

"GOOD LIVING" AND THE "SOCIAL AND SOLIDARITY- BASED ECONOMY" IN ECUADOR

THE BALANCE OF ECONOMIC AND SOCIAL POLICY BETWEEN
CONSTITUTIONALLY PROTECTED RIGHTS AND LIVING REALITY

Winfried Weck / Carolina Landín

For several years, Ecuador has made a great impact through continuous economic growth, which has had a noticeable effect on everyday life. If one were to take an extended trip across the country, a great surprise would await in the form of the new airports in Quito and Guayaquil. The number of brand new cars, lorries and buses driving along the many newly constructed motorways would astound. The days of the old American road cruisers and underpowered lorries of indeterminate origin that scuppered any attempt at a speedy traffic flow are over for good, replaced with the latest hybrid models from the Far East. When visiting one of the many busy supermarkets, which are now available even in provincial towns, one can find many products one has already seen on European and North American shelves, albeit at two or three times the price. Ultra-modern shopping centres with brand-name shops from around the world testify to this new level of prosperity. But is this form of *material* prosperity really what the Ecuadorian government is seeking when proposing its "Citizens' Revolution" (*revolución ciudadana*) and the concept of *buen vivir*, of "good living"? And are all Ecuadorians winners in the Economía Popular y Solidaria,



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the “social and solidarity-based economy”,¹ which has found its way into the Ecuadorian Constitution in the same way the idea of *buen vivir* has? Or put another way: How socialist is Rafael Correa’s political orientation in reality?

BACKGROUND: THE CORREA GOVERNMENT’S ECONOMIC AND SOCIAL PHILOSOPHY

Rafael Correa Delgado, appointed by former President Alfredo Palacio in 2005, began to draw attention to his policies, which were critical of the World Bank.

Economist Dr. Rafael Correa Delgado was sworn in as President of Ecuador on 15 January 2007 after he emerged as the winner of the run-off election in November 2006.

Appointed by former President Alfredo Palacio to the Office of Economic Affairs and Finance in 2005, he began to draw attention to his policies, which were critical of the World Bank. In 2006, he successfully ran for president as the common candidate for the movement founded by him and Social Democrat Alberto Acosta, Movimiento PAÍS and the Socialist Party of Ecuador.

Correa repeatedly referred to himself as a left-wing Christian and humanist, and the central ideology that plays a key role in his political discourse and political action is decidedly nationalist. If nothing else, this manifests itself in his vehement rejection of the neoliberal economic model without simultaneously publicly declaring his intention to implement a socialist economic system as part of his *sabatinas*.² Apparently nothing suits Correa better than the Andean concept of *sumak kawsay* in recognising a conceptual framework for this rather diffuse conflict situation.

- 1 | The current debate in Latin America provides different terminology for the thoroughly varied economic concepts derived from the “socialism” of the 21st century. The term *Economía Social y Solidaria* (social and economic solidarity) is used most frequently. Even Article 283 of the 2008 Ecuadorian Constitution states: “The economic system is social and shows solidarity” (“El sistema económico es social y solidario.”), but later mentions the “*Economía Popular y Solidaria*” as a particularly Ecuadorian design element and feature. In the absence of an unmistakable equivalent in English, the authors take the liberty of translating the word “popular” as “social”.
- 2 | The *sabatinas* are modelled on the Cuban and Venezuelan live Saturday shows broadcast on all public networks, in which the president gives his opinion on the events of the past few days over the course of several hours. Correa’s discourse during the *sabatinas* differs significantly from that of his former Venezuelan counterpart, Hugo Chávez. While the term “socialism” was part of Chávez’s permanent repertoire, Correa has virtually excluded this from his vocabulary.

SUMAK KAWSAY OR BUEN VIVIR AS A DESIGN CONCEPT FOR THE NEW ECUADORIAN SOCIETY

The *sumak kawsay* or *buen vivir* has its roots in the indigenous traditions of the Andes. This term, which comes from Quechua/Kitchua, the language spoken by the indigenous people of the same name, a small number of whom still live in the Andes in Ecuador, Peru and Bolivia today, represents a philosophy of life that seeks a state of equilibrium between man and nature as its highest goal. This philosophy places emphasis not on the individual but rather on the community, and meeting the basic needs of *all* takes precedence over the welfare of the individual.

Buen vivir promotes a society that does not seek material well-being or linear economic growth, but one that seeks social satisfaction within the community and in tune with nature. It thus exhibits a worldview reminiscent of its pre-Columbian roots, breaking with colonial and post-colonial economic and social ideas in the hopes of one day ultimately overcoming them.³ The concept of *buen vivir* is now a topic of discussion far beyond the borders of South America as the basis of alternative development concepts that distinguish themselves from classical growth theories.⁴

***Buen vivir* is a topic of discussion far beyond the borders of South America as the basis of alternative development concepts that distinguish themselves from classical growth theories.**

Without this prior knowledge, some of the eight central elements named in "Ecuador's National Plan for Good Living 2009-2013" would at the very least certainly astonish the reader, if not perplex them outright:

- 3 | See also: Thomas Fatheuer, "Buen Vivir: Eine kurze Einführung in Lateinamerikas neue Konzepte zum guten Leben und zu den Rechten der Natur", in: *Buen Vivir – Recht auf gutes Leben, Schriften zur Ökologie*, Vol. 17, 13 May 2011, Heinrich-Böll-Stiftung, 9 et seq., http://boell.de/sites/default/files/Endf_Buen_Vivir.pdf (accessed 17 Dec 2013); Alberto Acosta, "Buen Vivir auf dem Weg in die Post-Entwicklung. Ein globales Konzept?", in: Werner Rätz, Tanja von Egan-Krieger, Barbara Muraca, Alexis Passadakis, Matthias Schmelzer and Andrea Vetter (eds.), *Ausgewachsen! Ökologische Gerechtigkeit. Soziale Rechte. Gutes Leben*, VSA, Hamburg, 2011, 173 et sqq.
- 4 | Critics go so far as to say that *sumak kawsay* is a rediscovery, if not an outright invention, by precisely these alternative Western interest groups. In fact, scarcely a primary source of the indigenous provenance of *sumak kawsay* can be found in the literature.

