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Political economy of Ecuador in the neoliberal era of development

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The University of Toledo

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A Thesis

Entitled

Political Economy of Ecuador in the Neoliberal Era of Development

By

Jonas Gamso

Submitted to the University of Toledo Graduate School as partial fulfillment of the requirements
for the Master of Art Degree in Sociology

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May 2010
An Abstract of
Political Economy of Ecuador in the Neoliberal Era of Development

By
Jonas Gamso

As partial fulfillment of the requirements for the Master of Arts Degree in Sociology
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This thesis reviews Ecuador's experiences during its era of neoliberal development (approximately 1980-2006). During this period Ecuador was a close adherent to the so-called Washington Consensus, which encouraged states to adopt liberal economic policies derived from neoclassical philosophy. This study measures Ecuador's economic growth and its socioeconomic development during this period, and explores the notion that Ecuador's allegiance to the neoliberal policy paradigm over the years has primarily reflected its political and economic dependence on the United States. If dependence has indeed been the key variable promoting neoliberalism in Ecuador, then the state's deviation from neoliberal policies in the past few years likely demonstrates newfound autonomy.
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### List of Abbreviations

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<th>Abbreviation</th>
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<tr>
<td>bbl/d</td>
<td>Barrels of oil per day</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IFI</td>
<td>International Financial Institution</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ISI</td>
<td>Import Substitution industrialization</td>
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<tr>
<td>LAC</td>
<td>Latin America and the Caribbean</td>
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<td>PPP</td>
<td>Purchasing Power Parity</td>
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<td>SAP</td>
<td>Structural Adjustment Program</td>
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<tr>
<td>TCC</td>
<td>Transnational Capitalist Class</td>
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<td>TNS</td>
<td>Transnational State</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Chapter One: Introduction

The intent of this study is to review and analyze Ecuador’s era of neoliberalism, which began in the early-1980s and continued into the Mid-2000s. The following chapters will assess Ecuador’s performance during this period, in order to measure the success rate of neoliberal policies as pertains to economic growth and development. A secondary objective is to consider the paradigm for development that is emerging in Ecuador’s post-neoliberal era, as well as the implications for economy and society going forward.

To better address each of these objectives, this thesis poses three research questions and constructs a chapter around each. First, did Ecuador experience economic growth during its neoliberal era? Second, did Ecuador experience economic and social development during its neoliberal era? And third, has Ecuador achieved greater autonomy in the latter half of the 2000s? Based around the first two questions, Chapters Four and Five seek to assess the expedience of neoliberal programs in Ecuador as a means to economic growth and social development. Chapter Six considers Question Three and the implications going forward, by constructing a theoretical argument around the findings of the preceding chapters.

Theoretical perspective is not reserved for Chapter Six. Neoliberalism is itself a theoretical perspective and here it is framed from the perspectives its scholarly proponents and opponents. Among the critical perspectives drawn upon here to critique neoliberalism are neomarxian perspectives, such as those presented by Wallerstein (2004), Weaver (2000), and Robinson (2004), as well as those of mainstream economists like Stiglitz (2002, 2009, 2010).
These perspectives, both for and against neoliberalism, get particular attention in the literature review as well as in Chapters Four and Five.

Chapter Six outlines another set of theoretical perspectives associated with a continuum of sorts between Ecuador’s historical dependency and the greater amount of political autonomy that it appears to have achieved in the latter half of the 2000s. This section primarily considers Ecuador’s case from a theoretical perspective in the vein of dependency. While this chapter acknowledges dependency as the most appropriate perspective with which to analyze Ecuador’s political situation, it also reflects awareness that the state of Ecuador’s dependency has changed and is changing. Perhaps, given this changing state of dependency, an amended perspective is more appropriate for assessing Ecuador’s economy and society going forward.

What follows is a study investigating these matters in greater detail. Chapter Two introduces a body of literature on neoliberalism as a theoretical perspective and as a policy paradigm for developing countries, including Ecuador. Chapter Three outlines the methodology I used to conduct the research for this thesis. Chapters Four, Five, and Six constitute the body of this thesis, as they contain the bulk of my analysis based around the aforementioned research questions. Chapter Seven briefly outlines my conclusions.
Chapter Two: Reviewing Neoliberalism

In the late-1970s and early-1980s, the Global South including the states in Latin America began to transition away from the economic protectionism that had characterized the preceding era of development, the import substitution era. The developing world turned instead toward economic neoliberalism, which calls for “a shift from ‘inward-oriented’ strategies of development promoting national self-sufficiency to ‘outward-oriented’ free trade aimed at total integration into the world market” (Phillips 1998:xii) as well as “limited government intervention in order to ensure smooth functioning of markets” (Leonard 2006:1121). In the decades that followed the earliest experiments with neoliberalism in Latin America “there has everywhere been an emphatic turn towards neoliberalism in political economic practices and thinking… Deregulation, privatization, and withdrawal of the state from many areas of social provision have been all too common [in] almost all states” (Harvey 2007:2).

Neoliberalism and Development

Neoliberalism is both an economic theory and a policy paradigm. In theoretical terms, economic neoliberalism echoes classical liberalism, which “proposes that the human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey 2007:2). The policy paradigm that accompanies neoliberal economic theory proposes that privatization and deregulation of industry, as well as trade liberalization are “both necessary and sufficient for the creation of wealth and therefore for the improved well-being of
the population at large.” The state is to limit its involvement to the creation and preservation of “an institutional framework appropriate to such practices” (Harvey 2007:2). Leonard (2006) traces the origins of neoliberalism to Friedrich Von Hayek as well as Milton Friedman and his colleagues at the University of Chicago. They argued that the optimal approach to economic policymaking was to allow “markets to determine economic outcomes” and they were highly skeptical “of any government intervention into national economies” (2006:1121).

It should be noted that there is not a full scholarly consensus on the appropriate definition for neoliberalism. Pendesen and Campbell (2001:2-3) contend that neoliberalism is less a coherent philosophy “than a loose conglomeration of institutions, ideas, and policy prescriptions from which actors pick and choose depending on prevailing political, economic, social, historical, and institutional conditions.” Furthermore, “neoliberalism does not so much involve deregulation as re-regulation” (2001:2-3). Chomsky (1999) agrees that neoliberalism constitutes a re-regulation of sorts “whereby a relative handful of private interests are permitted to control as much as possible of social life in order to maximize their personal profit” (1997:7).

Leonard differentiates neoliberal theory from the “classic ‘liberal’ thought of Adam Smith and David Ricardo,” noting that “neoliberal economists see that limited government intervention in order to ensure smooth functioning of markets and to provide for ‘externalities’ is necessary.” Neoliberal theory, according to Leonard, “generally sees the government’s role in economic terms as regulating markets, such as providing transparent price information, and ensuring the smooth functioning of commodities markets” (2006:1121). This is a major area of contention, as many scholars argue that neoliberal theory calls for a self-regulating market, in the vein of classical liberalism.
Stiglitz (2008:1), for example, calls neoliberalism a “grab-bag of ideas based on the fundamentalist notion that markets are self-correcting, allocate resources efficiently, and serve the public interest well.” Evans and Aligaca (2009), Soros (1998), and Peterson (2003) similarly equate neoliberalism with “market fundamentalism.” These critiques echo Polanyi’s (1944:xxiv) analysis of industrial era liberal capitalism:

Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society; it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society.

In the structural adjustment era of development, the neoliberal policy paradigm reached hegemonic status as a means to foster economic growth and human development in peripheral countries. States were encouraged to seek total integration into the capitalist global economy by maximizing trade and foreign investment. They were to liberalize trade by eliminating tariffs, privatizing industries, and minimizing public spending (Milanovic 2003). This neoliberal strategy focused firstly on economic growth. “Economic growth is most important now. It is essential to almost everything else we want to achieve” (Peters 1983:8-18). The assumption was that human development will improve as growth improves. Pieterse (2001) explains the process and its inherent contradiction:

The central objective, economic growth, is to be achieved through structural reform, deregulation, liberalization, privatization – all of which are to role back government and reduce market-distorting interventions, and in effect annul ‘development’. In other words, one of the conventional core meanings of development switches from state to market. Accordingly, neoliberalism is an anti-development perspective, not in terms of goals but in terms of means.

As Weaver (2000:178) explains, the structural adjustment reforms were “often considered to have two distinct phases.” First, economic stabilization, “a set of draconian
measures to eliminate inflation by abolishing price controls and eliminating fiscal deficits.” And second “the comprehensive reforms of Structural Adjustment to create more productive and market-oriented national economies considered necessary to generate long-term economic growth” (2000:178).

The Washington Consensus

The neoliberal policy paradigm came to be equated with the Washington Consensus, which evolved into a sort of neoliberal manifesto for development, particularly in Latin America (Marangos 2009). The economist John Williamson introduced the Washington Consensus in 1990 following a meeting of Latin American and Caribbean (LAC) policymakers, international agency representatives, and academics. The Consensus outlined ten policies that “more or less everyone in Washington could agree were needed more or less everywhere in Latin America” (Williamson 2004:1). In Williamson’s conception Washington included “the International Monetary Fund (IMF), the World Bank, and the US executive branch, the Federal Reserve Board, the Inter-American Development Bank, those members of congress interested in Latin America, and the think tanks concerned with economic policy” (Marangos 2009:350). The Washington Consensus reforms called for “fiscal discipline; public expenditure priorities in education and health; tax reform; positive but moderate market-determined interest rates; competitive exchange rates; liberal trade policies; openness to foreign direct investment; privatization; deregulation; and protection of property rights” (Perry and Burki 1998:7).

As noted, the term Washington Consensus has come to refer to the neoliberal policy paradigm, but Williamson’s intent was not to endorse the implementation of ardently neoliberal policies. Williamson and Marangos contend that the Washington Consensus has been
misinterpreted by Naim (2000), Stiglitz (2002) and others who labeled it a neoliberal manifesto. Nevertheless, Williamson (2008:1) concedes that “the version [of the Washington Consensus] that is apparently commonly held is closer to the version that Joe Stiglitz has propagated rather than the version I had in mind.” And certainly the notion that “Washington” favors the implementation of neoliberal policies has been used as a means to encourage the adoption of such policies in Latin America.

*Introducing the Rise of Neoliberal Globalization*

Internal and external pressures led developing countries to adopt the neoliberal policy paradigm in the 1970s and 1980s. Chase (2002:1) explains that the “source of neoliberal policies can be traced to the international economy, and especially to the piling up of foreign debt by Latin American countries in the early 1970s.” These policies have been implemented “often at the behest of this banking system through institutions such as the International Monetary Fund and the World Bank” (2002:1).

*Fall of import substitution*

Following the Second World War, the dominant development strategy in much of the Global South – especially in South Asia and Latin America – became import-substitution industrialization (ISI), a Keynesian model that encouraged developing countries to become self-sufficient and to industrialize. In economic terms, self-sufficiency was equated with a stable balance of payments, minimal labor surplus, limited external dependency, and economic diversification. To encourage self-sufficiency states were encouraged to intervene strategically, by providing incentives to domestic firms and by erecting protectionist barriers to deter foreign
competition. At the time there was widespread skepticism that exports could keep up with the massive increase in imports that would accompany economic modernization. So “industrialization was regarded as especially important for alleviating capital constraints, which were commonly viewed as the key roadblock to growth and development in most countries” (Brohman 1996:52-53).

ISI produced high rates of growth, particularly in its initial stage, as investment poured into “a series of technologically simple and relatively cheap industries that had ready [and protected] markets for an array of products” (Brohman 1996:54). In Latin America, the production of basic consumption goods became widespread, and heavy-machine industries emerged in some countries. Latin America experienced average annual growth rates of 5.5 percent, from 1950-1980, and from 1950-1970 Latin American gross domestic product (GDP) tripled. Although the region’s population doubled from 1945-1980, GDP in real terms quintupled (Franko 2007).

Growth slowed as the export boom dwindled and debt began to accumulate. Oil prices skyrocketed through the 1970s, rising from $9 a barrel in 1973 to $22 per barrel in 1974, and peaking at $38 per barrel in 1980 (Gavin 1999). The oil boom was accompanied by an increase in global lending in Latin America and Asia, and much of the capital flow consisted of recycled oil revenues. “Bank loans were the principal instruments for intermediating these flows, and balance of payments data suggests that such loans (including trade credits) accounted for 57 percent of total flows” (Mathieson et al. 1997:239-240). Commercial banks were directly exposed to the debt, which differentiates this period of lending from others characterized by a lesser degree of exposure. “By the end of 1981, it was calculated that the exposure of U.S. banks to Latin American debt amounted to 97 percent of capital and in many individual cases well
above 100 percent” (Mathieson et al. 1997:239-240). These loans financed the fiscal imbalances in many developing countries, leading to balance of payments crises.

These developments allowed ISI’s critics to assail that it was not an adequate long-term strategy for growth, as “continual growth would be dependent upon expansion of the domestic market” (Black 1991:82-83). Neoliberals argued that a new paradigm should be granted hegemony, an export-oriented model emphasizing import substitution and limited government interference.

*Rise of structural adjustment era of neoliberalism in Latin America*

The earliest experiment with neoliberalism was in Chile in the mid-1970s. During the 20th century through the Allende period (1970-1973) Chilean governments had gradually increased the role of the state as a social service provider. During Allende’s presidency the state provided “near universal” access to education, health, housing, and pensions (Aninat et al. 2000). Allende was attempting to implement a “Marxian variety of socialism, including extensive nationalization and large-scale income redistribution toward labor.” In 1973, the Allende government was overthrown by a highly authoritarian military junta lead by General Augusto Pinochet. Pinochet’s regime inherited a substantial imbalance of payments, which were exacerbated by oil shocks. “At that point, the Pinochet administration had no idea how to deal with the substantial imbalance in the Chilean economy… [it] was looking for a simple solution to the economic crisis, which could be presented as serving the national interest” (Toye 1995:45-52).

