Chapter 5: "Sow the Oil": The Ecuadorian Classic *Desarrollista* State

> "It is true that history does not repeat to the letter. Though, it does not mean that there is not to find a certain number of structural symmetries, repetitions, which are the expression of the laws that govern the formation, operation, and development of any particular mode of production" (Cueva 2013 [1977], 65).

Overture: Amazonian Oil and the Ecuadorian National Construction

Despite oil extractivism can be traced back since the early twentieth century in the Ecuadorian Pacific coast, the historical milestone that paved the way for the beginning of the Ecuadorian oil era was the integration of the Amazon region (*el Oriente*) into the world-system. Multinational oil corporations not only discovered the Ecuadorian Amazon Region (EAR) for the world-economy, but also shaped the social imaginary of the *Oriente* (Alarcón, Rocha and Di Pietro 2018, 57). After nearly fifteen years of oil exploration in a concession area of 2.5 million ha., the Leonard Exploration Company[95] stepped aside in 1937 adducing "undetermined results" (Acosta 2001, 325). Next was the turn of the Royal Dutch Shell Co.; the corporation got a 10 million ha. concession, and established the township of *Shell*-Mera in the Pastaza province. When Shell announced its negative to start business in Ecuador in 1949, President Galo Plaza (1948-1952) pronounced his well-known catchphrase "the *Oriente* is a myth". Lago Agrio, the current capital of the Sucumbíos province, was named after the first oil field drilled by the Texaco Petroleum Company in Texas: Sour Lake. The consortium Texaco-Gulf received a first concession of 1.4 million ha. in 1964. With the drill of well Lago Agrio One, in 1968, the multinational

95 According to Galarza (1983, 14), the Leonard Exploration Company was the Rockefeller's Standard Oil Company in disguise. For comparison, Ecuador's present area is 28.3 million ha. In 1941, Ecuador lost 20 million ha in the war against Peru (*Guerra del 41*). Galarza (1983, 16) argued that the war was triggered by the conflicting interests of Royal Dutch Shell Co. and Standard Oil Co. in both countries.

joint venture granted the country a certain capability to meet specific demands of the ongoing stage of capitalism. A requisite for Ecuador's renewed integration into the world-economy as raw material provider was the placement of Amazonian oil in international markets. Thus, the consortium Texaco-Gulf started the construction of a 500 km pipeline to cross the Andes range, from the Amazonia to the Esmeraldas seaport in the Pacific coast.

Ecuador's rush in the international oil circuit as a marginal exporter[96] started with the inauguration of the Lago Agrio-Esmeraldas Trans-Ecuadorian pipeline (*Sistema Oleoducto Trans-Ecuatoriano*, SOTE) in 1972. During the inauguration ceremony, former dictator General Guillermo Rodríguez Lara, the head of the self-styled "revolutionary nationalist" government (1972-1976), outlined a modernization project *à la* Ecuadorian where Amazonian oil played a central role:

> [Oil] will help us […] to resolve the problems that afflict the fatherland and particularly the Ecuadorian people […], the marginalized, the dispossessed portion that still […] struggles within misery, ignorance, dump, in lack of health services (General Guillermo Rodríguez Lara, presidential address, July 26, 1972).

The speech closed with the fill of symbolic oil barrels to be delivered to each of the regions (*provincias*) of Ecuador. The day after, the first barrel of oil marched epically through the streets of Quito at the top of a military parade from the city center to the Military School, where it occupied a central place in the Temple of the Heroes (Bustamante 2007, 9). The new champion of Ecuadorian raw material exports was responsible for the upsurge in the real share of exports in GDP; from an average of 15 percent during the 1966-1971 period to 34 percent by 1973, whilst the share of oil exports in the total volume of exports of goods reached 67 percent (de la Torre 1987, 38). Due to oil rent, the state's budget nearly doubled within only two years (from 1972 to 1974) and increased steadily during the 1970s (Báez 1984, 47). Oil revenues were also central to the 9 percent average growth of the Ecuadorian economy during the 1970s decade, which outstripped the "respectable" 5.5 percent of the second half of the 1960s (World Bank 1980, vi). Furthermore, a few years into the oil bonanza, Ecuador was removed from the list of low-income countries and placed among the middle income (de la Torre 1987, 2).

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96 By the beginning of Amazonian oil extraction, the export capacity of Ecuador was barely two percent of that of Saudi Arabia (Philip 1979, 1).

The modernizing vision of the dictatorship was articulated in the *Philosophy and Action Plan of the Revolutionary Nationalist Ecuadorian Government* (*Filosofía y plan de acción del gobierno revolucionario y nacionalista del Ecuador*) (Gobierno Revolucionario y Nacionalista del Ecuador 1972). The document avowed the purpose of "providing the state with the capacity to manage [oil] wealth with the aim to identify and act on issues as poverty, [domestic] regional inequality and dependency" (Moncayo 2017, 156). One of the pillars of the action plan was the promotion of the industrial sector, which was expected to become the "most dynamic area of the economy, in such a fashion as to pull the whole system toward the generation of growth of per capita income that will be self-sustaining in the long-term". Domestic intermediate and capital goods were projected to substitute imports and "iron and cement industry as well as oil refining and other minerals" were declared "basic industries" to be developed with direct participation of the Ecuadorian state (Gobierno Revolucionario y Nacionalista del Ecuador 1972, 23). In order to achieve these goals, the "revolutionary nationalist" dictatorship relied on economic planning and entrusted the National Board of Planning and Economic Coordination (*Junta Nacional de Planificación y Coordinación Económica*, JUNAPLA) with the task of drafting the *Integral Plan of Transformation and Development 1973-1977* (*Plan Integral de Transformación y Desarrollo*) (JUNAPLA 1972).

JUNAPLA was first established in 1954 during Velasco Ibarra's third administration (1952-1956), but its task found the "most favorable circumstance thanks to the invigorating effect of oil in the economy, and the [revolutionary nationalist] military dictatorship". As mentioned before, the "revolutionary nationalist" government (1972-1976) shared with the *Junta Militar* (1963-1966) the belief in the reformist potential of economic planning; though, the inspiration of JUNAPLA was different during both military dictatorships. Whereas the Alliance for Progress (*Alianza para el Progreso*), a cooperation platform launched President John F. Kennedy in 1961 in response to the influence of the Cuban Revolution in Latin America, was the a priori motivation for economic planning during the junta (Pérez Sáinz 1984, 20), the inspiration of JUNAPLA during Rodríguez Lara's dictatorship can be traced back in the ECLAC mission[97] that visited Ecuador in 1949. However, during the first oil boom the board acted as a "technocratic-military agency" in charge of planning the allocation of oil rent (Moncayo 2017, 156).

97 As a main outcome of the mission, in 1954 ECLAC published the country's assessment with the title "*El desarrollo económico del Ecuador*" (CEPAL 1954).

The state-led industrialization proposal of the "revolutionary nationalist" dictatorship was meant to collide against the natural resources-based development model that benefited the traditional oligarchy, i.e. agro-exporters from the coastal region, landlords from the highlands, and their allies within the banking and financial oligarchy. Hence, the dictatorship styled its administration with an anti-feudal discourse linked to the offer to enforce land reform[98] in order to eradicate "unjust land ownership" and to "hinder that privileged families take advantage of national resources and efforts that should benefit popular masses" (Gobierno Revolucionario y Nacionalista del Ecuador 1972, 4). Nonetheless, General Rodríguez Lara's anti-oligarchical coalition sheltered dominant-class groups besides middle-class technocrats, urban working classes, and, of course, groups of the military (Conaghan 1988, 80). The presence of local elites in the state-led anti-oligarchical coalition was linked to the creation of an industrialist class. According to Bocco (1987, 29), the intention of the dictatorship was to lead the state to support a "not so influential faction of the bourgeoisie and relieve it of most conservative economic interests of traditional groups" in order to turn it into the spearhead of domestic industrialists.

Since the oil boom transformed the structure of the state's income from a basis on taxation on private agro-export activity to dependence on surplus produced by the sale of national oil overseas, the transfer of oil rent to the industrial sector was essential for the realization of the state's developmental project. The process of appropriation of oil rent, and hence the direction of the booming oil sector, was entrusted to Naval Captain Gustavo Jarrín Ampudia, one of the "most progressive" members of the cabinet (Martz 1987, 100), whom the dictator appointed minister of natural resources. According to Philip (1979, 8), Jarrín Ampudia "had always aimed at long-term nationalization". The "revolutionary nationalist" dictatorship implemented three principal mechanisms of state's appropriation of oil rent: 1) the enforcement of contractual systems instead of concession systems for oil activity, 2) the creation of a state oil company, and 3) Ecuador's membership in the Organization of Petroleum Exporting Countries (OPEC). As responsible of this set of measures, Jarrín Ampudia appeared as the one who was going to bell the cat (Augusto Tandazo, interview, September 18, 2015), as the kingpin of the dispute with the most powerful multinational oil corporations (Galarza 1978, 12; Báez 1989, 146) for a larger portion of oil rent. By that time, the consortium Texaco-Gulf,

98 The effects of the enforcement of land reform are discussed in the section *Nature and the State: The Political Economy of Oil-Rentierism*.

the owner of the Trans-Ecuadorian pipeline, controlled 99 percent of Amazonian oil extraction.

