutions entered after his reforms. By 1925 the absorption of the Banco Mercantil by the Royal Bank of Canada left no U.S. banks in Colombia. The Banco de Londres y América del Sud and the Banco Francés e Italiano were joined by the Anglo South American Bank in 1926 and the National City Bank in 1929, while the Commercial Bank of South America dropped out. The British remained preeminent among foreign bankers. In 1925 the 27 domestic banks had total paid-up capital and reserves of nearly 15 million pesos, while the 4 foreign banks had only 4.5; by 1927 the remaining 25 domestic banks had increased their capital and reserves to 22 million pesos, while the 4 foreign institutions had only 4 million; by 1930 those figures were 33 million and 8 million respectively. National banks retained their dominance in the 1920s, after which further foreign banks did not come in until the 1950s and '60s.[87]

By making banking more specialized and secure, Kemmerer's legislation helped the system become more concentrated and centralized. Rather than encouraging creation of new banks and sources of credit, his law promoted absorption of smaller provincial institutions by larger entities in Bogotá and Antioquia. This followed the U.S. model where there existed far more strong private banks which could satisfy stringent criteria. The percentage of total banking capital and reserves (not counting the central bank) in Bogotá's province of Cundinamarca and that of Antioquia rose from slightly over 40 per cent in 1924 to well over 60 per cent by 1927. Regional and institutional concentration accentuated thereafter. The total number of private banks fell from 35 in 1924, to 29 in 1927, to 16 in 1930 (reaching 14 by 1949); consequently, the 4 foreign banks loomed larger proportionately in number if not in size. While the total number of banks declined, the number of offices and size of deposits and operations overall increased, as regional branches multiplied. Especially in outlying provinces, the public complained about this process of oligopolization which left them more dependent on bigger banks in the richer departments.[88] While the U.S. became more economically dominant over Colombia, the central regions (Cundinamarca and Antioquia) increased their supremacy over peripheral zones within Colombia.

Merchants, businessmen, and surviving bankers applauded financial growth under the Kemmerer system. From 1923 to 1927, bank deposits soared 240 per cent, commercial loans 255 per cent. Not counting the central bank, all other banks from 1925 through 1929 increased their gold and exchange reserves from 14 million to 21 million pesos, their loans, discounts, and investments from 67 million to 208 million pesos. Savings deposits in commercial and mortgage banks rose from an index of 100 in 1924 to 815 in 1929. Foreign credits of Colombian commercial banks jumped from 2 million pesos in 1925 to nearly 20 million by 1929. Total deposits in the central bank swelled from 1 million pesos in 1923 to 10 million in 1928. While many agriculturalists cried for more long-term loans at lower interest, other Colombians criticized domestic and foreign bankers for making too many easy loans in the 1920s.[89]

The Superintendency to inspect all credit institutions constituted the centerpiece of Kemmerer's general banking system. It surprised Colombians that a North American champion of free enterprise introduced State regulation of banking. Although a limited departure from laissez-faire, this reform provided the precedent and tools for later expanded State activism geared more to developmental planning of credit instead of just fiscalization. Congress eased fears of a foreign (as Kemmerer recommended), politicized, or dictatorial Superintendent by requiring that he be a Colombian, supervised by the President and Minister of Finance, and subject to an appeals process.[90] To undercut charges of "complete American control of finances" and attract European in addition to U.S. capital, Ospina in 1924 ignored Kemmerer's suggestion for a North American technical adviser to the Superintendent and instead hired a German.[91]

Kemmerer complemented his banking laws with a roughly translated copy of North American negotiable instruments legislation. He intended for local lawyers to polish the language and details, but critics pounced on the bill for its lack of adjustment to existing Colombian legal and commercial codes and customs.[92] Although the law passed, many sections remained unintelligible or inapplicable. Despite clarification in 1925, it continued to be controversial and never fully functioned properly.[93]

Kemmerer's Fiscal Reforms

Once Kemmerer established his money and banking laws to prop up the gold-exchange standard, he also had to prevent government financial operations from subverting the system. Colombia took his fiscal reforms more to heart than did the South American countries simply desperate to be bailed out by foreign lenders during 1927-31. Colombia also had more time than the other Andean countries to make these fiscal innovations work before the Depression upset all calculations. All his clients hoped that retooling government finances would attract foreign capital for State expansion, whereas he mainly urged economizing to avoid deficits which threatened exchange stability. As with all the Kemmerer reforms, these fiscal laws looked most successful at the general level of indicators of prosperity such as rising revenues; they looked less successful at the detailed level of specific measures such as estimating budgets.[94]

Kemmerer centralized, simplified, and tightened government budgeting processes. To do so, he reorganized financial ministries, streamlined revenues collection, consolidated government purchasing, and, most importantly, wrote a new organic budget law. Even more significant than Kemmerer's legislation in strengthening government resources and solvency in the 1920s, of course, was the flood of indemnity payments, loans, and coffee revenues from the U.S.[95]

Although improving national budgeting, Kemmerer's reform modeled after U.S. and British laws did not work as well as planned. This was partly because of deficient provisions poorly adapted to Colombian conditions and partly because of imperfect implementation. Highly automatic, routinized systems were unlikely to function properly in an underdeveloped, monocultural economy extremely dependent on oscillating international markets. Not only fluctuations in foreign trade and loans but also Colombian eagerness to inflate the State's financial role undermined Kemmerer's delicate system.[96]

According to Kemmerer's law, budgetary projections now had to be based on the average of the three preceding years. Previously, wide miscalculations had resulted from projections based only on the immediate preceding year. Kemmerer's method assumed a period of fairly regular economic growth. Consequently, it turned out to be too rigid to accommodate the spurting prosperity of the 1920s or the sudden crash at the start of the 1930s. Therefore the government fudged on the three-year rule to allow larger projections in the 1920s and smaller ones by 1930. However, neither Kemmerer's automaticity nor the government's flexibility produced very accurate budget forecasts:[97]

GOVERNMENT BUDGET PROJECTIONS AND RESULTS[98]

	Percentage by which government revenues differed from government projection	Percentage by which government expenditures differed from government projection
1923	plus 50%	plus 45%
1924	plus 18	minus 7
1925	" 37	plus 23
1926	" 38	" 39
1927	" 36	" 51
1928	" 31	" 33
1929	" 13	minus 15
1930	minus 30	" 12
1931	minus 14	" 3

Kemmerer's reform generated more domestic and foreign confidence in Colombian budgeting procedures than greater actual efficiency. Until the Depression, the government was able to afford budgetary inaccuracy and regular payments to creditors because of rising prosperity.

To fortify the economic strength and planning capabilities of the central State, Kemmerer assigned virtually all budgeting authority to the executive branch. Previously, Congress ran up deficits by adding budget items to reward electoral and regional clienteles. Now Kemmerer's law prohibited any congressional additions which lacked the approval of the executive branch or unbalanced the budget.[99]

Since the Colombian political system depended on payoffs to local supporters, congressmen circumvented Kemmerer's rules to continue expanding the budget. For the rest of the 1920s, the legislature augmented the budget through special yearly laws, through appropriations for its own expenses, and through pressure on government ministers to approve additional regional outlays. With its enlarged budgetary powers, the executive branch also inflated government expenditures.[100]

Kemmerer vainly tried to discourage the longstanding government practice of opening up additional credits for additional expenditures after the budget was approved. This device had often accounted for as much as 25 per cent of total expenditures in the years preceding 1923. These additional credits not covered by budgeted revenues still equaled at least 20 per cent of original budgetary appropriations during 1924-31. To better control public credit operations, Kemmerer instituted an extraordinary separate budget for indemnity payments and foreign loans to be used to invest in public works and to amortize the government's debt. Colombia expanded this extraordinary budget and thus the State's economic scope well beyond the boundaries intended by Kemmerer. As a result of budgetary excesses by the legislative and executive branches, Colombia again incurred regular deficits dependent on foreign credits during the second half of the 1920s:[101]

CENTRAL GOVERNMENT ORDINARY BUDGETS IN ROUNDED-OFF MILLIONS OF PESOS[102]

