

ECUADOR AFTER THE COMMODITIES BOOM: A RENTIER SOCIETY'S LABYRINTH

Ecuador después del boom de las materias primas: el laberinto de una sociedad rentista

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Abstract

After failing to renegotiate debt conditions with China, Lenín Moreno's government reverted to traditional international financial measures in a further attempt to cover the fiscal deficit left by the dramatic drop in oil prices of 2014. In order to meet targets agreed with lenders, Moreno scrapped subsidies on transportation fuels by the beginning of October 2019. However, amid nationwide protests, Moreno repealed the measure after nearly two weeks. Interpretations of the protests have been manifold; this paper presents a further reading based on rentier theory, and argues that a significant source of opposition to the elimination of subsidies is to be found in peoples' claim on their portion of oil rent, the expression of a quasi-naturalized right derived from living in a natural resources-rich country.

Keywords: Latin America. Neo-extractivism. Natural resources rent. Peripheral state. Development. Development theories.

Resumen

Luego de fracasar en la renegociación de las condiciones de la deuda con China, el gobierno de Lenín Moreno tocó a la puerta de las instituciones de financiamiento tradicionales para tratar de cubrir el déficit fiscal generado por la dramática caída de los precios del petróleo del 2014. Para poder cumplir con los acreedores internacionales, Moreno eliminó los subsidios a los combustibles utilizados en el sector transporte a inicios de octubre de 2019. Sin embargo, en medio de protestas generalizadas, el presidente se vio obligado a revertir la medida luego de dos semanas. La literatura académica ha provisto de una serie de interpretaciones de las protestas; este artículo presenta una lectura inédita que se fundamenta en la teoría rentista y argumenta que una fuente importante de oposición a la eliminación de los subsidios se encuentra en el reclamo de los ciudadanos por su porción de renta petrolera, la expresión de un derecho cuasi naturalizado que se deriva de vivir en un país rico en recursos naturales.

Palabras clave: América Latina. Neo-extractivismo. Renta. Estado periférico. Teorías del desarrollo.

Introduction: In the Mid of the 21st Century Crisis

The year 2020 is already a watershed. The global economy is in the deepest crisis since the Great Depression (1929) (GOPINATH, 2020). However, the coronavirus does not only checkmate the economy. More severely, it deepens many social problems and unveils clear

signals of a humanitarian catastrophe. Those who will especially suffer from the social consequences of the economic lockdown and precarious health systems are the world's have-nots living in the Global South.

No doubt, the coronavirus is an unexpected driver of the economic, social and political crisis. Though, somehow the virus did merely exacerbate the already existing problems in vast parts of the Global South. This is especially true for the natural resource-dependent countries (PETERS, 2020). The end of the bonanza in 2014 cast a shadow over the optimism that reigned during a decade. Natural resource-dependent countries all over the world suffered in different degrees from the commodity price downturn on the world market. After all, even before the start of the pandemic in 2019 different countries like Algeria, Iran, Sudan and several Latin American countries illustrate that the time before the coronavirus was far from idyllic and various authors point out that once the current crisis is overwhelmed, a back to normal would equal preparing the next crisis.

Yet, in order to find answers to the underlying problems one first needs to analyze the processes leading to crisis. This is actually the objective of the present article. It offers an in-depth analysis of the political economy and sociology of natural resource-dependent countries focusing on the paradigmatic case of Ecuador. In April 2020, the country infamously filled the headlines of international newspapers with stories of people literally dying in the streets from COVID-19 in its biggest city Guayaquil (LEÓN; KURMANAEV 2020; ESPAÑA, 2020).

The coronavirus made a bad situation worse. It hit Ecuador in the mid of a severe crisis that started with the end of the last "commodities super-cycle" in 2014 (ERTEN; OCAMPO 2013; CANUTO, 2014). An economic crisis with a recession, growing public account deficits and increasing foreign debt led to a social crisis including increasing poverty rates. In October 2019 after the government's announcement of a cut on fuel subsidies in order to fulfil International Monetary Fund's (IMF) credit measures, already existing generalized public displeasure ended in political uproar. Social movements led by indigenous organizations took the streets of Quito and could not even be stopped by repression or the declaration of a state of emergency. In the end, street pressure forced President Lenín Moreno to negotiate with indigenous movements and to bury the fuel price hike (PONCE *et al.* 2020). This could ameliorate the political crisis, showed changing power relations, but the underlying economic and social crises remain unsolved.

We argue that the ongoing crisis is the repeated story of failed attempts of resource-led modernization, while political turmoil was the consequence of questioning the foundations of the rentier bargain and therefore trying to alter state-society relations. We analyze both issues in this paper by taking advantage of insights from political economy and sociology of natural resource-dependent countries, more specifically from critical rentier theory. Based on these concepts, our contribution aims to present a theoretical discussion founded on empirical evidence of the paradigmatic case of Ecuador, which is delivered by an approach to the milestones of half-century economic history including the events of October 2019. In the argumentative core, structural aspects of the Ecuadorian social formation are scrutinized within the framework of rentier theory, whereas relevant aspects of the Ecuadorian economy are examined through the lens of the resource curse thesis. The end of the twenty-first century commodities boom (2003-2014) is a point of entry to reexamine key premises of rentier theory, and thereby to delve into the region's critical juncture.