The main idea behind the switch from concession systems[99] to contractual systems was the pursuit of a "compensation via a share in profits, rather than solely royalty payments" (Martz 1987, 104). Whereas in concession systems, foreign companies own oil extraction and its outcomes and the state participates in the generation of rent with royalties and taxes, in contractual systems companies receive payment in kind or cash as counterpart for undertaking oil extraction (instead of possessing oil extraction or its outcomes). The legal framework for this *first* nationalist measure was provided by the Hydrocarbons Law (*Ley de Hidrocarburos*), which was issued during Velasco Ibarra's fifth presidency (1968-1972) (Supreme Order No. 1459, published in the Official Gazette No. 322, October 1, 1971), and set in force by Rodriguez Lara's dictatorship (Supreme Order No. 430, June 6, 1972). Main dispositions of the law 1) established the obligation of concessionaires to return areas held in excessive quantity, 2) required the payment of surface rights from October 1971 forward, and 3) obliged concessionaires to subscribe new contracts with the state (Martz 1987, 103). The enforcement of the law resulted in the state's recovery of 80 percent of the granted area to foreign companies (Báez 1984, 51), and the limitation of existing concessions to maximum 20 years (Marshall 1988, 56). Besides, the new legal framework legitimized a "complex scheme of taxes and royalties" that enabled the state to raise revenues from oil extraction activities (de la Torre 1987, 39), thus, allowed the state to appropriate a larger portion of oil rent.

The creation of the national oil company *Corporación Estatal Petrolera Ecuatoriana* (CEPE) in June 1972 (Supreme Order No. 522, published in the Official Gazette No. 88, June 26, 1972), just one month before the inauguration of the Trans-Ecuadorian pipeline, was the *second* nationalist measure that ensured the state a gradual access to domestic oil activity. By 1973, a new contract was signed with Texaco-Gulf, which allowed the Ecuadorian state to purchase shares of the multinational consortium (Marshall 1988, 57). After purchasing a 25 percent share of Texaco-Gulf, CEPE started oil exploitation in the Ecuadorian Amazon Region (EAR) in 1974 as a shareholder. In 1977, as Gulf Oil Corporation retired, the Ecuadorian government acquired its share, and CEPE arose as the principal sharehold-

99 Galarza's (1972) *The Oil Feast* (*El festín del petróleo*), the "first best-seller in Ecuadorian history" (Philip 1979, 7), was a precursor of public censure against concession systems.

er of the novel CEPE-Texaco consortium with 62.5 percent participation. Besides, CEPE acquired 50 percent of the Trans-Ecuadorian pipeline and its facilities. The *third* nationalist keystone of the state's struggle for the appropriation of a larger portion of oil rent was Ecuador's admission as a member of the Organization of Petroleum Exporting Countries (OPEC) in 1973. As mentioned before, the cartel exerted pressure on importing countries to recognize a higher value of oil rent for exporting countries; its agency derived in two global oil shocks (1973-1974 and 1979-1980) that caused a tenfold increase in the international price of oil in less than a decade. Besides the membership in OPEC, the integration of the Latin American Energy Organization (OLADE) in the same year[100] epitomized the regional nationalist "effervescence" during the 1970s (Augusto Tandazo, interview, September 18, 2015).

The set of measures enforced by the "revolutionary nationalist" dictatorship to ensure state's control of a larger portion of national oil rent was fruitful. The Ecuadorian state arose as 1) the ultimate owner of national subsoil deposits, and 2) the major owner of the surplus generated by the extraction of Amazonian oil, with a 62.5 percent share. The state's share of oil rent fluctuated between 63 percent and 92 percent during the 1974-1980 period[101] (CONADE 1982 in de la Torre 1987, 39). The Ecuadorian Navy (*Armada del Ecuador*) was granted a permanent position in the oil sector with the creation of the national oil tanker fleet (*Flota Petrolera Ecuatoriana*, FLOPEC). The fleet was initially established in September 1972 as a joint venture between the state-owned shipping company[102] (*Transportes Navieros Ecuatorianos*, TRANSNAVE) and a Japanese corporation (Supreme Order No. 1048, published in the Official Gazette No. 145, September 15, 1972), "the idea was to prevent that the consortium Texaco-Gulf, which already owned the pipeline, took control over the transport of

100 The establishment of OLADE's permanent headquarters in Quito mirrored the commitment of General Rodriguez Lara's "revolutionary nationalist" dictatorship with the creation of the organization.

101 Oil nationalizations worldwide had its golden years in the 1960s and 1970s (Ross 2012, 39). For comparison, expropriations raised the states' share of oil profits from 50 percent in the early 1960s to 98 percent in 1974 (Mommer 2002 in Ross 2012, 39). Forerunners of oil nationalization in Latin America were Argentina in 1910, Bolivia in 1937 (by nationalizing Standard Oil), and Mexico in 1938 (Ross 2012, 37; Haslam and Heidrich 2016, 3).

102 The state-owned shipping company TRANSNAVE was established during Velasco Ibarra's fifth presidency (1968-1972) through Supreme Order No. 1447-C (published in the Official Gazette No. 325, October 6, 1971). The company engaged in transporting cargo by sea to national and international ports.

national oil by sea" (Augusto Tandazo, interview, September 18, 2015)[103]. By 1978, FLOPEC was declared property of the Ecuadorian Navy (Supreme Order No. 2450, published in the Official Gazette No. 579, May 4, 1978; Supreme Order No. 2625, published in the Official Gazette No. 624, July 7, 1978).

Conaghan (1988, 47) argued that "with oil revenues at its disposal, the state occupied an unprecedented dominant position in the economy". Hence, the Ecuadorian state emerged in the role of "effective landlord" (Coronil 1997, 65), since it was able to exert control over the rent produced by the extraction of its national oil. When the Ecuadorian state determined the beneficiaries of rent allocation, then it turned into the "arbiter of the new oil wealth" (Conaghan 1988, 78). With ups and downs, the landlord-arbiter state configuration prevailed through the 1970s and became the landmark of oil-*desarrollismo à la* Ecuadorian[104]. Though, already by 1975 discontent among local elites, multinational oil corporations (particularly the Texaco-Gulf consortium), and more conservative factions of the armed forces was ripe enough to challenge the *desarrollista* proposal of the "revolutionary nationalist" dictatorship, which was accused of leftist by its opponents. On September 1st, a military revolt failed to overthrow General Rodríguez Lara[105]. One of the few high-ranking officers involved in the coup, General González Alvear, the armed forces Chief of Staff, after applying for political asylum in the Chilean embassy "announced in a radio communiqué that he had moved his troops […] because of alleged mismanagement of the country's rich oil resources" (United Press International 1975). The failed coup was the prelude of General Rodríguez Lara's replacement by a more conservative military triumvirate, the *Consejo Supremo de Gobierno*, which ruled over Ecuador between 1976 and 1979. Despite its declared intention of accomplishing with the objectives of the Integral Plan of Transformation and Development 1973-1977, the triumvirate was expected to reform the state's participation in oil activity in order to favor private actors (Báez 1984, 109).

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103 Though, the first tankers of the fleet were bought from Gulf Oil Co. (Augusto Tandazo, interview, September 18, 2015).

104 The imposition of a developmental project as the politics of the political elites and the relative autonomy from social classes gained through oil rent remind of the "Poulantzas' reformulation" of the developmental state theory.

105 Since the dictator General Rodríguez Lara prohibited any public allusion to the incidents of September 1st, the Ecuadorian press referred to the episode as the "coup of the 32nd of August" (*Golpe del 32 de agosto*) (Ana Cevallos, interview, September 19, 2017).

However, the mechanism of oil rent allocation created by the "revolutionary nationalist" dictatorship outlived the coup d'état. The National Development Fund[106] (*Fondo Nacional de Desarrollo*, FONADE) was established in 1973 (Supreme Order No. 1393, December 14, 1973) with the purpose of "providing a productive use to [oil] surplus" (Moncayo 2017, 211), i.e. to bankroll development projects prioritized in the Integral Plan of Transformation and Development 1973-1977. Besides, in order to promote domestic industrial development, a key duty of FONADE was to "provide funding to public financial entities to be channeled to the private initiative" (Oleas 2013, 46). In an assessment of the economic policy[107] enforced during the first Ecuadorian oil boom, ECLAC estimated that in 1976 FONADE received about one third of total oil income and became the public entity that most gathered oil revenues (CEPAL 1979, 13). Besides FONADE, by 1976, the Ecuadorian central government held 27.8 percent of total oil income, the armed forces 11.0 percent, the National Electrification Institute (*Instituto Nacional de Electrificación*, INECEL) 10.4 percent, and CEPE 6.1 percent (CEPAL 1979, 13). The National Electrification Institute (INECEL) was founded in 1961 during Velasco Ibarra's fourth administration (1960-1961) in order to manage the country's electricity sector, i.e. generation, transmission, and distribution of electricity. During the "revolutionary nationalist" dictatorship, INECEL received a significant boost. Table No. 8 shows the beneficiaries of oil revenues as of 1972, 1974, and 1976.

Table No. 8: Distribution of oil income among public entities (percent), Ecuador 1972, 1974, and 1976

Public entity	**1972**	**1974**	**1976**
National Development Fund (FONADE)	n.a.	31.6	33.3
Central government	46.1	30.9	27.8
Armed forces	13.3	10.5	11.0

106 In 1979, FONADE became the Development Bank of Ecuador (*Banco de Desarrollo del Ecuador*).

107 The set of measures enforced by the Ecuadorian state in order to promote industrial development and its outcomes are examined in the section *Development and nature: A demystification of the resource curse*. Concrete measures included preferential credits, the reduction of taxes, the regulation of import tariffs, and the issuance of laws and regulations (Fernández 1989, 194). It is argued that the enforcement of the industrial policy translated into an effective way to channel oil rent to the industrialists.