Pinochet turned for advice to the “Chicago Boys,” a group of liberal Chilean economists trained at the University of Chicago. The Chicago Boys convinced Pinochet to implement an
early incarnation of the neoliberal policy paradigm “in the guise of a wide-ranging monetary policy based “shock treatment” in 1975.” The Chicago Boys introduced the Seven Modernizations, which embraced “wide-scale privatizations and liberalization of trade and investments in Chile” (Leonard 2006:1121). Social policy also shifted to “a reliance on economic growth to reduce poverty” as “the preoccupation with reducing income and wealth inequalities was viewed as obstructing market mechanisms and unnecessary” (Aninat et al. 2000:10).

Proponents hailed this neoliberal experiment in Chile as a success story, referring to the period from 1976-1981 as the “Chilean economic miracle.” However, this period was also characterized by high unemployment relative to previous administrations. Unemployment peaked in 1982 at 20.4 percent (Toye 1995:55).

Other countries in the developing world, particularly Latin America, instituted similarly neoliberal policies in response to the debt crisis in the late 1970s and early 1980s. These states had been “wooed by commercial banks in the North to borrow large amounts of money for economic development purposes. When the world economy fell into recession in 1979, these countries receiving declining prices for their products were unable to repay their loans to commercial banks, and most were forced to default on their loans” (Phillips 1998:xv). Mexico began the trend by missing its $80 billion debt payment deadline in August of 1982. By October of 1983, 27 countries owing $239 billion in debt had sought to reschedule payment (Wellons 1997).

“With the debt crisis looming over them, developing countries had little choice but to cut back severely on government spending, open the economy to new investment, increase exports,
and attempt to control runaway inflation” (Leonard 2006:1121). Nor did states have much choice but to seek loans from international financial institutions (IFIs), which offered “conditional financing to Latin American countries, arguing that future loans would be forthcoming if countries steered their economies away from protectionism and toward the needs of the world market. This reform took place through structural adjustment plans” (Phillips 1998:xv). This marked the beginning of the neoliberal structural adjustment era of development (Milanovic 2003).

Neoliberalism spread across the developing world in the 1980s under the administrations of Reagan and Thatcher, and in 1990s, with the collapse of communism (MacEwan 1999). “By 1983, three-quarters of Latin American countries were operating under IMF-supervised SAPs… Likewise, two-thirds of African countries had submitted to some form of IMF-supervised structural adjustment by the mid-1980s and many others were under different types of indirect IMF regulation” (Brohman 1996:133-134). Neoliberalism was the consensus of Washington, supported by the US, the IFIs, and transnational capital in more general terms. In the post-Cold War era of global capitalism, neoliberalism was to be the new world order.

The Effects of Neoliberal Globalization

Although scholars agree in general terms that “neoliberalism is the defining political economic paradigm of our time” (Chomsky 1999:7), disagreement persists as to its expedience.

Proponents of neoliberal development have touted it as the best means to generating economic growth, which in turn promotes human development by reducing poverty (Onyemelukwe 2000). Klak and Hey (1999) divide the proponents of the neoliberal policy paradigm into two categories. The first and more ardently pro-neoliberal group emphasizes the
positive implications of neoliberal policies for macro economic variables, particularly growth. Representatives of this group include Williamson (1993) and Krueger (1993). Their arguments generally reflect the assumptions of neoclassical economic theory, stressing countries’ comparative advantages, as well as the counterproductive role that state-ownership and regulatory policy tend to have on innovation and growth. Krueger, for example, argues that central planning “created an economic environment so inimical to growth as to cause wonderment as to why economic decline was not more precipitous” (1993:13). The second camp of proponents is less enthusiastic about draconian neoliberalism, but nevertheless considers it “the appropriate, forward-looking policy path for Latin America” (Klak and Hey 1999:69). Maloney and Baer (1997), Walton (2004), and Sally (2008) fall into this category.

As noted above, neoliberal theory prioritizes growth, the expectation being that economic growth will alleviate poverty. Poverty reduction constitutes development. Market efficiency is the best manner in which to distribute scarce resources in order to produce growth. In order to achieve maximum efficiency “the state’s role should be downgraded and decreased, while the role of private capitalists and entrepreneurs should be increased and encouraged” (Haynes 2002:54). Proponents argue that due to this formula “the distribution of income between all the world’s people has become more equal over the past two decades and the number of people living in extreme poverty has fallen, for the first time in more than a century and a half” (Wade 2004:567).

Detractors of neoliberalism fall into two often overlapping camps. The first reject the neoliberal policy paradigm as a means to promote growth and development. The second camp focuses the exploitation that neoliberalism facilitates and the motives of its implementers.
Scholars representing the first group critique the assumptions of neoliberal theory and present evidence that the neoliberal approach has not advanced economic growth or human development. Grabel and Chang (2004) state “countries at every level of per capita GDP performed worse on average during the neoliberal era than in the two preceding decades… In Latin America and the Caribbean, for example, per capita GDP grew by only 7 percent from 1980 to 2000. By contrast, per capita GDP for the same region grew by 75 per cent during 1960-1980” (2004:16-18).

Thomas (2007) questions the relationship between trade liberalization and economic growth, citing a United Nations Development Program (UNDP) study that found “no convincing evidence that trade liberalization is always associated with economic growth. Thus there is no evidence that trade liberalization is inevitably good for human development” (2007:122). Held and McGrew (2007) elaborate, “the link between growth and poverty reduction is also not as close as the liberal argument would predict.” They reject neoliberal contentions of “catch-up or convergence,” noting that “excluding the phenomenal development of China and to some extent India, the reported number of people living below the World Bank poverty line of $1 a day has actually risen in the two decades since 1981” (2007:226).

Wade (2004) also points out methodological shortcomings in pro-neoliberal studies, which lead him to “question the empirical basis for the neoliberal argument [that] world poverty and income inequality fell for the past two decades for the first time in more than a century and a half, thanks to the rising density of economic integration across national borders” (2004:567). He notes, for example, that the Purchasing Power Parity (PPP) measurement – which is cited by the World Bank to argue that global poverty has fallen dramatically in the structural adjustment era – contains a large margin of error. Estimations of nations’ PPP rates are based on two
studies, one from 1985 that used 60 countries and a second from 1993 that used 110 countries. China declined to participate in either study and India excluded itself from the latter. “The lack of reliable price comparisons for China and India… compromises any statement about levels and trends in world poverty” (2004:572). Moreover, during the structural adjustment era, the World Bank has itself readjusted its poverty line from $PPP 1 per day to $PPP 1.08 per day. Wade contends that this methodological readjustment, levied in the midst of the very period the Bank was seeking to assess, invalidate the World Bank’s own, pro-neoliberal statistics on the matter.

Wade also notes that although “GDP of developing countries as a group grew a little fast than that of the high-income countries,” a more nuanced analysis reveals that “the per capita incomes of sub-Saharan Africa, Latin America, and West Asia and North Africa fell as a fraction of the core’s” (2004:568). Such regional variance is quite relevant, as developing countries have not been uniform in their approaches to development either before or during the structural adjustment era.

In fact, neither China nor India liberalized trade until growth was well underway, yet policymakers “have arguably been extremely successful in managing trade and industrial policies to promote growth… both [countries] have successfully integrated into the world trading system, and both have benefited greatly from international trade.” Countries in the North too use “a wide range of trade policy instruments,” including quotas, tariffs, and subsidies (Charlton and Stiglitz 2005:38).

Ritzen (2005) and Stiglitz (2002) are sort of defectors to the anti-neoliberal camp. Stiglitz contends that Washington Consensus policies were “designed to respond to the very real problems in Latin America, and made considerable sense… The problem was that many of these policies became ends in themselves, rather than means to a more equitable and sustainable
growth. In doing so, these policies were pushed too far, too fast, and to the exclusion of other policies that were needed.” The policies of privatization and liberalization, in particular, were instituted “at a pace and in a manner that often imposed very real costs on countries ill-equipped to incur them” (2002:53-54). Ritzen essentially echoes this argument.

A particularly important implication for development is considered in the “race to the bottom” argument, which posits that states vie for foreign investment by loosening wage protections and environmental regulations. In an attempt to outdo one another in terms of creating a favorable investment climate, states race to the bottom. Such an arrangement is clearly antithetical to the neoliberal assumption that growth fosters development (Hudec and Bhagwati 1996).

“Demonstrating conclusively that international disparities in industrial pollution requirements do alter trade patterns by creating a complete advantage for lower-standard countries has proven to be extremely difficult,” and that studies have been “inconclusive” (Porter 1999:135). However, there is evidence that implicitly supports the “race to the bottom” hypothesis. Zammit and Sighn (2004) argue that labor standards in Latin America have fallen in the last two decades. They note that 90 percent of the jobs created in Latin America from 1987-1995 were in the informal sector. “This informalisation together with the evidence on the increased causalisation of the workers can be regarded as an erosion of labour standards” (2004:11). Moreover, as Porter adds, “many officials of industrial firms as well as government officials clearly believe differences in environmental costs affect competitiveness and investment decisions and tend to act accordingly” (1999:136).¹

¹ Porter goes on to provide the following evidence. “Officials of states that have adopted stricter environmental standards for industry, such as Germany, have feared that their industries would be disadvantaged if other countries continued to apply lower requirements. The conviction that significantly more stringent pollution control
The second camp of anti-neoliberal scholars questions the true intentions of the Washington Consensus. Weaver (2000) adequately sums up the argument:

The neoliberal program had a strong appeal within the complex political constellation of the Washington Consensus in the 1980s because it looked like a politically safe strategy for advancing two sets of consequential interests. First, while the relationships among unregulated markets, export promotion, and economic development are, at best, murky, it is crystal clear and unambiguous that the policy prescriptions coincide precisely, perhaps uniquely, with what was necessary for Latin American debt repayment to the large international banks. Downsizing governments releases resources for debt payments, and Latin American governments could pay off the loans to the banks in hard currencies if and only if they were able to run substantial surpluses of exports over imports for extended period, suggesting the need for a substantial increase in exports. Second, the means to achieve the short-term goal of debt repayment are nicely congruent with a somewhat different, longer-term advantage. Demolishing the policy structures of import-substituting, industrialization and opening the Latin American nations to the international economy has prepared them for integration into the new international political economy. As described in the last chapter, a more competitive world market system with a logic significantly different from the 1950s and 1960s was rapidly emerging, and [Transnational Corporations] TNCs’ principal interest in Latin America was no longer as growing markets for TNC goods and services produced within the nations. The new logic of international capitalist production and sales in an international division of labor defined by stages of production rather than by types of products. Latin America became a feasible site for this project because of the success of import-substituting industrialization in creating productive but poor workforces in places with usable infrastructures. One does not have to go too far down the slippery slope of conspiracy theory in order to appreciate the profound compatibility between reorganizing Latin American economies in ways appropriate for wringing debt payments from them an for readying them to play new roles in the changing international economic order… What is evident in this agenda, despite protestations to the contrary, is that the principal purposes of free markets and export emphases are not to advance general economic development in Latin America. The economic development of Latin America is no longer a major policy objective of the U.S. government and other metropolitan nations.

Variations on Weaver’s analysis are evident in neomarxian theories such as modern world-systems and global theories of class. Wallerstein (2004), for example, argues that the modern world-system is composed of a capitalist global economy and many nation-states that interact with one another in a “loosely tied together… interstate system.” Nation-states can be categorized into one of three types – core, periphery, or semi-periphery – depending upon their relative strength. The core countries exploit the resources of peripheral and semi-peripheral

requirements impose costs that will harm the competitiveness of the regulated industry is reflected in many official documents of the European Union” (1999:136).
countries, and semi-periphery countries exploit the periphery. Countries may experience upward mobility, but within the boundaries of a system of relative gains. Wallerstein’s analysis is essentially a variation of Marxism in which states act as the units of analysis. Within this framework, neoliberal policies are implemented by countries in the periphery at the behest of core countries, in order to facilitate exploitation.

Robinson (2004), on the other hand, forwards a global theory of class that rejects statism, centering instead on two concepts – the transnational capitalist class (TCC) and the transnational state (TNS). Robinson argues that, in the modern era of global economic liberalism, national classes have undergone a sort of transnationalization, as have powerful states like the US. In its transnationalized form, the US dominates international institutions like the World Trade Organization (WTO), the IMF, the World Bank, and a host of similarly liberal intergovernmental institutions. The TNS encourages an exploitive form of liberal globalization designed to enrich transnational corporations and the TCC, while encouraging the continuation of US hegemony. The TNS, as described by Robinson, clearly resembles those members of the Washington Consensus, as explained above by Williamson (2004), which includes “the International Monetary Fund (IMF), the World Bank, and the US executive branch, the Federal Reserve Board, the Inter-American Development Bank, those members of congress interested in Latin America, and the think tanks concerned with economic policy.”

2 It should be noted briefly that economic neoliberalism also has proponents in the subfield of International Relations (IR). Modern neoliberal theories in IR are constructed the notion of absolute gains, as well as expectations that free markets can prevent states from going to war against one another – as warfare would disrupt economic progress. This argument, known as the “capitalist peace,” is rooted in classical liberal scholarship by Montesquieu, Smith, Cobden, and Angell (Gartzke 2007). Capitalist peace theory fell out of favor for most of the twentieth century, as two world wars, repeated economic upheavals, and the Cold War led IR scholars to emphasize balance and deterrence (Waltz 1979). Liberalism experienced a resurgence following the Cold War. Fukuyama (1992) declared that “the end of history” was upon us. “According to Fukuyama, the end of the East-West conflict confirmed that liberal capitalism was unchallenged as a model of, and endpoint for, humankind’s political and economic development.” From this new liberalism emerged theories of interdependency and liberal institutionalism, which promote economic globalization as a means to quell brewing conflicts between states (Burchill 2005:56).
In sum, neoliberalism has, at best, a “mixed record” (Weyland 2004). Given the extraordinary debt under which Latin American countries were buried, the “basic premises of the Washington Consensus [avoid high Government deficits, avoid high levels of inflation] are sound” (Ritzen 2005:116-117). Moreover, “it remains self-evident that reforms were necessary when SAPs were given to countries. The reality is that the countries were headed for a breakdown” (Ritzen 2005:116-117). Nevertheless, the bulk of the literature surveyed is critical of the neoliberal paradigm, as well as the manner in which it was forced upon developing countries.

