

## **Financial Thought as a Shield: Bogotá's Stock Exchange and the Financial Ideas during its Foundation and Consolidation**

**Diego Ramos-Toro**  
Universidad de Los Andes  
Faculty of Economics  
Colombia

### **Abstract**

*The document uses a historical approach to unveil the political nature of financial ideas generated by functionaries of Bogotá's Stock Exchange in the years following its foundation. Particularly, it demonstrates how these ideas constituted interpretations that aimed at the consolidation of the entity in a dynamic historical and economic context that posed varying challenges to the institution. The interpretative discourse produced and transmitted by said Stock Exchange constituted an adaptive mechanism, which gradually refined so as to placate both existing and emerging social concerns regarding the role and the effects of an entity of the like.*

**Keyword:** Financial Ideas, Bogotá's Stock Exchange, Social and Economic Realities, History of Economic Thought

**JEL Codes:** B00, B2, N00, N2

### **1. Introduction**

The recent financial crisis demonstrated some fallbacks and contradictions within orthodox economic analysis, and also showed how such ideas were partially responsible for the economic debacle (Stiglitz, 2010). Given such experience, a focus on the dynamic and the political nature of economic thought has become a preeminent subject of study. Following Benneti and Cartelier (1998), standard economic analysis has the shortcoming of focusing on the quantifiable aspects of social realities, setting aside the economic dynamics that do not have such nature. Said aspect has led researchers to partially ignore the political nature of economics when the focus of study is the field itself. An approach that considers the historical and political drive of economic analysis is therefore called into action.

According to the Frankfurt School, particularly following Max Horkheimer, knowledge cannot be judged exclusively by its internal consistency, but also by considering the *social praxis* to which it is ascribed (Adorno, 1961; Leyva, 2005). In particular, the connection between an academic, her research and theories, and her professional relations with the financial industry, must not be ignored when fully investigating the reach of a particular financial thought. The former idea comes from the capacity of economic analysis to produce and reproduce social realities (Samuels, 1988). This reveals the importance of historical and economic studies that assess the genesis and the social motivations that underlie financial interpretations. Hence, by analyzing the political intentions of such elucubrations one is able to unveil the nature of the intended social reality, and its corresponding flaws. A critical evaluation of the intentions that both trigger and lay beneath a financial idea can thus provide a holistic understanding of the effects that may follow after a financial policy consistent with the interpretation.

The assessment of financial ideas as political dynamic processes, however, cannot be achieved exclusively through the identification of the intentions and aims of those who created and transmitted such ideas. The economic contexts, along with the predominant system of economic ideas at the time, constitute preeminent variables that determine the form and the intensity with which some ideas are rebated, defended or constructed. A particular context of economic reality is a key variable that defines the emphasis and the direction of a financial idea. Analogously, the form and terminology used by a particular economic formulation is prone to adapt to predominant economic theories, for such adaption constitutes a prerequisite for said formulation to be considered as a legitimate form of knowledge (Bourdieu, 1991).

Ultimately, a comprehensive examination must combine an assessment of the economic context and of the predominant set of ideas with the political intentions and aims of those creating and transmitting the interpretations.

Colombia constitutes a perfect setting to exploit this approach, for it is an economy in which the financial sector is increasingly important, but has yet to become as developed as in industrial economies. As such, unveiling financial ideas enables an identification of additional mechanisms through which this consolidation may have happened. This document is aimed at giving the first steps in the formulation of a history of financial thought in Colombia, based on an economic and historical analysis of the interpretations that emanated from within Bogotá's Stock Exchange (BSE, from now on). In particular, its goal is to show how the financial ideas that were formulated within BSE, although presented as unbiased and factually supported, actually responded to political intentions vis-à-vis changing economic realities. Additionally, it will be demonstrated how these ideas were essential in the consolidation of such institution. Thus, the focus of the investigation is the dynamic followed by financial thoughts produced within the entity in the years following its foundation.

The remaining of the document is structured as follows: The second section will analyze the economic processes that were underway when the Stock Exchange started to operate in Bogotá, which coincides with the epoch of the economic crisis of the 1930s. The third section will focus on BSE's foundation and performance in its first years of existence, emphasizing the problems faced by the institution after the economic downturn. Having introduced the structural elements and the particular context on which financial ideas under scrutiny came to exist, the fourth section will analyze the notions and fears expressed by individuals outside BSE. The fifth section will discuss the financial ideas generated by BSE's functionaries, demonstrating how such interpretations constituted a defense and an adaptive mechanism to face the problematic socioeconomic realities explored in prior sections. The sixth section concludes and points to potential research avenues.

## **2. Economic Conditions – The Need for Long-Term Financing**

The demographic patterns in the first decades of the twentieth century in Colombia, and particularly in Bogotá, were critical for the consolidation of financial institutions such as BSE. In 1918 Colombia had approximately 6,120,640 inhabitants, number that would increase by nearly 50% in the following 20 years (Flórez, 2000). This structural tendency, especially important in cities such as Bogotá, was both a cause and a consequence of the sustainable economic growth in the following decades. Between 1918 and 1938 Bogotá grew in relative and absolute importance in a demographic sense, for it experienced an increase from 2.5% to 4% in its participation on Colombia's population (López Uribe, 2008). Although seemingly small, this growth is of great importance, for it represents an increase of 137% in the total number of inhabitants, and a growth of 60% of its share in the total population of Colombia.