Year	Revenues	Expenditures	Deficit	Surplus
1913	14	14		
1914	17	20	2	
1915	21	18		3
1916	15	17	2	
1917	15	16	1	
1918	19	18		1
1919	14	16	3	
1920	24	28	4	
1921	26	35	9	
1922	24	28	4	
1923	44	39		5
1924	40	40		
1925	52	50		2
1926	61	67	7	
1927	63	69	6	
1928	75	79	4	
1929	75	83	8	
1930	49	62	12	
1931	44	52	9	

In all the Andean countries, the latter half of the 1920s brought huge foreign loans and public works which encouraged bulging budgets and deficits. In Colombia, Kemmerer's fiscal system worked best under President Pedro Nel Ospina (1922-26). As distance from the mission's advice grew, President Miguel Abadía Mendez (1926-30) abandoned fiscal restraint. The first administration's budgetary caution made foreign capital more available, which stimulated overspending by the succeeding administration. Rather than new and higher taxes, general prosperity and Kemmerer's methods for handling revenues mainly explained the doubling of State income during 1922-25. The very success of Ospina in raising revenues led his successor to raise them still further, as expectations and obligations accumulated. Once the Panama indemnity payments (1923-26) ended, Abadía replaced them with foreign credits. The State pleased rising urban middle- and working-class groups with employment in the bureaucracy and public works. No true civil service existed. Liberals denounced Conservatives for trying to solidify their political hegemony through unparalleled budgetary expansion and clientelism ever more reliant on foreign credits which jeopardized national sovereignty.[103] An engorged bureaucracy, overextended public-works commitments, and mushrooming reliance on foreign loans left the government extremely vulnerable to the Great Depression.[104]

Kemmerer's most important creation to guard balancing of the budget was the national comptroller. This centralized authority over all government accounts became more powerful in Colombia than its models in the U.S. and England. The Colombian comptroller, however, never acquired the power to rule on the constitutionality of executive actions, as its Chilean counterpart would. After exerting prior legal and accounting control over all State financial operations, the comptroller filed monthly and annual fiscal reports, which improved government economic knowledge, planning, and management.[105] By the end of the 1920s, Colombians hailed it as the Kemmerer fiscal reform which had best fulfilled its duties and expectations.[106]

During 1923-26, Lill advised the comptroller and prepared most of its budgetary analyses and annual reports. He carried out many of the essential duties even though the comptroller had to be a Colombian according to the law. Lill repeatedly urged Congress to tighten the budget. In 1924 he also tried in vain to help the U.S. Embassy convince the government to select a North American rather than a British bank as its fiscal agent; getting Colombia to choose a U.S. banking agent was called by the Embassy the crucial "entering wedge" for North American capital and commercial expansion there. Although Colombians frequently criticized the comptroller, Lill won their respect.[107]

The comptroller's initial years proved difficult because the government repeatedly resisted its jurisdiction and interference. In 1924 this conflict reached the Supreme Court, which admonished the comptroller to stick to purely fiscal rather than administrative functions.[108]

The comptroller also collided with ingrained practices and vested interests in the bureaucracy. U.S. indemnity payments and public credits complicated the task of estimating and controlling budgets. It was hard to achieve speed and accuracy in managing revenues and expenditures among poorly interconnected regions. Clientelistic politics seeped into the comptroller's office at all levels. Although Kemmerer recommended long-term comptrollers serving at least four years, eight different men filled the post from 1923 through 1933. Such a powerful and expanding technical agency could not be removed from the spoils arena. Rampant turnover of employees produced inefficient and erratic application of the law. Never as smooth or authoritative a mechanism as Kemmerer envisioned, the comptroller nonetheless improved fiscal order.[109]

Kemmerer also recommended simplification, expansion, and better collection of taxes. Colombia needed to curtail widespread tax evasion. The government also desired to increase its regular revenue sources so as to be less reliant on oscillating customs receipts and more capable of extracting support domestically. In addition, business groups wanted less complicated taxes less inhibiting to commerce. U.S. interests naturally favored tougher taxes on domestic elites to lighten the burden on U.S. corporations or exports to Colombia and to provide more reliable government resources to service foreign debts. Kemmerer, however, had little impact on these taxation problems.[110]

In 1925 government revenues still came 62 per cent from customs, 12 per cent from the State railroads, 23 per cent from myriad other special sources such as mail service, and only 2 per cent each from the stamp and income taxes.[111] Meanwhile taxes per inhabitant rose from 3.9 pesos in 1923, to 5.3 in 1925, to 6.6 in 1929, and then fell back to 3.8 in 1930. Despite mildly rising internal taxes, the government still boasted to foreign investors in 1929 that Colombia had "the smallest taxation per capita and property in Latin America." The upper class successfully resisted domestic taxation and left the State reliant on income from foreign trade and loans. Dependency resulted from internal class structure as well as external forces.[112]

The least well received Kemmerer recommendations were those on taxes. Levies on passengers and incomes were his only bills not passed in 1923. Presidential, congressional, and press supporters of his progressive income tax argued that it would advance civic consciousness and national integration because everyone having to pay directly for the government would therefore identify with and demand accountability from it. Opponents blasted the bill as "a weapon of socialism against capitalism." Congress finally passed a mild upward reform of the 1918 income tax law in 1927, incorporating some technical improvements akin to those recommended by Kemmerer.[113]

Kemmerer also encountered frustration in his effort to lower tariffs. Colombian resistance to domestic taxation and support for mild protectionism convinced the mission to merely issue a report in favor of free trade rather than a concrete customs law. Criticizing "artificial industries," the mission recommended development through comparative advantage in primary material production.[114]

The greatest debate over protectionism in the 1920s concerned domestic agriculture rather than manufacturing. As food prices rose, coffee growers, merchants, manufacturers, and labor groups blamed inefficient agriculturalists and their tariff protection. Quoting Kemmerer on the need for free trade, the government passed the "emergency law" of 1927 to slash duties on imported foods. Mainly coming from the U.S., these food imports soared from a volume index of 100 in 1922 to 573 by 1928. Once again, traditional agriculturalists lost out to urban economic interests more attuned to the Kemmerer system.[115]

The Colombian government's primary motivation for adopting Kemmerer's reforms was to improve its credit rating abroad. Its public debt (principally to cover deficits and railroad construction) stood at 39 million pesos (22 external and 17 internal) when he arrived in 1923. Because of the U.S. indemnity windfall and Kemmerer's recommendations for austerity, the Ospina administration amortized its public debt down to 24 million pesos (14 external and 10 internal) by 1926. Colombia became the only South American country during 1922-26 to reduce its national government debt per capita, which fell by 66 per cent while that of Argentina rose 27 per cent, Chile 33 per cent, Peru 34 per cent, and Bolivia 54 per cent. Although the availability of U.S. and British loans improved immediately following Kemmerer's visit, the Colombian central government held back until the Abadía Mendez administration. Then its foreign debt skyrocketed. Public-works loans arrived through U.S. financiers for a nominal $25 million in 1927 and $35 million in 1928. Thanks partly to the second Kemmerer mission, the government contracted its third major U.S. loan in 1930-31 for a face value of $20 million to cover debts. These obligations propelled the total central government public debt to 119 million pesos (81 external and 38 internal) by 1931.[116]

Kemmerer agreed with Colombians that they should take more advantage of foreign financing. He reasoned that the country was rich in resources but poor in capital and infrastructure. Moreover, interest rates were lower abroad. Throughout the 1920s, however, he urged the government to be circumspect in contracting foreign debts. Kemmerer also warned the government to control foreign borrowing by departments and municipalities. For most of the 1920s, Colombia followed little of his advice on foreign indebtedness.[117]

The arrival of Kemmerer and the U.S. indemnity payments fulfilled Colombian hopes of improving their credit rating abroad. From 1923 to 1928 in the London and New York markets, quotations rose on all Colombian bond issues, which did better than those of most of Latin America. Whereas national foreign debts prior to 1923 required specific guarantees and earmarked revenues, those thereafter did not. Both North American and Colombian observers agreed that the Kemmerer mission helped make U.S. loans more available under better terms with less infringement of Colombian sovereignty by lenders.[118]