The literature that does support neoliberalism does so in broad macro economic terms. Proponents urge that the neoliberal policy paradigm generates growth, which in turn reduces poverty. Yet it hardly seems self-evident that economic growth will encourage human development, particularly when that growth is achieved under little if any regulatory oversight. Nor is the evidence that such a relationship exists between growth and development especially compelling.

That said, there is a case to be made that the principles that underlie neoliberalism constituted a sound policy paradigm for developing countries. It is hardly an unreasonable notion that heavily indebted nation-states should seek to reduce imbalances, whether by cutting costs, selling assets, or attracting foreign capital. Moreover, it is evident that much of the indebtedness that plagued the developing world at the start of the structural adjustment era is attributable to the oil and lending booms of the 1970s. It is equally evident, however, that neoliberal policies were implemented in a manner that prioritized the rapid rebalancing of budget over the well being of citizens in these indebted countries. Whether this misprioritization is due to the ruthlessness of lenders or to the fervency of liberal economists is debatable, but in either case this brand of
neoliberalism does not appear to constitute a sensible strategy for development. Nevertheless, the social benefits of neoclassical policies are always based on the principle of utilitarianism. The ends may justify the means, and if neoliberalism ultimately fosters economic growth and human development, than perhaps it is more sensible than it appears.

Neoliberalism in Ecuador

This thesis will consider Ecuador as a case study to assess the claims of neoliberals – that the neoliberal policy paradigm has encouraged growth, which in turn has reduced poverty and lead to development. Since the early-1980s, Ecuador has adhered in many respects to a neoliberal economic policy paradigm. This transition has taken place gradually, with “fits and spurts” of free-market policy, over eleven administrations representing a diverse array of ideological perspectives. Neoliberal policies have been met with fierce resistance from Ecuadorian civil society groups and even popular politicians, nevertheless neoliberalism “in Ecuador has gained hegemonic status” (Klak and Hey 1999:67).

It must be noted that Ecuador is a former Spanish colony and that even following Ecuador’s achievement of independence in 1822, the legacy of colonialism remained. This legacy of exploitation by a Western power has surely affected Ecuador’s economy and the psyche of Ecuadorians. Moreover, this legacy has led Ecuador down the path of dependence, which Mahoney (2000) explains as “those historical sequences in which contingent events set into motion institutional patterns or event chains that have deterministic properties” (2004:507). That is, Ecuador’s history affects its current condition.

Becker and Clark (2007) argue, “In Ecuador, colonial institutions and relations… endured after independence… one can see these institutions as a bundle of residual institutions

Ecuador’s post-colonial history impacts its current state as well. As Brown and Fox (1998) explain, “the backdrop for structural adjustment in Ecuador is intimately linked to the country’s economic dependence on oil. Prior to the discovery of oil by a consortium of U.S. oil companies in the 1960s, Ecuador depended on exporting traditional agricultural commodities such as bananas, coffee, and cocoa” (1998:221). Although path dependency is not the topic of this thesis, it cannot be ignored, as Ecuador’s past clearly affects its present.

Ecuador’s past and present make it an excellent representative case for the developing world because its recent history has been one of indebtedness, followed by decades of adherence to the neoliberal policy paradigm. Given its many years of development under a neoliberal regime, Ecuador should surely by now have experienced economic growth accompanied by a consequent reduction of poverty. Ecuador’s experiences are a near-ideal backdrop to test the expediency of neoliberal policies as a means to creating growth and development.

I will conduct this assessment and review its implications over three chapters, each focusing on one element of Ecuadorian society. The first chapter concerns economic growth, and whether neoliberal policies lead to economic growth in Ecuador. The second chapter covers Ecuador’s development during the neoliberal era, and compares the market-oriented neoliberal paradigm for development with the populist paradigm associated with the Latin American left. The third and final chapter analyzes the role of the state, particularly given the current
administration’s rejection of neoliberal policies, which may reflect growing autonomy stemming from the booming oil prices, international economic crisis, and the emergence of alternatives to US hegemony in the region.

Advocates of the neoliberal approach to development in Ecuador include Burke et al. (2006) and Jameson (2008), both of whom argue that neoliberal policies have served Ecuador in terms of macroeconomic stability. On the other hand, Bates (2007), Mauceri and Burt (2004), and Lucero (2001), are highly critical. In the following chapters I will present my contributions to the debate.
Chapter Three: Methods

The primary goal of this thesis is to assess Ecuador’s growth and development during its neoliberal era, in order to assess neoliberalism as a policy paradigm for Ecuador. A secondary goal is to consider the sustainability of Ecuador’s current populist approach to developing and to governing in general. Each of the three subsequent chapters is constructed around a research question concerning Ecuador’s experience during the neoliberal era. I approached each question independently, but with awareness for the fluidity of themes across chapters.

- Did Ecuador experience economic growth in the neoliberal era?
- Did Ecuador become more socially developed in the neoliberal era?
- Has the Ecuadorian state achieved a greater degree of autonomy?

This chapter will explain the research methodology that I used to answer these questions.

Both quantitative and qualitative methods have been employed in the course of conducting the research for this piece, utilizing data from both primary and secondary sources. The research also took me to Ecuador in 2009 – from September 11 to September 18 – to conduct participant observation and interviews. This combination of approaches and data sources provided a dense yet balanced methodology with room for further development in later studies.

Quantitative

Statistical analysis is most prevalent in Chapters Three and Four, on growth and development. Using statistics from the World Research Institute and the US Department of
Energy, Chapter Three demonstrates the long-term relationship between Ecuador’s economic growth and the value of oil – a finding that frames the rest of the analysis. I employed even more statistical analysis in the following chapter on development, drawing data from a number of sources – including books, newspapers, journal articles, and the websites of institutions and academics – to chart Ecuador’s achievements in terms of economic and social development during the neoliberal era. Whereas the quantitative analyses in Chapter Three are primarily concerned with Ecuador’s macroeconomic growth, chapter four incorporates more microeconomic and micro social variables in order to describe the experiences of Ecuadorians in per capita terms, as it pertains to income and poverty as well as to access to health services, education, and other indicators of development.

**Qualitative**

The qualitative methods that I employed while conducting this research took three forms. First, analysis derived from existing academic and institutional literature on neoliberalism, Ecuador, and Ecuador’s experiences in and around the neoliberal era. Second, information that I gathered from personal interviews with Ecuadorians, including experts in banking, policymaking, and management. And third, engaging in participant observation during my stay in Ecuador. Collectively, these three qualitative methods serve to frame the quantitative analysis in Chapters Three and Four, and to put the information gleaned in those chapters into a theoretical analysis of Ecuador’s autonomy/dependency continuum in Chapter Five.

The secondary academic sources that I used in conducting this research were especially helpful in three areas. In differentiating scholarly positions for and against the neoliberal policy paradigm in Chapter One, Klak and Hey (1999) provided a perfect series of categorizations,
which I incorporated into my own analysis. Likewise, Cardoso (1978) provided the structural framework that I used for defining and measuring development in Chapter Four. Cardoso outlines three types of development – economic, social, and political – each of which interact with the other while still inviting stand-alone measurement. Klak and Hey (1999) was also quite useful for structuring and informing the discussion of autonomy and dependency in Chapter Five, particularly in terms of describing the interaction between exogenous and endogenous variables as it pertains to state autonomy. I also relied upon literature written and published by institutions, including the United States Agency for International Development (USAID) and the Central Intelligence Agency (CIA) World Factbook, the World Bank, and the United Nations Development Project (UNDP), as well as reports from newspapers, magazines, and websites. Data from the UN and the Energy Information Administration (EIA) provided many of the economic indicators that informed Chapter Three. Data from the UNDP, the World Bank, and Globalis provided many of the economic indicators that informed Chapter Four.

In the course of conducting the second and third forms of qualitative research, I traveled to Ecuador for a week in September of 2009. In Ecuador, my intent was to undertake three sorts of research – two sorts of interviews and some participant observation. In the first sort of interviews, I sought to conduct short, impromptu, on-the-street style interviews with small business owners and workers in the shops and stores that line the shopping districts of Quito and Guayaquil. Here the goal was to gauge public perception as to the impact of neoliberalism, as well as the appropriateness of the current government’s neo-populist approach. The second sort of interviews were more formal sit-downs, which I conducted with experts in banking, economic policymaking and management. Here the goals were to incorporate more expert analysis into my own work and to incorporate more analysis from experts living and working in Ecuador. The
third form of qualitative research was participant observation. I took time to walk the streets if Guayaquil and Quito, as well as to travel into more rural areas, making observations and notes in the process. These activities gave me greater personal appreciation for Ecuador’s culture and society, as well as a more developed understanding for the interactions between economy and society.

Assessment of methodology

I used these methods because they were both appropriate and accessible. Statistical analysis was clearly necessary to draw conclusions about growth and development, which was to be the framework for subsequent qualitative analyses. Qualitative methods were similarly necessary, both to put context behind the statistical analysis and construct a wider theoretical model using quantitative analyses. Conducting fieldwork in Ecuador gave me a more well rounded perspectives on the issues and problems at hand, as well as a wealth of information that I would not otherwise have had access to. In particular, the formal, sit-down interviews were instructive in terms of educating me on the issues and offering me a more fully-developed understanding of Ecuadorians’ perspectives.

Given more time and resources there are a few additional methods I would employ to better inform my research. First, this study would benefit from a more sophisticated statistical analysis, including perhaps the construction of a development index that incorporates variables indicating economic, social, and political development, along the lines of Cardoso’s analysis. Second, a lengthier visit to Ecuador would have allowed me to conduct more interviews and in particular to use a survey to measure popular opinions among Ecuadorians. One-the-street style interviews were not especially fruitful, as storefront employees were generally hesitant to
express developed opinions on economy, society, or government. Therefore, a more methodologically sound approach to measuring popular opinion would have been helpful.

Despite these shortcomings, the combination of quantitative and qualitative approaches utilized in this study provided me with a well-balanced methodology, sufficient to analyze the subject matter and to draw sound conclusions. This methodology was both appropriate and sufficient to measure Ecuador’s growth, its development, and the implications going forward. Moreover, there is room to develop this methodology further in order to conduct more nuanced studies in the future.
Chapter Four: Economic Growth During Ecuador’s Neoliberal Era

The neoliberal paradigm emphasizes economic growth firstly, with socioeconomic development being its subsequent byproduct. It is then sensible to begin a study of Ecuador’s neoliberal era with an evaluation of economic growth during the period of Washington Consensus reforms. This chapter will seek to do just that, whereas the next chapter will consider development in the neoliberal era. These chapters will assess the expedience of neoliberalism as an avenue to growth and development for Ecuador. It will further scrutinize neoliberalism and its assumed relationship between growth and development, with particular attention to the implications for development paradigms.

When considering Ecuador’s experience with neoliberalism, it is important to note that neoliberal policies were applied under certain contextual circumstances, and any analysis of the subject must take these circumstances into account. Often neoliberal policies were applied during times of crisis, and within this context the immediate objective was often economic stabilization, not growth. This is evident in Ecuador’s history, and this analysis will consider Ecuador’s neoliberal experiences with regard for the accompanying context. It is with these qualifications that this chapter seeks to determine whether neoliberal policies produced growth in Ecuador.

Application of neoliberal policies in Ecuador

Neoliberalism is the policy paradigm derived from neoclassical theory and as such its proponents advocate a neoclassical theory of growth. Neoclassical growth theorists, beginning
with Solow and Shaw, innovated an endogenous growth theory by which “the focus of attention is on the reconciliation of the actual, equilibrium and ‘natural’ rates of growth” (Setterfield and Roberts 2007:16). Neoclassical economists developed more sophisticated models, but did so within this paradigm that emphasized the natural rate of growth\(^3\) and a self-correcting equilibrium. According to neoclassical development theory, the optimal method for a country to achieve growth is with a supply-side model, catering to the global market. This requires that said country establish an export-oriented economic structure, based on one or more products for which it has a comparative advantage (Setterfield and Roberts 2007). As this marketplace interaction is but a natural mechanism of the free market, the state should minimize its market intervention and disentangle itself from the private sector, by means of trade liberalization, deregulation, and privatization. Economic growth is “to be achieved through structural reform, deregulation, liberalization, privatization – all of which are to roll back government and reduce market-distorting interventions” (Pieterse 2009:6).

In Ecuador, neoliberal reforms were generally enacted in accordance with structural adjustment programs (SAPs), compulsory conditions that accompanied loans brokered by IFIs. As Ecuador only turned to the IFIs for assistance during times of economic emergency, SAPs were generally applied during extreme recessionary periods. The long-run goals of SAPs may have been reform, but within this context the short-term objective was stabilization.

Ecuador’s neoliberal era began in the early-1980s, as the country plummeted into a balance of payments crisis brought on by the oil shocks of the preceding decade. A budding oil exporter, Ecuador had enjoyed an era of impressive prosperity in the 1970s, as oil prices boomed and national production increased markedly – from 46 million barrels produced in 1973, to 73

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3 Whereas the \textit{natural} rate of growth corresponds to growth in the labor force, the \textit{actual} rate of growth corresponds to the rate of aggregate output (Lal et al. 1998).
million in 1978. As such, this was a period of unparalleled economic growth. From 1972-1981, Ecuador experienced 8 percent annual increases in GDP (Parker and Alexander 2007) and public spending grew in tandem, increasing 12 percent each year from 1972-1980 (Pineo 2007).

