

DEVELOPMENT, CAPITALISTS AND EXTRACTIVE RENT:  
CLASS STRUGGLES IN VENEZUELA AND ECUADOR

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## **Abstract**

Through a relational class perspective, this dissertation compares the evolution of the development models in Venezuela and Ecuador since the 1970s to better understand the significance of the recent turn to the left. Based on field research in both countries comprising extensive interviews with representatives of social movements and business interest groups, it studies the main class organizations, their struggles, and their relation with the state in order to shed light on the dynamics of change in the development models pursued in each country, and the role that extractive rent plays within them.

While governments associated with the “pink tide” in Venezuela and Ecuador were not elected under similar economic contexts, they faced comparable political conditions. In particular, both countries faced situations where class struggle adopted a particular form as popular classes lost their coordination, and the capitalist classes had significant influence over the state. In response to the challenge these conditions represented, left governments attempted to increase the capacity of the state to act with more autonomy through the adoption of new constitutions and the reassertion of state ownership over extractive resources to pursue a rent-based social-developmental model. This involved the use of extractive rent for redistributive measures and as a leverage to foster economic diversification.

A comparative perspective on social classes shows how a united capitalist class in Venezuela, adopting a confrontational stance, pushed the state to rely increasingly on its role as a “dispenser” of rent. By contrast, a regionally divided capitalist class in Ecuador reacted less

combatively, and led the Ecuadorian state to follow a social-developmental model more supportive of private initiative for economic diversification. In both cases, however, the governments put in place strategies aimed at gaining control over the responses of the popular sector.

As opposed to discussions of populism, focusing on the irrational relationship between the leader and its followers, or approaches that focus on categorizing different kinds of left governments, or even perspectives that stress the determining role of natural resources, this dissertation analyzes class struggles as a crucial factor to understanding the transformation of the state and of the development model it pursues.

Para mis compañer@s que siguen en la lucha

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# Table of Contents

<b>Abstract</b> .....	<b>ii</b>
<b>Acknowledgements</b> .....	<b>v</b>
<b>List of Tables</b> .....	<b>xi</b>
<b>List of Figures</b> .....	<b>xiii</b>
<b>List of Acronyms and Abbreviations</b> .....	<b>xv</b>
<b>Introduction Venezuela and Ecuador in the Pink Tide</b> .....	<b>1</b>
<i>Why Ecuador and Venezuela?</i> .....	4
<i>The Pink Tide</i> .....	9
<i>Studying the Rent-Based Social-Developmental State in Venezuela and Ecuador</i> .....	13
<i>Thesis Structure</i> .....	20
<b>1. Locating the Pink Tide Theoretically</b> .....	<b>23</b>
<i>Latin American Populism Once Again?</i> .....	23
<i>A New Resource Curse? Rent Extractivism and the Commodity Consensus</i> .....	34
<i>Pink Tide Parties and Movements</i> .....	50
<i>Conclusion</i> .....	58
<b>2. Development and Class: A Long-Standing Debate</b> .....	<b>61</b>
<i>Development and the Making of Entrepreneurs</i> .....	64
Class and the State in Dependency Theory Debates .....	70
Does Class Really Matter for Development? .....	75
<i>The Importance of Class</i> .....	83
<i>Overstretching Social Classes to the Point of Tearing them Off: Touraine and Others</i> .....	89
<i>The Return of Class and the Development Model</i> .....	94
<i>The Persistence of Other Approaches to Class</i> .....	98
<i>Conclusion</i> .....	104
<b>3. Growth and Decay of Corporatist Developmentalism in Venezuela</b> .....	<b>106</b>
<i>The Post-Dictatorship and the ISI Period</i> .....	109
The building of centralized class organizations .....	109
Corporatism, Tripartite Negotiations and ISI .....	114
Oil and its Nationalization under an ISI-Corporatist Development Model .....	121
<i>The Rupture</i> .....	126
Early signs of discontent: A lumpen-bourgeoisie? .....	127
The Statement of the Rupture: The Rejection of Developmentalism .....	129
The Turn to Austerity and the Growing Capitalist Class Power .....	134
<i>The Neoliberal Era and the Destruction of the Remains of Corporatism</i> .....	141
Lack of Support from the Capitalist Class .....	142
The Second Capitalists Mind Shift .....	145
The Popular Sector's Reaction to Adjustment .....	147
The Political Crisis and the Dwindling of a Regime .....	150



<i>Conclusion</i> .....	158
<b>4. The Bolivarian Revolution: Rebuilding State Autonomy Against Classes</b> .....	<b>160</b>
<i>Chávez's Victory: The Context</i> .....	161
<i>The First Development Plan</i> .....	166
<i>The Recovery of Autonomy Through Constitutional Change</i> .....	169
The Reaction of the Capitalist Class .....	171
Labour, Peasants and Other Social Movements in the Constituent Assembly .....	172
The Resulting Constitution .....	175
<i>The State Reasserts its Control over the Petroleum Sector</i> .....	177
The Clash with Labour .....	178
The Reassertion of Ownership Over Oil and the Threat to Private Property .....	181
The Big Clash: From Business Strike to Coup Attempt to Recall Referendum .....	185
<i>The Class Nature of the Conflict and its Impact on Class Organizations</i> .....	190
Capitalist Class: Multinational Oil, Large Industrialists and Retail Traders .....	191
Small Industrialists and Producers: A Left-Wing Petty Bourgeoisie? .....	195
The Popular Sector and Labour Unions .....	196
<i>The Resulting Development Model: A Rent-Based Social-Developmental State</i> .....	200
Autonomy Based on Rent .....	200
Strengthening Redistribution and Fostering Support from the Popular Sector .....	203
The Difficult Economic Transition .....	208
<i>Conclusion</i> .....	216
<b>5. Ecuador Before the Pink Tide: Workers, Indigenous Peoples, and a Fragmented Capitalist Class</b> .....	<b>218</b>
<i>The Beginning in Broad Brushstrokes: From an Agro-Export to an Oil Economy</i> .....	220
<i>Division and Unification of Class Organizations</i> .....	224
Capitalists' Division in Regional Factions .....	224
Labour Unity .....	229
Peasants and Indigenous Rising .....	232
<i>Corporatism and Austerity before Neoliberalism</i> .....	238
The Class War Opposing Labour to Capital .....	241
<i>The Turn to Neoliberalism</i> .....	246
Indigenous Organizations Pick Up the Baton .....	247
The Struggle for Oil .....	249
The Struggle for Land .....	252
<i>A Lasting Class Conflict</i> .....	256
The Economic Results .....	264
<i>The Alliance that Could Not Last</i> .....	266
<i>Conclusion</i> .....	274
<b>6. The Rent-Based Social-Developmental State, the Extractive Sector, and the New Class Relations in Ecuador</b> .....	<b>278</b>
<i>Correa's Victory: The Context</i> .....	279
<i>The Government Program Announcing the Fight for Autonomy</i> .....	288
<i>The Making of a New Constitution</i> .....	293
Capitalist Factions Feel Excluded .....	296
The Indigenous and Labour Movements: The Beginning of the End .....	298
The Resulting Constitution .....	301
<i>Clashes Following the Recovery of the Extractive Sector</i> .....	306
The Reaction and Reorganization of the Capitalist Class .....	309

Medium, Small and Micro businesses: A Lefty Petty Bourgeoisie? .....	316
The Reorganization of Popular Classes.....	318
<i>The Resulting Development Model</i> .....	323
Autonomy Based on Rent... and Taxes.....	324
Redistribution and Control Over the Popular Sector.....	328
A Developmental State .....	333
<i>Conclusion</i> .....	337
<b>7. Conclusion: Comparing Venezuela and Ecuador: The Importance of Capitalists as a Class in Struggle</b> .....	<b>340</b>
<i>Similarities and Differences</i> .....	344
<i>Rent and Extractivism</i> .....	350
<i>State Autonomy and Development</i> .....	352
<b>Work cited</b> .....	<b>357</b>
<b>Quoted Interviews</b> .....	<b>381</b>
<b>Appendix A: On Methods</b> .....	<b>382</b>
<b>Appendix B: Oil Prices</b> .....	<b>391</b>

# List of Tables

Table 1.1: Left Presidents in South America 1998-2014.....	10
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## **On Venezuela**

Table 3.1: Selected Measures of Wealth Distribution .....	120
Table 3.2: Gross Fixed Investment Rates: Venezuela, 1960-1990.....	125
Table 3.3: Comparative of Economic Reforms Proposed by Fedecámaras and the International Monetary Fund.....	143
Table 3.4: Balance of Payments: Direct Investments .....	153
Table 4.1: Basic Economic Indicators for Venezuela, 1998–2001.....	168
Table 4.2: Evolution of Central Government Operations as Percentage of GDP (excerpt) .....	184
Table 4.3: Importance of Manufacturing Industries According to their Size .....	195
Table 4.4: Exports FOB by Sector in Millions of US Dollars .....	213

## **On Ecuador**

Table 5.1: GDP at Constant Prices, Total Dollar Exports (Average Annual Change) and Share of Manufacturing in GDP (Period Averages) .....	224
Table 5.2: Main Economic Groups of Ecuador in 1984 .....	226
Table 5.3: Number of Business Chamber Public Statements Reported by Newspapers .....	242
Table 5.4: Annual and Monthly Average Number of Strikes and Collective Agreements per Presidential Term 1980-1996.....	245
Table 5.5: Evolution of Poverty .....	266
Table 6.1: Economic Indicators of Employment and Wealth Distribution .....	281
Table 6.2: Evolution of Poverty and Consumption Inequality Indicators .....	281
Table 6.3: Importance of Enterprises, by Size .....	318
Table 6.4: Non-Financial Public Sector Operations, as a Percentage of GDP (excerpt).....	325
Table 6.5: Comparative Education Indicators Including Both Sexes (%) .....	331

## **Appendices**

Table A.1: Sectorial and Regional Distribution of Interviews with Leaders of Class Organizations Conducted in Ecuador .....	385
Table A.2: Sectorial and Regional Distribution of Interviews with Leaders of Class Organizations Conducted in Venezuela.....	385
Table A.3: Letter Code for Interviews .....	385

# List of Figures

## **On Venezuela**

Figure 3.1: Evolution of the Relative Share of Selected Private Sectors Out of Total GDP ....	124
Figure 3.2: Growth of Gross Fixed Capital Formation .....	125
Figure 3.3: Evolution of GDP Growth and its Private Component at 1968 Prices .....	125
Figure 3.4: Evolution of GDP Growth and its Public Component .....	126
Figure 3.5: GDP growth at 1984 prices, 1985-1998 .....	145
Figure 3.6: Evolution of the Growth of Gross Fixed Capital Formation.....	146
Figure 3.7: Evolution of the share of GDP that is private, 1984-1998 .....	146
Figure 3.8: Evolution of Relative Share of Votes for Presidential Candidates, 1958-2006 (%)	152
Figure 4.1: Share of Gross Fixed Capital Formation from Public and Private Origin at 1997 Constant Prices .....	203
Figure 4.2: Evolution of Gross Fixed Capital Formation from Private and Public Origin in Thousands of 1997 Bolivars .....	203
Figure 4.3: Infant Mortality Rate (Deaths per thousand live births).....	205
Figure 4.4: Daily Dietary Energy Consumption in Kilocalories per Person .....	205
Figure 4.5: Proportion of the Population Below Minimum Level of Dietary Energy Consumption .....	206
Figure 4.6: Evolution of the ratio of the average household income of the richest decile to the poorest four deciles.....	206
Figure 4.7: Evolution of the Gini coefficient of income distribution .....	206
Figure 4.8: Evolution of the Economic Activities as a share of the GDP (1997 prices). .....	211
Figure 4.9: Evolution of the GDP Growth Rate at Constant 1997 Bolivars.....	214

## **On Ecuador**

Figure 5.1: Legally Constituted Unions in Ecuador 1934-1996, by sector .....	231
Figure 5.2: Evolution of GDP Growth, GDP per capita Growth and Manufacturing Growth .	243
Figure 5.3: Average Yearly Inflation.....	265
Figure 5.4: Evolution of the GDP, and Evolution of FDI and Remittance as a share of GDP..	265
Figure 6.1: Per Capita GDP Growth, in constant dollars of 2000 .....	280
Figure 6.2: Evolution of Surplus Profit from Oil and State Income from Oil, expressed as a share of GDP.....	306
Figure 6.3: Share of Gross Fixed Capital Formation by Public and Private Sector in Ecuador, 2007-2013.....	327
Figure 6.4: Gross Fixed Capital Formation by Institutional Sector, as a share of GDP.....	327
Figure 6.5: Public and Social Spending (Central Government), as percentage of GDP .....	329
Figure 6.6: Infant Mortality Rate (deaths per thousand live births) .....	330
Figure 6.7: Daily Dietary Energy Consumption, in kilocalories per person .....	330
Figure 6.8: Proportion of the Population Below Minimum level of Dietary Energy Consumption .....	330
Figure 6.9: Evolution of Ratio of Average Household Income of Richest Decile to Poorest Four Deciles .....	331
Figure 6.10: Evolution of the Gini Coefficient of Income Distribution .....	331
Figure 6.11: Evolution of Export Products, by type .....	336
Figure 6.12: GDP Growth.....	337

## **Appendices**

Appendix B: Crude Oil, Average Annual World Price per Barrel in Real US Dollars .....	391
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## List of Acronyms and Abbreviations

<b>Acronym or Name</b>	<b>Full name original language</b>	<b>Translation</b>	<b>Function and country</b>
AD	<i>Acción democrática</i>	Democratic Action	Political party, Venezuela
AP	<i>Alianza Patria Altiva I Soberana.</i>	Alliance Proud and Sovereign Fatherland	Political party, Ecuador
AVHI	<i>Asociación Venezolana de Hidrocarburos</i>	Venezuelan Association of Hydrocarbons	Business interest group, Venezuela
BTV	<i>Banco de los Trabajadores de Venezuela</i>	Venezuelan Workers' Bank	Union owned bank, Venezuela
CELAC	<i>Comunidad de Estados Latinoamericanos y Caribeños</i>	Community of Latin American and Caribbean States	Body promoting intergovernmental cooperation
CMS	<i>Coordinadora de Movimientos Sociales</i>	Coalition of Social Movements	Social movements coalition, Ecuador
CONAIE	<i>Confederación de Nacionalidades Indígenas del Ecuador</i>	Confederation of Indigenous Nationalities of Ecuador	Indigenous confederation, Ecuador (whole country)
CONAICE	<i>Confederación de Nacionalidades y Pueblos Indígenas de la Costa Ecuatoriana</i>	Confederation of Indigenous Nations and People from the Ecuadorian Coast	Indigenous confederation, Ecuador (Coast)
CONFENIAE	<i>Confederación de Nacionalidades Indígenas de la Amazonía Ecuatoriana</i>	Confederation of Indigenous Nationalities of the Ecuadorian Amazonian Region	Indigenous confederation, Ecuador (Amazonian Region)
CEOLS	<i>Confederación Ecuatoriana de Organizaciones Sindicales Libres</i>	Ecuadorian Confederation of Free Unions	Union confederation, Ecuador
CEDOC	<i>Confederación Ecuatoriana de Organizaciones Sindicales Cristianas (Clasista)</i>	Ecuadorian Confederation of Christian Unions (Class based)	Union confederation, Ecuador
CEE	<i>Comité Empresarial Ecuatoriano</i>	Ecuadorian Entrepreneurial Committee	ss interest group, Ecuador
CNE	<i>Consejo Nacional Electoral</i>	National Electoral Council	Electoral institution, Venezuela
CODENPE	<i>Consejo de Desarrollo de las Nacionalidades y Pueblos del Ecuador</i>	Council for the Development of Nationalities and Peoples from Ecuador	Publicly funded Indigenous program, Ecuador
COPEI	<i>Comité de Organización Política Electoral Independiente</i>	Independent Political Electoral Organization Committee	Political party, Venezuela
CTSPE	<i>Confederación de Trabajadores del Sector Público</i>	Confederation of Public Sector Workers	Union confederation, Ecuador

CTE	<i>Confederación de Trabajadores del Ecuador</i>	Confederation of workers of Ecuador	Union confederation, Ecuador
CTV	<i>Confederación de Trabajadores de Venezuela</i>	Confederation of Workers of Venezuela	Union confederation, Venezuela
CUCOMITAE	<i>Confederación Unitaria de Comerciantes Minoristas y Trabajadores Autónomos del Ecuador</i>	United Confederation of Retailers and Autonomous Workers	Confederation of Unions of workers in the informal sector, Ecuador
CUTTAE	<i>Confederación Unitaria de Trabajadoras y Trabajadores Autónomos del Ecuador</i>	Confederation of Autonomous Workers	Confederation of Unions of workers in the informal sector, Ecuador
CUTV	<i>Central Unitária de Trabajadores de Venezuela</i>	Unitary Central of Workers of Venezuela	Union confederation, Venezuela
Consejo de Cámaras y Asociaciones de la Producción		Council of Chambers and Production Associations	Council of business interest groups, Ecuador
DINEIB	<i>Dirección Nacional de Educación Bilingüe</i>	National direction for Intercultural and Bilingual education	Publicly funded Indigenous program, Ecuador
ECUARUNARI	<i>Ecuador Runacunapac Riccharimui</i>	The awakening of the Ecuadorean Indian	Indigenous confederation, Ecuador
ELI		Export-Led Industrialization	
ECLA (or ECLALC)	<i>Comisión Económica para América Latina y el Caribe (CEPAL)</i>	United Nations' Economic Commission for Latin America (and the Caribbean)	UN body in charge of promoting development for the region
EPS	Empresas de Producción Social	Social Production Enterprises	Form of non-private enterprises, Venezuela
FALN	Fuerzas Armadas de Liberación Nacional	National Liberation Armed Forces Venezuela	Group of guerrilleros, Venezuela
FLN	Frente de Liberación Nacional	National Liberation Front	Unified guerrilla, Venezuela
Fedecámaras	<i>Federación Venezolana de Cámaras de Comercio y Producción</i>	Venezuelan Federation of Chambers of Commerce and Production	Federation of business interest groups, Venezuela
Fedeindustria		Federation of Small and Medium Enterprises	Federation of business interest groups, Venezuela
FEI	<i>Federación Ecuatoriana de Indios</i>	Ecuadorian Federation of Indians	Indigenous confederation, Ecuador
FEINE	<i>Federación Ecuatoriana de Indígenas Evangélicos</i>	Federation of Evangelical Indigenous people	Indigenous confederation, Ecuador
FEIREP	<i>Fondo de Estabilización, Inversión Social, y Reducción del Endeudamiento Publico</i>	Stabilization and Debt Reduction Fund	Government Program Ecuador
FENOC	<i>Federación Nacional de Organizaciones Campesinas</i>	National federation of Peasant organizations (pre-FENOCIN)	Peasant confederation, Ecuador
FENOCIN	<i>Confederación Nacional de Organizaciones Campesinas, Indígenas y Negras</i>	National Confederation of Peasant, Indigenous and Negro Organization	Indigenous confederation, Ecuador
FONDEPI	<i>Fondo de Desarrollo de los Pueblos Indígenas</i>	Fund for the Development of Indigenous Peoples	Publicly funded Indigenous program, Ecuador
FUT	<i>Frente Unitario de los Trabajadores</i>	United Workers Front	Coalition of union confederation, Ecuador



FTAA		Free Trade Area of the Americas	Continental Free trade agreement
IFIs		International Financial Institutions	
ISI		Industrialization by Substitution of Imports	
IMF		International Monetary Fund	
MIR	<i>Movimiento de Izquierda Revolucionaria</i>	Movement of Revolutionary Left	Guerrilla group and political party, Venezuela
MBR-200	<i>Movimiento Bolivariano Revolucionario</i>	Bolivarian Revolutionary Movement	Social movement, Venezuela
MVR	<i>Movimiento Quita República</i>	Movement for the Fifth (V <sup>th</sup> ) Republic	Political party, Venezuela
NGOs		Non-governmental organizations	
OAS		Organization of American States	Pan American intergovernmental body
OPEC		Organization of the Petroleum Exporting Countries	
PCV	<i>Partido Comunista de Venezuela</i>	Communist party of Venezuela	Political party, Venezuela
URD	<i>Unión Republicana Democrática</i>	Democratic Republican Union	Political party, Venezuela
TSE	Tribunal Supremo Electoral	Supreme Electoral Tribunal	Judiciary institution, Ecuador
SMEs		Small and Medium enterprises	
UNDP		United Nations Development Program	
WB		World Bank	
WSF		World Social Forum	World summit of social movements.
Yasuní-ITT initiative		ITT standing for Ishpingo-Tambococha-Tiputini	Government program, Ecuador

# Introduction

## Venezuela and Ecuador in the Pink Tide

Poets and beggars, musicians and prophets,  
warriors and scoundrels, all creatures of that  
unbridled reality, we have had to ask but little of  
imagination, for our crucial problem has been a  
lack of conventional means to render our lives  
believable. This, my friends, is the crux of our  
solitude.

*Gabriel García Márquez, Nobel Lecture, 1982*

In lamenting the lack of means to render Latin America's reality believable, Gabriel García Márquez evokes a convincing list of unbelievable historical facts and accounts that contribute to the magic of Latin America. We are told of an explorer reporting having seen “hogs with navels on their haunches,”<sup>1</sup> the mystery of the “eleven thousand mules, each loaded with one hundred pounds of gold, that left Cuzco one day to pay the ransom of Atahualpa and never reached their destination,” the death of Chilean President Salvador Allende fighting with a handful of men against a whole army,<sup>2</sup> or the two plane crashes killing two presidents, one of them the first democratically-elected president after the end of the latest dictatorship in Ecuador. Gabo—Gabriel García Márquez's nickname—had an incomparable way of telling (hi)stories about a

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<sup>1</sup> English translation from the Spanish original is from the official website of the Nobel prize (García Márquez 2014).

<sup>2</sup> Gabriel García Márquez says that Allende was alone. The fact that he was not and still fought with less than 15 untrained *aides-de-camp* against the army still serves the purpose of his reflection.

continent whose natural resources are said to be a curse (Auty 1993) and at the same time turn states into something magical (Coronil 1997).

The unbelievable histories did not begin, nor have they ended, with García Márquez's 1982 Nobel Prize. The rapidly changing contexts we are about to study have also their share of magic, quite enough to endorse the reading of Latin America's reality that Gabo conveys in *100 Years of Solitude*; a cycle of eternal return, especially when the magic of the present proclaims its origins in the magic of the past.

In Venezuela, one of the two case studies analyzed in this dissertation, Hugo Rafael Chávez Frías, a middle-ranked military officer enlightened by the memory of Simón Bolívar, attempted a coup in February 1992 and failed. He was sent to jail, but was freed after only two years by the magnanimity of the successor of the targeted president. Once released, Chávez started a political movement that, in less than five years, secured him electoral victory to become the next president, sparking a wave of change in state institutions that helped turn the political context of the whole continent around. This wave is now known as the pink tide. There certainly is, in this history, a part of both the magic and the realism captured by Gabo. García Márquez even wrote an article about Chávez, right after they had met in the interlude between Chávez's electoral victory in 1998 and his assumption of office in 1999. They had the duration of an airplane flight from Havana to Caracas to discuss "Chávez's life and miracles," and the "magical blow that had governed his actions since he was born" (García Márquez 1999).

But the tale does not end here. Once the incumbent president, Chávez himself, survived a coup attempt, an even more incredible scenario unfolded to thwart his planned exile and replacement. While under military custody, so the story goes, a sympathetic prison guard granted him a phone call to contact his daughter and wife, and they managed to spread the news that he

had not resigned, but was kept prisoner by soldiers. This news stirred-up the population, and some loyal soldiers returned the detained president to power within a few hours. Chávez then continued his presidency and announced a few years later that he would reinvent socialism to bring it to the 21st century; all this, while governments across the world, even on the left, shied away from openly criticizing capitalism. He remained president until his death from cancer in 2013.

Ecuador, our second country of study, has also had its share of magic. In this country, despite 500 years of colonization and subjugation, the Indigenous movement unexpectedly took leadership of the popular class in the 1990s, whose former leading organizations, workers' confederations, were being actively undermined and disorganized. The leadership of the Indigenous movement contributed to shaking the political system in the late 1990s and early 2000s to such an extent that no president would finish his term for a decade. A short-lasting electoral alliance between the Indigenous-led political party Pachakutik with Lucio Gutiérrez, a military officer and former coup leader, was instrumental to Gutiérrez's victory in the presidential election in 2002. This unlikely alliance would not last very long, and its demise eroded the political support of both the Indigenous movement and the president, who was eventually impeached in the midst of street protests. In the aftermath of this turmoil, Rafael Vicente Correa Delgado, a short-lived minister during the interim presidency that followed Gutiérrez's departure, rose to the presidency in 2007 without any support in the national congress. From this position, he stirred the institutional scene to force the rewriting of a constitution that was then not yet ten year old. This new constitution was organized around an Indigenous concept, *sumak kawsay*, that encouraged conceiving of development not as growth

seeking paradigms, but rather a form of social living that should allow all members of society to live a fulfilling life.

Gabriel García Márquez understood well that the magic comes from the lack of conventional means to make these histories believable. Without undermining their poetry, this doctoral dissertation endeavours to render some of the Venezuelan and Ecuadorian lives more comprehensible, to break the chain of solitude by rendering them more accessible. The pink tide in both countries have represented compelling, although thus far failed, attempts at stepping away from the dependency that has plagued the region since its colonization. They have also been, both politically and economically, rich experiments in social transformation, claiming to renew socialism by attempting to use the magic of the state to convert the natural resource curse into a blessing of greater equality and democracy. My general aim through this dissertation is to contribute to a critical understanding of the origins, achievements, and contradictions of what I identify as the rent-based social-developmental models in Venezuela and Ecuador.

### **Why Ecuador and Venezuela?**

Both Venezuela and Ecuador are countries where the implementation of neoliberal policies encountered important moments of mass opposition. They were not alone. Since the 1980s, the impact of the economic crisis and the measures taken to face it—mostly following the neoliberal policy recommendations of international financial institutions (IFIs) like the International Monetary Fund (IMF) and the World Bank (WB) that have been coined as forming the Washington Consensus—stimulated movements of resistance that took a variety of forms, from the *Zapatista* movement in Mexico to the *piqueteros* in Argentina or the landless peasant movement in Brazil.

While also part of this continent-wide contentious dynamic of imposition and resistance to neoliberalism (Stirton Weaver 2000, chap. 7), the cases of Venezuela and Ecuador share with each other some important features that are less present in other countries of the region. In both Venezuela and Ecuador, anti-neoliberal protests substantially destabilized the institutional structure of the state and forced its renewal. Indeed, the political tensions resulting from the adoption of neoliberal policies led to both the downfall of presidents and the weakening of the political coalitions and parties that had hitherto dominated the political stage. Those symptoms of institutional destabilization, which could be said to have amounted to a hegemonic crisis (López Maya, Iñigo Carrera, and Calveiro 2008), opened the way for the governments of the pink tide, that thereupon engaged in processes of constitutional renewal and adopted new development models. By *development model*, I refer to the articulation between development plans, social and macroeconomic policies that structure a form of production, distribution, and redistribution and create the framework within which the struggles among classes and social forces take place.

The new development models in Venezuela and Ecuador, and their evolution, are the core of my concerns. In Venezuela, this original development path came to be known in the official development plans as “socialism of the XXI<sup>st</sup> century” (Presidencia, República Bolivariana de Venezuela 2007). The government had previously adopted an approach inspired by neostructuralism to foster a cycle of growth based on a country’s systemic capacity to promote the strategic and dynamic comparative advantages necessary to compete on the international stage. In this first development model, the state supported the creation of a dynamic and internationally competitive private sector (Cordiplán 1999, 350–55). However, as we will see in Chapter 4, the opposition of the capitalist class made this plan unfeasible and, in so doing, contributed to radicalizing the development model.

Socialism of the 21<sup>st</sup> century, as an attempt to reinvent socialism, was a broad and flexible concept. Its definition through the 2007-2013 development plan put an emphasis on ethical values inspired by humanism and human rights (of the three generations), solidarity, and the respect for dignity (Presidencia, República Bolivariana de Venezuela 2007, 9–15). It proposed that national production be organized to respond to human needs rather than capital's needs, becoming the means to ending poverty and misery (Presidencia, República Bolivariana de Venezuela 2007, 24, 43). It suggested fostering and strengthening local democratic practices to better anchor production on locally and collectively established needs. Democratic practices were to be expanded to the point where a “protagonistic”<sup>3</sup> democracy was expected to slowly take the place of representative democracy. Through a gradual process, protagonistic democracy was to be expanded to production so that Social Production Enterprises (*EPS-Empresas de Producción Social*) would take the place of private capitalist enterprises (Presidencia, República Bolivariana de Venezuela 2007, 45–46). Under this plan, the state remains in control of strategic sectors until the development of participatory and protagonistic democracy allows transferring the control of production to the workers themselves. State ownership of hydrocarbons and control over the distribution of its rent was key to the whole project:

Petroleum will remain critical, even beyond the objective of capturing foreign resources, to create internal productive investments, the satisfaction of our internal needs in energy, and for supporting the emergence and the strengthening of a new productive model. (Presidencia, República Bolivariana de Venezuela 2007, 75–76)

The 2007-2013 development plan clearly asserted the reliance on extractive rent to transition towards a new development model that diverges from capitalism by attempting to

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<sup>3</sup> There is no proper English translation for the term “*protagónica*”, used to describe the model of democracy attempted in Venezuela. Itself a neologism in Spanish, *protagónica* means that the population should be the main actor—or protagonist—in the democratic process and is encouraged to take initiative within it.

foster an economy that is not driven by the competitive pressures of capital accumulation, but rather by the democratic empowering of the population to direct the economic process of production and distribution.

The Ecuadorian development plan for 2009-2013 also relied on the extractive sector, including oil but also other minerals, as a required step in order to generate a transition towards a more dynamic economy. This strategy was oriented around the goal of fostering a development model that would realize *sumak kawsay* or *buen vivir* (i.e. living well, or having a fulfilling life), a complex concept inspired by the inventive translation of the idea of development from Quechua. More than economic growth, *buen vivir* referred to development as the idea of providing the conditions for an equal access to living a fulfilling life in harmony with nature and the community. Its definition has evolved and has remained an object of important debates, but it can be summarized as the objective of building united societies based on co-responsibility and reciprocity where human beings live in harmony with their community and with nature. This concept, to which a whole section of the constitution was dedicated, became the axis around which not only the constitution (León 2010), but the development model was organized.

Compared to the case of Venezuela, the development plans in Ecuador expressed more environmental concerns and was clearer about a long-term strategy to move away from dependency on primary resources. The 2009-2013 plan proposed to maintain and even expand the country's reliance on primary resources export for its initial two phases (out of four) while a new national industrial base could take shape and occupy a greater share of the export sector. It was only in the third and fourth phases, the starting point of which is approximately in 2020,<sup>4</sup>

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<sup>4</sup> The following 2013-2017 plan, less ambitious in the assessment of its capacity to change the economy, suggested that by 2030, the primary export sector would still represent a third of all exports (Consejo Nacional de Planificación 2013, 63).



when both the growing industry and the newly developed bio-technological sectors, along with the strengthened tourism industry, would be expected to supplant oil and other extractive sectors (Consejo Nacional de Planificación 2009, 91–97).

The economic strategy included in the Ecuadorian 2009-2013 plan proposed active state support to the development of certain competitive private sectors to pull the whole economy along with them into a dynamic insertion in the world market. It was only in the subsequent development plan (2013-2017) that the official discourse fully endorsed the idea of socialism with its new concept, *socialismo del buen vivir* (socialism of good living) (Consejo Nacional de Planificación 2013, 23–24). Adding socialism meant that the development discourse put a greater emphasis on questions of social justice, equality, and suppressing privileges in society, while preserving the concerns for the environment contained in the idea of *buen vivir*. But in practice, the state increasingly gave in to business pressures by resuming free trade negotiation with Europe.

These alternative development strategies in Venezuela and Ecuador are especially significant as both countries rely on the leverage of extractive resource wealth to sustain their development alternatives. They attempted to challenge the predictions of the resource curse: the paradoxical negative economic and political impact that the abundance of natural resources can have on a social formation. Moreover, these governments claim that appraisals of the novel development models and their outcomes ought not to be assessed based on criteria drawn from earlier development models, let alone deploying simple measures of what development success is considered to be.

Their alleged novelty, and the role of extractive resources within them, makes these cases especially valuable for development studies. They arose in a complex context of institutional

renewal where left-wing presidents, after their respective elections in both countries, pursued constitutional changes involving constituent assemblies writing new constitutions. Being legitimated by the popular vote, these new constitutions allowed for the institutional transformations necessary for the promotion of the new development models.<sup>5</sup> This very specific context of institutional renewal open up interesting questions about development and change: Why were these states transformed? What set the course of these transformations? What were the obstacles? How did extractive resources support or undermine the possibilities of implementing a more socially just development model?

### **The Pink Tide**

The left-wing<sup>6</sup> governments in Venezuela and Ecuador were part of what appeared to be a momentous political transformation in South America: the rise to power of a wave of progressive governments known as the pink tide.<sup>7</sup> This wave is illustrated in Table 1.1. If this wave of electoral victories of left-wing presidents deserves such attention, it is notably because it represented a stunning turn of events. In the 1990s, Latin American governments enacted the economic program of the right, while left parties barely won any electoral space (Weyland 2010, 1). By contrast, in the new century, the breadth of the left turn was unprecedented and by 2009,

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<sup>5</sup> It could rightfully be said that Bolivia has gone through a similar pattern of political destabilization, development innovation and constitutional reconfiguration. However, there is a major difference. In Bolivia, the left party, MAS, and its leaders were organically linked to social movements that rejected neoliberalism. In Venezuela and Ecuador, the left-wing presidents' parties—the Movement for the Fifth Republic (MVR, *Movimiento Quinta República*) in Venezuela, and the Alliance Proud and Sovereign Fatherland (AP, *Alianza Patria Altiva y Soberana*) in Ecuador—had no such history. This difference requires the inclusion of another set of analytical tools than the ones proposed here.

<sup>6</sup> The left-leaning, left-wing and pink tide are here used inter-changeably to loosely describe the governments that are part of the pink tide as described in this section.

<sup>7</sup> Some Central American and Caribbean countries are included in this dynamic, but their political and social realities go beyond the scope of this dissertation.

almost two-thirds of Latin Americans lived under a government associated with the left (Levitsky and Roberts 2011, 1).

**Table 1.1: Left Presidents in South America 1998-2014**

Country	Party	Elected President	Dates of elections
Venezuela	Movimiento Quinta República (MVR)	Hugo Chávez Frías	1998, 2000, 2006
	Partido Socialista Unido de Venezuela (PSUV)	Hugo Chávez Frías	2011
		Nicolas Maduro	2013
Brazil	Partido dos Trabalhadores (PT)	Luís Iñacio Lula da Silva	2002, 2006
		Dilma Roussef	2010, 2014
		Néstor Kirchner	2003
Argentina	Partido Justicialista	Cristina Fernández de Kirchner	2007, 2011
		Tabaré Vázquez	2004
Uruguay	Frente Amplio (FA)	José (Pépé) Alberto Mujica	2009
		Tabaré Vázquez	2014
		Evo Morales	2005, 2009, 2014
Bolivia	Movimiento al Socialismo (MAS)	Michelle Bachelet	2005
		Michelle Bachelet	2013
Chile	Socialist Party – Concertación	Rafael Correa	2006, 2009, 2013
Ecuador	Movimiento Alianza Patria Altiva I Soberana (PAIS)	Fernando Lugo	2008
Paraguay	Alianza Patriótica para el Cambio		

Yet more than a simple wave of electoral victories, these left governments formed a tide because despite their political diversity, solidarity among them curbed the political grip of the US on the region and supported the development of a parallel set of international institutions. Through their mutual support and the building of new multilateral institutions, the pink tide reinforced respect for each country's sovereignty and democratic order against unwanted outside interventions, including from IFIs like the IMF. For instance, South American states<sup>8</sup> formed new mechanisms for integration, including the Union of South American Nations (UNASUR, *Unión de Naciones Suramericanas*), which established various international commissions

<sup>8</sup> With the exception of France, owning the territory of French Guyana.

promoting dialogue to resolve internal conflicts within member states (for instance in Venezuela in March 2014).

These kinds of mechanisms of integration also gave rise to the Community of Latin American and Caribbean States (CELAC), a forum that parallels the Organization of American States (OAS) by encompassing all American states, including Cuba, with the notable exception of Canada and the US. CELAC's second summit declaration (Comunidad de Estados Latino Americanos y Caribeños (CELAC) 2014) stands in contrast with what came out of the summit of the Americas in 2001, when the interstate dialogue, including Canada and the USA but excluding Cuba, was concerned with creating a free trade area encompassing the whole continent (i.e. FTAA). The expectation then was that "Free and open economies, market access, sustained flows of investment" (Summit of the Americas 2001) were the main tools to reduce poverty and inequality, and promote sustainable development. This form of international integration would therefore subsume under the same trade rules all countries in the region regardless of their disparities. Latin American intergovernmental solidarity, supported by active social movements, was a major contributing factor in the 2005 defeat of the FTAA (which had been promoted since the mid-1990s by the US government). This solidarity fuelled CELAC's alternative discourse, promoting the respect of sovereignty, emphasizing the great social, economic and cultural disparities both between and within countries, and the need to advance towards continental integration through gradual and flexible means in order to promote ways to mitigate those inequalities. This kind of discourse gained such momentum that it was even endorsed by countries whose international agenda remained more aligned with that of the US (e.g. Colombia, Panama).

The pink tide was still rising when this research project was initiated, and continued its advance even through the outbreak of the most recent world economic crisis, appearing then to be impressively resilient (Katz 2012). However, the pink tide has now started to ebb. A series of electoral defeats, notably in Argentina (November 2015), Venezuela (December 2015) and Bolivia (referendum in February 2016), the impeachment of Dilma Rousseff in Brazil (September 2016) and the indictment of her predecessor Luis Inácio Lula Da Silva are all elements marking the left's retreat and the empowerment of the right, both in different local contexts and through their international connections.