1. Satisfying necessities (*satisfacción de las necesidades*);
2. Quality of life (*calidad de vida*);
3. Dignified death (*muerte digna*);
4. Loving and being loved (*amar y ser amado*);
5. Healthy thriving of all individuals in peace and harmony with nature (*florecimiento saludable de todos en la naturaleza con armonía*);
6. Indefinite perpetuation of human cultures (*prolongación indefinida de las culturas*, in the sense of an eternal source of protection for the different cultures in Ecuador);
7. Free time for contemplation (*tiempo libre para la contemplación*) and
8. Emancipation and expansion of people's liberties, knowledge and opportunities (*emancipación ampliación y de las libertades, capacidades y potencialidades*).⁵



The pursuit of balance between man and nature: The first encounter of the Andean people and nations for the *sumak kawsay*. | Source: Cancillería Ecuador, flickr, ©1©.

THE ECONOMÍA POPULAR Y SOLIDARIA (EPS) AS AN INSTRUMENT FOR IMPLEMENTING *BUEN VIVIR*

But how is a modern society, of whom the vast majority has followed a Western view of life based on Western Christian ideas which place freedom of individuality at the core for

5 | República del Ecuador, "Plan Nacional del Buen Vivir 2009-2013. Construyendo un estado plurinacional e intercultural. Senplades (Secretaría de Planificación y Desarrollo)", 2009.

centuries, meant to impart this revived traditional ideal? The answer lies in the idea of the social and solidarity-based economy, which forms the basis of the economic and social policies, not only of the Correa government, but almost all left-populist South American governments,⁶ though they are incredibly divergent. Because it provided only limited market access for the masses, the neoliberal model proved incapable of solving pressing social problems, and the need for new economic and socio-political thinking provided justification for these governments. The Correa government declared its intention to form a new economic and social model that would gradually move toward *buen vivir*. The ultimate goal is to achieve four equilibrium states: that of the human within himself, that between people, that between man and nature, and that between human communities.⁷ In order to achieve these states of equilibrium in the long-term, however, a correspondent institutionalised economy is required based on five principles:

Four equilibrium states are to be achieved: that of the human within himself, that between people, that between man and nature, and that between human communities.

- a) Subsistence through domestic production (*autarquía*): This is a matter of promoting the domestic economy, particularly its lower levels (families, communities, cooperatives) through one's own use of the goods and services produced.
- b) Reciprocity (*reciprocidad*) based on volunteer services and mutual aid to avoid paternalism.
- c) Progressive redistribution (*redistribución progresiva*) using the tax system and efficient distribution of tax revenues.
- d) Regulation (*regulación*): Promoting competition to avoid monopolies and abolishing intermediaries and agencies (and their high profit margins) to achieve fair prices through direct trade.

6 | The term "progressive governments" is often found in left-wing populist literature.

7 | This and subsequent explanations are based on José Luis Coraggio, "La economía popular solidaria en el Ecuador", *Revista Cooperativismo y desarrollo*, No. 100, Universidad Cooperativa de Colombia, Jan-Jun 2012, 272 et sqq., http://coraggioeconomia.org/jlc/archivos%20para%20descargar/La_economia_popular_solidaria_en_el_Ecuador.pdf (accessed 9 Dec 2013).

e) Planning (*planificación*):⁸ In the Economía Popular y Solidaria, all actors and networks accept the need for government planning to establish public policies that are consistent with the activities and needs of these actors.

Based on these principles, the Ecuadorian government undertook the following central defining moments for the Economía Popular y Solidaria:

- a more active role for the state as an influential actor;
- the halting and partial withdrawal of privatisation;
- the promotion of socially organised forms of enterprise, such as cooperatives and collectives;
- the implementation of protectionist measures, such as high import duties, combined with taxes on the export of money, low investment incentives for foreign companies and the avoidance of bilateral and multilateral trade agreements;
- self-sufficiency in the food and energy sectors;
- efficient state administration and organisation (for example tax collection, labour market regulation, health care, education, infrastructure).

Furthermore, the idea that the market always regulates itself according to the principle of supply and demand was also rejected. In addition, in contrast to a social market economy, Economía Popular y Solidaria is not concerned with establishing an economic system *based on the market*,⁹ but an economic system that works *with the market*.⁹ As with all left-wing economic and social concepts, this putative philanthropic theory has little to do with reality.

8 | These principles, which are not, at least in part, self-explanatory, form the basis of the idea that the social and solidarity-based economy is composed of the private business, public and cooperative sectors. See also the article "Ley de Economía Popular y Solidaria" on CODESARROLLO's website, a state development cooperative subordinate to the Superintendencia (regulatory body) de Economía Popular y Solidaria: <http://www.codesarrollo.fin.ec/noticias/50-ley-de-economia-popular-y-solidaria.html> (accessed 9 Dec 2013).

9 | "Se trata de construir una economía con mercados, no de mercado..." Coraggio, n. 7, 5.

THE 2008 CONSTITUTION AS A LEGAL BASIS FOR THE “CITIZENS’ REVOLUTION”

To provide a stable legal basis for the reorganisation of Ecuadorian society, which is ultimately what the “Citizens’ Revolution” is, President Correa and his former political

ally, Alberto Acosta, have pursued the formation of a new constitution since the beginning of his Presidency.

ally, Alberto Acosta, have pursued the formation of a new constitution since the beginning of his Presidency, even though the previous constitution had only come into force in 1998. In the elections for the Constituent Assembly held on 30 September 2007, Correa’s Movimiento PAÍS (now Alianza PAÍS¹⁰) received an absolute majority, allowing the President to integrate all of his political convictions in the new constitution approved by 81 per cent of voters on 28 September 2008. And, in fact, the Constitution of Montecristi¹¹ contains innovations hitherto unseen in constitutional history.

This conscious shift toward Andean and indigenous traditions to which the “plurinational” Ecuadorian state has professed¹² stands out in particular, as does the recognition of nature as a legal entity.¹³ These two innovations are directly connected to the model of *buen vivir* as a core constitutional objective as defined by Title II of the Constitution, which contains nine titles, and expressed in greater detail in Title VII. Each of our own sub-chapters will explore the rights to health, education, social security, housing, cultural independence, work, food, water, leisure, transportation and others. The second part of Title VII on *buen vivir* extensively deals with the protection of biodiversity and natural resources. Title VI, “Development”, in turn defines the foundations of economic sovereignty and the economic system. Article 283 states that the economic system should promote a dynamic relationship between

10 | PAÍS stands for Patria Altiva y Soberana (Proud and Sovereign Fatherland).

11 | Named for the city in which the Constituent Assembly met over a period of months.

12 | Along with Ecuador, Bolivia adopted this self-proclaimed designation as a “plurinational state” in its 2009 constitution. This approach also recognises the cultural and legal autonomy of the various indigenous nations (*naciones indígenas*) living within both countries’ borders.