Oil revenue funded this heightened state spending to a point, but spending soon outpaced the revenue being generated by crude. The state turned to the private sector to fund its expenses. Public debt nearly doubled in the latter half of the 1970s, reaching almost 40 percent of GDP in 1979 (Kohsaka 2004). The private sector also participated in the borrowing. Private sector debt increased from $56.2 million in 1976, to $703.3 million in 1979 (North and Larrea 1997). This insolvency was exacerbated in 1981 and 1982, as export revenue fell due to a particularly harsh el Nino flood season – which left 600 dead in northern Peru and Ecuador, and caused $650 million in damages (National Drought Mitigation Center 1996) – and a rapid decline in oil prices. Inflation soared as real wages fell 13.8 percent in 1981 and 11.9 percent in 1982 (Edwards and Dornbusch 1991). The value of Ecuador’s currency, the sucre, dropped from an average of 25 per US dollar in 1980, to 93 per dollar in 1985. In the same span, consumer price inflation increased from 9.2 percent to 24.4 percent (Kohsaka 2004).

President Osvaldo Hurtado reacted to the crisis with dramatic cuts in public spending, subsidies were removed for food, fuel, and social sector expenditures. Funding for community development, education, and health decreased from 41 percent of total expenditures in 1980 to 32.7 percent in 1985⁴. Real spending per capita decreased from 7,200 sucre in 1980 to 5,800 sucre in 1985 (Yashir 2005). Hurtado also established arrangements with the IMF for loans and debt restructuring. IMF brokered loans were accompanied with SAPs that called for reductions of protectionist barriers to transnational trade and investment, privatization of state-owned

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⁴ From 1980-1985, education expenditures decreased from 33.1 percent of total expenditures to 24.5 percent. Spending on health and community development actually increased slightly as a percentage of expenditures. Other social sector expenditures decreased from 7.4 percent to 1.7 percent.
industries, and the elimination of price controls (Mauceri and Burt 2004). Under President Hurtado, Ecuador’s neoliberal era had begun and his successors would implement many more neoliberal reforms.

Shortly after the election of Febres Cordero, Hurtado’s immediate successor, in 1984, Ecuador signed two new letters of intent with the IMF to obtain additional financial support. Each letter required that Ecuador undergo a host of structural adjustment reforms, including spending cuts, elimination of price controls, and deregulation of interest rates. The state removed petroleum subsidies (causing gas prices to increase by 75 percent) and committed itself to “improve public revenues from taxes; increase the price of water, electricity, and phone services; reduce public expenditure by 5%; enhance the liberalization of interest rates; and avoid the creation of new restrictions on imports” (SAPRI 2001:5).

In 1985, as oil prices stabilized and the neoliberal reforms went into effect, Ecuador’s inflation rate fell substantially and GDP recovered. This recovery was fleeting however, as oil prices again plummeted in 1986. The nominal price per barrel of Ecuadorian crude decreased from an average of $26 in 1985, to $8.60 in 1986. At that point, petroleum accounted for over 60 percent of Ecuador’s exports and about the same percentage of government income (Pineo 2007). A major earthquake hindered the oil industry further in March 1987, rupturing the TransAmazonian pipeline. “Oil exports were severely disrupted for five months. The pipeline break resulted in a 40 percent drop in petroleum production in 1987. The loss of revenue was estimated at $400 million.” Finding itself deep in deficit once again, Ecuador sought more loans and it incurred more SAPs – $150 million from the US government, $145 million from the World Bank, and $40 million from the IMF (Malloy and Conaghan 1994:166-167).
Over the next few years, oil prices stabilized and Ecuador’s production returned to its pre-earthquake levels, about 300,000 barrels per day (bbl/d). However, Ecuador ran government deficits of over $500 million in 1988 and 1989. This led President Rodrigo Boria – Cordero’s successor, elected in 1988 – to implement what Morley and Petras (1992) contend was one of the most drastic packages of neoliberal reforms in the modern history of Latin America. Borja signed a new letter of intent with the IMF, as well as a letter of development with the World Bank. The latter set economic achievements that were to be accomplished before any social policies could be implemented. The government reduced subsidies for gas, electricity, water, and phone services (SAPRI 2001).

In the early-1990s, under the leadership of President Durano Ballen (1992-1996), Ecuador enacted reforms to increase oil production and to reduce barriers to foreign direct investment (FDI). Both sets of reforms can be classified as neoliberal, as the Washington Consensus encouraged them and as they seek to encourage growth as well as development in a manner consistent with the neoliberal paradigm. These measures integrated Ecuador much further into international markets and encouraged considerable expansion of the domestic oil industry.

The most important policy was Ecuador’s withdrawal from OPEC in 1992. The move freed Ecuador from its $2 million annual OPEC membership fee as well as production quotas that set its production at 320,000 bbl/d in 1992 (Sawyer 2004). In 1993, after Ecuador’s withdrawal, production increased to 373,000 barrels per day. Also in 1993, Ballen pushed amendments to the Hydrocarbon Law through the national congress. “Both moves sent a clear message to global capital: Ecuador was embracing a ‘free’ market economy unfettered by prior
protections and restrictions… Legal changes dictated diminishing state intervention and greater private involvement.” States subsidies were removed and taxes and duties imposed in a manner designed to deregulate the price of gasoline; oil fields discovered by the government but not yet excavated were granted to private companies. Private companies were also allowed to assume control over excavation in the Guayaquil Gulf and to participate in the expansion and operation of the TransEcuadorian Pipeline (Sawyer 2004).

The state also began to grant production-sharing contracts to private oil companies, instead of the risk-service contracts that had been the norm. Production-sharing contacts provided private companies with a higher percentage of the profits and more autonomous control over its operations. Moreover, now all existing risk-service contracts between oil companies and the state could be converted into production-sharing contracts if the corporations desired (Sawyer 2004:95-97).

The second series of early-1990s reforms liberalized FDI policies. Immediately FDI increased exponentially, from $192 million in 1991 to $530 million in 1993 to $830 million in 1998. FDI in the 1990s came primarily from the US (66.9% in 1995) and Europe (21.6% in 1995). Most FDI has and continues to go to the agricultural and mining sectors (75.3% in 1995), in particular the oil industry (Sawyer 2004).

In tandem, reform packages of the early-1990s created major structural changes in Ecuador’s economy. By 1996, when Ballen’s presidency expired, the state had forfeited much of its regulatory power, while foreign capital accounted for an unprecedented amount of domestic economic activity. Along with these neoliberal reforms, Ecuador increased its oil production and its oil exports considerably. From 1990 to 1996, oil production increased gradually from 300,000 to 400,000 bbl/d. While the state continued to control most oil production through
Petroecuador, private firms had come to account for over 40 percent production by 1996, a share that increased into the next decade (Sawyer 2004).

Ecuador’s embrace of Washington Consensus policies continued into the latter half of the 1990s. In 1996-97, at the beginning of Abdala Bucaram’s presidential tenure, Ecuador fixed its sucre to the US dollar and privatized over 200 state-owned firms. However, the country soon fell into political chaos, as a series of massive public demonstrations forced Ecuador’s National Congress to remove Bucaram from office in February 1997, and then hold new election in 1998. Bucaram’s unpopularity was mostly a function of his administration’s endemic corruption, but his neoliberal policies also inspired protest. Social movement organizations that organized the 1997 protests had promoted a vehemently anti-neoliberal platform. Moreover, the size of those protests revealed a strong base for anti-neoliberal opposition, as many Ecuadorians had come to believe that neoliberal reforms were exacerbating Ecuador’s economic crises, not solving them (Pineo 2007).

The political restructuring proceeded amid some of the worst economic reversals in Ecuador’s history. Between 1998 and 2000, Ecuador’s GDP shrank over 7 percent, foreign investment and imports each declined over 30 percent, and the sucre’s value suffered; this turmoil was exacerbated by a severe banking crisis. To shore up the banking sector, the newly elected president, Jamil Mahuad diverted $1.6 billion from social programs, boosted the money supply, and increased borrowing from international lenders. However, indebtedness and the inflated money supply drove the sucre’s value even further down. Its value fell from 6,825 sucre per US dollar in 1998 to 20,243 per US dollar in 1999. Ecuador’s debt exceeded 124 percent of GDP and debt servicing reached 54 percent of the national budget (USAID 2009). In the midst of this financial and monetary turmoil, Ecuador was forced to default on $6.5 billion in
Brady bond issues\(^5\), which amounted to approximately one-half of its public external debt. Mahuad responded with a “dramatic decision” to replace the sucre with the US dollar – a decision which proved tremendously unpopular (Burke et al. 2006).

Like Bucaram before him, President Mahuad was forced out of office early, as public protest again led to the president’s removal – this time by a military led coalition of politicians, protestors, and colonels. This makeshift coalition was only in control for a few hours, after which the military, “under intense international pressure,” ceded authority to Mahuad’s vice president, Gustavo Noboa (Lucero 2001).

Despite the political upheaval it had invoked, the dollarization project was continued and completed under Noboa’s presidency. Dollarization represented a sort of pinnacle in the advancement of Ecuador’s commitment to the Washington Consensus and as such it had invoked great protests among Ecuador’s anti-neoliberal factions. It is “perhaps the most drastic monetary action that a nation can undergo,” as “a subsequent reversal is virtually impossible” (Matthews et al. 2006:88). In Ecuador, proponents of the dollarization plan touted its potential to stabilize the failing economy, while detractors stressed the implications for Ecuador’s sovereignty. Entering the dollar currency zone left monetary policy in the hands of the US central bank; such that in times of crisis Ecuador would no longer be able to adjust its currency and in more general terms it stood to be increasingly dependent on the United States (Burke et al. 2006).

Literature on the matter generally supports the notion that Ecuadorian policymakers had little choice but to adopt the dollar. In the preceding years a host of “structural problems” had

\(^5\) Named for former U.S. Treasury Secretary Nicholas Brady, Brady bonds were converted from loans defaulted upon by developing countries. Under the guidance of restructuring boards at the IMF and World Bank, creditors were compensated with bonds collateralized by U.S. bonds to ensure payment of the principal. These bonds carried a host of options, including warrents connected to Ecuador’s oil and agriculture markets (Markham 2002).
exacerbated “dependence of the public revenue on volatile oil earnings…the banking system’s exposure to volatile and risky activities…borrowers’ exposure to exchange-rate deprivation…inadequate banking supervision…[and] massive public debt” (Beckerman 2002:59). As a result, “Ecuador had only two policy choices: either a total adoption of the dollar or a devastating bout of hyperinflation” (Burke et al. 2006:92). Nevertheless, to detractors dollarization was a neoliberal solution to problems brought about by neoliberal policies.

In 2002 army Colonel Lucio Gutierrez was elected to the presidency. Under Gutierrez’s leadership, Ecuador froze public-sector wages and cut subsidies further on petroleum products and electricity, which drove domestic petroleum prices up 35 percent and electricity prices up 10 percent. In 2003, Gutierrez accepted $700 million in loans, conditional upon the implementation of SAPs requiring Ecuador to allocate a higher percentage of its oil revenues toward debt servicing (Taylor & Francis Group 2004). Like his immediate predecessors, Gutierrez was pushed out of the presidency early. Nationwide protests lead the National Congress to again intervene and remove Gutierrez from office in April 2005. Vice President Alfred Palacio assumed the presidency and finished out Gutierrez’s term (Yashar 2006).

When the Gutierrez Administration fell, Ecuador’s neoliberal era came to close. A new era began in 2006, with the election of President Rafael Correa. Under the Correa administration, Ecuador’s policies have often been antithetical to the conventional Washington Consensus as well as neoclassical principles. What remains to be seen is whether or not Correa’s brand of economic populism will be incorporated or developed into a long-term paradigm for growth and development.
Measuring economic growth in the neoliberal era

The research question posed for this chapter is as follows: Did adherence to neoliberal Washington Consensus policies create economic growth for Ecuador? Certainly Ecuador’s economy experienced gradual growth throughout the neoliberal era, with GDP growth of 150% between 1977 and 2008. But this is primarily attributable to growth in the oil market, upon which Ecuador’s economy has been highly dependent ever since the discovery of oil in the 1960s. During price booms Ecuador enjoyed strong economic growth, whereas each of Ecuador’s economic crises (before and during the neoliberal era) followed a bust in the price of crude. In fact, during its entire history as an oil exporter, Ecuador’s GDP has fluctuated in unison with the price of oil (see Figure 1).

![Crude oil price vs. Ecuador GDP growth](image)

The oil market clearly provides the variable upon which Ecuador’s growth mostly depends. Economic policies may either increase that growth or hinder it, and it is within this context that neoliberal policies are best evaluated. Neoliberal policies are best assessed by

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6 (Energy Information Administration 2010)
considering additional indicators of economic growth, in light of the relationship between GDP and the price of oil. In this case the most applicable indicators of growth are those measures regarding growth in accordance with neoliberal development theory, especially exports and FDI.

Exports did increase significantly during the neoliberal era, driven by increases in Ecuador’s oil production levels, as well as growth in oil’s market value. Ecuador’s exports increased from approximately $2 billion in 1987 to $5.3 billion in 1997. Oil production increased considerably during the neoliberal era as well, as previously noted. Increased oil produce was almost entirely exported, as domestic oil consumption only increased incrementally in the same timeframe (see Figure 2).