Although rising commodity prices along with increasing Asian demand for commodities over the first decade of the 21<sup>st</sup> century were among the main factors sustaining the economic growth that contributed to the pink tide's endurance, economic factors alone are not sufficient to explain the turn to the left in each specific country. Some countries like Colombia and Peru, experiencing similar global factors, have not experienced the same political change. The tide has not encompassed all countries of the subcontinent, and some internal dynamics have prevented its establishment in some countries (Fernando Lugo in Paraguay was impeached in June 2012 before the end of his term). For the same reason, the perpetuation of the world economic crisis,

the drop in commodity prices, and the slowing down of China's growth are certainly among the factors that contribute to the left's current down phase, but they are not sufficient by themselves to account for it.

It is against this background that comparative case studies become ever more relevant. While commodity prices may have contributed to the rise of the left, and mutual support among variegated left governments certainly allowed for better consolidation of the left regimes,

detailed comparative analysis of domestic contexts are still necessary to truly understand the rising tide and its decline.

### **Studying the Rent-Based Social-Developmental State in Venezuela and Ecuador**

To study the specific shape of the pink tide in Venezuela and Ecuador and the characteristics of their development model, I will adopt a relational approach to classes. This approach seeks to offer an explanation that reconciles the institutional transformation experienced in both countries with the respective roles of social movements, of the capitalist classes, and of the extractive sector. It follows the transformation of class organizations, and of their engagement with one another and with the state, to capture the crucial role of class agency in influencing the evolution of the development models.

This approach is especially appropriate for understanding how the development models proposed by the governments that are the focus of my study have evolved. The turn to the left in Venezuela and Ecuador was originally premised on recommendations that, since the 1990s, the Economic Commission for Latin America and the Caribbean (ECLAC) had championed regarding the implementation of a *neostructural* program as an alternative to neoliberalism and its market orientation (Leiva 2008). More than merely an economic discourse, neostructuralism offered an encompassing vision that combined a development strategy and its supportive policy framework with a broad narrative of the path that Latin America could take to achieve modernity and successfully enter the 21<sup>st</sup> century. It relied on the fundamental idea of *systemic competitiveness*, according to which it was not enterprises that were competing in the world market, but social systems, and therefore states had to play an active role in creating the

conditions for their respective societies to thrive in international markets, while at the same time fostering social equity functional to this growth, and respecting democracy.

Although neostructuralism represented the core of the first alternative approach to neoliberalism and its “laissez-faire” economics adopted by Venezuela and Ecuador, they eventually moved beyond neostructural recommendations and towards what I call a rent-based social-developmental state model. The concept of a social-developmental state stresses first a social dimension. Support for social programs and redistributive measures were a central feature of the development discourse in Venezuela and Ecuador. Indeed, the very use of expressions like socialism of the 21<sup>st</sup> century or *sumak kawsay* implied the necessity for the state to be actively involved in redistributive measures to achieve greater social justice and equity. But it also had an important developmental aspect where the governments promised to use the state to play an active role in fostering economic diversification and growth.

The challenge of studying these left-wing governments was therefore to adopt an approach that would explain within the same framework both the rise to power of said governments, the evolution of their respective programs, and eventually, their diverging evolution. Whereas Venezuela’s development model increasingly adopted a “dispenser” role, where the state used rent both for social purposes and to directly support productive diversification for internal markets through EPS and state-owned enterprises, the Ecuadorian social-developmental state maintained some features more aligned with neostructuralism, where the state developed infrastructure to support the growth of a competitive knowledge economy based on private initiative.

The concept of a social-developmental state brings together key features identified by other concepts deployed in the literature to characterize these governments. Eduardo Gudynas

(2012) suggests the concept of a compensatory state to emphasize that resource rent is used for redistributive measures meant to compensate for the negative social impact that capitalism produces. Several authors (Acosta 2012; Grugel and Riggirozzi 2012; North 2010; F. Ramírez Gallegos 2010a; Sader 2008) use the concept of post-neoliberal states to stress the contrast with the neoliberal era, when the state was dedicated to paying the foreign debt, responding to international investors' demands by cutting back on social programs and redistributive measures, and privatizing state-owned companies. Pink tide governments, in contrast, represent a return of the state as a central development agent, both to foster growth and redistribute wealth. All of these different concepts point to the features of a state whose development model combines both a developmental role and a social redistributive role.

In the development literature, the concept of a developmental state was articulated as an answer to the neoliberal market-led development model. By studying examples of countries that successfully transitioned to high growth economies, whose states had used their actual capacity to undertake the political and economic tasks required for development, the literature on the developmental state debated the characteristics needed for development. It offered suggestions on how to conduct successful state-led development, notably insisting on state autonomy and capacity. But as underlined recently by Ben Fine (2013, 3), the studies were often confined to examples of success. He moreover noted that very often, this developmental state was conceptualized beyond the realm of classes and their interests, as the locus of power with the ability to outweigh them (Fine, Saraswati, and Tavasci 2013, 5). Contributions pointing to the need to rethink the “developmental state for the 21<sup>st</sup> century” agree with the necessity of grasping the country-specific internal political dynamics between social forces (Williams 2014). Central to my dissertation is precisely the exploration of the way in which class conflicts affected both



the shape of the development model and the developmental capacity of the state itself. In sum, I plan to push developmental state ideas further by assessing the scope of the developmental actions of the state as they are affected by the struggles that development itself unleashes among classes.

Several other approaches offer interesting explanations for the rise of the social-developmental state in Venezuela and Ecuador. To briefly explain why I chose a class perspective in the first place, it is useful to point to some of the blind spots I found in other approaches. They are first related to one of the main features of the transformation in Venezuela and Ecuador, involving the adoption of new constitutions, a sign of both the deep dissatisfaction towards previously existing state institutions, and of the shifting balance of forces in society.

From an institutionalist perspective, the 1999 constitutional change in Venezuela is paradoxical because, as Steve Ellner (2004) argues, the main institutional features that explained the exceptional survival of Venezuelan democracy during the 1960s and 1970s when the region was taken over by dictatorships, are the same features that are identified as the causes of the collapse of the same institutions in the 1990s, when countries in the region were transitioning to democracy. In other words, the strength of the institutions that explained the persistence of democracy in Venezuela during one period—the close relationship between elites, the characteristics of political parties (multiclass and well institutionalized), the form of political representation, among others—are also what explained the crumbling of the political order later on.

For instance, in a rare comparative study specifically focusing on Venezuela and Ecuador, Pablo Andrade argued that “at a very general theoretical level, it can be asserted that as much in Ecuador as in Venezuela, the institutions that were built during the initial

democratization period created the conditions that would undermine the existing political order”<sup>9</sup> (Andrade A. 2005, 59). In other words, institutions bore the seeds of their own failure. The over-rigidity of institutions caused their implosion (Andrade A. 2005, 102–3), a collapse that came earlier (in 1994) in Venezuela because of an even greater institutional rigidity, while constitutional reform in 1998 in Ecuador delayed the collapse for a few more years. This explanation, while insightful, downplayed the importance of the 1989 electoral reform in Venezuela. For the first time, state governors and local municipal councils were elected directly by the population, a process that opened up Venezuelan political institutions to a wider spectrum of political organizations. It is, in this light, hard to sustain that one case was more flexible than the other since both cases experienced institutional reforms.

Moreover, Andrade published this chapter in 2005, a little before the election of Correa and the rewriting of the constitution in Ecuador (2007-08). The subsequent events undermined his argument. Indeed, it appears that it was not the rigidity of institutions that explained the pressure for their transformation, but rather their loosening up through reforms (in 1989 in Venezuela, and 1998 in Ecuador) that led to their further reforms, and the argument becomes circular.

Andrade’s approach was nonetheless thought-provoking: it put the emphasis on institutions in order to avoid explanations involving the determinism of economic and political crises since they tended to understate the institutional conditions that set the framework within which the crises took place. However, it gave so much importance to institutions that it left little room for the relationship and struggle between agents that were central to the understanding of

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<sup>9</sup> Except when otherwise specified, translations from Spanish or French original texts are mine.

state transformations. Even when it did recognize agency, it excluded social movements and popular forces through a theoretical design which stressed that:

[...] only a segment of all the potential political actors are really relevant for the political struggle in a particular conjuncture. And the historical experience teaches us that in the Andean cases, these relevant actors are: entrepreneurs, political parties, electoral movements, professional politicians and armed forces. (Andrade A. 2005, 8–9)

The working and popular classes, the civil society organizations, and the social movements were blatantly excluded from this listing. Although they were somehow later reintegrated in the concrete analyses, they only had a subsidiary role determined by their place in the institutional framework and not by their active self-defining agency.

Contrary to this kind of institutionalist perspective, there is a very widely shared position regarding the pink tide which ties its rise to the action of social movements against neoliberal reforms. Here, social movements are instrumental to understanding the left turn and the shift from indebted neoliberal states to the various forms of social-developmental states (Burbach, Fox, and Fuentes 2013; Burbach 2014; Burdick, Oxhorn, and Roberts 2008; Sader 2011; Sanchez and Moulier Boutang 2008; Silva 2009). Social movements are indeed central to understanding the articulation between the economic, the political and the institutional crises, and there is a wide consensus that the impoverishment of the popular sector greatly fuelled the disgruntlement that shook existing institutions.

However, what is central to the puzzle that Venezuela and Ecuador represent is the weak linkage between the parties of the left and the social movements. According to Steve Ellner: “the three presidents [including Bolivia’s Evo Morales] headed relatively weak political parties that (in the case of Venezuela and Ecuador) failed to establish solid links with the popular sector outside of the electoral arena” (2014, 3). Given this fragile connection between popular class

organizations and the parties of the pink tide in Venezuela and Ecuador, the obvious problem remains how to properly grasp the causes and effects of the state transformations associated with the pink tide.

The quandary raised by the pink tide in Venezuela and Ecuador is also puzzling because it happened when neoliberal reforms had strengthened capitalists' economic power by increasing the concentration of wealth, and weakened the power of labour through reforms to labour laws and the re-organization of production. It is indeed what David F. Ruccio (Ruccio 2011, 189) sees as the main success of structural adjustment policies: they tended to increase the power of the capitalist class over the working class. Moreover, according to Sam Gindin (Gindin 2013, 32), increased competition has an asymmetrical class impact. While it is detrimental for working class solidarity, more competitive businesses winning over less competitive ones strengthen the capitalist class. How is it then that neoliberal reforms, which were supposed to strengthen the economic power of capitalist classes through centralizing wealth, could simultaneously lead the latter to lose their grip on state institutions, and lose political power to the pink tide?

A relational class perspective shows how, from an initial neostructural program, and despite the recovery of state autonomy through constitutional renewal, class conflicts led to a rent-based social-developmental model in both countries, but with meaningful differences that are linked to the different reactions of the capitalist classes. In Venezuela, a more unified capitalist class refused state guidance and its developmental proposal, attempted a coup, and pushed the state towards its 'dispenser' role; here, the use of rent is what allowed the government to greatly influence the economy. That is, beyond the resources distributed through social and participatory programs, the state increasingly used its control over access to foreign currency gained through oil rent to determine the sectors where economic activity would take place, and

try to foster economic diversification through small and medium enterprises, state-controlled social enterprises, and popular initiatives. Through the term “dispenser”, I emphasize this type of rent-based social-developmental model where the state uses its control over rent distribution to orient both privately- and publicly-owned economic activity. In contrast, a capitalist class divided into regional factions in Ecuador, despite a profoundly negative appraisal of the government’s economic program, was not in a position to attempt a coup and decided instead to improve its lobbying efficiency. This strategy bore its fruit for large businesses, who eventually won the resumption of the free trade negotiations they demanded, and left the possibility for the state to pursue a rent-based social-developmental model with more space for private initiative. In this case, the state pursued key development initiatives to foster diversification through building infrastructure to sustain knowledge production for the private sector. Such an analysis also provides a vantage point from which one can understand the causes of the current ebbing of the pink tide in both countries.

### **Thesis Structure**

The dissertation is structured as follows. Chapter 1 traces a broad portrait of several existing analytical trends in the literature related to our subject. It discusses some of the shortcomings of the approaches based on populism, the resource curse, and also the contextual literature focusing on the pink tide. It builds upon this appraisal of existing debates to locate the perspective that I pursue in my analysis.

To further develop this perspective, I analyze the historical debate on the role of classes in development studies in Chapter 2. This examination is oriented towards providing a definition of and a reflection on social classes that departs from a structural definition, where classes are

defined on the basis of their location *vis-à-vis* the means of production, and instead insists on classes as the construction of agents through their struggles against one another and against the state. This theoretical reflection is essential to anchor the concepts of class for the following chapters, which present the results of my field research.

Chapter 3 covers the evolution of classes and their struggle during the pre-pink tide era in Venezuela. It underlines the centralization of class organizations, their corporatist articulation in the 1970s, and the breaking up of the corporatist model in the 1980s and 1990s as a key moment in explaining the rise of Hugo Chávez.

Chapter 4 assesses how state transformation under Chávez has impacted class organisations, their inter-relationship and their struggle with the state. It explains how the government recovered autonomy for the state and used its landlord power to gain access to rent that could then be used to build a social-developmental state. This chapter documents the way a politically centralized capitalist class increasingly pushed the development model towards a “dispenser” direction, and the contradictions it now faces.

Chapter 5 studies the pre-pink tide era in Ecuador and the evolution of its class relationships as successive governments, military and democratic, were confronted with the constantly renewed challenge of having to unify the capitalist factions behind their development plans. It presents the concurrent change in popular class leadership as trade unions, whose capacity to organize was being actively undermined, passed the baton to the Indigenous movement.

Chapter 6 insists on the impact the division of the capitalist class had on its capacity to react to the change in the development model, and its difference with Venezuela.

Chapter 7 presents some important comparative aspects revealed by the analysis, and compares the differential impact the form of class organization had on the evolution of the development model. It also offers some concluding remarks on rent and state autonomy.

# 1.

## Locating the Pink Tide Theoretically

The “pink tide” has been the object of numerous studies, which offer perspectives that both nourish the approach I develop here and reveal blind spots that are worth exploring. In this section, I assess some key bodies of literature with direct implications for analyses of the rise and nature of the pink tide. First, I address important theoretical questions raised in the literature on populism. I then consider approaches that focus on the importance of natural resources by discussing the concepts of resource curse, extractivism and commodity consensus. This entails a reflection on the nature of rent, which helps explain the importance of natural resources for development models and the evolution of class relations in Venezuela and Ecuador. Finally, I analyze other contributions within what could be identified as the “two lefts” approach and a social movement perspective.

### **Latin American Populism Once Again?**

The concept of populism occupies a central place in research on state-society interactions under the left turn in Latin America (Arenas 2006b; De la Torre 2003; De la Torre 2011; De la Torre 2013; De la Torre and Arnson 2013; Edwards 2010; Hawkins 2003; Hawkins 2010; Kaufman 2011; Parker 2001; Brading 2012; Ramírez Roa 2003; Roberts 2004). These studies rely, for the most part, on correct observations of the type of leadership exerted by pink tide presidents. For



instance, they are generally grounded in the observation that the charismatic authority of the leaders that appeal to the people is often unmediated by institutions (both Chávez and Correa were the main hosts of their weekly TV shows through which they communicated directly with their constituents), fuels an anti-elitist discourse (generally in opposition to the “oligarchy”), and is supported by a top-down political organization articulated around their persona. The use of the concept of populism, generally pejoratively, contributes to a critique of the corrosive effect of this form of state-society interaction on democracy.

Despite accurately describing certain features of pink tide presidents, I contend that most approaches that rely on populism as a key concept miss essential components of the dynamic of the left turn in Latin America. To explain why, and to avoid a debate on the relative importance of each characteristic associated with populism, I engage the theoretical framework that underpins the development of populism as an analytical concept.

The concept of populism was developed originally as part of Max Weber’s typology of forms of political domination. Weberian sociology distinguishes three ideal-types of legitimate authority. The charismatic form, from which populism is derived, was to be differentiated from the traditional (patrimonial) and the rational-legal (institutional) forms of domination. Adapted to the current context, this three-fold distinction differentiates the kinds of goods that are exchanged between rulers and ruled in order for the authority to work. Populism refers to a charismatic leadership that promises extraordinary transformation in exchange for the support of its followers. Through their discourse, populist leaders build a direct bond with their supporters, unmediated by institutions, as the discourse appeals to the need to transform such institutions. This form of authority differs from, on the one hand, traditional authority—where the predictability of tradition defines who rules—and, on the other, legal-rational authority — where

the relationship between leaders and their supporters is mediated by the political program and contained within the boundaries of existing institutions, generally under the rule of a liberal democratic state. To these forms of authority, some authors on populism (Hawkins 2003) add the category of clientelism, whereby the political leader is related to his or her constituents by the distribution of readily accessible material goods.

The concept of populism is generally charged with a negative connotation. From its conceptual origin in Weber, it is used to depict forms of authority opposed to rationality or to contrast the irrational character of political mobilization with the rational character of a good public administration. Despite appealing to the people, then, populism is understood to undermine democracy. In an extensive study of the concept, Ernesto Laclau convincingly argues that “the reasons for the dismissal of populism are not entirely unrelated to those invoked in what I have called ‘the denigration of the masses’” (Laclau 2005, 63). It is in the name of a certain kind of social structuration, a proper institutional order to control the masses, that populism is depicted as a threat. Interestingly, a deeper look into the often disregarded Weberian origins of the concept—charismatic authority—sheds light on an important aspect of it. Weber indeed explains that charismatic leadership arises in times of distress, when institutional or patrimonial systems are unable to contain the demands that overflow the mechanisms for everyday routine, requiring an outsider to solve the problem:

The provision of all demands that go beyond those of everyday routine has had, in principle, an entirely heterogeneous, namely, a charismatic, foundation [...]. This means that the “natural” leaders—in times of psychic, physical, economic, ethical, religious, political distress—have been neither officeholders nor incumbents of an “occupation” in the present sense of the word [...]. The concept of “charisma” is here used in a completely “value-neutral” sense (Weber 1946, 245).

A time of distress, when demands overwhelm the daily routine, is then essential to the emergence of the charismatic leader who, as an outsider to the existing order, is the only one capable of fixing the broken institutions. The last sentence, with its emphasis on “value-neutral”, suggests that it is not the content of the leader’s discourse that matters, but his or her capacity to embody the resolution to the distress. Despite Max Weber’s preference for a rational bureaucratic system, he approached the question of charisma as a recurrent historical phenomenon that emerges in specific times of crisis. From this perspective, the populist leader arises when other forms of authority fail and there is a need to rebuild them. This perspective also explains why Weber (1946, 386) contemplated both ways of steering charisma away from authoritarian directions as well as the possibility that this might fail. In other words, Weber considered charismatic authority as a transitory authority that could potentially restore an institutional order in distress.

Given this conceptual background, the use of populism to criticize a lack of democracy is at odds with its own theoretical roots, which suggest instead that populism is more likely to be the result, and not the cause, of institutional failure. For Weber, it can be the process to reinstate a democracy in distress when institutions are overwhelmed by demands. Therefore, an understanding of the conditions for the emergence of a charismatic leader and of the conditions under which such a leader exercises authority ought to be central.

Ernesto Laclau is certainly among those who have best understood this feature of the concept of populism. Although in his main essay on populism, Laclau (2005, ix) rejects any engagement with Weber and his methodological individualism, some convergences between them are nonetheless obvious. Instead of applying the concept in its most common use—as a way of criticizing a charismatic leader’s dismissive attitude towards democracy and

institutions—Laclau denudes the concept of its normative content (value-neutral, would say Weber) to present it as one of the ways, and probably one of the most common ways, of constructing the political. He provides an understanding of populism that avoids the most common pitfalls in defining the concept. Indeed, as most conceptions define populism as an irrational discourse that appeals to the masses, it becomes difficult to find a definition that relates all of its illogical contents to one another in a rational fashion. Therefore, to address the diversity of populist forms, ranging the whole political spectrum from right to left, and to adapt the concept to various social contexts, there is a tendency to attach ever more qualifiers to the concept (neo, old, agrarian, classical, right, left). This tendency illustrates both the diluted nature of the concept and the rather unconvincing way in which it is applied to a generic core. What are, indeed, the commonalities between Juan Domingo Perón, George Wallace, Alberto Fujimori, Hugo Chávez, and, more recently, Donald Trump? Faced with this kind of dilemma, the temptation is to underscore the form of the relationship between leaders and followers and to confine the content of their discourse and proposed reforms to the qualifiers. But then, pinpointing populism becomes problematic, as most features generally recognized as defining characteristics—like the discursive link between leaders and their supporters, the denunciation of opponents, and the promises to change institutions—are always somehow present under democracy.

Laclau inverted the problem by suggesting that populism is not an irrational, negative political deviation or an abnormality of political reality, but rather a distinctive and always present feature of the structuration of political life. According to Laclau (2004; 2005; 2008), populism arises when three elements converge. First, when citizens' requests do not meet with any response from the state, the growing number of unmet demands become part of an

undifferentiated whole. They form a chain in which the dissatisfaction of some corresponds with and is equivalent to the dissatisfaction of others, as they identify with the same empty signifier. Second, a dispute unfolds between competing empty signifiers<sup>10</sup> to represent the equivalence between these demands and to become hegemonic. Third, as this hegemonic signifier must be vague enough to represent several unmet demands, it creates new political articulations that make possible the inclusion of social categories previously excluded from political representation. This new incorporation is, however, incomplete, as the inclusion of some demands is only achieved at the cost of excluding others.

This definition offers the major advantage of breaking with one of the main problems of the concept of populism: conceiving of people contemptuously as a disorganized multitude of irrational puppets (De la Torre 2003). With Laclau's definition, "the people" following the populist leader may very well be organized agents in several active networks, and their decisions to support the populist movement can make logical, political sense. Laclau's approach strips populism of its value-laden side to present it as a normal means to engage the political, one that is often an answer to institutional marginalization (what he calls heterogeneity). Defined in such way, populism is at the core of the political: it is the name of the continuous battles to identify the political community.

But like the Weberian definition, this understanding of populism relies on a state-centred conception. The state, as an independent and abstract entity, when it mismanages a number of stakeholders' demands, is likely to be contested by someone who endeavours to articulate several unmet demands under a single signifier. Whereas for Weber, "In its economic sub-structure, as in everything else, charismatic domination is the very opposite of bureaucratic domination"

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<sup>10</sup> At this point, they become a floating signifier, because their mutual struggle pushes for their constant redefinition.

(Weber 1946, 247), for Laclau, “what is opposed to the people, to populism, to the political, is, on the other hand, pure administration, the idea that the management of the public sphere is simply a question of experts” (Laclau 2008, 173). Yet in both cases, the central antinomy is between, on one side, a rational administration by experts or the quality of a state apparatus, and on the other, the creation of a collective identity behind a leader or an empty signifier. In both, the determining effects of a dominant or ruling social class on the state are left aside.

The collective identity created by the charismatic leadership or the empty signifier refers to a specific sector of the community, one that clearly appears in the etymology of the concept of populism: the idea of popular, of humble people, of the poor. By integrating a reflection on heterogeneity, Laclau emphasizes that populism requires that a heterogeneous group marginalized from the previous political narrative be central to the new political articulation. Left entirely out of the equation, then, are non-populist rulers, the wealthy, the capitalists, the bourgeoisie, because the opposite of the people is not the elite, but the bureaucratic state.

Notwithstanding these insights into the social marginality revealed by populism, hostilities within societies are rarely exclusively between people and a bureaucratic state. Opposition between social classes within society is also centrally constitutive both of collective identities and of the state. The kind of social tensions that are at the core of transformative leaderships are not limited to the unilateral relationship between constituents with unmet demands and a state apparatus or a regime. It also needs to encompass the more complex multilateral interactions through which the dominant elite can alter its relationship with the state and with the popular sector in ways that generate the social tensions that lead to populist emergence.

To be sure, Laclau (2005, 149–50) makes a specific effort to mark a distance between his framework of analysis and a Marxian dialectic of classes. He stresses that the popular camp is too complex to be reduced, in Marxian terms, to the opponents to labour exploitation by owners of the means of production. Ernesto Laclau does so in part for a very good reason: the reduction of the working class to factory workers is certainly too narrow to include the variety of conditions in which popular and marginalized masses live. Moreover, it excludes several sectors of the population who have actually led movements of opposition, including peasants, environmentalists, Indigenous peoples, etc. But Laclau’s reasoning is still based on a reductionist conception of class relations. Indeed, class opposition does not have to be reduced to opposition between factory workers and factory owners.<sup>11</sup>

Laclau goes further to argue that since there is no automatic opposition of all workers to their exploitation, the configuration of an identity that can transform workers into agents in the struggles against their employers is by essence external to the situation of exploitation. Because of this externality, he concludes that there is no need to consider the link between labour exploitation and social antagonisms, as antagonism can come from anywhere. In Chapter 2, I explain in greater detail how I resolve this conundrum. Briefly, I argue that it is in fact necessary to abandon economic determinism while still discussing classes and their opposition in order to maintain the importance of economic conditions in the interpretation of social struggles.

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<sup>11</sup> For instance, in *On Populist Reason* (Laclau 2005, 149), he explains that workers (“*sellers of their labour power*”) have no logical opposition to the *owners of the means of production* who “extract surplus value”. This nonetheless relies on a logical “cheat”: by switching from a definition of workers as those who *sell their labour power* (instead of those who *directly produce value*), but keeping the definition of capitalists as those who *extract surplus value*, the logical opposition magically disappears. The logical opposition is either between the *direct producer of value* and those who *extract the surplus value*, or between those who *sell* and those who *buy* labour power. In those two latter cases, the logical opposition is maintained.

Suffice it to say for the moment that I take issue with Laclau's conception because it focuses only on the identity of those whose demands are unsatisfied and excludes the agency of those who rule. That is not to say that exploitation creates automatic class wars, but that there tends to be a frontier that divides how major social tensions arise, and that to understand how a popular identity is created, it is imperative to also understand how the power and the identity of the dominant classes are created and how they come to clash with the aspirations of the dominated. In my understanding, a class comprises a moment of identity creation, where classes form a collectivity, and there is no automatic transition from exploitation to class war. But one needs to understand the opposition to comprehend classes, and I illustrate this process of contradictory struggle in the following chapters. Laclau's argument on populism, despite its merits, is not convincing in how it sets aside the role of a dominant class—whether owners of machines, of land or of money—from the struggles for the definition of political community and state. Not only is the capitalist class identity something that also needs to be created, and can change, but this process is equally essential in the formation of the working class itself. I contend that classes are a relational process rather than discrete groups, and the opposition of classes to one another is necessary to understand each one of them.

The main caveat to this critique of Laclau is that very often, analyses in terms of populism suggest that a central element providing coherence to what is a very heterogeneous populist following is the construction of a sense of unity against the elite. Anti-elitism is depicted as one of the key characteristics of populist discourse. However, since considerations of populism focus on the relation between charismatic leaders and followers, and since populism is depicted as a discourse in which rationality matters little, the historical role of “pre-populist” elites or former state leaders does not appear to be relevant. The elites that are discussed are the



imaginary characters in the populist discourse, not real agents whose actions should be studied in order to explain the popular rejection of institutions, or the shared feelings of exclusion that stimulate the rise of populism. The concept of populism actually actively avoids a discussion of the historical role of these elites and their political actions in the unfolding of the crisis (or the distress in Weber's terms), since anti-elitism is merely conceived of as part of the populist deviation.

Therefore, despite its contribution to a depiction of a number of characteristics in the relationship between political leaders of the pink tide and their supporters, this blind spot in studies focusing on populism makes it imperative to seek more comprehensive approaches. Philip Oxhorn (1998) offers valuable insights when studying the recurrence of populism in Latin America and, in particular, the economic conditions that account for its appeal. According to him, the rapid industrialization of Latin America and its economic modernization during the last two thirds of the 20<sup>th</sup> century have been unable to properly integrate the large number of people who converged to the cities as the progression of capitalism seriously imperiled the livelihood of the peasantry. Once in the city, rural migrants confronted the reality of an urban economy that did not generate employment for all. The result was the creation of fragmented subaltern classes with as many unemployed people and informal sector workers as there were formally employed workers, and sometimes even more. The masses of marginalized people converged into peripheral settlements (shantytowns), where the living conditions are as much a determinant of their identity as is labour, notably because trade unions in such countries tend to cater more to the well-off workers. According to Oxhorn, this context, which contrasts with European societies, makes it more appropriate to talk of a popular sector than a working class, in order to include all "the 'disadvantaged' groups in highly segmented, unequal societies [...with] limited

life chances and consumption possibilities” (Oxhorn 1998, 231). It is the fragmentation of the popular sector in varying economic conditions combined with the geographical confinement of large parts of this sector in shantytowns, and not its identification with class-based parties, that explains its support for populist leaders.

The very same conditions that Oxhorn ascribed to the popular sector are often central to the depiction of the conditions explaining the rise of the pink tide. The careful consideration of the conditions of fragmentation that characterize the popular sector is a factor I intend to maintain by using the concept of *popular sector* precisely to point at people sharing economic conditions without necessarily being a collective political agent. However, although Oxhorn’s approach is useful for explaining political instability, it offers limited tools for grasping the evolution of the role unions have played within the popular sector or the role of capitalist class organizations in the process leading up to the pink tide. I intend to demonstrate that unions, at least until the 1980s, were in fact a pole of attraction not only for their members, but also for a wider set of social movements and organizations that saw in them an effective way to channel their demands. It took active state intervention, supported by the capitalist class, to undermine this role and render inoperative the channels through which the popular sector, despite the heterogeneity of its conditions and the obstacles it encountered along the way, had previously manifested its discontent. In short, the heterogeneity of the economic conditions the popular sector faced by the end of the 1990s is of relevance for explaining the pink tide, as are the ways that the forms of leadership used by pink tide presidents correspond with those generally used to describe populism. However, to understand the rise of the pink tide, it is also essential to consider the role capitalist classes and pre-pink tide elites played in forging and maintaining the

political and economic conditions that the popular sector confronted at this critical juncture, including the closing of previous channels for political expression.

### **A New Resource Curse? Rent Extractivism and the Commodity Consensus**

In contrast to studies concerned with populism and the nature of leadership, an alternative body of literature emphasizes the determining role of natural resources in the transformation of Latin American countries. These contributions, often using the concept coined by Richard Auty (1993) of a *resource curse*, attempt to understand “the perverse effects of a country’s natural resource wealth on its economic, social, or political well-being” (M. L. Ross 2015, 1). These explanations, often paying very little attention to the agency of leaders and people, matter to us for two main reasons. First, because if the resource curse is as potent as often claimed, it determines the fate of resource-rich countries to such an extent that these countries’ internal dynamics are much less relevant in accounting for change (resource determinism). Second, because a particular interpretation of the curse has emerged in Latin America. Built around the concept of *extractivism*, these resource curse analyses are often as much an explanation of pink tide governments as they are a critique. According to this view, left governments rose to power and managed to stay there because their access to extractive rent allowed them to fund policies of redistribution (compensatory state (Gudynas 2012)). By doing so, goes the critique, they lost the opportunity to change the development model to steer it away from its dependence on extractive resources. Before addressing this critique, an understanding of the nature of resource rent in modern capitalism is called for.

The resource curse perspective, as well as the critique in terms of extractivism and the commodity consensus, draws attention to the importance of the extractive sector for the

development model that pink tide governments have followed. Resource extraction is definitely a critically important activity in the economy of both our countries of study. Oil extraction in Venezuela and Ecuador represented more than 10% of their respective GDPs in 2014, more than 90% of Venezuelan exports, and close to 50% of Ecuadorian exports. It has been the literature on extractivism, more than the literature on the resource curse, that has acknowledged and made its focus the contentious nature of this pattern of development. It has brought to the forefront of the analysis the opposition waged by local communities affected by extractive projects, and also the aggressiveness of transnational extractive corporations often ready to adopt very troubling strategies to access these resources. Interestingly, oil extraction has encountered little opposition in Venezuela while in Ecuador, the pursuit of extractivism has been much more contested. The Correa government even promised at some point, through the Yasuní-ITT initiative, to leave some oil reserves in the ground in order to protect the high biodiversity of certain areas of the Amazonian Forest and the Indigenous people that live within it. As I discuss in Chapter 6, while Correa gave up the project in 2013, the case nonetheless illustrates the important debate in Ecuadorian society about the role that natural resources have to play.

However, the specificity of the extractive sector is not solely derived from either its economic importance or its contemporary contentiousness and environmental impact. Its peculiarity needs to be clarified. I would like to suggest that it is related to three main characteristics, and that they apply to oil extraction more than to that of other natural resources.<sup>12</sup> The first has to do with the emergence, since the mid-Twentieth century, of a petroleum-based world economy. Oil is a central source of energy. It is crucial for most contemporary production and its transportation to markets.

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<sup>12</sup> In the literature reviews on the resource curse examined below, there is a growing sense that oil is really the main resource causing a curse (M. L. Ross 2015, 201).

The second aspect has to do with the fact that unlike manufacturing, natural resource extraction is tied to the place where natural resources are located. The sources of extractive resources are not mobile. This grants a specific power to the owners of the lands housing these resources. Finally, the importance of their geographic location leads to a conversation about rent, the third aspect that makes natural resources peculiar and one that requires further development.

In political economy, rent is differentiated from wages and profits. While wages are retribution for labour and profits retribution for investments, rent is retribution for the ownership of landed property. The source of rent gave rise to a critical debate in classical political economy, and David Ricardo (2014) notably concludes his *Principles of political economy* with a debate on Malthus's theory of rent. The debate was essentially the expression of the struggle for power in the British economy between the landed aristocracy and the growing class of capitalist farmers. While Malthus derived the different rent demanded for different lands from the variation in the fertility of the soil, Ricardo increased the complexity of the model by including market pressures created by land supply and demand. In contemporary economics, rent is generally defined as the excess above normal profit; a definition that despite its effectiveness, does not say much about the underlying relationship that allows such a surplus profit to arise.

Marx's contribution to this discussion, mostly through a number of unfinished manuscripts, is qualified as a "minefield" by some interpreters (Harvey 2006, 330). The conceptualization of rent acquired such a degree of complexity in Marx that Ben Fine and Alfredo Saad-Filho (2010, chap. 13) caution their readers that their discussion of rent is "the most challenging chapter" of their work popularizing Marx's theory. The difficulty comes from the fact that Marx tried to derive rent from the laws of motion of capital in a way that linked the level of rent to both the varying fertility of the soil (Differential rent I) and the application of

different agricultural techniques (different amounts of investments — Differential rent II). According to Marx, access to more fertile soil and/or better technology explains the comparative advantages of some farms over others and, hence, also the difference in rent that one landlord can perceive compared to another. Differential rent was distinguished from absolute rent as the surplus profit accruing to one sector (extractive, for instance) compared to another. The complexity comes from the fact that the three kinds of rent operate at the same time.

One can nonetheless be spared from fully engaging with this complexity by deriving some insight instead from Fernando Coronil's (1997, 48–58) reading of Marx and his reflection on the question (itself inspired by Bernard Mommer (1983; 1988)). If differential rent is the result of surplus profit emerging from greater land quality or more productive use of capital, absolute rent, especially when extended beyond agriculture to include extractive resources, is actually an expression of the power relationship between those owning the land and those transforming it, or, in extractive terms, between the owner of the resource and those who extract it. While differential rent is a surplus profit transferred to the landowner, the value of which is determined by the surplus profit derived from increased productivity when prices are determined by the market, absolute rent can actually determine market prices by controlling the share of profits claimed by the owner of the resource from the one who extracts it. This conception of rent as the mere balance of power that results from owning the property over a resource was adopted by most states in oil-exporting countries in the process leading to the foundation of the Organization of Petroleum Exporting Countries (OPEC). Claiming that their ownership over the resource allowed them to determine the quantity produced, their share of rent, and ultimately, the market price for the resource, OPEC was able to use land ownership to influence world prices for this resource. The oil price hike in the 1970s illustrates the shift from market-determined prices,

where a share goes to the landlord in relation to the quality of the resource or the quantity of capital invested to extract it, to prices determined by the absolute power of landowners over the resource.

The combination of the three factors (the petroleum-based world economy, the geographic fixity of the resource, and the importance of property in creating rent) explains the importance of the state when access to rent gives it the possibility to act more independently of capitalist reproduction. Moreover, the state can be brought to play a central role in the struggle over the development model in countries with abundant extractive resources (Bebbington and Bury 2013, 11–13), notably by shifting property rights and altering the balance of class forces.

With these clarifications in mind, it becomes easier to undertake a critical review of the literature on the resource curse. As Gilberthorpe and Papyrakis (2015, pp. 381–2) underline in a recent survey, the literature on the resource curse has exploded in the last decade. Indeed, while Google Scholar offers less than a hundred articles on the subject for the year 2000, it lists about 2500 for the year 2014, with some journals now specifically dedicated to the topic. The resource curse literature can be grouped into three main clusters.<sup>13</sup> One is concerned with the idea that an abundance of natural resources increases the likelihood of civil wars and their duration and intensity, as well as their type (e.g., conflicts to conquer the state, separatist attempts, “warlordism”) (P. Collier and Hoeffler 2005; P. Collier and Hoeffler 2004; Welsch 2008). However, as I know of nobody arguing that there is, or has been, a resource-induced civil war in Venezuela or Ecuador, this family of explanations can be set aside for our study.

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<sup>13</sup> For a good literature review, see : Emma Gilberthorpe and Elissaios Papyrakis (2015); Frederick van der Ploeg (2011); Michael L. Ross (2015); Andrew Rosser (2006a); Paul Stevens (2003).