13 | However, the Constitution leaves the question unanswered as to who holds the mandate of representation for nature as a legal entity.

society, the government and the market and should occupy a harmonious relationship to nature. The economic system's objective is "to guarantee the production and reproduction of the material and immaterial conditions that enable good living".¹⁴ The "new social order" thus forms the fundamental basis for the Constitution without being explicitly named as such.

THE STATE AS A KEY DESIGNER OF THE ECONOMY AND SOCIETY

A key aspect of President Correa's political views is also reflective of the social and solidarity-based economy: manufacturing the production of complete independence and absolute state sovereignty. This was the only way to achieve the principle of *distributing while producing and producing while redistributing*.¹⁵ Thus the Economía Popular y Solidaria is built upon an efficient public administration and a strong state that sees itself as the

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protagonist of social change. The Ecuadorian government is deeply sceptical of the market's function of allocation and its capabilities. However, the state is not only responsible for regulating the economy and for redistribution, but it also plays a central role as a direct actor in the economic cycle, which has serious consequences for the private sector. Because the strengthening of the public sector plays such an important role in economic planning, redistribution and regulation in Ecuador, certain sectors, such as energy, fossil fuels, telecommunications and water supply are considered of strategic importance and are controlled by the state. Alongside key economic sectors, they are the most important source of income for the Ecuadorian state.

At the start of his presidency, Rafael Correa promised his people modernisation and that he would fight against social grievances in the countryside and redistribute earned

14 | Constitución de la República del Ecuador, art. 283, para. 1: "El sistema económico [...] tiene por objetivo garantizar la producción y reproducción de las condiciones materiales e inmateriales que posibiliten el buen vivir."

15 | See the website of the highest Ecuadorian planning authority SENPLADES (Secretaría Nacional de Planificación y Desarrollo): <http://plan2009.senplades.gob.ec/web/de/langfristige-strategie> (accessed 9 Dec 2013).

income. Ecuador has shown relatively high growth rates, reduced poverty rates and low social iniquity since the beginning of the 21st century, and has increased investments in infrastructure, education and health care. The people of Ecuador expressed their thanks for these achievements by re-electing the President at the beginning of 2013, though the foundations for these successes had been laid before Correa took office in 2007. But to what extent has the "Citizens' Revolution" really progressed? Is *buena vivir* now an everyday reality or is it still only a constitutional ideal? Examining Ecuador's economic and social development may provide some clarity on this issue.

THE CORREA REGIME'S ECONOMIC AND SOCIAL POLICY: SEVEN YEARS OF PLENTY?

Fragile economic growth

To understand the current economic situation in Ecuador, one must look back to 2000, when the country experienced one of the most comprehensive structural changes of the past 100 years: the introduction of the U.S. dollar as the national currency. This conscious abandonment of its own currency and its associated inability to govern its own monetary policy have restored the country to a level of economic stability that was non-existent in the decades before. The price stability that was achieved thanks to this dollarisation has not only led to a newfound confidence in the private sector and its stakeholders, but has also enabled long-term planning, which, since 2000, has taken the form of a high degree of economic stability.

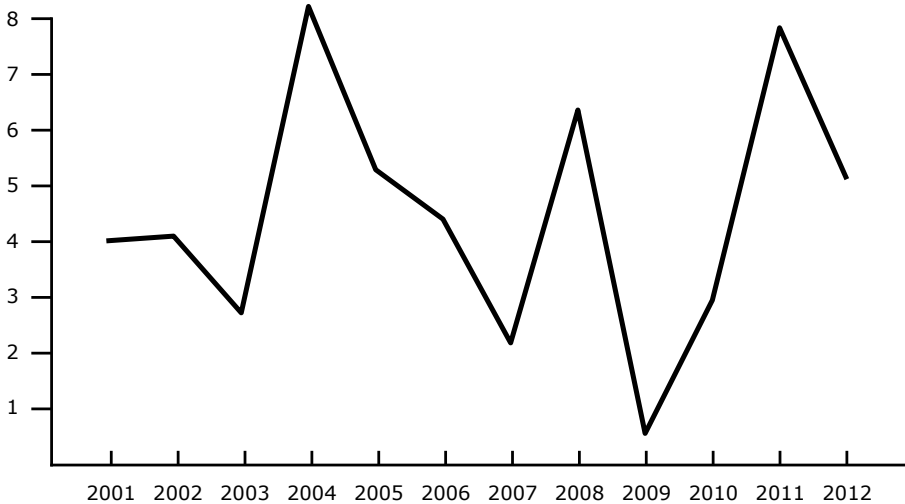
In the twelve years since, gross domestic product (GDP) has maintained an upward trend with a certain degree of volatility in its growth rates. However, the sustainability of this growth remains questionable. Phases with very strong growth (2004, 2008 and 2011) alternate with periods of slower growth, as in 2007 (when Correa took office) or 2009 (global financial crisis) (Fig. 1). It has been mainly public spending and investments in infrastructure that have gotten the Ecuadorian economy moving in the period since 2008. The economic growth can thus be attributed mainly to the high price of crude oil on the world market.

For example, GDP grew in 2008 and 2011 when crude oil reached record prices by more than seven per cent.

This policy of high public spending (financed by natural resources) and investment as the driving force for the economy is used by the government to justify its goals for the national concept of *buen vivir* and is the only way for the state to bring strategic sectors, such as energy, non-renewable resources, telecommunications and water supply, under its control. In doing so, the Correa government accords the state the central role of representative of the interests of the common good, however questionable this representation may be. However, the state's responsibility is not solely to regulate the economy and oversee redistribution; rather, it also plays a direct and central role in the domestic economic cycle.

