COLOMBIA'S PRACTISING ECONOMIST

by Henry Rodriguez

For individuals such as Guillermo Perry, Colombia's Finance Minister, moving from the world of research into that of policy and decision making is a logical step.

Some economists are content to pursue purely theoretical research, in the hope that something practical will one day come of it. Others choose to work in areas that are certain to have direct impact on economic policy.

At least that is the view of Guillermo Perry Rubio, Colombia's Finance Minister. Perry graduated in electrical engineering from the University of the Andes in Bogotá. He pursued doctoral studies in economics at the Massachusetts Institute of Technology. But he never completed his doctorate. The reason? He considers himself part of that second group of economists, whose chief interest is the world of economic decisions.

Perry has been involved in decision making in the Colombian government for more than 20 years. His main goal at present is to enact tax reforms aimed at shoring up the country's public finances without raising taxes excessively.

When Perry recently worked with Colombia's Foundation for Higher Education and Development (Fedesarrollo), one of Latin America's most important economic research centres, he took part in a project funded by idrc on fiscal reform and structural change that involved academics in Latin America, Africa and Asia. "That research helped me to think through various ideas about fiscal management. Designing the petroleum stabilization fund was one of the key outcomes," says Perry.

This initiative is now moving through the Colombian Congress. The fund is meant to ensure continuity and contribute to macroeconomic stability by saving part of the surplus earned when oil prices are high, and using it to help finance investment programs of the central government and the state oil enterprise, Ecopetrol, when prices are low. The savings are then largely invested in foreign bonds in order to reduce pressure that would otherwise cause the exchange rate to appreciate in times of high oil prices.

This innovative mechanism seeks to avoid the kinds of imbalances that so many other oil-producing countries have suffered in their public finances and in the behaviour of aggregate demand, exchange rates and balance of payments.

TOWARD TAX REFORM

Perry believes the proper path for Latin America in coming years must be to increase revenues without raising tax rates. It can be done, he says, essentially by controlling tax evasion, and eliminating tax loopholes and privileges, without placing a greater tax burden on low-income people. "The problem is that
some firms or individuals can find ways to reduce their taxes, all quite legally," he adds.

Perry points to Argentina and Chile as countries that have increased their revenues by controlling tax evasion and improving tax collection mechanisms. He also cites Mexico's efforts to introduce a system that calculates income from gross assets, and other reforms it has undertaken to make taxpaying a more serious business.

Perry also believes that countries like Colombia should not play the game of competing for international investors by offering low taxes. "This undermines your goals of fiscal and economic stability. On the other hand, it is a good idea to remove any discrimination against foreign investment in the tax system," he adds.

A QUESTION OF STYLE

As Guillermo Perry sees it, academic communities in the United States and Europe have difficulty exerting influence on economic policy makers because the two groups live in different worlds, generally speaking. And yet, there have always been certain economists who have tried to have an impact on economic policy.

However, in developing countries like those of Latin America, academic economists are often invited into government to take advantage of their knowledge through concrete action. "The most renowned economic research bodies in Latin America are perhaps Colombia's Fedesarrollo and Chile's Cieplan," says Perry. "In Chile, the majority of the last two governments' economic teams came through Cieplan. In Colombia's case, many of us have arrived from Fedesarrollo," he notes.

Perry attributes this pattern to the style of these research bodies themselves, oriented toward basic and applied research but with a clear focus on decision making. "Any economic policy paper they publish will be aimed at influencing some economic policy decision," he says.

"I have always thought that the goal of research is to have a better understanding of the best economic policy choices that a country like ours can make. I have always tried to make sure that such views are heard."

Why, then, do some economists succeed, while others fail?

"Part of it has to do with personal characteristics. There are some excellent technicians who are not so adept at moulding opinion and making political judgements. Yet these are essential traits for a public servant, because we are not dealing here with good ideas and sound analysis alone. We also have to be able to persuade people to follow a certain route."

AN ECONOMIST WHO GOES BEYOND THEORY

Perry says he was greatly influenced by Carlos Díaz Alejandro, a Cuban economist who taught at Yale University, and later in Colombia and Brazil. Perry also cites as influences Robert Solow and Paul Samuelson, his teachers at MIT, and Amartya Sen, an Indian economist specializing in welfare theory and poverty themes. His main fields of research and writing have been public finance and energy policy. He has also written on foreign trade, economic planning and macroeconomics. A topic that fascinates him is how to achieve consensus on economic policy. "I once wrote a book on labour unions and economic policy. My thesis at MIT also dealt with consensus-building," he recounts.

This topic has been a key part of his strategy during his work with the government of President Ernesto Samper Pizano, who only 4 months after assuming office signed the so-called Social Pact -- an agreement on productivity, prices and wages -- among partners from business and labour, with a view to reducing inflation.

THE VIEWS OF FEDESARROLLO
According to Eduardo Lora, director of Fedesarrollo, the contributions that economists can make from their research are important if they are to design policies that will translate into better-performing economies.

This is what Fedesarrollo is trying to do, by listening to the views of business people, attending public forums, and keeping abreast of international economic events and their potential implications for Colombia.

Fedesarrollo has in this way become an important institution, through which many economists have passed on their way to playing an active role in government. Guillermo Perry is a case in point. Others include José Antonio Ocampo Gaviria (please see his profile in idrc Reports, January 1995), currently head of the National Planning Department, and Cecilia López Montaño, Minister of the Environment. It goes to show that, contrary to what many people think, research and decision making can go hand in hand.

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