The second cluster of studies, from the discipline of economics, discusses Dutch disease, or the idea that natural resource abundance has negative macroeconomic outcomes and causes bad economic development. However, these studies offer no unanimous conclusions. As underlined by Jeffrey D. Sachs and Andrew M. Warner (2001, 833), in the absence of a universally accepted theory of economic growth, there cannot be a universally accepted theory of how growth is hindered by a specific factor. Nevertheless, approaches in this stream share a general framework identifying the currency appreciation resulting from a significant rise in natural resource exports as the cause of imbalance between sectors (mostly between the tradable and the non-tradable sectors). This imbalance stimulates capital shifts unfavourable to growth (either abroad or to non-growth-inducing sectors), and thus undermines the competitiveness of the economy on the world market. The strength of these approaches lies in their comparative perspective involving a large sample of countries and showing statistically significant negative correlations between resource abundance and growth performance (Ploeg 2011, 369–73). The implications of such correlations are, however, fiercely debated, notably because shifting the measure of natural resource wealth from a percentage of the GDP or of exports to other units, such as the level of production of extractive resources, gives less clear results (Rosser 2009, 168; Quoting: Stijns 2001; Herb 2005). Moreover, Andrew Rosser (2006a, 10–11), in his literature review on the topic, explains how the idea of a curse is generally sustained by an argument about rent, defined as the excess above normal profits captured by the state, while these studies rely on indicators to measure resources that do not assess rent, but rather the share of national production or of exports.

The deterministic character so often associated with the idea of a “curse” is the main shortcoming of the Dutch disease framework (Rosser 2006a, 26). The language around these



studies frequently leads to conclusions that the exploitation of resources automatically undermines development. However, while cross-country correlations do identify a general tendency, they do not provide an explanation, and are of no help in accounting for the exceptions. Botswana (Pegg 2012; Acemoglu, Johnson, and Robinson 2002), Indonesia (William Ascher 2012), Norway (Mehlum, Moene, and Torvik 2012; Erling Holmøy 2009) and Chile are often mentioned as examples of countries that have mitigated the economic downsides of resource extraction (Hujo 2012b). Some observers have even added Malaysia, Thailand and Canada to the list (Rosser 2006a, 22), and others have suggested ways to deal effectively with the curse (Humphreys, Sachs, and Stiglitz 2007; Ovadia 2016; M. L. Ross 2013; Rosser 2006b), while others have shown that the symptoms related to Dutch disease do not apply to all cases. For instance, and of special interest to us, Venezuela's main waves of industrial investment have tended to follow the cycles of oil windfalls, not to move counter-cyclically, while the exchange rate in the 1970s (a period of high oil prices) did not increase as the model would expect (Di John 2009, 40–42). Similarly, during the last two price hikes (1970s and 2000s), Ecuador experienced an increase in manufacturing and manufacturing exports, belying Dutch disease predictions (Orozco Medina 2013, 61). Moreover, as underlined by Guillaume Fontaine (2010, 217), if the resource curse was so strong, the impact of the latest oil price hike on production for the Andean crude exporters (Venezuela, Ecuador, Colombia) would have been similar, but this has not been the case. If the curse or the disease is not automatic, or can be avoided or cured, then the question that matters instead is why do resource-rich countries not adopt the necessary measures to avoid the potential problems?

This question leads to the third cluster of explanations. According to this stream of literature, closer to the field of political science, the abundance of resources has a negative

impact on institutions. It is not only that resource extraction has a negative economic impact, but also that it affects the functioning of institutions; the presence of resources prevents the adoption of measures likely to mitigate their economic impact. The main thrust of this argument is that easy access to rent from resource extraction weakens institutions by breeding corruption and rent-seeking (Krueger 1974). An abundance of non-tax financial resources flowing to the state diminishes the social pressures for accountability. Natural resources therefore can hinder democratization efforts, as easy access to rent reduces the need for good taxation deals with business elites and makes patronage and cooptation an easy way to dampen democratic pressures from below (M. L. Ross 2001). Natural resources, then, act as an incentive for authoritarianism and unsustainable policies, such as excessive borrowing. Here again, cross-country correlations appear to support these analyses, with resources being associated with negative indicators for corruption and the quality of institutions (Ploeg 2011, 381–83). But once more, shifting the unit from the share of natural resources in the GDP or in exports to the percentage of state revenue composed of mineral rent shows less convincing evidence of an institutional resource curse (Herb 2005). How we measure resource abundance, then, influences the outcomes, and the direction of causality also becomes blurrier. In fact, even Michael L. Ross, an author supportive of the idea that resource abundance hinders democracy, is forced to conclude that:

“the relationship between resource wealth and institutional quality is exceptionally hard to disentangle: institutions are often ambiguously defined and poorly measured, and they could simultaneously affect, and be affected by, resource wealth. These complications make it hard to know whether the correlation between oil wealth and low institutional quality is causal” (M. L. Ross 2015, 13).

Moreover, as a result of his review, he has been forced to retreat to the position that the main curse comes from petroleum rather than other extractive resources, and evidence leads to the

limited conclusions that it tends to increase corruption and makes regimes that are already authoritarian last longer (M. L. Ross 2015, 2).<sup>14</sup>

Why can we not assert, instead, that it is the quality of institutions that can turn resources into either a curse or a blessing? As rightfully underlined by Rosser (2006a, 26), theoreticians of the curse place themselves in a contradictory position when they describe the impact of resources in deterministic terms, but later offer institutional solutions to mitigate them. Moreover, as emphasized by Frederick van der Ploeg (2011, pp. 369–70) in his extensive literature review on the resource curse, the United States was the leading mineral-abundant economy from the mid-nineteenth to the mid-twentieth century, and its positive experiences with mineral abundance “explain much subsequent economic growth”. Similarly, industrial development in the UK and Germany was largely spurred by coal and iron ore deposits.

In fact, resource curse models hardly account for the fact that the disease is essentially a phenomenon of the last forty years. This leads some development scholars to conclude that “lessons from resource-rich countries such as Australia, Canada, Norway or the United States prove that the relationship between natural resources and development is not deterministic: resource abundance is not an irrevocable curse, but rather a challenge to policymaking” (Hujó 2012a, 7).

And part of this policymaking challenge has been little explored: what are the conditions for institutional change leading to an improvement in the capacities to mitigate the resource disease or curse? As underlined by Evelyn Dietsche (2012, pp. 128–30), if the expectation is that

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<sup>14</sup> Michael L. Ross (2014) also argues that the value of natural resources, and not only oil, are correlated with the prevalence of civil wars following a reverse “u” pattern. However, since this part of his argument is of little concern for the cases studied here, it is not necessary to pursue them further.

the right institutions can correct the wrong behaviours of the elites that control them, it is hard to think of an incentive that would push elites to change the “wrong” institutions, when the latter sustain both the resource curse and the rent-seeking elites at the same time. In a recent cross-country study on the nationalization policies applied to the hydrocarbon sector in Latin America over the past century, Ruben Berrios, Andrae Marak, and Scott Morgenstern (2011, 687) show that the ideology of political leaders is only poorly correlated with the fate of the sector, as they found “a weak relationship between leftists and nationalization, [and] little expectation that putting rightists into power will result in the return of industries to private hands”. They also show that the international political environment of the period does have an influence (i.e., more nationalizations over the 1960s and 1970s than the 1980s), but that the default action across all periods and across the whole political spectrum of leaders is to maintain the status quo: to leave the industry nationalized when it is nationalized, and to leave it in private hands when it is already in private hands. Therefore, and extending their policy conclusions from nationalization to the extractive sector in general, it is appropriate to infer that despite the importance of the international context, domestic analyses are still essential for understanding policy shifts, and world price hikes alone are not sufficient to account for such changes. Moreover, examining leaders’ preferences is not sufficient to explain policy shifts; instead, deeper analyses of the internal struggles between social forces appear to be a promising avenue.

Berrios, Marak, and Morgenstern (2011, 692) offer an alternative hypothesis based on narrow economic motivations to explain ownership changes in the extractive sector. They suggest that Chávez’s nationalization of the oil industry in the early 2000s was less likely the result of his radical posture than of the need to address the meagre state revenue he was originally receiving from the sector, particularly in comparison with countries like Brazil. As

they demonstrate, the relative share that the Brazilian state received from oil was higher than in Venezuela and, despite Chávez's radical discourse, his "nationalization" only brought the share of rent paid to the Venezuelan state to a level comparable to that of Brazil. Although such a hypothesis is attractive for explaining nationalization, it can hardly account for privatization. Indeed, if nationalization increases revenue, why would any government choose the opposite path and decrease its revenue via privatization? Publicly owned extractive enterprises were, nonetheless, the target of privatization processes during the 1990s. This raises a number of questions about the conditions that lead to policy changes with respect to the natural resource sector (Ploeg 2011, 407–8), and as mentioned by Rosser (2006a, 22), "none of the perspectives [on the resource curse] adequately addresses the role of social forces in shaping development outcomes in resource abundant countries". This role is nevertheless vital to understanding the changes in the extractive sectors in both Venezuela and Ecuador.

In both countries, the role of the extractive sector has dramatically changed along with the development model in the last few decades. This dissertation will therefore contribute to filling this literature gap by looking into the role of social classes, and particularly the capitalist class, in this change. Instead of looking at how resources determine development and shape social forces, it seeks to explain how social struggles influence the evolution of the development model and the role played by the extractive sector within the development model.

In Latin America, notwithstanding the connections with the existing debate on the resource curse, the discussion on the role of resources in development offers a concept of its own: extractivism. More than a mere reference to a specific sector, extractivism characterizes a mode of accumulation or an overall development model based primarily on the extractive industry, especially mining and oil extraction, but also on primary production for international

markets (Acosta 2011; Acosta 2009; Merino Acuña 2015; Gudynas 2012; Gudynas 2010; Seoane, Taddei, and Algranati 2013; Veltmeyer and Petras 2014). The concept is recent,<sup>15</sup> but the reality it describes is far from new. Indeed, as Jeffrey Bury and Anthony Bebbington (2013, 27–31) underline, an obsession with extracting natural resources from the Americas is clearly present in the travel diaries of Christopher Columbus, though the coveted resources have changed, and petroleum has been the dominant extractive resource in Venezuela since the 1920s and in Ecuador since the 1970s. Moreover, concerns over the little growth potential of economies based on exporting primary resources have been a feature of critical development literature in the region from its very beginnings (Prebisch 1950).

I contend that extractivism became an important concept only recently because of the unfulfilled expectations that the pink tide governments would move away from a development model based on the extractive sector towards one that could avoid the negative effects associated not only with the above-mentioned resource curse (Acosta 2010; Acosta 2009; Schuldt and Acosta 2006), but also with the negative socio-environmental impact resulting from resource extraction. As Maristella Svampa (2011a, 185) points out, the pink tide presented the contrasting and disturbing situation of governments stirring a national-popular discourse, rallying the people to oppose the main holders of economic power, while at the same time pursuing “neo-colonial” models based on the “grabbing, the exploitation and the destruction of national resources”. While extractivism describes any development model based on the extractive sector, the concept of neo-extractivism has been developed to refer more specifically to pink tide governments that justified the pursuit of extractivism based on two key arguments. One was the need for extractive

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<sup>15</sup> One of its first occurrences is in an article penned by Bunker (1984), where it is used to contrast productive economies, based on industrial production, and extractive economies, based on the export of natural resources. The concept has kept essentially the same meaning, but it took 25 years for it to be frequently applied in Latin American studies.

rent to support the transition to another model; the other, the possibility to compensate (Gudynas 2012) for poverty through alleviation strategies and other social justice programs. To draw on the conceptualization developed in the introduction, neo-extractivism corresponds to a social-developmental state that relies on extractive resources to pursue its goals. The high commodity prices of the first decade of the 21<sup>st</sup> century have consequently been blamed for fostering the convergence that Svampa (2013, pp. 31–6) identifies as the “commodity consensus”: a tacit agreement by most Latin American governments, both on the left and on the right, on the absence of any real alternatives to the exploitation of internationally traded commodities. Neo-extractivism, being part of the commodity consensus, reflects the unfulfilled expectations that left-wing governments would move away from a commodity export-led model. It is driven by the perpetuation of a development ideology where resources play, exactly as they did fifty years ago (Pellegrini 2015), the role of a springboard that could move society from its primitive state to an advanced and developed productive stage.

The concept of neo-extractivism provides a helpful perspective on the fundamental opposition between, on one side, the structural incentives to extract—international trade balance, high commodity prices, and pressures by transnational corporations—and, on the other, the actual resistance of locally based social movements, including the convergence of Indigenous movements and environmental organizations against particular extractive projects (Svampa 2011b; Merino Acuña 2015; López and Vértiz 2014). This perspective, bringing together the fields of political ecology and social geography, sheds light on how the territory has gained importance as an object of struggle (Bury and Bebbington 2013). Resource extraction in pink tide countries has confronted two conflicting visions: one, sustained by the socio-environmental movements, stresses the necessity of long-term planning that is respectful of nature, avoids

destructive short-term gains and is reluctant to engage in extractive activities. The other, inspired by neo-developmentalism, insists on the need to access these sources of revenue in order to gain the necessary leverage to reorient development towards a more endogenous, democratic and respectful model. The Ecuadorian and Venezuelan development plans exemplify this second pattern, clearly expressing the will to transition towards a post-extractive alternative by first relying upon the capacity of states to use extractive resources to change the model.

One of the limitations of neo-extractivism is that it frames the antagonism in terms that oppose, on the one hand, a state with a deceptive discourse, falling prey to the pressures of transnational interests and perpetuating resource-based development and, on the other, social movements resisting this neo-colonial invasion. It leaves a blind spot in terms of the range of forces that are involved in determining development options in each country. Indeed, the domestic capitalist class appears as either subservient to the plans of transnational corporations or as prisoner of an abstract capitalist dynamic, but usually devoid of a political agency of its own.

I do not argue that domestic capitalists should be conceptualized in isolation from international economic trends and pressures. However, I do argue that their conceptions of development options mediate such trends in an influential ways. They exercise this agency not just at the economic level, but also politically through their own forms of organization that, through the struggles they engage in, contribute to determining the development models and their outcomes. As we will see for the case of Venezuela, a centralized capitalist class organization offered an opposition that was able to undermine the whole process of accumulation. Recognizing the political agency of the main organization of the capitalist class is essential to understanding the difficulties in implementing the neostructuralist-inspired development model



attempted by Chávez before 2002, just as this agency had previously been the source of much tension around the neoliberal package in 1989 and the early 1990s. Understanding this is also critical for explaining the subsequent radicalization of the development model towards Twenty-first century socialism and the growing intervention of the state in the economy and in investment.

As the discussion of the Ecuadorian case will show, a differently organized capitalist class reacted differently. These organizations, regionally fragmented and therefore with less capacity to provide a unitary response to the change in the development model, adopted a less openly confrontational strategy. Instead of attempting a coup, they preferred to improve their ability to influence the state by gaining lobbying efficiency through an improvement of their technical capacities. As I discuss in Chapter 6, over the course of the last decade this strategy also led to a greater unification of the business class in the country.

This approach to the agency of the capitalist class in both countries helps explain the changing role of the extractive sector. While the literature on extractivism emphasizes the similarities and continuities associated with the extractive sector across time and space, I argue that the role of this sector has changed over the last fifty years. It evolved as a function of the development model in which it was inserted, a situation that, in turn, has to do with the evolution of the class conflict in each specific country and the capacity of the state to assert its landlord position. The importance of class conflict as a determinant of the development model is the object of a long-standing discussion in the field of development studies, and it will be the object of the next chapter.

In the Venezuelan and Ecuadorian contexts, the state claimed ownership over oil in the 1970s. Along with the latter processes of privatization and renationalization over the last

thirty-five years, these are all expressions of power shifts. These shifts took place not only at the world level, but also, and more importantly for us, through the domestic class struggle. The local class struggle has allowed the state to claim ownership over the resource, to rise to a landlord position, and to gain what Coronil (1997) identifies as a magical touch.

I build on Coronil's contribution to the understanding of how rent is a manifestation of the power derived from property to push the reflection in the direction of relational class power. Indeed, as Carmenza Gallo (1997) argues, while state theory generally considers power to be a characteristic of an actor, it is actually the property of a relationship, and it "resides implicitly in the others' dependence" (Gallo 1997, 641). Power as a relation means that the dominant actors' power is only as strong as the dominated are dependent—in this case, dependent upon the resource that the dominant force controls. When the power of landlord states in Venezuela and Ecuador was deployed during the 1970s to nationalize oil and acquire more rent, it was used by the state to foster industrialization. What the state intended with this decision was precisely to convince capitalists to reinvest their profits in the country. When capitalists decided to refuse state support and rejected its program, the landlord state power was undermined to the point where it affected the state's capacity to maintain its autonomy. Under Chávez and Correa, recovering the property over the extractive sector became the main instrument for rebuilding state autonomy, understood here as institutional independence from direct class influence.

In an evolving world context, it is through such a relational conception of power, and acknowledging the importance of nature (the presence of resources) without considering it to be deterministic, that we can better interpret the transformation of the development model and the role of the extractive sector within it. Despite the power property over extractive resources confers the state through its collection of rent, a relational approach still grants a great deal of

economic and political power to the capitalists as a class, and attaches great importance to their struggle with the working class. I use this perspective to integrate the extractive sector in a discussion about the pink tide in Venezuela and Ecuador, understanding extractivism as a factor in the class struggles around the development model.

### **Pink Tide Parties and Movements**

The phenomenon of the pink tide and its occurrence in Venezuela and Ecuador have been the object of several comparative studies focusing on the two kinds of left that allegedly reside within it (Petkoff 2005; Castañeda 2006; Castañeda and Morales 2008; and pursued by Weyland, Madrid, and Hunter 2010; Kingstone 2011). This focus gained prominence due to its capacity to organize the agenda of the debate, yet it probably stimulated even more literature rebutting it. All pink tide governments are seen as part of a widely defined left because they prioritize social equity, justice and solidarity over market individualism, and thus promote some forms of state redistribution. These governments, however, differ in their strategies for achieving these goals and in their discourses. The “moderate”, “good” or “social liberal” left—generally encompassing the governments of Brazil, Chile and Uruguay—have chosen the conciliatory path of reforms inspired by the social democratic tradition, whereas the “contestatory”,<sup>16</sup> “wrong” or “populist” left—comprising the governments of Bolivia, Ecuador and Venezuela—adopted instead a heterodox, statist and confrontational approach to power. The latter’s alleged roots in the Latin American tradition of populism, from Haya de la Torre (Peru) to Getúlio Vargas (Brazil) and

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<sup>16</sup> This neologism, “contestatory”, is used by Weyland (2010, 3) to describe the more radical stream of leftist governments because they contest neoliberalism, they defy the structures of globalization, and they attack rather than negotiate with their political opponents.

Perón (Argentina), have purportedly driven them to seek popular support instead of “economic performance, democratic values and programmatic achievement” (Castañeda 2006, 38).

Even if the distinction they draw can be said to help in grasping some differences in the tone of various left governments’ political attitudes and policies, they are nonetheless problematic given the connotations associated with the choice of polar categories like the “good” left versus the “wrong” left. Despite a refinement of the categories over time, the exercise is tainted by the predisposition to rank left governments based on their strategies to deliver economic growth and redistribution in a kind of performance contest (Weyland, Madrid, and Hunter 2010; Kingstone 2011) that justifies an *a priori* discrediting of some over others. Unsurprisingly, their conclusions are that the “moderate” and “social-democratic” governments produce a more successful development path than the “contestatory” and “populist” ones.

This form of analysis has been condemned for its polarizing character (Sader 2011). It has also been criticized for constituting a poor analytical tool that tends to discredit the radical left by relying on narrow liberal definitions that reduce development and democracy to mere economic growth (Beasley-Murray, Cameron, and Hershberg 2010; Cameron 2009). It can also be questioned *a posteriori*, given that the crisis currently faced by Brazil, one of the “good left”, is more tragic than what is occurring in some of the “wrong left” examples, like Bolivia and Ecuador. But more importantly, this dichotomous approach is problematic because of what it misinterprets and misses, because it reduces the complexity of these political realities to deceptively simple categories. Its main problem is its focus on the strategy chosen by governments, with little regard for the historical and institutional context in which these lefts are enmeshed (F. Ramírez Gallegos 2006).

Context is indeed essential if we are to properly grasp the phenomenon of the rise of the left. The two-lefts approach tends to focus essentially on the left-wing parties' respective histories and on an assessment of their politics once in office, disregarding what makes some policy choices feasible and others not. Attempts by Steven Levitsky and Kenneth M. Roberts (2011, 11–15) to develop a two-fold model—by making four categories based on two perpendicular axes, where one axis contrasts long established parties with new ones while the other measures the degree of concentration of authority within left parties—represent an improvement in accuracy and descriptive power. This can then be combined with the parties' contrasting approaches to democracy (liberal-democratic, radical-democratic, plebiscitarian-democratic) and to socio-economic programs (social-liberal, statist, heterodox), providing a complex and helpful categorization of the different positions of pink tide governments. Nonetheless, the focus remains on parties and their programs, while critics of these kinds of perspectives call for a wider look at the broader socio-political context that leads one kind of party to power over another. Moreover, if the wider context is necessary to explain the rise of the left, a broader perspective is also necessary to guide the appraisal of what governments are able to do once in office.

Jeffery R. Webber and Barry Carr (2013, 4–8) suggest an alternative that, instead of focusing on governing parties and their policies, makes it possible to contrast broader forces of the left, including parties, as well as movements and regimes. Rather than cases strictly classified as dichotomous, they suggest a continuum between the “revolutionary left” and the “*izquierda permitida*” (authorized left). The former have tended towards rejecting capitalism and envisioning a transition to a democratic coordination of the economy to build a development model in which human needs prevail over capital. The latter have moved towards

accommodating the neoliberal objectives of a flexible labour force and strong domestic capitalist forces in order to achieve a successful insertion into the world market.

One advantage of such a conception is that it overcomes the limited focus on parties, expanding the analysis to include regimes and their relationships with social forces and movements. A second advantage of conceptualizing a continuum along which state-party-movement interactions evolve is that pink tide lefts are not seen as fixed, but as mobile, following the evolution of the internal relationships between governments and social forces. Both Ecuador and Venezuela have moved along this axis during their pink tide period; Venezuela more towards radicalism or the “revolutionary left”, and Ecuador more towards the “*izquierda permitida*”. Both are nonetheless generally located more on the revolutionary side of the continuum (along with Bolivia) because of their promotion of constitutional changes upon which the new governments have based their power to renegotiate control over natural resource rent. What therefore lies at the heart of this conceptualization is an effort to analyze governments and regimes within their social and political contexts. This is a promising alternative to studies of the pink tide in which state and left parties are at the centre of the perspective and the autonomy of the government seems absolute. The endeavour is to understand the conditions that breed such governments, as well as the limits that result from such conditions.

Social context takes on much more importance in the perspectives focusing on the role of social movements. Indeed, the resurgence of the left is often explained through the lens of the failure of neoliberalism, along with its counterpart, the rise of social movement contestation against it. As mentioned earlier, the Latin American pre-pink tide context is referred to as the “lost decade” of the 1980s. The neoliberal measures adopted to correct the situation, mostly against the will of the population (Stirton Weaver 2000, 197–202), failed to deliver on most

fronts: their results in terms of economic growth were not impressive, and although it succeeded in containing inflation, this was accompanied by periodic financial crises. Moreover, neoliberal policies did not lead to the reduction of sovereign debt. But most importantly, these disappointing results were achieved at a very high social cost: increased poverty, extreme poverty and inequalities; decreased formal labour and increased informal labour; and the dissolution of public social services via privatization.

These conditions resulted in an upsurge of social movement protests and popular uprisings that has attracted considerable academic attention (Bajoit, Houtart, and Duterme 2008; Burdick, Oxhorn, and Roberts 2008; Duterme 2012; Lievesley and Ludlam 2009; Sader 2011; Silva 2009 among others). The movements' characteristics and forms of organizations, often reorganized in a context of weakened labour unions, has stimulated the use of the concept of "New Social Movement" (NSM) (Burbach, Fox, and Fuentes 2013; Burbach 2014; Gaudichaud 2012; Rice 2012; Sanchez and Moulier Boutang 2008; Silva 2009). Seeing more than just the impact of an economic crisis pushing electors to remove the incumbent parties from office, proponents of an approach that focuses on social movements emphasize the political space opened up by the extra-institutional opposition of social movements to the neoliberal development model to try to understand the phenomenon of the turn to the left. Despite the importance of international solidarity between movements, notably with the birth and growth of the World Social Forum (WSF), and the rise of international sectorial movements, like the international coordination of peasant organizations (CLOC-Via Campesina, *Coordinadora Latinoamericana de Organizaciones del Campo*), the variegated nature of the social movements involved, qualified as new or not, requires country-specific studies. For instance, while the Indigenous movement is of great importance in countries like Ecuador and Bolivia, it is much

less prominent in places like Venezuela and Brazil. A similar observation could be made regarding peasant movements, which are much more organized and important in Ecuador and Brazil than in Venezuela, for example.

However, an understanding of the relative importance of social movements should not obfuscate the complex relationships in which they are embedded. Popular organizations, social movements and parties of the left have definitively promoted a transformation of the state, especially in countries where new constitutions were adopted (Venezuela, Ecuador, Bolivia). It makes them closer to the revolutionary left than the *izquierda permitida* on Webber and Carr's conceptual axis. But these movements of the left are nonetheless entangled in relationships with varied degrees of both co-operation and contentiousness with their transformed states and with capitalists, either as individual actors or as an organized class. Indeed, the victories of left political parties have also meant a reorganizing of the relationship between the regimes of the left and the chambers of commerce, industry and agriculture, as well as other forms of social organization of the owners of the means of production. I contend that one of the keys to understanding the long-term dynamic that led to the pink tide, widely overlooked in the literature to date, is the relationship between the state and its government on one hand, and the capitalist class and its organizations on the other.

There is a tendency in the literature, even that acutely critical of capitalism, to depict social movements and popular classes as confronted by a capitalism that is conceived abstractly, defined by the logic of accumulation on a world scale, wherein local capitalists, and even states, appear to have little salience. For instance, in the very compelling introduction to their book proposing a Marxist interpretation of Latin America and its recent turn to the left, Susan Spronk and Jeffery Webber (2014) present neoliberalism as a world trend that was imposed on Latin



America from the outside. To be sure, over the 1980s and 1990s, sovereign debts were used as leverage, notably by multilateral lending institutions like the International Monetary Fund (IMF), to force governments to adopt structural adjustment programs under which neoliberal policies were adopted, often against the will of the electorate. But these measures and the government enacting them still required domestic social groups to support them. When they did not, the vacuum caused explosive political situations. In each country, organizations and groups supporting neoliberalism engaged in a power struggle with social movements, popular class organizations and even organizations representing capitalists, and this contentious dynamic gave a particular colour to each country's forced integration into the global neoliberal trend. Understanding the shape of this struggle is essential for explaining why the neoliberal turn did not last and why the pink tide emerged.

Similarly, the same trend in the literature presents left governments once in power as confronting a disembodied global capitalist dynamic (Veltmeyer and Petras 2014), but little is left as a role for local capitalist classes. The role of local capitalist classes tends to be conflated with the role of the governments through the use of the expression "ruling class" (Spronk and Webber 2014, 5, 8, 9, 14), thereby presenting the state as in a seamless relationship with capitalists. Despite good reasons for doing so when adopting a regional perspective, notably to avoid frameworks that present state and markets as opposite poles, differentiating between the domestic capitalist class and the state during the pink tide is both empirically and theoretically necessary. Empirically, it is necessary because, as we will see later, the local capitalist classes have not always been supportive of neoliberal reforms, and further, because they engaged in politics of opposition towards the pink tide governments that are worth noting and that help

explain the course of events. Theoretically, because classes are better conceived through their relational character and their conflictual relationships.

According to Raúl Zibechi (2012), the left-wing governments, whose rise to power was made possible by social movement opposition to neoliberalism, have restored the controlling role of state authority. Through social programs and planning, they “seek to neutralize or modify networks and forms of solidarity, reciprocity, and mutual assistance that were created by those from below in order to survive neoliberalism. Once the social ties and knowledge that assured their autonomy have disappeared, these sectors will be easier to control” (Zibechi 2012, 305–6). According to Petras and Veltmeyer (2009, 1), the pink tide is nothing to celebrate on the left, because a cold appraisal reveals a retreat of social movements and the resurgence of the class power of the right. However, they are too categorical in their depiction of this rising power of the right and the retreat of social movements. The specific capitalist organizations (business interest groups) that I study in this dissertation felt deeply disempowered by the left-wing victories and thus attempted to counter the programs of left governments not only on the revolutionary left, but also those tending towards the *izquierda permitida*. These contentious interactions, as much as social movement opposition to the neoliberal policies before them, are instrumental to understanding the evolution of the left-wing governments themselves. Similarly, the complex relationship between the left regimes and social movements (Dangl 2010) can hardly be reduced to a retreat of movements, as suggested by Petras and Veltmeyer and Zibechi. In Venezuela and Ecuador, the interactions of movements with their respective states have changed, and while some were coopted and reorganized to serve as subservient supporters of the regime, others resisted their subordination to the government’s agenda. A more nuanced model is thus needed

to discuss state-society interactions—one that includes capitalist organizations as well as the popular sector.

### **Conclusion**

This chapter has covered a wide spectrum of literature in order to locate the questions under study in current debates on the nature of the pink tide in Venezuela and Ecuador and to situate the importance of natural resources in the evolution of their development models. The challenging objective of this dissertation is to offer an approach that enables a better understanding of the conditions for the emergence of novel development models, rent-based social-development states and the limitations they come up against. It seeks to develop and apply a comprehensive framework of analysis based on a relational approach to class that contributes to this endeavour by fully integrating the role of the domestic capitalist classes and the abundance of natural resources.

Analyses of populism help explain the importance acquired by leaders of the pink tide and the nature of their relationship with their constituent. These analyses, however, leave aside a reflection on “pre-populist” elites, and even the reaction of elites during the populist moment. Although the features they identify correspond to characteristics of the leadership of both Chávez and Correa, the concept of populism does not leave much room for an analysis of the continuous struggle for power that made populism a possible and attractive option.

A different family of explanations, based on the idea of the resource curse, confers a deterministic quality upon natural resource abundance, with such abundance limiting the probability of successful development. This leaves little room, however, to understand policy changes regarding the resource sector. Explanations based on the concept of extractivism share

some understandings of the negative effect of natural resource extraction on the economy, but they also include a more acute reading of its environmental and local impacts and of local resistance to the development of new extractive projects. This discussion criticizes reliance on extractive resources as a choice that limits the possibility of having a successful development model, and it underlines the disappointment caused by the pink tide governments that chose extractivism to support a shift of the development model towards a social-developmental state.

The chapter concludes with a discussion of the existing literatures on the pink tide and on social movements. The limitations resulting from analyses based on identifying two kinds of left in the pink tide reveal the importance of a deeper study of the domestic context of each case. Broad-ranging conclusions celebrating one type of government over another are not only politically biased, in that they celebrate one preferred type of government over another with little regard for their actual results, but they also fail to fully consider the context that makes one set of policy change more likely than another. Studies of local contexts and domestic struggles are necessary for understanding the meaning, success, failure and limitations of each particular development model.

This need to pay greater attention to domestic social contexts is certainly better addressed in analyses of social movements and their opposition to neoliberalism. And indeed, the absence of proper channels for adjusting policies in response to some of the demands and needs of the popular sector goes some way in accounting for the upheavals that undermined the implementation of neoliberal policy. However, here again, such focus on the resistance to neoliberalism leaves little room for the agency of domestic capitalist classes and their influence on the development model. Their role is reduced to a minimum, as the framework presents the neoliberal development model as a global capitalist dynamic that is forced upon societies by an

abstract capitalist logic supported by obedient states. Although international pressures are instrumental to understanding policy shifts, especially during the turn to neoliberalism, considerations of the mediation of domestic capitalist forces, altering their relationship with the state and transforming the state itself, are necessary for understanding the particular shape and colour taken by neoliberal reforms and the conflicts in which they were inserted.

To benefit from the promise of these approaches while avoiding the problems that I have identified, I suggest understanding the transformation of the development model in Venezuela and Ecuador and its limitations and potentialities under pink tide governments through a relational approach to class struggle, with specific attention to rent. This kind of approach is inspired by a reading of some important debates in the field of development studies, which I undertake to present in the next chapter.

## 2.

# Development and Class: A Long-Standing Debate

In this chapter, I will revisit some of the key theoretical debates on social classes within the field of development studies, particularly as it has been shaped in the context of Latin America. This examination will provide the theoretical basis to locate my own perspective, which sees development as a process of social change that is driven by the interactions and contentious relationships between classes, and between them and the state. It will also allow me to identify theoretically the elements that defined the context leading to the rise of the pink tide in Venezuelan and Ecuador, and the influence class struggles have played on the development model these governments attempted to put in place. The discussion will be critical in differentiating the relational approach to class I intend to pursue from other approaches more focused on the economic determinants of class. In my assessment, this latter perspective to the study of class has contributed to making class analysis, so important to the literature on development during the 1960s and 1970s, lose much of its theoretical appeal.

Strikingly, there is a largely shared inclination in development studies, whether promoting market solutions to generate industrialization, or adopting a critical perspective towards the capacity of the market to produce the most efficient economic outcomes, to presume that capitalists, provided with the appropriate conditions, are always making the right decisions to expand and sustain economic growth. Market apologists, be it from a classical or a

neoclassical perspective, are the most adamant on this issue, suggesting that an unfettered market will allow investors to make the right choices for the economy to thrive. Advocates of state-led development (from an institutionalists or an heterodox perspective) are generally more subtle: given the specificity of market rationality, state interventions in markets are critical to channel investors towards a path of economic growth. If the policies are right, the assumption goes, private investment will produce a virtuous cycle of profit re-investment that will generate long-term growth. According to these perspectives, the absence of growth does not mean that investors were wrong, but rather that policies were incorrect. However, what if these explanations grant too much rationality to capitalist agents? What if the latter's economic and political decisions could sometimes be damaging, even to their own interests?

In contrast to these favourable views of the contribution of capitalists—or the private sector, in common development jargon—more critical contributions to development studies (dependency theorists, Marxists, etc.), have questioned the very implications of capitalist economic growth for development. According to this view, capitalism relies on a specific form of exploitation that generates inequalities and the impoverishment of the masses, and it does so because capitalists are compelled to make decisions with a view to reaping growing profits from unpaid labour, and, very often, to send it to global centres, maintaining the peripheries in their dependent position.<sup>17</sup> I want to push this argument further by thinking of capitalists not simply as individual investors, but rather as a class, capable of acting politically as such through organizations that press for their interest in a way that influence how development takes place. In short, their individual logic as capitalists is a factor in development, but not the only or even the

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<sup>17</sup> Foster-Carter (1973) argues, in a particularly compelling review of a large swath of Marxist and dependency authors on development (that he groups under the umbrella of “neo-marxist approaches”), that they articulated the concept of underdevelopment precisely to reject the idea that capitalism represents a positive evolution of the mode of production.

most relevant one. Their perceptions of their own short- and long-term interests, as shaped by their class organizations and the political pressure that they exert through them, are substantial factors influencing the overall configuration of the development models ultimately pursued.

I argue that one of the key shortcomings of most class-based approaches comes from the fact that rather than studying the actual positions adopted by capitalists through their organizations, they tend to deduce the political and economic positions of capitalists from an abstract economic interest, or class location. Fully including capitalists as a class—as a political agent built through organizations that make possible both a convergence among them in opposition to other classes and the adoption of common positions with regard to the state and its policies—is a critical and necessary step to understand the particular shape of a development model. My goal is not to define development and underdevelopment so as to propose a precise solution for stimulating economic growth, but rather to adopt an analytical perspective that grasps the class conflict underlying the shift from one development model to another, and to see how the interests of some are promoted over that of others.

The chapter is organized in five main sections. In the first section, I review structuralism, modernization, and dependency, which form the theoretical backdrop to Marxist debates on the nature of class in the transition to capitalism, a discussion that lies at the core of development studies. This leads to a consideration, in the second section, of the diverse ways in which class has been conceived in social theory. A third section reviews the shortcomings in approaches that overstretch the role of class. In the fourth section, I revisit more recent approaches to class that converge with the perspective presented here. A fifth section outlines more recent class perspectives from which I depart. The conclusion summarizes the findings and gives guidance on how it informs the way I undertake my analysis of Venezuela and Ecuador.



## **Development and the Making of Entrepreneurs**

The theorization of class has been at the core of development studies since its birth in Latin America, although the original focus was essentially on the class of entrepreneurs. Moreover, growing attention to development as a field of inquiry was initially motivated by confidence in the capacity of the state to foster industrialization by supporting entrepreneurs. Trade restrictions during the Great Depression and later the Second World War generated unplanned industrialization in several Latin American countries by forcing the substitution of unavailable imports. Early Latin American development theories aimed to reproduce this initial unplanned industrialization, but this time through deliberate state action. Raúl Prebisch (1950), benefiting from the institutional space opened to him in the United Nations' Economic Commission for Latin America (ECLA), was a pioneer in the field and adopted a structuralist approach. However, despite important results, structuralist-inspired development policies faced serious challenges maintaining the class alliances needed for their proper functioning.

According to Prebisch, Latin American underdevelopment resulted from a dualism: advanced productive technologies reached only the export sector, confined mostly to primary commodities, leaving behind a large pre-capitalist sector based on a subsistence economy. This situation was perpetuated by a historically-constructed international division of labour that confined Latin America to the role of exporter of primary products. As the terms of trade for such products declined comparatively to that of value-added/industrial products from core industrial countries, Latin American exports generated declining revenues, limiting the amount

that could be invested in improving the productive apparatus.<sup>18</sup> Prebisch's proposal for underdeveloped countries was to adopt inward-looking policies that, without delinking the economy from the world market, could improve technology in domestic production through the careful selection of importing and exporting sectors.<sup>19</sup> A proper plan would create a new industrial sector ready to compete at the international level.

This understanding of the causes of and remedies to the lack of development granted the role of saviour to a specific kind of capitalist, the domestic entrepreneur, whose actions and rationality could pull the entire economy towards development when stimulated with the right incentives and protections from the state. They would bring along development by displacing the economic importance of landowners. Labour also had a role to play, as some of the advantages enjoyed by developed countries were understood as stemming from a higher rate of unionization. Well-organized workers could secure better wages, creating a buffer that could protect internal markets during cycles of economic decline. Thus, Prebisch proposed an alliance between labour and domestic capital against the power of "foreign companies" and "absentee landowners."

