

## **La Colombie: État prédateur et économie politique rentière**

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### *Résumé*

*Cet article analyse deux vagues sismiques inter reliées qui ont concouru à faire du capital rentier le principal mode d'accumulation et de richesse au pays. Le premier fer de lance aurait été lancée par l'aristocratie foncière, composée d'éleveurs de bétail, de la narco-bourgeoisie, et des spéculateurs, occupés à convertir la fonction productive de la majorité des terres agricoles en fonction spéculative. Ceci fut suivi d'un second raz-de-marée lancé par un État à la recherche de rentes, provenant des ressources naturelles, afin de financer l'expansion de sa machine de guerre. Cet article soutient donc que les spéculateurs fonciers, de concert avec l'État prédateur en guerre, ont ainsi transformé l'économie rurale, et avec elle l'économie politique du pays, en système où on voit une diminution du rôle de la production alimentaire ainsi que celui des autres secteurs productifs.*

# Colombia: Predatory State and Rentier Political Economy

Nazih Richani<sup>1</sup>

## *Abstract*

*This article analyzes two interrelated tsunamis that have helped in making rentier capital the country's main mode of accumulation and wealth. It argues that the first was spearheaded by the landed elite, which included cattle ranchers, narco-bourgeoisie, and speculators shifting the bulk of agricultural land from production to speculation. This was followed by a second tsunami led by a warring predatory state that is seeking natural resources rents to finance its expanding war machine. Consequently, this article argues that land speculators alongside a warring predatory state have been transforming the rural economy, and with it the political economy of the country, into an economy in which food production and other productive sectors have a diminishing role to play.*

## **Introduction**

This article discusses two economic tsunamis that changed the political economy of Colombia in the last thirty-five years. The first is the influx of narco-dollars starting in the late 1970s and continuing through the 2000s. This contributed to a decline in agriculture precipitated by a significant shift in land use from production to speculation, led by the landed elite, which included the narco-bourgeoisie alongside cattle ranchers and speculators. The second tsunami compounded the effects of the first and is characterized by the influx of foreign direct investment (FDI) in the extractive sector. It gained momentum between 2005 and 2010 and was facilitated by the warring state. It in turn heightened state predatory behaviour and helped finance its expanding security sector. This article demonstrates that the interplay between these two economic tsunamis shapes and defines the country's political economy.

I begin with a definition of rentier economy and then discuss the process of de-agriculturalization that began in the late 1970s when land use shifted from food production to pasture lands, spearheaded by the narco-bourgeoisie and other speculators. Examples of the

way in which speculation has affected land rents and prices and consequently impacted on the production of rice, a major food staple in the Colombian diet are discussed. The following section explores the surge of FDI and the role of the state in facilitating this influx. The salient rentier predatory character of the state is described, and the interplay between the state and the influx of FDI at a time of financial distress is explained. The outcome - an emerging political economy of a warring state that is highly dependent on rentier extractive capital - is described in the concluding section.

This article discusses two different forms of rentier capital, one that is consistent with the classical use of the term as well as the most recent definitions. According to Beblawi (1990), a rentier economy is one where rent situations predominate; where the economy relies on substantial external rent; and where the state is the main recipient of rents and consequently is the actor distributing it. Like Anderson (1987), Yates (1996), and Karl (1997), Beblawi focused on oil exporting nations where oil revenues (rents) dominate their political economies. David Ricardo (2006) and Karl Marx (1991: 944) discussed land rent as a revenue that does not involve production and labour. In this article, the extractive as well as the speculative type of rentier economy are used to explain the process of shifting land use from food production to speculation and now to extraction<sup>2</sup>. More importantly, this article assesses the relationship between a warring state and the rise to dominance of the rentier extractive component of capital.

The competition between the two sectors of capital (speculative and extractive) has been the key to defining land use, shaping the contours of an emerging political economy. Not surprisingly, the extractive sector of capital has emerged as the winner thanks to two factors: (a) an international political economy in which this sector is a strong player; and b) the state's dire need for cash to fund its expanding war machine and its willingness to provide preferential treatment to capital. As was in effect in 2005 when Law 963 was introduced within the sequence of several other concessions and preferential treatment offered to extractive multinational corporations discussed in the following sections.

### **The Process of De-agriculturalization**

Between 1965 and 2009, the share of agricultural production in the economy as a share of GDP, dropped from 29 per cent to 9 per

cent. Land suitable for agricultural production steadily decreased after 1987 from 4.6 million hectares to 3.7 million hectares in 2004 (DANE, 2004), leaving only 7.25 per cent of total agrarian land (21,5 million hectares) suitable for agriculture. From this 7.25 per cent, the area cultivated in non-permanent crops such as maize, potatoes, and beans constituted only 45.95 per cent while permanent crops (coffee 740,030 hectares; plantain 407,034 hectares; African palm trees 243,038 hectares, and sugar cane 234,870 hectares) occupied 51.30 per cent (DANE, 2004). Areas under crop production were declining as millions of hectares were transferred into pasturelands. Land dedicated to pasture rose from 20.5 million hectares in 1978 to 40.1 million in 1987 (Heath & Binswanger, 1998: Ocampo, 1994: 283) and 41.2 million hectares in the early 2000s (Guigale, Lafourcade and Luff, 2003: 562; Balcazar, 1994: 323).