The growing demographic importance of Bogotá came along with an industrial concentration, for 36% of the industries operating in the country were located in such city. These processes had great repercussions on both workers and businessmen; real wages of blue-collar workers nearly triplicated during the first three decades of the twentieth century, while the real earnings of businessmen and capital owners grew by a similar proportion, as demonstrated by the fact that inequality levels within Bogotá remained still in the period under scrutiny (López Uribe, 2008; Ospina Vásquez, 1979).

These socio-demographic conditions, when contemplated along with the macroeconomic realities of Colombia at the time, constituted crucial elements in the emergence of financial institutions such as BSE. By 1929 Colombia had experienced two crucial processes, named by Colombian historiography as the *dance of the millions* and the *owed prosperity*. The *dance of the millions* corresponds to the economic growth resulting from the compensation given by the US to Colombia for the loss of the Panama Canal. According to Junguito and Rincón (2004), from 1922 to 1926 the government of Colombia received US \$ 5 million per year, mounting to a total of US \$ 25 million, which was nearly half of its exports and 10 times its amount of international reserves. This massive influx of money led to a short-term real growth of 7% and a growth of 4.9% in per-capita terms. This prosperity coexisted with an unprecedented increase in the quantity of circulating money, which increased by 359% in those 5 years.

The *dance of the millions* led to the process denominated as the *owed prosperity*. Diverse agents of the Colombian economy, including the government, contemplated the short-term growth as a new growth-path.

Such perceptions led to an unprecedented increase of leverage, which was aimed at financing investment opportunities. This is corroborated by the fact that the Colombian long-term external debt increased by 743% in real terms, while the leverage of the banking system quintuplicated (Ocampo, 1987). The growing dependence of foreign funds came along with an increase of nearly 300% in the government expenditure, while in absence of fiscal and tributary changes that could provide sustainability; the total tributes collected through taxes virtually did not increase during the 1920s, while dramatically decreasing as a proportion of the expenditures carried out by the state (Kalmanovitz, 1986). It was, indeed, a temporary prosperity that rested upon external sources and external financing, and that would ultimately be owed to foreign creditors when the economic turmoil entered in the scene.

When America's financial markets crashed in 1929, the elements that had benefited the short-term growth in Colombia were immediately reversed. The price of coffee, main exporting item in Colombia's economy, decreased by 65%, while the Colombian bonds that were traded in the New York Stock Exchange, and that allowed the leverage that supported governmental policies so far, suddenly stopped being traded (Ocampo, 1987). Hence, the influx of resources supporting the unprecedented growth of the economy abruptly ceased to exist.

By 1930 the Colombian state was only able to collect USD \$17 million in foreign financial markets, while the sole cost of its financial obligations mounted to USD \$19 million. This economic impasse could only be surpassed by a declaration of insolvency and a corresponding direct negotiation with international creditors; by 1931 the state agreed with the creditors the temporary suspension of the debt-service, which provided liquidity to the economy by leading to a reduction of 43% of the amount destined to the debt-service from 1932 on (Ocampo, 1987). By 1932, and after suffering the impact in the years of crisis, the Colombian economy bounced to its pre-crisis levels of growth.

BSE's foundation, which occurred in 1928, was inscribed in this context. The processes of the dance of the millions and of the *owed prosperity* enabled the existence of such institution. The experienced high-levels of growth, along with the new demographic reality, permitted the constitution of a stable demand for financing sources; the profound belief in a new growth-path, combined with the desire to seize profitable opportunities, created the necessity of alternative sources of financing that could enable lucrative business projects. Essentially, this corresponded to an increasing need for a financial market capable of mobilizing capital and of providing greater levels of liquidity to companies.

The banking industry, which was the only local financial institution capable of meeting these needs, was unable to grant the required levels of leverage and financing. For one hand, the regulatory framework of the 1920's impeded local banks from acting as long-term creditors; according to the Law 45 of 1923 of The Republic of Colombia, retail banks were forbidden from granting loans that had repayment times greater than 90 days, while mortgage banks (which granted to agricultural and construction projects only) could not grant loans that had repayment times of more than 2 years. In the other hand, banks were unable to "buy or possess products, merchandise, livestock, stocks or bonds from other corporations, or other similar securities" (Law 45 of the Republic of Colombia, 1923). Overall, these legal rigidities impeded banks from acting as agents capable of providing the financing required by companies within Colombia. Although foreign creditors and minor fiduciary companies partially granted some long-term liquidity to Colombian companies, those sources proved to be insufficient for an industry fostered by the uncontrolled economic growth of the epoch (Avella Gómez, 2003; Plata Uricoechea, 1978).

The possibility of strengthening the capitals' markets as a means of facilitating financing to growing industries became more attractive. However, this alternative required a centralized market with the capacity of reducing informational asymmetries between companies, investors and brokers, and with the capacity of supervising the activities related to capitaltrading. Hence, the foundation of BSE is inserted in a macro-social process in which the existence of an organization focused on gathering and regulating brokers became imperative. This constituted the only way in which growing industries could be able to find local (and thus less expensive and more expedite) forms of financing.