This approach presupposed that with the right incentives, a class of industrialists would accept the direction provided by the state and an alliance with labour to confront the landed class and multinational corporations. As we will see in the following chapters, although capitalist class

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<sup>18</sup> Since Hans Singer (1950) developed a similar thesis regarding the declining terms of trade for primary products from peripheries in the same period, the model is often referred to as Prebisch-Singer. Despite both Prebisch and Singer having worked within the United Nations, their similar models were developed independently from one another.

<sup>19</sup> The idea of protecting infant industries was theorized in European political economy by German economist Frederich List (2005 [1841]), whose contribution was deeply influenced by his study of the United States' path to industrial development. Exiled in the US (from 1825 to 1832), List discovered the ideas of Alexander Hamilton and his approach to the development of an American industry (Selwyn 2014, chap. 2). He later elaborated a theory that stressed the need to protect, using Hamilton's expression, an "infant industry" in order to support the development of a German industrial base despite the competitive advantage of the more advanced British economy.

organizations have adopted a variety of positions, they tended to be based on alliances between entrepreneurs, multinationals and/or landowners against the state and labour. The political tensions these alliances generated with the popular sector and the state tended to eventually undermine the consensus necessary to sustain a structuralist-inspired development path.

The original rebuttals to structuralism came from modernization theory, an approach that saw positive reasons for privileging multinational corporations over domestic capital, and cautioned against the dangers of labour mobilization and demands in early stages of development. According to modernization theorists like Walt Whitman Rostow (1956; 1971b; 1971a), the lack of capitalist development was the outcome of internal dynamics specific to each society and connected to values and practices that could be modified, in stages, to reach development. Similar to structuralism, the key development agent for modernization theory was the “new enterprising men” who slowly became part of a new “class of business-men” and “industrial leaders” (Rostow 1956, 27–30), an elite that emerged from the institutional transformation often induced in reaction to an external shock or a political shift. Rostow’s approach promoted developing the kinds of institutions that would foster values in society that support the emergence of entrepreneurs. Multinational corporations, in his view, could contribute to this process.

Inspired by Max Weber (Weber 1992), whose theory associated capitalism with specific cultural features, Rostow’s approach contended that the absence of capitalist development was derived from the lack of appropriate “political and social structure and, even, ineffective cultural values” (1956, 27). The values of entrepreneurs, their enterprises, and the institutions that foster them in existing capitalist countries should serve as a model to be copied.

The role attributed to ‘business-men’ and industrial leaders in Rostow’s texts epitomizes the role of the elite for modernization theory. It stressed the need for an appropriate structure to breed and protect the small group of actors that could drive modernization by improving production. As Seymour Martin Lipset once said about Latin America, elite analysis was essential because “it is clear that regardless of differences in social systems, one of the requisites for development is a competent elite, motivated to modernize their (sic) society,” because “the structure of complex society and organization prevents the mass from directly exercising power” (Lipset and Solari 1967, viii). From this perspective, the capacity of the masses to organize can only be detrimental to development. Thus, elite analysis stood in sharp opposition to contemporary class perspectives (Lipset and Solari 1967, vii).

Interestingly, for our cases, it is when elites in Venezuela and Ecuador acquired the role prescribed in Lipset’s approach, isolated and in control of key institutions, that they stimulated the kind of popular opposition and uprising that forced an institutional renewal. When, in the 1990s, elites took control over the state and actively pursued the exclusion of popular class organizations from participation in the policy-making process, their own development option became impossible to implement. From a class perspective, the problem with such an approach is its inability to properly include the balance of forces that makes development models work over the longer term.

Fernando Henrique Cardoso (1967), a leading figure of the dependency approach, rejected modernization’s narrow focus on industrial elites as modernizing agents. According to Cardoso, the investors’ success in development depended not only on their values, like Rostow suggested, but also on several other key factors that set the context for development. They included internal factors like state policies, the capacity of workers to organize, as well as

external elements like competing multinationals and the evolving organization of world production and trade.

Cardoso explicitly challenged modernization theory at the Montevideo conference on elites in Latin America convened by Lipset in 1967. Beginning with a critical statement that presaged post-development's critique of Eurocentrism by three decades,<sup>20</sup> Cardoso debunked modernization theory's implication that entrepreneurs in Latin America should emulate the entrepreneurs of the early days of capitalism in Europe and the United States. The problem with the proposition, Cardoso argued, was that it did not take into account the striking historic and structural differences between 18<sup>th</sup> and 19<sup>th</sup> century Europe, and contemporary Latin America. With different conditions, notably stronger international competition from social formations where capitalism had had several centuries to improve its functioning, Latin American entrepreneurs of the 1960s and 1970s could not simply emulate past European entrepreneurs.

From this critique of modernization, Cardoso, in collaboration with Enzo Faletto (Cardoso and Faletto 1979) during their association with ECLA, developed their rejection of modernization theory. First, as mentioned earlier, since conditions differ from one country to another (even more from one continent—Europe—to another—the Americas), and from one period to another, they rejected the claim that following a similar set of policies in different contexts would lead to industrialization. Most importantly, they rejected modernization's

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<sup>20</sup> According to post-development approaches, development theories are Eurocentric because they are constructed around a model based on 'northern' or 'western' societies. Underdeveloped societies are then discursively produced as imperfect, retarded (Escobar 1995). It is interesting to note that Escobar, instead of recognizing the origin of dependency theories—mostly developed in Latin America by Latin American authors—prefers to lump all dependency theories in the same discursive space as classical development economics and tag them as Eurocentric. In a perplexing turn of events, Eurocentrism will eventually become Andre Gunder Frank's main field of interest, and the topic of what he considered to be his "best book" (Frank 1998; Kay 2011). Frank was the main European figure of a stream of literature otherwise dominated by authors from the global south.

assertion that entrepreneurs, given the proper institutional context, were necessarily capable of producing the conditions to sustain a virtuous cycle of growth. In a context where the “elite” drew important advantages from its collaboration with multinational corporations, they could very well behave in ways that contradict the expectations of modernization theory while still holding values linked to capitalism.<sup>21</sup> Indeed, as their profit was derived from their collaboration with multinational corporations, they could privilege this international partnership over the development of autonomous domestic industries. This assessment led them to be skeptical of the virtues of the entrepreneurialism of domestic bourgeoisies, mostly because the economic and technological ties to foreign capital changes investors’ interests.<sup>22</sup> However, Cardoso and Faletto stressed that the conditions resulting from the ties to multinational capital also depended on the relationship that domestic entrepreneurs maintained with workers, with the middle class, and with the state. They could therefore hardly be treated in isolation from the influence of other social forces and classes. It was, therefore, with this critique of modernization that a more encompassing class approach to Latin American development took place.

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<sup>21</sup> In a luminous study on Brazilian elites and their role in industrialization, Peter Evans (Evans 1979, 10) shows how the development of local capital was strongly associated with the growing importance of multinational capital in a context where their “conflicts of interest are now more subtle.” He goes even further to argue that the partnership between national and multinational capitals is completed by the state, sealing a triple alliance that is instrumental for the development of a semi-periphery. Although I draw insights from Evans’ work, I depart from his approach because he voluntarily leaves aside, for good reasons in his case, the importance of the masses and the popular sector in influencing industrial development. In the case studies of this dissertation, the popular sector is essential to explaining the transition towards the pink tide, and its capacity to stay in power.

<sup>22</sup> This critique is common to many Marxists of the 1960s and 1970s who, against several communist parties, were skeptical about the possibility of national capitalist development led by a domestic bourgeoisie (Foster-Carter 1973, 22, 28).

### *Class and the State in Dependency Theory Debates*

The more encompassing class approach to development in Latin America of Cardoso and Faletto represented, as well, an attempt to overcome some of the weaknesses in the structuralist approach: being first an economic approach, structuralism lacked a proper state theory and did not fully appreciate the importance of class agency (Kay 1989, 134). Including classes and social forces in their analysis led Cardoso and Faletto to force a wedge between a nationally-based bourgeoisie, often linked with domestic “middle classes” attached to their place of origin, and representatives of multinational interests, whose accumulation strategies were linked to the centres.

This differentiation within the ‘elite’ elaborated and expanded on one of the central features of structuralism: the necessity to differentiate the dynamic of capitalist accumulation in the centre and the peripheries. However, whereas structuralism emphasized the dualism that differentiated the dynamic of capitalist development in the centres from a mix of capitalism and pre-capitalist production in peripheral areas, Cardoso and Faletto identified the dynamic in both centres and peripheries as being capitalist. Given a similar definition of capitalism with structuralists—a constant reinvestment of capital that leads to constant improvement of the means of production (Cardoso and Faletto 1979, xx)—the general dynamic unfolding at a world scale is a constant technological improvement, which requires capital goods as well as financial capacities, and “not all capitalist economies have these capabilities. Some of them have to find on a world scale the necessary complementarity to continue their march towards economic growth” (Cardoso and Faletto 1979, xxi). The general capitalistic drive imposed its rules (structure), but some places cannot turn them into a virtuous cycle without the support of other

economies. Thus, dependent capitalist economies tend to specialize in raw material production, while developed capitalist countries are driven by industrial and advanced production.

From this assessment, Cardoso and Faletto opened up a discussion about the kinds of class alliances that were potentially conducive to successful capitalist development, and those that perpetuated dependency. It is from this perspective that they elaborated on two main scenarios for development in their best-known work, *Dependency and Development in Latin America* (Cardoso and Faletto 1979): enclave production directed by foreign multinationals, and development controlled by the national bourgeoisie. It stressed the contrasting results of industrialization promoted from within and from without. Through this approach, they touched to the core of the definition of development. Instead of being the precise goal of industrialization, development was rather the consequence of social struggles. Indeed, according to Cardoso and Faletto (1979):

Development results from the interactions and struggles of social groups and classes that have specific ways of relating to each other. The social and political structure is modified insofar as new social groups and classes succeed in imposing their interests on or accommodating to previous dominant classes in society. (14)

This approach emphasizes the relational character of class. It does not focus on a single category of actors, like entrepreneurs or industrial captains, nor does it place sole importance on state institutions. Rather, it pays attention to class relations and struggles as the prime mover of transformations experienced by social, political and economic structures. On several occasions, Cardoso and Faletto call on the necessity of studying the “political capacity (which includes



organization, will, and ideologies)” of these different agents,<sup>23</sup> instead of only focusing on “structural ‘determinations’” that can be deduced from agents’ economic positions (1979, xi).

This perspective values the importance of agency in the study of political and social structures.

Cardoso and Faletto’s attempt at applying this framework in *Dependency and Development* was, however, sometimes less convincing: the class agency they referred to seemed abstractly deduced from their position in the economic process rather than empirically studied.<sup>24</sup> This is not surprising, since the historical breadth of their study, spanning from the late colonial era to the 1960s, and its territorial coverage of all of Latin America, did not allow for a closer and in-depth look into specific countries and cases.

The difficulties of combining empirical results with such a wide-ranging approach, common to most strands of the dependency framework, likely contributed to fuelling the perception that dependency theorists were explaining underdevelopment by merely focusing on external determinants. Although dependency approaches did explain the underdevelopment of the peripheries as a phenomenon related to the development of the centres, the importance granted to external or international factors in the perpetuation of underdevelopment in specific cases of dependency varies from one author to another.<sup>25</sup>

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<sup>23</sup> In an earlier text, Cardoso (1967, 104-06) insists on the idea that entrepreneurs’ actions should not be derived from their economic position only. He suggested to study their values, but he did so because he was presenting the result of a survey on entrepreneurs’ values.

<sup>24</sup> It must however be noted that while writing *Dependency and Development*, Cardoso also pursued empirical studies on the ideologies of bourgeoisies in dependent countries. He published part of the results of his research, that included both quantitative and qualitative studies, in *Ideologías de la burguesía industrial en sociedades dependientes* (Cardoso 1971), but it covered only Argentina and Brazil.

<sup>25</sup> The nuances are often ignored when dependency is presented as a unified school. This is especially obvious in the English language literature as some dependency authors were much more accessible than others. This trend was noted by Cardoso himself at the end of the 1970s (Cardoso 1977b). Cristóbal Kay (Kay 1989), in a study of Latin American development theories,

The structuralist approach, which promoted the adoption of developmental states to spur domestic capitalist growth, could find support among domestic capitalists who adopted a nationalist stance. Cardoso and Faletto's perspective could have potentially been interpreted to stand for a similar capitalist development alternative as it associated domestically driven development with more positive results than enclave development driven by foreign capital. In order to dispel such an interpretation of their approach, Cardoso and Faletto wrote a preface explicitly in favour of socialism for the English translation of their book. Nonetheless, their argument does lend itself to the interpretation that their analysis supported domestically-driven capitalist development as a better option than enclave development.<sup>26</sup>

In contrast, Andre Gunder Frank's position broke with all possible optimism related to capitalist development. He removed the wedge that Cardoso and Faletto had placed between national and international bourgeoisies in order to slam the door on the conception that national capitalist development was possible or desirable for underdeveloped countries. Frank, for whom Latin America has been capitalist since colonization, considered it very unlikely that underdeveloped countries could grow out of dependency. Their kind of insertion into the world market, driven by raw material exports, generated little to no incentives for the development of

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explains this imbalance by the different original languages of the writing. While most of Andre Gunder Frank's texts were originally published in English, literature published in Spanish and Portuguese, like writings by Cardoso, were translated much later. For instance, Cardoso and Faletto's *Dependency and Development* was first circulated in Spanish in a mimeograph version in 1967. Published in 1969 and then republished in 1971, it was only translated to English in 1979. This delay in translation explains the conflation of various tendencies that elides many of the important nuances and differences that exist between dependency authors. My goal here is not to elaborate on all of these nuances, an endeavour already undertaken by authors like Kay (1989), but simply to locate my own argument by highlighting the debates that have theorized the role of class agency—especially of the capitalist classes—in development.

<sup>26</sup> One could be tempted to conclude that Cardoso was in fact really in favour of capitalist development since he supported a policy that contributed to just that when he became president of Brazil in the 1990s.

national markets. It was a trap that placed and maintained peripheries in an underdeveloped situation since colonization.

According to Frank (1971), the “native” bourgeoisie in underdeveloped countries grew up in a dependent situation and is in fact a “lumpen-bourgeoisie” that has reacted to the different evolutions of the world market in ways that, in every period, further strengthened dependency. Nonetheless, he rejected the misinterpretation of his ideas that presented the situation of dependency as being solely imposed from abroad by external forces. Instead, he insisted that international capitalism had created class structures within under-developed countries through which capitalists, by defending their interests, ended-up deepening the relation of dependency even when they supported inward-looking development policies, such as the ones promoted by the structuralists and some dependency writers working for ECLA. This is why he used the term “lumpen-development” to describe the development policies that “native” capitalists promoted for their country.

Andre Gunder Frank defended his position through historical demonstration rather than theoretical argument.<sup>27</sup> He engaged in the periodization of Latin America since colonization and outlined how the Latin American “lumpen-bourgeoisies” made choices that were conducive to lumpen-development policies for each restructuration of the world economy. His keystone argument was derived from the post-Second World War era. In his view, the 1930s to 1940s did see an industrial push in Latin America, but it was not the result of internal development drives piloted by states, but the result of trade restriction adopted in reaction to the world economic crisis of the 1930s and World War Two. He then showed how the following decades (the 1940s through the 1950s) saw a denationalization of industries and the strengthening of a dependent

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<sup>27</sup> The following paragraphs are mostly based on *Lumpen-bourgeoisie et lumpen-développement* (Frank 1971).

position through Latin America's subordinate reinsertion into the world market. His argument was thus that while industrialization was induced by the 1930s economic crisis and the War, the native bourgeoisie, by defending its own interests, chose to renew its subordination to multinational corporations that were slowly absorbing assets and profits worldwide.

This debate between Cardoso-Faletto and Frank illustrates the theoretical concerns about the role of class in development. To what extent could the perpetuation of underdevelopment be explained by purely economic determinants? Was there a possibility that classes, through their agency, contributed to development, or were they condemned to reproduce existing hierarchies?

These questions were tackled through a very influential debate about the nature of capitalism and the role of class in the transition to capitalism that is worth revisiting to locate the role of class agency in development. In this debate, Frank was opposed first by Ernesto Laclau and Robert Brenner, then eventually by Ellen Meiksins Wood, who attacked Frank's definition of capitalism and the role of class within it.

### ***Does Class Really Matter for Development?***

The arguments that Laclau, Brenner, and Meiksins Wood put forward essentially tackled Frank's definition of capitalism, nourishing a long-lasting debate now known as "the mode of production controversy."<sup>28</sup> They accused Frank, and by proxy Paul Sweezy and Immanuel Wallerstein, of

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<sup>28</sup> The mode of production controversy involved different Marxist approaches to the nature of capitalist development and on the specificity of the capitalist mode of production. Given the object of the debate, it revolved to a large extent around the transition from feudalism to capitalism. In its earlier version (taking place during the 1950s), it opposed Paul Sweezy to Maurice Dobb, who debated whether commercialization was the main factor that explained the transition to capitalism, or whether the qualitative transformation of the relations of production was the causal factor. This debate was later summarized in a book edited by Rodney Hilton (1978), and subsequently sparked a new debate, engaging historians from a wider range of

adopting a neo-Smithian perspective, for which capitalism emerges naturally from the expansion of trade and the division of labour, rather than a Marxist approach, for which class struggle is central to explaining the emergence of capitalism (Brenner 1977).<sup>29</sup>

Before coming to the substance of the critique, it should first be recalled that dependency theorists' common objective was to understand the causes of underdevelopment. Pursuing this goal, dependency authors placed some of the onus, in different degrees depending on the writer, on the kind of relationship that underdeveloped countries entertained with the world market. They shared a common understanding suggesting that peripheries, as they take part in world exchanges, transferred surplus to the centres in a way that prevented the local accumulation of capital necessary to become competitive with respect to the centres.<sup>30</sup>

However, Frank scarcely defined capitalism. Ernesto Laclau,<sup>31</sup> who wrote the stringent critique of Frank that inspired Brenner's,<sup>32</sup> noted this vagueness but endeavoured to recollect a definition of capitalism from Franks' writing, and concluded that it was a profit-driven system of

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perspectives, which came to be known as the Brenner debate. This renewed dispute was subsequently taken up in a book edited by Trevor Aston and C.H.E. Philpin (1985).

<sup>29</sup> Despite only focusing on Andre Gunder Frank, the origins of his thoughts in Sweezy's work and their continuation in Wallerstein's world-systems theory, Brenner extended his critique to the whole dependency approach when he wrote that the failure to properly transcend economic determinism, a failure that constituted the core of his critique, is common to "the whole tradition of which [Frank] is a part—including Sweezy and Wallerstein among others" (Brenner 1977, 92). Ellen Meiksins Wood, who along with Brenner was a representative of the 'political Marxist' theoretical stream, supported this critique. In her book dedicated to investigating the origin of capitalism, she criticizes the "'world systems' theory, especially where it intersects with 'dependency' theory" (Meiksins Wood 2002, 18), for reproducing the "commercialization model," or her way of referring to Brenner's critique of neo-Smithian Marxism.

<sup>30</sup> In the latter part of his life, a part that he himself qualifies as 'Frank II', Andre Gunder Frank abandons the idea of differentiating modes of production to rather insist on the unity of the development of a world system. Cristóbal Kay (2011) produced a good account of this transition.

<sup>31</sup> I also discuss some of Ernesto Laclau's argument in chapter 1, in the section on populism. However, the range of arguments, one about populism and the identity formation necessary for political communities, and the other about the correct Marxist definition of capitalism, is wide enough that it is unnecessary to link the two.

<sup>32</sup> Brenner (1977, 33) explicitly recognizes his debt to Laclau.

production for the market where profit was realized for the benefit of someone other than the direct producer (Laclau 1971, 24–25). The vagueness of this definition sparked Laclau’s and Brenner’s critique because, despite Frank’s political identification with Karl Marx, it missed Marx’s main contribution to the understanding of capitalism: defining it as a system that is not only characterized by market circulation, and the appropriation of surplus by “somebody else” other than the producer, but by the particular form of surplus appropriation that occurs in the process of economic production itself. Laclau meant that Frank’s definition was so vague that capitalism lost its specificity, encompassing slavery and vassalage as much as wage labour. Marx defined capitalism as a mode of production that differs from its predecessors by the kind of relations of production it reproduces. It requires the separation of the direct producers from their means of production, in such a way that they are free to sell their labour-power on the market, but constrained to sell it in order to survive. Those elements are not present under slavery, vassalage, or feudalism.

Moreover, free labour meant liberating peasants from their ties to the land, and eventually also meant the commodification of land itself. The commodification of land is also essential to allow for its exchange, and the possibility of increasing plot size by acquisition. Both the commodification of land and labour are, therefore, the two essential characteristics of capitalism.

This discussion is important for understanding how social property relations created the conditions for production that eventually led to the kinds of results that would differentiate capitalism from other modes of production:

What therefore accounts for capitalist economic development is that the class (property/surplus extraction) structure of the *economy as a whole* determines that the reproduction carried out by its component ‘units’ is dependent upon their ability to

increase their production (accumulate) and thereby develop their forces of production, in order to increase the productivity of labour and so cheapen their commodities. (Brenner 1977, 32)

This debate sets the conditions for a proper understanding of the differences between capitalist and non-capitalist production in a way that grasps the social mechanisms that *can* produce, under capitalism, social pressure on individuals to increase productivity.

However, political Marxists do not address one of the main questions raised by dependency theorists, which is less related to the historical roots of capitalism, and more to the current problem of underdeveloped economies: How to explain why countries with a generalized commodification of land and labour do not produce the kind of compulsion for reinvestment in the improvement of the means of production that would allow them to achieve the productivity of the first capitalist countries, now the world capitalist cores?

Brenner's critique nonetheless opens up some reflections that can contribute to improving our understanding of class and capitalism in underdeveloped countries. If capitalism is defined by the kind of relation of production it relies upon, then a dualist, and even a pluralist perspective should be maintained. Some social formations, despite the fact that they interact with a capitalist-dominated world market, may not be fully capitalist yet, while others are. It suggests that the investigative focus must be on the local context of each social formation to better understand the qualitative form of local social property relations.

Although dependency generally rejects dualism (Kay 1989, 18–19), or the idea that while some social formations are capitalists, others are not, there is a middle ground where dependency can meet Brenner's point here. Dependency scholars rejected dualism as they argued that capitalist development in the core was also the cause of the peripheries' underdevelopment, and both development and underdevelopment were therefore part of a single process. Despite a

unitary world economy, this approach still contrasted the realities of centres and peripheries. Although in most dependency writings underdevelopment was not equated with pre-capitalism, it still described a specific form of development that differed from the centre's dynamic. Underdevelopment represented a situation in which land and labour were commodified, and the market was an imperative for the economy as a whole, but the dynamic of constant re-investment was unable to compete with the developed (or advanced) capitalist countries in revolutionizing the means of production.

This discussion makes room for categories that are not limited to just capitalism or pre-capitalism, but a variety of situations of underdevelopment. These are situations where, despite the commodification of land and labour, and despite the presence of market compulsion, profits may not necessarily be reinvested in the rapid improvement of the means of production (but could be sent abroad, spent on luxury consumption, used in politics to secure domestic or regional markets, invested in means to protect access to rent...), while still following capitalist logic. Underdeveloped societies, though not in a condition that allows them, in most sectors, to develop new technologies, might still experience internal competition for market shares or access to natural and extractive resources and rent. The wedge is instead placed between a *market driven society*—a society where markets enforce a competitive dynamic to constantly improve the means of production—and a *market dominated society*—where markets are defining society, but without bringing about the same kind of dynamism.<sup>33</sup> This differentiation appears especially

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<sup>33</sup> This distinction originates from Fernando Coronil (1997), who distinguishes between market organized as opposed to market dominated societies:

Dominant interpretations of industrializing third-world nations tend to forget that these societies are market dominated but not market organized. They therefore assume that economic and political interests are organized in terms of an idealized model of capitalist rationality and deduce from this model the constitution of social agents as well as the state policy. (Coronil 1997, 318)



compelling since the cutting edge competition for the improvement of the means of production happens necessarily at the apex of production, where the centralization of resources allow for research and development.

This discussion brings us back to one of the central questions of development: how to sustain the transition from a market dominated to a market driven society. Alexander Gerschenkron's (1962) argument regarding the increasing gap dividing industrialized countries from others made it clear that the conditions for participating in the improvement of the means of production was increasingly difficult as time went by. He suggested that the later a country industrialized in chronological history, the greater was the state economic intervention needed to manage the kind of investments required to acquire increasingly capital intensive productive technologies. This aphorism was revisited by Alice Amsden (2001), who argued that given the kind of technological innovations required for competing, state intervention was not only required, but it needed to take a very different shape. Moreover, state intervention alone was unlikely to be a sufficient condition for countries to become and remain competitive in international terms. It might work for the frontrunners (the advanced capitalist countries, previously referred to as the centres, the metropolises) or the immediately following *peloton* (the rest—otherwise often called the semi-peripheries, for instance today's BRICS), but it was certainly insufficient for those countries lagging behind (the remainders—known as the peripheries). According to this perspective, if the semi-peripheries wanted a chance to catch-up, or to become market driven rather than market dominated, it would have to involve a complex alliance between multinational capital, national capital and the state to develop niche production

and open new markets for the country's exports.<sup>34</sup> For the remainders, which include both cases in our study, industrialization was likely to be foreign-controlled, or made possible through the acquisition of foreign technology. The rest and the remainders were market dominated countries (rather than market driven), and their development dynamics depended even more on class struggle between the state, multinationals, and the domestic popular and capitalist classes. On this matter, some dependency theorists, and especially Cardoso and Faletto, offered helpful theoretical tools that have stood their ground against the all-encompassing political Marxist critique of dependency and world-systems theories.

These tools are even compatible with a second aspect of Brenner's reflection. Brenner elaborated a critique directed at Wallerstein, for whom the mode of production of each particular location was in fact a choice made by the exploiting class (preferring slavery over free labour, or the opposite) according to which form of surplus extraction they deemed the most advantageous for them. Brenner showed that capitalist "development is inexplicable as the result of ruling-class policy or ruling-class intention, but was the outcome of processes of class formation, rooted in class conflict" (Brenner 1977, 78). A correct historical understanding of capitalism thus must not depict it as a conscious choice made by rulers. It is, rather, the unintentional consequence of class struggle.

This opened the way for the distinction to be made between two dimensions of class, each with its very specific relevance. According to the first dimension, which I will refer to as the *agency moment* of class, the political struggle of different classes and their actions, induced by their position with respect to the means of production, was at the centre of the transition to capitalism. In Brenner's depiction of the transition to capitalism, landlords won a peculiar form

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<sup>34</sup> This kind of alliance between multinational capital, domestic capital and the state for the Brazilian case has been studied by Peter Evans (1979).

of protection for their land rights that took the form of private property, while peasants, by their struggles, won their freedom from their ties to the land. The political agency of the various classes was central as they fought to overcome the constraints that existing relations to property exerted on them. However, their struggle changed these relations in unexpected ways. This aspect of class analysis is particularly important for understanding the transformations that are the object of development studies: the struggles that affect social property relations and influence the whole structure of a society.

The second dimension to class analysis in Brenner's critique of Frank was a *structural moment*, especially powerful under capitalism, wherein the determinations of the mode of production tended to push each individual to reproduce his or her position in the social system and, therefore, the system as a whole. In this second moment, there is little autonomous agency since the existence of class accounted for the reproduction of a system, independently of any active volition.

The conflation of these two moments is often what makes the conceptualization of class impossible. It leads to a perspective where being perfectly exploited means being perfectly revolutionary, or being perfectly capitalist means acting in the best interests of capitalist reproduction as a whole; and as this portrait hardly corresponds to any reality, the babies go down the drain with the filthy bathwater and class is abandoned as a theoretical category.

This confusion is especially unfortunate in market dominated countries where the specific struggle around production and social property relations is also defined by another set of tensions between the will of certain class agents who wish to reproduce the model that advanced capitalist cores offer and the desire of others to create an original endogenous economic dynamic. When the institutionalized practices for capitalist growth are not as well entrenched as in advanced

capitalist countries, and the development model does not even deliver on its promises of technological advancement, growth and redistribution, the conflict of organized agents to redefine institutions is likely to have an even greater impact.

### **The Importance of Class**

The previous sections bring attention to some of the early debates pertaining to the analysis of class in the process of development, which I will build upon to elaborate a conception of class more appropriate to this thesis.

Marx was rather clear about the need to study the different classes as political agents through their struggles, and not merely according to their economic position. He proposed a relational approach to class. He wrote in *The German Ideology*: “The separate individuals form a class *only insofar as they have to carry a common battle against another class*; in other respects, they are on hostile terms with each other as competitors” (Marx and Engels 1974, 89). Marx insisted that the structural determinations of the economy do not create classes; and especially not the capitalist economy, since it atomizes individuals. Workers compete for the same jobs, and capitalists for market shares, and so on. Marx similarly wrote about the peasants:

Insofar as millions of families live under conditions of existence that separate their mode of life, their interests, and their culture from those of the other classes, and put them in hostile opposition to the latter, they form a class. Insofar as there is merely a local interconnection among these small-holding peasants, and the identity of their interests forms *no community, no national bond, and no political organization among them, they do not constitute a class.* (Marx 1976, 107 emphasis is mine)

Here, Marx insists on the role that forming a community, a political group plays in constituting a class. The form of this organization is not, however, specified. It can be anything that pushes individuals to act collectively in opposition to another class, and can even sometimes adopt a

national form. Classes only happen through a double relational character: When a movement unifies individuals that share a common set of conditions of existence on the one hand, and does so through a relation of opposition to another class or other classes on the other.

From this perspective, what matters for the study of class is the process of collective organization in the political struggle between classes that gives meaning to this struggle. The process of class struggle and of class formation is relational. As Edward Palmer Thompson would put it: “classes do not exist as separate entities, look around, find an enemy class, and then start to struggle” (Thompson 1978, 149). The process of class formation, and the changing balance of power and its evolution over time, acquires a particularly visible expression when alliances and confrontations take place. Class is thus the phenomenon of convergence and alliance between several individuals and organizations in struggles opposing them to another class or classes.

It is in this context that Cardoso and Faletto’s position, which describes development as the result of a class struggle, can prove useful. In the dynamic of underdevelopment, the market imperative is already present, but the reinvestment of surpluses in the competitive struggle does not automatically lead to technological advancement (creating market dominated rather than market driven economies). Rather, different class struggles and alliances take shape in projects that seek to preserve profits, wages and rent, to catch up with developed countries by fostering a competitive capitalist dynamic, or to move towards developing an alternative model—socialist or not—based on another endogenous model inspired by local conditions and actors. These alliances and struggles produce, like in Brenner’s presentation of the transition from feudalism to capitalism, unintended consequences that have an impact on the ensuing economic, social and political situation.

Beginning the analysis from class agency, movements, and struggles to understand class relations does not imply the abandonment of all articulations between class movements and their economic position and conditions. Ernesto Laclau and Chantal Mouffe (2001) have pioneered an attempt at severing all ties between the politics of protest and economic conditions by locating social antagonism at the discursive level, wherein relationships of opposition take place between identities, or between logics of equivalence and logics of difference, leading to a competition for hegemony. Their approach, guided by a desire to avoid deterministic ties to economic conditions, suggests that support for socialism does not depend on economically defined categories of the population. Abandoning the notion of class altogether, the authors end-up adopting an identity-based perspective where the main relation, like under populism, excludes the agency of capitalist classes in forging identities.

Abandoning the primacy of the economy as the ultimate social determinant can lead to a very different path. Rejecting economic determinism does not mean that there are no links between agents of social change and the economic organization of society. A good way to conceive the liaison without turning it into a mechanistic determination is by linking class to social property relations rather than relations of production. It is because they have to sell their labour or the little they can produce in the household that the popular sector is opposed to those who buy labour and can produce with cheaper costs. An example can help us see the advantages of focusing on social property relations. In analysing the owner-worker relationship in the countryside, Frank suggested that “a single worker is simultaneously (i) owner of his own land and house, (ii) sharecropper on another’s land... (iii) tenant on a third’s land, (iv) wage worker during harvest time on one of these lands, and (v) independent trader of his own home produced commodities” (Frank 1979, 247–48). The same applies to wage workers, whose increasing

precarity under capitalism leads scholars to discard the relevance of class due to their “fragmentation” (Touraine 1988).

The difficulty of encompassing such fragmented conditions in simple categories related to production, and to understand how they result (or not) in political movements, stems from the insistence on relations of production to identify classes instead of focusing on the social property relations that characterize capitalism. If capitalism is defined by the commodification of land and labour that forces actors to rely on the market for their own reproduction—transforming the market from an opportunity into an obligation—then that is also what should orient our understanding of what creates the economic experience on which classes build themselves under capitalism. The approach based on structural determination that I want to overcome here is built on the conception that the relations of production in each particular production site is what fosters class organization. I suggest, along Frank’s line quoted earlier, that the experience of exploitation is much wider and includes not only exploitation on the work site, but also the fact of being excluded from work, or forced into the labour market from a communal land, as well as the resulting living conditions.

Acknowledging the necessity of considering more varied living conditions in the study of social classes is what led Philip Oxnorth (1998) to suggest the use of the concept *popular sector* instead of the working class to encompass the wide-ranging conditions that are experienced by the concerned people (see chapter one). It is appropriate to define the group of people who are bound to sell their labour in order to reproduce their existence by the concept of *popular sector*. Moreover, I suggest, following Marx’s quotes above, that this economic condition divides people as much as it can potentially unite them. Therefore, if the popular sector points to the people that share an economic condition, a part of this sector becomes a *class* when they unite in a struggle

opposing them to other classes that are differently located *vis-à-vis* the existing social property relations. Class conflict, when it happens, will eventually unite a substantial segment of the popular sector into a popular class, and make visible the contrasting conditions dividing those who are bound to sell their labour on the market (formal or informal) to access the means of their reproduction (or those who refuse to do so) from those who have the possibility to buy labour and to put it into action to extract a surplus from it. The concept of social property relations is thus a better tool to understand the divisions on which classes are built as opposed to the relations of production.

Class, as the political construction of contending agents, is always the moment where the fragmentation resulting from the economic structure is overcome within each camp. As Meiksins Wood (1995) puts it:

The concept of class as relationship and process stresses that objective relations to means of production are significant because they establish antagonisms and generate conflicts and struggles; that the conflicts and struggles shape social experience “in class ways” even when they do not express themselves in class consciousness or in clearly visible formations; and that over time, we can discern how these relationships impose their logic, their pattern, on social processes. (82)

Meiksins Wood clearly expresses that it is the process of struggle that shapes the social experience in class ways, and that although related to the means of production, it is the conflict that makes visible the logic of class division. Classes are thus the result of a process of alliance and consolidation, of articulation and convergence developed in a context of struggle in relation to prevalent social property relations.<sup>35</sup> Through the process of struggle, convergences are

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<sup>35</sup> The reference to the means of production in the quote seems contradictory with respect to the concern that I raise regarding the need to define classes by social property relations instead of the relations of production. In fact, it is not, since social property relations are what define access to the means of production and the way in which property allows specific relations of production to take place.



formed, organizations are built, and coalitions emerge in each camp of the tug-of-war where economic relationship would otherwise leave fragmented and atomized individuals. According to Thompson, the class formation of workers can contribute to strengthening a process of class formation of the capitalist classes: “This ruling class was itself much divided, and in fact only gained in cohesion over the same years because certain antagonisms were resolved (or faded into relative insignificance) in the face of an insurgent working class” (2001, 5). The struggle appears here as a catalyst to class formation. It is in this very sense that one can understand how Thompson presents class struggle as the first moment, while “Class and class-consciousness are always the last, not the first, stage in the historical process” (1978, 149).

That is not to say that all struggles are class struggles, nor that the only struggles that matter are related to an economic condition or the workplace. Yet class struggles have taken place, are still taking place, and there is still a tendency for important conflicts to be caused by divisions resulting from social property relations. They can express themselves through political issues or simply on broader issues of wealth distribution. The main development tendencies, however, result from class struggle, or the conflicts that, under capitalism, oppose those who are in a position to buy labour-power to those who only have their labour to sell, or its immediate product to sell, in order to survive.

Shifting the understanding of class by relating them to social property relations instead of the relations of production also highlight the specific role that rent plays in affecting class forces. Unlike the wage paid for labour and the profit taken from managing production, rent is a category of income that is derived only from property, without any specific contribution to production, but which can, especially given the importance of the exchange value of extractive resources, generate an important degree of power. The variation of rent can result from a mere

shifting of ownership, but nonetheless dramatically change the power relationship between different classes and the state. Whether resources generating rent are privately owned or property of the state can have an important impact on class struggles. Rent can allow a landowning class to play a significant role in class conflict. Rent, especially in the cases of Venezuela and Ecuador, where property rights over extractive resources has played an important role in the construction of the state, becomes crucial. As Fernando Coronil puts it, fully integrating property rights over land in the dialectic opposing labour and capital “helps us see the landlord state as an independent economic agent rather than as an exclusively political actor structurally dependent on capital...” (1997, 8).

Adopting such a position towards the issue of class also makes it possible to maintain a more analytical stance in relation to development. Numerous debates in the field, including within the dependency school, attempted to define class from an economic standpoint in hopes of identifying the class most likely to produce successful capitalist development, or else to overcome it (Kay 1989, 19–20). The difficulties of actually implementing these prescriptive approaches, or the fact that the designated class did not fulfill its “destiny” by itself, certainly nourished the detractors of class perspectives and the retreat of this concept for the analysis of Latin America.

### **Overstretching Social Classes to the Point of Tearing them Off: Touraine and Others**

While the concept of class was commonly used in the field of development studies over the 1970s, notably to discuss which class was the most likely to produce development, either by fostering capitalism or fighting against it (Kay 1989, 19–20), it was left aside in the 1980s for

reasons that are worth exploring in more detail. I will argue that apart from historical reasons,<sup>36</sup> some theoretical issues were also at stake, and are related to the over-emphasis on the structural determination of classes.