Public entity	1972	1974	1976
National Electrification Institute (INECEL)	13.2	10.0	10.4
State oil company (CEPE)	n.a.	n.a.	6.1
Ministry of Labor and Social Welfare	2.4	2.7	2.5
Ecuadorian Housing Bank (BEV)[108]	2.4	2.7	2.5
Local governments	n.a.	n.a.	2.3
Public universities	3.3	2.7	1.7
Ministry of Public Health	1.2	1.4	1.3
Province of Esmeraldas	0.8	0.6	0.7
Others: Mainly private universities and Central Bank (BCE)	n.a.	n.a.	0.4

Source: Philip (1979, 12); CEPAL (1979, 13)

This scheme of allocation of oil surplus resulted in a boost to physical infrastructure, which the government regarded as a prerequisite for the state's industrialization project or as a "mythological carrier" of progress (Cueva 2013, 112). Table No. 9 depicts the overall boost in infrastructure. Especially relevant was the construction of roads, which was comparable with the total amount of investments in social infrastructure. The domestic energy sector highly benefited of the provision of infrastructure. The construction of the nowadays biggest hydropower complex of Paute began in 1976 (with the 1,075 MW-plant of Molino). The plant started operations in 1983 and largely surpassed the hydropower plant of Pisayambo (73 MW), which was inaugurated in 1977 as the largest of the country. The *Refinería Estatal de Esmeraldas*, at the present time Ecuador's biggest oil processing plant[109], was inaugurated in 1977 after two years of construction with funds of FONADE and CEPE (Martz 1987, 115).

108 *Banco Ecuatoriano de la Vivienda* (BEV).

109 The output of the three refineries that operate in Ecuador has never been sufficient to meet the domestic demand of oil products. The difference between the domestic consumption of oil products and the domestic supply has been historically covered by imports. This became the paradox of the Ecuadorian oil era: An oil exporting country that imports oil products. Data of imports of oil products is shown in Figure No. 9.

Table No. 9: Sectorial composition of public investment (percent), Ecuador 1973-80

	1973	1974	1975	1976	1977	1978	1979	1980
Production sectors	**7.2**	**7.9**	**8.4**	**9.0**	**10.2**	**7.4**	**1.5**	**4.6**
Agriculture	7.2	7.9	8.0	8.8	10.0	7.1	1.3	4.4
Other	n.a.	n.a.	0.4	0.2	0.2	0.3	0.2	0.2
Natural resources	**20.3**	**21.7**	**12.2**	**20.3**	**22.0**	**24.7**	**34.2**	**34.7**
Petroleum	2.3	9.7	2.8	7.0	8.6	9.2	12.2	11.3
Electricity	18.0	12.0	9.2	13.0	12.9	15.4	21.9	23.1
Other	n.a.	n.a.	0.2	0.3	0.5	0.1	0.1	0.3
Physical infrastructure	**39.4**	**42.5**	**48.4**	**39.5**	**37.7**	**38.5**	**40.4**	**34.1**
Roads	39.4	42.5	38.0	31.3	27.0	24.1	20.7	21.8
Other transport	n.a.	n.a.	4.2	3.8	5.9	6.5	11.3	6.3
Hydraulic	n.a.	n.a.	4.3	3.0	3.4	4.0	3.7	2.3
Other	n.a.	n.a.	1.9	1.4	1.4	3.9	4.7	3.7
Social infrastructure	**16.7**	**10.2**	**28.3**	**28.6**	**28.2**	**27.6**	**22.2**	**23.9**
Water supply	n.a.	n.a.	10.6	7.0	4.5	4.2	5.6	4.5
Sewage	n.a.	n.a.	1.6	3.3	2.7	2.2	1.8	2.9
Urban equipment	n.a.	n.a.	5.7	4.9	5.9	6.5	5.0	5.6
Health	4.2	2.0	5.2	6.7	7.6	8.3	5.5	3.9
Education	12.5	8.2	5.0	6.4	5.8	6.4	4.3	6.3
Other	n.a.	n.a.	0.2	0.3	1.7	n.a.	n.a.	0.7
Other investments	n.a.	n.a.	**2.7**	**2.6**	**1.9**	**1.8**	**1.7**	**2.7**

Source: Gelb and Marshall (1988, 184)

The State and Development: Modernization and Pouring Oil Rent Into Society

The destiny of oil surplus during the first Ecuadorian oil boom raised attention among multilateral organizations. In 1979, ECLAC dedicated a full report to assess the "challenges and achievements of economic policy during the oil growth phase" (CEPAL 1979) and, one year later, the World Bank (1980) published a special report on Ecuador and its "problems and perspectives of development". Both studies asserted that "middle- and lower-middle classes" most benefited of the change of the income structure experienced between 1968 and 1975 (CEPAL 1979, 104; World Bank 1980,

18). According to the World Bank (1980, 18), middle- and lower-middle classes accounted for 55 percent of the total population. Such social sectors, benefited from the average reduction of the income of more privileged groups (20 percent of the population) and even of the decline in income of the less privileged strata (25 percent of the population). Table No. 10 depicts the share in total income by population strata. The positive difference between the years 1975 and 1968 speaks for an improvement of the middle stratum. Since class is a relational concept (Wright 1987, 21), the positive increase in the income of middle classes mirrors in a declining income of the upper and the lower strata. Despite the decrease in the participation of the upper stratum in the total income, a "top 0.5 percent" of upper classes benefited also from the first Ecuadorian oil boom.

Table No. 10: Share in total income by population strata (percent), Ecuador 1968 and 1975

Population strata	**Share in total income (percent)**		**Difference (percent)**
	1968	**1975**	
Poorest 20 percent	3.4	3.0	- 0.4
Lower middle 30 percent	12.6	16.0	+ 1.4
Middle 25 percent	20.7	23.5	+ 2.8
Upper middle 15 percent	23.0	23.3	+ 0.3
Higher 5 percent	12.7	10.7	- 2.0
Upper 5 percent	27.6	23.5	- 4.1
(Top 0.5 percent)	(4.6)	(4.9)	(+ 0.3)

Source: Chiriboga (1985, 94); CEPAL (1978, 973)

Both multilateral organizations highlighted the importance of the expansion of the public sector to the overall growth of the economy and its role in the consolidation of urban middle classes. Increasing employment opportunities in the public administration was central to the booming of urban centers (World Bank 1980, 6) and the rise of middle classes, which "practically did not exist a couple of decades earlier" (CEPAL 1979, 105). In this line, Conaghan (1988, 48) argued that an "immediate use" of oil revenues was to expand the state apparatus itself, especially in the education, labor, social welfare, and health sectors. Public sector employment alone accounted for about 36 percent of all urban jobs created in the period 1974-82 (de la Torre 1987, 213). Between 1972 and 1980 the number of

state bureaucrats increased in more than 140,000, from approximately 97,000 to nearly 238,000 (Moncada 1989, 14), as upward adjustments in their remunerations took place (de la Torre 1987, 47). Infrastructure built during the 1970s also benefited urban middle classes as "social projects were undeniably directed less to rural areas than to the big urban centers" (World Bank 1980, iv). ECLAC's 1979-study reiterated that the first Ecuadorian oil boom was "especially evident" in main cities[110] (CEPAL 1979, 26) as rising state bureaucracy constituted an effective mechanism of transference of oil surplus to urban middle classes[111] and new oil wealth mirrored in their enhanced consumption possibilities. By 1982, 50 percent of the Ecuadorian population lived in urban areas, compared to 36 percent in 1962 (de la Torre 1987, 213). Another effective way in which oil wealth overflowed to urban middle classes was through the Ecuadorian Housing Bank (*Banco Ecuatoriano de la Vivienda*, BEV) and the Social Security Institute (*Instituto Ecuatoriano de Seguridad Social*, IESS). The BEV received 2.5 percent of oil income in 1976 (Table No. 8), in order to enforce a policy of preferential credit to facilitate access to housing. Parallel, the IESS provided housing loans to households. The BEV was established in 1961 during Velasco Ibarra's fourth administration (1960-1961) with the main objectives of 1) enforcing a preferential credit policy, and 2) building inexpensive solutions to face the deficit of middle- and low cost housing (Executive Order No. 23, published in the Official Gazette No. 223, May 26, 1961).

Appropriation of oil rent also allowed the Ecuadorian state to expand subsidy programs, which intended to benefit lower income groups (Gelb and Marshall 1988, 195). Public enterprises were central to subsidize goods and services provided by the state; the National Enterprise of Vital Products (*Empresa Nacional de Productos Vitales*, ENPROVIT) subsidized the consumption of basic food-stuffs and the National Enterprise of Storage and Commercialization (*Empresa Nacional de Almacenamiento y Comercialización*, ENAC) intervened in markets for agricultural products in order to stabilize prices and to soften seasonal fluctuations (de la Torre 1987, 130).

110 "The city of Quito expanded to the north and to the south during the [first] oil boom. Families that lived traditionally in the city center moved to the north and to the south, to live in new neighborhoods, in recently-built city districts or in zones that began to be occupied during the 1950s or 1960s" (Javier Espín, interview, October 10, 2018).

111 Though, ECLAC's report warned that the rise of middle classes was accompanied by "the lack of [class] self-consciousness", which was commonplace in Latin America, and mirrored in the imitation of the "values of higher classes" (CEPAL 1979, 7).