This paper draws on theoretical insights based on empirical work on several oil-dependent countries and empirical work in Ecuador conducted by the authors. It is structured as follows. First, it locates the debate on natural resources and development in a rentier theory perspective and presents three crucial issues of the state in rentier societies: a) the initial bargaining on rent appropriation; b) strategies of economic diversification by an extractivist developmental state; and c) rent distribution and state-society relations. Afterwards the article contextualizes the debate on natural resource-based development models in Latin America and briefly discusses the concept of neo-extractivism. Then the article delves into the case study and presents an analysis of the role of the state in either Ecuadorian oil booms (1972-1980 and 2003-2014) and in the recent crisis based on the aforementioned categories of analysis. The article closes with conclusions on the Ecuadorian case and points out areas that require further research.

Natural Resource-Based Development Models and Rentier Theory

According to the World Trade Organization (WTO) (2014, p. 10), 81 out of 192 countries of the world are 'resource-driven', whereas the United Nations Conference on Trade and Development (UNCTAD) (2019, p. 17) – based on a different definitions – classifies

102 countries as 'resource dependent'. Most of these countries are in the Global South and the majority of them can be classified as rentier societies. In classical Political Economy, rent refers to the kind of surplus generated by mere property over natural resources as opposed to the income obtained from the exploitation of labor/capital (profit) or the selling of labor (wages). Hence, theoretically, rent is put straightaway at the rentier's disposal. Since it appears delinked from the concept of labor and it is not gained on a basis of competition, the nature of rent has been assigned a negative load in academic literature. Whereas Mayer (1999, p. 4) argued that it corresponds to any revenue "in excess of production costs and a normal return on capital", Saad-Filho and Weeks (2013, p. 4) identified rent as an "unearned, temporary, and undeserved" revenue¹. The origin of rent as well as its destiny have also been put under scrutiny. Inherent to its nature is the way in which rent might be collected, either from "power-based means" (WILCOCK *et al.* 2016, p. 12), or from privilege-based means. Precisely due to this origin, the use of rent is not subject to economic control mechanisms but depends on political or social considerations (ELSENHANS, 1986, p. 32). Rentier Societies are social formations on local, regional or national level that have depended at least since several decades on rent income. In these social formations, rent permeates the economy, politics and social relations (PETERS, 2019).

Despite the international transfer of rent might have contributed to economic growth in certain countries (particularly during natural resources boom periods), as stipulated in classic approaches from modernization theory (LEWIS, 1955; ROSTOW, 1960), in Latin American development thinking rent has been regarded as a main hindrance to the development process. Natural resources rent has been blamed for the perpetuation of the outward-oriented development model as it enabled natural resources-rich countries to increase their import capacity of manufactured goods from the Global North through the mere intensification of natural resources extraction, i.e. without the need of promoting other more productive sectors of the domestic economy or investing in research and development (BAPTISTA, 2010, p. 153; WAINER; BELLONI, 2016).

¹ Oil windfall revenues decisively contributed to cement the negative idea of rent. Ross (2013, 27) argued that oil revenues are marked by their exceptionally large size, unusual source, lack of stability, and secrecy. In the same vein, Saad-Filho and Weeks (2013, p. 19), defined windfalls as "economic gains realized without sacrifice, or without the expenditure of resources"; the authors emphasized that the term windfall is used to imply that the gain is temporary, and suggested that it results from "luck rather than effort".

In rentier societies, the question *who* manages to appropriate *what* share of natural resource rent is crucial. Especially regarding subsoil point resources, and above all oil and gas, during the twentieth century the state increased its role in the natural resource business both by a) nationalizing reserves and/or creating state-owned companies, and b) by increasing royalties and taxes, mainly through the renegotiation of contracts with companies. Especially in boom phases, the state has a privileged position that allows it to siphon off considerable amounts of rents that go “from foreign sources directly to government coffers” (AHMADOV, 2014, p. 1240). As a consequence of this “initial bargaining” (KARL, 1999, p. 34) with private capital (foreign and/or domestic) the state becomes *first* an “effective landlord”, i.e. a state that exerts control over the rents generated by the natural resources of its national (sub)soil (CORONIL, 1997, p. 65). This “initial bargaining”, which sometimes reminds rather of an open struggle for the control of natural resources rent² during boom periods, is central to understand the establishment of the rentier state as a political regime³.

Secondly, according to Karl (1999, p. 34), the initial bargaining undertaken by the state left a legacy of “overly-centralized political power”. In a context of a weak or even absent fiscal contract with society⁴, the state might reduce or even erase its dependence on the democratic participation of its citizens for legitimacy (ROSS, 2001; HERB, 2005). Massive natural resource rent influx provides the rentier state with substantial financial leeway and converts it in the principal development agent. Several oversized or even megalomaniac development projects give account of the rentier states’ yearning for quick modernization and international reputation. However, it is not all a tale of white elephants (ROBINSON; TORVIK, 2005). Already in the early years of the oil age, discussions on economic diversification came up. In Venezuela, Arturo Uslar Pietri in 1936 famously called for ‘sowing the oil’ (USLAR PIETRI, 1936) in order to harvest development.

² The case of oil is paradigmatic; national states grasped at diverse strategies in order to capture a larger portion of rent than that left by the payment of royalties (i.e. the share of surplus payed by private oil companies for land concessions). National states switched from concession systems to contractual systems in order to obtain a share in the profits of private companies, instead of solely royalty payments. Besides, national states enforced diverse schemes of taxation. Though, the most effective way to capture a larger portion of oil rent proved to be the establishment of national oil companies.

³ Main characteristics of rentier states have to do with its financial dependence on international rent income rather than on the domestic economy, and the fact that domestic rent distribution mediates the relations between the state and society (BEBLAWI; LUCIANI, 1987).

⁴ The rentier state relies financially on international rent income rather than on the national economy.