Already in the early 1970s, an important conference with world-renowned theoreticians on class from both Europe and Latin America took place in Mérida, Mexico to discuss the issue.<sup>37</sup> In the proceedings, Fernando Enrique Cardoso (1977a) levelled a harsh critique of the French Althusserian tradition regarding class analysis, which despite not being explicitly directed against Alain Touraine, is nonetheless particularly relevant to a critique of his perspective. Touraine is important for the current discussion since he worked on three fields that intersect with the current study: development studies (sociology), class analysis, and Latin American studies. Nevertheless, his approach to class is the epitome of a situation where theoretical dead-ends led to the abandonment of class as an analytical tool entirely. According to Pablo Andrade (2009a, 98–102), Touraine’s great influence explained why scholars in Ecuador departed from class analysis to focus on social movements in the 1980s.

Touraine’s theoretical efforts on class and development were originally founded upon a double dialectic, a twofold dynamic that mirrors the structure/agency tension presented above. According to him, classes were, on the one hand, groups of actors that defended the position they occupied within a given structure by attempting to maintain and improve their conditions. In this

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<sup>36</sup> Ralph Miliband (1985) and Ellen Meiksins Wood (1998) suggested some socio-political conditions that contributed to pushing class analysis away: the victories of the capitalist classes in their war against labour under Thatcher and Reagan in the core capitalist countries, and the disappointment produced by experiences of real socialism in USSR, China and Eastern Europe; yet very few of the motives they discuss are directly related to Latin America.

<sup>37</sup> Among these, Alain Touraine, Nicos Poulantzas, Fernando Enrique Cardoso, Manuel Castells, Rodolfo Stavenhagen, and Florestan Fernandes, to name but a few. The proceedings are extensive as they include the comments in reaction to the authors’ presentations, and their answers (Benítez Zenteno 1977).

context, the class paradigm captures the synchronic moment of opposition between a dominant and a dominated class, the contradiction that unfolds at every moment of the daily activities of production. This first moment is akin to the structural moment of class described above. On the other hand, classes attempt to mould the structure to their aspirations, and are better represented by the opposition between a ruling class and a 'contestatory' class. Here, their action is diachronic, since it concerns the transformation (development) of a social system, and does not happen on a continuous basis, but rather in jolts. In this case, classes are agents of history.

Touraine attempted to maintain the congruence between these two sides of the dialectic in a way that made it difficult to study social classes in practice. Whereas the French Althusserian tradition gave primacy to the economic sphere to define social classes, Touraine aspired to discover the correspondence between the synchronic and the diachronic moments by starting from the observation of social movements as the phenomenal appearance in the real-concrete of groups that are determined by their position *vis-à-vis* production. But not all social movements are class movements. Since social classes cannot be reduced to social movements, social scientists need to rely on a process of abstraction to identify classes. In this way, class becomes a sociographic rather than a social reality.

Pressed during the Mérida conference to resolve this tension between the expression of classes as social movements and class existence as synchronic relationship of domination happening in production, Alain Touraine underlined that social classes "are [an] analytical instrument, and they are not about real groups" (Benítez Zenteno 1977, 325). Touraine's approach finally arrived at a position that Cardoso critiqued so well. By describing classes as sociographic realities, this perspective created formal definitions that became objects of knowledge entirely separated from real objects. They entered into a relationship with other

objects of knowledge under conditions increasingly foreign to the social reality they represent. This is, as Cardoso (1977a) argued, a way of producing what Marx identified as fetishism: previous relationships between men are projected on things (here those things are concepts) which then formally interact autonomously.

A few years later, clarifying his thoughts on the sociology of development, Touraine (1976, 9–13) eventually resolved the issue by completely displacing the concept of class in his analysis. According to him, the sociology of development was in fact a paradox: while sociology was a study of social structures and systems, or synchronicity, development was concerned with transformation and diachronic analysis. An approach to systematize the study of the transformation of society—or what is encapsulated in the expression development sociology— could not be but deterministic and evolutionist.

Consequently, he slowly separated the study of class, associated with structure, from the study of agents, better captured as masses or movements. Sidelining class in his studies on development,<sup>38</sup> he pursued his approach by focusing on the state (Touraine 1988, 50–97). Indeed, the transformation of structures as the result of development implied changes in classes as they had existed in a given society. Under these conditions, the state was called on to play a key role as the only entity capable of maintaining the continuity of the collective (Touraine 1988, 40–41).

This is unfortunate, since Touraine’s initial methodological propositions on the way class could be apprehended were in fact extremely perceptive. In his earlier work, he suggested

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<sup>38</sup> If he does maintain a certain interest for class, it is to maintain the importance that sociology gives to the study of the influence of social structure on political behaviour, only to later explain that the segmentation of classes in Latin America is so important that the influence is eventually diffused to the point where “all the most foreign to Latin American reality is the idea that there exists a polarization of society opposing antagonistic classes” (Touraine 1988, 86–87).

looking at “the opposition of two social movements where each one unites [...] the consciousness of class opposition, and where the opposition is defined by each side in complementary terms” (Touraine 1977, 28–29). This way of defining class, that is, through oppositional discourses, is very insightful since it requires that class discourse be in fact a dialogue between classes around a common object (a term or an institution), which is defined in contradictory terms by each side of the opposition (Touraine 1977, 33–35).<sup>39</sup> Unfortunately, his later jettisoning of class as an analytical tool for understanding development also did away with the promise of the approach, particularly its capacity to incorporate an understanding of the relational character of class.

To be sure, a focus on the state can also lead to very interesting research. For instance, Peter Evans’ *Embedded Autonomy* (1995) offered a compelling example of a state-centered perspective. It presented the state as the primary actor of development, or rather, chose to study changes through the lens of its influence. To explain his perspective, he says: “Whether the focus is on society or within the state, the central methodological precept of a comparative institutional approach is to ground assertions of institutional effects in the analysis of the actions of specific groups and organizations” (Evans 1995, 19). The groups and organizations referred to are the recipients of institutional influence who are essentially the source of information about the influence of institutions on them.

However, an important issue arises with state-centred institutionalist perspectives when the time comes to explain deep institutional change. With our cases, Venezuela and Ecuador, the issue is precisely how to explain the transformation of the state itself, and the subsequent

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<sup>39</sup> An example of this in our case is the concept of development itself. While it is generally understood by capitalist class organizations as an increase of production and productivity, it is seen by popular class organizations as the improvement of the living conditions.

evolution of their development model. This is where a class-relational approach matters since it does not seek to explain the successes and failures of different policies by studying the policy design, but rather it seeks to understand how policies are received, fought for, or resisted by the agents on which they are applied.

It is precisely to avoid the pitfalls of a state-centred reflection and analysis on development that a class perspective on development is essential. Seeing development as a struggle between social forces prevents its reduction to a mere policy choice by state elites. Reducing development to a set of policy choices tend to discount the social consequences of development decisions. It tends to de-politicize the diverging positions of actors engaged in the struggle for development who are merely conceived as equivalent stakeholders, without fundamental antagonism opposing them to one another. Adopting a class perspective maintains vivid in the analysis the tensions that show how state actions are as much the cause of class conflicts as its result.

### **The Return of Class and the Development Model**

While the concept of class lost most of its theoretical appeal over the 1980s and the 1990s in development studies, the concept regained some ground at the turn of the millennium. Vivek Chibber stands out among the scholars who brought class back to the forefront of reflections on development. In his comparative study of the Korean and Indian development paths, he shows how comparing the relationship between the state and the capitalist class is essential to understanding the diverging results of their development policy.

According to Chibber (2003), in the aftermath of the Second World War, there was consensus among state elites of both countries on the need for state intervention to foster

industrialization and diversified growth. However, while Korea was able to turn its import substitution industrialization (ISI) model into an export-led industrialization model (ELI), India was not able to transition from one model to another. The innovation/strength of Chibber's account lies in its appreciation of class pressures to explain the difference. He shows that in India, a shift in development model similar to Korea was attempted, but it faced the opposition of the domestic business class who, through a "massive and coordinated offensive" (Chibber 2003, 127), derailed planning to prevent its disciplinary aspect. Moreover, Chibber suggests that the Indian state could have been successful in implementing a disciplinary model, but to do so it would have required the support of the working class in order to have some leverage *vis-à-vis* the capitalist class. On the contrary, the Congress party leading the government at the time had, for other reasons, actively demobilized the labour movement (Chibber 2003, 110–26) .

Chibber's approach is especially important because it undermines one of the main arguments used to explain the Korean developmental state.<sup>40</sup> According to state-centered arguments, the combination of state autonomy resulting from significant financial resources, and state capacity resulting from the quality of its bureaucracy, provided the Korean state with tools to discipline business (Chibber 2005b). This argument is of special relevance for us since in Venezuela and Ecuador, where the state has extensive access to extractive rent, it had the financial autonomy to discipline business and foster growth. However, Chibber argues that this

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<sup>40</sup> Paul Cammack (2007) wrote an energetic critique of Chibber's book that defended institutionalist views on development. Although Cammack is convincing when he criticizes Chibber's weaknesses with regard to empirical demonstrations of the classes he refers to, the spirit of Cammack's critique misses the point. Chibber criticizes the institutionalist approaches for their focus on the state, which by always taking the state as the centre of their analysis, do not put sufficient emphasis on how much state power is constituted through its relationships. The balance of class forces that makes the state is always changing, and the state is constantly confronted with active agents. It is this epistemological choice of displacing the focus towards the interaction of state policies with class forces that makes Chibber's argument interesting. Cammack's critique does not really address this feature so central to Chibber's point.



kind of autonomy is limited in scope, since the state's financial autonomy is only significant when financial support is needed, or when capitalists are ready or feel the pressure to commit to investing. This tends to be when the investment climate is deemed sufficiently good. He adds that this power can only be exerted on particular businesses, while capitalists can develop a collective power, a class power, to oppose the development policy to such an extent that investing, even with state support, becomes unattractive (2005b). Moreover, Chibber (2005a) also develops the argument that in some Latin American cases, the reaction of the bourgeoisie to ISI was organized to secure, like in India, subsidies and market protection from the state while actively rejecting the disciplinary part of state planning.

Chibber's argument underlined the importance of capitalists, as a class, in explaining the possible development policies and their effects. It is conducive to elaborate on the concept of *development model*.<sup>41</sup> As mentioned in general terms in the introduction, the concept of development model refers to the interplay between, on the one hand, development programs (e.g. ISI, neoliberal, neostructural), themselves comprising sets of preferred economic, fiscal, and redistributive policies; and, on the other hand, the form (e.g. corporatist, fragmented) that the mediation of interests between the state and the main class organizations takes. In his study of the ISI and ELI models, Chibber described not only development policies; he depicted concurrent class and state relationships that were not only limited to investors and state bureaucrats, but included working and peasant class organizations, whose form of organization and political behaviour were of central importance to understanding the evolution of

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<sup>41</sup> The concept of development model is here used to avoid the concept of developmental regime proposed by Pempel (1998; 1999) and Wylde (2012), since these are active attempts to grant more importance to the international dynamic and to the state, while diminishing the relative importance of the state-society relation in the debate over the developmental state. It is, in a certain respect, the polar opposite of what I adopt here, since I contend that the developmental state literature tends to under-value the influence of class on the state.

development policies. Studying the development model implies looking simultaneously at the relation between classes, and between them and the state, to understand the impact of a development plan.

Judith Teichman (2012) proposed a framework that in many respects inspired the one proposed here. In her comparative historical analysis of the distributional outcomes of development policies in Chile, Mexico, and Korea, she insists on the relational character of social forces. Moreover, she asserted the need to consider the relational character of the state as well, since it is itself the result of interactions of social forces, as much as it influences them in return. She did so by stating the need to start the analysis

from the premise that particular social structures give rise to social forces whose actions, politics, and ideologies shape institutional development. Institutions, in turn, mold social strategies, alliances, and attitudes. Hence whether or not strong, centralized, and efficacious, state institutions develop depends on the strength or weakness an configuration of social forces. (Teichman 2012, 3)

She encapsulates clearly the uninterrupted cycle through which states are formed as a crystallization of social forces that, in return, set the terrain on which social forces later interact, which, eventually, changes the state once again.

Teichman's insistence on the relational character of the state and of social forces allows her to avoid focusing on institutional autonomy, prevalent in several variants of institutionalism. She argues that the focus on institutional autonomy precludes some institutionalists from seeing how social forces are able to influence and manipulate state institutions in cases where the state is more fragmented, like in many Latin American countries (Teichman 2012, 4–5). Nonetheless, Teichman privileged the concept of social forces to that of social classes given that in the cases she studied, some classes were too fragmented, and she needed to include other non-class social forces like the military (Teichman 2012, 6).

I continue to use the concept of social class despite its charged theoretical past because engrained within it and in the debates about it lies the epistemological recognition of the tension that drives development and change, of the relational aspect of power. It reminds us of the challenge of studying societies through the continuous interaction between the economic and the political in relationships of power.

### **The Persistence of Other Approaches to Class**

Despite fading out, the concept of class has continued to be central for many analysts of Latin America. It is appropriate to present some of them in order to clarify how my approach departs from theirs. While David F. Ruccio attempted to more precisely delineate the relationship between economic determinants and political agency, James Petras and Henry Veltmeyer take a much looser approach to class.

In *Development and Globalization, a Marxian Class Analysis*, David F Ruccio (2011) wrote several essays elaborating his non-deterministic approach to Marxism. However, what I reject here as determinism—the assumption that class location with regards to the means of production produces a specific political position—was Ruccio’s anchoring. Indeed, he attempted to define more precisely the particular position of actors in the production process in order to better deduce their interests. To avoid determinism, he relied on the concept of overdetermination, or on the fact that despite the primacy of economic determinations, various factors could influence class agents, and sometimes, political factors become more important than economic ones.

Ruccio’s class analysis focused mostly on the economic process of surplus extraction to determine various class interests. Under capitalism, Ruccio argued, the surplus is produced and

appropriated through “the fundamental class process,” wherein workers are not paid for the whole value of their labour, and owners of the means of production reap the unpaid labour (surplus labour) as profit. This profit is later distributed between different subaltern capitalist classes (bankers, merchants and landlords) through the “subaltern class process.”<sup>42</sup> Ruccio’s method sought to increase the descriptive precision of each particular segment of production to gain a more accurate understanding of the resulting class interests.<sup>43</sup>

Despite a skilful use of Marxist concepts, this approach is prone to producing the kinds of conclusions that led Alain Touraine to set aside class for the study of development: an emphasis on the structural effect of the mode of production on individuals cannot explain its transformation, but only its reproduction. For instance, in his reflection on the Nicaraguan Sandinista revolution, Ruccio focused on the difficulties encountered by the newly socialist state, as it reproduced through its newly nationalized enterprises the fundamental class locations of capitalism. He used this example to illustrate one of the main tensions faced by the revolution, as its involvement in domination through production prevented it from building a stronger socialist alternative.

The argument here is self-contradictory. It cannot explain how regime transformation occurred in the first place, since it cannot result from the action of classes that are, by definition,

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<sup>42</sup> Ruccio’s use of “subaltern” in the “subaltern class process” does not refer to the re-interpretation of Gramsci by a strand of post-colonial studies, known as subaltern studies, where it essentially describes the popular sector in a colonized country (Chibber 2013, 10–19). For Ruccio, the subaltern class process is the one by which the surplus extracted by the real capitalists, the ones owning and overseeing production, is then distributed to the subaltern capitalists (bankers, landlords and merchants).

<sup>43</sup> This kind of approach to class analysis that attempts to increase the descriptive accuracy of the economic position of actors in order to discover the class structure as this “potent and systematic determinant of individual action and social development” represents one of the main tendencies in the study of social classes, one that happens to be the one taken by Erik Olin Wright (1989, 269). The position adopted here rather seeks to understand how classes contribute to the making of history, despite not being in conditions of their own choosing.

reproducing the regime. If said classes, despite reproducing the regime, could nonetheless be overdetermined by other factors and engage in revolutionary change, the fact that the state reproduced capitalist class structures becomes irrelevant. Indeed, the state, just like prior classes, could at the same time have reproduced capitalist relations in state-owned enterprises while still producing other determinations, or have itself been overdetermined in a way that allowed for socialist alternatives to deepen. In other words, if production had entirely determined class behaviour, change would have been impossible.

This kind of caveat explains why the class perspective that I develop here focuses on class organizations and their struggles. While changes in the economy have an influence, the object of this study are the convergences and organizations that both interpret and wage struggles around class.

Preserving precision and rigour is nonetheless important, since a much more open attitude can sometimes produce its own issues, especially when attempting a comparative study that covers several countries at a time. James Petras (1999; 1981; 1978) and Henry Veltmeyer have been among the main observers of Latin America who maintain a class perspective. Their approach contains numerous strengths, most notably for not having shied away from denouncing the increase in inequalities that resulted from policies paradoxically made in the name of diminishing disparities. They proposed a convincing framework to conduct class analysis which combined three aspects: 1) a political economy analysis of the structure of capitalist development; 2) a strategic analysis of the actions taken by classes in response to it; and 3) a need for concreteness: to produce a concrete study of concrete situations. According to them, this method would allow us to take into account both the objective nature of structural forces, and the

subjective and political response to these conditions, or in other words: the dialectical interplay of the objective and the subjective (Petras and Veltmeyer 2009, 10; 32-33).

While this framework is convincing, their use of a class perspective can nonetheless be confusing, at times. For instance, right at the beginning of the first chapter of one of their books on left-leaning governments in Latin American, one finds the following:

Hegemonic leadership over vast sectors of the lower middle class, urban and rural poor oscillates between the downwardly mobile proletariat, organized public employees, peasantry, and in some cases, the urban unemployed, and organized agro-export elites, financial and mineral-based multinationals led by big business backed radical right-wing middle class demagogues. (Petras and Veltmeyer 2009, 3)

This loose approach to class makes it difficult to grasp the concepts at stake. It starts with the concept of lower middle class, which suggests that classes correspond to an economic strata divided by an amount of wealth. It seems to be confirmed in the quote by reference to the urban and rural poor, but it is then followed by a description of its components where the downwardly mobile proletariat appears to be attached to a location with regards to the means of production. It is however distinguished from organized public employees, where the fact that they are politically organized plays a role in defining them as a class. Nonetheless, the paragraph ends-up with a reference to the middle class demagogues which, being the voice of big business, makes the reader wonder why they would belong to the middle class when they are spokespersons for big business.

The vagueness of their concept of class, as classes are sometimes actors whose interests are defined by their position with regards to the means of production, sometimes social strata

divided by the amount of wealth they own, and yet other times political agents defined by their actions categorized according to a left-to-right scale, is confusing.<sup>44</sup>

The pitfalls of both these positions contribute to clarifying the definition of class and the angle that I will adopt. Classes are the collective movements that result from the convergence created by social organizations (peasant associations, worker unions, urban dwellers councils, etc. on the popular side; chamber of commerce, industry, agriculture, etc. on the capitalist side) that unite people according to their shared position with regards to social property relations, and in opposition to another class or classes. Following this perspective, classes are distinct from the simple economic positioning of actors: they are the political organization built upon this common positioning. I argue that being so gives them a central role in influencing the development model. The *popular sector* refers to a category of the population who experience similar economic conditions, like having to sell their labour-power or the little they produce in the household. The popular sector therefore encompasses workers in the formal and the informal sector, as well as peasants. Similarly, the term *capitalists* used alone describe the investors or the actual owners of capital. By contrast, *class* refers to the broad political unification of various portions of this sector into a movement or a centralized organization. It can encompass several

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<sup>44</sup> Their conceptual vagueness is also reproduced in some of their empirical studies. In a great part of Chapter 2, they criticize the new left for the meagre redistributive effects of their policies. They include Bolivia and Ecuador in their analysis, despite the fact that their data sets finish at the latest in 2007, respectively the second and first year of the left governments in said countries, obviously too soon to draw the drastic conclusion that they do. Moreover, they sometimes criticize the lack of social spending of said governments, while noticing at the same time that according to their data (taken from the IMF that they otherwise despise), it generally benefits the wealthy rather than the poor. It brings to mind a Woody Allen joke where two tenants of a seniors' home complain about the quality of the food at the cafeteria. Once the first has complained about the low quality and bad taste of the food, the second adds: —But even worse! The portions are too small.

class organizations (labour unions and peasant organizations), and being so I tend to use *popular class* and *capitalist class* in the singular to point to the moments of unification.

This emphasis on the construction of collective class agency avoids the problem of explaining why exploited workers are not revolutionary. What matters is not what they ought to be, but what they do. It also underlines the importance of capitalist class agency, which is not always directed to, nor results in economic growth. As Leo Panitch and Sam Gindin put it, an effort should be made to avoid the “misleading tendency to treat capital as a coherent and self-conscious actor, attributing to it interests that are derived from abstract logics of capital accumulation” (Panitch and Gindin 2014, 7).<sup>45</sup> Not granting an *a priori* logic to capitalists as a class to defend the best policy for growth and development does not mean that they are not under the pressure of market competition. But as a class, and through their political organizations and

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<sup>45</sup> Claus Offe and Helmut Wiesensthal (1980) developed a compelling argument identifying contrasting logics of collective actions for labour and capital given their structurally different position in a capitalist societies. It would therefore be a mistake to equate them both as “interest groups”. I agree that the conditions of workers in a capitalist society make their association more difficult and more necessary in order to advance their interests, while capitalists also command other forms of collective action, like the firm itself, and capital, that provides other sources of power in class struggles. However, Offe and Wiesensthal conclude on the lower relevance of business interest groups because “once the institutionalized practice of capitalism is firmly established, there is no longer any functional need for capitalists to clarify for themselves what type of society and particular social institutions they want to have” (Offe and Wiesensthal 1980, 103–4). I disagree on this point, because even in advanced capitalist societies, the cyclical crises and the constant revolution of production requires a continuous adjustment of institutions, which demands the mobilization (or demobilization) of capitalists to accept them. Indeed, Bob Jessop (1983) argued that the tensions between different factions of organized capitalist interests blocked the resolution of the 1930s crisis in Germany, and it was only “the destruction of many of the private, autonomous organs of representation of capital” (Jessop 1983, 152) that made possible the overcoming of the crisis. Therefore, the logic of some organized capitalists should not be conflated with the logic of the reproduction of capitalism as a whole. Moreover as our case studies are located within societies where the institutions for capitalist reproduction are intensively debated, the actions of organized business interests are even more critical for understanding the evolution of capital in general.



actions, they can very well push for policies that do not produce growth, or even result in an increase in their profits.

As the main agents of development, classes are the experience of struggle by real agents facing objective conditions. I will therefore study classes through their movements, paying specific attention to the visible form they take when, as suggested by Touraine, they enter in a contentious dialogue by giving radically opposite meanings to the same concepts or situations. Studying classes means also studying their interactions with institutions, as they both define and are defined by them. To put it in other terms, I keep in perspective the way in which the economic system influences both the conditions and capacity of class organizations. It is in this sense that I agree with Panitch and Gindin:

Classes must [...] be conceived as real collectivities whose changing formation based on common experiences and activities can be traced historically. One of historical materialism's central concerns must be to investigate the changing capacities of classes to express their identity and interests over time, and the effects this has on the relative balance of class power. (Panitch and Gindin 2014, 7)

### **Conclusion**

This overview of debates on class brings us back to my original concern. Discussions of class in Latin America have historically tended—and debates surrounding the pink tide are no exception—to deduce capitalist class political positions from their economic location, and to presume that capitalists always make the appropriate decisions for the reproduction of the capitalist system as a whole. This kind of assumption is being shaken by the election of left-leaning governments, especially when capitalist class reactions to left-wing reforms have caused economic crises affecting their own businesses.

The overview presented here has made a specific effort to retrieve, through different debates on class, an adequate way to conceive of class as the political convergence of people and organizations built upon shared economic conditions, in a struggle opposing them to another class or classes.

In order to pursue a concrete analysis inspired by this approach, I conducted a study of the evolution of the main class organizations in Venezuela and Ecuador in the period that preceded the pink tide, and of their main form of interaction with the state in the context of changing social property relations under pink tide governments.

As seen in the previous chapter, numerous studies have paid attention to the social uprising that shook the social, economic and political order prior to the election of left-wing governments in Ecuador and Venezuela. Much less attention has been paid to the actions of the capitalist class under the previous development models.

To complement these studies, I review the processes of class struggle under the pink tide in Venezuela and Ecuador by including the capitalist class as an agent in and of itself, retracing its organizations and its struggle with other classes and with the state for the definition of the development model. Therefore, I conducted interviews with representatives of capitalist class organizations (chambers of commerce, industry, agriculture, of large and smaller businesses) as well as with representatives of the main organizations of the popular class in each country to draw a vivid portrait of such interactions (see Appendix A for more details). These interviews are contextualized in the chapters that follow, where I present the evolution of class relations under the pink tide and their influence on the development model.

### 3. Growth and Decay of Corporatist Developmentalism in Venezuela

This chapter focuses on the changing relationship between the capitalist class in Venezuela and both the popular class and the state since the end of the dictatorship in 1959. This evolution is crucial for understanding changes in the development model prior to the election of Hugo Rafael Chávez Frías (1999-2013), and it sets the background for the discussion in the next chapter analyzing later changes in the development model.

The main thesis of this chapter runs counter to the dominant trend in the literature on the entrepreneurial sector in Venezuela, which presents it as a weak and disqualified economic and political actor dominated by an all-mighty state (Gil Yepes 1981; Salgado 1987; Naím and Francés 1995; Pirela 2005). This view, endorsed by the main organization of the capitalist class itself, argues that a behemoth state controlling oil rent has engendered an economically weak business sector and therefore a politically weak capitalist class: “Past and present experience prove that the private sector has been a weak participant under the rule of the other two elites [the political parties and the military]”, sustains Gil Yepes (Gil Yepes 1981, 21). According to Moises Naím and Antonio Francés (Naím and Francés 1995, 167), the central organization of the capitalist class was weak because the power of each capitalist was derived from each capitalist’s individual access to state bureaucrats rather than the capacity to improve production or their

collective voice. These arguments follow the rentier state framework of the resource curse (Karl 1997), according to which the oil abundance shaped the institutions to such an extent that the state expanded its power over society, but, having weak capacities, it fostered a rent-seeking attitude from entrepreneurs, producing a toxic mix that hindered competitive economic development.

According to Fernando Coronil's (1997) much subtler argument of the "Nation's two bodies", the Venezuelan state was historically founded as the manager of oil, conceived of as part of the nation's natural body, while the nation's social body was built as the imagined community collectively owning the soil containing the oil. The state has derived its legitimacy to rule over the community from its capacity to organize extraction in a way that allows for the redistribution of rent. Oil has given the state a magical touch: a specific form of autonomy resulting from its capacity to capture rent, enabling attempts to buy modernity and development. Coronil gives an interesting twist to political economy by inviting nature (oil) into the dance between labour and capital, making the landlord state—that is, the state as an economic agent rather than a strictly political agent structurally dependent on capital (see chap. 2 and Coronil (1997, 8))—a class of its own. My contribution aims to identify which of these is the leading partner.

Although oil can give a leading role to the state, this leadership is only good as long as the partners (labour and capital) are willing to dance without stepping on each other's feet, or to put it differently: a state-led development model can only work when capital is willing to accept the state's lead and provide conditions that labour is ready to accept. I thus argue that over the second half of the 20<sup>th</sup> century, the relation has evolved from one based on state-led ISI with corporatist class relations to one where the capitalist class, refusing the state's development

objectives but supporting its efforts to undermine the channels of mediation of the working class, has undercut the leadership of the landlord-state.

As discussed in the previous chapters, the abundance of a resource does shape development, but it is not sufficient in itself to explain a shift in development models. Rent affects class struggle, as it provides the state with the means to promote particular development models. For example, the state can use accruing rent to lure investors into following its development plan and modernization objectives. Rent also provides the means for redistribution that can integrate the working classes by providing conditions for social mobility. But in spite of such possibilities, power should not be conceived of as an object possessed by discrete groups. Power needs to be understood as a relationship in which the strength of one agent is only measured by the relative weakness of the others. The struggle and the balance of power between classes can shift the way rent is used.

In this power relation, the specificity of which will become even clearer when compared to Ecuador, Venezuela is remarkable for the unity of its centralized federation of business interest groups.<sup>46</sup> Since the 1940s, the Venezuelan Federation of Chambers of Commerce and Production (*Fedecámaras, Federación Venezolana de Cámaras de Comercio y Producción*) has grown as a means to process internal sectoral and regional divergences and create a unified organization for entrepreneurs to forge a capitalist class. Though there were some moments of dissent, when some business representatives held an opinion contrasting with that of *Fedecámaras*, these tended to be sidelined by the political prominence of *Fedecámaras*. Avoiding a deterministic approach to classes means prioritizing the political construction of convergences

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<sup>46</sup> Business interest group is a generic term that refers to chamber of commerce, industry, agriculture, and associations of producers. They are an equivalent of capitalist class organizations. I nevertheless limit the expression capitalist class to underline unity.

in struggle. Class unity is not necessarily signalled by the absence of dissension, but rather by the fact that diverging views remain secondary. My goal here is not to analyze the internal evolution of conflicting sectoral interests within Fedecámaras, but to study the evolution of its political influence as a class on the state.

The period preceding Chávez's first electoral victory, especially the 1980s and 1990s, shows a capitalist class that remained united and in a better position to press its demands on the state and win than the popular class. Moreover, since fostering private investments was central to development objectives, the state attempted to use its power to please capitalists, who had several ways of undermining the state's development plans and its "magical" autonomy in order to gain a greater share of rent. In short, the capitalist class was not in a subordinate position; on the contrary, it held a strong position with regard to the state, and certainly a stronger position than the working class.

### **The Post-Dictatorship and the ISI Period**

#### ***The building of centralized class organizations***

With the end of the dictatorship in 1959, Venezuela underwent a process of centralization of class organizations that was pivotal in structuring a form of corporatism. The Venezuelan state already had strong foundations. Built during the second quarter of the 20<sup>th</sup> century through an oscillation between military dictatorships and democratic attempts, the state grew as the manager of foreign companies' access to the nation's oil wealth (Coronil 1997, chap. 2). Oil extraction started gaining importance at the beginning of the 20<sup>th</sup> century; already in 1926 petroleum had become the main export, ahead of coffee, and by 1928, Venezuela was the world's leading oil exporter (Tinker Salas 2009, 6), a position that it would keep until the 1970s (Mommer 1998). By the mid-20<sup>th</sup> century, oil represented around 90% of the country's total exports.

The founding of the main organization of the capitalist class coincides with the increasing importance of the state (Moncada 1985, 79). In 1944, a number of business interest groups (chambers of commerce, industry and others), both sectoral and regional, formed one single organization to represent them all: Fedecámaras, which would become the main voice of the capitalist class, unified to an extent that has few comparable examples.

The class nature of the organization was certainly present in the minds of its founding fathers. According to one of them, Vaughan Salas, the organization was originally imagined by Carlos Fleury Coello. Fleury Coello had lived in the United States, where he had been a union leader affiliated with the American Communist party and had visited the USSR. When he returned to Venezuela at the beginning of the Second World War, he started working in the construction industry, and he:

devised an idea much in accordance with Marxist theory: there was a need to organize the Venezuelan bourgeoisie in very much the same manner as the proletariat [...]. Carlos Fleury believed that there was a need for creating the Venezuelan bourgeoisie in charge of transforming the country by altering the prevailing feudal system. (quoted in Gil Yepes 1981, 45)

Fleury Coello's debatable belief in the prevalence of feudalism, echoing important debates occurring within communist parties at the time, might have been fuelled by conflicts in the countryside between landowners who obtained high prices by selling their lands to foreign oil companies, landowners attempting to modernize agriculture, and peasants. Nevertheless, it remains clear that at the core of Fedecámaras was the concept of a class organization able to act and react to surrounding political changes, notably "the creation of parties, labour unions, peasant leagues..." (Gil Yepes 1981, 44). This class conception expresses its relational character

through its engagement with the power of other classes and the state. However, at the time of its foundation, Fedecámaras was receptive to the role of the state as the manager of the relationship with multinational oil corporations and the one in charge of allocating rent, notably towards the development of a national industry (Karl 1997, 84).

The commercial sector was originally dominant in Fedecámaras in terms of affiliate chambers (20 out of 35 in 1946) (Moncada 1985, 83), but the existing tensions between chambers controlled by importers of foreign goods, located on the coast, and chambers grouping distributors located in the inland centres was sufficient to dilute commercial sectoral interests and favour instead a broader class convergence including industry and agriculture. Fedecámaras was built as a real mechanism to foster “unity, representativeness and efficiency” (Moncada 1985, 84–86).<sup>47</sup> With its important growth from the 1950s to the 1970s, the industrial sector eventually became dominant in terms of economic importance, but the logic of class convergence remained (Gil Yepes 1981, 113–16). Fedecámaras eventually became the main representative of almost the whole entrepreneurial sector, including large landowners, and attempted to coordinate the expression of the whole capitalist class within its structure by finding ways to conciliate sectoral interests.

The main exception came from the chambers and associations of craftspeople and small and medium industries, which had not been very present since Fedecámaras’ beginning (Moncada 1985, 84) and remained reluctant to join a federation dominated by large businesses. They formed parallel organizations, notably UNIARTE during the 1960s and 1970s and

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<sup>47</sup> An article about the foundation of Fedecámaras published in the newspaper *El Universal* (17-7-1944) presents it as a means for unifying the demands of various businesses sectors. The spokesperson for the business association stresses the need to unify their voices, too often portrayed as contradictory while in fact, they differ more in form than in content (Moncada 1985, 81–82).



*Fedeindustria* later, but their comparatively small economic importance made them a weaker political player.

The Venezuelan situation is striking for the importance acquired by a unified organization representing the capitalist class and endeavouring to forge and maintain a class identity. Fedecámaras was depicted in the early 1980s as having acquired “as the result of its own efforts, and the representativeness conceded by its opponents and the government, the character of being the representative of business thought” (*Numero* 1982). This political unity among the capitalist class was sustained by strategies that promoted a better distribution of wealth among upper layers of the population (see below).

In contrast to capitalist unity, the unification of the popular sector into a class proved to be more complex. During the 1960s and 1970s, the growth of revolutionary movements in the continent, and the anti-communist response they elicited, created divisions within Venezuelan parties and unions between followers of a reformist approach and partisans of different revolutionary strategies. Rómulo Betancourt (1959-1964), the head of the social democratic party Democratic Action (AD, *Acción Democrática*) who became the first post-dictatorship president, was staunchly anti-communist and aligned with the policies of the Alliance for Progress. The tension between anti-communists and *fidelistas*—supporters of the Cuban revolution—led to a split within AD when in 1960, the latter formed the splinter group Movement of the Revolutionary Left (MIR, *Movimiento de Izquierda Revolucionaria*). Similarly to the US witch-hunt, the process of criminalizing communist organizations expanded to the main union, and suspected members of the Communist Party (PCV, *Partido Comunista de Venezuela*) and MIR were excluded from the Confederation of Venezuelan Workers (CTV, *Confederación de Trabajadores de Venezuela*). The exclusions would lead to the formation of a

communist union, the United Workers' Central of Venezuela (CUTV, *Central Unitaria de Trabajadores de Venezuela*). The formation of two other Social-Christian worker confederations (CODESA and CGT) completed the array of national union confederations during the 1960s, all of which remained small (Iturraspe 1999, 22).

The unification of the working class was therefore greatly delayed by the division between reformists and revolutionaries. With the victory of the Cuban revolution, the growing revolutionary movements in Latin America contributed to the unification in 1963 of the Venezuelan guerrillas, both urban and rural, in the National Liberation Armed Forces (FALN, *Fuerzas Armadas de Liberación Nacional*), an arm of the National Liberation Front (FLN, *Frente de Liberación Nacional*). The guerrillas faced harsh repression from the state, while representatives of the PCV and the MIR were criminalized and jailed. Attempts to overthrow the government in the early 1960s, both by guerrillas and some nationalist soldiers, were nonetheless defeated, and the guerrillas were mostly be crushed by the early 1970s.<sup>48</sup> Until then, though, the threat of a revolutionary overturn was still a political factor in Venezuela. The retreat of the guerrillas eventually led to the hegemonic position of the Confederation of Workers of Venezuela as the main popular class organization. Over the 1960s and the early 1970s, unions were not only growing in number, but increasingly integrated in discussions about public policies and the development model (Arrieta Alvarez and Iranzo 2009; Salamanca 1998). The CTV would eventually become instrumental to the process of centralizing and institutionalizing class conflict, as it was expected to represent the entire popular sector and not only unionized workers. Even the peasant federation of Venezuela, much smaller given the diminishing importance of

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<sup>48</sup> This paragraph essentially conveys Steve Ellner's interpretation of the relation between the radical left wing and the state (Ellner 2008, 50–64). See also Olivero Espinoza (2012) and Bravo (1968).

peasant agriculture, would only be a member of CTV's and tend to follow the confederation's lead regarding popular class issues. By the 1980s the CTV came to be described as the labour movement itself (E. Lander and Arconada 1985, 1–3), as the confederation had come to represent around 85% of unionized workers (Salamanca 1998, 137).

### ***Corporatism, Tripartite Negotiations and ISI***

The formalization of a tripartite relationship between the state, a centralized capitalist organization and a centralized workers' union was a goal shared by many political forces since the return to democracy in 1958. In the wake of the fall of dictator Pérez Jiménez, the *Avenimiento Obrero-Patronal* (Labour-Employers Agreement (Villasmil Prieto and Carballo Mena 1998, 121–23)) was signed by Fedecámaras and the Unified National Union Committee (CSUN, *Comité Sindical Unificado Nacional*, which would eventually re-found the CTV in 1959). The agreement was an attempt to organize the return to democracy around a shared belief in the necessity of labour peace. The pact did not directly set limitations on the right to strike, but it privileged conciliatory mechanisms in order to ensure that discussions would prevail over confrontation (Lauriño Torrealba 2008). According to Coronil (Coronil 1997, 218–19), this relinquishing of combativeness on the part of labour leaders provides a clear indication of their expectations that improvements in the material conditions of the working class were to come from an increased share of oil rent rather than their capacity to force concessions from employers.