![Figure 2](International Energy Annual 2009)

Neoliberal policies can be credited to some degree with export growth, and in particular oil sector growth. Ecuador’s withdrawal from OPEC and the restructuring of its hydrocarbon laws in the early-1990s should both be considered neoliberal reforms, as they stimulated oil production and exports, while reducing supply-side manipulation by nonmarket forces. Export growth in the 1990s was also fueled in large part by high rates of FDI, particularly in the oil sector. Once again, Washington Consensus reforms that liberalized FDI policy should be given
some credit. Based on these factors, there is a basis for crediting neoliberal reforms with having increased FDI and export levels in the 1990s, thereby encouraging Ecuador’s economic growth in more general terms.

It must also be noted that while neoliberal reforms did not stimulate growth to such an extent in the 1980s, spending cuts in the 1980s did relieve crippling balance-of-payments crises, which were essentially the objectives for these neoliberal reforms at the time implementation. In macroeconomic terms then, these policies produced desirable growth outcomes.

Based on these findings, it is evident that neoliberal reforms did not hinder the rate of growth generated by Ecuador’s oil sector. By facilitating increases in Ecuador’s oil production as well as FDI inflows, neoliberalism even encouraged growth, although it does not necessarily follow that these reforms produced higher rates of growth than would have been produced under the paradigm that proceeded the neoliberal era. As this matter merits further consideration, a brief counterhistorical analysis follows.

The particularly tight interaction between oil prices and GDP growth during the neoliberal era suggests dependency on a single commodity. In fact, this neoliberal era dependence is by design. An emphasis on comparative advantage is central to neoliberal approach to growth, as it is assumed to maximize exports. Under this arrangement Ecuador’s economy waxed and waned in tandem with oil prices, with very little buffer against price bubbles. Although this would have been the case regardless of economic policy, during the periods before and after the neoliberal era the relationship between Ecuador’s GDP growth and market price of oil loosened, suggesting that Ecuador was slightly less dependent on the oil market. Furthermore, the rates of export growth have increased considerably in the periods before and after the neoliberal era. In fact, Ecuador produces and exports more oil now than it
ever has before. This growth challenges the notion that comparative advantage is inherently better for growth than import substitution, suggesting instead that Ecuador would have experienced an export boom and diversified its exports to a greater extent without the implementation of neoliberal reforms in the 1980s.

On the other hand, the era of economic populism that preceded the neoliberal era did not demonstrate sustainability in Ecuador. In the prelude to the crisis that preceded the first neoliberal reforms in the 1980s, state expenditures increased exponentially with little or no attention to the assured oil-bubble-bust to come. This is typical, as the state has generally leveled spending in accordance with oil revenue since the early-1970s, such that during price booms the state has raised spending.

This is the most important point to be derived from this counterhistorical analysis: Imbalances in the years before the neoliberal era ultimately lead to the implementation of Washington Consensus reforms. It was imbalance in the budget that allowed the Washington Consensus to assume control over the levers of economic policy in Ecuador, leading to a painful era of debt servicing.

This has particular implications for the Correa government, which currently employs a spending pattern comparable to that of the late-1970s. Correa’s administration embraced economic populism during the late-2000s oil boom, such that the state is not setting aside surpluses or managing public spending in a manner that demonstrates its appreciation for oil-market volatility. Oil consistently accounts for over 60 percent of Ecuador’s exports and for over 50 percent of the national budget. When the market value of oil declines so to will Ecuador’s export revenue, which will force the state to generate revenue by other means to
support its spending. Additional revenue may be derived from foreign markets by means of FDI or debt accumulation, or from within the country by heightening rates of taxation.

There may be limitations to Ecuador’s access to foreign credit going forward. Investors and lenders have been alienated during Correa’s administration by regulatory overhauls in the finance and oil sectors. These reforms include a series of new hydrocarbon laws that altered production-sharing contracts to dramatically increase Ecuador’s share of petroleum reserves, including a 2007 decree boosting the state’s share of windfall oil profits from 50 to 99 percent (Soto 2007).

Foreign capital may be particularly inaccessible at this point, due to the condition of the global economy. Foreign investment was lower in 2007 than at any point since the FDI reforms of the early-1990s. As such, Ecuador will have to depend on domestic sources of revenue to a relatively great extent in the short-term. Taxing is advantageous insomuch as it leads to an accumulation of revenue with only a minimal degree of consequent of capital flight. Moreover, as Ecuador’s former finance minister, Pablo Better, explained to me, not paying taxes has been a national pastime in Ecuador for years.

While there are certainly concerns going forward about Ecuador’s balance-of-payments as well as to its access to credit, the Correa administration’s settlement of over 90 percent of Ecuador’s external debt at 35 cents on the dollar has created room on the state’s balance sheet for high rates of spending in the short-to-medium term. Regardless, Ecuador’s economic growth will continue to be more a function of exogenous developments in the oil market than on economic policy paradigms.
Economic growth did occur during the neoliberal period, but that growth is attributable to
growth in the oil market, not economic policy. Moreover, neoliberal development theory regards
economic growth as a means to an end – that end being socioeconomic development. Growth is
only desirable if it translates into higher levels of education, health, and well being for citizens.
With this in mind, Chapter Four will incorporate microeconomic and microsocial variables into
the study in order to measure the effects of neoliberal reforms on Ecuador’s development.
Chapter Five: Social and Economic Development in Ecuador’s Neoliberal Era

The preceding chapter demonstrated that Ecuador did experience economic growth during the neoliberal era. So in this, its central objective, the neoliberal policy paradigm can be said to have been successful. However, neoliberal development theory presents economic growth itself as a means to an end, that end being development, and as such it is necessary to evaluate neoliberalism next on its capacity to deliver in terms of development.

In the neoliberal era, the conventional approach to development changed, such that “the ‘how to’ and agency of development switches from state to market” (Pieterse 2009: 7). Such a perspective is inherently “anti-development… not in terms of goals but in terms of means” (2009:7). Nevertheless, neoliberalism expects that development efforts funded and directed by the state actually do more harm than good, as budget imbalances created by development projects will lead to painful contractions subsequently. Neoliberalism asserts instead that the economic growth produced by the liberalized market will be accompanied by development and general poverty alleviation. In short, neoliberal policies will invite investment, which will spur industrialization as well as general infrastructural development. Investment and innovation will fuel job creation and heighten wages and savings, leading to the establishment of strong consumer markets and a service sector. This economic development then leads to a higher general standard of living in terms of healthcare and education, thereby constituting social development.

In a typical fashion, neoliberal era governments reliably scaled back development-oriented spending. To a far greater extent, development was left to the market. This approach
did appear to facilitate growth, but did that growth lead to development, in accordance with neoliberal development theory? That is the research question that is to be investigated in this chapter. If neoliberal policies did not foster development as well as growth, then the neoliberal paradigm cannot be said to have succeeded, at least as a strategy of development. If, on the other hand, neoliberal reforms have preceded significant advancements in terms of development, then the development paradigm for the post-neoliberal era should display awareness for these advancements.

A prerequisite to this analysis is the establishment of some definition as to what constitutes development. To this end, Cardoso (1979) provides a serviceable outline consisting of three interconnected processes, those pertaining to economic, social, and political development. Following this general framework, this chapter will investigate development in the neoliberal era, beginning with economic development, then moving to social development, before concluding with some brief discussion of the state’s role going forward. The goal here is to evaluate the neoliberal paradigm for development, in practice and in theory.

Economic development in neoliberal era

Neoliberalism calls for economic reforms, which are then expected to instigate social development in an indirect manner. The structural changes advanced by neoliberal reforms are designed to create a more highly industrialized, efficient and decentralized economy, which may be said to amount to a more highly developed economy. However, these structural developments are but means to achieving the objectives that are more typically said to constitute economic development: poverty reduction and a more equitable distribution of resources across the population.
As the last chapter demonstrated, Ecuador has experienced significant and reliable GDP growth since the 1970s, with oil prices being a consistent predictor of growth rates, both in and around the neoliberal era. Ecuador’s economy grew by 150 percent in nominal terms between 1977 and 2008 (UN), and so too did GDP per capita grow over this period. The growth is quite sporadic, however, particularly in the neoliberal era. In fact, GDP per capita increases considerably more robustly and reliably during the years before and after the neoliberal era than during. Nominal per capita rates experienced a steady decline following the early-1980s oil price bust; then after experiencing a steady recovery in the 1990s, peaking at $2,004 in 1997. GDP contracted rapidly in the late-1990s, negating most of the gains that had been made. In 2001, per capita growth began to recover. It has increased reliably ever since, reaching record heights in the late-2000s (see Figure 3).

![Nominal GDP per capita in US$ 1970-2008](image)

Adjusted for real terms to account for inflation, GDP per capita is flat across the neoliberal era, and quite low by the standards of the continent and the world at large (see Figure 4). Nevertheless, per capita growth has advanced steadily during the neoliberal era in terms of
purchasing power parity (PPP), even during the tumultuous periods of the 1980s and late 1990s (Figure 5).

That the total GDP growth produced in the neoliberal era did not translate into higher GDP per capita is first attributable to population growth. From in the 1960s, the population increased by approximately 1.5 million, reaching 5.9 million in 1970, 7.9 million in 1980, 10.3 million in 1990, 12.5 million in 2000, and 14.3 million in 2010. Since unemployment and nominal GDP per capita were approximately steady across the era, it is fair to say that the economy grew fast enough to absorb the growing population in the neoliberal era. However, this achievement is negated to a great extent by the severity of the economic crises of the mid-1980s and late-1990s.
The imbalances that lead to the budgetary crisis of the 1980s began accumulating prior to the era of neoliberalism and neoliberal policies were implemented in the aftermath of that crisis. This neoliberal solution was cuts in social sector expenditures, including community development, education, and health. These services decreased from 41 percent of total expenditures in 1980 to 32.7 percent in 1985. Real spending per capita decreased from 7,200 sucre in 1980 to 5,800 sucre in 1985, with the remainder being directed toward debt servicing (Yashir 2005). During the same period, GDP per capita was shrinking dramatically, by an average of one half a percentage point per year from 1980-1990 (Sanchez-Paramo 2005). So while the crisis of the 1980s certainly did not stem from the application of neoliberal policies, those neoliberal policies applied subsequently were not firstly oriented toward either assuaging poverty or maintaining a high level of development.

In contrast, the crisis of the late-1990s followed a decade and a half of neoliberal reforms. The most pertinent such reform came in 1994, when the financial markets were deregulated to a great extent. Better (2009) attributes the crisis (which was primarily a banking crisis) to deregulation of capital requirements, speculation, offshore banking restrictions, collateralization, and insider trading. Dozens of banks closed following a series of defaults, surges in unemployment and poverty followed, as well as a prolonged political crisis. The stresses on economic and social development were tremendous. From 1990 to 1995, the percent of the population living below the poverty line fell from 40 to 34 percent (Sanchez-Paramo 2005), but by 1998 it climbed back up to 46 percent (Globalis 2009). The unemployment rate increased dramatically, from single digit rates the preceding decade to over 15 percent in 1999 (Latin Focus 2010). From 1998 to 2000, “Per capita income in dollar terms plummeted by 32% from

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7 From 1980-1985, education expenditures decreased from 33.1 percent of total expenditures to 24.5 percent. Spending on health and community development actually increased slightly as a percentage of expenditures. Other social sector expenditures decreased from 7.4 percent to 1.7 percent.
9% to 17% and underemployment increased from 49% to 55%. Consumer based poverty indicators show an increase from 34% in 1995 to 46% in 1998, while urban poverty increased from 19% to 30%.” In 2000, over 70 percent of the population was categorized below the poverty line and the UN ranked Ecuador the poorest country in the Americas. Moreover, income distribution was such that about 80 percent of the income share of GDP was held by approximately 20 percent of the population (USAID 2009).

This crisis annulled any development that may have been achieved in the late-1980s and early-1990s. From 1990 to 2001, the overall number of poor people increased by 1.7 million. Poverty was especially high in rural areas, which in turn led to urbanization. The number of poor people living in urban areas increased from 1.1 million to 3.5 million during the 1990s (Sanchez-Paramo 2005). After nearly twenty years of policies inspired by neoliberalism, the economy had not experienced poverty reduction, nor have per capita growth been impressive. These developments raise serious doubts about the neoliberal notion that limited government will minimize the severity of boom-bust cycles. In fact neoliberal reforms did not protect the balance-of-payments as promised, such that periods of rebalancing have been quite volatile during the neoliberal era.

By one series of indicators then, the neoliberal era has not achieved much in the way of economic development. But in this case, development connotes more than just poverty reduction, it also pertains to the development of a strong economic infrastructure. This refers primarily to industrialization and financial sector development.

Ecuador’s export boom beginning in the 1970s allowed certain export-heavy sectors to grow considerably, but as the co-owner of one of Ecuador’s largest petrochemical plants explained to me, these sectors never underwent industrialization. Ecuador did export some
industrial goods, but these goods were only assembled in Ecuador; the industrial materials and technology were imported. This became a favored method for foreign firms to capitalize on the export advantages granted to Ecuador in its regional trade agreements. So a pre-industrial manufacturing capacity came to masquerade as an industrialized sector. Today, primary products represent 90 percent of exports, lead by unprocessed crude oil. As was established in the preceding chapter, Ecuador’s economic status depends primarily on the international oil market, and this dependency was especially evident during the neoliberal era – likely due to the neoliberal emphasis on comparative advantage.

Likewise, Ecuador’s financial sector did not show strong signs of development in the 1980s or in the 1990s, in terms of either efficiency or stability. The culmination of these shortcomings was the banking crisis of the late-1990s. In the aftermath of the crisis, Ecuador underwent dollarization to address hyperinflation. Dollarization stabilized the economy, particularly in the short-term, but it is less clear whether this action constitutes economic development. Of particular issue is the notion that dollarization may erode Ecuador’s sovereignty, leading to greater dependence on the United States and on happenings within the US economy.