The noticeable leap that occurred between 1978 and 1987 – during the last years of the “*Bonanza Marimbera*” (the surge in marijuana production) and the surge of the cocaine economy – can be attributed to the investments made by the emerging narco-bourgeoisie in land because it is the easiest method for money laundering given the informal and precarious nature of land ownership and the state’s lax control mechanism. This class accumulated about 6 million hectares during the 1980s, but this does not explain the remaining 14 million hectares that were removed from food production (Richani, 2011).

These 14 million hectares are in the hands of entrepreneurs who joined the bandwagon of land speculators spearheaded by the narco-bourgeoisie. Land speculation was encouraged by the state’s favourable low tax policy regarding land ownership, charging only 1 peso in taxes for every 1000 pesos in assessed land value. This was compounded by complacent local officials in charge of land registries. This is alongside land taxes based on outdated land data registries. Consequently large landowners end up paying a nominal amount for vast lands. Even while the market price of land rose (Richani, 2011), the increasing trend in land acquisitions during the last three decades was largely motivated by speculating on the future price of land and on the belief of its increasing valorization. As a result, millions of hectares of agricultural land have become underused (or idle), disguised as pasture land, to avoid state taxes while securing state assistance.

Another important point in support of the rentier aspect

motivating land acquisition, rather than cattle ranching, is the comparative lower profit margins between this activity and agricultural production. Reviewing the data on the margins of profits between cattle ranching and agricultural production is even more revealing. On average, one hectare of extensive cattle ranching produces an annual net income of about 300,000 pesos (US\$ 150), whereas one hectare of food crops produces net/year between two and five million pesos—US\$ 1000 and US\$2500 (UNDP, *Hechos del Callejon*, 2008: 5; Richani, 2011).

What this suggests is that investment is determined by the opportunity costs of entrepreneurs investing their capital in cattle ranching, measured against what they expect in the future to gain through increases in rents/prices of land. This rentier trend in the rural political economy has created various distortions, which affect the allocation and distribution of resources chiefly among them, the increasing concentration of land properties in the hands of a small percentage of the population. For example, in 1986 only 0.4 per cent of landowners owned 500 and more hectares; by 1984, they owned 32.7 per cent of land areas; and expanded their ownership to 61.2 per cent by 2001 (Fajardo, 2008: 26). This in turn created an oligopoly that affected land prices and rents. The increase in land rents and values affected small and medium producers (that is: those landholdings that are between one hectare or to less than 5 hectares, and those between 6 and 10 hectares). High land rent is detrimental to local food production thus undermining the country's food security and sovereignty. The following section examines rice production in the departments of Tolima and Meta as illustrations of the impact of land speculation on rice production.

### **Rice Production and Land Rents**

Rice is one of Colombia's main food staples. The total areas dedicated to rice production declined from 521.1 thousand hectares in 1990 to 390 thousand in 1997, a decline of 4.1% in less than ten years reaching 383.690 hectares by 2007 (FEDEARROZ, *Censo de Arroceros*, 2007). This was while the overall decline in areas dedicated to non-permanent crops decreased by 6.2 % (hectares) these included areas cultivated with corn (-5,4 %); sorghum (-14,0); soya (-14,0) beans (-2,8); cotton (-16,9); wheat (-12.5) and cotton also witnessed a severe decline of (-16,9) (Fajardo, 2008: 29). The Tolima, Meta and Casanare departments are major rice producers

and are representative of how the interplay of speculation and extraction negatively affected food production. The ownership structure of rice producers is important to consider: 68.2% of rice production units are less than 10 hectares and 24.7% are between 10 and 50 hectares. The smaller sized units cultivate 48.8% of rice producing areas whereas 7.1% of production units control 51.2% of land under the rice cultivation and produce almost 50% of the rice consumed by Colombians. This level of concentration of land has grown incrementally precipitated by the inflationary trend in land prices created by the narco-bourgeoisie alongside large rice enterprises in the departments where they invested the most, which included Tolima, Meta and Casanare among others.

Between 1999 and 2007, the number of rice producers declined by 18.1%; and a decline of 14.9% in the land units that produced rice and consequently a reduction of 18% in the cultivated areas and a reduction of 11.4% of rice production (FEDEARROZ, *Censo Nacional de Arroceros*, 2007). Ibanez & Munoz (2010) attribute this decline in 2008 in part to *el Nino* weather pattern, but it does not explain the declining trend that started years before that has to do with the set of factors mentioned above, chiefly the increasing investments of narco-traffickers in Tolima and Meta. In this latter, the FDI also increased during this same period, particularly in the second part of the 2000s, which compounded its situation. We will elucidate below.

### **The Cases of Tolima and Meta**

In Tolima, and particularly in the Espinal (one of the main areas of rice production), investments by narco-traffickers alongside those of the emerald baron Victor Carranza led to a noticeable increase in the price of land which in turn contributed to the increasing cost of rice production (because landowners charged producers higher rents for the use of the land). With the increase in land value, the production cost of rice per ton reached \$60 by early 2000s, as opposed to \$34 in the United States. (*El Agro Colombiano Frente al TLC*, 2004: 12).