This form of institutionalizing labour relationships is of central importance, as shown by the fact that the “*Avenimiento*”, signed in April 1958, was agreed upon several months prior to the October 1958 *Punto Fijo* Pact, the deal between political parties that is commonly considered

the keystone of the stability of the representative democracy that lasted from the 1960s to the 1990s. The *Punto Fijo* Pact was signed by party representatives of the AD (generally depicted as social democrats), the Independent Political Electoral Organization Committee (COPEI, *Comité de Organización Política Electoral Independiente*, associated with Christian democracy) and the Democratic Republican Union (URD, *Unión Republicana Democrática*, centre-left) (Molina and Álvarez Díaz 2004). These three parties remained dominant until 1968, when a much weakened URD, ceded the stage for a bipartite competition between the AD and COPEI until the early 1990s (see Figure 3.8). The PCV, despite its prominent role in grass roots mobilizations against the dictatorship (Karl 1987), was excluded from the pact.

A common explanation for the sustained democratic stability, which lasted from the 1960s to the 1990s, focuses on electoral arrangements and the pacts between elites (Levine 1973; disputed by Ellner and Tinker Salas 2007b). According to this interpretation, the exclusion of communists from the ruling coalition was key to the success of the pacts as it limited the tensions between ruling elites. For its part, according to this same interpretation, the radical left was consumed by its involvement in guerrilla warfare instead of organizing urban workers (Andrade A. 2005, 45–46), creating space for a conciliatory but effective labour movement.

I suggest a different interpretation. The menace of revolutionary change represented by the international context and domestic guerrilla forces exerted pressure on the regime, and its repression eroded state legitimacy. The regime did not survive solely by excluding and repressing communists, but also by implementing measures of redistribution that improved social mobility and by institutionalizing and responding to popular sector demands.

The institutionalization of class conflict was fundamental to sustaining democracy. It was formalized through tripartite institutions where the state, the CTV and Fedecámaras would

negotiate the main policies of the development model, including the nationalization of the oil industry (see below). As Terry-Lynn Karl (1997) puts it:

The democratic regime granted legal status in decision-making to those private and minority interests who had supported the transition from authoritarian rule, especially business through its umbrella association, Fedecámaras, but also labor through the CTV and some professional groups. (109)

This kind of tripartite relationship is often referred to as corporatism: a form of state-society relationship based on the state-sanctioned division of society into a limited number of categories organized through monopoly representation by a hierarchy of sector-specific organizations, thereby precluding competition (Arenas 2006a, 115).<sup>49</sup> Although corporatism accurately depicts the main form of centralized relationship between a small number of organizations and the state, it nonetheless has some limitations. As underlined by Leo Panitch (Panitch 1980, 167–68), the use of corporatism as an overarching concept to define the state-society relation tends to presume, much like the pluralism from which it tries to depart, the neutrality of the state with respect to the various interest groups. In the Venezuelan case, it is hard to see the state as neutral in this sense. Despite the important integration of unions in the state decision-making process, Fedecámaras, which unlike the CTV had been allowed to survive during the dictatorship, was in a more autonomous position.

To account for the instances where the relationship between the state and interest groups is not based on voluntarism, Nelly Arenas (2006a, 115; 2004; 2009), follows Philippe Schmitter (Schmitter 1974) and differentiates *autonomous* or *societal corporatism* from *state corporatism*.

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<sup>49</sup> The theme of corporatism and the worker movement is widely addressed Ruth Berins Collier and David Collier (R. B. Collier and Collier 2002), but also by Phillippe Schmitter (Schmitter and Lehbruch 1979; Schmitter and Ocampo Alcántar 1992) and Guillermo O'Donnell (1975). For a critique, see Leo Panitch (1980).

In the first case, organizations are largely autonomous and dominate the political field, while in the second, they are dependent and dominated by the state. In the Venezuelan case, the two kinds of corporatism eventually co-existed. Employers' organizations were more autonomous, thus approximating a form of societal corporatism, while labour organizations, closer to state corporatism, were more dependent upon the state, and especially its main ruling party, AD.

Arenas (2006a, 117–18) observes that “the employers were able to maintain, certainly more than any other actor, a strong degree of independence vis-à-vis political parties and the state.” Such independence within corporatist commissions operating in closed administrative settings debating technical issues favoured the representation of business interests over that of other sectors in the decision-making process, and in return, “encouraged capitalists to reach policy consensus among themselves, thereby fostering the class unity that always proved essential to the attainment of any important capitalist objective” (Karl 1997, 109). Moreover, the country's president would always attend the Fedecámaras general assembly, a meeting seen as an informal state economic council: “From 1958 on, Fedecámaras annual assemblies became the accountability structure of the national state executive in front of the entrepreneurs. The president and/or the ministers of the economic portfolios were attending, informing and exchanging with the business elite” (Lucena 2007, 56).<sup>50</sup>

On the workers' side, the links between the AD and the CTV diminished the workers' capacity to influence the state, a situation that became worse when AD was the governing party. Torn between their role within the AD and their role as the representatives of the CTV, union leaders often compromised workers' demands and interests to favour the unity of the AD and its

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<sup>50</sup> Today, most chamber representatives who are critical of the Chavista government explicitly miss the fluid relationship they use to have with the executive (Venezuela-B1 2013; Venezuela-B3 2013; Venezuela-B4 2013; Venezuela-B5 2013; Venezuela-B7 2013; Venezuela-B9 2013).

position in the governing structures (Arenas 2006a, 115–18). This view is shared by several analysts (E. Lander and Arconada 1985, 1–3; R. B. Collier and Collier 2002, 616; Carvallo 1995, 51–57; Gil Yepes 1981, 190).

Brian Crisp (1994) offers a compelling way to weigh the relative power of workers and employers' organizations over the state through the study of presidential consultative commissions. These commissions, summoned by the executive to respond to different social issues, produced unbinding but still influential recommendations for the policy-making process. Between 1959 and 1989, the executive summoned 330 commissions, or an average approaching one per month, meaning that they were a frequent consultative mechanism. Looking extensively at the importance of these commissions, Crisp's (1994, 1503) analysis suggests that the power exerted by organized groups is more relevant for understanding the policy-making process than the elections themselves. Strikingly, he found that each party summoned a number of commissions that corresponds to its share of time in office (Crisp 1994, 1496). While generally composed of mostly bureaucrats from the executive branch, his study clearly finds that "representatives of private capital participate far more than representatives of professionals or labor", showing that "the scale is clearly tipped in capital's favour"(Crisp 1994, 1498). This shows that with the return to democracy, the capitalist class, as an organized political agent, secured a greater capacity to push for its interests within the policy-making process.

Although dominant, the capitalist class understood the need to negotiate with some form of popular class organizations. Fedecámaras agreed to deal with the CTV and to fulfill some demands of the popular sector in order to deter radicalization. This position is clearly expressed in Fedecámaras' public documents. In a 1973 document, Fedecámaras calls for class-consciousness against the anti-capitalist threat, for democratic state-led planning and for the

equal redistribution of oil rent to public services and economic growth. The document asks entrepreneurs to cooperate to strengthen class awareness in order to oppose “the corrosive influence of those pretending to replace the private enterprise system” (Fedecámaras 1973), a message clearly directed against the remaining pressure exerted by revolutionary movements and what was left of the guerrillas. At the same time, the organization of the capitalist class was committed to the idea of democratic state-led planning, where “all sectors of the community”, including the workers, would intervene: “it is the most adequate social technique for the organization and guidance of the country’s economic activities, as it insures the intelligent and deliberate management of a swift and self-sustained development without drowning private initiatives” (Fedecámaras 1973). Finally, they believed that such planning should lead to the division of oil rent to equally sustain economic development and social development. Although “ideally, all oil rent would be spent on development, referring to education, healthcare and scientific research spending” (Fedecámaras 1973), some rent should also go to private enterprises that contribute to economic growth and allow for a “development take-off”.

This position—allying a defence of capitalism, negotiation with the state and rent distribution—illustrates how the complementarity between a corporatist tripartite organization of class relation and a state-led ISI development policy formed a coherent development model in Venezuela. Industrial development policy required the state to foster private investments and therefore took advantage of a dialogue with the capitalist class. As the realization of value depended on domestic markets, it benefited from improvements in the livelihoods of workers that increased domestic consumption. Moreover, redistribution and possibilities of social mobility deterred radicalization. It was conducive to the acceptance, by the capitalist class, that



oil rent needed to be split between the needs of entrepreneurs to foster economic development and the needs of redistribution to the popular sector.

This form of rent-sustained ISI-corporatism resulted in a peculiar wealth distribution. An ECLAC report on income distribution in Latin America (Graciarena 1976) showed the specificity of Venezuela’s “mesocratic” wealth distribution, as opposed to an “elitist” one where wealth is concentrated at the top of the higher strata. Mesocratic Venezuela was still experiencing great inequalities, as in the 1960s, the poorest half of the population received a smaller proportion of the national income than other countries in the region, but given the country’s greater wealth per capita, this share was in absolute terms still higher than the region’s average. Moreover, this tendency was combined with wealth distribution “shifting towards the lower strata, although slowly” (Graciarena 1976, 220). The income received by the middle ranges increased at a higher pace than in most of the region, especially for the 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> richest deciles. Moreover, while the richest 5% earn a comparatively smaller share than other countries of the region, the next 15% of higher income earners secured a greater portion of the national income (Comisión Económica para América Latina 1970, 7). Venezuela’s peculiar wealth distribution can also be seen in a comparatively lower level of poverty and an increase in private consumption over the 1970s (see Table 3.1).

<b>Magnitude of poverty (selected counties)</b>				<b>Growth of private consumption per capita 1970s-1980s</b>
Country	Reference year	Percentage of households in condition of poverty		
		National	Urban	
Brazil	1972	49	35	6.1
Colombia	1972	45	38	3.0
Chile	1968	17	12	0.4
Peru	1972	50	28	-0.7
Venezuela	1971	25	20	5.0

Source: CEPAL, Anuario estadístico, 1990

This form of wealth distribution, resulting from (and perpetuating) the centralization of class organizations and the corporatist institutionalization of class conflicts, succeeded in maintaining both labour peace and democratic stability: no general strike would affect the *Punto Fijo* era (except in 1989, see below), labour conflicts would be low throughout the 1960s and early 1970s, and elections remained the rule while most surrounding countries experienced episodes of dictatorship.

### ***Oil and its Nationalization under an ISI-Corporatist Development Model***

The oil crisis of the 1970s brought a bonanza to Venezuela. Oil prices went from US\$3.30 a barrel in 1973 to over US\$30 in 1979, with an average probably closer to US\$13 (in dollars of the day) (see Appendix B). This oil price increase, notably sustained by Venezuela's participation in the Organization of the Petroleum Exporting Countries (OPEC), greatly increased the available rent. It coincided with the election to the presidency of Carlos Andrés Pérez (1974-1979; and later re-elected in 1989) of the social democratic party AD, with a development program aimed at combining export promotion policies with the existing ISI development model. Pérez took advantage of the situation to capture a greater share of rent by nationalizing oil and accelerated the pace of industrial development. This approach was formalized in the Fifth National Plan (Venezuela 1976). Its central idea was for the state to channel oil rent and international credit into fostering industrial development to give a big industrial push that would secure the country's economic independence.

Carlos Andrés Pérez had a close relationship with a group of investors known as the "Twelve Apostles", a derogatory name coined by Pedro Duno (1975) in a political tract critical of the government. Emerging from the economic growth of the post-dictatorship period, the

Twelve Apostles had formed economic conglomerates that were not related to the country's traditional business families, nor were they in control of Fedecámaras (Ortiz 2006, 79–80). However, as Coronil (1997, 247) underlines, their differences with traditional elites were not primarily sectoral, since large capitalists were mostly organized in diversified business conglomerates comprising activities across different sectors. Rather, they were introducing more competition for access to state subsidies. The Apostles, who actually numbered more than twelve, benefited more than other capitalists from state support and investments between 1974 and 1978, as their names appeared on the most lucrative public contracts, creating a competition for patronage (Di John 2009, 211–13).

Nevertheless, Fedecámaras still remained the dominant voice of the capitalist class. The competition for patronage allowed Pérez to use the contest for rent to maintain more state autonomy and force entrepreneurs to follow his plan. Following the corporatist model of class relations, Pérez convened tripartite commissions to negotiate development policies, including the oil nationalization law. It is in this context that Fedecámaras consented to oil nationalization (Gil Yepes 1981, 211–12) in exchange for the law's inclusion of the possibility of alliances with the private sector for extraction, a position that was adopted despite the opposition of other members of the consultative commission (Mommer 1998, 24–25; Mendoza Pottellá 2011, 125–27). Pérez had also ceded to the growing pressure of the CTV and amended the labour law in 1974 to increase employment security, with a law known as the layoff law (*Ley de Despido*).<sup>51</sup> The increase in oil prices allowed the state to buy class peace by distributing rent to contending actors.

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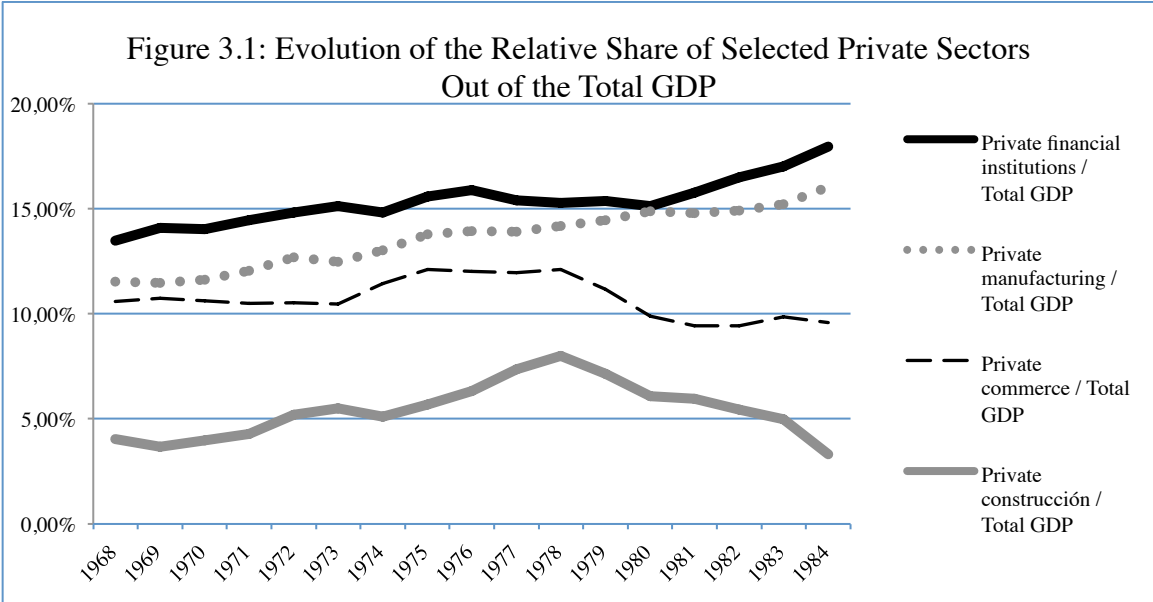
<sup>51</sup> A union representative offered the layoff law as an example of the capacity of the CTV to win over concessions for the workers during the 1970s (Venezuela-S2 2013).

In short, in spite of Fedecámaras' dominance in corporatist institutions, the government was able to use the balance of class forces and patronage conflicts in a way that allowed the nationalization of the oil sector and increased the landlord power of the state. The same corporatist balance of forces directed the rent to support both economic and social development. In addition to infrastructure building, protectionism and incentives typical of state-led industrialization inspired by import substitution industrialization, the swollen state budget was used to nationalize industries and build new public ones to provide basic inputs (steel, aluminum), accelerate the growth of private industries and support the growth of the export sector. Capitalists were in a good position to surf the economic wave, and despite patronage conflicts, Fedecámaras maintained its political prominence. Nevertheless, the state itself was increasingly becoming an economic competitor, especially in basic industries as rent allowed it to enter into new economic sectors.

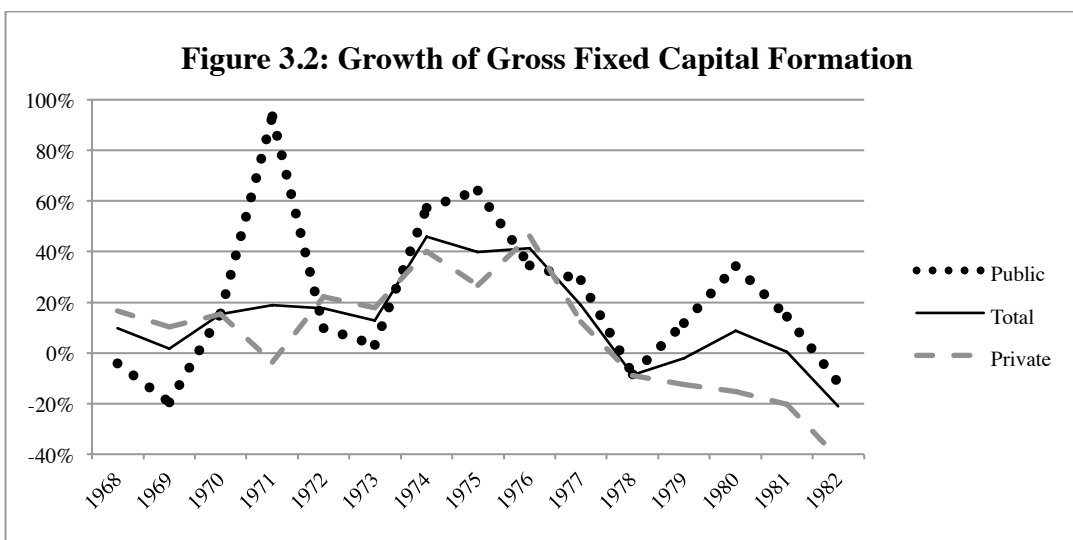
As demonstrated by Jonathan Di John (2009, chaps. 3–5), the country's economic results show that the resource curse model did not operate during the 1970s in Venezuela. According to the main Dutch disease framework, an oil bonanza should increase the exchange rate, undermine industrial investment and foster investment in the non-tradable sector. Contrary to these predictions, the value of the bolivar dropped over the period (Di John 2009, 42). As I show below, until the 1980s, private investments, including in the tradable sector, tended to follow the oil bonanza, and although the service sector and construction sectors grew (non-tradable), the industrial sector also grew during this time, as did exports.

The positive response of the capitalists as economic agents is manifested in the economic performances of the period. As can be seen in Figure 3.1, the policy to foster private industrialization achieved some success. Between 1973 and 1979, private manufacturing as a

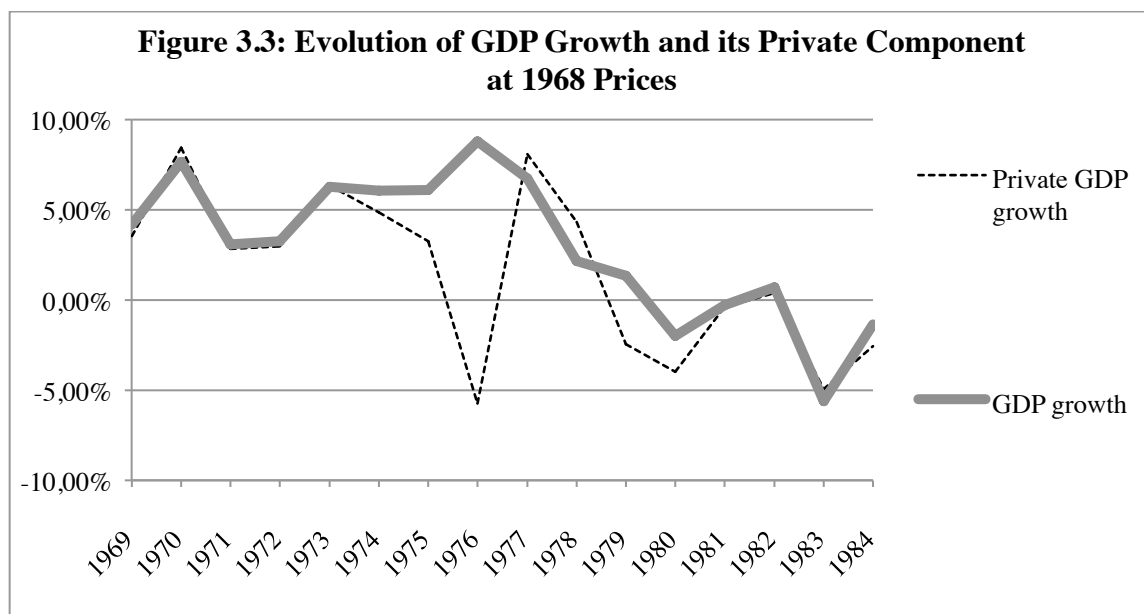
share of the total GDP increased from 12.5% to 14.5%. Moreover, private investment as measured by gross fixed capital formation (GFCF) was positive and tended to follow public investment for most of the decade (Fig. 3.2). While private GFCF growth slowed in 1971 and 1975, it was compensated by higher growth in the following year, the year of oil nationalization. Moreover, what appears to be negative growth of private GDP in 1976 is essentially due to the withdrawal of oil extraction and refining from private hands, as can be seen by the growth of the total GDP (Fig 3.3 and 3.4). Despite the decrease in investments that occurred between 1978 and 1980, the value of petroleum in total exports dropped from 78% to 70%, while oil prices were increasing, notably because non-oil exports by the private sector almost doubled (Coronil 1997, 362). Overall, the decade of the 1970s was the most important in terms of investments from the private sector of the entire final third of the 20<sup>th</sup> century (Table 3.2).



Source: Banco Central de Venezuela: Table II.6.A: Producto Interno Bruto del Sector Privado a precios del 1968 (compilation by the author).



Source: Banco Central de Venezuela: Table III.3: Formación neta de capital según sectores institucionales (compilation by the author).



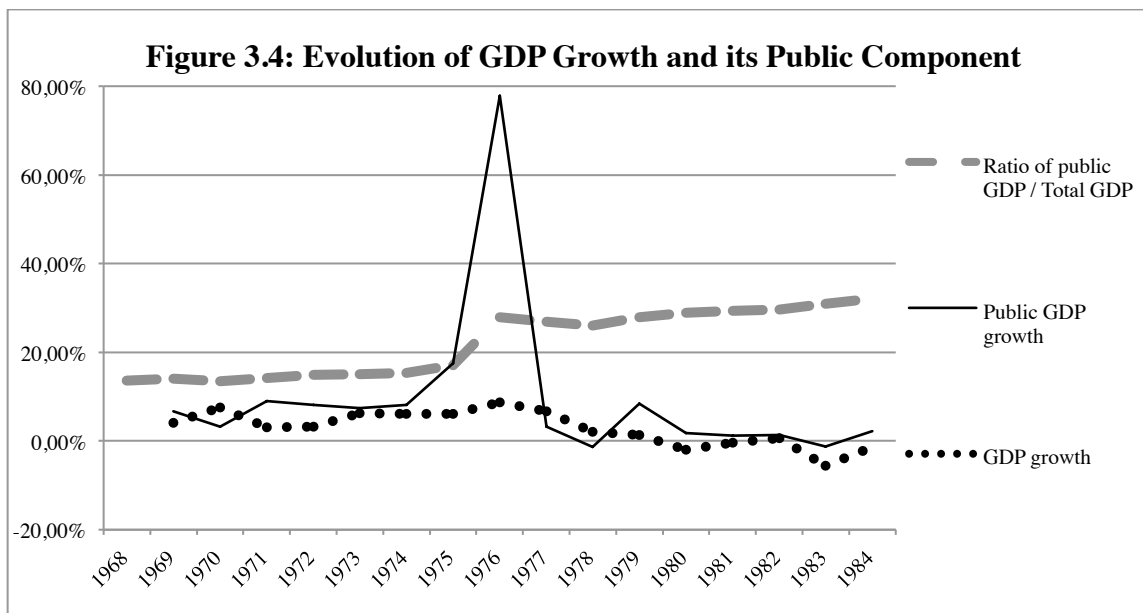
Source: Banco Central de Venezuela: Table II.6.A(1): Producto Interno Bruto del Sector Público a precios del 1968 (compilation by the author).

**Table 3.2: Gross Fixed Investment Rates: Venezuela, 1960-1990**

	Annual average of all investments (as % of GDP)			Annual average of non-oil investments (as % of non-oil GDP)		
	Total	Public	Private	Total	Public	Private
1960-70	24.2	8.4	15.8	26.1	9.1	17.0
1970-80	34.4	10.8	23.6	36.8	9.6	27.2
1980-90	21.3	10.6	10.7	22.5	8.7	13.8
1990-98*	15.8	9.9	6.9	13.7	5.6	8.1
1998-02	15.1	6.6	8.5	n/a	n/a	n/a

Source: Di John (2009, 19)

\*Non-oil investment data for the period 1990-1995 only.



Source: Banco Central de Venezuela: Table II.5.A(1): Producto Interno Bruto del Sector Público a precios del 1968 (compilation by the author).

### The Rupture

The successes of the economic dynamic of the 1970s did not last, and over the 1980s, it became a slump. Though the drop in oil prices and the international increase in interests rates (Volcker shock) that caused an international economic slowdown were instrumental to the problems, I want to stress the importance of the mind shift among the capitalist class in this process. Indeed, the state-led development model lost the support of Fedecámaras in the late 1970s and early 1980s, before these international factors were fully at play. There had been previous points of contention between Fedecámaras and the state, notably regarding tax reforms (1966 and 1975) and the conditions required by Venezuela to enter the Andean Pact (1969), but these discrepancies were not as strong as they were to become after 1980.

### *Early signs of discontent: A lumpen-bourgeoisie?*

Despite the overall positive economic results during the 1970s, several changes in class relations were starting to erode the capitalist's confidence in corporatism. From the labour side, the growing importance of CTV allowed it to secure improvements in labour conditions, including important labour law reforms in 1974 increasing employment security. The spirit of the *Avenimiento Obrero-Patronal* of avoiding strikes at all costs was working to a certain extent, as a very small number of formal requests to authorize a legal strike ended up in formal strikes over the 1970s (fewer than 10 per year out of hundreds of requests). Nonetheless, wildcat strikes, rare up to the end of the 1960s, became much more frequent during the 1970s (between 100 and 250 per year) (Arrieta Alvarez and Iranzo 2009, 65). This situation was starting to upset employers.

Other patronage conflicts were taking the form of a tension between domestic capitalist loyalty towards the state and towards multinational corporations. Fernando Coronil (1997, chap. 6; especially pages 251-253) provides an interesting explanation for the rejection of state-led projects in certain sectors of the economy at the end of Pérez's first term. He shows why the efforts of the state to have a bigger share of automobile production in Venezuela met some resistance.<sup>52</sup> With the ongoing oil price increase in the 1970s, the main American car manufacturers (GM, Ford, Chrysler) attempted to centralize production at the world level. This concern resonated with Venezuelan industrialists who, despite their interest in policies increasing local content for cars, remained dependent on their links to multinational car manufacturers. Moreover, Pérez sometimes overruled bureaucrat's decisions regarding the selection of manufacturers, thereby undermining business agents' influence on the bureaucrats and their

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<sup>52</sup> The expansion of automobile production in Venezuela and in the subcontinent was a goal shared by member countries of the Andean Pact. While Fedecámaras had initially rejected the terms of Venezuela's integration into the Pact, they eventually came to accept the idea and promoted its acceptance among its members (Gil Yepes 1981, 202-04).



confidence in the process. Industrialists in the sector thus chose to side with their multinational partners instead of supporting the government project.

A similar convergence explains the failure of one of the last state-led industrial projects undertaken by Pérez: a state-funded tractor factory in Venezuela (FANATRACTO) operated by private manufacturers. While agricultural producers and traders as well as investors in tractor-related production originally agreed on the importance of the domestic production initiative, their position soon shifted to strong skepticism. Domestic investors became afraid of antagonizing multinational capital, as the latter preferred to retain production in the existing factories located abroad, while farmers were worried that domestically produced tractors would be more expensive and therefore render their production less competitive. In short, most sectors withdrew their support, which was still essential for promoting and funding industrial development despite the financial capacity of the state. Under these conditions, they decided to stand with those who had to preserve their relationships with multinational corporations and to stay away from state-led investments. The result was that the state poured money into industrial plants that domestic and international entrepreneurs would ultimately never use, preferring to rely on imports instead.

Andre Gunder Frank's (1971) argument on the lumpen-bourgeoisie (chapter 2) suggests that the international expansion of capitalism forces domestic capitalists in underdeveloped countries to choose dependency over autonomy, as their growth is tied to the successful accumulation of multinational corporations from the centre. However, this argument leaves very little agency to this lumpen-bourgeoisie. The fact that they actually changed their mind between the design and the implementation of industrial projects indicates the importance of the class-making process. Through this process, the capitalist class was defining its common interests against other classes and the state. Such a process helps explain the investment shift of the 1970s,

when state investment of oil money became insufficient to convince capitalists to invest. Starting in 1979, the resumption of public investments in fixed capital was not followed by a growth of private investments (Fig. 3.2).

It is through this class making process that the capitalist class was developing its enmity towards the landlord state. The nationalization of industries and the foundation of new state-owned industries in the non-oil sector had significantly increased the state's role in production. The state became a competitor with capitalists themselves. With oil, the public share of the GDP almost doubled during the Pérez presidency (Fig. 3.4). The perceived threat to private businesses was thus not coming from the guerrillas anymore, but from the state. Oil nationalization was also changing class relations. Before, the state had acted as the collective instrument of both labour and capital to extract rent from multinational corporations and redistribute it. With nationalization, the conflict was domestically contained, and the state appeared as an autonomous landlord class in the conflict, against which the capitalists had to fight to extract rent, especially against the state's alliance with labour. Although this began to emerge under Pérez, these tensions did not cause a rupture until 1980.

### ***The Statement of the Rupture: The Rejection of Developmentalism***

The opposition of the capitalists as a class to the developmentalist project became clear with the election of a new president of Fedecámaras, Ciro Añez Fonseca (1979-1981).<sup>53</sup> He represented a new alliance of businesses whose views contrasted with the former leadership (Ortiz 2006, 80), and he was able to rally a new consensus against state involvement in the economy. Although Pérez's closeness to the Twelve Apostles had started to irritate Fedecámaras in the 1970s, the

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<sup>53</sup> Fonseca would become Minister of Agriculture under the second presidency of Rafael Caldera (1994–1998).

abundance of rent had allowed Pérez to play on such tensions by having capitalists compete for rent to sustain his development program. It is only after he finished his term in office that the main opposition to the state-led plan congealed, and the unity of the capitalist class, weakened by Pérez, was rebuilt, largely in opposition to state encroachment in private businesses.

To seal this re-forged alliance, Fedecámaras produced an important document in 1980, the *Carta de Maracaibo*, which expressed the discontent of the class and exposed its clear goal of reinforcing the class-consciousness of capitalists.<sup>54</sup> The first paragraph states that Fedecámaras “produces standpoints and opinions that serve as theoretical platforms for entrepreneurial forces to behave coherently and contribute to the interpretation of the motivations of the various manifestations of the private sector in the national economy” (Fedecámaras 1980, 11). As this quote indicates, Fedecámaras continues to play the same role since its foundation: it is the voice aiming to unite the capitalist class towards common objectives.

The rupture with developmentalism is clear in the tone of the document. Interestingly, it happened before the impacts of the Volcker shock and the drop in oil prices were fully felt in the world economy. Presenting its main motivations, it is not the world economic context that justifies the mind shift, but the increasing role of the state in the economy and the increasing power of labour.

Against a state that behaves as an entrepreneur in a “disproportionate way”, because the “regulatory power it has over agents’ behaviour grants the state a dominant position that it did not have in the past”, the *Carta de Maracaibo* states its goal of defending the importance of private property and capitalism, “because it represents the most creative steps in Human History”

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<sup>54</sup> Henrique Salas Römer, a Yale-trained economist that would eventually compete against Chávez for the presidency in 1997, coordinated the drafting of the *Carta de Maracaibo*.

(Fedecámaras 1980). It also opposes the increasing power that corporatist spaces had granted to labour, while the economic bonanza improved workers' conditions to the extent that they now reject discipline:

The exceptional increase in the demand for human resources...converging with the law against unjustified layoffs [1974] in the context of economic expansion has produced an ethical distortion in the work habits of Venezuelans that must be responsibly addressed in order to develop the country [...]. [W]orkers have acquired a power that allows them to prevail over the interests of the existing organization of production, leading to a loss of discipline and to a loss of the spirit of achievement and of personal fulfillment... [T]he legislator has acted to justify the distorted politico-social behaviour of workers that led a part of the workforce to look for short-term gains, thus behaving against productivity...and the development of the country as a whole.... (Fedecámaras 1980, 47)

This quote clearly indicates that capitalists as a class had come to more forcefully reject the protection that the state provided to labour, an alliance that it saw as detrimental to development.

Fedecámaras' 1980s policy shift is important. The discrepancies between the discourse of the capitalist class organization against the development model and the economic results of the previous decade reveal its opposition as a class, as a political agent, rather than solely as the representatives of an abstract economic logic of accumulation. The capitalist class actively started to mobilize against the development model and now resisted the state's attempts to direct development, despite constant industrial growth (see Fig. 3.1).

Such a reaction makes perfect sense when read through a relational class perspective. Although the *Carta de Maracaibo* identified a continuing communist pressure at the global level, it acknowledged its lack of importance at the domestic level. The guerrillas were indeed not a threat anymore. In this context, the capitalist class became more preoccupied by the class conflict related to production itself. Employers were concerned about the gains made by unions, notably through the laws enacted by the state to strengthen job security, including a layoff law (*Ley de*

*Despidos*), and the increased labour demands in a context of very low unemployment (4.5% for 1974–78)<sup>55</sup> resulting from public and private investment and the growth of state bureaucracy. Employers understood these changes as their loss of control over the workforce. In their view, the growing legal encroachment on the contractual relationship tipped the balance in favour of labour and created an unruly working class.

This attitude closely resembles Chibber's point regarding the class offensive by capitalists in India against the shift in the development model. The attitude of the capitalists as a class towards the state's development plan is essential for explaining its success or failure. Although in India, capitalists were attempting to preserve ISI protection and subsidies, in Venezuela, they were fighting against the competition of the state and its protection of labour.

The discussions on the successes of the developmental states of South Korea and Japan (Johnson 1999; Johnson 1982) generally underline the importance of the capacity and the autonomy of the state bureaucracy. In the Venezuelan automobile case presented earlier, the involvement of the president in overruling the bureaucracy did not allow for a rigorous decision-making process (Coronil 1997, 314), leading to the image of an incoherent and arbitrary state controlled by the executive. This represents a lack of autonomy of the state bureaucracy, a situation referred to as legal uncertainty. In the *Carta de Maracaibo*, Fedecámaras actively denounces legal uncertainty, because

[for] the proper development of the country, it is necessary for entrepreneurs to be very sure of the limits to their sphere of action[...] such that when this sphere is occupied by private business, there is no threat that state participation could result in illegitimate competition. (Fedecámaras 1980, 42)

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<sup>55</sup> Source: BCV, quoted by Ricardo Hausman (1995, 257).

This shows that the capitalist class not only feared a lack of autonomy from the state, but also the state's use of its existing capacities in a way that would compete with its interests. This was a product of the several nationalizations in the 1970s that created competitive state-owned enterprises.

The *Carta de Maracaibo* expresses precisely this attitude of a capitalist class wanting to re-direct the development model. If, as Chibber argues for the Korean case, the alliance between the local capitalists as a class allowed the state to discipline capitalists individually while not alienating them all, in the Venezuelan case, the capitalist class shifted its attitude to reject state intromission in its business despite the state's tremendous financial capacity, privileging instead its alliance with multinational capital against both the state and labour.

This expression of class conflict received a response from the CTV in October 1980. Only a few months after the *Carta de Maracaibo*, the eighth assembly of the CTV issued an equally important document, the *Manifiesto de Porlamar*, a position document in favour of workers' participation in controlling production in order to foster co-management of the economy. This expression of class confrontation over the development model attempted to push the state into a new role with regard to the production process. While the CTV, still the main organization of the working class, attempted to direct state efforts at capturing rent to increase workers' control over production in order to diminish the managerial power of capitalists, the capitalist class wanted the state to support its efforts at disciplining workers. These two documents, the *Carta de Maracaibo* and the *Manifiesto de Porlamar* represent a critical juncture in the class conflict around the development model.

### *The Turn to Austerity and the Growing Capitalist Class Power*

The position adopted by the capitalist class would become increasingly pivotal. Its rejection of state participation in the economy and state protection of labour and its choice to favour alliances with multinational capital over state leadership in development was supported by a shift in the international conjuncture, as neoliberal ideas were becoming more influential. Moreover, difficulties arose in the early 1980s when the state's capacity to spend came up against the limits imposed by the hike in US interest rate known as the Volcker shock. Higher interest rates increased the debt burden, while from the mid-1980s on, the oil glut negatively affected prices of crude (see Appendix B), resulting in their slow descent to very low levels by the end of the millennium. In contrast with the 1970s, state investments during this "lost decade" were less effective at fostering private investment and growth (see Table 3.2 above).

International factors (oil prices, Volcker shock) are crucial to explaining the pressure for a policy change, but the role of the capitalist class is also essential to understanding the evolution of the situation. The economic reaction of many capitalists to the growing crisis was to send their earnings abroad, resulting in a massive capital outflow that contributed to a downward pressure on the value of the currency. A radical turn came in 1983, when the government adopted several austerity measures including a massive currency devaluation known as *Viernes Negro* (Black Friday, on February 18<sup>th</sup>). It came with the announcement of a contraction of state spending and attempts to control prices, imports and the value of the bolivar by fixing several exchange rates according to the kinds of goods that were bought on the international market (Hausman 1995, 255–56).