Until 1927, subnational entities in Colombia mainly took advantage of the new credit-worthiness bequeathed by the Kemmerer mission. Having virtually no foreign indebtedness in 1922, the leading departments, municipalities, and mortgage banks from 1923 on emitted bond issues for soaring amounts in the U.S. market, especially during 1926-28. The coffee provinces became the biggest borrowers, mainly to improve transportation for exports. By June 1927, of 95 million pesos of foreign public debt, the departments (30 million), municipalities (13), and mortgage banks (20) accounted for 63 million. By June 1932, according to the Minister of Finance, Colombia's outstanding public foreign debt had reached $210 million, of which some $60 million was owed by the departments, $22 million by the municipalities, $48 million by the mortgage banks, and $80 million by the national government. The law required most of these subnational loans to be authorized and monitored by the central government, but it exerted no effective control. Colombians floated all but one of these subnational loans of the 1920s in the U.S.[119]

Colombia's total public foreign debt in 1932 weighed nearly ten times as much as it had in 1923. In those years, the national government, departments, municipalities, and mortgage banks imported over $200 million from the U.S., not counting the $25 million indemnity payments. By the end of the 1920s, Colombia ranked second only to Chile among the Andean countries in total securities held in the U.S. The first and richest South American countries Kemmerer advised succeeded most at tapping the U.S. financial market. Taking into account North American shares in private banks and loans floated by mining and oil companies added over $22 million more to the flood of U.S. finance capital. Considering all direct investments as well pushed the total inflow of foreign capital for the decade well over $300 million, which accounted for nearly half of total capital formation in Colombia. Even before the Depression, the U.S. State Department worried in 1928 that the Colombian government's lack of control over its own deficits and over departmental and municipal borrowing endangered its ability to handle this galloping indebtedness.[120]

Throughout the 1920s most Colombians defended increasing foreign loans on the grounds that their country was relatively underindebted. Although comparative estimates varied widely, all agreed that Colombia's ballooning foreign debt remained small vis-a-vis the country's resources, population, and neighbors.[121] Even with indebtedness accumulating at full tilt by the end of 1928, one estimate in rounded-off millions of U.S. dollars showed the following South American national, provincial, and municipal foreign debts:

SOUTH AMERICAN FOREIGN DEBTS OWED IN DECEMBER, 1928[122]:

	To Europe	To United States	Total	Per Capita
Colombia	$10	$147	$157	$19.44
Chile	141	146	288	65.34
Ecuador	1	0	1	.40
Bolivia	0	61	61	17.03
Peru	106	47	153	17.01
Argentina	293	378	671	61.40

As a percentage of national wealth, public debt reportedly accounted for only 2 per cent in Colombia compared to 6 per cent in Peru, 7 per cent in Argentina, and 12 per cent in Chile. According to another estimate for the end of the 1920s, Colombia and Peru bore an annual foreign debt service of less than 20 per cent of their total national budget compared to roughly 25 per cent in Chile and Argentina.[123]

Despite the relatively low level of indebtedness, its massive accumulation in 1927-28 evoked more and more criticism from Colombians. Critics resurrected Kemmerer's 1923 warnings about overindulgence. By 1928 the U.S. Ambassador warned that annual interest and amortization payments had risen to dangerous heights for such a poor and fragile export economy. He complained that loans made too easily available were spent to cover government deficits and to build wasteful public works. Once begun, those projects necessitated further loans for their continuation and failed to rapidly generate substantial revenues to repay the investment. Moreover, this construction extravaganza drew workers away from rural production of domestic foodstuffs and coffee, which jeopardized the balance of payments and thus Colombia's ability to meet its debt obligations. The Ambassador scolded eager U.S. lenders for nudging equally reckless Colombian politicians to the brink of default: "The Legation has frequently in the past expressed its strong conviction that the various American banking houses who have during the past three years floated various Colombian national, departmental, and municipal foreign loans were not exercising due care in protecting the interests of the American bondholder and were not assuming that degree of moral responsibility towards their clients which is necessary to a sound policy of foreign financing."[124]

Colombian governments spent most of those foreign loans on the transportation network. One U.S. investment firm concluded in the mid-1920s that "there is no other country in Latin America so lacking in modern means of communication, and where the people labor under such incredible transport handicaps, as the Republic of Colombia." Kemmerer agreed that poor transportation constituted the major barrier to external trade, internal economic integration, and central government control. By 1926 Colombia far exceeded the limited spending he recommended. The government showered pesos on widely scattered, technically inefficient, and politically motivated projects.[125]

Improving transportation facilities served North American as well as Colombian interests so long as overindulgence did not imperil debt repayments. Better ports, roads, and railroads accelerated foreign trade. These projects created markets for U.S. construction firms, banking houses, transportation equipment suppliers, and automobile manufacturers. They also reduced the insulation of local producers from foreign competitors.[126]

Colombia invested approximately 50 per cent of the foreign public debt during 1920-29 in transportation projects. From 1923 through 1931, the national government alone spent 210 million pesos on public works: 156 million on railroads and air cables, 33 million on roads, and 21 million on ports. During 1925-29, railroads claimed 54 per cent of public transportation expenditures, roads 39 per cent, and ports 7 per cent.[127] During 1926-28, extraordinary new public-works construction consumed almost 40 per cent of total government expenditures; this caused mounting deficits covered by foreign loans.[128]

In 1923, a newspaper praising Kemmerer's reforms as likely to attract foreign capital for transportation projects observed: "every Colombian has a railroad in his heart."[129] Not only a majority of foreign loans for transportation construction but also 60 per cent of the U.S. indemnity payments went into railroads. The kilometers covered by those lines nearly doubled during the 1920s and came to account for over one-fourth of the national transportation network.[130] Still, Colombia's transportation infrastructure lagged behind other major Latin American republics. For every kilometer of railroads, Colombia possessed 4,100 inhabitants, Peru 1,500, and Argentina 250. By the end of the 1920s, Peru still boasted nearly twice as many and Chile almost four times as many kilometers as Colombia.[131]

Railroad construction increased dependence on the external economy and central government control over transportation. As in the nineteenth century, railroads in the 1920s were primarily designed to channel exports to coastal outlets rather than to knit together domestic regions. Consequently, agriculturalists and others producing for internal consumption continued to complain about inadequate transportation at insufferable rates. The few foreign-owned lines, mainly controlled by U.S. banana and oil companies, were especially geared to export-import traffic. The central government increasingly nationalized railroads in the 1920s. Moreover, national and departmental governments themselves built the new lines in that decade rather than consigning them to foreign companies as in the past. The State came to control a majority of railroads and their fares in the 1920s, giving it stronger leverage over the national economy.[132] Improving transportation also facilitated Colombia's change from 21 per cent urban in 1918 to 26 per cent by 1930.[133]

Colombian enthusiasm for this public-works boom dimmed by the end of the 1920s. Critics charged that railroad projects entailed "the naming of a manager for every kilometer." Agriculturalists blamed public works for labor shortages and inflation. When the Depression struck, Colombia had to slash government budgets, curtail public works, lay off workers, revive domestic agriculture, and default on foreign debts. So long as that default formed part of a global crisis, however, it neither denied Colombia credits available to others nor incited U.S. intervention. Therefore it could be argued that the country was fortunate to have enticed foreigners to pay for so much vital infrastructural development in the 1920s.[134]

The Great Depression

Ultimately, the Kemmerer system and indeed the entire Colombian economy rested on coffee sales abroad and on foreign credits to compensate for any balance-of-payments shortfall. As coffee prices fell and debt payments grew, the positive balance of trade was increasingly deceptive by the end of the 1920s. According to National City Bank's estimate of the balance of payments for 1930, Colombia received from foreigners $81 million for its exports, $500,000 for miscellaneous transactions (freight, insurance, diplomatic service, etc.), and $9 million in new investments, for a total of $90,500,000; Colombia paid out to foreigners $62,800,000 for imports, $14,300,000 for miscellaneous transactions, $20 million for interest and amortization on national, departmental, municipal, and bank debts, and $2,500,000 for interest and dividends on investments, for a total of $99,600,000; that deficit had to be covered by a gold outflow from the reserves of the central bank of $9,100,000.[135] Colombia's ability to maintain the gold standard and service on foreign debts declined as the terms of trade, customs receipts, and balance of payments worsened. From 1929 through 1932, the volume of exports fell by one-fourth and their value by one-half.[136]

Colombians who had worried that a trade slump in a country heavily indebted and dependent on primary exports would break the gold standard had been reassured previously by Kemmerer that it could be sustained; now they complained because his system maintained exchange stability and debt payments in gold at the expense of domestic money, credit, and prosperity. Critics increasingly railed against dependency as the degenerating balance of payments caused an exodus of gold which contracted domestic credit and thus further restricted export as well as import capacity. When the Kemmerer system transmitted the full ferocity of the Great Crash into Colombia, debt-led growth turned into debt-led disaster.[137]