There is indeed a broad consensus in development studies on the benefits of economic diversification (SACHS; WARNER, 1995; HUMPHREYS *et al.* 2007; UNCTAD 2016). In a similar vein, especially during the second half of the twentieth century, quite all natural resource-dependent countries committed themselves to what Larrain (1989, 87) called “the industrial society paradigm” by developing and applying strategies for economic diversification. These meant generally planned mobilization of public resources to sponsor industrial development (through the enforcement of preferential credits, the reduction of taxes, the regulation of import tariffs, and even the establishment of public enterprises or other strategies such as boosted investments in tertiary education). Although several states managed to increase industrial production, the overall outcomes were largely disappointing. The manufacturing sector generally remained highly dependent on state transfers and could not attain the expected gains in productivity and international competition (PURROY, 1997). However, during the last commodities boom, resource-dependent countries all over the world claimed for economic diversification, and (again) aimed to expand their non-resource economic sectors (PURROY, 1997; HVIDT, 2013; OVADIA, 2016).

Thirdly, due to politics of rent distribution the state acts as a powerful “arbiter” (CONAGHAN, 1988, p. 48). Rent pouring from the state coffers might reach the whole society, although the social groups get quite dissimilar shares of rent. Generally speaking, state-led rent allocation occurs through diverse mechanisms and (re-) produces social inequalities. The distribution of natural resource rents typically includes activities that mainly bring profits for business, upper and middle classes like access to lucrative and sometimes inflated state contracts and business opportunities for local investors, subsidized credits, low taxation, overvaluation of the currency, subsidies on transportation fuels, and the creation of professional employment opportunities in the public sector. On the other hand, lower classes benefit mostly from subsidies on basic goods, public transportation, creation of low-skill government jobs and public spending in social policy programs and infrastructure.

The enforcement of some of these measures might fall under the wide scope of clientelistic practices, which offer certain social groups privileged access to state services or benefits in exchange of political loyalty to a certain political group (BECKER, 2008, p. 19). Anyway, due to rent distribution the state holds a powerful tool to mold social structures and to produce winners and losers (PETERS, 2019). However, contrary to a widespread assumption from rentier theory, rent distribution does not necessarily provide the state with

a high degree of autonomy. Rather, long-term rent distribution creates quasi-naturalized rights and expectancies by society. These might differ in scope between social groups, but in case of governments questioning them, society will defend and reclaim these quasi-naturalized rights and expectancies loudly (BAUTISTA URBANEJA, 2013; HERB, 2014; PETERS, 2019).

Latin American Extractivism

Of course, for Latin America natural resource dependency is not new. Quite the contrary, one might claim that Latin American history is a history of extractivism (GALEANO, 2014). Yet, during the recent commodities boom, controversial academic debates about natural resources and development prospered (ROSS, 2013; MENALDO, 2016). Latin American debates on neo-extractivism even provided development studies with a new theoretical contribution to the academic debate. In a nutshell, neo-extractivism focusses on a) the changes regarding scale and intensity of natural resource extraction and b) a modification of the state's role in natural resource governance (GUDYNAS, 2009; BURCHARDT; DIETZ, 2014).

On the one hand, at the end of the twentieth century, neoliberal reforms including natural resource governance reforms built the base for a process of intensified natural resource extraction in Latin America and the re-primarization of South American economies (ÁLVAREZ HUWILER; GODFRID; AND DUÁREZ, 2015, p. 173) that materialized at the beginning of the twenty-first century (Table No. 1). On the other hand, mirroring current developmental policies wisdom and past political initiative to reduce dependency of highly volatile international commodities prices, most Latin American counties in fact aimed to use natural resource income in order to diversify the economy during the last bonanza (PETERS, 2019, p. 185; ALARCÓN, 2020). Especially "*progresista*" governments followed a neo-extractivist development strategy that consists of maximizing the government take of natural resource exports, strengthening the role of the state in the economy, using developmental planning in order to diversify the economy, and taking advantage of the increased financial leeway of the state to finance social development measures.

Table N° 1: Share of Exports of Primary Products in Total Exports (percentages)

	2000	2011	2014	2018
Argentina	67,5	67,4	67,8	79,5
Bolivia	71,1	94,5	94,3	92,7
Brazil	41,6	65,9	65,2	63,9
Colombia	67,5	80,6	82,4	79,3
Ecuador	90,1	92,1	93,9	93,9
Mexico	16,5	27,6	21,2	18,7
Paraguay	92,5	92,4	90,5	88,3
Peru	77,6	86,4	85,2	88,7
Uruguay	58,1	72,0	76,3	77,7
Venezuela	90,9	98,0	98,2	n.a.

Source: CEPALSTAT (2020a).

The modernization effort undertaken during commodities booms resulted in the state pouring natural resources rent into the domestic economy. This, in turn, bankrolled what it might be called an “(up)lift effect”, in which all social classes benefited to different degrees (BURCHARDT; DIETZ, 2014; CEPAL 2019, 28). Yet, the regional improvement of economic and social development achieved during commodities booms (e.g. the Gini index, the Human Development Index, the multidimensional poverty index) contrasts with debatable results in economic diversification, changing social structures, and the prevalence of the natural resources-based development model. In this line, when commodities booms are passé, they blatantly unveil the temporary character of such achievements. That is what has actually happened in Latin America. The hangover from the youngest commodities boom revives the discussion on dependence on natural resources and simultaneously invites to revisit the scope of the state’s agency, i.e. its capacity to intervene in the national development process within the cycles of the capitalist world-economy. In what follows, we will provide an in-depth analysis of Ecuador as a paradigmatic case of a rentier society.