In 1984, Fedecámaras issued a new document (Fedecámaras 1984), approved by its general assembly, that expressed its vision of the changes needed in order to resolve the

economic crisis. It re-emphasizes the overwhelming presence of the state encroaching upon individual freedoms as being the main culprit for the situation. The Venezuelan state had undermined the private initiative necessary for development. Moreover, and more importantly for us, the Fedecámaras' document clearly linked this situation to the state's oil property: "In Venezuela, the presence of petroleum has amplified the disproportion between state and society, given the power that the government obtains from the management of financial resources derived from oil" (Fedecámaras 1984, 12). It alluded, subtly, to the need to privatize the sector through a concession system (Fedecámaras 1984, 14–15). This link between oil and overwhelming state power would continue to gain importance with Fedecámaras' growing influence.

Several events illustrate the evolution of the balance of class forces that was increasingly tipping towards Fedecámaras' favour and confirming its hegemonic position as the representative of the capitalist class. In response to the 1983 devaluation of the bolivar for instance, Fedecámaras began a campaign to obtain pre-devaluation rates for loans and obligations already contracted abroad. René Salgado (1987) argues that the incapacity of Fedecámaras to immediately win the entirety of its demands showed its weakness.<sup>56</sup> However, after several months of debates, interrupted by an election bringing the AD back to head the executive with President Jaime Lusinchi (1984-1989), entrepreneurs finally obtained a great deal of what they were asking for (seven billion US dollars, representing 45% of the private foreign debt claimed). The capacity of the capitalist class to deeply influence the state is shown very

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<sup>56</sup> Salgado stresses that Fedecámaras was not in fact as influential as often argued because it did not win the reimbursement of private debt by itself; it was pressure from international banks that ultimately convinced the government. *Latin America Research Review* published three papers arguing that Salgado underestimated the importance of Fedecámaras, and I especially agree with Abente's (1987) position that the question is not whether Fedecámaras was in a position to win everything it was asking for, but rather if it won more than other actors. On this matter, it seems obvious that in the long run, Fedecámaras had more influence than any other class organization.



clearly in this situation. Resistance to their demand came notably from the president of the central bank, who estimated that the capital flight in previous years had been so significant that capitalists already owned a private international reserve and did not deserve any special treatment from the state. The president of the central bank eventually lost his job before the end of his term, a first since the return to democracy in 1958. The demands of the capitalist class were met rapidly thereafter.

The same AD government, supposedly more social-democrat and in tune with labour than the Christian Democrat COPEI, attempted to tackle the crisis by relying on corporatist mechanisms involving labour.<sup>57</sup> It summoned the National Commission on Prices and Wages (CONACOPRESA, *Comisión Nacional de Precios y Salarios*), a tripartite council, to negotiate a deregulation of prices and increase of wages to allow for an adjustment, as the devaluation had altered the relative value of imported and domestic goods. Fedecámaras rejected the original invitation in a political move devised to gain more control over the Commission. Its refusal to participate gave it two important victories: first, it gained sufficient leverage to exclude smaller capitalist organizations, such as Fedeindustria, from the table, thereby securing a monopoly of representation of the capitalist class. Second, it made sure that the Commission's resolutions would not be binding (Crisp 1994, 1499). Under these conditions, it took part in CONACOPRESA and agreed to discuss price increases. Although still regulated, the prices of several regulated goods were increased, a situation the CTV was unable to oppose. When the time came to discuss wages, Fedecámaras refused to continue participating in CONACOPRESA, arguing that wages should only be discussed within the parameters of each particular collective

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<sup>57</sup> This paragraph is widely drawn from the analyses provided by Lander and Arconada (E. Lander and Arconada 1985, 18–21) and Villasmil Prieto and Carballo (Villasmil Prieto and Carballo Mena 1998, 74–76).

agreement negotiation. The government did increase the minimum wage by two thirds, but the number of exceptions to its application was so great that Fedecámaras did not feel the need to oppose it. When considered in relation to other classes, notably labour, this example shows how the capitalist class was a prominent and powerful actor.

The legitimacy of a centralized labour organization in a corporatist setting is derived from the capacity of its leadership to strike deals with other elites that benefit its membership. Starting in the 1980s, the attitude of Fedecámaras towards labour left the CTV with very little room to fulfill this role. Furthermore, the CTV faced additional legitimacy problems at the time. For instance, its Venezuelan Workers' Bank (BTV, *Banco de los Trabajadores de Venezuela*) was placed under trusteeship for mismanagement in the early 1980s (López Maya 1989). In this context, the CTV was not only losing legitimacy, but also some of its financial tools.

Despite this weakening of labour, Moises Naím and Antonio Francés (1995) reject the idea that the “Venezuelan private sector” (VPS) was a powerful political actor. In their view, close to the rentier state argument, the power of the state over the economic sphere pushed each particular business to secure personal contacts with state employees or elected officials in order to gain advantages with respect to bureaucratic procedures or state subsidies. This form of competition for bureaucratic access would favour individual contacts with specific officials rather than a formalized collective institutional representation of the class. Thus, according to Naím and Francés, the VPS “has always been political” in the sense that some firms secured privileged access to the state for their business activities but were then subordinated to bureaucrats in the position to make or break these firms.

Naím and Francés provide three sources of evidence to support their claim. The first lies in the multiplication of sectoral chambers, as evidenced by the number of chambers affiliated to

Fedecámaras jumping from 168 to 282 between 1970 and 1992 (Naím and Francés 1995, 181). The incapacity of businesses to get along when competing for access to bureaucrats led to this multiplication of chambers, which were created out of the necessity to formalize the relationship between the state and specific entrepreneurs according to their sector. This is, according to the authors, a reflection of the structure of incentives promoting individual or small-group relationships between state officials and entrepreneurs. This proof is not convincing however: if the incentives were for particular rather than centralized institutional representation, chambers would have attempted to stay away from Fedecámaras. Their affiliation shows that the Federation was still very attractive, as it represented a strong voice against the power of the state. My claim here is that the VPS was in fact a very powerful agent capable of effectively influencing politics, and that it did so through Fedecámaras, an organization that created structures for businesses to find mutual agreements for common benefit. In fact, the solidity of the unity between the various organizations of the capitalist class is what makes the Venezuelan case specific.

The second source of evidence provided by Naím and Francés involves the Roraima Proposal. This proposal, named after the building where a group of chief executive officers from some of the largest companies operating in the country met on several occasions in 1983, promoted an agenda of liberalization. These CEOs were the early promoters of the neoliberal development model. According to Naím and Francés, the fact that they bypassed Fedecámaras shows dissidence in the business sector. The existence of dissidence within the business sector, though, is not proof of an absence of class unity. No sector can be expected to display unanimous class agreement when, as discussed earlier, their default situation is to be divided by competition. It is only through political processes that a class forms, and one cannot expect such a process to

be without tension. The Roraima initiative did not emanate from Fedecámaras, but neither was it a complete departure from its discourse, as the tone of Fedecámaras pointed increasingly also in a similar direction.

The final evidence provided by Naím and Francés is an attempt in 1992 by top CEOs to once more bypass Fedecámaras and sign a national pact with AD and COPEI in reaction to recent coup attempts. The deal was withdrawn when the information was leaked to the president of Fedecámaras, who publicly denounced the initiative. Here again, the inability of splinter groups to act independently of Fedecámaras is evidence of this organization's hegemonic character, not its weakness.

The last two sources of evidence do show that despite the importance of Fedecámaras, some businessmen attempted to gain support for alternatives that were at odds with those promoted by Fedecámaras. This had in fact always been the case, since small and medium-sized industrialists tended to be affiliated with Fedeindustria in order to safeguard their independent voice from the control of larger firms. Nevertheless, the existence of dissident capitalist voices, even when coming from the "some of the most important firms in the country", is not necessarily a sign that class unity is weak or illusory. Divergent voices do, however, in failing to impose their visions, point to the centrality of Fedecámaras as the main capitalist class organization. Combined with the CONACOPRESA, it illustrates the strength of Fedecámaras, its capacity to influence the state not only over other voices of large businesses, but also over that of labour (CTV) and of small and medium-sized enterprises (Fedeindustria).

Still today, Fedecámaras is perceived as the main voice of entrepreneurs.<sup>58</sup> According to one of its recent presidents, it is

undoubtedly the most representative organization of the business sector at the national level[...]. With 69 years of history, it has played a transcendental role in the republican history of Venezuela... I don't doubt that in the minds of Venezuelans, when you ask them for an organization that represent the business sector, they think of Fedecámaras (Venezuela-B3 2013).

This efficiency as a class organization has, since its inception, been based on its capacity to act as a forum where different business views are expressed in order to foster a unified class position to present to the country, and this is still the case today. According to this same president:

There have been tensions between sectors. Obviously, the quarrel between the commercial sector and the productive sector has not spared this country. What we try to do with this organization is that in Fedecámaras, these types of discussions... we process them inside the institution, and they do not become public fights. (Venezuela-B3 2013)

Given this class strength, it is not surprising that with the little coherence of the austerity measures adopted to face the crisis during the 1980s, the measures favoured the rich to the detriment of the poor. The share of labour income relative to capital income plummeted from 50% in 1983 to 38% in 1989. The share of labour costs in manufacturing as a percentage of the total value of production dropped from 8% in 1984 to 5% in 1990. The ratio of the income of the richest decile to the poorest decile jumped from 12.5 in 1984 to 23.9 in 1991. Poverty increased

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<sup>58</sup> Almost all the business representatives that I interviewed clearly mentioned the monopoly that Fedecámaras exerted as the representative of the business sector before Chávez (Venezuela-B1 2013; Venezuela-B3 2013; Venezuela-B4 2013; Venezuela-B5 2013; Venezuela-B6 2013; Venezuela-B7 2013; Venezuela-B9 2013). Business chambers that are today opposed to Fedecámaras criticize this monopoly for having excluded the small and medium-sized business enterprises from the political conversation, even saying that they had “stolen the political power” (Venezuela-B6 2013; Venezuela-B9 2013).

from 36% to 46% between 1984 and 1988, and to 68% in 1991, with extreme poverty reaching 34% that year (up from 11% in 1984).<sup>59</sup>

### **The Neoliberal Era and the Destruction of the Remains of Corporatism**

After the contested success of the more or less coherent austerity measures adopted during the 1980s, the neoliberal turn came as a surprise. Carlos Andrés Pérez, the previous president who had nationalized oil and several other industries during the 1970s oil boom and was therefore associated with prosperity, not austerity, was re-elected in 1989. This background, associating Pérez with an economic boom, made him the favourite candidate of the main union confederation, the CTV. He was indeed the president who had adopted the 1974 labour law strengthening employment security. Nevertheless, the choice of Pérez to run anew as AD's presidential candidate caused tensions within the party. In his previous presidential term (1974-1979), Carlos Andrés Pérez was known for his arbitrariness and unpredictability in establishing his power. His nomination displeased some of the party leaders (Coronil 1997, 260). Once in power, he chose ministers with business-school backgrounds instead of drawing them from party elites (López Maya 2006, 54). Some had previously been known for their participation in the Roraima initiative mentioned above, thus creating tensions with Fedecámaras as well.

Contrary to the expectations generated by his campaign, after only a few weeks in office, Pérez's team signed a letter of intent with the IMF behind the backs of political parties and Congress, committing the government to the implementation of policies drawn from the Washington Consensus. Like some other presidents in Latin America at the time, Pérez belongs to the category of "U-turn presidents, because they were elected on platforms that explicitly

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<sup>59</sup> Data are from the compilation provided by Edgardo Lander (1996, 63–66).

repudiated neoliberal policies but, after securing office, succumbed to pressure by the Washington Consensus and the local elites and implemented those very reforms” (Stirton Weaver 2000, 201). However, in Venezuela, the neoliberal turn suffered from an initial lack of support from the capitalist class.

### ***Lack of Support from the Capitalist Class***

The lack of support from local elites is often interpreted as a sign that the state was taking advantage of the weakness of the capitalist class. According to Arnoldo Pirela (2005, 704), Pérez’s neoliberal turn was carried out “behind the back” of the private sector. However, the shilly-shallying of the capitalist class helped undermine not only the government, but the whole state.

On January 23, 1989, only a couple of weeks before Pérez took office and about a month before he accepted the IMF recommendations, the Fedecámaras general assembly issued a document, *El empresario frente a la crisis* (The businessman in the face of the crisis, (Fedecámaras 1989a) presenting its proposals for responding to the crisis. Comparing these objectives with the goals stated in the IMF letter of intent, it is striking to note how little difference there is. Indeed, although the original reaction of Fedecámaras was to oppose the IMF plan, most of its demands were included in it (see Table 3.3).

The general position adopted by Fedecámaras before the signing of the IMF letter argues against the “hypertrophy and omnipresence” of the state (Fedecámaras 1989a, 4), and for a market-led policy which would allow for the expression of individual choices (Fedecámaras 1989a, 8). At the same time, the document explains how business requires the support of the state to face international competition, especially to develop the export sector, as this sector had

been discriminated against in the context of a protected and controlled economy (Fedecámaras 1989a, 30). Fedecámaras also demanded that the state pursue selective substitution of imports, meaning that protection should be given to certain sectors (Fedecámaras 1989a, 15). Although this positioning certainly shows what Julia Buxton (Buxton 2003, 119) identifies as a tension between pro- and anti-neoliberal factions within Fedecámaras, it does not show that Fedecámaras was not able to act effectively, and rather illustrates how tensions were processed internally.

**Table 3.3: Comparative of Economic Reforms Proposed by Fedecámaras and the International Monetary Fund**

Objectives in the Fedecámaras document*	Policies in the IMF letter of intent†
1-Reduce deficit	a) Restrain fiscal expenses f) Postpone low priority investment g) <u>Reduce subsidies</u>
2-Eliminate balance of payment deficit and increase international reserve	
3-Widen the taxation population and reduce the regressive bias in income tax with a tax policy that promotes investments.	h) Implement a sales tax
4-Unify exchange rate and give it market value	c) Unify exchange rate and make it flexible
5-Adopt monetary policy that stimulates saving and investments	d) Flexibilize interest rates and increase fixed interest rates immediately. Establish a market-based rate ASAP. k) <u>Lift restrictions on international transactions including FDI and profit repatriation.</u>
6-Renegotiate the debt	<i>This is the purpose of signing the letter</i>
7-Adopt anti-inflation policies, for which it is essential to adjust the lifestyle to the level of productivity and economic activity by reducing consumption stimulus	b) Restrict wages e) Reduce price controls i) Adjust prices offered by state enterprises to market prices j) Reform the commercial regime to <u>liberalize imports, including</u> elimination of exceptions

\* Summarized from the Fedecámaras document (Fedecámaras 1989a, 10)

† Taken from the list established by Margarita López Maya (2006, 26–27). The letters identifying the proposals are hers. The elements underlined are the ones that can be seen as partially conflicting with Fedecámaras' objectives.

Five months later, Fedecámaras published an analysis of the implementation of the adjustment plan (Fedecámaras 1989b). The document makes clear the Federation's discrepancies with the adjustment plan, particularly the devaluation, since it did not take into account the



private sector's pre-devaluation international obligations. In the view of business, the private sector needed the same treatment it had secured after the 1983 devaluation. Since the state had not reduced public expenses in the way expected, while the devaluation had transferred assets from the private to the public sector, the private sector was, the document argued, still in a weak position vis-à-vis the state (Fedecámaras 1989b, 9). Moreover, the commercial policy favoured imports "without the implementation of an industrial policy that would have made it possible to enjoy the country's advantages in terms of economic development" (Fedecámaras 1989b, 9).

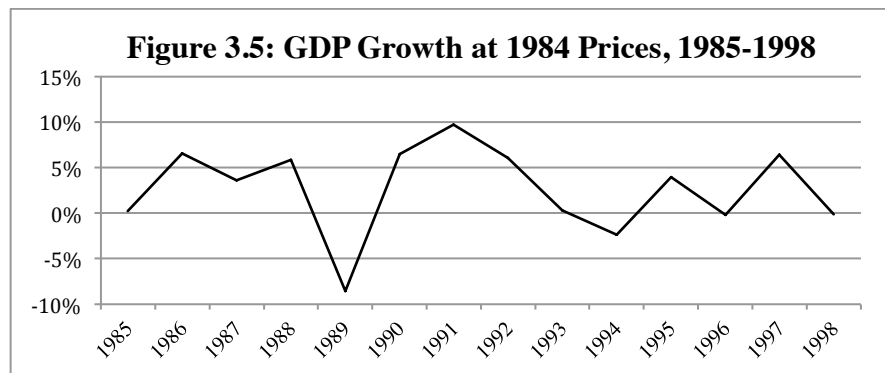
The original rejection of the adjustment by Fedecámaras shows how the capitalist class tried to maintain its dominant position by securing a greater share of rent. This positioning should not be interpreted as the plea of a domestic bourgeoisie resisting against a comprador bourgeoisie or foreign capital. Indeed, they argued for privatization without any restrictions on foreign investments (Fedecámaras 1989a, 35), as long as it improved productivity. In the same way, they continued to agree with state subsidies for industrial development as long as it sustained competitive industries. The common ground within Fedecámaras was therefore to support a market-led development model while preserving access to rent to boost competitiveness.

In the context of a working class undermined by the neutralization of corporatist mechanisms and organizations lacking legitimacy, the main arena of class struggle was increasingly displaced between a centralized capitalist class and a state whose property over the oil industry had transformed it into what Coronil calls a landlord state, or an independent economic agent less dependent on the accumulation of capital at the domestic level (Coronil 1997, 8. See also chapter 2 in this dissertation). However, the drop in oil prices starting in the

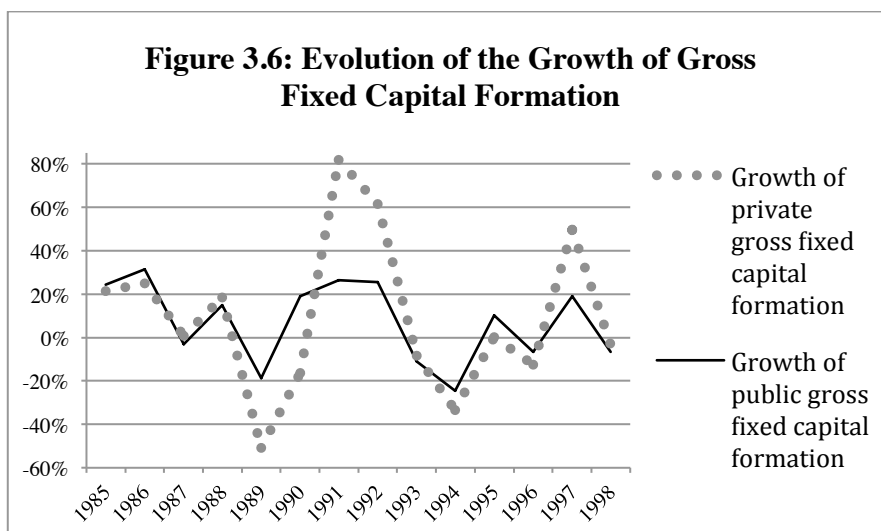
mid-1980s undermined the autonomy of the state at a time when the capitalist class was increasing its pressures against the state-led development model.

### *The Second Capitalists Mind Shift*

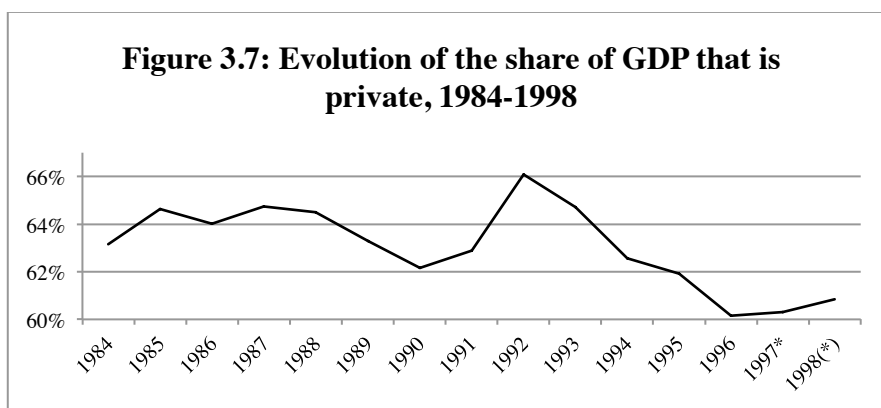
Despite the original complaints of the capitalist class against the neoliberal reform, its negative impacts on business should not be overstated. Liberalizing the market and devaluing the currency did have an initial destabilizing effect (Fig. 3.5), but thereafter it gave an advantage to those businesses that dominated the market. The reform stimulated private capital growth for a few years, as can be seen in the following figures. Quickly, in 1990, the GDP picked up (Fig. 3.5), and by 1991, investment, as measured by gross fixed capital formation, showed an upward trend (Fig. 3.6), as did the share of GDP in the hands of the private sector (Fig. 3.7). For the first time since the 1970s, gross fixed capital formation from the private sector was more important than that of the public sector (Fig. 3.6), a result that is also explained by privatizations in 1991 (Table 3.4 below).



Source: Banco Central de Venezuela: Table II.4.A: Producto Interno Bruto (compilation by the author).



Source: Banco Central de Venezuela: Table III.3.A: Formación Neta de Capital Fijo Según Sectores Institucionales (Millones de Bolívares a Precios Constantes) (compilation by the author)



Source: Banco Central de Venezuela: Table II.6.A(2): Producto Interno Bruto del Sector Privado (Millones de Bolívares a Precios de 1984) (compilation by the author)

With the implementation of the neoliberal reform, the Venezuelan capitalist class gradually changed its discourse. A representative of the industrial sector at the national level said in a personal interview:

There was a turning point at the end of the 1980s, beginning of the 1990s, when state policy changed radically towards economic opening. At the time, the business sector, and especially the industrial sector, strongly resisted the opening process. It was seen as a threat when compared to the previous policies of protection of national industry. There was a great resistance[...]. There were critiques of the policies, several enterprises had problems adapting to be able to compete in international markets. But in the end, the response has been positive. In the end, I think that the business sector, and the industrial

sector specifically, understood the importance of the change and welcomed and adapted to these kinds of policies. (Venezuela-B5 2013, 5)

The shift can clearly be seen in the position of Fedecámaras at the time. In the second half of 1990, Fedecámaras stated: “the position of business [...] with regard to the PLAN [sustained] that it was absolutely necessary in order to establish the basis towards achieving and consolidating a competitive economy” (Fedecámaras 1990). But it was still very critical of how the government had applied the reform. According to Fedecámaras, despite the fact that some of the main objectives were achieved; the state still privileged the public sector because it applied the reforms with an “excessive emphasis against the private sector” (Fedecámaras 1990, 3). It identifies this bias as being an application of monetarist macroeconomic policies without sufficient effort to contain the fiscal deficit (Fedecámaras 1991, 2; Fedecámaras 1990, 5). The fight to undermine state autonomy was progressing.

### ***The Popular Sector’s Reaction to Adjustment***

While the capitalist class was adapting economically and politically to the change, the popular class was facing increasing difficulties. Indeed, Pérez’s “*Gran Viraje*” (Big Turn)<sup>60</sup> produced a strong reaction from the popular sector. An increase in oil prices for internal consumption, stemming from the agreement with the IMF, affected bus fares and sparked a wave of riots known as the *Caracazo*. They lasted for about a week, and their repression resulted in casualties numbering between 300 and 3000.

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<sup>60</sup> The “Big Turn” is the title that Pérez gave to the formalization of his development plan presented to Congress in January 1990 (Venezuela and Oficina Central de Coordinación y Planificación 1990).

According to Margarita López Maya, the *Caracazo* illustrates the failure of the institutions responsible for channelling the demands of the working class and more widely, of the popular sectors (López Maya 2006, 80–84). As described above, the corporatist relationship since the end of the dictatorship relied on unionized workers, and essentially on the CTV, to win some of the demands not only of the working class, but more broadly of the popular sector as a whole. However, in taking distance from the leadership of his own party, AD,<sup>61</sup> Pérez disrupted the role the party had played in mediating working class demands, while the marginalization of the CTV in state consultative commissions meant that the other central channel of participation within the sphere of the state has also been rendered inefficient. The disruption of these corporatist mechanisms, underlined by several authors (López Maya 2003a, 76–77; Carvallo 1995, 145–49; Lacabana 2006, 335), was not only the result of the state’s stance, but also of the capitalists’ refusal to concede much to the workers.

Given CTV’s initial support for Pérez, CTV’s Secretary General, César Olarte, originally repudiated the violence of the protesters during the *Caracazo* and asked the protesters to go back to work (Lemoine 2006, 11–12). But the impact of Pérez’s plan on prices and jobs through privatizations could not remain unanswered. In order to reassert its position and preserve some legitimacy, in May 1989 the CTV summoned its first general strike since the return to democracy in 1958, protesting the implementation of the IMF recommendations. In a struggle in which workers’ representatives attempted to preserve the elite negotiation schemes that had operated under corporatism, the CTV pressured Congress to reform the labour code to improve benefits and job security regulations. Although this ran against Pérez’s program of flexibilizing labour, he chose not to veto the reform in order to preserve some support from labour (Murillo 2001, 63–

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<sup>61</sup> A condition that Javier Corrales would call “a president without party” (Corrales 2010).

66), in a context in which the capitalist class had adopted a confrontational attitude. In this same context, the CTV managed to block a reform to existing severance payments and social security regulations. Meanwhile, it gave its acquiescence to trade liberalization and to privatization in sectors not directly related to the “mission of the state” (oil, mining, public services, social security) (Iranzo and Richter 1999, 31), essentially in exchange for the distribution of stocks to employees, job security and the preservation of union rights and gains in privatized enterprises.<sup>62</sup> These partial successes would not, however, prevent the negative impact of privatization and economic turbulence on union membership, on CTV representativeness or on the popular sector more generally. Moreover, CTV’s conciliatory attitude towards the state allowed more radical unions to gain ground, notably those related to the Radical Cause (LCR, *La Causa Radical*) (Yépez Salas 1993; López Maya 2006, chap. 6).

The erosion of the main channels for capturing the demands of the workers, and more widely of the popular sector, eventually led to a transformation of the social role of protests. The popular sector, not represented by the CTV, increasingly overflowed the boundaries of the corporatist model as protests became more confrontational and focused on political issues rather than predominantly on socio-economic issues, as the legitimacy of the state was severely undermined (López Maya 2006, 104–7). Susan Spronk (2013) underlines the similarities between this situation and what E. P. Thompson (1978) described as the growth of a class struggle without class, or the growing expression of popular sector discontent without a large

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<sup>62</sup> In the 1980 *Manifiesto de Porlamar*, the CTV argued for co-management as the way to transform the economy. A decade later, privatization with distribution of stocks to workers was defended by CTV leaders as a form of co-management. Maria Victoria Murillo (2001, 61) signals that at the beginning of the wave of privatizations, the Pérez government had offered a series of hotels to a consortium made up of the CTV and private investors. The price was so low that it raised public outrage and the transaction could not be completed. This can be interpreted as an attempt by Pérez to buy the support of the CTV leadership.

coordination of associations organizing the convergence to form a class. I paraphrase the expression and refer here to a *class struggle without a centrally coordinated popular class*, because in this context it would be misleading to think that the capitalists were not themselves organized as a class.

### ***The Political Crisis and the Dwindling of a Regime***

The Big Turn cut Carlos Andrés Pérez off from most of his support. With respect to his political party, Pérez had placed himself in a tense situation by bypassing party elites and by implementing a program that ran contrary to his campaign. With respect to the capitalists class, the initial lack of support from Fedecámaras would prove very challenging, as they were the actors who would supposedly be satisfied by the reform. With respect to the popular class, although Pérez had initially received union support for his candidacy, the neoliberal turn rapidly created tensions, as illustrated by the CTV's call for a general strike in 1989. The CTV was also becoming less representative of working people and even less so of the popular class, while deteriorating socio-economic conditions were fuelling the popular sector's resentment and existing channels for expressing it were proving inefficient.

It was in this context that important electoral reforms were implemented. The 1989 reforms comprised the direct election of state governors and the transition of municipal councils from closed list proportional representation to a mixed system of proportional and nominal elections. The two main political parties (AD and COPEI) had discussed the reforms since the early 1980s, but they refrained from implementing them as they both benefited from their shared control over the state (Ellner 1993b). It was only in a context in which institutions were shaken

by the evolution of class conflict described above that state reforms came to appear necessary to elected officials. Electoral reform mostly benefited small rising political parties.

The political crisis also deepened the realignment of Fedecámaras. Acknowledging its prior wavering, the July 1992 Fedecámaras general assembly's document states:

it is time to make the economic reform plan [proposed in 1989] our own, with an emphasis on all the policies that guarantee the consolidation of the private economy, and to take over the leadership role in its execution, because with this plan, our future is at stake...if we, as the private sector, do not recognize this project as ours and if we do not expropriate it from the government's initiative, we are at risk of returning of the paternalistic model. (Fedecámaras 1992, 17).

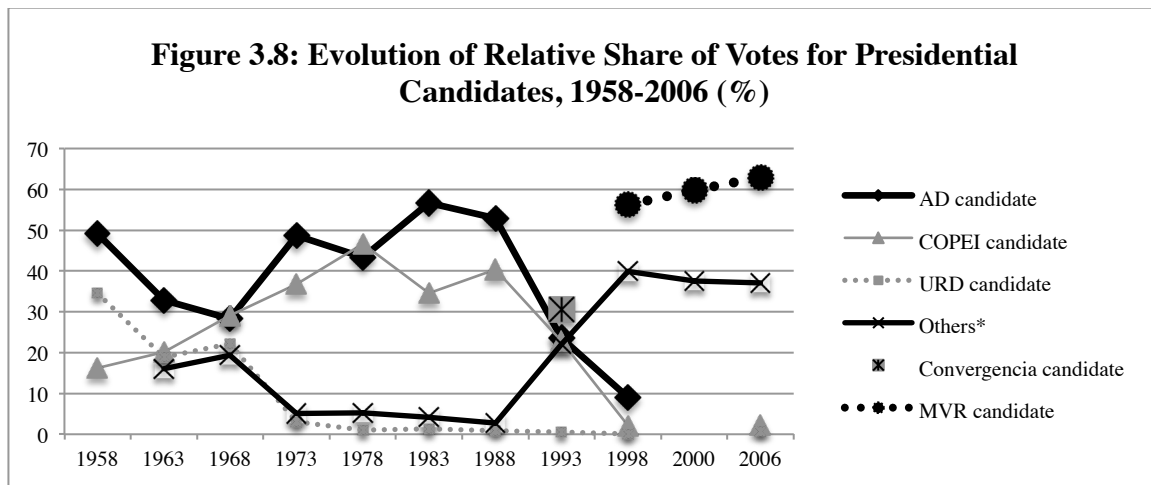
The urgency in the tone of this declaration reveals that the tensions within the organization were being resolved and that the shift towards neoliberalism was being embraced by the main class organization, while it was still rejecting the leadership of the government of the day. It also reveals the growing concern resulting from the coup attempt in February 1992. Attempted by a military group headed by Hugo Chávez, with a discourse critical of adjustment policies, the coup was a clear indication of the government's inability to preserve the unity of the state apparatus in the face of the unpopularity of its reforms.

A second coup attempt later in 1992 and the impeachment of Pérez in 1993 are indicative of the tension between the legislative and the executive and the government's incapacity to maintain its legitimacy. A neoliberal reform program without the support of the capitalist class proved very difficult to implement.

In the aftermath of the impeachment of Carlos Andrés Pérez, the presidential election was won by a motley political coalition, *Convergencia Caldera*, headed by former COPEI leader Rafael Caldera, who had been very critical of the second government of Carlos Andrés Pérez. This electoral victory represents the end of the bipartite system in place since the return to



democracy (Fig. 3.8). The two parties that had dominated the presidential races since 1968 crumbled in 1993. Between 1974 and 1993, the two parties together occupied more than 80% of the seats in both chambers of Congress (Hellinger 2004, 33), allowing for their control of the legislative process. At the presidential level, the candidates of these two parties had managed to gather more than 80% of the vote since 1973.



Source: CNE, compiled by the author

\*This category represents a different party coalition at each election.

The uncertainties created by the impeachment of the president and the end of the bipartite system in the context of financial liberalization prompted a new period of capital flight in 1993 and 1994 (see Table 3.4, “Made in foreign countries by nationals”). The deregulation of the banking sector, undertaken in the 1980s and accelerated under Pérez, had reduced the controls, creating an environment of competition to attract savings from inside the country to invest them abroad (De Krivoy 2000). The system collapsed when a bankruptcy caused a chain reaction affecting the whole banking system. The crisis was such that President Caldera (1994–1998), after assuming office in 1994, took control over 16 financial institutions while 59 were closed, representing a total of 45% of all banks (Rivero M. 2000, 18). Affected deposits represented 53.7% of all deposits in private banks (including some government deposits) (Rivero M. 2000,

18), and the bailout cost, US\$7.3 billion (De Krivoy 2000, 183), which includes the revenues collected from selling the banks' assets, represented more than 10% of the yearly GDP at the time (Rivero M. 2000, 20). Moreover, many bankers took some of the bailout money and fled the country before the authorities were able to stop them (Coronil 1997, 381).

**Table 3.4: Balance of Payments: Direct Investments**

	(Millions of US \$)										
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>Direct investments</b>	<b>77</b>	<b>96</b>	<b>1,769</b>	<b>429</b>	<b>(507)</b>	<b>136</b>	<b>686</b>	<b>1,953</b>	<b>4,888</b>	<b>4,138</b>	<b>2,858</b>
Made in the country by foreign residents	213	451	1,916	629	372	813	985	2,183	5,536	4,495	3,187
Conversion of external debt	183	303	258	142	25	-	-	-	-	29	-
Privatization	-	-	1,469	7	-	-	27	12	709	1,206	-
Others	30	148	189	480	347	813	958	2,171	4,827	3,260	3,187
Made in foreign countries by nationals	(136)	(355)	(147)	(200)	(879)	(677)	(299)	(230)	(648)	(357)	(329)

Source: Pdvsa, Otras Empresas del Estado, Siex, Instituciones Financieras y Banco Central de Venezuela. Compiled by Ignacio Antivero, BCV, Table I.16

All this economic turmoil did not lead to any loss of power for capitalists as a class, as the development model remained organized around the idea of pleasing capitalists in order to convince them to invest. After two years of recovery from the banking crisis, the Caldera government, elected on a platform of criticizing Pérez's neoliberal plan, nonetheless followed a similar route with its own development program: *Agenda Venezuela*. The plan followed the canons of the neoliberal development model, and according to Margarita López Maya (2006, 28–29), it was drafted with the assistance of the IMF, whose involvement had been central since the 1994 banking crisis. The plan recommended further privatizations; the liberalization of prices, tariffs and exchange rates; an increase in sales taxes; social welfare reform; and labour flexibilization. Three policies are worthy of special attention.

The first is the privatization of the oil industry (called Petroleum Opening – *Apertura Petrolera*). In fact, the state company Petr6leos de Venezuela (PDVSA) remained a property of the state throughout the entire process. The opening took place through the nomination of astute directors who allowed the company to use loopholes in the nationalization law to increase private companies' participation in the extraction process (Mommer 1998). Through service agreements and association agreements, the role of transnational corporations in extraction was increased, as was their share of revenue. This was the continuation of a trend already supported by senior management, which had preserved a private corporate culture despite nationalization in 1976. When the government used PDVSA's investment accounts to face the economic crisis in 1983, management's reaction was to reorganize the company's finances to avoid registering gains in Venezuela. Earnings were mostly dedicated to foreign investments or transferred to foreign subsidiaries in order to avoid being captured in the state budget. Some subsidiaries operating abroad had operated for several years without providing any earnings to Venezuela (Mommer 2003). Taking advantage of the *Apertura* and the attitude of management, PDVSA reduced the share of revenue transferred to the state from 16% of the GDP in the early 1990s to less than 5% by 1998 (Parker 2007, 63), even while production was increasing. In 1981, gross income from oil exploitation was US\$19.7 billion, yielding the state US\$13.9 billion in fiscal revenues, or 71%. In 2000, a gross income of US\$29.3 billion only yielded US\$11.3 billion to the state, or 39% (Mommer 2003, 137). Most of the relative drop happened after 1989, once the first steps of privatization had been launched (Parker 2007, 63).

Given that the oil industry was one of the main sources of fiscal income, the decision to grant more freedom to its management hardly makes sense from a state-centric perspective. However, Fedec6maras had been complaining consistently since the early 1980s that the state

had too much economic power, and its 1984 document alluded to the privatization of the industry. Moreover, international pressures, notably from the IMF, were also pointing into that direction. The privatization can therefore be explained from a relational class perspective by the shifting balance of forces in favour of the capitalist class relative to both the popular class and the state.

The second policy worthy of specific attention is that of privatization in general. Since the early 1980s, Fedecámaras continuously promoted privatization as a remedy against the “hypertrophy of the state”; a demand partially realized through the implementation of Pérez’s Big Turn. The capitalist class consensus was even supportive of privatization without regard for the origin of the capital. Foreign capital did in great part respond to Pérez’s call for privatization, but the data indicate that Caldera was more successful in attracting foreign investments than Pérez, even beyond the influx resulting from privatization (Table 3.4).

An important difference distinguishes Caldera’s neoliberal package from the one promoted by Pérez: the support that it received from the business sector. Although Caldera had originally raised suspicion, his bailing out of the bank and his development plan revived capital’s confidence. Moreover, the institutional representation of the popular class, essentially organized through the CTV, was undermined. Recession, privatization and unemployment were all factors that contributed to the weakening of the union sector. Although pressures from more radical unions, notably the LCR, motivated the CTV to press harder for a response to labour demands (Murillo 2001, 86), the CTV’s strength was affected by growing internal tensions (Iranzo and Richter 1999, 19). It had even started an important process of structural reform to address these challenges, but it was unable to implement any changes before Chávez’s election.