### 3. The Foundation of Bogotá's Stock Exchange and its Performance during its First Years

Colombian historiography has claimed that the success of BSE's foundation was due to the agility of Jorge Soto, a businessman who not only had gathered the capital required to create such entity, but who was also connected to government officials and entrepreneurs, allowing the endorsements that provided credibility to the new entity (Plata Uricoechea, 1978; Hommes and Silva, 1988; La Bolsa de Bogotá, 2009).

As per the elements discussed in the latter section, this document has shown how the success of BSE depended on the structural economic and social processes that were underway during the third decade of the twentieth century, rather than on exceptional individual decisions. The particular institutional arrangement of the entity, however, was a result of both Soto's determination and of what seemed to be successful international experiences at the time. The organizational features of the New York Stock Exchange -particularly the structure of the Board of Directors- were emulated, while the relevance of receiving governmental supervision was identified through the experience of Santiago's Stock Exchange in Chile (Plata Uricoechea, 1978; Eiteman, 1966). This is the reason that explains why the statutes of the newly-created organization allowed the *Superintendencia Bancaria*, a recently created governmental institution that supervised the banking industry, to have permanent access to all accounting and transactional information of both BSE and the companies ascribed to it (Esguerra Urrea, 1952). The coordination between the new institution and the government was of great importance to the transmission and to the repercussions of the financial ideas generated within BSE, for it provided legitimacy and social endorsement from the political authority. Such legitimacy was strengthened by the support granted by important businessman and capital owners -including the owners of the largest industries operating in Bogotá at the time- (La Bolsa de Bogotá, 2009; Plata Uricoechea, 1978). The former supports reinforced the power and the reach of the financial ideas created within BSE, for the interpretations gradually constituted hegemonic forms of understanding economic reality.

The foundation of BSE was possible because of the subscription of 25 important enterprises at the time, which can be seen in Table 1. The information contained in such figure reveals the importance of the macro-social economic and historical process discussed in section 2; the first companies that subscribed to BSE were precisely those that, given the nature of the economic sector to which they belonged, required long-term financing in order to carry out investments of great proportions. Hence, the table shows 2 transporting companies, 3 construction companies, 4 companies dedicated to the massive supply of energy and woods, and 2 industrial companies focused on the production of intermediate goods. All of these companies are characterized by their elevated fixed costs, a fact that makes long-term financing a must when facing a renovation of the machinery and equipment so as to enhance production capacity -which was precisely the scenario of many companies during the processes of *dance of the millions* and of *owed prosperity*-.

It is important to note the relevant participation of banks in the pool of initial companies that subscribed to BSE (representing 20% of those companies). This is given by the fact that during the 1920s there was a process of banking concentration, which implied a need for liquidity capable of facilitating the transactions relative to the purchase of financial assets (Mora, 1992). Given the unviability of using debt to carry out such operations, the capitalization of banks was used as a source of obtaining sufficient additional resources, which can only be performed efficiently through a centralized stock exchange. Again, the structural processes explained in section 2 are reflected clearly on the composition of those companies seeking to be part of BSE.

The performance of BSE in its first years of functioning reveals a dynamic followed by the value of the financial assets that was consistent with the economic conditions of the country. In consonance with what happened to Colombia's economy, the real value of the transactions carried in BSE declined in the years 1930-1931, and recovered vigorously in the following 3 years. This dynamic is depicted in Figure 1. In the period of economic downturn, and following pressures from the *Superintendencia Bancaria*, the entity forbade forward-operations to be carried out by stockbrokers, so as to reduce the potential noxious effects of speculative attacks on certain stocks (Plata Uricoechea, 1978). The effects of such measure, as will be discussed in section 5 below, were later on discredited by BSE's Board of Directors.

Figure 2, which shows the dynamic followed by the stock-price index of the shares traded within BSE, exhibits seemingly contradictory patterns; during the years 1932-1934 the increase in the volume and the value of financial operations carried within BSE coexisted with a slow recovery of the prices of the corresponding assets.

When considering that the earnings of stockbrokers depended directly on the volumes traded (Bolívar Blanco, 1992), one realizes that a poor performance of the stocks coexisted with increasing earnings captured by BSE, which could generate a negative impression on the public regarding BSE. Such negative impressions, in turn, were likely to lead to hostile analyses regarding the entity's social and economic validity. Interpretations that were adverse to BSE posed a threat to the entity, for they eroded the confidence from investors and companies that the Stock Exchange required.

Other Stock Exchange centers in Latin America had already experienced similar effects, when economic downturns were followed by accusations of speculative practices and mismanagement to such entities, leading to a generalization of distrust from the public. Such was the case of Buenos Aires's Stock Exchange after the Argentinian crisis of 1890, which led the public to consider the Stock Exchange as a place ran by irresponsible speculative professionals seeking only their individual benefit (Jáuregui, 2005). Thus, as will be analyzed in section 5, an effective response towards that problem required financial interpretations that disproved the faults and potential dangers that could be related to a Stock Exchange. However, this course of action was not sufficient, for additional measures were needed in order to send strong signals to the market regarding the trustworthy nature of the recently created organism. This is why in 1930 BSE's Board of Directors decided to reduce the commissions of stockbrokers by 30% (Plata Uricoechea, 1979), for this was the only way to combat potential discontents deriving from the opposing tendencies followed by the value of transactions and the stocks' price index. As discussed earlier, another measure aimed at combating such fears was the restriction imposed by *Superintendencia Bancaria* on forward operations.