In order to ensure compliance with the official pricing system, the Superintendence of Prices (*Superintendencia de Precios*) was created in 1973 (Supreme Order No. 162, published in the Official Gazette No. 253, February 23, 1973), and given broad regulatory powers to control the "largest single branch of Ecuadorian industry", i.e. food processing (Conaghan 1988, 87). Also subsidies on domestic electricity and oil products for domestic consumption were intended to benefit lower classes. Cheap electricity and the improvement in electricity supply indeed benefited lower classes with a bias toward urban areas; though, the regressive nature of these subsidies further sponsored private accumulation of middle classes. According to de la Torre (1987, 129), the maintenance of oil products for domestic consumption significantly below international prices gave rise to a subsidy equivalent to an average of 5 percent of GDP during the 1974-1980 period.

Middle classes further benefited from income tax deductions. De la Torre (1987, 128-129) argued that, between 1973 and 1976, tax legislation introduced significant changes in exemption allowances and deductions, which were the main cause behind the relaxation of direct taxation of household income. According to the author, during the first oil boom, household income taxes decreased from an average of 1.7 percent of GDP in 1970-72 to an average of 1.0 percent of GDP in the 1974-79 period. The number of households paying income taxes dropped from 105,050 in 1972 to 98,802 in 1976[112]. Only as a result of measures enforced by the military triumvirate to curb tax evasion and to reduce exemptions and allowances, the number of tax-payers began to raise again after the replacement of the "revolutionary nationalist" dictatorship. All in all, tax revenues amounted to about 40 percent in average of total fiscal revenues for the period 1973-79, compared to over three-quarters of total fiscal revenues by 1971, before the oil boom (BCE 2017, 152).

As oil revenues pouring into society asymmetrically benefited the majority of the population, the minimum wage steadily increased during the 1970s decade[113] (BCE 2017, 178) together with the remunerations of public servants. These mirrored in an increment in the household final con-

112 This fact has to do with the breakage of the fiscal contract mentioned in the section *Act III. Nature and the State: A Handbook on the Imposition of a Natural Resources-Based Development Model*. Tax revenues are detailed in Table No. 18.

113 The minimum wage doubled in real terms from 1979 to 1980, reaching US$ 144, a level which was only equaled in 2003 (BCE 2017, 178) at the beginning of the twenty-first century commodities boom.

sumption expenditure that grew at an annual average of 8 percent between 1973 and 1980, and peaked at the historical record of 15 percent in 1974 (World Bank 2019b). Enrollment in tertiary education also increased unprecedentedly. According to the World Bank (2019g), the gross enrollment ratio in tertiary education, i.e. the "ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the tertiary level of education", more than tripled between 1972 (7.5 percent) and 1976 (24.5 percent), and peaked at 34.1 percent in 1981, which means that about one out of three persons of the age group that officially corresponds to the tertiary level was actually enrolled in that year. Though, despite the improvement in material life conditions and consumption patterns, the Ecuadorian *desarrollista* state failed in its attempt to create a market for domestic products. In other words, when the *desarrollista* state endowed all social classes (and particularly middle classes) with "market capacities" (Wright 1996, 694), it indeed succeeded in creating a market, but for *imported* products, not for *domestic* products. Hence, the *desarrollista* state accomplished the capitalist requisite of the enhancement of the internal market, but broke the ultimate commandment of ISI. The other side of the coin was growing dependence on 1) imports[114] of consumer goods, which rose fivefold (in thousands of US$) between 1972 and 1980 (BCE 2017, 119), and on 2) internationally borrowed funds, which were facilitated by oil windfalls. Total debt increased tenfold between 1972 and 1979 (BCE 2017, 128-129), as external debt grew from 17.1 percent to 33.7 percent of gross national income (GNI) (World Bank 2019a).

Development and Nature: A Demystification of the Resource Curse

The simile of a sailing ship has properly described Ecuador's natural resources-led development model across time, in the metaphor proposed by Salgado (1978, 26), natural resources exports are like the sails, which unfurl thanks to the world's winds. In order to steer the ship, Salgado (1978, 27) advocated for a) the creation of a significant internal market, and b)

114 "I remember my father; he was born in 1910. Imported liquors were not common in gatherings or family get-togethers. My father *incorporated* whisky into a family celebration during the [first] oil boom. It was rare. Two things must have happened: whisky was available in the neighborhood store, and my father had the money in his pockets to buy it" (Ana Cevallos, interview, September 19, 2017).

the diversification of exports. The metaphor highlights the country's null influence to face world's winds (like commodity international prices) but overlooks the fact that they are also capable of unfolding an air of euphoria among the ship's crew. Even though Amazonian oil was expected to play a key role in the "revolutionary nationalist" developmental project, the government seemed aware not to rely exclusively on one natural resource: "[Oil] is a fundamental resource, not the only one, it is an indispensable source, not unique, it is a real basic resource, never, never[115], the ultimate" (General Guillermo Rodríguez Lara, presidential address, 26 July 1972).

General Rodríguez Lara's dictatorship understood the "sow the oil" discourse as the necessity of state-led broad-based economic diversification to go beyond dependence on oil rent. Domestic industrialization was envisioned as the masterpiece of the construction of an inward-oriented development model. State's agency made the difference from previous natural resources booms, in general, and, in particular, from the cacao and banana booms of the twentieth century, where the economy was dominated by the private sector and economic growth was governed by a "rigid relationship between the external sector of the economy and the evolution of agriculture" (Bocco 1987, 41). Since the "narrowness" of the internal market (JUNAPLA 1972, 233) was a persistent concern of the General Rodríguez Lara's administration, a prioritized objective of the "revolutionary nationalist" dictatorship was trading within the Andean Pact (now *Comunidad Andina*, CAN), integrated by Bolivia, Colombia, Ecuador, and Peru[116]. Hence, the initial boost to industrialization was directed to support domestic industries, which production was destined for the Andean countries. In Fernández' (1989, 193) words, Ecuador sought to first integrate the "intra-regional" division of labor.

In order to transfer oil revenues to the industrial sector, the "revolutionary nationalist" dictatorship enforced a set of measures to support and protect industrialists. Not only economic mechanisms accounted for the incentives for industrialists, but also wage freeze and suppression of the right to strike of workers (Báez 1984, 97). Among the principal economic incentives were preferential credits, state's participation in private enterprises, and exemptions and reductions of import tariffs and taxes. To these measures added subsidies on industrial electricity and oil products and subsidies on industrial supplies such as fertilizers and pesticides (CEPAL 1979,

115 Repeated in the original version.

116 The Andean Pact was established in 1969 with the aim of trade liberalization between member countries. Chile integrated the organization until 1976.

89). The state's banking and financial system, through the Central Bank (BCE), the National Development Bank (*Banco Nacional de Fomento*, BNF), and the National Financial Corporation[117] (*Corporación Financiera Nacional*, CFN), played a key role in the expansion of the flow of state's resources to industrialists. The system of the Financial Funds (*Fondos Financieros*) was created within the Central Bank not only to channel state's resources towards the industrial sector by expanding and directing credit selectively at low, subsidized interest rates (Supreme Order No. 374, April 5, 1973), but also to stimulate private banks and financial institutions to expand credit to priority sectors using their own resources (de la Torre 1987, 48). According to de la Torre (1987, 136), the annual volume of real credit disbursed by the Ecuadorian banking system (i.e. BCE, BNF, CFN, as well as the private banks) nearly doubled during the period 1972-1980. Table No. 11 depicts the distribution of credit disbursed by the national banking and financial system by sector of economic activity during the period 1964-82. Therein it might be argued that the increasing trend of credit disbursed to all sectors (particularly manufacturing) was at the cost of the commercial sector.

Table No. 11: Sectorial distribution of credit disbursed by the national banking and financial system (percent), Ecuador 1964-82

Economic sector	**1964**	**1970**	**1974**	**1976**	**1978**	**1980**	**1982**
Agriculture	8.1	14.8	19.0	19.3	18.9	17.3	16.4
Manufacturing	15.4	20.8	17.5	21.8	27.1	30.1	33.0
Commerce	67.3	52.5	48.0	45.7	39.4	38.4	33.4
Other (mainly fishing)	9.2	11.9	15.5	13.2	14.6	14.2	17.1

Source: De la Torre (1987, 151)

Regarding tariff protection, the Ecuadorian state generated an asymmetric tariff structure (Fernández 1989, 197) based on 1) the imposition of high tariffs on imported manufactured goods that could be produced locally,

117 The emphasis of the National Development Bank (BNF), which started operations in 1944, was to provide credit to the agricultural sector. Though, it became a principal lender of small industry, craftsmanship, fisheries, and tourism. During the first Ecuadorian oil boom, the BNF was capitalized by oil revenues through FONADE. The National Financial Corporation (CFN) was established in 1964 with the main objective of providing long-term credit to large scale manufacturing industries (de la Torre 1987, 134).

and 2) the exemption (partial or total) of tariffs on imported intermediate and capital goods needed by the Ecuadorian industry. The Industrial Promotion Law of 1973 (*Ley de Fomento Industrial*) enabled enhanced fiscal incentives and tax exemptions for industries that were declared priority by the government in an annual selection process. Incentives of the Industrial Promotion Law of 1973 included 1) exonerations of import duties on new machinery, accessories, and spare parts, 2) exonerations of import duties on raw materials not produced in the country, 3) exonerations of taxes and duties on the formation of companies, 4) income tax deductions from the re-investment of profits and from investments on fixed capital (Supreme Order No. 1248, published in the Official Gazette No. 431, November 13, 1973).