That decline in rice production is largely due to the increasing prices of land rents knowing that the rented land present 64.5 per cent of the total area under rice cultivation producing 62.8 per cent of the stock. The increasing land rents amounted by the late 2000s about 15 per cent of the total cost of rice production per hectare (See

Fajardo, 2008: 30). The decline in rice production as well as other traditional food staples such as wheat, plantains, and yucca is largely due to land rents, which in turn affects farmers who rent the land they work on. As table 1 shows, land rents in Colombia are among the highest in Latin America, thus raising the cost of production. This contributes to a higher concentration of rice production in the hands of few agribusinesses as is happening in Casanare (the third most important rice producing department after Tolima and Meta) where the average production unit is of 61 hectares when the national average is 17.4 hectares (FINAGRO, 2008; FEDEARROZ, 2007).

**Table 1. Comparative Costs of Rice Production per Hectares in Latin America (US Dollars)**

Country	Argentina	Brazil	Uruguay	Ecuador	Colombia
Year	(1999)	(1999)	(1999)	(1995)	(1999)
Land Rent	73	157	78	131	202 (380)*
Machinery	310	249	78	131	202
Seeds	68	60	71	47	153
Fertilizers	40	77	56	69	152
Agrochemical	55	65	43	82	281
Wages	87	85	65	NA	89
Water	175	230	151	ND	33
Tax	24	21	33	ND	20
Other	271	263	263	ND	301
<b>Total</b>	<b>1103</b>	<b>1207</b>	<b>1008</b>	<b>846</b>	<b>1354</b>

Source: Adopted from Dario Fajardo, *El Campo, Las Políticas Agrarias y Los Conflictos Sociales en Colombia* (Bogota: Ideas Para la Paz, 2008), p.31. The exchange rate was 1816,6 peso/dollar.

\* Data is for 2008. According to FINAGRO 2008 the rent was 700.000 pesos in Tolima (which is about \$380 at a rate of 1816 peso/dollar) and \$137.6/hectare in each of Meta and Casanare.

By 2008, land rents in Tolima were \$385/hectare. This is the highest among the three main rice-producing departments and may be the highest in the country; it is clearly much higher than the rent rate in other Latin American countries. The most plausible explanation for this high rent is that more than 60 per cent of Tolima municipalities were targeted by narco-bourgeois investments, including those of Mafioso Victor Carranza (known as the czar of

emeralds). In Meta and Casanare, on the other hand, only about 40 per cent of their municipalities were subject to narco-dollar investments.

Meta represents an area of expanding agrarian frontier led by landless peasants (*colonos*) seeking subsistence and also a bastion of peasant resistance from which the insurgent movement, the Armed Revolutionary Army of Colombia (FARC), had largely drawn a strong support base since the 1960s. Meta has 5,406,601 hectares of agricultural land, of which only 381,798 hectares (7.06 per cent) is used at present; 4,337,291 (80.2 per cent) hectares are used as pastures for cattle raising while the remaining was for other use. During the 1980s, this department has also attracted elements of the narco-bourgeoisie (including Rodrigo Gacha and the czar of emerald Victor Carranza), who paid exorbitant prices to acquire thousands of hectares in the department. One of Carranza's properties is 30,000 hectares close to the border with the department of Vichada (Reyes, 2009: 264). Gacha and Carranza have private armies to protect their lands and cattle from the FARC's taxation.

In the 1990s, a host of narco-traffickers such as Martin Llanos and his father Hector Buitrago, Cuchillo, el Loco Barrera, and Vicente Castano acquired large swaths of lands in Villavicencio (the departmental capital), Acacias, Castilla la Nueva, Cumaral, Restreopo, San Juan Arama, Lejanias and Fuente de Oro (Reyes, 2009: 265). Four of these municipalities Villavicencio, Acacias, Cumaral and Fuente de Oro are among the main rice producers. It is plausible to assume that narco investments have penetrated that sector alongside African palm production, which expanded during 2000s.

The paramilitary forces that invaded Meta in the second half of the 1990s were not as generous as Gacha or Carranza in paying hefty prices for acquired land, but rather usurped land, forcing about 74,000 peasants to leave their lots between 1996 and 2007. Consequently, 98,000 hectares were most likely transferred to the control of the narco-bourgeoisie and their associates and benefactors, which may have included rice and palm agribusinesses (Reyes, 2009: 277).

Meta is the second largest rice producer after Tolima. In 2010, 80,700 hectares were used for rice cultivation, about 16,000 hectares less than in (DANE, 2011). Rice production in Meta consists predominantly of large scale agro-industrial production

that developed and grew while the subsistence peasant economy has been dismantled, lands usurped and transferred to investors and speculators. Such dismantling led to a significant decline in traditional peasant economy with its food production of plantain, sorghum, and corn.