An improvement of the international conditions and also a strong reaction from the Central Bank allowed a strong recovery of both Colombia's economy and BSE. Particularly, the monetary authority provided great liquidity to the market by reducing the mandatory deposits that private banks had to have on the entity, and also by granting direct financing to the government and to other state-owned entities (Sánchez et. al., 2005). In the aftermath of the crisis, as will be explained in section 5, functionaries within BSE interpreted the experienced reality through particular financial ideas that depicted the Stock Exchange as an entity that had no involvement in the downturn, and that in turn was beneficial for its solution.

#### ***4. Social Interpretations and Concerns Regarding Bogotá's Stock Exchange***

The financial thoughts that were produced and transmitted by BSE responded to changing social and economic realities of its time. Particularly, some notions operated as responses to interpretations and declarations of state officials and businessmen. Given the assimilation of hegemonic forms of knowledge with hegemonic structures of powers (Bourdieu, 1991), the analyses of such social segments could constitute preeminent ways of understanding economic realities. Hence, from the perspective of BSE, such formulations could not remain unanswered.

The declarations given by Colombia's Minister of Finance at the time of BSE's foundation, Francisco de Paula Pérez, constituted an essential input for the subsequent formulation of financial notions within the Stock Exchange. The former idea is due to the fact that his assertions contain the impressions of the economic authority of the country, and as such the representative of the hegemonic set of ideas regarding economic and financial dynamics. In his Finance-Memoirs of 1929, the Minister asserts that the existence of a Stock Exchange in Bogotá was valid only to the extent that it served a specific social purpose: Facilitate access to liquid funds whenever companies and/or the government required them (Pérez, 1929). Hence, the economic authority of the time pointed to the validity of BSE as an element that depended not on the lucrative goals it could satisfy, but on the social purpose it was able to fulfill. As will be discussed in the following section, this explains why many of the interpretations made by functionaries of BSE constantly depicted the entity as one with a social utility that could not be matched nor replaced by other institutions.

After a couple of months of the entity's functioning, and considering the effects of the Great Depression, Francisco de Paula Pérez started to recognize the easiness with which the entity could deviate from its social purposes. Particularly, the Minister expressed his fears regarding the suboptimal economic results that could materialize due to the way in which Stock Exchanges facilitated the spread of misinformation:

*"The stock market is excessively sensitive. The prices of bonds, especially of those belonging to Latin-American countries, suffer from unforeseen fluctuations, which respond to causes alien to fundamental conditions of the issuing-nations"* (Pérez, 1929)

As pointed in section 2, this declaration was partially motivated by the poor performance of Colombian bonds in the New York Stock exchange during The Great Depression, which hindered an efficient financing method for the government in the midst of the crisis. More importantly, this first-hand experience marked the impression of Colombia's elite, and made it realize that a lack of supervision from a strong entity could lead to the emergence of inefficient economic outcomes. This explains why Pérez asserted that "if there is no trustworthy entity that backs the functioning of the market, these fluctuations can scare off the vulgar capitalist" (Pérez, 1929).

The petition made by BSE's functionaries so as to receive official supervision from the *Superintendencia Bancaria* can only be fully understood in this context. Both this request and the financial impressions of functionaries such as Pérez allowed the emergence of the legislation in 1930 that approved exceptional powers to the *Superintendencia Bancaria* to access private information from banks and other entities under its supervision, and to impose penal and monetary sanctions on functionaries who disclosed false information (Reforms of the Laws 24 & 56 of 1924 of the Republic of Colombia, 1930).

The lack of trust on the coherence between the financial outcomes observed on BSE and the fundamentals of the assets was later on extended by analysts to mistrust on the stock brokers entitled to carry out operations. Esteban Jaramillo, a renowned economist of Colombia in the 1930s, and who would afterwards become the Minister of Finance, criticized the work-ethic of stockbrokers. Particularly, some years after the foundation of BSE he declared that an important proportion of such professionals were prone to unsound practices and aims:

*"they know nothing or too little about finance, but they are consummate experts on deceit, entanglement, and intrigue. [...] They are promoters of fictitious companies, and authors of great stock crashes [...] May God free Colombian society from [...] these] poisonous plants, which have infested the political and social air of other societies"* (Jaramillo, 1932).

This excerpt exhibits a great mistrust regarding stockbrokers, and a vivid fear of the consequences that they could bring about. It is an interpretation according to which such individuals were responsible for the decline of financial markets. This statement, given by one of the most influential economists at the time, reflects a popular prejudice regarding the causes of financial depressions; experienced declines were considered to be a result of the unethical environment facilitated by a centralized Stock Exchange, instead of outcomes of complex dynamics alien to the individuals working in such entities. As will be analyzed in the following section, this explains the active defense made by BSE's functionaries regarding the non-existing relation between their work and the economic outcomes experienced in Colombia.