With the enforcement of this set of measures, Ecuador became one of the countries in Latin America with the most "generous" incentives to the industrial sector (World Bank 1980, 253 in Fernández 1989, 197). In de la Torre's (1987, 126) words, the generosity of the incentives granted by the Industrial Promotion Law of was "striking". The idea behind the measures was indeed not new; according to Pérez Sáinz (1984, 20), the Industrial Promotion Law of 1962 was the spearhead of the industrialization project of the *Junta Militar* (1963-1966). Though, the amount of incentives for industrialists during the first Ecuadorian oil boom was unparalleled. De la Torre (1987, 127) estimated that the revenue sacrifice due to exemptions from tariff and import duties, tax benefits, and subsidies as production incentives amounted to 4 percent of GDP annually during the years of oil bonanza. Table No. 12 depicts the composition of Ecuador's non-oil GDP. The table aims to mirror the outcomes by sector of the enforcement of the measures to support and protect industrialists during the first Ecuadorian oil boom. A counterpart to the decline of the share of agriculture, a predominant sector before the oil boom, might be found in the increases of the tertiary sector[118] and the manufacturing sector.

118 The expansion of the tertiary sector of the economy might be related to enhanced private consumption possibilities facilitated by the first Ecuadorian oil boom. A discussion on such a correlation is beyond the scope of this book.

Table No. 12: Real non-oil value added by sector (percent), Ecuador 1965-80

Economic sector	Value added (percent)			Annual change (percent)	
	1965	1972	1980	1965-72	1972-80
Agriculture (includes livestock, fishing, and forestry)	27.0	24.9	16.8	4.0	2.7
Non-petroleum mining	0.3	0.3	0.4	5.7	11.0
Manufacturing	16.0	18.0	21.3	7.0	10.1
Construction	6.8	6.4	5.5	4.2	5.8
Utilities	0.6	0.9	0.9	10.4	8.2
Tertiary sector (includes commerce, government services, transport, other services)	49.4	49.6	55.2	5.2	9.3
Total real non-oil value added	100.0	100.0	100.0	5.2	7.8

Source: De la Torre (1987, 208)

Since the manufacturing sector expanded and the total factor productivity (TFP) followed the Latin American trend, which neared productivity levels of the United States and other industrialized countries[119] (Ferreira, Pessoa, and Veloso 2013, 20), it might be argued that the economic component of the resource curse thesis, i.e. the Dutch disease, is indeed a legend. This argument adds to the "little evidence" that Di John (2009) found to connect oil booms with the contraction of the manufacturing sector. As mentioned before, the author rather found that the Venezuelan manufacturing sector expanded hand in hand with oil activity between the early 1920s and the late 1960s. Hence, the economic component of the resource curse thesis might apply exclusively for countries in the Global North with a consolidated industrial structure that experience a natural resources boom.

Despite the enforcement of the set of measures to support and protect industrialists during the first Ecuadorian oil boom, and even despite the relative high productivity, the country's industrialization profile did not change (Fernández 1989, 201). In Larrea's (2013, 11) words, "industrializa-

119 TFP and labor productivity, with few exceptions in Latin America, followed a decreasing trend that began only after 1980 (Ferreira, Pessoa, and Veloso 2013, 18; Aravena and Fuentes 2013, 9).

tion was mostly a short lived effect of demand expansion in protected sectors of the economy between 1972 and 1982". In absence of a significant qualitative change, Table No. 13 aims to depict the slight quantitative change in the structure of the manufacturing sector during the first Ecuadorian oil boom.

Table No. 13: Manufacturing output by sub-sectors (percent), Ecuador 1965-82

	1965	**1972**	**1977**	**1982**
Food, beverages, and tobacco	58.1	46.3	42.8	41.6
Textiles and clothing	16.2	22.1	23.6	22.1
Wood and wood products	6.2	6.0	5.9	5.3
Paper and printing	7.4	7.1	6.0	6.3
Chemical products (includes plastics)	4.8	5.7	6.5	6.1
Non-metallic minerals and basic metals	5.4	9.1	10.0	12.4
Metal products and machinery	2.0	3.6	5.3	3.1
Other	0.0	0.0	0.0	2.9

Source: Larrea (2013, 12)

Hence, the increase of the share of the manufacturing sector in non-oil GDP might be understood as an upsurge in already dominant segments (i.e. small- and medium-sized industries of finished consumer goods, such as food processing and textiles and clothing) in a context of domestic demand expansion[120]. Though, a principal shortcoming of the manufacturing sector was its dependence on imports of industrial inputs, mainly intermediate and capital goods (Vos 1987, 21); in this line, Oleas (2017, 216)

120 The decrease of the sub-sector food, beverages, and tobacco in the share of the manufacturing sector (Table No. 13) might be related to the escalation of imports to satisfy increasing domestic demand. "My father-in-law used to smoke national tobacco from *Fábrica El Progreso*. During the late 1970s, imported tobacco appeared in the market just at the same price as domestic tobacco. My father-in-law switched straight to imported tobacco, which allegedly tasted better. *El Progreso* outlived until the 1990s" (Javier Espín, interview, November 14, 2018). Cheap imports (due to appreciated currency) and the contraction of the domestic tobacco industry might unveil the symptoms of the Dutch disease pinpointed in the sub-sector. Though, an analysis of the reasons of the decrease of the sub-sector food, beverages, and tobacco in the share of the manufacturing sector during the first Ecuadorian oil boom is beyond the scope of this book.

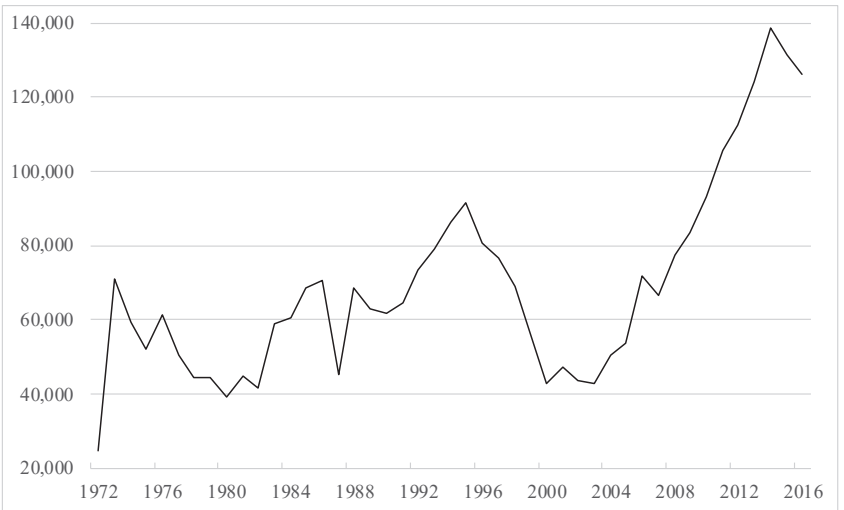
argued that by 1978, about 50 percent of intermediate industrial input was imported. Other flaws in the character of the Ecuadorian manufacturing sector, which remained practically unchanged during the first oil boom, have to do with 1) the low domestic linkages (Vos 1987, 53-72 in Larrea 2013, 11), and 2) the reduced employment generation (Larrea 2013, 11).

Regarding Ecuadorian export products, it might be argued that whereas traditional exports (mainly banana, coffee, and cacao) benefited from favorable commodity prices (Larrea 2013, 12), non-traditional exports experienced a setback during the first oil boom. On the one hand, measures aimed at supporting non-traditional exports enabled traditional exporters to shift production from unprocessed to slightly processed agricultural goods (de la Torre 1987, 205); on the other hand, the protection of larger-scale manufacturing was achieved at the expense of non-traditional exports, actual and potential (de la Torre 1987, 219). A significant example of the type of larger-scale manufacturing established during the first Ecuadorian oil boom is automobile assembly. Today's Ecuadorian largest assembly plant, ranked within the largest companies in Ecuador by total revenue, was established in 1975 during the height of protectionism. Though, the company, in particular, and the segment of automobile assembly, in general, is well-known for import-dependent manufacturing and for insufficient inter-industrial domestic linkages; "as the name implies, *assembly* might not be called manufacturing or industry *sensu stricto*, almost all component parts of the automobile are imported. The actual share of accessories manufactured locally has hovered around 15 percent of the total component parts of the vehicles, which are fitted together locally". By 1981, General Motors Company bought an important share of the local automobile assembly industry, and the company began to assemble exclusively General Motor's brands. In the early 1990s, the multinational became the major shareholder of the local automobile assembly industry; "in order to protect this so-called domestic *industry*, the tax burden on imported used cars is extreme in Ecuador" (Fabián Alarcón, interview, September 19, 2017).

The modest growth of the manufacturing sector during the first oil boom (even at the expense of non-traditional exports) did definitely not mean the take-off of Ecuadorian industry. The increase of the share of manufacturing in non-oil GDP did not translate into a modification of the country's productive structure, nor mirrored in a significant diversification of foreign exchange resources. Both features, 1) scarce modification of the productive structure and 2) insufficient diversification of foreign exchange sources blatantly antagonized with the envisioned inward-oriented devel-

opment model. The meteoric upsurge in oil output shown in Figure No. 2 aims to depict the country's increasing reliance on oil as a main source of foreign exchange even after the years of the oil bonanza, as more than two thirds of the Amazonian oil extracted was destined to exportation (Gelb and Marshall 1988, 176).