In Meta, subsistence economy was violently dismantled during the 1990s and in early 2000s, against the backdrop of a weakened peasant resistance and a weakened FARC, a climate that encouraged the emergence of agribusiness as well as extensive cattle ranching. Secondly, Meta like all other mining based departments such as Arauca, Casanare, Cauca, Putumayo, Bolivar, Cesar, Guajira face another important challenge that may affect agribusiness and is expected to transform not only the political economy of these departments but the country's economy as a whole. This challenge comes from the extractive component of rentier capitalism in which the state is a junior partner to foreign capital and favours the use of more land for the exploration and extraction of oil, gold and coal rather than for food production or agribusiness.

### **Land Use and the Surge of the Extractive Rentier Political Economy**

Until the recent past, lands apt for agricultural production were increasingly used for speculative purposes disguised as cattle raising. At present, more that 75 per cent of agricultural land is used for cattle ranches even though it is suitable for crop production. A number of factors contributed to such "seemingly irrational" behaviour (Richani, 2011). One factor is the investor use of land as a hedge fund, encouraged by the low opportunity costs versus investing in food production or manufacturing for example (Richani, 2011). The assumption is that the price of land never goes down. Agribusinesses (cut flowers, tobacco, cotton, sugar and African palm oil) were encouraged by state policies that included favourable credits, tax exemptions and protection.

Thus since the 1980s, the agrarian political economy has mainly rested on the two pillars of agribusiness and cattle ranching. During this time, the subsistence peasant economy was being violently dismantled. Lands were predominantly occupied by these two sectors, and since the 1990s, production from agricultural land destined to satisfy local markets, were in constant decline. But now, the advent of this huge influx of investments is expected to change

the entire economic scene, undermining both food production and agribusinesses.

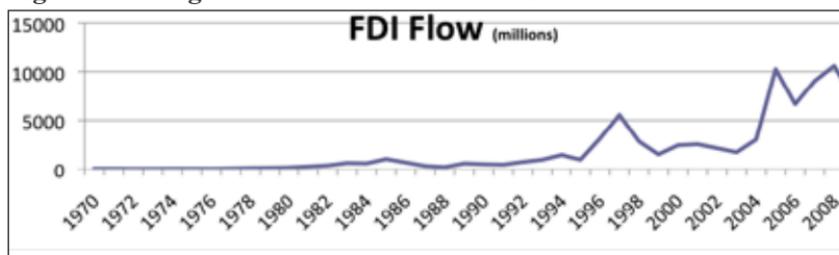
In 2009, foreign direct investment in Colombia amounted to \$7.2 billion, which was a significant increase from almost \$2.34 billion in 2000 (See Figure 1 & Table 2). It is expected that FDI will reach \$45 billion between 2010 and 2015. Almost 75 percent of these investments are in oil, gas and minerals. According to the Minister of Commerce, Luis Guillermo Plata, the FDI in the oil sector averages between \$7 billion and \$8 billion per year (*Semana*, June 12, 2010). Millions of square kilometers, including areas of national reserves and lands belonging to indigenous and Afro-Colombian communities, are being granted as concessions to multinational corporations. In 2010 alone, more than 500,000 square km were conceded to oil companies, a significant increase from the early 2000 when only 200,000 square km were awarded to oil companies (Portafolio, 2010; Richani, 2005). Together, these areas make up about 70 per cent of the country's total area. In addition, lands are being awarded to international mining companies. In the department of Cauca, 56 per cent of its land was awarded as concessions to foreign companies such as Anglo Gold Ashanti, Cerromatoso, and Carbonade. The same pattern is noted in the departments of Cesar, North Santander, Bolivar, Choco, and Antioquia. Given the lax regulatory mechanisms and environmental protection regimes and protocols, one can expect dire environmental consequences if corrective policies are not introduced.

Such a flow of capital investment to the extractive sector is already causing havoc in the economy, affecting almost all exports including flowers, manufacturing, and food production. The Dutch Disease is increasingly tightening its grip over the national economy. That is because the influx of dollars leads to the appreciation of the local currency, increasing the price of local production and consequently reducing their competitiveness in local and international markets.

The initial data for 2010 shows that the appreciation of the peso, resulting from the real and expected influx of petrodollar, started showing serious negative effects on rice production which decreased by (-28,1%), corn (-13,0%), sorghum and barley (-55,2%), sugar cane (-7,7%), cotton (-11,1%) and vegetables (-0,8%). This is alongside a decline in livestock and dairy products of (-2,5%) (*Perspectivas Agropecuaria Segundo Semestre*, 2010).

In the first semester of 2010, the agrarian economy, including the coffee sector, is expected to contract by at least 4% in comparison to 2000, or by -1.5% in comparison to 2005 (*Perspectivas Económica*, 2010). Moreover, the value of total agrarian exports declined from \$2,843.5 million in 2010 to \$2,513.4 million in 2009. The Ministry of Agriculture attributed this decline to coffee (-0,8%), banana (-11,4%) and prepared food (-1,7%). These contractions reveal that the symptoms of Dutch Disease are taking their toll on traditional and non-traditional agrarian production.