Modernization and Rent: The Political Economy of the Ecuadorian Oil Booms (1972-1980 and 2003-2014)

Ecuador is somehow a latecomer in the international oil business. However, after starting oil extraction at the beginning of the 1970s the country transformed profoundly. The euphoria of the onrushing oil era is best illustrated in a 1971 *New York Times*' feature on Ecuador: "Oil Companies Find Ecuador's Long-Sought Eldorado" (MAIDENBERG, 1971). High hopes were set on the fact that multinational oil companies were already in place and the consortium Texaco-Gulf had started the construction of the 500 km Trans-Ecuadorian pipeline, from the Amazonia to the Pacific coast. Unlike in Venezuela⁵, where the government was allegedly "preparing to place the foreign oil operators under state control" (MAIDENBERG, 1971), private corporations seemed to expect a clear road in Ecuador.

In June 1970, José María Velasco Ibarra, who was elected in 1968 for the fifth time for the post of president, declared himself dictator with support of the armed forces, whom he offered 50 percent of the expected oil royalties (BÁEZ, 1984, p. 93). However, Conaghan (1988, p. 79) argued that as the possibility of massive oil exportation approached, "military's fears were focused on the specter of civilian politicians pillaging [oil] windfall revenues pouring into the state". Indeed, the oil bonanza was not to be left in hands of the civilian dictator. Ecuador followed a course set by the majority of Latin American countries during the 1970s; with few exceptions (e.g. Costa Rica, Venezuela), authoritarian regimes, mostly in the form of military dictatorships, ruled over the region. General Guillermo Rodríguez Lara led a military coup that overthrew Velasco Ibarra, and installed the self-styled "revolutionary nationalist" government in February 1972. A central concern of the novel dictatorship consisted in the state's capture of oil rent. Following the nationalist trend that prevailed in petro-states all over the world at that time (ARBATLI, 2018, 103), the "revolutionary nationalist" dictatorship claimed state's ownership of subsoil natural resources. The principal strategy that the dictatorship grasped at in order to appropriate a larger portion of oil rent was the creation of the state oil company just one month before the inauguration of the

⁵ Whereas the Ecuadorian oil era began with its first oil boom in 1972, Venezuela's oil era began in the early 1920s (TINKER SALAS, 2009).

Trans-Ecuadorian pipeline⁶. With the renegotiation of the contract with Texaco-Gulf, the Ecuadorian state was allowed to purchase a 25 percent share of the consortium. As Gulf retired in 1977, the government acquired its share and the participation of the state in the oil profits reached 62.5 percent⁷. This was accompanied by the integration into the Organization of Petroleum Exporting Countries (OPEC), which acts as a cartel in order to exert pressure on importing countries to recognize a higher value of oil rent for exporting countries.

With oil rent at its disposal, the “revolutionary nationalist” dictatorship embarked the country in the industrial society paradigm. The appropriation of considerable portion of rent income turned the state into a powerful development agent. Crucial ingredients were the dictatorship’s faith in economic planning and the transference of oil rent from the primary sector to other parts of the economy. Thanks to the enforcement of one of the “most generous” sets of measures to back industrialists in Latin America (WORLD BANK, 1980, p. 253), which included exemptions from tariff and import duties, tax benefits, and subsidies (e.g. on industrial electricity and oil products for industrial use), the manufacturing sector expanded⁸ during the first oil boom (Table No. 2).

⁶ Other principal strategies were the shift from concession schemes to contractual schemes, and the renegotiation of contracts with foreign oil companies.

⁷ For comparison, oil nationalizations worldwide had its golden years in the 1960s and 1970s (ROSS, 2012, p. 39). Expropriations raised the states’ share of oil profits from 50 percent in the early 1960s to 98 percent in average in 1974 (MOMMER, 2002). Forerunners of oil nationalization in Latin America were Argentina in 1910, Bolivia in 1937, and Mexico in 1938 (ROSS, 2013, p. 37).

⁸ The expansion of the manufacturing sector during the first Ecuadorian oil boom, i.e. the increase of its share in the domestic GDP, is an argument that sets the resource curse thesis into question. The resource curse thesis affirms that natural resources-based development models hinder economic diversification and industrialization (AUTY, 1993).

Table No. 2: Gross value added by sector (as percentage of GDP), 2007 U.S. dollars, selected years, Ecuador 1972-2016

Economic sector	Value added (percent)						
	1972	1981	1988	1994	2000	2007	2016
Agriculture (includes livestock, fishing, and forestry)	10.7	6.7	7.4	8.3	9.4	9.4	9.4
Petroleum and mining	6.0	9.3	11.7	12.2	10.2	11.7	10.2
Manufacturing	12.6	13.8	13.4	14.3	15.2	13.7	13.2
Construction	16.0	9.8	7.7	6.3	6.0	7.9	9.4
Utilities	0.9	0.2	1.2	1.1	1.4	1.1	2.8
Tertiary sector (includes commerce, government services, transport, other services)	53.8	60.2	58.6	57.8	57.8	56.2	55.0

Source: BCE (2020)

Though, growth resulted from a transient upsurge in already dominant industrial segments in a context of domestic demand expansion, i.e. small- and medium-sized industries of finished consumer goods, such as food processing and textiles and clothing (ALARCÓN, 2020, p. 122). Hence, the temporary expansion of the manufacturing sector did not mean the takeoff of the domestic industry, nor did it represent a significant change in the country's industrial profile (FERNÁNDEZ, 1989, p. 201). The other side of the coin was increasing external debt and the country's snowballing dependence on imports of manufactured goods.