The idea that accused speculation and those allegedly responsible for it, stockbrokers, as the main causes of price fluctuations was not novel to Colombian society. This fear was already discussed in many newspapers in the months leading up to BSE's creation. An article in the economic section of *El Espectador*, one of the most influential newspaper at the time, noted that "the Stock Exchange requires the existence of rare financial agents; men capable of exercising commercial deeds with a high-moral" (*El Espectador*, 2nd of March – 1929). Analogously, the editorial committee of the other influential newspaper at the time, *El Tiempo*, published an article that identified the low moral standards of financial intermediaries as one of the main causes of Colombia's poor economic growth, and pointed that this could constitute a great risk if such professionals had more influence on the economy through entities such as BSE (*El Tiempo*, 2nd of April, 1929). These ideas echoed concerns expressed in other geographies such as Argentina or the US, where famous literary productions had depicted stockbrokers as reckless individuals who gambled with the money of naive investors. In the case of the U.S. the book entitled *The Reminiscences of a Stock Operator* made popular the idea that some stock operators betted on observed pasttendencies regardless of the financial assets traded (Lefevre, 1923). Analogously, an Argentinian book entitled *La Bolsa* made popular the idea that stockbrokers were individuals with unethical behaviors who never faced the consequences of gambling with the resources of others (Martel, 1891).

The ideas expressed by analysts who did not hold direct professional relations with BSE reveal several social concerns regarding the effects that could come along with the entity. The fact that those ideas were expressed by political authorities, by renowned analysts, and by the mass media, reveal that those interpretations constituted widespread forms of understanding economic and political outcomes, due to the intrinsic hegemonic nature of such thoughts.

The success and the acceptance of the newly-created entity depended on an active intellectual production capable of combating these concerns. The ideas expressed by BSE's functionaries had this precise intention, and such counter-interpretations became preeminent tools in the consolidation of the institution.

### **5. Financial Interpretations from Functionaries of Bogotá's Stock Exchange**

The founding document of BSE is the first source that reveals the interpretation of its members regarding the role that the entity could play in Colombia's financial economy. In sum, it pointed the moralizing goal that was going to be fulfilled by such Stock Exchange.

The former idea can be contemplated in the first paragraphs of the text, where it is claimed that the goal of the institution was to "*maintain high levels of commercial honor and of probity amongst its member, [and] to develop and inculcate just, equitable and unbiased principles of commerce and business*" (Bogotá's Stock Exchange's Foundation Act, 1928)

The fact that the main finality of the institution was interpreted through the business-ethic it could bring to Colombia marks a clear opposition with popular social notions such as those discussed in section 4. It constitutes an interpretation that the members of such Stock Exchange intended to reproduce so as to fight the generalized fears and skepticisms in society. This statement becomes even more important when considering that it is the sole goal that the founding members consider relevant to mention when creating the institution, for the additional benefits they include in the source are simply "providing whatever a Stock Exchange can, along with the additional facilities to make business transactions amongst its members" (Bogotá's Stock Exchange's Foundation Act, 1928).

The importance of defending the idea of BSE as an institution that provided business ethics and higher morals is reinforced by the inaugural speech given by Alberto Serna, a member of the Board of Directors:

*"Being Bogotá's Stock Exchange alien to any interest related to speculation, its primary purpose is to moralize the brokerage business [...] the functioning of the Stock Exchange avoids a common threat: That a stock passes from broker to broker, multiplying its supply upon all who refuses to acquire it, and discrediting it by giving the impression that there are many stocks of the shares for sale, when in fact it constitutes the same stock unsuccessfully traded by the broker. The converse is also true for the demand of a particular share, and is also a danger avoided by the Stock Exchange."* (Serna, 1929)

The founding members of the entity justified the existence of it through a discourse that contradicted the generalized fears analyzed in section 4. Financial speculations, along with the corrosive effects related to it, were interpreted as moral problems that were not only inexistent in BSE, but that were specifically combated by its existence. The direct implication is thus that the Stock Exchange constituted a historically needed entity, both by Colombia's economy and by the business-owners, for only through it the perils of speculation could be averted. This rhetoric was reinforced by a strict regulation that impeded the hiring of professionals who previously held any form of legal sanction, or who inspired any sort of doubt from the Board of Directors -even if unfounded-. This course of action supposedly provided a strong signal to the public regarding the high morals that characterized those who worked at the institution (Bogotá's Stock Exchange Statutes, 1929).

The speech given by Alberto Serna also contains a crucial financial idea regarding the genesis of prices and quantities observed as financial outcomes. His assertion about the effects of a stockbroker who fails to sell a stock demonstrated his belief on the idea that prices were a result of the interaction of demand and supply. In this case, these variables were interpreted as capable of multiplying themselves if the financial asset was offered/asked for repeatedly. Serna deduced from the former an economic reality in which the *realization* of *effective* demands and supplies in financial markets were hardly reachable without the existence of an entity such as BSE; without an institution of the like, the experienced price-quantity combination would easily deviate from the real intrinsic relation that should govern such variables, given the amplifying effect brought on by disseminated stockbrokers. This does not imply that the institution is depicted as the causal force of these demands and supplies, but it is certainly devised as the only mechanism through which these elements could fulfill their real purposes in the realization of market outcomes.