Fig. 1

Ecuador's Economic Growth 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

Out of all economic sectors, the construction industry has experienced the highest rates of growth since 2000. Since 2007, the construction sector, which is among those sectors the government has the greatest control over, achieved an average annual rate of growth of 13.24 per cent. Just as with the supply of electricity and water, however, this is a

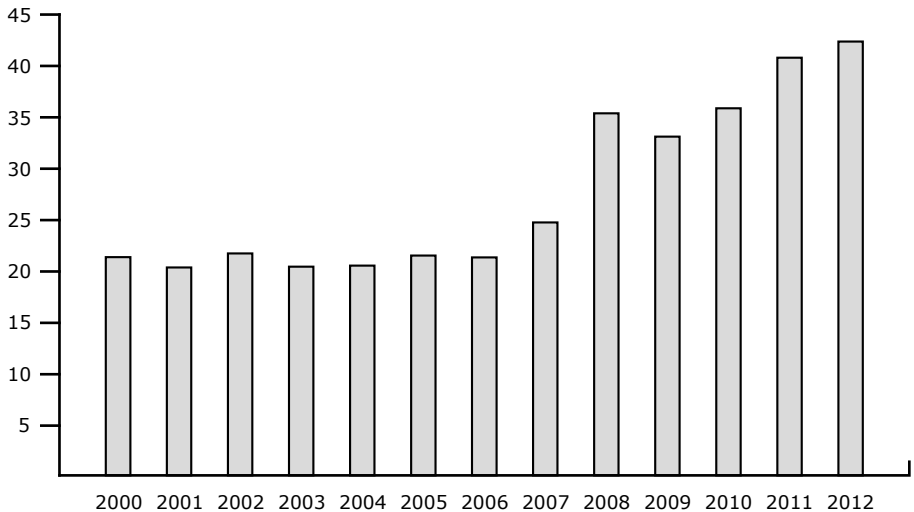
case of a state-controlled strategic sector that serves to maintain the state's active role in the economy.

Bloated public expenditures

Since 2007, public expenditure has exhibited rising growth rates, with highest recorded years being 2008 and 2011. As such, up until 2006, the share of public expenditures accounted for between 23 and 25 per cent of Ecuador's GDP; since 2008, this number has been at least 40 per cent, and in the past two years it reached nearly 50 per cent (Fig. 2). Although public spending decreased in 2012, no quick reduction in the share of public spending is expected over the next few years due to the ideology underlying the social and solidarity-based economy.

Fig. 2

Ecuador's public sector share in GDP 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

The significant increase in public spending corresponds to a thoroughly populist policy that boosts the economy primarily in those sectors within the public's field of view, such as infrastructure, health care and education, but also including public assistance projects or the expansion of the bureaucratic apparatus. According to the 2013 budget, wages account for nearly 25 per cent of the total budget,

which is generally associated with the expansion of the bureaucracy on the one hand, and with relatively high public sector wages on the other. While in 2006, there were just under 360,000 public servants, this number had grown to more than 454,000 by 2010,¹⁶ an increase of approximately 95,000 people in four years. This increase is associated with a government policy making the state a “large employer”. Furthermore, extensive social benefits exist that have increased the attractiveness of public service compared to the private sector. As a result, much-needed skilled workers have been removed from the labour market because private companies or institutions cannot compete with the benefits and salaries provided by the state.

Reduced private investment

Compared to the period from 2000 to 2006, the share of total investments in relation to GDP since President Rafael Correa began his term of office has increased by only three per cent because this significant increase in public investment has been accompanied by a rather significant drop in private investment.¹⁷ The early years of Rafael Correa’s term of office (2007 and 2008) registered a significant decrease in private investment in contrast with increasing public investment in the same time period (Fig. 3). Prior to 2007, private investment represented more than three-quarters of total investment, while investment today is drawn from the private and public sectors equally. This fact is also illustrative of the public sector’s enhanced role as mentioned above, and thus of the state’s role as an economic actor to the detriment of the private sector.

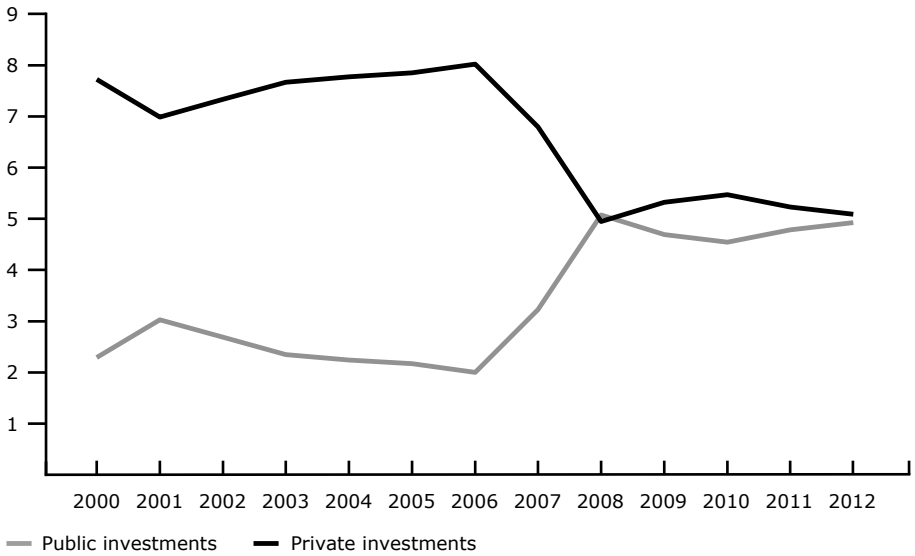
The tentative investment behaviour of the private sector in the early years of the Correa government can certainly be attributed to investors’ suspicions of a government that had begun with the aim of drastically restructuring the economic model and had enshrined this in the 2008 constitution. Thus, the lack of clarity in creating a legal framework

16 | Unfortunately, due to lack of transparency of official sources, it is not possible to obtain up-to-date information on this. Official figures often vary and the same subject may elicit great discrepancies among the various ministries.

17 | Manuel Astudillo, “La Inversión Pública en tiempos de la Revolución Ciudadana: un mito?”, in: *Carta Económica*, CORDES, Aug 2013.

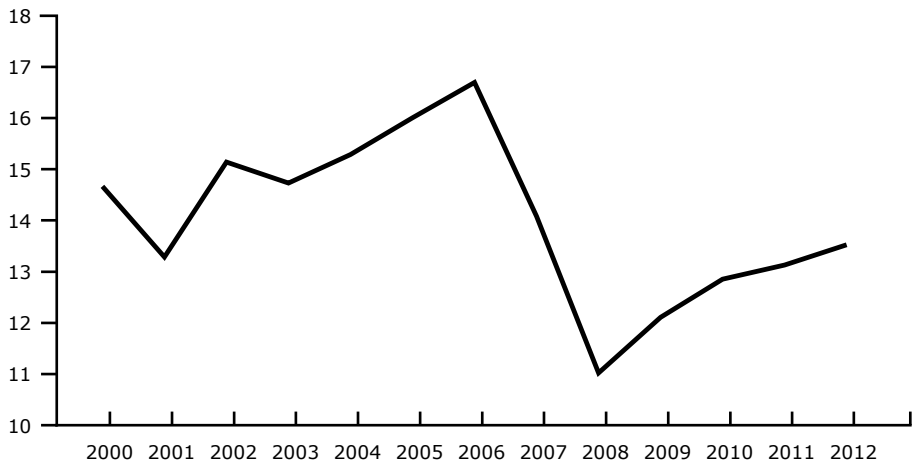
for the private sector goes hand in hand with the termination of bilateral investment protection agreements.