**Figure 1: Foreign Direct Investments 1970-2008**



Source: UNCTAD, 2008

**Table 2: FDI Flows by sector, 1994-2000 and 2001-2006, percentage of total inflows**

Sector	Period	
	1994-2000	2001-2006
Oil, mining and quarrying	9%	47%
Manufacturing	30%	19%
Services	60%	34%
Agriculture	1%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Fedesarrollo, 2007

This situation is not expected to improve in light of the terms of the free trade agreements that Colombia signed with Canada and the European Union, and the soon-to-be ratified agreement with the US. These agreements eliminate most protections to Colombia's food production and are expected to accelerate the declining trend in food production. In addition, the influx of unregulated FDI will negatively impact cash exports due to the inflationary pressures that

this influx precipitates which will in turn increase the prices of cash crops and consequently diminishes their competitiveness in global markets.

Increasing levels of unemployment is starting to be seen, further demonstrating the negative impact of rentier capitalism on the rural economy. Official data revealed an increased unemployment in the rural sector of more than 1 per cent, compared to their 2009 levels, reaching about 8.6 per cent. Other sources put the figure at a much higher level. The outlook is that it will further increase when articles of the free trade agreements come into effect. These, plus the sudden surge of FDI in mineral sectors, will certainly exacerbate unemployment and rural displacement with the obvious vicious cycle of reduced food security for the country and more areas of misery in large cities.

### **The Predatory State and FDI Preferential Agreements**

This section addresses the three interrelated contributing factors that led to the surge in FDI in the late 2000s. The first explains the motivations behind the state's decision to facilitate FDI particularly in mining, gas and oil companies. It argues that the expansion of state security apparatus made the state more dependent on rents from hydrocarbons and in this connection sheds light on the growing power of the state oil company, Ecopetrol. The second issue asks what made Colombia so attractive to multinational corporations? Finally, it attempts to define the general contours of an emerging political economy in which the imperatives and dynamics of a growing security sector is propelling the state's rentier behaviour to the detriment of production, chiefly food staples and agribusiness.

Colombia has historically been considered a "weak" state due to its limited coercive and distributive capacities. In the first fifty years of the 20<sup>th</sup> century, state expenditure constituted, on average, only 5 per cent of the GDP (Junguito & Rincon, 2007: 286). Between 1960 and 1990 this increased to 10 per cent of the GDP, taking into account decreased expenditures during the Lopez administration in the 1960s and adjustments carried out during the governments of Betancur and Barco. The most significant increase in state expenditure took place in the last ten years, when it jumped to slightly more than 20 per cent of the GDP (Junguito & Rincon, 2007: 286). By 2001, state expenditure in Colombia was approximating

the regional levels of Chile and Peru, slightly higher than Mexico, and close to the United States (Junguito & Rincon, 2007: 291).

Prior to 1985, most of these expenditures were in infrastructure development. After 1985, expenditures included the expansion costs of the state administration and servicing the public debt. Expenditures on administrative operations doubled after 1990, mostly because of the growth of its security sector. This process started with the Cesar Gaviria administration between 1990-1994 and gained momentum under Andres Pastrana (1998-2002) and Alvaro Uribe (2002-2010).

The military expanded from a force of 167,000 at the beginning of the 1990s, to 441,000 in 2008 at a cost of about \$11 billion, more than 80 per cent of which covers personnel costs. With such an enormous expansion, that state had to depend on different funding sources such as taxation (including a war tax on the higher income groups), borrowing, and foreign financial support, including Plan Colombia and concessions for the extraction of natural resources. This latter became more urgent in light of the declining funds available of Plan Colombia from about \$550 million in 2009 to about \$480 million in 2010. The military component of this aid, however, was further reduced under the Obama administration while the social and institutional component increased.

The defense budget steadily increased from a 2.2 per cent in 1990 to 5.6 per cent by 2008 (some estimate put it at around 6 per cent), which is the largest share of government expenditure. This is while it spends 3.9 per cent on education and 5.1 per cent on health (UNDP, 2010). The increase in the size of the state's share in the war economy was propelled by a cross section of the dominant classes and their technocratic representatives or their organic intellectuals – to borrow Gramscis' term - who are ideologically committed to neo-liberal economic orthodoxy, mostly trained in the US and in Bogota's elite universities (Ospina, 1995).

An illustrative case of this type of thinking was reflected by key institutions such as the National Association of Financial Institutions, *Asociación Nacional de Instituciones Financieras* (ANIF), whose president Santiago Montenegro urged in 2002, that is on the eve of Alvaro Uribe election, to an increase in military expenditures arguing that “these military expenditures would be recompensed by an increase in investments and by providing better business conditions, two things that the country does not have

because of the conflict”<sup>73</sup>. This was in a course in a forum that ANIF organized with co-sponsorship with *Fedesarrollo*, another important think tank (*El Tiempo*, February 22, 2002). This thinking was not new within the dominant classes and elites. These groups weigh the cost of war against the costs of peace with a strong insurgency (Richani, 2002).