As a final note with implications for economic development, the state’s social expenditures as a percentage of GDP fell dramatically over the neoliberal era (see Figure 6). This decline was especially sharp in the 1990s and particularly in the late-1990s, effecting health, education, and social assistance. This is not only a mark against Ecuador in terms of economic development, but also perhaps an indicator as to the levels of social development that were achieved during this period.
Social expenditure (as a percentage of GDP)

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<tbody>
<tr>
<td>Total</td>
<td>3.8</td>
<td>4.6</td>
<td>6.3</td>
<td>4.9</td>
<td>4.7</td>
<td>5.2</td>
<td>3.8</td>
<td>3.4</td>
<td>3.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Education</td>
<td>3.2</td>
<td>3.5</td>
<td>4.8</td>
<td>3.7</td>
<td>3.2</td>
<td>3.8</td>
<td>2.5</td>
<td>2.4</td>
<td>1.7</td>
<td>2.4</td>
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<tr>
<td>Health</td>
<td>0.5</td>
<td>1.0</td>
<td>1.3</td>
<td>1.1</td>
<td>1.3</td>
<td>1.1</td>
<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Assistance</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.2</td>
<td>1.3</td>
<td>1.0</td>
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<tr>
<td>Bono Solidario</td>
<td></td>
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<td></td>
<td></td>
<td>0.0</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.2</td>
<td>0.5</td>
<td>0.6</td>
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Figure 6 (Sanchez-Paramo 2005)

Social development in the neoliberal era

Just as economic growth is a means to an end, that end being development, so too is economic development a means to an end, that being social development. It seems then, that the general downward slope of social spending is counterproductive in terms of achieving this end. However, as noted, neoliberal development theory is a utilitarian philosophy. As such, the expectation among proponents of neoliberal theory is that cuts in social sector spending will advance the achievement of social development. To test this expectation, it is necessary to consider Ecuador’s social development, based upon indicators of education, health, and social disparity.

Table 1 (UNdata 2010)

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<tbody>
<tr>
<td>Adult literacy rate as a % of the population</td>
<td>81.9</td>
<td>85.1</td>
<td>87.6</td>
<td>89.8</td>
<td>91.6</td>
<td></td>
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<tr>
<td>Life expectancy in years</td>
<td>64.5</td>
<td>67.5</td>
<td>70.1</td>
<td>72.3</td>
<td>74.2</td>
<td>75</td>
<td>75.8</td>
</tr>
<tr>
<td>% of the population using improved water sources</td>
<td>73</td>
<td>80</td>
<td>88</td>
<td></td>
<td>95</td>
<td>95 (2006)</td>
<td></td>
</tr>
<tr>
<td>Mobile cellular telephone subscriptions per 100 inhabitants</td>
<td>0.48</td>
<td>3.92</td>
<td>47.2</td>
<td>86</td>
<td></td>
<td></td>
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</table>
Literacy rates and educational attainment rates offer insights as to levels of educational development achieved in the neoliberal era. Overall, adult literacy rates increased strongly and steadily during the neoliberal era, climbing from 81.9 percent in 1980 to 92.6 percent in 2003. Rates improved among men and women, with male literacy rates being higher throughout, but by a progressively narrowing margin. In 1980, ratio between male and female literacy was 85.8 to 78 percent; by 2003 the ratio was 93.9 to 90.9 (UNdata 2010).

Higher literacy rates reflect Ecuador’s near-universal primary schooling, which became mandatory with the passage of the national constitution in 1945. In the decades that followed the rates of primary attendance increased dramatically, but the greatest leap was in the 1960s, during the era that preceded neoliberalism. During this period, primary enrollment approximately doubled, secondary enrollment approximately tripled, while university and college enrollment increased five fold. By the mid-1990s, Ecuador had nearly 100 percent primary school enrollment, although secondary school enrollment never approached this degree of universality (UNdata 2010).

While literacy rates and educational attainment rates increased during the neoliberal era, it hardly follows that neoliberalism caused them to increase. In fact the achievements of the neoliberal era were continuations from the prior era. It is notable then that rates of literacy and educational attainment continued to grow during the neoliberal era, even as public spending for education decreased dramatically, particularly in the 1990s.

Public funding for health services was cut in a similar fashion during the neoliberal era. Nevertheless, there is evidence for steadily improving development according to a host of indicators of health. It must be noted that in the case of many indicators, the progression of
development began in the 1960s and 1970s, during the pre-neoliberal era. Still, the progression did continue through the neoliberal decades, and did so despite cuts in public health services.

The infant mortality rate declined steadily from 107 per 1000 live births in 1960, to 25 per 1000 in 2002. Ecuadorian life expectancy increased at a similarly steady clip over the same period, increasing from 51.4 years in 1960, to 70.8 in 2005. Moreover, men and women experienced this increase in near-equal measures. During the neoliberal era, there was a steady decrease in the number of undernourished people as a percentage of the population. This number fell from 11 percent in 1980, to 4.4 percent in 2001. Also during the neoliberal era, there were steady declines in under-five mortality rates and steady increases in Human Development Index (HDI) score (UNdata 2010).

Additional development indicators concern access, although these may have implications for health and education. One such indicator of access concerns clean water. The percentage of the population with access to clean water increases during the neoliberal era, in both rural and urban areas; likewise, access to sanitary water increased steadily, increasing from 73 percent in 1990, to 80 percent in 2001. Food has become more accessible as well, although there is disparity between rural and urban areas, as rural areas are especially susceptible to short term disruptions to food production (Farrow et al. 2005).

Ecuadorians also gained greater access to technological services during the neoliberal era and prior to it. For example, in 1970 there were only 1.5 mainline phones for every 100 Ecuadorians, the ratio was 2.9 in 1980, and 11 in 2002. If one includes cellular subscriptions, the number of phones per 100 people was 23.1 in 2002, with a two-fold increase from 1995 to 2000 and another doubling from 2000 to 2002. Access to personal computers and Internet similarly
boomed in the latter half of the 1990s, a phenomenon attributable to advancement in information technology, as opposed to Ecuador’s neoliberal policies (Globalis 2009).

In macro terms, the divergence in social development between men and women during the neoliberal era seems rather limited. This is the case of literacy rates, educational attainment rates, and life expectancies. However, more evident than the disparity between male and female Ecuadorians is disparity between urban and rural populations. Rural populations\(^8\) experienced some development in the neoliberal era, but there remains a large divergence between urban development and the progression in rural communities of the Sierra and the Costa.

To quickly differentiate rural regions, it should be noted that Costa communities are two-to-three times larger than Sierra communities and more developed by most indications. Costa communities generally have better access to public services, including health centers. They also have more diverse economic activities and are characterized by less dependency on agricultural goods than Sierra communities. Households in Costa communities generally have more in the way of appliances and generally goods. There are also ethnocultural differences, the most noteworthy being that Sierra populations are mostly indigenous, whereas Costa communities are Mestizo (Hentschell et al. 1996).

Although rural Ecuador’s communities are quite heterogeneous, there are some commonalities between rural communities, particularly as it pertains to the disparity between urban and rural communities. Rural communities are uniformly less developed economically and socially than their urban counterparts. In terms of economics, poverty has remained considerably higher in rural areas. In 1998, 69 percent of Ecuador’s rural population was living below the poverty line, as opposed to 46 percent of the population at large (UNdata 2010).

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\(^8\) Rural Ecuadorians constitute about 34 percent of Ecuador’s population, approximately 4.6 million people.
Ecuador is generally dependent on agricultural exports, with remittances and informal sectors constituting important secondary markets. Centralization of land ownership has been a constant feature of the agricultural sector, with the Gini coefficient of land distribution staying relatively constant from 1954 to 1994. Rural Ecuador also remained severely limited in terms of its access to credit through the neoliberal era, most rural Ecuadorians finding loans through informal channels. Public credit systems established by the Banco Nacional have helped large-scale farmers, but private financial institutions have never extended much in the way of credit to small-scale farmers (Hentschell et al. 1996).

With respect to social development, rural health and education services have improved, but only to a limited extent. Health centers have emerged in some rural communities, particularly in the Costa, but Sierra communities are still mostly without. Moreover, the lack of rural infrastructure limits rural access to the health services in urban areas. There has been great progress made since 1960 in terms of rural education, as the primary school mandate became increasingly implementable over the in the subsequent years. As such the youth literacy rate is quite high, while much of the adult population remain illiterate, particularly women and elderly. Despite the primary school mandate, attendance of secondary school is “very rare.” This has implications for economic development as well, insomuch as the division of labor remains divided largely by age and gender (Hentschell et al. 1996).

It is evident that social development did occur in Ecuador during the neoliberal era, despite the application of austerity measures that cut public funding for the very social services that exist to achieve development oriented goals. This development was in large part facilitated by two sources for revenue that offset the cuts in state spending, those being remittances and aid.
From 1990-2003, as state spending for health and education services dwindled, the average annual growth rate for remittances was 35 percent. Such that in 2003, remittances accounted for 5.7 percent of Ecuador’s GDP, over four times the percentage in 1993, as well as 86 percent of Ecuador’s total current transfers. The bulk of these remittances are provided by 400,000 Ecuadorians living in the United States (who sent an average of $293 per month to Ecuador in 2004) and approximately one million living in Spain (who sent an average of €385 to Ecuador, 10.4 times per year). These increases in remittance revenue stem from the mass emigration of over half a million people from Ecuador from 1998-2004, following the crisis of the late-1990s (SELA 2005).

In 2003, 14 percent of Ecuadorian adults received remittances from abroad. Most received $50 to $200, eight times throughout the year. Of remittance recipients, 61 percent depend on remittances for day-to-day expenditures such as rent, food, and medicine (Inter-American Development Bank 2003).

The second source for foreign capital that opened up during the neoliberal era is foreign aid revenue. In 1984, near the beginning of the neoliberal era, Ecuador received $134 million in foreign aid, significantly more than it had been allocated before, up from just $62 million in 1983. Since 1984, Ecuador’s annual foreign aid has not fallen below $134 million, and has often exceeded $200 million (UNdata 2010). The same year, 1983, USAID launched assistance programs to “give special attention to dialogue on macroeconomic and sectoral policies and to foster economic and social development” (USAID 2010). Indeed, economic assistance from the United States increased substantially in the following years. The United States, through USAID, allocated Ecuador an average of $21,717,000 in total economic assistance annually from 1980 to 1984, but aid increased to an annual average of $43,825,000 from 1985 to 1989. In subsequent
years, aid has increased markedly following economic crises, particularly during the early-2000s (see Table 2).

Table 2 (USAID 2010)

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<tr>
<td>Average annual</td>
<td>21,717,000</td>
<td>43,825,000</td>
<td>23,229,000</td>
<td>18,834,000</td>
<td>81,820,000</td>
<td>56,235,000</td>
</tr>
<tr>
<td>economic assistance</td>
<td></td>
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<tr>
<td>from the USAID</td>
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<tr>
<td>(2008 dollar</td>
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<td>equivalent)</td>
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That remittances and aid balanced the state’s social spending cuts – especially during times of crisis – is indicative that what policy-lead development did occur during the neoliberal era is not attributable to neoliberal reforms, but are in fact attributable to funding which offset those reforms. It must be noted that increases in remittances and aid were likely a byproduct of sorts of Washington Consensus reforms, but they are not part of neoliberal theory.

Microcredit is another factor that appears to be providing Ecuadorians with some relief from cuts in social services. In 2005, 33.5 percent of households in middle-to-low-income urban settings had at least one adult family member managing or working in a microenterprise, mostly in the commerce sector. Microenterprises provide jobs for approximately 25 percent of Ecuador’s urban work force, over one million people. Moreover, these microenterprises account for 25.7 percent of GDP, approximately 10 percent of total net income earned in the country.

Microenterprises mostly operate within the informal sector. Only about one in four microenterprises has tax ID numbers or municipal licenses. Furthermore, microfinance has been subject to very little regulation in Ecuador. In addition to opening avenues for employment outside the formal economy, Microcredit has been especially beneficial to women. Approximately 57 percent of economically active women are microentrepreneurs, and of this
faction, many are single heads of households. This suggests that microcredit is and has provided an important safety net for this segment of the population (USAID 2005).

_Drawing conclusions about neoliberal development theory_

By these indicators of economic and social development, Ecuador did not achieve an impressive degree of economic development during the neoliberal era, save for a few rather marginal developments. Although there was social development, this development is most likely attributable to influxes of revenue from remittances and foreign aid, which offset social spending cuts by the state in the neoliberal era.

So then, two important conclusions are that Ecuador did experience economic growth and social development in the neoliberal era. However, Ecuadorians would quite possibly have experienced significantly more social development if the state had not implemented those neoliberal reforms that cut public funding for education and healthcare. Of course, deficit reduction is a key element of the neoliberal paradigm, and neoliberal development theory stipulates that public spending is counterproductive, as it leads to an imbalance-of-payments that must ultimately be corrected. These spending cuts were then a means to an end, that end being development. This theoretical narrative cannot be said to apply in Ecuador, however, as Ecuador’s public spending has risen and fallen reliably with its annual GDP and with the market value of crude oil. In fact, Ecuador has spent against deficit every year since 1994, with imbalances reaching all time highs in 1998 (Cueva 2008).

So government spending has remained more-or-less constant as a percentage of GDP, yet social service spending has been reduced considerably by this measure. This begs the question, what has public spending been allocated to in the neoliberal era, if not social services? The
answer: debt service. From 1995 to 2006, annual public spending on debt service never fell below 30 percent of annual GDP, often exceeding 40 percent; and in each of those years, a significantly higher percentage of public spending went to debt servicing than for education and health and community development. Ecuador’s public spending was not reduced, but rather reallocated during the neoliberal era, and as such neoliberal reforms did not protect Ecuador from imbalances (Bouchat et al. 2007).