Fig. 3
Proportion between public and private investments from 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

Fig. 4
Portion of private investments of the GDP from 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

Toward a planned economy using tax revenues

Since 2007 and due to ten (!) consecutive tax reforms, tax revenue has risen significantly, from 4.522 billion U.S.

dollars in 2006 to 11.267 billion U.S. dollars

The additional tax revenue can be attributed to several factors: the restructuring of taxes, such as income tax, the creation of new taxes, but also the more efficient operation of the tax authority.

in 2012. This constitutes an average annual growth of 11.1 per cent (compared with an average annual rate of 7.04 per cent prior to 2007). This substantial additional revenue can be attributed to several factors:

the restructuring of certain taxes, such as income tax (tax base and graduation), the creation of new taxes (e.g. on currency exports, funds held abroad and rural land holding of more than 25 hectares, which will have a particular impact on the maligned "landowners"), but also the more efficient operation of the tax authority combined with drastic penalties for tax evasion already in place for minor cases, the intimidating effect of which has resulted in a nearly 100 per cent "taxpayer culture" in the space of only a few years.

These reforms were aimed at restructuring the tax system with the goal of increasing the proportion of direct taxes (on property and income) and thus contributing to the concept of the equitable redistribution of wealth envisioned by *buen vivir*. In the early years of the "Citizens' Revolution" this proportion indeed increased (with direct taxes in 2009 reaching 37 per cent of total revenue, an historical high), but the continued trend the government desired would not last. Possible reasons for this are the sale or division of land, the expansion of the shadow economy and a significant increase in consumption and thus in indirect tax revenue. Thus, after 2009 the percentage of direct taxes began to decline again and fell to 30.1 per cent in 2012, below 2006 levels – the year before the economic model was reformed. Between 2007 and 2012, indirect taxes throughout the year increased even more than direct taxes (17.2 per cent vs. 14.6 per cent). This ratio was even more readily apparent in 2012, possibly due to the registered downturn that occurred that same year as a consequence of consumption-based economic growth. This development should particularly trouble the Correa government. This is because the significant increase in indirect tax revenue not only holds regressive implications for the

consumer-oriented middle class, but also for the lower-income population, since indirect taxes on consumption are not proportionate to the income of the taxpayer. So, for example, for every U.S. dollar generated by direct taxes in 2012, 2.30 U.S. dollars were generated from consumption taxes.¹⁸

Surviving on a foreign-fed drip

Ecuador's main source of income comes from oil production in the Amazon region. Without it, the high level of public spending and investment that give rise to the benefits of the social and solidarity-based economy would be completely unfeasible. When Rafael Correa took office in 2007 as the President of Ecuador he found fertile ground for his political and economic plans. Since 2001, Ecuador has achieved high rates of growth, which are due less to rising export volumes and more to the rising prices of many export commodities in the global marketplace, especially for petroleum.

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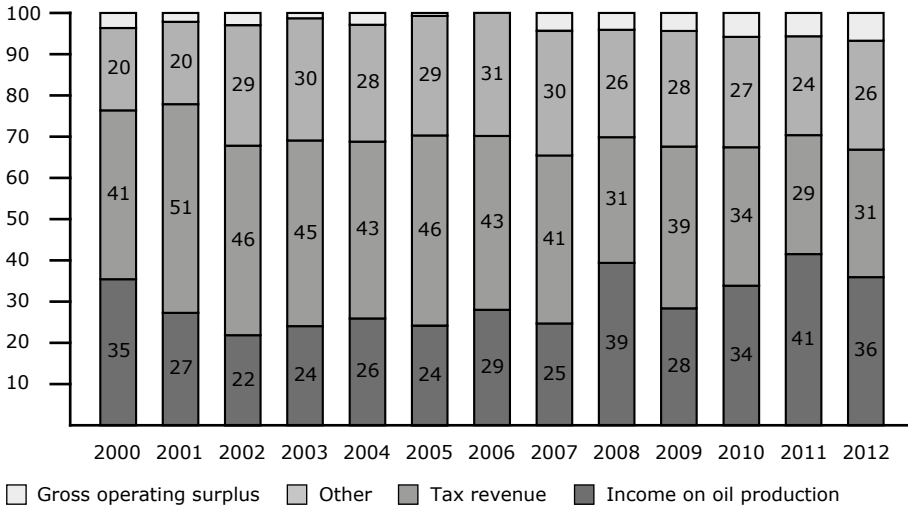
An extractive economic model like that of Ecuador's is thus highly dependent on the market price for the respective commodity. Since 2009, the price of oil has been over 60 U.S. dollars per barrel and on several occasions even exceeded 100 U.S. dollars. Since the construction of the heavy oil pipeline in 2003, stretching from the Amazon region over the Andes back across to the loading stations in the Pacific, the share of oil revenues has increased – a trend that has intensified over the past five years due to the high price of oil and of certain reforms within the sector. The most important of these reforms was implemented in 2010, when contracts with transnational companies were converted to service contracts and a fixed price dependent on subsidised crude oil volumes was introduced to increase the state's rate of return from the oil industry. Some foreign oil companies accepted the new conditions; others decided against continuing to do business in Ecuador.¹⁹

18 | *Carta Económica*, CORDES, Mar 2013.

19 | Comisión Económica para América Latina y el Caribe (CEPAL), *La Inversión Extranjera Directa en América Latina a el Caribe 2012*, 73, <http://www.eclac.org/publicaciones/xml/5/49845/LaInversionExtranjeraD2012.pdf> (accessed 17 Dec 2013).