An agricultural, monocultural, indebted economy found it extremely difficult to alter its exports or cut back its payments abroad. Therefore Colombia made extraordinary efforts to maintain the Kemmerer system and thus its credit standing in vain hopes of being saved by U.S. financiers. Because of its dependence on foreign loans, the government held fast in the face of ever louder public complaints about budget reductions, debt payments, and gold drains.[138]

The Depression damaged all Colombian economic sectors and prompted them all to call for protection and credit from the government. At the 1931 convention of the National Federation of Coffee Growers, its manager stated the case for special government assistance to coffee:

> "I am fiscal equilibrium, because customs revenues, which are the axis of our budgets, depend on coffee exports; I am the external credit of the nation and the departments, because with the exchange from coffee is serviced the external debts, public and private; I am the Bank of the Republic, because if coffee exports ceased in a given moment, the Bank of the Republic would break in less than three months; I represent and on me depends the sound monetary system based on the gold standard, the stability of exchange, the possibility of introducing into the country machinery, rails, scientific books, foreign professors, in a word, the civilization of Colombia from the material point of view."[139]

The Federation convinced the government in 1931-32 to create--with the help of capital from the central bank--the Caja de Crédito Agrario and the Banco Central Hipotecario. Cafeteros resented charges that these extraordinary public credit institutions for agriculture undermined the central bank's ability to defend exchange stability.[140]

Agriculturalists producing for the domestic market joined coffee growers in persuading the government to provide unprecedented credit intervention on their behalf. In 1930 the Banco de la República finally exercised its right to deal directly with the public by offering preferential lending terms to agriculturalists, especially coffee growers. The government in 1931-32 founded not only special credit institutions for farmers but also the Ministry of Agriculture and Commerce. The Society of Agriculturalists successfully pressured the government to repeal the "emergency law" and hike protective tariffs on foodstuffs in 1931. The rural elites saw these measures as redress for the "indifference" or "hostility" displayed toward them by governments and banks in the 1920s. Now these agriculturalists overturned many of the credit and trade policies advocated earlier by Kemmerer.[141]

Industrialists launched the National Federation of Manufacturers and Producers in 1930 to promote protection and purchase of domestic manufactured goods. Some labor unions backed these proposals. In reaction to scarcity of foreign exchange and jobs, the government responded favorably to this protectionist industrialization program.[142]

Abrupt cancellation of credits from U.S. banks at the outset of the Depression hurt Colombian banks, especially mortgage institutions and their cafetero clients. The conservative, restrictive policies of the central bank and its member institutions also caused credit to evaporate. Colombian banks shrank commercial loans from 95 million pesos in 1928 to 44 million in 1933 and mortgage loans from 85 million in 1929 to 43 million in 1933. Banking deposits fell more than 50 per cent during 1929-31. Bankers were roundly denounced for credit contraction. At this moment of political weakness, they lost firm control over the board of directors of the central bank. In 1932 the government intervened to reduce the obligations of strapped commercial and mortgage debtors, especially agriculturalists; this settlement between bankers and defaulting debtors helped shore up the financial structure. Despite losses, the major banks survived the Depression, mainly thanks to Kemmerer's banking system and huge reserves accumulated in the 1920s.[143]

The Depression devastated the central bank in Colombia earlier than the institutions in Chile and Ecuador. During 1929-30, the central bank's gold reserves and notes in circulation in Colombia fell 44 per cent and 37 per cent respectively, while those in Chile dropped only 23 per cent and 6 per cent and those in Ecuador 6 per cent and 19 per cent.[144] By 1930-31, the Depression caught up with the other Andean countries; gold reserves and bank notes in circulation in Colombia decreased 32 and 22 per cent respectively, in Chile 42 and 20 per cent, and Ecuador 23 and 22 per cent. Meanwhile Colombia's central bank maintained the lowest discount rate: 7 per cent compared to 9 per cent in Chile and 10 per cent in Ecuador.[145] As the inexorable mechanics of the gold standard drained the Banco de la República, its orthodox policies exacerbated the domestic depression. Public outcries against its restrictions convinced the bank to offer slightly more credit and to lower its interest rate from 8 to 7 per cent (6 per cent for agricultural loans) in 1930 and then to 4 per cent in 1933.[146]

Maintaining firm faith in Kemmerer's wisdom, the bank staunchly resisted mounting pressures to adopt more inflationary policies. Through 1931, it continued to hope that its defense of exchange stability combined with the government's budget reductions and punctual debt payments would bring salvation through foreign loans. Increasingly bucking public opinion, defense of Kemmerer's system by the central bank and government was bolstered by his return visit.[147]

When the Depression arrived, the government was overextended thanks to the spurt in spending and obligations during the latter 1920s. Ordinary revenues plunged by nearly 50 per cent during 1929-31.[148] The treasury fell into arrears on paying domestic obligations in 1929. According to the U.S. Ambassador, "President Abadía had made application at the Banco de Colombia for a loan to be secured by the last month's salary due him which has not yet been paid." By March of 1930 the national treasury bore a large placard announcing "No hay dinero." Having become heavily dependent on vanishing foreign revenue sources, the Abadía Mendez government tried to keep afloat by getting advance tax payments from resident U.S. corporations.[149]

During the Depression, the Colombian government was torn between cutting foreign debt payments or domestic programs. Despite resistance, the government initially tried to cope with the budget crunch by paring down the payroll at the expense of the urban middle and working classes. The Ministry of War also received only half its 1930 budget request. As opposed to the other Andean countries, Colombia demonstrated its dedication to civilian rule by partly responding to the Depression through lower allocations to the armed forces without igniting a coup d'etat. The government had to reassure the jittery U.S. Ambassador that reductions in the military would not be so drastic as to impair its ability to control labor agitation against U.S. businesses. One reason for inviting Kemmerer back was to throw his weight behind government attempts to chop expenditures and thus attract foreign loans.[150]

Also in contrast to the other Andean countries, Colombia responded politically to the Depression by peacefully transferring power to the opposition party. Enrique Olaya Herrera, a moderate Liberal, won the 1930 presidential election. Having served as Minister to the U.S. in the 1920s, he was elected by Colombians for his ability to reconcile Conservatives and Liberals as well as to attract North American support.[151] Inaugurated in August 1930, Olaya faced a staggering deficit of nearly 32 million pesos. He tried desperately to prune expenses, increase revenues, maintain the Kemmerer system, and thus save Colombia from the Depression through U.S. relief. Olaya became the most pro-U.S. president in Colombian history.[152]

Like Ospina prior to the first Kemmerer mission, Olaya went courting capital in the U.S. between his election and inauguration. While there, Olaya vowed to erase remaining Colombian restrictions on foreign investments. He said that Colombia should have "a government that has a modern and ample concept--the concept of the open door--for foreign capital, so that when it arrives to submit itself to our laws it feels confident that the surrounding atmosphere is one of mutual cooperation and help, never one of hostility and suspicion."[153]

Once in office, Olaya cooperated closely with the U.S. Embassy and U.S. companies in hopes of attracting U.S. capital. He tended to see the North American presence as an interrelated whole, wherein friendliness toward a U.S. corporation should have elicited reciprocal friendliness from a U.S. bank. The Embassy tried to help all U.S. interests and get them to cooperate. It also endeavored to convince Olaya of the diversity and autonomy of multiple U.S. economic actors in Colombia. During the Depression, the Embassy became even more active on behalf of U.S. economic interests in Colombia than it had been during the 1920s. As a result of U.S. economic expansion there since 1923, the devastation of the Depression, and the inauguration of Olaya, the Embassy now found the Colombian government more receptive to its entreaties than ever before. Throughout the Andean countries, increasing dependence on the U.S. in the 1920s rendered governments exceptionally willing to grant concessions to U.S.

interests during the initial shock of the Depression. In defiance of virulent Colombian protectionist reactions to the Depression, the Embassy convinced Olaya in 1930-33 to accept most of its recommendations for lower tariff duties on U.S. articles. Under pressure from the Embassy, Olaya also agreed to give U.S. concerns preferential treatment under exchange controls.[154]