Ultimately, a centralized and supervised Stock Exchange did not only grant a moralization of the financial industry, but also allowed its efficient functioning. Hence, it was an idea that pretended to establish the entity as an economic necessity while at the same time combating preexisting social prejudices.

Another important goal that said Stock Exchange professed to pursue was related with a specific social class: Capitalists. This can be noted by the phrase appearing in the daily reports of the transactions carried within the entity, which asserted that “Bogotá’s Stock Exchange is intended at arousing interest from the capitalists in the exploitation of the wealth available in Colombia” (Daily Reports of the Stock Exchange, 1929-1930). The entity was thus portrayed also as a mechanism that facilitated the process of capital accumulation, as per the macroeconomic conditions explained in section 2. Said assertion, present in all reports for nearly a year, demonstrates the intention of identifying the interests of the Stock Exchange with those of the particular hegemonic social class, thus facilitating the consolidation of the entity.

The changing socioeconomic conditions would impede this identification to subsist for long. As shown in sections 2 and 3, the disruption of the economic crisis and the weak performance of the stocks traded in BSE implied a noxious short-term effect on the capitals invested through the entity. Hence, the operations of the institution in its first year coexisted with a negative effect to the interests of the class it allegedly represented. This may explain why, from the 25th of April of 1930 and onwards, the phrase contained in the daily reports ceased to be printed. These new economic context, along with the economic interpretations it brought, would imply a reformulation of the role and the purpose of the financial institution.

The adaptive and political nature of the financial ideas professed and defended by the functionaries of BSE is revealed by the fluctuation of the principles inherent to such notions. Contradicting prior formulations proclaimed by functionaries such as Alberto Serna, the functioning of *effective* supplies and demands in financial markets started to be depicted as completely alien to the existence of the Stock Exchange. This interpretative turn can be observed in the memorandum of the first semester of 1931, elaborated by the Board of Directors. Manuel V. Ortiz, head of the Board in such year, recounted in the following way what happened in the months of economic turmoil:

*“No institution is more consistent with the economic variables and the corresponding business realities than a Stock Exchange [...] in the semester that ends, the wheel has been cruelly adverse in all the world, and the Stock Exchange has nothing but to passively reveal such unfortunate reality”* (Ortiz, 1931).

Two crucial ideas about socioeconomic realities underlay this claim, both of which support a notion of a Stock Exchange with no responsibility over the experienced downturn. First, the entity is portrayed as one that depends and is subordinated functionally to the economic realities. Second, and consistent with the former idea, the assertion stresses the random and undeterminable nature of financial and economic events. Thus, said declaration gives an image upon which the Stock Exchange is neutral and passive to the functioning of supply and demand. The contradiction of prior interpretations about the role of BSE in the realization of *effective* financial demands and supplies had a political explanation; the new notion sought a reduction in the responsibility of the institution in the financial outcomes suffered at the time, thereby reducing the potential social frictions from the public. This depiction would be formulated with more strength in 1932, year in which the depressed price-index coexisted with a vigorous recovery in the aggregate value of the assets traded, and therefore in the commissions earned by the stockbrokers affiliated to the entity. In such context, Manuel Ortiz associated the operation of BSE with that of ancient messengers:

*“It was a common practice of kings and nobles, long time ago, to pay splendidly to the messengers who carried good news and to punish, even with a death-penalty, those who carried bad ones [...] such is the way in which many observers behave with the Stock Exchange, which is barely an impartial witness that reflects the economic situation of businesses”* (Ortiz, 1932).

This passage is proof of the interpretative turn carried out by the leaders of the Stock Exchange in the aftermath of the crisis; the entity was shown as a passive provider of information to the market, and was thus understood as one that had no role in the constitution of financial prices. This contradiction to initial formulations came along with a conceptual redirection regarding the purpose of the financial institution.

BSE stopped to be conceived as the space that allowed the *effective* realization of supply and/or demand, and ceased to be portrayed as an ideal mechanism to facilitate the process of capital accumulation, and started to be illustrated as a defender of an abstract public in need of accurate information about companies and financial assets. This is precisely what can be observed in the memorandum created by the head of the Board of Directors at the end of the difficult year of 1931:

*“The rigorous control exerted by Bogotá’s Stock Exchange on each and every single transaction carried out by its stockbrokers has given a guarantee to the general public in these uncertain times, and the official daily publication of said transactions, with price and quantity, provides a great social function by serving as a general informative element”* (Ortiz, 1931).

The fact that this alleged social function was repeated with almost the same phraseology in the memorandums of following semesters (Ortiz, 1934a; Ortiz 1934b) is an indication that such discourse was intended at harmonizing the growth and consolidation of the institution with the changing economic conditions.