Fig. 5

Composition of Ecuador's state revenues from 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

In order to maintain this level of expenditure and investment, the Correa government increasingly needs new sources of income to preserve liquidity on the one hand and is highly dependent on a possibly increasing crude oil exchange on the other. Due to the stagnant level of state oil production²⁰, the Correa government has seemingly been forced to open up new development areas, partially by revoking measures in the name of *buen vivir*: In 2007, Correa launched the Yasuní ITT initiative, the purpose of which was not to extract the 920 million barrels of crude oil in the Ishpingo-Tiputini-Tambocochoa (ITT) area, a large plot in Yasuní National Park in the Ecuadorian Amazon region, thereby preventing the emission of at least 400 million tonnes of CO₂. In return, Ecuador should receive compensation from the international community in the amount of 3.6 billion U.S. dollars, which would have

20 | In the Ecuadorian crude oil production sector, the government has systematically pushed private oil companies out of the market (by renegotiating concessions with terms that were no longer acceptable to private businesses). Today, the ratio of state to private funding is nine to one. This has to do with the state's attitude with respect to the sovereignty of strategic sectors and natural resources, as well as with private actors privy to petroleum contract negotiations.

corresponded to half of the sales of crude oil from Yasuní at an estimated price of 40 U.S. dollars per barrel. Yasuní National Park is a region with one of the highest degrees of biodiversity in the world and was declared a Biosphere Reserve by UNESCO in 1989. It is also home to indigenous peoples. In August 2013, President Correa announced to an astonished and disappointed public that the Yasuní ITT initiative had failed and that oil production in the ITT area would begin immediately. However, this latest example of the growing dependence on crude oil and soon-to-be dependence on mining stands in the way of the basic rights granted to nature in the Constitution, as well as the central role of *buen vivir* and the right to live in a healthy and ecologically balanced environment, not to mention the rights of indigenous people in the “plurinational” state of Ecuador.

Indebted to China

Since 2007, the financing of government expenditure through Chinese loans has been a recognisable phenomenon throughout Latin America. In Ecuador, this relationship began in July 2009, when the first financial transaction between the two countries was carried out through an “advance sale” of petroleum. In the face of the international financial crisis, the Correa government used this money to cover approximately one-third of the budget deficit.²¹ Since then, Sino-Ecuadorian relations have intensified with seven additional loans, placing Ecuador in second place after Venezuela in the number of loans coming from China. Ecuador’s debt to China currently amounts to eleven per cent of Ecuador’s GDP and sets a regional record by representing more than half of its foreign debt. Furthermore, this debt, with an average interest rate of 6.75 per cent and short terms of payment, and along with the advance sale of petroleum is linked to the Ecuadorian government’s commitment grant licences to Chinese state-owned enterprises for hydropower projects.²² Ultimately, this is a matter of the advance sale of raw materials, but is really nothing more than a sly way of receiving expensive loans and, in doing so, committing future income without the need for savings since this type of “loan” will not appear on the central bank’s debt accounts.

21 | “El Síndrome de China”, *Carta Económica*, CORDES, Jul 2011.

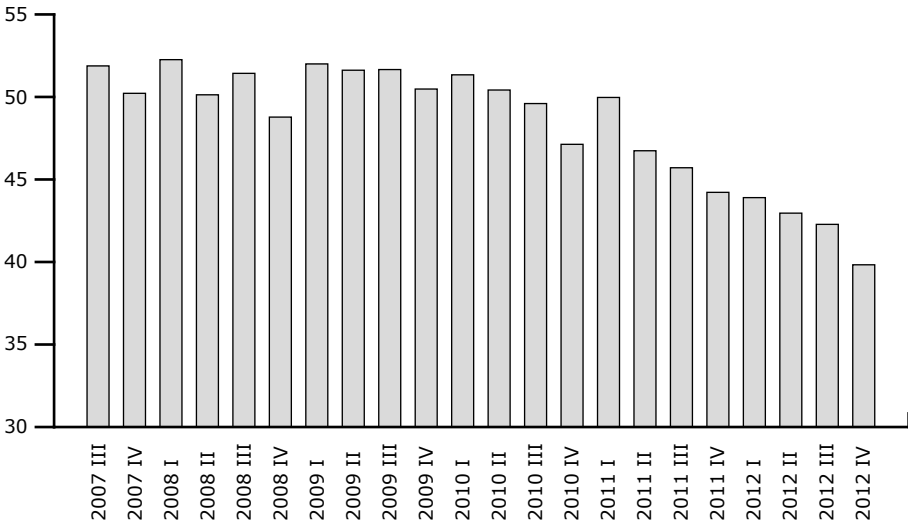
22 | *Ibid.*

A dangerous dance with poverty

Today Ecuador looks back on the social achievements of the last decade with pride. Poverty has steadily declined. The distribution of income has greatly improved since 2007. However, a closer look at this development reveals that this downturn in poverty reduction from 2002 to 2007 (from 49 per cent in 2002 to 36.7 in 2007) was somewhat more pronounced than in the era of the Correa government, and is primarily based on the dollarisation of the currency. This is causing a stabilisation of prices and is thus benefitting those with lower incomes because their real income is not reduced by inflation. Since 2007, the further reduction of poverty to 25.3 per cent in 2012 and the Correa government’s ambitious plan to put an end to poverty by 2017, however, have only been possible due to the questionably financed increase in public spending.

Fig. 6

Underemployment in Ecuador in per cent

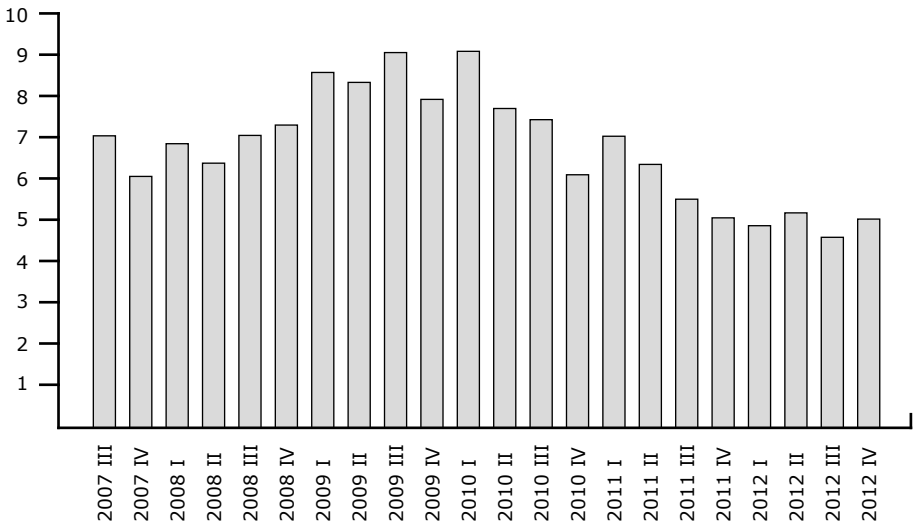


Source: INEC.