Figure No. 2: Oil output, number of barrels exported, Ecuador 1972-2016



Source: Own diagram based on BCE (2017, 193)

Beyond the first Ecuadorian oil boom, and for the rest of the twentieth century, further reliance on natural resources exports unveiled the failure of intended broad-based economic diversification and thus the impossibility of establishing an inward-oriented development model. Hence, the transfer of oil rent to industrialists mirrored at the most in pseudo-industrialization. Table No. 14 shows the "diversification" of the Ecuadorian export portfolio from the first oil boom until the turn of the century. Whereas the negligible share of manufactured goods in Ecuadorian exports appears under non-traditional products, oil, bananas, and sea products accounted for about 80 percent, in average, of Ecuadorian exports during the last four decades (Larrea 2013, 12).

Table No. 14: Average share of export products (percent), Ecuador 1973-2001

Export product	1973-81	1982-91	1992-2001
Oil products (mainly crude oil)	58.9	54.8	36.4
Traditional products (banana and plantain, coffee and coffee products, shrimp, cocoa and cocoa products, tuna and fish)	28.8	38.5	42.1
Non-traditional products (mainly natural flowers, canned sea food and mining products)	12.3	6.7	21.5

Source: BCE (2017, 111)

Coinciding with a decreasing trend in the net barter terms of trade, which began in the 1980s and lasted until the end of the twentieth century (Table No. 2), and with the deterioration of international oil prices, oil lost weight in the share of Ecuadorian export products (Table No. 14). During the 1980s, fish and farmed shrimp exports accounted for the biggest contribution to the expansion in exports of traditional products. Whilst, non-traditional exports experienced a setback, mainly as an outcome of the enforcement of the aforementioned incentives that resulted in support of traditional exports. During the 1990s, traditional export products proved to be a reliable source of foreign exchange during the continued deterioration of international oil prices, as non-traditional exports, mainly fresh flowers and canned sea food, contributed to the diversification of the natural resources export portfolio. According to Larrea (2013, 12), fresh flowers have been the "only new significant addition" to Ecuador's export basket since the 1990s. Nevertheless, the total volume of Ecuadorian exports quadrupled between 1980 and 1999 (Larrea 2006b, 1). Though, the improved export performance did not mirror in economic growth (see Figure No. 4; Table No. 19).

Nature and the State: The Political Economy of Oil-Rentierism

The prevailing reliance on natural resources exports of the Ecuadorian economy speaks for a state's failure in the creation of a new industrialist class out of the old oligarchy. A plausible explanation to the deafness shown by potential new industrialists to the appeal of the *desarrollista* state during the first oil boom might be found 1) in the origins of the Ecuadorian bourgeoisie, and 2) in its heterogeneous structure and strategies. Regarding the origins of the Ecuadorian bourgeoisie, Cueva (2013, 85) under-

lined the close linkages with the landowning (*latifundista*) aristocracy, which was most representative within the dominant coalition of the Ecuadorian oligarchical state. When the *desarrollista* state challenged the oligarchical order, the leading position of the traditional landowning oligarchy was disputed by the ascending "intermediary [modern] bourgeoisie" and the transnational capital (Cueva 2013, 133). In this vein, Moncada (1989, 35) argued that the "birth and growth of the bourgeoisie, simultaneous with the overwhelming inflow of foreign capital" was central to the construction of a class stance that consisted in not opposing to and not antagonizing with foreign capital when it came to pursue a more autonomous development project. The behavior of this modern, intermediary bourgeoisie, attached to the landowning oligarchy and dependent on transnational capital, responded to "complex calculations linked to own interests, goals, and strategies" (Moncayo 2017, 188). Moncada (1989, 17) posited that due to the activities it controlled and its varied interests, the Ecuadorian bourgeoisie cultivated strong links with the state and even with government officials[121]. Due to the heterogeneous interests, goals, and strategies, Moncayo (2017, 187) argued that "the Ecuadorian bourgeoisie was not made up of segregated fractions, but of an amalgamation of interlinked, entangled groupings".

An alternative explanation to the Ecuadorian bourgeoisie's lack of commitment with economic diversification might be supported on rentier theory. Coronil (1997, 248), in his influential study about the Venezuelan petro-state, highlighted the rentier behavior of dominant-class groups:

> [rentier] capitalists not necessarily act akin to afford industrial investments to increase the productivity of labor, since expansion of circulating money during boom periods creates opportunities for profit (in sectors as real state, finance, commerce, and construction), which do not depend on productive investments or on efforts.

Among the sectors mentioned (real state, finance, commerce, and construction), in which boom periods create opportunities to profit without an effort, Coronil (1997, 248) forgot to mention the very manufacturing

121 This behavior of the Ecuadorian bourgeoisie reminds of Coronil's (2008, 20) characterization of rentier societies in opposition to capitalist societies: "if in capitalist nations based on the generation of value through human labor the business of politics is business, in oil exporting societies based on the extraction of rents through the capture of natural riches the business of business is politics".

sector. As mentioned before, during the first Ecuadorian oil boom, the state "generously" and "strikingly" protected domestic manufacturing. Oil rent was central to the availability of national and international credits that bankrolled a set of incentives for industrialists from 1973 until the end of the decade, which in turn nurtured their rentier behavior. Due to the "close and family-based" nature of local industry (Luna 1993, 66), propertied classes benefited from the enforcement of state's industrial promotion measures. Luna (1993, 65) argued that the "oligarchical familiar structure", which was a legacy of colonial social relationships based on the color of the skin and the nobility of the family name, persisted beyond the 1960s together with new social classes "under construction"; furthermore, this fact disturbed the professional and entrepreneurial management of industries since the lack of a functional separation between owners and managers and staff members, due to kinship or adscription to a common elite, translated into low productivity and low quality of products manufactured locally. Hence, the "close and family-based" nature of local industry was central to the conformation of what Luna (1993, 60) called the "anti-entrepreneurial spirit" of industrialists, i.e. a behavior, which was not centered on the generation of value through human labor (Coronil 2008, 20), but on the exploitation of more "natural" conditions such as kinship, birthright, or adscription to a common elite. The rentier behavior of local industrialists was also fostered by prevailing pre-capitalist relations of production. Until the 1970s, the hacienda system[122], which epitomized pre-capitalist relations of production in the highlands, was well-known for its lack of entrepreneurship that mirrored in scarce initiatives to improve agricultural production and to incorporate technological advances into the productive process. This lack of entrepreneurship might be closely related to the availability of inexpensive labor force in the hacienda (Luna 1993, 64), and is central to understand the rentier behavior of *latifundistas*. Analogously, benefits from oil revenues put at the industrialists' disposal, in the form of incentives for the manufacturing sector, become central to understand their rentier behavior.

With the "revolutionary nationalist" dictatorship pouring oil rent into the manufacturing sector, conflict with industrialists might had appeared

122 "Large haciendas not only monopolized more than three-quarters of the total area of the highlands, according to the 1954 census, they were also institutions that politically, ethnically, and economically dominated the rural indigenous population" (Zamosc 1994 in de la Torre 2000, 213).

unthinkable; though, the enforcement of land reform policies[123] unveiled the common foundation of industrialists and *latifundistas*, who unified positions with other local elites and more conservative factions of the armed forces, and forged an alliance to overthrow General Rodríguez Lara (Bocco 1987, 31). With the Land Reform Law of 1973, the government was entrusted with the power to expropriate any "inefficient" landholding where landlords failed to exploit economically at least 80 percent of the usable area by January 1976. The prevalence of precarious employment relationships in agriculture, i.e. pre-capitalist relations of production, was also penalized (Supreme Order No. 1172, published in the Official Gazette No. 410, October 15, 1973). Guillermo Maldonado Lince (1980, 49), General Rodríguez Lara's minister of agriculture[124] between December 1972 and March 1974, argued that such a progressive vein of the Land Reform Law of 1973 doomed it to be nicknamed the "Snatch Law" (*Ley del arranche*) by local elites. The *Consejo Supremo de Gobierno* (1976-1979), the military triumvirate that followed the "revolutionary nationalist" dictatorship, enacted a new legal framework under pressure of the *latifundistas* (North 1985, 441). The Agrarian Development Law of 1979 (*Ley de Fomento y Desarrollo Agropecuario*) (Supreme Order No. 3289, published in the Official Gazette No. 792, March 15, 1979) despoiled the Land Reform Law of 1973 of its "reformist" potential (North 1985, 441), as it abolished the criteria by which an estate was to be considered efficient, particularly the rule of the 80 percent (Barsky 1984, 248).

North (1985, 442) argued that an implicit objective of land reform enforced during the first Ecuadorian oil boom was industrial promotion. In the same vein, Bretón (2008, 586) posited that during the years of the import-substitution industrialization (ISI) consensus, "it was believed that the

123 Land reform was first enforced by the Junta Militar (1963-1966) through the Law of Land Reform and Settlement and the Law of Idle Lands and Settlement of 1964 (Gondard and Mazurek 2001, 16). The Ecuadorian Institute of Land Reform and Colonization (*Instituto Ecuatoriano de Reforma Agraria y Colonización*, IERAC) was first established in order to enforce land reform policies. At that time, redistribution of land ownership was not a national initiative, but a mandate of the Alliance for Progress (Luna 1993, 66). As mentioned before, the Alliance for Progress was a cooperation platform launched President John F. Kennedy in 1961 in order to avert the "perils" of the spread of the Cuban Revolution into the Latin American region. Local elites gave an apparent positive response to the enforcement of land reform since their fears were focused on potential uprisings and social unrest.