Consequently from the 1980s, this oscillation depended on a host of factors including the correlation of forces between the state and the insurgency, alongside the balance of forces between the most recalcitrant faction of the dominant classes, namely the cattle ranchers, and those factions tied with international capital, represented by the economic conglomerates and their neo-liberal expression such as ANIF and *Fedesarrollo*. These correlations of forces explain the pendulum that has always swung between negotiation (Barco, Gaviria, Pastrana) and war (Turbay, Uribe).

The inclination toward a military solution rather than a negotiated settlement with the insurgency in the early 2000s was cemented by two interrelated factors: 1) the ill-fated peace negotiation of the Pastrana’s Administration with the insurgency; 2) the United States military intervention in the conflict, which was accelerated in the 2000s by the introduction of a \$6 billion Plan Colombia to be spent between 2002 and 2006 (Richani, 2005; Sabas Pretelt, 2003). But the question of concern to decision makers was how to finance this war, the cost to the dominant classes and for how long. Sabas Pretelt, then President of *Fenalco*, who became the Minister of Interior in Uribe’s government, explained in an interview with me that there would be a war tax, which the largest economic groups agreed to pay. When I asked for how long are they willing to do that, he explained as long as it takes (Interview with Author Bogota, 2003).

I think they believed that the US will continue subsidizing the war system while the dominant classes will push for a regressive tax that forces lower and middle class income groups to pay as well. Their argument was well put by Restrepo who said, “this security is for all” (Restrepo, 2010).

But as always the case the unanticipated outcomes and miscalculations lead to reconsidering the options. After Uribe failed to decisively defeat the FARC or the ELN and while the US aid was declining, the dominant classes increasingly expressed war fatigue, particularly during Uribe’s second term (2006-2010). This is when

the prospects of mining and new oil discoveries were life saving to the sustenance of the war economy. In 2004, this condition was expressed by a regional president of a major oil company, operating in Colombia, who was quoted as saying that “The government is literally desperate” to attract companies by presenting all types of concessions to entice them (NY Times, October 24, 2004). The following section discusses state financing in some detail that helps to explain why this state of desperation and what it led to.

### **State Finance, Military Expansion and the Rentier Economy of Extraction**

A quick look at the soaring public debt since 1999 supports this argument to some extent as it reveals that the aggravation of state finances caused by the expanding security apparatus put significant pressure on the governments of Pastrana, Uribe, and now Manuel Santos (2010-).

The Pastrana government increased both infrastructure and defense spending. This increase coincided with the 1998-99 economic recession, causing the deficit to swell to a historical high of 6.9 per cent of GDP in 1999. Public-debt ratios, net of financial-sector assets, climbed to a record high of 47.9 per cent of GDP in 2002 and reaching 54 per cent of the GDP during the first year of the Uribe administration (Junguito & Rincon, 2007: 303), the highest in the country’s history. Fearing a meltdown, the Uribe administration set out to reduce the debt by generating primary fiscal surpluses, while continuing the Pastrana plan of military expansion. Aided by high economic growth rates and windfall oil revenue, the fiscal deficit and debt ratios declined but the public debt at the end of 2007 remained very high at a 27.1 per cent of GDP (Economist Intelligence Unit, 2008). Even worse, this debt is expected to swell again when the pensions are expected to peak in 2012-13. Successive pension bills (in 2002, 2003 and 2005) have reduced the pension deficit in relative terms, but this remains above 120 per cent of GDP (Economist Intelligence Unit, 2008).

State tax revenues (direct, indirect, war tax, value added) were about \$35 billion in 2008 and \$38 billion in 2009<sup>4</sup>. This is while the state spent about \$11 billion on defense for the same period, absorbing 28% and 26% respectively of the total taxes. This is a hefty share, which forced the state to diversify its base of rent extraction. This coincided with a sudden windfall of a threefold increase in oil

prices making it the largest single export earner between 2002 and 2007. Oil's share of total earnings averaged around 26% between 2001 and 2007 despite a drop in output. Coffee's share of total exports plunged from 60% in 1986 to 6% in 2007; whereas coal export volumes and earnings have surged. Coal exports overtook coffee in 2001 to become Colombia's second-largest export earner, and contributed 12% of the total in 2007. It is expected to increase by over 9% per year in the medium term, and prices are expected to be firm (Economist Intelligence Unit, 2008). Export revenue from Ferro-nickel has grown at healthy rates since 1999 on the back of larger export volumes and higher world prices by the first quarter of 2010, generating \$496 million. (Economist Intelligence Unit, 2008; *Banco de La Republica Balance Trimestral*, 2010). Gold exports saw a leap from 15 tons in 2003 to 50 tons in 2010 and is expected to increase to 80 tons in the coming years (*Semana*, November 29, 2010: 78; *Potafolio*, November 22, 2010). Together, by 2010, the mining and oil sector represented more than 60 per cent of the country's total export (*Semana*, November 29, 2010: 78).