The improvement of the income distribution over the past few years as measured by the Gini coefficient (in 2003, Ecuador still had a Gini ratio of 53.2; in 2012 it was 47.7) is due to a conditional programme of social redistribution, which, though not established by the current government, has been enhanced by it several times. In the last six

years, the number of beneficiaries of the so-called Human Development Bonus (Bono de Desarrollo Humano, BDH) has increased to an annual average rate of 8.3 per cent of the total population. At the start of Rafael Correa’s term of office in 2006, 1,179,000 people were benefitting from the bonus; in 2012, this number was more than 1.9 million – paradoxically, with the simultaneous reductions in poverty, which is evidence of populist treatment of these conditional subsidies. This, in turn, attracted several candidates promising to raise the bonus to gain votes in the February 2013 presidential election. The re-elected President Correa increased the bonus one month before the elections from 35 to 50 U.S. dollars.

Fig. 7
Unemployment in Ecuador in per cent



Source: INEC.

The reduction of unemployment and underemployment is another success touted by the government. Though the unemployment rate rose during the Correa government’s first few years in office (2007 to 2010), they have since been able to reduce it. Nevertheless, the Ecuadorian labour market probably represents one of the country’s most significant structural weaknesses because, despite the low five per cent unemployment rate, the 2012 underemployment rate is still very high at 39.8 per cent.

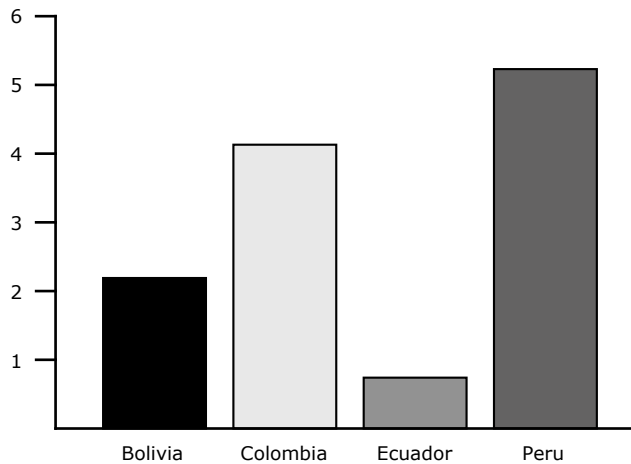
However, underemployment is ultimately nothing more than a euphemism for hidden unemployment.

A COURSE TOWARD ISOLATION: ECUADOR'S EXTERNAL SECTOR

In the global marketplace, Ecuador is on a course toward isolation. With the exception of 2008, foreign direct investment (FDI) has fallen. FDIs made during the current government's term of office are so low that they represent only 0.24 per cent of GDP (compared with 2.5 per cent prior to 2007). This is made even more explicit when compared with neighbouring countries (Fig. 8).

Fig. 8

Foreign investments in the Andean countries in 2012 in comparison to the GDP in per cent



Source: CEPAL.

Ecuador's low level of attractiveness to foreign direct investment is mainly a result of the deterioration of legal certainty, time-consuming bureaucratic hurdles and continuous changes to tax legislation. The nationalisation of the crude oil sector implemented by the Correa government has not had a positive effect on foreign investment. However, a major factor is that, because of its ideological beliefs, the government does not take any great interest in foreign investment, creating more and more incentives for resident foreign businesses to turn their backs on the country with multiple regulations and high administrative

hurdles rather than acquiring new sources of foreign direct investment. As such, the leftist-populist discourse with its nationalistic manner of speech is not just banter used during the President's weekly *sabatinas* of the president; rather, it is systematic, methodical and has a clear goal: the defence of national sovereignty as the most valuable asset (and close to the president's heart) and consequently the defence of domestic economic interests for foreign investors and multinational companies.

The statements President Correa made during his state visit to Germany in April 2013, that Ecuador is an attractive country for investment and they are now seeking a trade agreement with the EU, has led to no action as of yet. In addition, when considering the political realities, the national concept of *buen vivir's* fixed target for foreign direct investment of three per cent of GDP appears to fall more within the realm of political rhetoric than anything else. Two other realities include, for example, the cancellation of the agreement regarding the protection of investments and the disregard for any other jurisdiction than that of Ecuador in case of legal disputes. These unilateral actions may simply be identified as confidence-building measures, such as the sudden termination of the Yasuní ITT initiative by the government of Ecuador with no alternative in place. As mentioned previously, this was especially disappointing for those countries and governments who considered this a positive move and had provided support in one form or another.

The national concept of *buen vivir's* fixed target for foreign direct investment of three per cent of GDP appears to fall more within the realm of political rhetoric than anything else.

The government's trade policy is also less specialised and designed more with politics and ideology in mind; this is particularly apparent through the introduction of import quotas and the increase of import tariffs combined with the simultaneous taxation of currency exports (amounting to five per cent), which must then be paid when companies resident in Ecuador have to pay for imported goods. The ideological discourse was also apparent in the unilateral revocation of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which was carried out without undertaking the functional analysis of the effects of this on Ecuadorian exports that would have previously taken place. In addition, the Correa government is extremely

hostile to actively participating in regional trade unions, such as MERCOSUR or the relatively new cooperation in the Pacific region. Efforts to negotiate trade agreements and economic integration are sacrificed on the altar of political opinion.

All these protectionist efforts have shown surprisingly little effect, as it appears that many Ecuadorians now have the financial means to take part in consumption (of imports) and are even able to pay the high prices for these goods thanks to the government's redistribution policies. Consequently, imports have risen faster than exports and the trade balance has resulted in a deficit for the past four consecutive years.



Ideology driven trade policy instead of regional integration: Rafael Correa (centre) amongst the Heads of State and Government of the MERCOSUR in 2012. | Source: Cancillería Ecuador, flickr, ©11©.

THE STATE HAS TOTAL CONTROL

The methods by which the Correa government influences the economy are multifaceted. There are countless examples of this including increased government regulation, as well as investments ranging from direct investment to nationalisation. For example, banks had total freedom to set their own interest rates and prices for financial services until 2007. Between 2007 and 2012, the government gradually introduced standards setting the interest rates banks would charge and prices for all other services provided by financial institutions, from the issuance of credit

cards to bank transfers between accounts or withdrawals from cash machines. Until 2008, the only constraint on a person's ownership of company stock was that government grant holders were not permitted to be involved with bank shares. Since 2008, several restrictions have been introduced. Anyone who holds bank shares or media company shares may not hold shares in any other economic sector. By 2010, there were no restrictions on acquiring a seat on a company's board. Since then the law has held that anyone who holds shares in a company outside the financial sector may not accept any appointment to sit on the board of a bank. Similarly, no one who holds shares in a company outside the media sector may accept any appointment to sit on the board of a media company.