In 1933 the U.S. Ambassador boasted of convincing Colombia to pursue trade and other policies favorable to the U.S.: "I have the honor respectfully to point out that this Legation since the latter part of 1928 has been instrumental in assisting American business interests to the extent of some hundreds of millions of dollars."[155] Another successful Embassy effort in opposition to widespread Colombian sentiment was to convince Olaya to maintain payments on the foreign debt into 1933, after most of Latin America had defaulted.[156]

Olaya also cooperated with the Embassy by giving United Fruit protection against labor demands for higher wages, against congressional and departmental proposals for new taxes, and against Colombian competitors' desires for greater domestic control over banana lands, irrigation, and railroad transportation.[157] Other minor examples of Embassy success with Olaya included convincing him to not raise the export tax on platinum mined by U.S. corporations, to veto a bill promoting a native merchant marine to compete with U.S. shipping, to block legislation damaging to U.S. banks, to provide police protection to the U.S. emerald company, to defend U.S. electric companies from demonstrators protesting high rates and congressmen advocating increased taxes, and to favor North American telecommunications, aviation, and construction firms.[158] With encouragement from the Embassy and at times Kemmerer, Olaya also engaged North American experts for oil legislation, railroads, aviation, communications, customs, and the comptroller.[159]

Led by Conservative nationalists, several pundits and politicians began accusing Olaya of "converting Colombia into a Yankee colony." They denounced continuing payments on the foreign debt, granting concessions to foreign companies, and employing high-salaried foreign experts. Reviving deep-seated sentiments against U.S. "imperalist capitalism," these critics excoriated Olaya for having "the mentality of a colonial governor" in making "secret compromises with the masters of foreign capitalism called to our country to forge the chains of our economic slavery."[160]

The harshest criticism of Olaya centered on his generosity to U.S. oil interests.[161] Conservative opponents bemoaned enactment of new petroleum legislation more favorable to U.S. companies and resolution of concessions satisfactory to those companies. They also attacked employment of a North American adviser in drafting that law and arranging those terms.[162]

Olaya hoped that improved relations with U.S. oil concerns would increase exploration and production as well as brighten Colombia's credit standing with North American bankers.[163] In particular, the President believed that his petroleum deals would help consummate a short-term $20 million (face value) loan transaction with a group of financiers headed by the National City Bank of New York and the First National Bank of Boston. Indeed, that banking group released the final $4 million of that loan to Colombia in 1931 immediately after Olaya had generously settled outstanding concession disputes with the Gulf Oil Company and the State Department had urged the bankers to deliver the remainder of the loan. The U.S. government promoted that loan agreement to aid its friend Olaya and to facilitate the favorable settlement of oil issues, which it also helped arrange. The State Department did not want a last-minute collapse of that financial transaction to injure a broad range of other U.S. concerns in Colombia. Favorable terms for the oil companies, however, were not the primary condition for this emergency loan to go through; the bankers placed more emphasis on stern fiscal management, which Kemmerer helped Colombia carry out.[164]

Olaya made that loan agreement in June 1930 as a result of his visit to the U.S. As the Embassy noted, the new President "based his whole political program on friendship and cooperation with us."[165] Many of his Colombian backers hoped Olaya could use the loan to revive credit and public works. That money, however, had to cover a huge floating debt and crushing deficit inherited from the Abadía Mendez administration. The bankers originally agreed to deliver the loan in installments if Olaya enacted tighter budget and comptroller laws to prevent overspending, drastic cuts in expenditures to achieve balance, reorganized management for railroads and other public works to curb overruns, a ceiling on the public debt, the new Kemmerer recommendations on these and other fiscal matters such as customs administration, and appointment of the bankers as fiscal agents for the government. Except for desires for direct participation in supervising customs revenues and railroads, the bankers' fundamental demands were met by the desperate government. These U.S. financiers thus obtained broad powers to judge satisfactory fiscal performance by the Colombian government. Even the State Department worried that this might constitute illegitimate interference in that country's sovereign affairs.[166]

As the Depression worsened, the bankers' eagerness to make the loan and to serve as Colombia's fiscal agents so as to have first option on future loans cooled. Their escalating demands for severe budget cutbacks aroused opposition from Colombian bureaucrats, public opinion, and the U.S. State Department. The bankers' harsh terms produced conflicts among U.S. interests. Although U.S. oil companies helped convince the bankers to hold back the final installment pending more favorable action on petroleum legislation and the budget, they did not want banker intransigence to turn Olaya against all U.S. concerns. Banker desires to see the Colombian treasury refilled led to new tax demands on U.S. companies. Their recommendation to prune imports to improve the balance of payments clashed with the objectives of U.S. exporters to Colombia. Both the Colombian government and the U.S. Embassy found it very difficult to juggle these multiple U.S. economic interests.[167]

Olaya's assumption of the amity and unity of U.S. economic and political interests was also upset when the North American bankers decided to spread the risk by bringing Lazard Brothers of London into the financial group. The State Department echoed Olaya's dismay at U.S. bankers aiding British interests. Olaya learned that the U.S. government had little control over the bankers' behavior and that Colombia had little ability to play off British and U.S. bankers.[168]

When the bankers elevated their demands and delayed their payments, Colombian public opinion soured on U.S. banks. As Olaya tried to shove through more and more unpalatable legislation demanded by his creditors, one congressman charged that he had become "a prisoner of the bankers." When in March 1931 the final loan installment was held up, Olaya complained to the U.S. Ambassador: "I have tried to play the game with the Americans; I have had the oil law they wanted passed, the Barco Contract signed [the Gulf Oil concession], have tried to protect American interests on tariff, etc., etc. It breaks my heart to have Americans let me down at the end." The lack of tightly unified U.S. policy toward Colombia or strong State Department control over U.S. capitalists left this ardent friend of the U.S. baffled and disappointed.[169]

The U.S. Embassy tried to convince Olaya to expect less and the bankers to demand less. The exasperated Ambassador complained that:

> "...the best efforts of the Department of State and our diplomatic missions abroad may be almost nullified by prejudicial activities of American business concerns. I have in mind especially the recent action of the group of American bankers, which has had such an unfortunate effect on our interests here in general in Colombia.... I do not believe that that hostility will cease until some way is found to have American business concerns understand that it is imperative for them to act towards the governments and peoples south of the Río Grande in the same manner as they act towards people and concerns in the U.S.; and we are only deceiving ourselves if we pretend that the majority of American concerns act in these countries as they do at home."[170]

Not only the State Department but also Kemmerer took a hand in consummating this 1930-31 loan. He helped convince the Colombians to make fiscal reforms the bankers wanted and helped persuade the bankers that Colombia was a good risk. The second Kemmerer mission's fiscal recommendations became part of the bankers' list of requisites to complete the loan. His reforms substituted for more direct banker supervision over government financial affairs. Coming from Kemmerer instead of just the bankers, those reforms appeared "scientifically" sound and less insulting to national pride. Congress mainly passed that Kemmerer legislation, however, because it satisfied the bankers' stipulations for the loan.[171] By the same token, the Money Doctor helped convince the U.S. bankers to have confidence in Olaya's presidency and budget-cutting efforts, to be less irritating in their demands, and to extend Colombia the full amount of money promised. The government's hopes that Kemmerer would also be able to pry loose even further credits from North American investors during the Depression, however, proved in vain, despite his best efforts.[172]

Kemmerer's missions also affected these loan negotiations in two more indirect ways. Colombians saw themselves as now finally following the advice of his 1923 mission to choose a single fiscal agent for their foreign market operations.[173] The bankers sent Howard Jefferson of the First National Bank of Boston to negotiate with Olaya in 1930 partly because of his prestige as a member of the 1923 Kemmerer mission. Members of the second mission helped Jefferson prepare fiscal information for his employer. Thus the second Kemmerer visit was much more directly related than the first to a specific foreign loan transaction.[174]

The Second Kemmerer Mission

As soon as the Depression reverberated in Colombia in 1929, sentiment arose for reinviting Kemmerer. The central bank wanted the "skillful doctor of nations" to restore confidence in it, the gold standard, government fiscal restraint, the economy's future, and the country's credit-worthiness.[175] A newspaper columnist in 1929 averred that Kemmerer's influence with U.S. creditors could rescue Colombia from the Depression:

> "This does not mean intervention, nor penetration, nor renouncing rights and sovereignty, but looking for the one to counsel us and put us on the right track. We are incapable of increasing the value of our riches and of completing the most important public works. We do not understand finances, nor can we reach agreement on anything, nor can we succeed in economizing or putting order in our businesses...we dare to suggest the return of Mr. Kemmerer as the only remedy. We are a client and a debtor of the United States, and trained by foreign experts we will be a better client for commerce and banking, even more so if some money is furnished us, when it is calculated that our resources, well administered, and our revenues, well managed, provide a margin for that money.... Our financing by our principal creditor will benefit him and save us without sacrificing the prestige

> of our independent republic. Better said, we have an enormous estate in abandoned condition, and we lack a good majordomo who can start it up and administer it."[176]

One of Olaya's best received campaign promises was to recall Kemmerer to get State finances back on track and thus rejuvenate Colombia's credit rating abroad.[177] At the request of President-elect Olaya, who had befriended Kemmerer while serving in the U.S., the Abadía Mendez administration contracted the second mission. Being invited back constituted a tribute to both the success and the incompleteness of Kemmerer's first financial housecleaning.[178]

Kemmerer's arrival coincided with Olaya's inauguration in August 1930. The Money Doctor's return added clout to a new party in power facing a national crisis. Paid 100,000 gold pesos in U.S. currency, the mission stayed four months (August 4-November 29), although Kemmerer himself departed on October 1. The mission's members—none repeaters from 1923—were Joseph T. Byrne (budget and accounting), W. W. Renwick (customs), Walter E. Lagerquist (public credit), Kossuth M. Williamson (taxes and revenues), W. E. Dunn (general secretary), and J. C. Schaefer (assistant secretary).[179]

The second mission made nearly twice as many recommendations as the first. These 1930 reports treated the central bank, general banking, government budgeting, revenues collection and distribution, the comptroller, public credit, public debt, treasury certificates, public works, customs, and taxes on banana exports, merchandise imports, stamps and consular rights, land, fixed property, municipal valorization, incomes, and inheritances and donations. Virtually all represented marginal modifications in legislation from 1923 and succeeding years. More important than specific bills was the mission's impact on general confidence in the Colombian economy and State at home and abroad.[180]

Kemmerer's minor reforms in the central bank incorporated improvements he had developed in the other Andean countries since 1923. His 1930 changes also made the bank more flexible and more responsive to the Depression. These innovations pleased agriculturalists and coffee growers, who were determined to have the mission serve their interests in 1930 rather than those of the bankers as in 1923. Most of these adjustments in the bank had been advocated by Colombians for years. Nevertheless, it required a second visit by the institution's creator to put them through. Kemmerer's purpose was to beef up support for the central bank and the gold standard; their maintenance remained the guiding star of all his reforms, just as in 1923.[181]

Despite continued resistance from domestic and foreign bankers, Kemmerer's prestige made possible the recasting of the central bank's board of directors long desired by agriculturalists and coffee growers.

As modified by Kemmerer and Congress, the board's composition changed from 3 chosen by the government, 4 by domestic banks, 2 by foreign banks, and 1 by public shareholders to 3 named by the government, 2 by domestic banks, and 1 each by foreign banks, public shareholders, the Society of Agriculturalists, the National Federation of Coffee Growers, and the Chamber of Commerce. Kemmerer still left industry and labor off the board in Colombia, in contrast with his more representative directorate in more urbanized Chile. Whereas Kemmerer's 1923 reforms in Colombia mainly favored urban economic activities, those in 1930 tilted more toward the rural sectors.[182]

Kemmerer and his disciples in the central bank would later be appalled at how far the government would eventually go to relax that institution's reserve and lending policies. Nevertheless, his second visit initiated that greater flexibility. His moderately expansive reforms in 1930 broke the sacred untouchability of the bank's original charter. Although not going as far as many Colombians would have desired, Kemmerer lowered the bank's minimum reserve requirement from 60 to 50 per cent of notes and deposits. He also raised the amount of credit available to the government from 30 to 45 per cent of the bank's capital and reserves; this prefigured the even greater role for the State soon to come.[183]

The Banco de la República and Congress quickly approved Kemmerer's recommendations after tinkering with only a few provisions. This occurred after Kemmerer and his Colombian aide Esteban Jaramillo convinced Olaya to adopt the legislation despite banker opposition. As in the other Andean countries, Kemmerer believed his reforms were so vital that their implementation necessitated authoritarian means. The zeal for technical efficiency spawned impatience with democratic methods. According to the U.S. Ambassador, Kemmerer urged the President to override any opposition:

> "Kemmerer went so far as to suggest that Olaya use 'arbitrary action' to force the bill through Congress; said that, in his opinion, the project was so important that arbitrary measures would be justified. Dr. Olaya very much deprecates Kemmerer's attitude and hopes that the Colombian public will never know how much Kemmerer has been influenced by Jaramillo in his recommendations; for were it realized here that many of the ideas embodied in Kemmerer's reports are Jaramillo's and not Kemmerer's own, the Kemmerer bills would have little chance of ever appearing on the statute books of the Republic."

Draping the mantle of a prestigious foreign mission around legislation made it more acceptable than if it bore the signature of a controversial local political leader.[184]

Kemmerer's revision of his 1923 general banking law recognized, as he had not done previously, the need for special credit systems for agriculture in a country with Colombia's economic structure. In conjunction with the congressional commission handling banking legislation, Kemmerer crafted regulations for government creation of a Caja de Crédito Agrario and a Caja Colombiana de Ahorros, both designed primarily to help credit-hungry agriculturalists. As in the other Andean republics, he also now established that Colombians and resident foreigners would have first claim on the active funds of foreign banks operating there.[185]

The major problem Olaya wanted Kemmerer to help with was the budget crisis. The comptroller complained that the Abadía Mendez government either had not understood how to follow Kemmerer's budgetary and fiscalization rules or had not wanted to.[186] Therefore Kemmerer in 1930 tightened his 1923 budget regulations. His new methods for more efficient and centralized collection and management of revenues never functioned properly, however, because of bureaucratic resistance and insufficient funds to hire additional trained personnel. The continuation of the Depression and of clientelistic politics greased by the spoils of office--especially with Liberals eager to take their turn--undermined the effectiveness of budgetary reform.[187] Congress passed Kemmerer's budget legislation with numerous modifications because it wanted to retain more of the 1923 provisions than he recommended. In general, Colombians were less willing to blindly approve the mission's projects in 1930 than in 1923.[188]

Kemmerer also recommended modifications in the comptroller. He sought to fortify its controls for preventing deficits and to clarify its functions for avoiding administrative conflicts.[189] Rather than running the congressional gauntlet, reforms of the comptroller worked out between that office and the executive branch and adapting some of Kemmerer's recommendations were decreed under extraordinary powers in 1931-32. While creating a weaker comptroller than Kemmerer desired, these reforms preserved his essential structure.[190]

Following suggestions from Kemmerer, Olaya hired North Americans James Edwards as technical adviser for the comptroller and William Roddy for the customs administration. The primary purpose was to reassure Colombia's U.S. bankers. Edwards helped the Colombian comptroller and executive branch to prepare the 1931-32 reforms. He opposed, however, the new legal restraints Olaya slapped on the comptroller in 1932 to prevent it from inhibiting expanded State activism. The government's political adversaries charged that this was an attempt to disarm the comptroller just because the office was in Conservative hands.[191]

The two most significant Kemmerer tax proposals concerned income and bananas. Customs receipts as a percentage of ordinary national revenues declined from over 60 per cent during 1923-27 to 43 per cent by 1930, while the contribution of the income tax climbed from 2 to 7 per cent.[192] The mission mainly tried to eliminate loopholes and centralize collections. Congress passed an emasculated version of the bill in 1931. Kemmerer's reform set the stage for the massive overhaul of 1935, when Colombia established the progressive income tax as a more important revenue source than customs duties, a rare achievement in Latin America.[193]

The tax on banana exports constituted a Kemmerer recommendation apparently directly favoring Colombian over U.S. interests. At the request of the United Fruit Company, the U.S. Embassy asked Kemmerer if he was considering a banana tax. He replied in the negative but "added laughingly:" "Thank the Fruit Company for the suggestion; we shall look into it at once, for we are looking for new means of taxation."[194]