Yet again, the interpretations made within BSE about its role in the economy served as an adaptive mechanism to changing economic realities, seeking to defend the notion that the institution was capable of constantly meeting a social need -in spite of the experienced calamities- without exerting the noxious effects denounced by observers at the time. This passage has two underlying notions. First, it insists on how the Stock Exchange allows society to avert the perils of speculation through a rigorous control of financial transactions. Second, it specifies how this close supervision allowed another social benefit by providing veridical and periodic financial information to an abstract public.

The discursive redirection is accompanied by new conceptions about the prices that resulted in the transactions carried out by the institution. The informative role that was now exalted by the directors of the Stock Exchange was reinforced by the notion that prices were information in its purest form. Only from such perspective can one fully understand the analogy held by the Board of Directors between BSE and ancient messengers; Stock Exchanges, as a messenger, had the sole purpose of ensuring that the message and the information reached the target in an efficient and expedite way. In the case of Stock Exchanges, the messages transmitted were not only the financial information contained in the books of the companies subscribed to it, but mainly the prices of the assets and their fluctuations. This new interpretation implied an approximation to Austrian Economics, which conceived prices to be a preeminent social mechanism of information (Boettke and Storr, 2002). Said approach added another social role to the entity by establishing it as a necessary organism for a market economy, whose efficient functioning required adequate economic information materialized through prices.

As per the interpretation of Austrian Economics, the role of prices as mechanisms of information is considered to be hindered when the market is subject to faulty government interventions (Menger, 1976 [1883]; Von Mises, 2003 [1933]). In the case of Colombia’s financial market, an approach to said paradigm of economic analysis implied a rejection of the state’s regulations and prohibitions regarding some transactions executed within the entity. Theoretically, this was due to the fact that such intervention led to a distortion of the social purpose allegedly fulfilled by BSE; an introduction of financial regulation and/or prohibitions from the *Superintendencia Bancaria*, or any other state-entity for that matter, would corrupt the information carried by prices. This was precisely the reaction of the Board of Directors in the months following the prohibition exposed in section 3 regarding forward operations. Manuel Ortiz, head of the Board in such year, explained the outcomes of such intervention in the following way:

*“Such measure did not yield the result expected by those who requested it. Contrarily, it has been observed that the greatest and fastest downturn experienced by financial assets thus far occurred precisely during the time of such prohibition [...] The market is kept from functioning adequately and investors from knowing the real dynamic that would be followed by financial assets”* (Ortiz, 1931).

This diagnosis illustrates the intervention as one variable that deepened, not solved, the economic decline. Instead of adding to the recovery of the assets, the regulation actually hindered it by distorting the information with which investors could make decisions. The posture of the Board also attempted an economic defense of BSE’s consolidation, for Ortiz later on in the same document complains about the substantial commissions corresponding to forward operations that were lost.

Therefore, the approximation to the Austrian Paradigm not only provided a clear social purpose to the institution - thus building it from questionings from observers at the time-, but also facilitated a defense of BSE's particular economic interests by empowering it with a theoretical argument in favor of an independent operation of the Stock Exchange. The success of such idea is corroborated by the fact that the arguments presented by the Board constituted one of the main causes that led to the lifting of the restriction on forward operations (Plata Uricoecha, 1978).

The fact that this new interpretation contradicted prior actions from the institution -such as actively asking for the state's supervision so as to reduce fears regarding speculation-reveals the adaptive nature of financial ideas professed by the Board. Relevant notions and actions were stressed only when outside factors threatened the consolidation of BSE, and ideas were clarified and refined so as to defend as many objectives as possible. The state's intervention could now be rejected not only because it started to affect their particular interests, but also because the financial ideas adopted allowed the facing of both prior and emerging challenges. This was precisely the case with the fears of speculation, which now could be addressed without the need of *Superintendencia Bancaria* or of any other governmental organism.

The assertions of Salvador Camacho Roldán, who assumed the presidency of the Board of Directors during 1933, demonstrated the former idea: *"during these uncertain times [...] investors and asset-holders would have suffered from the noxious effects of speculation, [and would have been] victims of stockjobbers and others used to 'fish in disturbed water' if it were not for the existence of an entity such as Bogotá's Stock Exchange, which provided a market where the free exercise of supply and demand, practiced publicly in a daily basis, allowed all the interested parties to have clear and constant information on the real situation of the market"* (Camacho Roldán, 1933). The interpretation of Camacho Roldán thus achieved a connection between the new social purpose of the Stock Exchange -providing accurate economic information through prices with both new and prior challenges to the consolidation of it. Speculation was thereby depicted as a peril that could be averted through the free functioning of financial markets, and such goal was portrayed as attainable only if the state refrained from regulating the market. Yet again, the political nature of financial ideas is clearly revealed when considering their interaction with changing economic and social realities; these interpretations adapted and evolved so as to face questionings and challenges in an increasing efficient way.

## **6. Concluding Remarks**

Financial interpretations are not passive mechanisms through which economic reality is understood, but rather constitute active political and historical mechanisms through which particular interests are achieved. This document analyzed historically the financial ideas created by functionaries of Bogotá's Stock Exchange during its foundation and during the years of economic turmoil, and exhibited the particular political interests and aims associated with these ideas.