Clearly oil and mining have become the leading export sector, at a time of historical expansion in the state's war making capability, making it more dependent than ever on this sector, considering its strained finances. In 1999, for example the state obtained circa 25 per cent of its revenues from the hydrocarbon sector, jumping to more than 30 per cent by the end of the 2000s (Richani, 2005: 127). That is from \$3.2 billion to an expected revenue of \$6 billion per year by 2015. The current figure is about \$4.3 billion. However, the Minister of Mining and Energy, Carlos Rodado, estimated a much higher oil revenue of \$194 billion (based on an exchange rate of 1900 pesos/dollar) during the 2010-20 period; that is an annual average income of \$19.4 billion per year (*Dinero*, November 18, 2010). One may ask then what is the causal link between war making and rentier dependency?

In light of the increasing imperatives of war, the choices available to the state were influenced by two interrelated factors: a) the global division of labour, and b) a neoliberal ideological orthodoxy that has been ruling the country since the early 1990s. While the first conditioned Colombia's pace and degree of integration into global markets; the second has uncritically accepted these conditions in the name of "comparative advantage", a euphemism for Colombia's assigned economic position in the global division of labour which

limits its economy to the export of a few cash crops (coffee, cut flowers, and palm oil) mining, gas, oil, and services. Consequently, the imperatives of war have only reinforced this economic orthodoxy and its corresponding rentier extractive economy.

### **Multinationals Incentives and the Rent-seeking State**

In 2001, Ecopetrol reduced its mandatory share in joint ventures from 50 per cent to 30 per cent. In 2002, the government changed its flat 20 per cent royalty with a sliding scale that increases the financial viability of small projects. (*Forrero*, NY Times October 22, 2004). In April 2004, the state went further, eliminating Ecopetrol's required participation in projects. This was alongside the reduction of taxes and the expansion of the lifespan of contracts. It also made the awarding of concessions more flexible (*Forrero*, NY Times, October 22, 2004). Armando Zamora, Director of the National Hydrocarbon Agency, eloquently expressed the state's policy-making mindset that allowed making these concessions. He said "We were anguished and that's what permitted us to undertake these reforms" (Quoted by Juan Forrero, NY Times October 22, 2004).

In 2005, these concessions were complemented by the introduction of Law 963. This new law provided favourable treatment to about 700 multinationals corporation currently operating in Colombia, guaranteeing a low fixed tax for the duration of the contract and stipulated that articles within contracts could not change between 3 and 20 years, depending on the agreement. Royalties have been declining due to the government exemptions that were provided, chiefly to those extracting coal and gold. Drumond for one was granted two exemptions, one in 1995 and another in 2007, reducing coal royalties paid to the state by more than \$500 million. In gold, mining multinationals pay only 4 per cent for the right to mining, in contrast to international rates of about 20 per cent (*Portafolio*, November 23, 2010). Other incentives that increased multinational profit margins are provided by Ecopetrol, which covered the cost of building infrastructure, pipelines, and provided transportation, all of which made it cost effective for multinational corporations and consequently very attractive.

Ecopetrol has promised to invest \$60 billion in exploration, infrastructure, transportation, refining, production, marketing, and acquisitions between now and 2015. This year alone, the

company will spend \$6.9 billion. One of the first projects will be the construction of a new \$3.5 billion pipeline from the city of Ariguaney in the department of Meta to the port of Coveñas in the department of Sucre (Dawn 2010). Currently, Ecopetrol assumes the costs of maintaining 79 per cent of existing pipelines, which is equivalent to 8,815 km of pipeline (Dawn, 2010).

These changes and concessions give an idea of how desperate the state has been to look for alternative rents, given the decline in US aid and the increasing resistance of the dominant groups in paying the war tax to fund its bloated security sector (see *Cambio*, September 23, 2009)<sup>6</sup>.

### **The Emerging Political Economy**

The above demonstrates that Colombia's economy is becoming more dependent than ever on the extraction of natural resources. An economy that is moving away from production, including food production, due to several factors including the increasing prices of the land due to its diminishing availability, increasing commodity prices, including cash crops precipitated by the appreciation of local currency.

Consequently land use has become determined by two factors: the comparative economic advantage of extraction versus food production and; two, with the scarcity of lands comes higher rents, compounded with the appreciation of the pesos which makes fertilizers and other products more costly, all of which are to the detriment of local food production, alongside all local production, which this article did not address.

The rentier-based rural economy has passed in Colombia through two main phases since the 1980s. The first was propelled by land speculation, motivated by the narcobourgeoisie and other sectors of the landed elite, chiefly cattle ranchers. During this phase the two main pillars of the rural economy were cattle ranchers and agribusinesses including palm oil, cut flowers, large scale rice producers and others. But in the 2000s, another phase is eclipsing these groups, ushering in the beginning of a new political economy, largely dependent on the extraction of mineral resources.

This latter phase has been greatly propelled by the neoliberal economic ideology and the imperatives of a warring state that expanded its security sector to historically high levels. These two factors fomented the state's rent-seeking predatory behaviour

offering lucrative concessions to multinational corporations that significantly enhanced their profit margins and facilitating the state's capacity to finance its ever more expensive war machine.

Among the new protagonist of this emerging political economy, there are three salient ones including the security sector, Ecopetrol and multinational corporations. Alongside multinational corporations, the security sector and Ecopetrol are increasingly important core players defining the contours of the new political economy. The security sector now has more than 450,000 employees while Ecopetrol continues to grow in size and importance.