The modernization effort undertaken by the state during the first Ecuadorian boom (1972-1980) enhanced the domestic market; household consumption was boosted as the state poured oil rent into (almost) all social classes. On the one hand, modern urban middle classes emerged as the winners of the bonanza period (ALARCÓN, 2020; OLEAS MONTALVO, 2013, p. 39). On the other hand, indigenous peoples were excluded from the rentier modernization project⁹; in September 1972, General Rodríguez Lara asserted that

⁹ The negation of indígenas in the national modernization project converged with a widespread current of thought that linked indigenous peoples with backwardness and archaic societies (STAVENHAGEN, 1979, p. 23).

“there is no more *Indian* problem, we all become *white* when we accept the goals of national culture” (STUTZMAN, 1981, p. 45).

The natural resources-led modernization endeavor resumed during the second Ecuadorian oil boom, which coincided with the “commodities super-cycle” 2003-2014. As well as during the 1970s, the Ecuadorian state strove for the appropriation of a larger portion of oil rent, and (again) pursued economic diversification. A landmark in the direction of the state’s recovery of oil rent took place in 2006. The government of President Alfredo Palacio cancelled the contract with Occidental Petroleum Corporation (OXY) after accusing the multinational of violating the Hydrocarbons Law. By taking over OXY’s operations, the state company recovered about one fifth of Ecuador’s total oil output. Another pointer to the return of the “effective landlord” was Ecuador’s readmission¹⁰ to OPEC in 2007. Both milestones in the state’s claim for a larger portion of oil rent converged toward the nationalist trend triggered by the democratic “left turn” of a significant portion of the region¹¹.

However, part of the improvements should prove to be a constraint in disguise. Correa’s government bargained credits with foreign oil companies (Chinese companies PetroChina Co. Ltd. and Sinopec Corp., and Thailand’s state-run PTT) since 2009. This poured important amounts of foreign exchange into the state coffers at the cost of presale orders of oil. Short-term development opportunities jeopardized thereby the state’s landlord condition for the future. As a result, Asian oil companies take a large part of Ecuadorian crude exports as debt agreements that are repaid with oil (OROZCO, 2018; VALENCIA, 2017; VALENCIA, 2015). Biddings were conducted in secrecy; this, added to the volatile nature of international oil prices might have caused underestimation of the country’s external debt.

The new fiscal leeway was accompanied by a second attempt of economic diversification. However, external conditions soon proved to be a straitjacket. *First*, economic globalization became a growing hindrance to the enforcement of state’s protectionist measures, and *second*, technological advance set the pace for industrial development, and the incorporation of technology (together with an increase in productivity) became the

¹⁰ In 1992, Ecuador abandoned OPEC in a bet to counteract plummeting international oil prices with increased oil exports without any quota restriction.

¹¹ According to Levitsky and Roberts (2011, 1), the “wave” began in 1998 when Hugo Chávez was elected president of Venezuela.

measure of competitiveness within the globalized world economy. These external constraints forced the reassessment of the industrial society paradigm not only in Ecuador, but at regional level. Compared to its Latin American fellows, the Ecuadorian state seemed like a model student, analyzing macroeconomic textbooks and applying policy recommendations. Correa's government set its best bet on a boost to the investments in tertiary education as a main strategy to pursue the *cambio de la matriz productiva* (transformation of productive structure). Therefore, the government relied on important investments in research and development. Actually, Correa's government founded the University of Research of Experimental Technology *Yachay* (knowledge), which was envisioned as the center of the *cambio de la matriz productiva*. The promotion of tertiary education was complemented with an ambitious program of international scholarships, which was meant to form a generation to lead the transit to the industrial society by benefiting about 13,000 students between 2007 and 2018. Though, the government's rhetoric towards the private sector did not include the question if it might be able to absorb the return of the highly-qualified troop of scholarship holders. Neither the new state university with its oversized campus, nor the freshly returned highly qualified professionals have yet revitalized the sluggish manufactured sector, which follows a decreasing trend since the beginning of the century (Table No. 2).

Moreover, the state tried to promote national production by making use of additional policy measures, including subsidies for local production and protection through import tariffs. However, the results remained poor. A telling example is the project to promote the use of induction cookers and their production in Ecuador. The objective was twofold: *First* it should boost a national production, and *second* it aimed to reduce domestic gas¹² (liquefied petroleum gas, LPG) consumption and make use of the country's hydroelectric resources. Although the state offered generous subsidies for national business interested in producing induction cookers, the project did not prosper. Business preferred to maintain in rentier rather than in productive activities. In the end the government opted to import induction cookers from China (PURCELL *et al.* 2017).

¹² Liquefied petroleum gas (LPG) is massively used by households in Ecuador for cooking.

Contrasting with the disappointing results of economic diversification (Table No. 2), the creation of public employment opportunities was central to the enhancement and strengthening of modern urban middle classes. The task of economic planning was to ensure the transference of rent income to politically prioritized sectors, as the oil bonanza enabled the massive flow of state resources to the public sector. By 2009, Correa's government already established 21 new state entities (seven ministries of coordination, five sectorial ministries, two national secretariats, and seven state's or technical secretariats¹³). Until the end of its administration in 2017, Correa's government created at least 50 new state entities, including public enterprises, agencies, councils, research institutes, and four state universities (HURTADO, 2017, p. 489; TIBÁN, 2018), as upward adjustments in remunerations took place¹⁴. Moreover huge investments in infrastructure (roads, electricity generation, airports, Quito subway, etc.) were a further pillar of the government's developmental project, whereas construction also benefitted from a housing boom typically for oil booms all over the world.