United Fruit was not totally opposed to Kemmerer's project because its contract with the government for exemption from special taxation was to expire at the end of 1930. When Kemmerer arrived, UFCO was already trying to use the squeeze of the Depression to arrange a new tax deal with the government in return for guarantees of a stable rate and protection of its interests. The company preferred steady taxation by the central government to avoid unpredictable impositions by provincial officials. Kemmerer also saw one of the benefits of a new tax program as elimination of uncertainties for the company as well as the government. The U.S. Ambassador, however, informed the mission of his opposition to any export tax on United Fruit bananas. Kemmerer retorted that most Colombians favored the idea. He also pointed out that Colombia was the only Latin American country where UFCO operated without an export levy on its bananas. In discussions with the company, Kemmerer proposed a 2-cents-per-bunch export tax. UFCO replied that it might be willing to acquiesce in a lower rate of 1 and 1/2 cents not to be shifted to native banana producers, if the government would guarantee no alteration in its taxes for the next ten to twenty years. Kemmerer objected on the grounds that the company could not be trusted not to transfer the burden of the tax to local growers and that the government should not contract away to the company its sovereign right of taxation.[195]

When Congress approved Kemmerer's unconditional 2-cents-per-bunch banana export tax and attached further articles opposed by UFCO, Olaya vetoed it. Instead he persuaded the legislature to pass the bill the company wanted. This included twenty years' exemption from further taxation. In hopes of getting advance tax payments from United Fruit, he also helped them with other concerns, especially maintaining control over the railroad and irrigated lands which allowed them to dominate domestic producers for export. Although Kemmerer and the Colombian Congress would have been tougher on United Fruit, Olaya did raise the export tax from 2 to 3 cents per bunch.[196]

Kemmerer, U.S. bankers, and Colombian opinion-makers all urged reform of excessive dependence on unstable and poorly administered customs revenues.[197] Colombia implemented a diluted version of the mission's customs recommendations in 1931. This bill was mainly designed to improve administration. On their own, Colombians hiked protectionist tariffs.[198]

Of the 18 Kemmerer projects, Olaya only submitted 11 to Congress. The comptroller bill did not pass, but 10 others did: central bank, general banking, budget, revenue collection and administration, customs, and taxes on income, banana exports, merchandise imports, stamps and consular fees, and municipal valorization. The existing Kemmerer institutions, the central government, and the legislature modified these bills more extensively than the ones from the 1923 mission. Even after adoption, many of these 1930 reforms functioned poorly. The Depression and the new economic directions taken as a result rendered many of Kemmerer's innovations undesirable or unworkable. The bureaucracy hobbled many of the administrative changes. Once the emergency loan through National City Bank was consummated in 1931 and no more foreign credits were forthcoming, interest waned in Kemmerer's recommendations. Because of the timing and setting, his second mission constituted a hasty rescue operation which had far less impact than the expedition in 1923.[199]

Collapse of the Kemmerer System

Colombia sustained the essence of the gold standard longer than Kemmerer's other advisees. Olaya heeded the urgings of U.S. bankers and Embassy personnel despite ever louder domestic outcries against artificial exchange stability. Many coffee growers during 1932-33 spearheaded public denunciations of the central bank for maintaining the gold-exchange standard to the benefit of foreign bankers and to the detriment of native producers. A rather typical congressional critic charged that the U.S. and England had saddled capital-shy, underdeveloped countries with the gold standard to leave them even shorter on domestic money and credit and thus more dependent on foreign loans. Since foreign capital was no longer available, this congressman advocated expanding money and credit internally rather than clinging to the gold standard, "which was imposed on the country by the American mission and the creole financiers who serve the interests of commerce, the industry favored by this standard, against the larger interests of the other national industries, particularly those of agriculture...."[200]

British abandonment of the gold standard in September 1931 intensified Colombian discontent with Kemmerer's system. It did not cause great losses because Colombia's central bank held almost all its foreign reserves in the U.S. That British decision did, however, prompt Colombia to adopt immediate exchange controls.[201] This supposedly temporary suspension of unlimited monetary convertibility and free commerce in gold was intended to defend Colombia's balance of payments and the central bank's gold reserves. The country thereby left the pure gold-exchange standard in 1931. Nevertheless, it maintained controlled gold outflows and exchange stability until Peru invaded Colombian territory in Leticia. That border conflict during 1932-33 sparked defense expenditures to rebuild the military, which Colombians now regretted having reduced previously to channel resources to servicing the foreign debt. Consequently the State drastically expanded its internal debt and its borrowings from the central bank. That forced total abandonment of exchange stability in 1933. Definitively scrapping the gold standard dealt a blow to laissez-faire. The State moved to control exchange and currency. To the dismay of U.S. banking and government representatives but to the relief of many coffee exporters, exchange devaluation and monetary expansion finally commenced in 1933. As a result, recovery from the Depression was in full swing by 1935.[202]

Colombia also maintained payments on its foreign debts longer than the other South American countries visited by Kemmerer missions. During 1930-33, the U.S. State Department, Embassy, banks, and Kemmerer convinced a president sympathetic and beholden to the U.S. to keep up payments despite overwhelming Colombian opinion to the contrary. Critics contended that the government had taken on too many debts in the late 1920s and was now sacrificing too many domestic needs to make service payments exceeding 20 per cent of the national budget. Hopes for future credits evaporated by 1932. So did fears of U.S. retaliation with import duties on coffee. The need for defense expenditures to confront the Leticia conflict with Peru finally moved Olaya to default on national, departmental, municipal, and bank foreign debts by April 1933. The "Dance of the Millions" was officially over.[203]

From the Depression onward, Colombia recast Kemmerer's money and banking system to serve more expansionist, developmentalist, nationalist, statist ends. The central bank's currency and credit policies became more determined by the national budget and domestic economic growth objectives and less by fluctuating international reserves.[204] The volume of currency grew approximately 220 per cent from 1932 through 1941. The exchange value of the peso fell by nearly 50 per cent. Although prices rose, the government and central bank cooperated to keep inflation far more under control in Colombia than in Chile.[205]

The State progressively intervened in monetary and credit policies. Deflation generated more State expansion than had inflation. As in Bolivia and Peru, a border conflict during the Depression also provided a patriotic excuse for tying the central bank closer to the State and making its policies more expansionary; those border fights resulted largely from heightened desires to control peripheral resources and to distract public attention during the economic crisis.

To defend itself against that Peruvian incursion, to save the treasury from bankruptcy, and to furnish credit to domestic producers, the government convinced the central bank to raise its quota for loans from 30 per cent of capital and reserves in 1930 to 45 per cent in 1931 and to 300 per cent by 1935. The bank's loans to government became far more important than its loans to member banks in the 1930s, as its rediscount rate dropped from 7 to 4 per cent. Also from 1930 to 1935, the Banco de la República's legal reserve requirement plummeted from 60 to 35 per cent. It expanded credit to all sectors, especially agriculturalists and coffee growers. This occurred partly through direct public loans but mainly through support for new State credit institutions. Instead of merely a banker's bank to guard exchange stability, the Banco de la Republica became more of a developmental credit institution to promote growth. Although Kemmerer's orthodoxy was discarded, his offspring continued serving as major instruments of Colombian economic planning and development.[206]

Despite the collapse of the gold standard, the restriction of free trade, and the rise of State activism, important legacies of the Kemmerer reforms and the 1920s survived the Depression. Beneath multiple later revisions, the foundations of Kemmerer's institutions endured. The structure and many of the functions of the central bank remained intact; it did not become a full-fledged State bank. Colombia's modern monetary management and policies continued to evolve from the seeds he planted in the 1920s. Kemmerer began State control over banking under the superintendency, which continued to preserve a solid, orderly financial system attuned to his principles. His technical modernization of budgeting, fiscalization, and taxation procedures served later State economic activism. The comptroller, for example, flourished over the years. Alongside myriad and profound changes, the larger trends which his reforms had accompanied and reinforced also continued to grow from their roots in the 1920s. For decades thereafter, Colombia still depended heavily on the external sector and especially the U.S., elaborated more specialized and urban capitalist institutions and practices, and enlarged the role of the State in the economy and society.[207]

The Kemmerer missions revealed many of the mechanics and complexities of dependent development for Colombia and the other Andean countries. They demonstrated possibilities as well as constraints within that uneven process of growth. Both North American and South American elites tried to use those missions and that process to serve their own political and economic interests; this resulted in significant variations by countries and time periods. Nevertheless, by the end of the 1920s--except in the unlikely event that Latin American leaders themselves opted for a drastically different economic model--the fundamental patterns spotlighted and accelerated by the Kemmerer missions seemed destined to persist.

