Working Paper No. 124

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Maria Teresa Ramirez

This paper measures some of the impacts that development in transportation infrastructure could have on the Colombian economy during the period 1905-1990. The first section of the paper analyzes the responsiveness of the economy to changes in transportation costs and changes in transportation length network, by estimating the demand elasticities for railroads' freight and passenger services. This enables us to calculate the social savings on railroad freight. The lack of data on highways' transportation rates and freight volumes narrows the analysis to the railway sector alone. The second section studies the correlation between coffee expansions and transportation infrastructure improvements. The hypothesis is that improvements in transportation have been trigged by, and subsequently have contributed to, the expansion of coffee exports during the first half of the twentieth century. To test this hypothesis a time series technique, vector auto-regression (VAR) estimation, is implemented. The last section examines whether declines in transportation costs, due to expansions in transportation infrastructure, can explain reductions in the divergences of the agricultural prices gap among Colombian cities. The study of this issue relies on cointegration analysis. Our main result is that railroads did not play an overwhelming role in the Colombian economy. The main problem was the topographical conditions of the country that made railroad constructions very costly, the lack of economic resources, and the not competing forces of alternative transport modes. The results suggest that even highways did not help draw the country together.