Upper and middle classes also continued to benefit disproportionately from fuel subsidies and relatively low taxation (DI BELLA *et al.* 2015, p. 10; CANO, 2017). As during the first oil boom, increasing public investment turned the state into the motor of the economy. Therefore, business relied mainly on the state:

The profit of the government is unprecedented and can be unbelievable. Just by taking a 'walk' through the facilities of the Ministry of Industry and Productivity, one can see the long lines of dozens of company owners or its representatives trying to find a positive negotiation by the executive. [...] It has become necessary to learn about the government, and build or try to build a close relationship based on confidence in order to avoid possible future affectations (POVEDA, 2014).

Poveda's observation has to be read also in line with polarization and the interest to scapegoat Correa's government. However, it confirms a general trait of state-business relations in rentier societies as highlighted by Coronil (2008, p. 3): "If in capitalist nations based on the generation of value through human labor the business of politics is business, in

¹³ Among the new nine secretariats was the *Secretaría del Buen Vivir*. For comparison, Germany has 15 ministries, including the Federal Chancellery (*Bundeskanzleramt*) (ICKLER; MATTHES, 2019, p. 178).

¹⁴ An assessment of the number of new public employees during Correa's government is especially difficult to carry out since the majority of them were non-tenured. The figure of the *consultor* was widespread in order to limit contracts to six months or one year. However, Ospina Peralta (2013, p. 236) estimated 98,784 new hires between December 2006 and December 2010.

oil exporting societies based on the extraction of rents through the capture of natural riches, the business of business is politics.” However, the renewed state-led boost of the internal market added to the increasing technological gap and resulted in deepening the dependence on imports of manufactured products (even for household consumption).

The Rentier Bargain and the Limits to Reform

The growing fiscal deficit left by the dramatic drop in international oil prices of 2014 questioned the long-term prevalence of the socioeconomic achievements attained during the second oil boom, such as the consolidation and strengthening of middle classes, and even the reduction of poverty (DOMÍNGUEZ; CARIA, 2016). In such context, external debt resources proved to be central to maintain state benefits of middle and lower classes (particularly those related to employment opportunities in the public sector and subsidies on oil products).

In 2017, Lenín Moreno, Correa’s vice president between 2007 and 2013, assumed office after winning the 2016 presidential election. With a hefty debt burden and with a significant portion of national oil rent already compromised, Moreno began his administration with limited room for maneuver. After failing to renegotiate debt conditions with China, Moreno’s government decided to opt for neoliberal measures and reverted to the International Monetary Fund (IMF) and reached a US\$ 4.2 billion deal (REUTERS, 2019; LONG, 2019; PONCE, *et al*, 2020). In order to plead for fund’s disbursements, the government is compelled to meet the well-known¹⁵ requisites of coping with a) the size of the state apparatus and b) the state’s policy on subsidies.

The ongoing pursuit of a smaller state counted already 16,000 layoffs in the public sector by the beginning of August 2019 (El Comercio, August 4, 2019), and further set its sights on public enterprises¹⁶. Between December 2018 and July 2019, about 6,500 public servants have been removed from public companies in an alleged optimization. According to

¹⁵ During the last decades of the twentieth century, the IMF was the spearhead of the enforcement of Washington Consensus’ policies.

¹⁶ The dismantlement of the bunch of ministries and state entities created during the previous decade not only impacted on the middle classes and slackened the pace of household consumption, but also sent a strong message of Moreno’s departure from his predecessor.

government officials, the payroll of circa 33,500 employees at public enterprises (by August 2019) is “still obese” (MONTENEGRO, 2019). Moreover, in the 2019 neoliberal reform package, public worker’s holidays were reduced by half (Ponce et al. 2020) and in 2020 even wages were reduced alleging a cut in the working hours.

The crisis of the end of the twentieth century had shown that mass dismissals in the public sector mean no social explosion. However, the case of subsidies on oil products is another story; when Moreno and his allies picked out subsidies on transportation fuels (gasoline and diesel), they evidently underestimated social reaction¹⁷. To be granted subsidies on oil products for domestic use has been regarded as a quasi-naturalized right by peoples living in oil exporting countries (for a similar argument on Venezuela, see) (BAUTISTA URBANEJA, 2013). Indeed, subsidies on diesel, gasoline, and domestic gas (LPG), which are broadly used by households in public transportation (diesel), in family cars (gasoline), and in cooking (LPG) have been maintained for nearly fifty years in Ecuador as a landmark of its oil era.

Though, the country’s oil refining capacity has never been sufficient to meet the domestic demand of oil products. The gap between domestic demand and supply has been historically covered by imports. This became the paradox of the Ecuadorian oil era: An oil exporting country that imports oil products; a peripheral natural resources-rich country, which depends on imports of manufactured products. Since the start of commercial operations of the state-owned *Refinería Estatal de Esmeraldas* in 1978, in the first Ecuadorian oil boom, no significant refining capacity has been further added. During the second oil boom, such big step in the direction of the industrial society paradigm was meant to be surpassed with the *Refinería del Pacífico*; the planned new state-owned refinery was declared a national priority at the beginning of Correa’s government, and its inauguration was planned

¹⁷ President Moreno was advised that the elimination of subsidies on transportation fuels might cause discontent principally among indigenous peoples, allegedly, a minor portion of the population. As mentioned before, indígenas became indeed the spearhead of the protests; their massive mobilization from the highlands to Quito not only paralyzed the city during two weeks, but also triggered fears of shortages. During the siege, which ended with the announcement of the repeal of the measure, indígenas were supported (not only logistically) by ample sectors of urban middle classes. It is unclear if Moreno and his allies learned a lesson from recent economic history; when President Abdalá Bucaram eliminated the subsidy on domestic gas for cooking in 1997, he tossed a stick of dynamite into a tinderbox. Few days later he was removed from office. Amid nationwide protests, the National Assembly declared Bucaram “mentally incapacitated” (*loco*).

for 2017. Though, despite an outlay amounted to over US\$ 1.5 billion, the construction of the refinery never begun (PACHECO, 2019).