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[This paper was presented by its author at a colloquium held at the Woodrow Wilson International Center for Scholars on December 10, 1979. The presentation was followed by commentaries by Albert O. Hirschman (Institute for Advanced Studies, Princeton, New Jersey) and Miguel Urrutia (FEDESARROLLO, Bogotá, Colombia). The following summarizes the remarks made by the commentators and members of the colloquium audience.]

According to Albert Hirschman, Drake's paper highlights a number of frequently overlooked aspects of the Kemmerer missions. In the first place, the Kemmerer mission to Colombia inadvertently increased the power of the state and of urban groups. This counters the prevalent assumption that the landed oligarchy was all-powerful during this period. Secondly, it is important to realize that before Kemmerer arrived, the groundwork for the reforms had been laid in Colombia (and in Chile as well), where small points of disagreement had prevented the adoption of these reforms. Kemmerer's presence acted as a random device or catalyst.

Hirschman offered two major criticisms of Drake's paper. The first was that Drake does not have a proper sense of the context in which these missions occurred. Although the 1920s seem very close and easily understood, they are actually very far away. Much more than World War II, the Depression represented an ideological turning-point in attitudes toward nationalism, development, and so on. Drake does not fully come to terms with this change. Two examples illustrate this. Drake finds it paradoxical that the Colombians wanted to rely on foreign capital in the short-run in order to encourage national development in the long-run. But in the 1920s, such a strategy was not thought to be paradoxical. In fact, debt-led growth--based on the export of staples and reliance on foreign capital to pay for the construction of infrastructure--was characteristic of the U.S. economy in the 19th century. A second example is Drake's treatment of the global power structure. He focuses on the United States' emergence as a dominant power in the 1920s. But equally, if not more, important was the collapse of the European countries as major economic powers during this period. Rather than aggressively carving out a place for itself, the United States, perhaps more passively than actively, filled the vacuum created by this decline.

Hirschman's second criticism concerned the parallel which Drake draws between the Kemmerer missions on the one hand, and U.S. actions in the Caribbean and Central America in the early 20th century and later IMF missions on the other. He thus conveys the impression that throughout this century there has been an unbroken line of advice advocating monetary stability, etc. But a revolution in economics occurred after Kemmerer's visits, leading a subsequent group of advisors to recommend Keynesian policies and undo much of Kemmerer's work. For example, they found Kemmerer's banking reforms archaic, and therefore endowed the banks with sophisticated control mechanisms.

Drake also implies that Kemmerer transplanted North American institutions "lock, stock, and barrel." But Hirschman argued that advisors try to endow other countries with ideals which they have been unable to get their own countries to adopt. How Kemmerer and Princeton fit into U.S. public opinion should be examined.

In addition, Colombia has certain unusual characteristics which are not highlighted sufficiently. When compared to the rest of Latin America, U.S. capital had not penetrated deeply into Colombia. For example, there was very little U.S. investment in coffee, a key sector of the Colombian economy.

Finally, Colombia did basically follow Kemmerer's recommendations throughout the 1930s. It is important to remember, however, that the Depression was not as severe in Colombia as in other Latin American countries such as Chile, and that the recovery was relatively early and rapid.

Miguel Urrutia argued that Drake, along with most U.S. and Colombian academics, places too much emphasis on the foreign sector and on foreign influence. Until recently, he said, foreign trade was only a marginal part of Colombia's economy. Carlos Díaz Alejandro has asserted that the laws governing trade have been significant only to the extent that they have allowed policy-makers to focus on more important issues, such as poverty.

In the past, Colombia's only real foreign economic policy concerned coffee exports. But it was the private sector, not the government, which controlled this policy. Urrutia also thought that Drake exaggerated the extent of U.S. government influence on Colombian economic policy.

Urrutia's principal assertion was that Colombian governments are not very interested in foreign affairs. They did not invite Kemmerer in order to improve the country's credit rating. The Colombian government was committed to development, per se, and thought that modernization of the financial and administrative systems would promote growth. There is a contradiction between Drake's assertion that Kemmerer was invited to Colombia in order to improve its credit rating and the fact that the same government which invited him reduced the public debt. Urrutia attributes the increase in total borrowing by all parties in Colombia to the fact that coffee production was increasing rapidly in the 1920s due to technological innovation. Everyone was optimistic about the economy and therefore borrowed as much as possible. Similar conditions exist today.

On the other hand, Urrutia considered Drake's analysis of the Olaya administration (1930-1934) illuminating. This period is not well known in Colombia. But Drake focuses too heavily on dependency theory. It is true that the Oyala administration was very sensitive to North American public opinion, as was demonstrated by the veto of the banana law. But the government at that time was facing a crisis which it did not understand; it felt the same horror as did France, the United States, and other countries. However, when the Colombian government saw that credit had dried up, it adopted an essentially "Keynesian" policy, three years before the General Theory was published. Colombia recovered from the Depression earlier than the United States, and achieved a much higher rate of growth than the United States or other "center" countries. The lack of opposition to these policies, which were contrary to Kemmerer's recommendations, shows that U.S. influence was quite small.

Finally, Urrutia found Drake's paper informative but thought that Drake should focus more on the Kemmerer missions' influence on the internal functioning of the Colombian economy. For example, Colombia's banking legislation has not been changed since 1923: "Maybe there is something well-done in all this peculiar orthodoxy." Nor should Kemmerer be criticized for his support of the gold standard; it was part of the orthodoxy of his day.

Questions from the audience focused on a number of issues: who received the bulk of the foreign loans, Kemmerer's connections with U.S. bankers and businessmen, labor's attitude toward the reforms, the impact on Colombia of economic developments throughout Latin America, and the type of economic thinking prevalent in Colombia at the time.

One member of the audience pointed out that a large portion of the bonds sold by Colombian entities were not issued by the central government. As in the United States, Canada, and elsewhere, many were tendered by specific public-works agencies. But most of Wall Street did not distinguish between these different sources of bonds. The use of foreign funds to finance public works did not obstruct the "motor of capitalism" in Colombia any more than it did in the United States. Infrastructure was a public good everywhere. (Drake later pointed out that even though the majority of the borrowed funds did not go to the central government, the amount it received was substantial.)

When asked about Kemmerer's relationship with New York bankers, Drake responded that Kemmerer thought that his success was dependent on establishing his own absolute independence, both in appearance and in reality. Therefore, with a few exceptions, the impact of the Kemmerer missions on a country's credit-worthiness was institutional, not personal. Drake also noted that labor usually supported these missions, which indirectly helped labor by promoting the urbanization of the economy, the construction of public works, etc. The image of stabilization missions changed greatly in the 1940s and 1950s.

COMMENTARY

Another member of the audience argued that the background of economic development in the rest of Latin America is not considered sufficiently in the paper. He asserted that coffee dominated Colombia's relations with the United States, and that the crucial factor in this period was Brazil's decision to adopt a permanent valorization scheme in order to increase world prices. Colombia did not cooperate, and was therefore able to rapidly increase the volume of its coffee exports. It is logical, he argued, that trade would shift from England to the United States and that an increase in imports from the United States would follow. He did not think that this phenomenon supports dependency theory.

Drake agreed and said that he did not intend his paper to be a brief for dependency theory. He only wanted to test some propositions. But he disagreed with Urrutia about the mission's impact on credit-worthiness. In 1923, coffee growers explicitly said that the Kemmerer mission was important because it would expand credit both internally and externally.

Finally, there was a question regarding the kind of economic ideas prevalent in Colombia at the time. Were they proto-Keynesian? Drake responded that there had not been any real debate. There was a general consensus that Kemmerer was bringing Western orthodoxy. The answer to the question, he went on to say, depends greatly on the time period considered. There were a few dissidents, usually conservatives, some of whom were very interesting. The only coherent, quasi-Marxist critique was by APRA in Peru in 1931. But then the Depression came and everyone became critical.

[Commentary prepared by Barbara Mauger, Latin American Program Intern]