Ecopetrol is a mixed company with 20 per cent private ownership and 80 per cent public. Revenue of \$18.1 billion was generated in 2009, growing from \$5 billion in 2000. Net income in 2009 was \$2.5 billion. This has put the company among the top four in Latin America and among the 35 largest oil companies in the world. Now with an oil boom that is expected in the coming years, Ecopetrol is expected to grow even faster. Since Ecopetrol has operated in conflict zones it has been allegedly accused of complicity and open collaboration with right wing paramilitaries in several departments (Bolívar, 2009).

More importantly are the agreements and common interest that have been developing among Ecopetrol, the Ministry of Defense, the extractive multinational corporations and private security companies. These have become an important part of the war system in Colombia and its changing political economy (Richani 2002; Richani 2005). Alongside those are the paramilitaries who provided security services to multinationals which included the assassination of union activists including in the cases of Coca Cola, Drumond, Chiquita, BP and Oxy (Richani, 2002: 2005; Evans, 2011).

Case in point is Arauca where alias "El Mellizo" one of the leaders of *Bloc Vencedores* who described that the oil companies contacted Vicente Castano, the leader of the *United Autodefenses of Colombia* (AUC) to send a force to Arauca in order to repel the insurgency. During their presence, about 28 unionists were assassinated (Verdad Abierta, 2010). El Mellizo also declared in 2005, when the government was negotiating with the AUC over disarmament, the Governor of Arauca Julio Acosta Bernal asked them not to disarm and to continue protecting the oil companies. Mellizo also said that the Mayor of Tame, one of the oil rich municipalities in Arauca, offered that the oil companies would fund a 100-man

force. Hence, Ecopetrol and the multinational corporations were not innocent bystanders sitting on the side of the conflict but became an integral part of its dynamic and political economy. However, analyzing such relationship is not within the scope of this paper.

Finally the most salient feature of this emerging political economy is the military institution, which has become the largest employer in Colombia with 450,000 members. They represent almost 50 per cent of the all government employees and 2.6 per cent of the total workforce of about 19 million people. In 1985, the military numbered only 185,000 increasing by more than twofold in less than 15 years. By 1996, military personnel increased to 266,000 with a pension that amounted \$15 billion, about 15 per cent of the GDP (see *El Tiempo*, September 19, 1997). By the late 2000s, with an almost twofold increase, these pensions are close to \$30 billion reaching more than 40 per cent of the GDP<sup>6</sup>. Keep in mind that this continuous expansion of the military apparatus is taking place while the guerrilla threat has diminished.

Consequently, this suggests there is a critical mass driving this expansion alongside the military institutional interests which include sectors of the dominant classes, neoliberal technocrats, and civilian authorities that are committed to a model of economic development that is not only obsolete but anti-sustainable development. In this vein, two final reflections are in order. The first, given the deterioration in most productive sectors alongside the increasing concentration of wealth and income disparities, an expansive security apparatus is then needed for social control more than anything else. The second, while the state graduated from the “weak state” track by becoming highly militarized, it has become more dependent than ever on a rentier extractive economy. Therefore, continuous militarization of the state is only complementing the rentier extractive economy. With such a political economy, a negotiated peace settlement becomes a remote possibility.

## Endnotes

1. Associate Professor and the Director of Latin American Studies at Kean University, nrichani@kean.edu.
2. David Ricardo defined economic rent as a margin of market price over cost value, unearned revenue that flows from land ownership, which also includes mining. For a wider use of the rentier concept, see Michael Hudson, who expands the concept

to incorporate the industrial economies such as the US where more wealth is created from financial speculation and rents than from production. Hudson defined *rentier* income as economic rent and interest or other financial charges, arguing that this form of capitalism is polarizing the U.S. and other economies. He added, “The bulk of this *rentier* income is not being spent on expanding the means of production or raising living standards. It is plowed back into the purchase of property and financial securities already in place - legal rights and claims for payment *extracted* from the economy at large.” Accessed March 28, 2011, [http://www.cooperativeindividualism.org/hudson-michael\\_the-rentier-economy.html](http://www.cooperativeindividualism.org/hudson-michael_the-rentier-economy.html)

3. In an opinion poll 265 business groups’ representatives and specialist, conducted during the referred ANIF meeting, were asked if the presidential election were to be held the next day, which candidate would they chose. 70 per cent said they would vote for Uribe, 8.5 per cent to Horacio Serpa; 7 per cent to Luiz Eduardo Garzon and 4 per cent to Noemí Sanín (*El Tiempo*, February 22, 2002).
4. These figures were based on an exchange rate of 1,900 pesos.
5. 9,300 individuals and business enterprises are paying the “war tax” introduced by Uribe in 2002. Those individuals and enterprises worth more than three million dollars in capital pay 0.6 per cent in tax; while those whose wealth is of 5 million or more their tax is 1.2 per cent of their estimated wealth. These groups their resistance to pay more tax became more audible during the second Uribe period (*Cambio*, September 23, 2009).
6. This estimate is based on a \$172 billion GDP for the year 2007.

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