Too Late but Profitable: Railroads in Colombia during 1920-1950

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During the 1920s, the Colombian economy experienced the highest rate of growth in its history. The economic reforms of 1923 (the central bank, gold standard, banking legislation, fiscal reorganization), the coffee boom, and the unprecedented influx of foreign capital were the driving forces behind this success. During that decade, the country received 25 million dollars from the United States as compensation for its role in the separation of Panama from Colombia. Those reforms and the growth in coffee exports also allowed for an enormous increase in foreign loans. The value of the loans obtained by 1929 came to 257 million dollars. Those funds were used mainly to build much needed public infrastructure, particularly railroads. Approximately 45% of the foreign loans during that period were invested in railroad construction. Additionally, 16 of the 25 million dollars received as reparation for Panama were invested in railroads. In this paper, we estimate the global rate of return and the internal rates of return on individual railroads. For those calculations, we consider that Colombia ended up paying only around 85% of the loans obtained in the 1920s's, owing to the effects of the Great Depression and the suspension of foreign debt payments . The rates of return on the railroads constructed and extended in the 1920´s are comparable to those obtained for European countries in the nineteenth century.

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