This conflict between neoliberalism in theory and in practice illustrates its primary shortcoming as an approach to development. From the application of neoliberal reforms it does not follow that an economy will become neoliberal. Applied gradually on an individual basis, Washington Consensus policies may have instilled some aspect or element of the neoliberal paradigm into Ecuador’s economy, but they did not create a fully liberal economy. As such, the notion that Ecuador adopted a neoliberal development paradigm is false. What Ecuador adopted is not a development paradigm at all, as it has emphasized debt servicing over development.

Development was unequivocally a secondary goal in policy terms during the neoliberal era. However, it does not follow that neoliberal theory is totally without sound ideas and approaches to development. Ecuador’s emphasis on export growth and foreign investment during the neoliberal era did promote to strong rates of economic growth – revenues that might have been allocated toward the achievement of development objectives. Moreover, the neoliberal emphasis on balance-of-payments maintenance is sound, particularly given Ecuador’s repeated balance-of-payments crises.

As Ecuador’s era of neoliberalism has come to a close, there exists a fresh opportunity for Ecuador to adopt a new paradigm for development which should include those progressive elements of the neoliberal paradigm, but do so without neglecting the vary areas that
developmental approaches are supposed to emphasize – poverty, education and health services.
In fact, in the post-neoliberal era, the state has adopted an approach that does just that, perhaps excessively and to an unsustainable extreme.

Like many of his predecessors, President Correa campaigned as a decidedly anti-neoliberal populist in the 2006 presidential election; unlike his predecessors, Correa has followed through by implementing a host of reforms that contrast starkly to the reforms of the neoliberal era. Questions have been raised as to the sustainability of Correa’s populist approach, which may be alienating it from foreign investors, creditors, and the US. The next chapter attention will be given to the sustainability of neo-populism, as well as to the following question: does Correa’s defiance of the Washington Consensus reflect a decline in Ecuador’s dependency on the United States and in turn an increase in the autonomy of the Ecuadorian state?

As this chapter has demonstrated, Ecuador experienced social development in the neoliberal era, in terms of education, healthcare, and access. However, it is the conclusion of this study that what development did occur in Ecuador is attributable to increases in remittances, foreign aid, and growth in the oil market, not to the neoliberal economic policies promoted by the Washington Consensus. Furthermore, many development opportunities were squandered due to neoliberal policies that redirected public spending toward debt servicing. Of course, development is more than an economic endeavor; it is a matter that requires an analysis of political economy with attention to interacting developments, both endogenous and exogenous to Ecuador.
Chapter Six: Ecuador’s autonomy/dependency continuum

As has been noted, neoliberalism maintained its hegemonic status in Ecuador for the last quarter century, even though Washington Consensus reforms were usually quite unpopular among Ecuadorians. The cutting of social sector spending has been especially controversial, as it has hindered the availability of resources to Ecuador’s citizens, particularly those living in poverty and in rural areas. This disliking for neoliberalism has hardly been lost on Ecuador’s politicians and as such campaigning politicians have often run against neoliberalism, instead promising economic populism. Populist campaign promises have rarely been upheld, however, with neoliberal reforms being the norm.

As noted in Chapter Four, President Correa campaigned on a populist platform in typical fashion during the run up to his election in 2006. But whereas his predecessors quickly adhered to the Washington Consensus following their inauguration, Correa has lived up to the expectations of his populist campaign rhetoric. Correa has increased social sector spending rather dramatically, brought regulatory reforms to the public and private sector, and settled Ecuador’s debt in a seemingly painless manner.

The question is then, why has Correa been successful in following through on populist promises, while so many of his predecessors reneged on similar pledges? It may be that Correa is unique among Ecuador’s presidents in terms of having the courage of his convictions. Or more likely global society has been changed in a manner that has allowed Correa to defy the Washington Consensus. In the vein of the latter explanation Klak and Hey (1999) write, “even in a small and less developed country such as Ecuador, the president is not necessarily at the
foreign policy helm… policy-making elites in the periphery – more than the populations they represent – share ideologies, material interests, and foreign policy preferences with elites in the core” (1996:681-682).

Klak and Hey (1999) argue further that these shared interests and ideologies reflect the general dependency of periphery states on their core counterparts. According to this theory, Ecuador has been in a state of dependency on the United States during the neoliberal era, and neoliberal reforms have been a function of this dependency. Dependency is fostered primarily by debt, which gave outside actors the power to influence and even control elements of the Ecuadorian economy. Consequently Ecuador’s government was compelled to sacrifice a great deal of its power over domestic economic policy during the neoliberal era. This culminated in 2000 with dollarization, which relieved Ecuador of its monetary policy structure. The implication is that Correa’s refusal to implement Washington Consensus policies demonstrates Ecuador being less dependent on the United States.

In three parts, the remainder of this chapter will explore the notion that Ecuador has reduced its dependency on the United States, thereby achieving some degree of autonomy, and that this is reflected in the Correa administration’s application of populist policies. First it is necessary to establish whether Ecuador has indeed become less dependent; second, how Ecuador managed to lessen its dependency on the United States; and third, the implications of greater autonomy and the policies it produces for Ecuador.

_Autonomous_ _Ecuador_?

In order to establish whether Ecuador has indeed displayed greater autonomy during Correa’s presidency, it is necessary to establish a working definition for autonomy. Ferraro
(1996) differentiates political and economic dependency, but clarifies that these variables interact – with special attention to the relationship between economic liberalism and political dependency. The implication is that autonomy can be defined in similarly bifurcated terms, so long as the relationship between political and economic autonomy is made evident. Yachir (1989:20) describes political autonomy in a manner that illustrates this interaction, defining autonomy in terms of the state’s capacity to implement policies that “to the greatest possible extent, delink the fate and destinies of peoples, states and nations from the implacable demands of worldwide expansion.”

Yachir notes further that these policies are implemented “for the benefit of the popular masses and working classes” (1989:20), thereby linking political autonomy with economic populism. According to this theory, policies that run counter to the neoliberal paradigm may be said to reflect greater political and economic autonomy. This is particularly true of policies in the vein of economic populism, which have been a hallmark of the Correa administration. These policies demonstrate political independence while advancing economic autonomy. The degree of autonomy of Ecuador’s economic policy are evident in nearly every facet of its fiscal policy regime – tax policy, regulatory policy, and spending.

In the short-term, this autonomy may be attributable to high oil prices. However, a small and less developed state such as Ecuador, long-term autonomy seems like an impossibility in this era of globalization. What is more likely a diversification of Ecuador’s economic dependency, such that instead of being entirely dependent on the US as a trade partner and for financing, Ecuador might become dependent two or more countries. This would give Ecuador some degree of leverage in its bilateral relations with each of the states that it relies upon.
In any case, Ecuador has enacted a range of policies that suggest it has achieved a greater level of autonomy under Correa’s leadership. As it pertains to tax policy, both trade tariffs and domestic tax rates have been changed under Correa in a manner at odds neoliberalism and the Washington Consensus:

In October 2007, Ecuador increased tariffs on approximately 600 industrial and agricultural products, largely those that compete with local production. Products with tariff increases included liquor, cellular phones, major appliances, textile and leather manufactures, livestock, powdered milk, and ceramics. In November 2008, Ecuador increased tariffs for non-FTA partners to WTO ceiling rates for 940 products, including foodstuffs, household and consumer appliances, paper products, construction materials, and others. In January 2009, Ecuador imposed further measures including surcharges above the WTO tariff bindings on a wide range of goods and limitations on 2009 imports to 65-70 percent by value of 2008 imports for many other goods. (Foreign Trade Barriers 2010:152)

The Correa administration also halted free trade negotiations with the US in 2008.

In addition to trade tariffs, the Correa government altered and increased domestic tax rates in an attempt to shift a greater percentage of the tax burden onto the wealthy. One such levy, the Tax Equity Law, introduces a progressive income tax, as well as higher rates on inheritance and a host of luxury goods (Collins 2008). Additional corporate taxes have also been applied during Correa’s presidency, including a 2007 decree boosting the state’s share of windfall oil profits from 50 to 99 percent (Hedgecoe 2008).

As noted in Chapter Four, during the neoliberal era Ecuador spent especially high percentages of discretionary state revenue annually on debt servicing, as opposed to social services. But in the Correa era there has been a shift in budgetary priorities. Tax increases have been used to fund an increasing array of social services, while much of Ecuador’s external debt has been written off. In February of 2009, Correa announced his administrations’ refusal to pay $3.2 billion in 2012 and 2030 global bonds. Correa called the external debt “illegitimate” and announced his intent on filing a series of lawsuits against banks charging Ecuador more than the
conventional interest rate of 14 percent. Then in June Ecuador, under Correa’s leadership, bought back over 90 percent of the defaulted debt at just 35 cents on the dollar (Soto 2009).

The Correa administration has since increased the budget for social sector spending considerably and introduced additional subsidies for housing and to deter child labor (Hedgecoe 2008). One of Correa’s first executive orders was a doubling of regular welfare payments to poor households, from $15 to $30 a month. He also doubled the public funding for individual housing loans, increasing them to $3,600. The Correa administration enacted subsidies that lowered energy prices for low-usage consumers, as well as a variety of provisions for development projects aimed at women, youth, and microbusinesses. Correa dispersed hundreds of millions of dollars by declaring “emergencies” in ten sectors, including education, health, and the prison system (Conaghan 2008).

In addition to these budgetary reforms, the state has increased its regulatory reach considerably during Correa’s administration. The new Constitution passed in 2008 includes a number of regulatory provisions to reduce the power of major financial groups in policymaking. One such regulation prohibits the government from offering bailouts to private banks. Another regulatory reform requires companies to offer all workers formal employment and the benefits that accompany it. Another bans financial groups and institutions from owning or having shares in mass media outlets. In addition to these Constitutional regulations on corporations, the state has implemented mechanisms to curtail the rampant tax evasion and capital flight that Ecuador experienced during the neoliberal era (Collins 2008).

There are additional policies that Ecuador has enacted outside the sphere of the economy, which likewise suggest a lesser degree of political dependency on the United States. The most dramatic such policy has been Correa’s decision not to renew the US’s 10-year lease on an
airbase in Manta, used for counternarcotics operations (Solano 2009). While this closure is only
tangentially related to economic policy, it nevertheless demonstrates Ecuador’s willingness to
defy the wishes of the United States government. The same may be said for Ecuador’s ongoing
legal suit against US-based Chevron, over toxic dumping (Isikoff 2008).

Given these developments as well as wider trends in its economic policies, it is safe to
conclude that Ecuador has reduced its dependency on the United States. The next section will
discuss the means by which Ecuador was able to achieve a greater degree of autonomy, with
special attention to four variables that acted as facilitators for independent governance.

*The path toward Autonomy*

Having established that Ecuador has indeed achieved greater autonomy, it is now
appropriate to discuss the factors that have encouraged this autonomy. Although complex arrays
of interacting processes have contributed, four factors deserve particular attention. First, the
market price of oil, which boomed during the Correa administration; second, the current global
recession and financial crisis, which may be weakening the US and its influence over Ecuador’s
politics; third, the 21st century reemergence of Leftism in Latin America and the accompanying
diversification of Ecuador’s credit sources; and fourth, the activities of civil society groups.

Oil consistently accounts for over 50 percent of Ecuador’s exports and as noted,
Ecuador’s economy is highly reliant upon the oil market and in particular on the market value of
crude oil. Crude prices inflated substantially during the Correa administration, increasing from
an average of $58.3 per barrel in Correa’s election year of 2006, to an average of $91.48 in 2008
(Energy Information Administration 2010). The oil price boom has increased tax revenue,
thereby providing the state with a cushion for spending and relieving its dependence on foreign
creditors. Reduced dependency has given the state leverage in its dealings with foreign oil companies, which the state then used to increase taxes further on the oil sector, thereby generating even more revenue.

The oil boom of 2008 generated enormous revenue for exporters such as Ecuador, but for importers like the United States the result was tremendous capital flight. The United States accounts for 45% of Ecuador’s export market in 2008, and as such 45% of the money flowing into Ecuador’s oil industry and state came directly out of the United States (Morss 2010). Not surprisingly, Santiso (2008) concluded that while Ecuador’s GDP is highly correlated with that of the United States, the correlation is negative. The implication is then that Ecuador becomes less dependent on the United States during oil booms, as its state can afford to govern as it sees fit whereas the United States has limited resources to exert its influence. Moreover, concern over scarcity during oil booms may give Ecuador more leverage in its bilateral relationships with the United States, with that leverage equating ultimately to greater autonomy. Certainly Ecuador’s anti-neoliberal reforms in the latter half of the 2000s have not prevented United States entities from purchasing Ecuadorian crude. Just the opposite, Ecuador’s exports to the United States peaked in 2008, in tandem with oil prices (UNdata 2010).

As noted, high oil prices may provide Ecuador with greater political autonomy in the short-term, Ecuador’s will fall into a state of political dependency in the long-term as prices return to pre-boom levels. In order to achieve a sort of sustainable independence within the global economy, Ecuador must diversify the countries that it depends upon. Dependency on a multitude of core states is the closest that a country as small and underdeveloped as Ecuador can come to autonomy.
With this in mind, the third factor contributing to Ecuador’s increased degree of autonomy has been the rise of a new leftist axis in Latin America in the 2000s, of which Ecuador is a part. Amson (2007) estimate that 60 percent of Latin Americans live in countries governed by presidents on the left of the political spectrum. Although these governments are quite heterogeneous in their approaches to redistributive economic policy, they are united in sharing “a critique of neoliberalism, rampant privatization, an excessive openness of economies to global capital and social inequality. They propose to erect more productive and autonomous capitalist forms under greater regulation by the state” (Katz 2005).

The new Latin American left fancies itself as a challenger to US hegemony in the region and in particular Venezuela has emerged as an alternative core state, challenging the IMF and other Western creditors as the “lender of last resort” for countries in the region. Venezuela has appealed to Ecuador along these lines, at one point offering to purchase $300 million in Ecuadorian government bonds (Wersbrot 2006) and later pledging to provide Ecuador with $1 billion in credit (Goodman and Forero 2007).