State involvement is even more noticeable in the "strategic sectors". Ecuador's state-owned petroleum company, Petroecuador, produced 37 per cent of Ecuadorian petroleum in 2005, with the remaining portion produced by private companies. In 2012, Petroecuador and Petroamazonas (a public company founded in 2010) produced 73 per cent of petroleum extracted in Ecuador. Until 2010, mining was one of the only remaining private sector activities. The state mining company (ENAMI) was founded in January 2013. In 2008, the Isaías family's companies were nationalised due to their debts in connection with the 1999 bankruptcy filing by one of the banks in the group. This group included several radio stations (!), chain stores, an insurance company (Seguros Rocafuerte) and a sugar factory. Only the sugar factory has been sold. Among those Isaías Group companies nationalised were two major television stations. In the past, no government had owned a television channel. The government's media apparatus, which was limited to a single radio station (Radio Nacional de Ecuador) at the start of Correa's term of office, now includes five national television stations, several national and regional radio stations, three newspapers and a news agency. Furthermore, broadcast media is regularly required to transmit the President's official communiques simultaneously across all channels. Since January 2007,

more than 1,200 of these *cadena*s have been broadcast.²³ The government owns two insurance companies: the above-mentioned Seguros Rocafuerte, and Seguros Sucre Rocafuerte (property of the banking corporation Banco del Pacífico company, which has belonged to the government since the banking crisis in 1999).²⁴ Since 2009, all insurance policies taken out by the government have gone through these two companies.²⁵

SUMMARY

With the increasing exploitation of natural resources and consequent destruction of natural habitats constitutional claims of *buen vivir* must be increasingly measured in the future.

Despite its visible successes, Correa's economic policy remains completely inconsistent. His leadership and economic policies have increasingly faced criticism, particularly

following the Yasuní ITT decision, and not just in terms of sustainability. With the increasing exploitation of natural resources and consequent destruction of natural habitats, as well as the disregard for the existence and cultural rights of indigenous nations as guaranteed by the constitution, constitutional claims of *buen vivir* must be increasingly measured in the future.

The *buen vivir* dilemma consists of the national budget on the one hand; its social policy and infrastructure measures are heavily protectionist, thus advancing the state to its desired central(ist) role as an economic policy actor. On the other hand, a significant part of financing the national budget is dependent upon crude oil production, which, especially after the failure of the Yasuní ITT initiative, will destroy large portions of intact rainforest. Or in other words: The more dependent the Ecuadorian economy becomes on the exploitation of natural resources, the further away they get from the state's philosophy of *sumak kawsay*.

23 | There are no official statistics available on this. This estimate is based on an empirical value of three to four *cadena*s per week. The *cadena*s were originally used to disseminate important messages in emergencies; they are now used as a medium of propaganda and confrontation.

24 | "Seguros Rocafuerte y Sucre se unen por más contratos", *El Comercio*, Quito, 16 Jun 2009.

25 | "La guerra de los reaseguros", Plan V, <http://planv.com.ec/investigacion/investigacion/la-guerra-reaseguros> (accessed 9 Dec 2013).

Such a precarious situation is thought-provoking. It begs the question of whether, as a philosophy of life, *buen vivir* is not simply a dreamy ideal precisely because it is not compatible with the interests and needs of a society experiencing an economic renewal, as is the case in Ecuador. Most Ecuadorians are, of course, aware of the term *buen vivir*, but few can define its implications. Indeed, it is the very access to this scenario of material prosperity mentioned at the beginning of this piece that is understood by most Ecuadorians (including many “Westernised” members of indigenous communities) when speaking of *buen vivir*.²⁶ Thus the authors hold that the *buen vivir* ideal, when properly understood, is only attainable under two conditions: either under the living conditions of a primitive people, a scenario in which consumer goods play little or no role whatsoever and in which the daily struggle for survival can only be won within the community and in tune with nature; or in a “post-material” society, in which the conscious avoidance of consumption (though financially avoidable) goes hand in hand with the conviction to protect life’s natural foundations through personal decisions and reduced consumption. It is not surprising that concepts such as *buen vivir* or the Kingdom of Bhutan’s “economy of happiness” are received with great interest by many Western organisations and institutions active in the environmental sector, and are discussed as a basis for alternative economic and social models precisely because they do not demand a strong state. At the same time, this raises the question of whether states should or even could provide for these models constitutionally. On the one hand, the chance of successful implementation is dependent upon societal factors that can only be influenced by the state to a small extent. On the other hand, history demonstrates that it is even more ethically questionable for the state to force people to embrace a certain way of live – even if, as in this case, this means embracing “good living”.

Concepts such as *buen vivir* or Bhutan’s “economy of happiness” are by many Western organisations discussed as a basis for alternative economic and social models.

26 | This statement is not based on figures, but on the author’s experience in discussions with Ecuadorians from all social strata. Only a very small number were able to correctly answer the question of what the actual concept of *buen vivir* was.

In terms of democratic structures, a negative trend is being detected in Ecuador. The separation of powers has become visibly unhinged, particularly following the February 2013 presidential and parliamentary elections. This, too, affects the independence and participation of civil society in the political decision-making process. In the absence of effective control mechanisms, state intervention in the economy will likely increase rather than decrease. Over the next few years, Rafael Correa will face challenges not only in supporting the domestic economy and consumption, but also of inspiring national and international actors in particular to invest. The question remains as to whether the high levels of public spending that must be financed by the exploitation of domestic reserves of resources can compensate for the decline in private investment in the future.

A great degree of separation remains between the constitutional claims and living reality. President Rafael Correa's "Citizens' Revolution" is far from implementing *buen vivir* as the new ideal for life and society and it seems as though this will remain the case for the near future. What ultimately remains of the ideal of *sumak kawsay* is an (increasingly) authoritarian leftist-populist government policy financed by revenues from raw materials; their egocentric power complex is destroying the foundations of liberal democracy and active civil society and their "leadership figure acts as if he is the will of the people incarnate".²⁷

27 | Carlos de la Torre, *Populismus in Lateinamerika. Zwischen Demokratisierung und Autoritarismus*, Studie, Friedrich-Ebert-Stiftung, Aug 2013, 8, <http://library.fes.de/pdf-files/iez/10210.pdf> (accessed 17 Dec 2013).