124 According to Martz (1987, 121), Mr. Maldonado Lince had an utmost nationalistic stance on land reform.

transformation of agrarian structures was a necessary condition for economic take-off"; hence, land reform was not itself an objective of the military dictatorships of the 1970s. The statement alone serves as a plausible explanation for the "asymmetric results" (Bretón 2008, 591) of the enforcement of land reform policies. Still, Maldonado Lince (1980, 46) argued that *latifundistas* systematically sabotaged the task of the Ecuadorian Institute of Land Reform and Colonization (IERAC) since its creation in 1964. As a result, in the early years of the bonanza, a weak IERAC was only able to show a humble budget implementation of 25 percent (Maldonado Lince 1980, 51). Table No. 15 depicts the evolution of the Ecuadorian agrarian structure for the period 1954-2000. By 1954, circa three-quarters of the landholdings (73.1 percent) were smaller than five hectares and accounted for only for 7.2 percent of all arable land. Whilst, only 2.1 percent of the estates, those larger that 100 hectares, accounted for far more than the half of all arable land (64.4 percent). Thirty years later, by 1984, the percentage of arable land comprised by farms smaller than 20 hectares increased substantially to 35.6 percent, while estates larger than 100 hectares did not account for more than 34 percent of the arable land[125]. Though, according to Bretón (2008, 591), "this apparently greater equity is more illusory than real".

Table No. 15: Evolution of the agrarian structure, Ecuador 1954-2000

Size of units	**Number of units (percent)**			**Arable land (percent)**			
	1954	**1974**	**2000**	**1954**	**1974**	**1984**	**2000**
Less than 5 ha	73.1	66.8	63.5	7.2	6.8		6.3
From 5 to 20 ha	16.7	18.6	21.0	9.4	11.8		13.8
Less than 20 ha						35.6	
From 20 to 100 ha	8.1	12.5	13.2	19.0	33.5		37.3
More than 100 ha	2.1	2.1	2.3	64.4	47.9	ca. 34.0	42.6

Source: Chiriboga (1985, 99); Bretón (2008, 592)

125 Figures of the year 2000 are included in Table No. 15 in order to show a rather sluggish trend in land redistribution. An explanation for the evident recoil in the redistribution of estates larger than 100 hectares is beyond the scope of this book.

Bretón (2008, 593) argued that the change in landholding patterns was mainly related to the expansion of arable land, "two million hectares in only twenty years". In the same vein, Barsky (1984, 305) argued that the agricultural frontier was pushed by colonization of land by workers of the haciendas fostered by IERAC. Colonization had, in turn, two main outcomes. On the one hand, it indeed accelerated the breakup of estates that had difficulties adapting to the efficiency requirements imposed by law. On the other hand, colonization guaranteed the rationalization of "the best lands and those susceptible to be turned into capitalized units of production oriented towards the domestic urban market or export trade" (Bretón 2008, 592). The figures exposed in Table No. 16 show the relative importance of colonization to the redistribution of land for the period 1964-83. Table No. 16 aims also to depict the comparative effectiveness of land redistribution during the period ruled by the Land Reform Law of 1973 or the "revolutionary nationalist" dictatorship's re-launching of land reform first enforced by the *Junta Militar*. Though, Bretón (2008, 592) posited that often only the worst estate lands (those unsuitable for cultivation) were redistributed. Further, the author argued that land reform severed peasants from mechanized (i.e. efficient) haciendas. Hence, the only possibility of access to land for peasants was through the fragmentation of the holdings distributed by IERAC, which throughout the years became smaller and smaller, or through a further expansion of the agricultural frontier.

Table No. 16: Redistribution through land reform and colonization, Ecuador 1964-83

	Land reform (hectares)	**Colonization (hectares)**	**Total**
1964-66	85,602.8	207,612.1	293,214.9
1967-70	74,034.5	253,710.7	327,745.2
1971-79	482,420.9	1,069,592.7	1,552,013.7
1980-83	166,663.7	654,632.2	821,295.9

Source: Barsky (1984, 304-313)

However, land reform is central not only to understand the processes of migration from rural to urban areas (i.e. urbanization), and migration abroad (particularly during the 1990s), but also to elucidate the decay of the traditional oligarchy with its rural base, the hacienda. Gondard and Mazurek (2001, 36) argued that a drastic reduction of the annual rural pop-

ulation growth rates in the coast and the highlands took place during the 1970s, as a sign of massive rural migration. Table No. 17 shows national rural population growth rates; compared to country's total population growth rates, rural figures are remarkably smaller for the period 1974-90.

Table No. 17: Annual rural population growth rate, Ecuador 1962-90

	Ecuador total (percent)	**Ecuador rural (percent)**	**Highlands rural (percent)**	**Coast rural (percent)**
1962-74	3.30	2.54	2.12	2.61
1974-82	2.77	0.81	0.89	0.26
1982-90	2.77	0.63	0.26	0.49

Source: Gondard and Mazurek (2001, 36)

Then, in might be argued that land reform did not solve the inequalities in land owning and neither other problems of wealth distribution in rural areas, but decisively impacted on oligarchical social classes, which had to compete with more modern segments of the bourgeoisie represented by a "modern commercial agricultural economy" (CEPAL 1977, 25). Such groups, which were characterized by their more capitalistic relations of production, indeed emerged from old *latifundistas*, but were able to make better use than any other group of the state's allocation of oil rent in the form of infrastructure projects and credit disbursed by the national banking and financial system (Table No. 11). However, land reform did definitely not mean the take-off of the Ecuadorian economy. Regarding middle classes, land reform had an ambiguous impact. Urbanization, the other side of the coin of land reform, not only nurtured middle classes, but also was related to a looming crisis for the next generation, with migrants who often ended as "[informal] construction laborers and street vendors" (Conaghan 1988, 48), thereby increasing informal employment (World Bank 1980, iv). Therefore, North (1985, 452) argued that the "illusion of [urban] prosperity veiled the underlying contradictions of the [natural resources-based] development model", as social peace was "temporary purchased through *asistencialismo* instead of [wealth] redistribution and structural change".

Postlude to Nature and the State: The Political Economy of the End of the First Ecuadorian Oil Boom

Whereas last section focused on Ecuador's domestic circumstance, the present section explores central external conditions that linked the country with the next stage of capitalism. By the time when the "revolutionary nationalist" dictatorship confronted with the opposition of the traditional oligarchy to the enforcement of land reform, foreign oil companies also raised their voice against allegedly deprivations caused by the enforcement of nationalist oil policies tending towards the appropriation of a larger portion of oil rent. Texaco-Gulf "actively engaged" in promoting the removal of the Minister of Natural Resources Jarrín Ampudia; a press campaign was mounted, while the consortium threatened a possible withdrawal from Ecuador if the minister remained (Martz 1987, 134). Jarrín Ampudia's reputation reached a highpoint in 1974 when he was appointed president of OPEC's conference to be held in Quito. The minister was regarded as the personification of oil nationalism thanks to his reiterated demands for raised taxes and royalties, and the observation of OPEC's directives on managing oil supply, which often contradicted the business plans of foreign oil companies. The precipitating factor for his removal was a proposed new negotiation with Texaco-Gulf launched in September 1974, where the minister sought to secure majority shareholding for CEPE by purchasing an additional 26 percent of the consortium (Martz 987, 125). Jarrín Ampudia's proposal was "quietly dropped" when he resigned at the beginning of October (Philip 1979, 18). His departure revealed the real measure of the multinationals' counteroffensive. By November, Texaco-Gulf announced that the Trans-Ecuadorian pipeline was being shut down and oil exports had halted (Martz 1987, 127). This measures added to other sabotage actions such as cancellation of contracts with subcontractors, cessation of purchase orders, and interruption of exports (Martz 1987, 132). Concessions made by the dictatorship, which included tax reduction and noncompliance with OPEC's resolution of an increase in oil price (Marshall 1988, 58), resulted in a diminution of the state's share of oil rent.

Conditions created by foreign oil companies added to weakening international oil prices. Such a cocktail mirrored in the meager oil output of 1975 (Figure No. 2). Besides, the U.S. Foreign Trade Law of 1975 excluded all member states of OPEC[126] from preferential tariffs in their commerce

126 Philip (1979, 14) recapped that since the beginning of 1974, the United States launched a diplomatic offensive against OPEC.

with the United States (Martz 1987, 133), as a retaliation for the oil embargo of 1973-1974, which caused the first global oil shock. According to Marshall (1988, xvii), only the joined action of the Andean Pact could end the restriction for country members Ecuador and Venezuela. External conditions aggravated the internal circumstance, which turned explosive in 1975. Due to declining exports of (yet cheaper) Amazonian oil, the regime imposed import restrictions on a number of luxury goods, in order to tackle with the worsening balance of payments position (Báez 1984, 104; Philip 1979, 24). According to Philip (1979, 23), this measure accelerated the process of replacement of the "revolutionary nationalist" dictatorship by the triumvirate of the *Consejo Supremo de Gobierno*, which assumed office by the beginning of 1976.