In order to achieve a historical perspective of the context upon which the ideas were formulated, section 2 analyzed the socioeconomic processes that characterized the epoch in which said notions were created and transmitted. Overall, it was a process whereby a temporary prosperity created the need for an institution such as BSE, which could be capable of mobilizing capitals and therefore facilitating mechanisms of long-term financing. This prosperity, as discussed in the section, was followed by an economic decline that lasted for three years. Section 3 analyzed the particular historical process underwent by BSE in its first 6 years, corresponding to its foundation and consolidation. Two particularly important elements are preeminent for the corresponding financial interpretations at the time: The participation of the state as a supervising entity at first, along with the fact that as a result of the crisis the value of the stocks took a couple of years longer than the total value of transactions to fully recover.

Sections 4 and 5 unveiled the financial ideas and perceptions in light of the particular historical and economic contexts. The former section analyzed the declarations and perceptions of economic observers and of state functionaries about the role and the functioning of a Stock Exchange, while the latter analyzed particular financial ideas created and transmitted by BSE's functionaries. An important finding discussed in Section 4 is the generalized social fear of how speculation could be unleashed by Stock Exchanges, along with the key notion that the validity and acceptance of the existence of such an entity in Bogotá depended on the social purpose it could fulfill. Critical elements that characterized the interpretations assessed in section 5 responded to fears and prejudices explained in section 4, and to the changing economic conditions exposed in sections 2 and 3.

In BSE's year of foundation, and considering the necessity of social and official support that could facilitate its consolidation, the financial interpretations of its functionaries stressed that it could fulfill a social need by moralizing the stockbroking profession and by enabling the interaction and the results of *effective* supplies and demands. Additionally, such functionaries identified the aims and goals of the entity with those of the capitalists, seeking a support from hegemonic social segments.

The economic changes experienced during and after the crisis introduced new challenges to such interpretations, for the economic downturn increased the fears regarding the effects of a Stock Exchange. Such decline put forward the contradiction between the interests of capitalists and those of the entity, and it led to the intervention of the state and to the questionings by some of its most important functionaries. In such context, a change in the interpretative discourse served as an adaptive mechanism to efficiently face the challenges. The functionaries of BSE adopted partially the ideas from Austrian Economics, and established accordingly a new focus to the social purpose that the entity could fulfill. The institution was now portrayed as an essential mechanism for prices to accomplish their main purpose as information-providers, and an abstract general public –as opposed to capitalists– was now considered the beneficiary of the entity's enrichment of the accuracy and the availability of information. This new approach also allowed a continued rejection of fears related to speculation; the idea that an enhancement of information impeded such peril was constantly stressed. Additionally, the notion that government's intervention could hinder the role of prices as perfect mechanisms of information was also beneficial for the economic interests of the institution; the interpretative change allowed a rejection of regulations concerned with forward operations. These regulation rebuttals also facilitated in turn a defense of the commissions that stockbrokers could earn from such transactions.

Ultimately, the ideas professed and defended by BSE's functionaries constituted an active political mechanism through which they intended to shape and mold the economic and political reality to their best interests. After weighting the bulk of evidence, it becomes clear that a holistic assessment of economic thoughts depends on a historical approach capable of exposing the political drive of said notions. Only through this process of scrutiny can the real reach and potential of such ideas be fully understood. This academic exercise becomes critical when considering economic ideas as one of the variables responsible for the recent economic crisis, and constitutes an open invitation to contemporary economists to assume the reflexive exercise of understanding the political drive of the ideas they profess. It becomes the goal of future research to expand this methodology to other forms of economic interpretation so as to determine the extent to which these types of economic understandings facilitated the configuration of particular realities.

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### 8. Tables & Figures

**Table 1 - Companies subscribed to Bogotá's Stock Exchange in 1929, by economic activity**

| Economic Activity                      | Name of the Entity                 |                                |                                    |  |                                 |                         |
|--|------------------------------------|--------------------------------|------------------------------------|--|---------------------------------|-------------------------|
| Banks                                  | Banco de la República              | Banco de Bogotá                | Banco de Colombia                  | Banco Hipotecario de Colombia              | Banco Hipotecario de Bogotá     | Banco Alemán Antioqueño |
| Other Financial Industries             | Compañía Colombiana de Seguros     | Compañía Comercial Colombiana  | Compañía Colombiana de Inversiones |  |                                 |                         |
| Construction Companies                 | Compañía Urbanizadora              | Urbanización La Favorita       | La Urbana                          |  |                                 |                         |
| Companies Producing Final Goods        | Cervecería Continental             | Cine Colombia                  | Compañía Colombiana de Tabaco      | Compañía de Chocolates Chaves y Equitativa | Compañía Nacional de Chocolates |                         |
| Companies Producing Intermediate Goods | Industria Harinera                 | Compañía Molinera de Tundana   |                                    |  |                                 |                         |
| Transporting Companies                 | Compañía de Transportes Terrestres | Scadta                         |                                    |  |                                 |                         |
| Energy/Woods                           | Compañía Andina de Maderas         | Compañía Industrial de Maderas | Empresas Unidas de Energía         | Unión Colombiana de Petróleos.             |                                 |                         |

*Source: Informes Mensuales, 1929, Bolsa de Bogotá.*