Another potential source for credit and development assistance going forward is China. Lum et al. (2009) note China’s expanding foreign investment and aid activities across the Global South, including in Latin America. In 2010, Ecuador and China signed a memorandum by which Ecuador is to receive $2 billion in credit to build a hydroelectric plant and approximately $50 million in additional loans (Barionuevo and Romero 2009).

The emergence of alternative sources of credit does not end Ecuador’s reliance on US-based lenders or its dependence on US export markets; however, Ecuador is clearly less dependent on Washington, as is evidenced by its policy choices in the current neo-populist era. By diversifying the states upon which it relies, Ecuador has ceased to be dependent to such a
great extent upon the United States and it has gained some leverage in its bilateral relations with the United States. In today’s global economy, reduced political dependency based on diversification of financiers is as close as a state like Ecuador can come to achieving autonomy.

The fourth factor that has facilitated Ecuador’s newfound autonomy, as well as the emergence of the new Latin American left, is the activities of civil society groups. The impact of civil society is unique among these factors because its emergence is neither recent nor exogenous. It therefore constitutes the bottom-up component of Ecuador’s shift away from a state of dependency. Civil society has contributed to Ecuador’s having achieved greater autonomy by two means: electoral processes and public demonstration. Amson (2007) argue that the new leftism in Latin American politics is primarily attributable to voter dissatisfaction with decades of neoliberal policies. They note that the leftist regimes across the region came to power in democratic elections, often by campaigning on platforms of anti-neoliberal populism. In Ecuador, the popularity that propelled Rafael Correa to the presidency came in large part from his anti-neoliberal stances. Ecuadorian voters have continued to support Correa’s administration, in the constitutional referendum of 2008, at which point Correa’s approval rating was over 70 percent (Siddique 2008) and in Correa’s reelection in 2009 (Carroll 2009).

The other method by which civil society groups have prompted political change is public demonstration. An anti-neoliberal coalition composed of organizations representing labor, indigenous people, and other special interests, have executed increasingly well-coordinated protests following the enactment of each in a series of dramatic neoliberal reforms in the late-1990s and early-2000s, contributing to the removal of three consecutive elected presidents –
Abdala Bucaram in 1997, Jamil Mahuad in 1999, and Lucio Cutierrez in 2005. Over 2 million Ecuadorians participated in these demonstrations, which were strongly anti-neoliberal. In all three cases the crises followed the implementation of Washington Consensus reforms (Gerlach 2003).

The implication is that protests and elections forced Ecuador to change the demeanor of its economic policy paradigm. However, it must be noted that Ecuador’s civil society groups had employed electoral politics and protests for decades prior to Correa’s election with little success in affecting economic policy. Nearly every Ecuadorian president had campaigned on a populist platform similar to Correa’s in 2006. Likewise, civil society groups have been actively protesting neoliberal policies since the 1980s. These demonstrations have overthrown domestic political regimes, but they failed to overthrow Ecuador’s economic regime or even to dissuade the implementation of neoliberal policies until 2006. It was only with the support of the exogenous variables – oil prices, global recession, and the new Latin American left – that endogenous actors in Ecuador’s civil society were able to instigate meaningful regime change.

Now, however, there exists an opportunity for civil society groups to strengthen their access to the levers of power in Ecuador. This opportunity is accompanying the political and economic populism being utilized by the Correa administration. Correa has diverted resources into the wider population and that revenue could be used to strengthen the internal structures of civil groups. Moreover, Correa depends upon the support of civil society, which gives civil groups leverage in their dealings with the state.
Autonomy in practice

Each of the variables that have contributed to Ecuador’s reduced political and economic dependence have also been facilitating the state’s populist approach to political and economic policy. Economic populism has been used by the state as a mechanism for development and as a means for garnering public support. This populist tone has encouraged social development, but it also raises questions about the sustainability of this approach going forward.

Populist policies are being financed by oil revenue, which reached record amounts during the oil price boom of 2007-2008. However, with oil prices having settled significantly below their peak, looming imbalances may threaten the long-term sustainability of the neopopulist policy paradigm in Ecuador. Ecuador’s former finance minister expressed this concern, noting the similarities between Ecuador’s current predicament and the period leading up to Ecuador’s balance-of-payments crisis in the early-1980s, which took place during his tenure in the ministry.

The assured long-term depletion of Ecuador’s oil resources is more troubling. Ecuador held proven reserves of 4.7 billion barrels in January 2009, the third largest in South America (Energy Information Administration 2010). As those resources are reduced further in the coming decades there will be no issue more critical than diversification of Ecuador’s domestic economy.

Another problematic development during the Correa administration has exacerbated this concern about long-term sustainability, that being the alienation of foreign private investors, particularly in the oil industry. Hadgecoe (2008) reports that oil production is no longer a profitable venture for private firms due to the strictness of regulations and taxation structures implemented by the Correa administration. This has advanced speculation that Ecuador’s production will dwindle in the coming years, thereby drying up revenue in the public and private
sectors. As one petrochemical firm manager interviewed for this study explained, this is a potential hindrance to foreign investment as well as to exports.

At this point Ecuador’s “credit risk remains relatively high given the current government’s stated policy regarding prioritizing social and other expenditures over debt repayment” (Moody’s Global Credit Research 2010). Standard & Poor’s actually raised its credit rating for Ecuador in 2009 (Pimentel and Kueffner 2009), but Ecuador’s long-term sovereign rating of CCC+ is still well below investment grade (Standard and Poor’s 2010). If there were a budget crisis, Ecuador would be forced to seek and accept loans under strict conditions and with high interest rates. Under this scenario, Ecuador will surely be forced to implement neoliberal era-style austerity reforms, thereby ushering in a fresh era of neoliberalism. Given this risk and Ecuador’s history of imbalances, it is in the interests of President Correa’s administration and other populists to carefully monitor the budget. In 2010, the government faces a budget shortfall of $4.2 billion, raising further concerns about economic management going forward (Gill 2010).

Despite these long-term concerns over sustainability, Ecuador appears to be advancing in a sustainable pace in the sort-to-medium term, in large part thanks to the policies of President Correa. Correa has cleaned Ecuador’s balance sheet, which should provide Ecuador with room for fresh debt accumulation. The administration has also implemented provisions to prevent capital flight and tax evasion, which should help to balance the budget going forward, so long as oil production remains constant and the global financial crisis and economic downturn do not overwhelm the economy.

Thus far Ecuador’s financial sector has been relatively unscathed in the crisis, due in large part to the effective isolation of Ecuador’s financial sector from the global economy, a
legacy of the banking crisis of the late-1990s. However there are signs that the economy has been affected drastically in other respects and that the Correa administration is reacting with special attention to imbalances:

By the end of 2008, it was clear that the global financial crisis and economic downturn led to falling remittances and oil prices for Ecuador. In January 2009, the government invoked the World Trade Organization (WTO) balance-of-payments safeguard provisions to restrict imports of consumer goods. Following consultations with the WTO Balance-of-payments Committee, the Ecuadoran government converted import quotas to tariffs that are within WTO bindings. In July 2009, the government applied exchange safeguards to Colombian imports, claiming that devaluation of the Colombian currency had reduced Ecuador's competitiveness. The GOE is reducing these safeguards in compliance with a ruling in August 2009 by the Andean Community Secretariat. The government also announced that it is cutting or restricting public sector spending, although it did not provide many specifics on how it would do so. To meet its financing needs and cover the fiscal deficit, Ecuador has obtained loans from international organizations and negotiated advance payments from China for the sale of future oil production (US Department of State 2009).

There is, in fact, reason to suspect that Correa’s neopopulist policies have helped to shield Ecuador from the late-2000s economic crisis and perhaps to position Ecuador in such a way that it achieves still greater autonomy going forward as a consequence of the global crisis. This can be demonstrated with a brief discussion of Ecuador’s experience before and during the crisis in comparison with that of Mexico.

In many respects, Ecuador and Mexico have similar macro economic traits. The primary export product for both is crude oil, both export most of their goods, including oil to the United States, and both have adhered to the neoliberal policy paradigm in accordance with the Washington Consensus. However, whereas Ecuador began to shift toward the left before the crisis and then instituted increasingly populist and protectionist reforms during the crisis, Mexico maintained a neoliberal, US-centric approach to economic policy throughout the late-2000s.

As noted, there has been a negative correlation between the GDP growth of the United States and Ecuador, and that negative correlation has contributed to Ecuador’s increased
autonomy during the current crisis. This has in turn allowed Ecuador to take further measures to
assuage the balance-of-payments, thereby alleviating the crisis further. On the other hand,
Mexico’s economy has expanded and contracted in tandem with the US economy (Luhnow
2009), experiencing 1.3 percent growth in 2008 and 6.8 percent contraction in 2009 and an
increase in 2.5 percent increase in unemployment from 2008 to 2010. In the same period
Ecuador’s economy grew 6.5 percent in 2008 and contracted only 1 percent in 2009, while the
unemployment rate increased by just 1 percent (CIA 2010).

Moreover, the Mexican government’s reaction to the economic crisis has been “weak”
according to Stiglitz (2009), without any strong stimulus effort. This clearly stands in contrast
with the efforts of Ecuador’s state, which have been decidedly protectionist and sometimes quite
drastic. As noted, Ecuador’s capacity to institute policies along these lines is a reflection of its
increasingly independent policymakers, whereas Mexico’s lackluster reaction may demonstrate
its continued dependency on the US. Perhaps it is Ecuador’s geographic and ideological
proximity to the new Latin American left that has allowed it to act autonomously, in contrast to
Mexico.

Ecuador has indeed achieved greater autonomy during the latter half of the 2000s, thanks
to interacting variables, both endogenous and exogenous. This has facilitated the state’s
transition away from the neoliberal approach to economic policy and toward a sort of
neopopulism that prioritizes social development over economic growth. As has been noted,
aspects of this transition have raised concerns about the sustainability of this neopopulist
approach going forward, with the major worry being that overspending will instigate a budgetary
crisis, which would in turn leave Ecuador with little choice but to revert to neoliberal-style
austerity measures. That is not to say that socialism of the 21st century (as Correa and others have termed it), cannot be sustained, but that president Correa and other Latin American leaders in similar predicaments walk a tight rope as they forge new political ground within the context of a globalized economy undergoing dynamic changes. Ecuador is participating in an exciting era in Latin American history, which offers fresh opportunities for social and societal development, although not without risk. Debt alleviation has cleared Ecuador’s balance sheet, thereby creating space for sustainable debt accumulation in the short-to-medium term. In the long term, imbalances can be managed with careful economic governance. Such an approach to governance is essential not only to the stability and well being of Ecuador’s population, but also to the continuation of this neopopulist era.
Chapter Seven: Conclusions

Ecuador’s adherence to the Washington Consensus during the neoliberal era has at best produced mixed results in terms of economic growth and socioeconomic development. This reflects in large part the priorities emphasized by Washington Consensus policies. Instead of being a paradigm for development, as advocates of neoliberal development paradigm suggest, in Ecuador’s experience the Washington Consensus has been a paradigm for maximizing debt servicing over development.

While Ecuador did experience economic growth during the neoliberal period, it is hardly clear that neoliberalism is the optimal paradigm for growth. Moreover, the economic crisis of the late-1990s negated much of the growth achieved during the neoliberal era and invalidated the notion that liberalism creates natural, sustainable economic growth. In terms of development, indicators show that economic and social development did occur during the neoliberal era, but closer investigation demonstrates that remittances and foreign aid offset the state’s social sector spending cuts during the neoliberal era. In fact, what development did occur was likely in spite of Washington Consensus policies, not because of them.

Thanks to recent developments primarily exogenous to Ecuador, the neoliberal era has come to a close, at least for the moment. What has emerged in its place, in Ecuador and elsewhere in the region, is a sort of neopopulist approach to development and to policymaking in general. Although there are concerns that this sort of neopopulist paradigm is not sustainable, it is an important conclusion of this study that the policies of the Correa Administration have
instilled macroeconomic characteristics – very little debt accumulation and protections against capital flight – that may facilitate long-term populism.

If the economy is mismanaged going forward, however, imbalances could lead to economic crisis akin to that of the early-1980s. That crisis persuaded Ecuador to institute neoliberal policies in the first place and it is a troubling prospect that another budget crisis going forward may essentially force Ecuador to adopt the same sort of austerity measures that characterized its economy during the neoliberal era. Therefore, it is critical that the state manage its economy from this point with particular awareness of imbalances. This is critical firstly from a developmental perspective, as neoliberalism does not constitute a suitable development paradigm. Moreover, a sustainable approach to managing of the balance-of-payments is necessary to the continuance of a neopopulist approach to policymaking – which looks to be a more fruitful development paradigm.

Of course, it is hardly a given that the policy paradigm being advanced by the Correa administration will achieve the sort of long-standing hegemony that has characterized neoliberalism. Nor is it a certainty that neopopulism in practice will constitute an ideal path to development. Nevertheless, there certainly exists an exciting opportunity for Ecuador to establish and maintain a new policymaking directive that emphasizes social development first and foremost.

In my summation, the neoliberal policies applied in Ecuador did not contribute positively to its development and had at best a marginal effect on economic growth. Moreover, in its application the neoliberal paradigm did not protect Ecuador’s balance of payments or foster sustainable growth in more general terms.
My conclusions are similar to the findings of Bates (2007) and Lucero (2001), both of whom see Ecuador’s experiment with neoliberalism as having failed to deliver its promised benefits, while diverting revenue away from social development programs. The end of neoliberalism in Ecuador appears to be a very positive development, as opportunity now exists to establish new mechanisms for development within the context of a political system that appears willing to allocate sufficiently more resources to social programs.
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