The principal undertaking of the *Consejo Supremo de Gobierno* was the installation of the scenario for the return of democratic regimes. Therefore, the triumvirate appointed a commission with the duty of drafting a new political constitution (Supreme Order No. 995, published in the Official Gazette No. 239, November 23, 1976). Despite the scenario of national decision-making was shifted to the arena of the civilians, the armed forces kept close control on policy making (Freidenberg and Pachano 2016, 21). The resulting 1978 Constitution was meant to enter into force with the debut of the next elected government (Supreme Order No. 2400, published in the Official Gazette No. 564, April 12, 1978). The text of the new constitution was ratified in a national referendum in January 1978, and the dictatorship called for general elections in July of the same year. In the second ballot, held on April 1979, Jaime Roldós was elected president and assumed office in August for a five-year period. The new government, which was supposed to deal with the return of democracy to the domestic arena[127], and its successors faced indeed a greater challenge, i.e. to cope with the end of the first Ecuadorian oil boom. After peaking in 1980, international oil prices dropped steadily until a decade's minimum in 1986, and a historical minimum in 1998 (MWV 2018), when the income of Ecuadorian banana exports surpassed oil revenues (Acosta 2001, 341; BCE 2017, 111) for the first time since the beginning of the oil era.

The share of oil rent in the gross domestic product (GDP) steadily declined during the two last decades of the century (Table No. 32), with a historical minimum in 1998 (World Bank 2019d). Household final consumption expenditure followed the decreasing trend to an average of two

127 Jaime Roldós died in a plane crash in 1981 and Osvaldo Hurtado, his vice-president, succeeded him as president until the end of the term in 1984.

percent growth for the period 1982-2001, which markedly fell behind the annual average of eight percent growth for the period 1973-80 (World Bank 2019b). Even the gross enrollment ratio in tertiary education declined after peaking in 1981. At the end of the century, the ratio reached levels comparable with those of the mid-1970s (World Bank 2019g). Whilst, the minimum wage reduced progressively in real terms after peaking in 1980 (BCE 2017, 178). Nevertheless, debt service improved from an average of 3.5 percent of GNI for the period 1972-81 to 7.8 percent for the rest of the century and peaked at the historical record of 13.2 percent of GNI in 1999 (World Bank 2019e) for increasing external debt stocks that surpassed the barrier of 40 percent of GNI in 1982 and kept over 70 percent during the 1990s, with a historical peak of 104.5 percent of the GNI in 1999 (World Bank 2019a). in this line, Oleas (2017, 216) argued that by 1980, Ecuador disbursed an equivalent to 78 percent of its exports for external debt service.

The worldwide triumph of international financial capital, which mirrored in the Latin American debt crisis, was also palpable in Ecuador during the last decades of the twentieth century. Democratically-elected governments responded to the new external conditions with the enforcement of neoliberal policies inspired by the Washington Consensus (WC). The pursuit of overall market prevalence began to erode the landlord-arbiter state configuration, which predominated during the last stage of capitalism. A concrete response to decreasing international oil prices was openness to foreign capital, i.e. the pursuit of enhanced participation of multinational oil corporations in exploration and exploitation activities. By 1992, Ecuador abandoned OPEC in a bet to counteract decreasing income with increased oil exports without any quota restriction[128].

The prevalence of the private initiative was confirmed as the new status quo in 1993 when the Ecuadorian Congress issued the Law of Modernization of the State, Privatizations, and Delegation of Public Services to the Private Initiative (*Ley de Modernización del Estado, Privatizaciones y Prestación de Servicios Públicos por Parte de la Iniciativa Privada*), which followed the regional trend of limiting national states' active role in the economy in benefit of free market rules. Article 8 of the law established the National Council of Modernization of the State (*Consejo Nacional de Modernización del Estado*, CONAM) in charge of enforcing the legal reform, i.e. releasing the state of key responsibilities regarding the national development

128 Ecuador resumed in 2007 within the renewed nationalist trend inspired by the 'pink tide'.

process (Congreso Nacional 1993). Despite the existence of the National Council of Development (*Consejo Nacional de Desarrollo*, CONADE)[129], the CONAM, since its creation, was regarded as the official entity in charge of economic planning (former official of CONADE, interview, January 9, 2017). One of the main duties of CONAM, the barbarian[130], was the privatization of state companies. Non-profitable state companies were doomed to extinction; this was the fate of the National Enterprise of Storage and Commercialization (ENAC) (Executive Order No. 967, published in the Official Gazette No. 223, December 26, 1997) and the National Enterprise of Vital Products (ENPROVIT) (Executive Order No. 197, published in the Official Gazette No. 47, October 15, 1998). Though, the destiny of the jewels in the crown, the national oil company (CEPE) and the National Electrification Institute (INECEL), remained unforeseen.

By 1989, the *Empresa Estatal Petróleos del Ecuador* (Petroecuador) replaced CEPE[131]. The renewed state-owned oil company was meant to assume Texaco's duties (including the operation of the Trans-Ecuadorian pipeline) by the time when the multinational had left the country in 1990. Since its creation, Petroecuador was intended to comply with the privatization dictates of the WC; hence it operated as a holding with three main subsidiaries, 1) *Petroproducción*, in charge of undertaking extractivist activities, 2) *Petroindustrial*, mainly in charge of operating the Esmeraldas refinery, and 3) *Petrocomercial*, which controlled the local distribution of oil products. Meanwhile, the 1996 Law of the Electric Sector (*Ley de Régimen del Sector Eléctrico*) tolled the knell for INECEL. The idea behind INECEL's dissolution was to split the country's electricity sector, i.e. generation, transmission, and distribution of electricity, into several business units to be privatized (Congreso Nacional 1996). With the benefit of hindsight, it might be argued that a main reason for the state's failure to comply with the privatization mandate was the resistance of workers' unions. In an ap-

129 CONADE was created by the 1978 Constitution to replace JUNAPLA, and was extinguished by the 1998 Constitution. According to Moncayo (1987, 153), the main difference between JUNAPLA and CONADE was the composition of the latter; CONADE's directory incorporated "representatives of universities, workers, and industrialists".

130 During the 1990s decade, street paintings with the motto "Stop CONAM the barbarian!" appeared in Quito as a symptom of opposition to privatization of state companies (Ximena Estévez, interview, October 10, 2018). The motto alluded to the 1982 film "Conan the barbarian", directed by John Milius.

131 The Law of Creation of Petroecuador (*Ley Especial No. 45*) was published in the Official Gazette No. 283 of September 26, 1989 (Congreso Nacional 1989).

parent paradox, article 31 of the 1978 Constitution, which was drafted during the military dictatorship of the *Consejo Supremo de Gobierno*, granted unionization and the right of workers to strike (Primera Comisión de Reestructuración Jurídica del Estado 1979). Hence, during the 1980s, organized workers became the key social actor that faced the end of state's distributive policies and the embracement of neoliberal policies. According to Marega (2015, 33), the National Federation of State Petroleum Workers of CEPE (*Federación Nacional de Trabajadores Petroleros Estatales de* CEPE, FETRACEPE) was established in December 1980 with a strong commitment to "defense of strategic resources". This sense of commitment comprised a vision of the state company as "an expression of national sovereignty and work source". During the 1990s, the union switched name to National Federation of Workers of the State Petroleum Company (*Federación Nacional de Trabajadores de la Empresa Estatal Petróleos del Ecuador*, FETRAPEC) and significantly grew in members and in political organization (Marega 2015, 33) and turned into the spearhead of the defense of against private capital. The struggle entailed a reminiscence of the nationalist vein of the 1970s oil-*desarrollismo*. The growing role of unions against the enforcement of neoliberal policies was only to be surpassed by that of the indigenous movement during the 1990s. As a result, the intended denationalization of principal state companies did not succeed.

Though, the outcomes of the participation of foreign capital in the oil sector became tangible in 2003, when multinational corporations overtook the national company in Amazonian oil output[132] (BCE 2017, 192; Larrea 2006a, 67). Besides, private companies that started extractivist activities in the *Oriente* during the second half of the 1980s (Ortiz 2011, 12), inaugurated the new heavy crude oil[133] pipeline (*Oleoducto de Crudos Pesados*, OCP) after two years of construction. The private OCP pipeline is meant to be transferred to the Ecuadorian state in 2023 after twenty years of private operation. Privatization of state companies would have signified a giant leap to address one of the main concerns of neoliberalism: the size of the state apparatus.

No other strategy to assure the prevalence of market rules had a stronger impact on middle- and lower-middle classes than the reduction of employ-

132 Incidentally (or not), in 2003 began an upward trend in international oil prices, which was the dawn of the twenty-first century commodities boom.

133 A heavy crude oil is a denser, more viscous oil. The American Petroleum Institute gravity (API gravity) measures how heavy or light a crude oil is compared to water. A heavy crude oil has an API gravity of less than 20 degrees API.

ment opportunities in the public administration. Since no labor-intensive alternative to public service was available to absorb the workforce of modern urban middle classes, the strategy to cope with neoliberal marginalization was found overseas: Personal remittances increased from US$ 1 million in 1989 to US$ 1,421 million in 2001 (World Bank 2019f), as the number of Ecuadorian migrants to the Global North skyrocketed. Along with massive migration, during the crisis of the end of the twentieth century, people who benefited from the first Ecuadorian oil boom "were clearly declassed" (Vera 2013, 137), not only because of the disappearance of their social status, but also because of the "loss of the elections in which their class identity was based", i.e. reduction in the household final consumption expenditure, limited access to tertiary education, and decreasing employment opportunities in the public sector. Though, remittances threw a lifeline to urban modern middle classes and hence avoided the total wipeout of the development gains of the first Ecuadorian oil boom.