Due to the stagnation of the domestic refining capacity, imports of oil products, mainly LPG and transportation fuels (diesel and gasoline), jumped from 2.1 million barrels in 1978 to the historical peak of 57.1 million barrels in 2014 (BCE, 2017, p. 197). The case of transportation fuels during the twenty-first century is dramatic. The Ecuadorian state imported 17 percent of the country's demand of diesel in 2000; by 2015 imported diesel amounted to 69 percent of domestic demand. The figures for imports of gasoline skyrocketed from 10 percent in 2000 to 70 percent in 2015¹⁸ (ESPINOZA; GUAYANLEMA 2017, p. 7).

The Ecuadorian state purchases diesel and gasoline at international prices and offers them to households at a fixed subsidized price; with about US\$ 0.27 and US\$ 0.49 per liter, respectively. Diesel and gasoline in Ecuador are the second cheapest in South America¹⁹ only after Venezuela (GLOBALPETROLPRICES, 2020a; GLOBALPETROLPRICES, 2020b). Hence, the fiscal pressure is snowballing. The cost of importing oil products (diesel, gasoline, and LPG) jumped from circa 1.7 percent of GDP by the beginning of the twenty-first century to 5.4 percent of GDP in average during the period 2011-15 (ESPINOZA; GUAYANLEMA, 2017, p. 13–17). For comparison, in 2011, public expenditure of the central government in education and health amounted 4.4 and 1.5 percent of GDP, respectively and reached 4.5 (education) and 2.5 (health) until 2015 (CEPALSTAT, 2020b). The consequences of spending more than the double on fuel subsidies compared to public health became terribly obvious in the 2020 corona-crisis.

There is huge agreement in Ecuador about the unequal nature of subsidies on transportation fuels and their regressive distributional effects²⁰. The argument is

¹⁸ Imports of LPG increased from 60 percent in 2000 to 87 percent in 2015 (ESPINOZA; GUAYANLEMA 2017, p. 7).

¹⁹ Liquefied petroleum gas (LPG) for cooking constitutes another significant example of a subsidy that benefits households. The 15 kg-cylinder is marketed domestically at a fixed price of US\$ 1.60; the Ecuadorian state pays at least ten times more for the same amount of LPG in international markets.

²⁰ Besides socioeconomic inequalities, Alarcón (2011) drew attention to the socio-environmental inequalities related to subsidies on transportation fuels in Quito. The amount of emissions of global and local contaminants linked to the use of household cars exceeds (per person) that of public transport systems. A main reason is that middle and upper class households own more than one car per family, and thus cars are used practically as individual cars in Quito.

straightforward: whereas upper and middle classes benefit from a larger portion of state resources entailed in subsidies on gasoline and diesel for private cars, lower classes benefit indirectly from low-cost public transport, which receives subsidized diesel²¹. The amount of the compensation received by upper and middle classes depends on the number of private cars owned by a household, while lower classes “enjoy” low quality and low comfort public transport. Moreover, in a recent study on Venezuela, Peters (2017, 59) drew attention to other theoretical objections to the maintenance of subsidies on transportation fuels, which apply to Ecuador as well. Fuel subsidies cause high incentives for smugglers, and for lavish and wasteful energy use. Yet, despite all kinds of concerns, political (high political costs of their elimination), economic (contraband), financial (fiscal pressure), socioeconomic (regressive distributional effects), socio-environmental (emissions of global and local contaminants), socio-cultural (lavish and wasteful energy use), Moreno’s attempt²² to eliminate subsidies on transportation fuels did not echo on society²³. One part of the story is that prices for diesel were to be increased substantially more (123 percent) than prices for gasoline (29 percent) despite the latter’s more regressive distributional effect (PONCE *et al.* 2020). However, we cannot understand the importance of fuel price increases by only focusing on the numbers. Society cannot be reduced to pure math.

This puzzle might be solved by considering the deep rooted conviction that cheap energy is a quasi-naturalized right for Ecuadorians backed by the fact that they were born in an oil-country. Put differently, path dependency permeates the socio-cultural attitudes. Society’s claim on the maintenance of the subsidies is the corollary of the rentier bargain between the state and society, which prevails since the dawn of the Ecuadorian oil era. In such long-term arrangement, state’s rent distribution in the form of subsidies nurtured society’s expectancies and created quasi-naturalized rights. In a context of prevalence of

²¹ The public transportation fare in Quito has remained unchanged since 2003 at US\$ 0.25.

²² Further research might be undertaken on the strategies Moreno’s government deployed in order not to be toppled. Recent economic history shows that no administration could withstand social protest for so long, particularly when the indigenous movement played a central role. For comparison, when President Bucaram scrapped subsidies on domestic gas in 1997, he was removed only a couple of days after social protests begun.

²³ Even the Ecuadorian environmental movement rejected the elimination of subsidies on transportation fuels. When protests arose, Moreno tried to present the measure as a key component of the government’s environmental policy in order to gain support of the environmental movement. Activists, who belong mostly to urban higher and middle classes, publicly confirmed that there was no previous deal, and adhered to the cause of the indigenous movement.

economic, social, ethnic, and status inequalities, the access to benefits of the rentier state (even the access to social security, public health, and public education) is highly unequal; then, the struggle for the preservation of subsidies on fuels might be regarded as a step on the relentless quest for universal access to state benefits.

Given a weak fiscal contract, in which the state does not depend on the national economy, the government's attempt of demanding a stronger contribution from society (in the form of the elimination of subsidies) deeply questions the foundations of the longstanding rentier bargain; then the status quo trembles, and people rush into the streets. This also calls into question the idea of a high degree of autonomy of the rentier state in relation to society²⁴, i.e. its capacity to act independently of society without depending on the democratic participation of its citizens for legitimacy (PETERS, 2017). In this line, the distribution of oil rent (in the form of subsidies or other state benefits) proved to be central to enable the state to impose its decisions, and even the direction of the national development project.

With low international commodities prices and external debt throttling state coffers, the possibilities of the rentier state of offering constitutionally prescribed rights, such as social security, public health, and public education, to all citizens seem further away. Then, compensatory state benefits (or even perks) might turn into the barometer of the relationship between the state and society.

Conclusion: Lessons From the Global South

The recent commodity price cycle once again confirmed natural resources-based development models to be crisis prone. The last commodities boom brought impressive economic growth rates that – especially in Latin America – were accompanied with important social development gains, political change and in some cases even the (discursive) embracement of alternative visions of development based on the indigenous cosmovision²⁵.

²⁴ Plummeting international oil prices blatantly exposed the loss of autonomy of the Ecuadorian state in relation to international financial institutions (IFI), whereas the closeness with lenders of last resort confirmed that debt agreements to be repaid with oil put the state's landlord condition in jeopardy.

²⁵ At the dawn of the twenty-first century commodities boom, the domestic juncture was shaped by two settings that were highly unlikely during the 1970s. *First*, indigenous peoples were firmly entrenched in national politics; *second*, the Ecuadorian state had embraced the official environmental discourse of sustainable

Arguably, Rafael Correa's government in Ecuador can be considered as a posterchild of a neo-extractivist development model/strategy. The government aimed to make use of oil money in order to a) foster structural change of the economy (by leaving behind dependence on natural resource exports), b) promote social development and even c) support ambitious objectives in terms of environmental protection. Although some important gains, especially regarding social development have been reached, the overall balance remains rather disappointing. Economic diversification failed and at the end of the boom the country was highly indebted.

Political analysts often explain the poor results highlighting policy failure and scapegoating Correa's government. No doubt, that there is a lot of space for critique of concrete measures and an arguably authoritarian style of Correa. However, the article highlights the underlying reasons for a repeated history of missed opportunities during oil booms. Economic diversification fails due to the reproduction of rentier economy patterns, the state's focus on rent distribution and further due to the initial rentier bargain. Rentier theory offers important insights, yet, it generally focusses on economic and political explanations, underestimating social and social-culture factors. Based on our in-depth analysis of the Ecuadorian case study, we highlight the potential of an analysis of a rentier society that links political economy with social and socio-cultural factors. Further research should broaden the empirical basis of the central arguments presented in this article, by analyzing other rentier societies both in case studies or small-N- comparisons.

Recent developments in the Global South outline that the analytical framework may help to understand social dynamics in rentier societies, although there are surely important

development, which decisively contributed to boost environmental awareness among the Ecuadorian society. Both facts are central to understand the assumption to power of the new left-leaning President Rafael Correa in 2007, and the draft of the new 2008 Constitution. A particular interpretation of the indigenous worldview of the Good Living (*Buen Vivir*) was meant to become the guiding thread of the 2008 Constitution and the general guideline of the self-styled government of the "citizens' revolution". This alternative-to-development vision entails an influential socioecological dimension based on a harmonic relation between society and nature; though, concurring with its inclusion in the constitution and other official documents (e.g. national development plans) the concept of *Buen Vivir* was despoiled of its "critic and transformer potential" (PETERS, 2014, 140) and gradually faded away by suggesting rather development alternatives (instead of alternatives to development) such as sustainable development (ALARCÓN; MANTILLA 2017, p. 101) and human development (CORTEZ, 2014, p. 338). Despite *Buen Vivir's* influential socioecological dimension, the embarkment on the "industrial society paradigm" during the second Ecuadorian oil boom relied mainly on rent income from oil extractivism.

variance that has to be analyzed with more detail. For instance, recent protests suggest a wider scope of concerns of society and even a demand for more participation in key decisions on the direction of the national development project. Protests exhibited deferred social demands (such as access to public health, or unveiled high costs of health). In Ecuador, fears of a generalized escalation of prices in a context of rising unemployment added to other concerns related to the “high cost of living”. Chile provides a paradigmatic case of the course of the protests in Latin America; a minor increase in the urban transportation fare triggered social mobilizations that lasted for weeks, where citizens complained about the prohibitive costs of education and health that they have to pay with their meager remunerations in the context of an absent state.

Besides concerns of society, protests also shed light on the possible reactions of the state. Iran, a textbook case of a rentier society, provides a grim example of a crackdown on social protest against the elimination of compensatory state benefits. A surprise increase in officially set gasoline prices announced on November 15th 2019 triggered widespread demonstrations, which soon broadened and mirrored other problems such as social repression and corruption (FASSIHI, 2019; KADIVAR *et al.* 2019). The “brutal crackdown” left circa 200 people dead and 2,000 arrested (FASSIHI; GLADSTONE, 2019); thereby, the Iranian regime acknowledged that its security forces “shot and killed protesters across the country to put down demonstrations” (ASSOCIATED PRESS, 2019).

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