This takes us to the third important policy: the renegotiation of the labour code and its section on social security. With the adoption of the *Agenda Venezuela*, Caldera summoned a tripartite commission in 1996, which in addition to state representation, included representation for small and medium-sized businesses (Fedeindustria),<sup>63</sup> whose presence was counterbalanced by the three sectoral branches of Fedecámaras (Consecomercio (commerce), Conindustria (industry) and Fedegro (agriculture)), and on the union side, CTV's voice was complemented by two smaller national organizations, CGT and CODESA. According to some actors, the commission was expected to collapse given the lack of legitimacy of the CTV and the absence of representation from other parts of the popular sector such as the rising new unions and the informal workers and the self-employed, categories that had been growing in the previous years (Fernández 2002). The commission did reach several agreements, though, among which the most important is the Tripartite Agreement on Integral Social Policy and Wage Policy (ATSSI is its Spanish acronym). It includes the privatization of retirement pension funds through individual capitalization, reform to the healthcare system allowing for the growth of private participation, and important reductions in compensation payments for layoffs. Capitalists' complaints about the poor work ethic of workers caused by excessive state protection were finally heard.

The result of this negotiation, despite reaching an agreement signed by all parties, can hardly be seen as a victory for the unions. With the relinquishing of the 1970s law against unjustified layoffs, the labour movement was retreating on what is still today seen as one of its main victories (Venezuela-S2 2013). Caldera's neoliberal proposal regarding social provisions, a shift away from his electoral program, happened to coincide with the major demands the capitalist class organization had been repeating over the past twenty years. It also coincided with

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<sup>63</sup> The very same Fedeindustria that Fedecámaras excluded from the CONACOPRESA in the early 1980s.

the appointment in 1997 of Freddy Rojas Parra, a former president of Fedecámaras (1991-1993), as the minister of Finance, nourishing the perception at the time that Fedecámaras was choosing the ministers in the economic area, a perception that is still shared by business leaders today (Venezuela-B4 2013; Venezuela-B9 2013).

If the CTV celebrated the agreement, it was only a sign that its leadership was still committed to a conception of its legitimacy as deriving from its capacity to strike tripartite deals, an inheritance from the corporatist model. Meanwhile, the organization as a whole was lacking support from workers and the popular sector more generally. Indeed, rejection of the social security reform was an important point of Chávez's electoral campaign, and one of the major policies he rapidly reversed once in office (Guillaudat and Mouterde 2012, 93–95). It shows how much the reform, which secured the support of business and union elites, was in fact rejected by a large part of the population.

In terms of the balance of class forces, this shows how the union leadership had become increasingly distanced from the popular sector. In contrast, despite the loss of legitimacy of some bankers during the banking crisis, the capitalist class organized and represented by Fedecámaras was still able to defend its interests and promote them ever more successfully. Most representatives of organizations of the business sector emphasize today that the influence of their organization on the state, through regular meetings with state and elected officials, was very important in the 1990s<sup>64</sup> and had a tremendous influence on the policy direction taken by the state.

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<sup>64</sup> (Venezuela-B1 2013; Venezuela-B3 2013; Venezuela-B4 2013; Venezuela-B5 2013; Venezuela-B6 2013; Venezuela-B7 2013; Venezuela-B8 2013; Venezuela-B9 2013)

## Conclusion

This chapter has presented the evolution of class relations in Venezuela to show the influence that the main organization of the capitalist class had on the development model. It demonstrates that despite the importance of oil rent, the relative autonomy and strength of the state and of the different classes is political, and, hence, a relational characteristic. The state power derived from oil rent is only as good as the other players in the relationship accept it to be.

The post-dictatorship class relations were established upon the basis of a corporatist tripartite model, where very centralized class organizations managed to sustain a stable democracy and a state-led ISI development model for about two decades. Despite its equilibrium favouring the capitalist class, there was room for unionized workers to represent the whole popular class and gain improvements in their conditions, notably to undermine the revolutionary threat. During the 1970s, the oil boom brought a tremendous increase in economic resources to the state, and the capitalist class accepted both oil nationalization and the leadership of the state in the development model. Until the late 1970s, against the predictions of the Dutch disease models, the re-investment of oil rent had the multiplying effect of generating more private investments, even in the tradable sector.

However, the nationalization of basic industries and oil slowly shifted the perception the main capitalist organization had of its balance of power with respect to the state and the popular class. The state, assuming a greater landlord power, was increasingly perceived as a competitor and as an ally of workers. Moreover, it was no longer the necessary ally of domestic capital against oil multinationals, as it did not control oil extraction. In this context, the capitalist class faced a choice between its support for state-led national development and its alliances with multinational capital. State power was perceived as too great and its support for workers

problematic, as it undermined the “work ethic” and the possibility for successful capitalist development. Thus in the 1980s, once the domestic revolutionary threat was gone, the capitalist class began to actively mobilize against a state leadership role in development while still fighting to acquire a share of rent. The capitalist class sought thereafter to increase its power over the state while undermining the power of labour, notably by refusing concessions in tripartite bodies.

It is true that the neoliberal package of 1989 took the capitalist class by surprise, as it did most organized actors in Venezuela. Its reluctance, as a class, to support the changing model, contributed to a political meltdown. Without its support, the government was forced to seek support from the unions to stay in power while it implemented a model that otherwise sought to undermine the conditions of the workers. This conundrum would, however, not save the CTV from its own legitimacy issues. Eventually, the whole political system began to show signs of stress (riots, coups, crumbling of the bipartite system). It is only in this political context that the capitalist class decided to actively support the neoliberal development model. Under such conditions, and with the support of international financial institutions using the country’s debt as a lever, the state surreptitiously transferred more control and wealth from the oil industry into private hands. Unhindered by an increasingly disorganized popular class, the influence of the capitalist class on the state had grown to the point where the state relinquished the main tool of its autonomy.



4.

## The Bolivarian Revolution: Rebuilding State Autonomy Against Classes

There is nothing more cowardly than money  
-Venezuelan business representatives

This chapter analyzes the evolution of class struggle in Venezuela following Hugo Chávez's first electoral victory in 1998. In particular, the discussion addresses changes in the development model resulting from the struggle between classes and the state. It underlines the importance of the centralized federation representing large businesses, Fedecámaras, in influencing the development model. Fedecámaras contributed to overcoming sectoral differences and waged a common struggle against changes in social property relations and the state involvement in the economy. This stands as an important difference with Ecuador, which will become more obvious in the chapters that follow.

A central feature of this period in Venezuela was the reconfiguration of state autonomy away from the strong influence previously exerted by the centrally organized capitalist class. With increased autonomy, the government regained its property over the oil sector and over the public oil company, PDVSA. Asserting its position as a landlord, the state captured greater extractive rent to direct a domestic process of accumulation. It led to the building of a rent-based, social-developmental state where the state used rent for redistributive purposes and to support policies to foster industrialization and diversification.

The opposition of a centralized capitalist class organized in a federation undermined this developmental state and amplified its reliance on oil, pushing the model to take on the role of “dispenser”. Losing faith in large business investments, the government increasingly relied on rent and on its control over hard currency to take a leadership role in investment and to try and orient diversification and growth through small and medium-sized enterprises and social participation in the economy. While the growing reliance on oil was justified as the means to foster growth, diversification and distribution, the strategy made the whole system sensitive to variations in oil prices. Their drop at the end of the first decade of the 21<sup>st</sup> century undermined a main source of state capacity and autonomy, and without having achieved greater economic diversification, contributed to the difficulties of the model.

### **Chávez’s Victory: The Context**

The decade preceding Chávez’s first electoral victory in 1998 was characterized by a crisis that brought the existing political regime up against what might be best described as a crisis of hegemony. The viability of the previously existing equilibrium between political and social forces had evaporated. The crumbling of the bipartite system provides a clear illustration not only of the shifting balance of forces, but also of the collapse of the corporatist institutions mediating between civil and political societies. This institutional breakdown stemmed from the increasing power of the capitalist class over the state and from the inability of weakened popular class organizations to coordinate and channel a counter power.

The ineffectiveness of neoliberal solutions to the enduring economic crisis in the 1990s fuelled discontent. The decade was marked by strong inflation (averaging 46% per year for the

decade);<sup>65</sup> a downward trend in both public employment (from 20% of the economically active population in 1990 to 16% in 1998) and formal private employment (from 39% in 1990 to 35% in 1998); the concomitant growth of the informal sector (from 42% to 48%); and a decline in average annual income that resulted in soaring numbers of people living in poverty and extreme poverty. The possibility of social mobility, based on state-funded education and the economy's demand for professionals, was suddenly blocked (Fournier 2010, 23–25; E. Lander 2007, 21–22).

However, growing poverty and inequality do not make political transformation unavoidable. The political reactions to changing socio-economic conditions are mediated by the populations' organizations (or lack thereof), their means of expression and their interactions with each other and the state. The erosion of the power of the main union confederation, with union density dropping (Lucena 2008, 188), left the CTV barely able to protect its previous gains or its vanishing legitimacy, reflecting, in particular, its failure to consult the rank-and-file over key issues, the abandonment of its mobilization strategy, its acceptance of concessions to employers that withered away historical worker benefits, its subordination to the AD's electoral agenda (Ellner 2003a, 165–67). It nevertheless fought to preserve its central position as representative of the popular sector, against smaller rising organizations like LCR (Murillo 2001, chap. 4). Acknowledging some of its problems, the CTV had been undergoing its own process of structural reforms since 1995. New bylaws and guiding principles were adopted in April 1999, but the political events that unfolded at the time prevented their full implementation.<sup>66</sup>

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<sup>65</sup> All data presented in this paragraph are taken from (López Maya and Lander 2004)

<sup>66</sup> The reform comprised important measures of democratization, such the direct election of the national executive by rank-and-file members (Comité Ejecutivo Nacional - CTV 1999).

A weak class organization for the popular sector did not mean the end of protests and marches. As mentioned in the previous chapter, instead of disappearing, protest changed in form (becoming more confrontational) and content (about political rights rather than socio-economic issues), expressing the loss of legitimacy of the state. For the popular sector, this context corresponded to a class struggle without a centrally coordinated popular class and the perpetuation of popular protests without a well-structured organization or strong moments of convergence to bring them together. This does not mean that there were not several local and sectoral organizations in the popular sector, but it became increasingly difficult to see organizations or moments of wide convergence. The issue with a weakly organized popular sector pursuing a class struggle is that it preserves the capacity to disrupt the political order without providing channels to find lasting settlements.

Meanwhile, through Fedecámaras, the capitalist class continued to be a central political actor, active in corporatist institutions and winning its demands in conflicts with the popular sectors and worker organisations. This led to increasing tension that the political system had difficulties mediating. A notable manifestation of this tension is the collapse of the bipartite political system organized around AD and COPEI, which had dominated most of the electoral scene since the transition to democracy in 1959. This system, established around pacts between the main political parties and between the main organization of capitalists and the main workers' confederation, referred to as a "pacted democracy" (Levine 1973), was celebrated for having maintained an "exceptional democracy" (Ellner and Tinker Salas 2007a, 5–7): a democracy able to channel class conflicts and that had survived despite the dictatorships experienced in neighbouring countries. With the two coup attempts in 1992, the impeachment of Pérez in 1993, the downfall of both AD and COPEI in the 1994 elections, and the emergence of new political

coalitions of smaller parties around the presidential candidacy of Rafael Caldera (1994-1999), the instability of the electoral scene was in fact a sign of a deeper institutional crisis.

While Caldera had been elected on the promise to adopt an approach that would depart from the neoliberal program promoted by IFIs, his capacity to do so was severely undermined by the banking crisis of 1994 that hit immediately prior to his assumption of office (López Maya 2006, 213). After salvaging the banking system, he adopted a plan, *Agenda Venezuela*, that was a lighter version of the same neoliberal recipes that had made Pérez so unpopular.

Hugo Chávez was elected in response to this context. In 1998, he won 56% of the vote, with 40% going to his closest competitor, Henrique Salas Romer,<sup>67</sup> who had coordinated the writing of the 1980 *Carta de Maracaibo* that signalled the rupture of Fedecámaras with the state-led development model. Chávez, a former middle-rank officer, had attempted a coup against Carlos Andrés Pérez in 1992 and failed. His popularity grew at the time because of how he assumed responsibility for the events. Appearing on national television to ask his accomplices to lay down their weapons following the demands of the loyal officer who had captured him, he took responsibility for the coup and suggested that the fight against the unpopular government had to continue. Through this participation in the coup attempt against a deeply unpopular government and his call for abstention in the regional elections of 1995, Chávez had built a credible case that he would fulfill his promise of deep institutional change. The name of his party, the Fifth Republic Movement (MVR, *Movimiento Quinta República*), also conveyed the centrality of institutional renewal. Chávez established an electoral coalition around this party, the Patriotic Pole (*Polo Patriótico*), essentially based on a nationalist rejection of neoliberal policies

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<sup>67</sup> Salas Romer ran for Project Venezuela, a small regional party from Carabobo that was transformed into a national party to support Romer's presidential candidacy. At the last minute, AD and COPEI supported his candidacy, given the presumed failure of their respective candidates.

(López Maya 2006, 216). While the MVR won the bulk of the votes for Chávez (40%), the remaining 16% was scattered among smaller left-wing political formations.

Yet this electoral support must not be equated with the support of strong and democratic class organizations. Released from jail in 1994, Chávez founded the Bolivarian Revolutionary Movement (MBR-200, *Movimiento Bolivariano Revolucionario-200*), a social movement that involved some democratic participation in its decision-making processes. His electoral success, however, was the result of the MVR, founded only a few months before his victory. Despite some efforts to include democratic participation from below in the preparation of the program, the electoral urgency limited the decision-making process within the MVR to a close circle of leaders.<sup>68</sup> The MVR emerged as a body distinct from the social movement, an electoral machine designed to propel Chávez to power (Dangl 2010, 98). Chávez himself felt little confidence in the solidity of the MVR, nor beholden to it or to the MBR-200 (Blanco Muñoz 1998, 600). Political support for his candidacy was therefore not mediated through a strong class organization, but rather through loose electoral linkages.

The links between Chávez and his supporters share several of the traits of a populist leadership. However, populism as a concept does little to account for the role capitalist classes played in creating the circumstances favourable to Chavez's rise to power. The capitalist class, in rejecting state-led development and the original neoliberal reforms while it continued to strive to secure a greater share of rent, contributed to shattering the corporatist class compromise. They were not merely a character in Chávez's discourse, although he constantly denounced the

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<sup>68</sup> William E. Izarra (2001), a leftist leader who contributed to the foundation of both the MBR-200 and the MVR, notes this restriction of popular participation in the transition to the electoral formation.

“oligarchy”; they were real actors with great influence on the state. This influence created important social tensions that put them in direct opposition with the popular sector.

### **The First Development Plan**

Notwithstanding the rhetoric, the political platform on which Chávez ran for president (Chávez Frías and Equipo Acessor 1998) and the first development plan that it inspired for the 1999–2000 period (Cordiplán 1999) signalled a soft original strategy. Several aspects of the plan were in stark contrast with the proposals previously advanced by the MBR-200, which adamantly denounced denationalization of the oil sector and poverty as the main problems affecting Venezuela (MBR-200 and Chávez Frías 2007). While aiming to reconfigure state autonomy in order to coordinate macro-economic and social policy, the development plan pursued modest transformative goals with regard to the economy. Its first paragraphs emphasized macroeconomic stability with a focus on inflation and presented the aim of producing an economy where “competitiveness and growth” would produce greater equity (Cordiplán 1999). It was designed to seduce domestic and international corporations in order to foster economic diversification based on private investment, while also trying to please the popular sector by promising to tackle poverty. The plan suggested uniting “the invisible hand of the market with the visible hand of the state in a space where as much market as possible and as much state as necessary will co-exist” (Cordiplán 1999, 350), a slogan borrowed from the German Social Democratic Party when it proposed an alternative to a state-controlled economy. The plan even promoted the contraction of state enterprises to limit them to the sectors where the state could be equally or more profitable than private businesses (Cordiplán 1999, 351).

The electoral platform and first development plan attempted to earn the confidence of the capitalist class in the state's capacity to manage industrial development. Notwithstanding suspicions about him as an outsider, and one who had severely criticized elites in the past, Chávez repeatedly addressed Fedecámaras in positive terms in his public speeches (Chávez Frías 2005, 3:394). He included domestic entrepreneurs in several international trips to foster links and attract foreign investors. While his government had already taken some distance from Fedecámaras, several business chamber representatives acknowledge that during the first few years, they continued to have good contacts with the state and the government (Venezuela-B1 2013; Venezuela-B3 2013; Venezuela-B4 2013; Venezuela-B5 2013; Venezuela-B9 2013). Some even stressed that Chávez came to power with support from important sectors of the elites (Venezuela-B1 2013).

Even the second economic program, designed for the 2001–2007 period (República Bolivariana de Venezuela 2001), was far from radical. In continuity with the previous plan, Lebowitz (2006, 90–93) suggests that it remained most closely aligned with neostructuralism, the development strategy developed by Osvaldo Sunkel (1993) and ECLAC in response to neoliberalism, yet still aimed at strengthening a strong domestic market system to compete in the world economy. The central proposition in this approach was to use the state not to support specific businesses, but rather to create a social system that would generate dynamic comparative advantages and foster endogenous growth through international competitiveness. Accordingly, the 2001–2007 development plan insisted on the necessity of democratization as the basis for creating the state autonomy necessary to manage the economy, though the plan was still devised to increase private investment. To reach this latter objective, the plan identified macroeconomic stability, the creation of a flexible and well-trained work force, the guarantee of legal stability



and fiscal restraint as essential tools. State intervention was mostly focused on compensation for market failures (managing less profitable strategic enterprises, promoting technological innovation, mitigating poverty, and protecting industries and agriculture when they faced “unfair competition”). In its own terms:

The development model proposes a productive, diversified, and competitive system, open towards international markets, based on private initiative, with state presence in strategic industries but open to private investment and the downstream development of an industrial network where productivity and efficiency have to be the basis of profitability. The state will reserve the right to protect national industry and agriculture when they face disloyal competition. (República Bolivariana de Venezuela 2001)

The social economy and small and medium-sized enterprises (SMEs) had a place in the plan, but it was as a complementary factor for economic diversification in a capitalist economy driven by large investments.

Although the first two plans brought positive growth for 2000 and 2001 (Table 4.1), the results for 2001 barely compensated for the drop in 1999, resulting from the low oil prices (see Appendix B), and the uncertainty caused by Chávez’s victory.

<b>Table 4.1: Basic Economic Indicators for Venezuela, 1998–2001</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
GDP in thousands of 1997 bolivars	42,066,487	39,554,925	41,013,293	42,405,381
GDP growth over previous year (%)	0.3	-6.0	3.7	3.4
Gross fixed capital formation in thousands of 1997 bolivars	11,274,818	9,521,478	9,771,472	11,117,724
Gross fixed capital formation growth (%)	5.5	-15.6	2.6	13.8

Source: BCV, Table 7.1.7-1, Producto interno bruto y sus componentes

The frequent use of the term “revolution” during Chávez’s first years in office was not related to socialism—a political tendency that he refused to embrace at the time—but to the transformation of the state. The radicalization of his position and of the development model

would happen later, as a result of the multiple political confrontations the government endured. The first conflict emerged within the political apparatus of the state around the adoption of the Constitution, but it quickly spread to the capitalist class and the main workers' unions.

### **The Recovery of Autonomy Through Constitutional Change**

Writing a new constitution to “democratize” the state was Chávez’s strategy for reclaiming autonomy from the grip of existing elites. While the previous constitution contemplated measures for amendments and reforms, they had to be approved by Congress, where the AD and COPEI parties, founders of the previous constitutional order, still held a majority of seats (Romero 2002, 76). To undermine their capacity to derail the plans for constitutional change, the executive called a referendum asking people to agree to launch a constituent process. After heated jurisprudential debates, the proposal was accepted by the Supreme Court of Justice,<sup>69</sup> and a referendum took place in April 1999. Despite a low turnout (37.65%), voters strongly agreed (87.75%) with the idea of summoning a constituent assembly.

A new election rapidly followed to choose the members of the Constituent Assembly.<sup>70</sup> The electoral process was based on the direct election of representatives in a first-past-the-post system. The requirements to run, including a significant number of signatures to support a candidacy, made it unlikely that individuals not supported by an electoral organization could win a seat (Romero 2002, 80; Gutiérrez Alvarado, Palacios Romeo, and Velázquez Dixies 2009,

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<sup>69</sup> For a thorough account of the jurisprudential debates surrounding the summoning of the Constituent Assembly, see Hernández Camargo (2008).

<sup>70</sup> The use of the expression Constituent Assembly instead of Constitutional Assembly reflects an Ecuadorian jurisprudential debate regarding the function of such an assembly. According to the terms of this debate, a Constituent Assembly exerts legislative power while drafting the new Constitution, while the power of a Constitutional Assembly is limited to the writing of the new Constitution.

229–56). Nonetheless, the discredited traditional parties, still shaken by their recent defeats, were unable to secure representation in the assembly. They had little credibility to sit on such an assembly given that their representatives in Congress had blocked previous attempts at amending the Constitution (López Maya 2006, 219). The Constituent Assembly ended up being composed almost exclusively of *Chavistas* (122 of the 128).<sup>71</sup>

The Constituent Assembly itself became a tool for increasing the autonomy of the Chavista government from a state apparatus still dominated by public officers chosen through the patronage networks of previous political parties. Another ruling by the Supreme Court of Justice (October 1999) recognized the supra-constitutional character of the Constituent Assembly: its decisions were thus the expression of a higher degree of sovereignty than the existing constituted powers. Accordingly, the Constituent Assembly took it upon itself to suspend the powers of the existing Congress (dissolving both chambers and hence dismissing all senators and members of parliament) and of the legislative assemblies of regional states. A committee of members of the Constituent Assembly occupied the legislative duties until new elections were held (Asamblea Nacional Constituyente 1999).

This process, all taking place in a span of less than a year, reflects the struggles to constitute a new balance of forces within the state to replace the equilibrium that had been broken with the crisis of the previous regime. Capitalists' rejection of the constitutional project reveals their concerns about the implication of greater state autonomy for their class power, signalling the beginning of a fundamental political shift.

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<sup>71</sup> Chavista is the term I use to qualify the movement of supporters of Hugo Chávez and his political successors.

### *The Reaction of the Capitalist Class*

All of the representatives holding a position in Fedecámaras and its affiliate organizations that I interviewed in 2012–13 were strongly opposed to the Chavista government. Although the position of their organizations might have been softer in 1999, in their current view, their organizations had not been allowed to participate in the Constituent Assembly and were not taken into consideration:

The organization of the elections in the Constituent Assembly resulted in the domination of one tendency [...] only four people represented different interests. Of them, only one had links to the business sector, Allan Brewer-Carías [...] and he had a very small impact (Venezuela-B5 2013, 5).<sup>72</sup>

In contrast, representatives of small and medium-sized industries and farmers, who were supportive of the Chavista government, claimed in interviews that everybody had had a fair chance to participate: “practically all sectors were represented. I mean, the country got reflected in the Constitution because there were enough possibilities to take part in it” (Venezuela-B6 2013).<sup>73</sup>

In the aftermath of the debate, the main organization of the capitalist class, Fedecámaras, adopted a firm stance rejecting the proposed constitution (Fedecámaras 1999). Its declaration reveals the underlying class positions that drove the organization’s response. Fedecámaras gladly acknowledged the Constituent Assembly’s moderation in refraining from reducing the workweek from the prevailing 44 hours a week to 40. Nonetheless, it argued that other sections proclaiming

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<sup>72</sup> This view is supported by several other spokespersons representing national federations of sectoral chambers of commerce, of food processing and distribution, and from a representative of Fedecámaras (Venezuela-B1 2013; Venezuela-B3 2013; Venezuela-B8 2013).

<sup>73</sup> Backed up in a personal interview with a representative of small and medium-sized farmers and meat processors (Venezuela-B9 2013).

rights like “a wage sufficient for living in dignity (§ 90) or the payment of equal wages for equal labour [were] measures that discourage[d] effort and labour productivity” (Fedecámaras 1999) and negatively impacted employment. Moreover, it noted that the numerous social rights contained in the Constitution could become a heavy burden on the state and that its new responsibilities in providing social services and public education were likely to displace privately owned business in these sectors.

The declaration of Fedecámaras also identified points of contention that illustrate the importance of social property relations in the conflict: it expressed concerns about several measures that threatened private property, notably through the potentially additional space that the state could occupy in the economy beyond its already overwhelming control of strategic sectors like oil. Although Fedecámaras acknowledged the social disgruntlement that led to the need to draft a new constitution, it considered that the speed with which the process was rushed through impeded the rightful contribution of civil society, of which it considers itself a part. It criticized the lack of heterogeneity of the assembly, which in its view led to the adoption a “statist, interventionist and centralizing position” (Fedecámaras 1999). With all these grievances, Fedecámaras called for the rejection of the Constitution during the December 1999 referendum.

### ***Labour, Peasants and Other Social Movements in the Constituent Assembly***

Given the frequent interpretations suggesting that the pink tide surge in Latin America resulted from the successful opposition of social movements to neoliberalism, one might expect a strong participation of these movements in the constituent process. The reality, though, is somewhat blurrier. Although some authors correctly point to the strong mobilization of social movements

and popular sector organizations around the process, there was little space for their effective participation in influencing the actual content of the new Constitution.

There was some representation of CTV-affiliated unions within the assembly, notably through the intervention of Nicolás Maduro and Froilan Barrios, but given the tense relationship between the government and the CTV, the interaction between the labour representatives in the assembly and the organizations of the labour movement was limited. Instead, some labour representatives were united in the Workers' Constituent Front (FCT, *Frente Constituyente de Trabajadores*), a loose coalition of union activists supportive of Chávez and distant from the CTV leadership. Unions leaders of the FCT did have some influence on the constituent process (López Sánchez 2012, 132), and later they became the core group contesting the legitimacy of the CTV leadership (Venezuela-S1 2013; Venezuela-S5 2013). According to current CTV representatives, labour interests were not effectively represented in the assembly, which in their view explains why the Constitution provided good protection for individual workers' rights while undermining the capacity of workers to organize (Venezuela-S2 2013). For them, the FCT representatives were Chávez followers with little support from the grassroots.

The resulting Constitution contains numerous articles detailing workers' rights (§ 87–97). However, their effective implementation was subject to the adoption of a new labour law. A transitory provision in the new Constitution prescribed a one-year term for the national assembly to adopt the new labour law, but it was only adopted in 2012, once a union confederation devotedly supportive of Chávez had been formed. One account by a union leader formerly supportive of Chávez who became more critical around 2006 explained that the labour representatives elected to the Constituent Assembly had been filtered by the MVR leadership, and only those who would follow the leadership line were selected (Venezuela-S4 2013).

Nevertheless, he sustained that there was also a lot of pressure from social movements around the assembly.

Venezuelan peasants were barely represented within the assembly, largely as a result of their weak level of organization. A current campesino leader (Venezuela-C1 2013) says that the Peasant Federation of Venezuela (*Federación Campesina de Venezuela*), was not active anymore at the time of the assembly. Nonetheless, this leader, critical of the government, asserted in an interview that the debate over agrarian questions within the assembly motivated the reconfiguration and strengthening of their movement, allowing several regional organizations to present their demands more effectively and to have their point of view included (Venezuela-C1 2013). In a similar fashion, some authors argue that a variety of social organizations and movements that had emerged and gained legitimacy as new political actors over the preceding thirty years were successful at presenting their demands and recommendations to the assembly. Some even suggest that up to fifty percent of their proposals were incorporated in the new constitution (García-Guadilla 2004, 186).

All the same, the structure and process of the Constituent Assembly eventually limited the space and consideration allotted to popular sector organizations and social movements. Given the immense majority of Chavistas in the assembly, the process of deliberation was extremely swift, from early August to the end of November 1999. Ricardo Combellas<sup>74</sup> notes that it happened in two stages: a first stage, from August to mid-November, when vital debates and dynamic participation enlivened the process; and a second phase, when all the 352 articles written by a small group of advisors were adopted within a week (from November 12 to 19).

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<sup>74</sup> Ricardo Combellas was a member of the presidential commission formed to advise Chávez on constitutional matters. He expresses disappointment with regard to the weak realization of the “democratic spirit” with which the process was originally envisioned, and with the subsequent application of the Constitution (Combellas 2003).

Despite civil society's input and the importance of deliberations in the first stage of the Constituent Assembly, the context of the second stage led to a weaker participation of organizations of the popular sector. The formal process of adoption went so fast that it did not allow for substantive interactions among social movements, and even the first stage left little space for these movements and organizations—and for business interest groups—to conduct their own processes of consultation with their members and comment on the actual text of the Constitution.

### ***The Resulting Constitution***

The resulting text (Asamblea Nacional Constituyente 1999) was submitted to referendum one month later (December 19, 1999). The Constitution contained some potentially subversive elements (Lebowitz 2006, 89–90), notably its focus on “human development”,<sup>75</sup> dignity and solidarity, and the commitment to build a democratic, participatory and protagonistic society. Its chapter on political rights includes the right of “All citizens [...] to participate freely in public affairs, either directly or through their elected representatives”, and states that it is “the obligation of the state and the duty of society to facilitate the generation of optimum conditions for putting this [the participation of the people] into practice” (§ 62). It includes several mechanisms for fostering participation and involvement, notably, but not limited to, popular referenda; mandate revocation; legislative, constitutional and constituent initiatives; and open forums and meetings for citizens, where decisions shall be binding (§ 70). It even extends the idea of participation to social and economic affairs by notably promoting “citizen service bodies,

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<sup>75</sup> By human development, Lebowitz refers to his interpretation of the Marxist socialist goal: an association in which the free development of each is the condition for the free development of all.



self-management, co-management, cooperatives in all forms, collective savings funds, community enterprises, and other forms of association guided by the values of mutual cooperation and solidarity” (§ 70). This democratic project was related to an idea of equality that was not only formal, between individuals, but that aimed to achieve greater social and economic equality through the co-responsibility of the society and the state in building a more balanced society (López Maya 2006, 345–46).

The Constitution still protected private property (§ 115), though, and relied on private initiative to generate growth and employment (§ 299), while the state was expected to promote participation of the private sector in doing so (§ 112). The Constitution also contained elements to support the change in the property regime in the oil sector. It reserved petroleum and other strategic activities for the state, as well as the property of all shares of the state oil company, *Petróleos de Venezuela, Sociedad Anónima* (PDVSA) (§ 302–303). Nonetheless, it left room for associations with private enterprises, in a way very similar to what had been negotiated by Fedecámaras in the nationalization process of the 1970s. It went further than the 1976 nationalization though, in that it enshrined constitutionally, and not simply in law, the role of the state in the administration of national resources (Mora Contreras 2002). The Constitution also favoured sustainable agriculture and rejected the land property regime based on *latifundios* (large farming estates). Moreover, it allowed the state to expropriate unused land for distribution among peasants, especially those promoting collective forms of land ownership (§ 305–307).

The Constitution set the basis for the struggles that would come, with the balance of forces in society determining the particular course these struggles would take. Adopted through a referendum, the new Constitution received the approval of 71.8% of the voters, but with a low

turnout rate of 44.4%. This rather tepid response on the part of the population left capitalist class organizations some hope that there would be room to oppose it.

Following the adoption of the Constitution, all elected positions, including the presidency of the Republic, were submitted to new elections over the course of the year 2000. Chávez won the presidency with almost 60% of the vote, and his party won the national assembly with more than 55% of the seats. Chavistas also held about a third of the positions in regional state legislative councils and 14 out of 23 state governorships. With this strengthened independence of the state from the agents previously controlling it, the government could then move to further strengthen its autonomy by securing more control over the oil sector. This caused important clashes with existing labour and capitalist class organizations.

### **The State Reasserts its Control over the Petroleum Sector**

While the renationalization of the hydrocarbon sector was central in Chávez's discourse of the mid-1990s, his electoral platform (Chávez Frías and Equipo Acessor 1998) and first development plan (Cordiplán 1999) are much softer on this issue. These documents state the intention to use the petroleum income to foster economic diversification, but they no longer mention renationalization. Instead, they propose supporting the Organization of Petroleum Exporting Countries (OPEC) plan to increase prices by controlling supply, increasing local petrochemical transformations and encouraging the provision of inputs by domestic providers. The documents also assert the importance of increasing the profitability of the hydrocarbon sector for the state by making it more efficient.

The first law in this regard was decreed by the president in September 1999 (on gaseous hydrocarbons) (Presidencia de la República 1999), while the Constituent Assembly was still

working on the draft of a new constitution. The new law asserted the property right of the state over the resource, but did not rule out private exploitation without state participation. Licences to exploit natural gas were granted in 2001 to multinational corporations that still operate in the sector today, in some cases even without joint ventures with PDVSA, as is the case with Chevron, Repsol, ENI, Gazprom, Statoil, Total and Repsol YPF (AVHI 2016). The 1999 law nonetheless clearly established the power of the Ministry of Energy and Mines to assess production and determine the pace of exploitation and the price of the gas extracted, asserting the state's landlord position.

It is the conflict with labour unions and the capitalist class that would eventually foster a deepening of the nationalization process and the stepping up of state control over the sector, notably by means of a transformation of social property relations.

### *The Clash with Labour*

The government's growing control over the oil sector led to its first clash with the unions in the sector, which subsequently expanded to encompass the whole CTV. Chávez's hostility towards the main labour confederation, CTV, was well known, and soon after gaining office, Chávez suspended public monetary transfers to unions (Lucena 2007, 79). His discourse associated the union confederation with the previous ruling elites, as one more part of the previous state apparatus.

Oil income was critical to Chávez's development plans. Seeking to improve labour productivity in the sector, the Chavista government supported attempts by the PDVSA

management to negotiate more flexible labour conditions.<sup>76</sup> PDVSA management had in fact been attempting to increase labour flexibility since the early 1990s (Murillo 2001, 73–75), but the quasi-monopolistic CTV union in the sector, Fedepetrol, enjoyed hiring prerogatives, allowing it to sustain its power through patronage: up to 80% of new personnel had to be chosen from lists provided to the employer by Fedepetrol (Ellner 1993a, 132–33). Chavista labour leaders, including Nicolás Maduro, were also supportive of flexibilization in the oil sector, as they expected it would break the CTV's monopoly (Ellner 2003b). However, workers resisted the imposition of working conditions perceived as similar to the ones they had fought against during the neoliberal *Apertura*. Chávez's intransigence during the negotiation further exacerbated the conflict.<sup>77</sup> Fedepetrol eventually led a successful strike (Rincón Noriega 2005, 151–65), forcing concessions from the management. Once the new collective agreement was signed, Chávez fired the president of PDVSA who had conducted the negotiation process.

This confrontation with labour eventually opened up a wider conflict between the Chávez government and the entire CTV. Notwithstanding Chávez's numerous electoral victories by this time, strong opposition from the capitalist class and the main workers' confederation represented a substantial challenge to the government. In response, the government promoted the organization of a supportive labour movement. The national assembly, then predominantly composed of Chavistas, convened a national referendum in October 2000 to force a re-election of union leadership. The referendum asked all voters, unionized or not, if they agreed with the need to renew union leadership. The referendum attracted a very low turnout (23.5% of the

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<sup>76</sup> According to Aman Aharonian (2003), the productivity of labour in the oil industry was very low at the end of the 1990s. While Shell, Exxon, and Texaco received between thirteen and fourteen US dollars for each dollar invested, PDVSA only received seven dollars, and while each employee of the same multinational would yield between US\$1.5 million and US\$2 million, the average for PDVSA was US\$770,000.

<sup>77</sup> Chávez overturned the first agreement signed by the minister to avoid a strike (Ortega 2002).

voting population), but the answer was strongly in favour of renewing the leadership (62%). The state, through the National Electoral Council (CNE, *Consejo Nacional Electoral*), then supervised an electoral process whereby rank-and-file members could choose their leaders at the federation and confederation levels. Although the changes affected all union organizations (including CUTV, CGT and CODESA and their affiliate sectoral branches), it is clear that the target was the CTV.

The state-supervised elections of new union leaders set the stage for a confrontation between contenders allied with the former leadership, headed by Carlos Ortega, himself a former member of the parliament for AD who had presided over Fedepetrol during the earlier oil strike, and a group of Chavistas linked to the Bolivarian Labour Force (FBT, *Fuerza Bolivariana de Trabajadores*), a loosely formed coalition of pro-Chávez labour activists, notably including some leaders formerly involved in the pro-Chávez labour representation in the Constituent Assembly (FCT) (López Sánchez 2012, 144). Despite contested results,<sup>78</sup> the elections appeared to give a decisive advantage to the Chavistas' opponents. The results were eventually deemed invalid by the CNE in 2005, but the confederation's assets have remained in control of the executive elected at the time, closer to CTV's prior leaders than to the Chavistas.

The elections and political struggles that unfolded around the organization of a national, centralized union organization reveal the tensions that existed within the labour movement between supporters of the autonomy of labour unions (including some Chávez supporters) and

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<sup>78</sup> The national electoral council (CNE) supervised the electoral process for all federation and national union representatives. The final results for the CTV were sufficiently contentious that some vote-counting acts were not approved by the contenders. The results were ultimately rejected by the CNE itself in 2005. Since 2001 however, no other elections have been held to renew the CTV executive committee, and the people elected at the time were still, with only a few exceptions, claiming to be the leaders of the organization in 2013. I interviewed some of them in the building that still belongs to the CTV in the La Candelaria neighbourhood in Caracas.

advocates of an explicitly supportive position towards the Chavista government (Ellner 2003b). This tension characterized the movement and survived within its main organization until recently, when a confederation devotedly supportive of the Chavista government, the CBST, was finally formed and assumed a dominant position (see below). Until then, opposition from the capitalist class along with tepid support from organized labour created a strong incentive for the state to find ways to strengthen its capacity to act autonomously from class actors. Property over oil and rent would provide a way forward.

### ***The Reassertion of Ownership Over Oil and the Threat to Private Property***

The reassertion of ownership over oil was initially a two-step process. A third step would come later (2008), as an extension of the second one. In the first step, beginning during its early years, the Chávez government increased its control over the management of the oil company to increase its revenues, collecting taxes and dividends more efficiently and attempting to discipline labour, as seen above. The government also adopted a more collaborative approach towards OPEC, agreeing to limit supply to contribute to a world price increase. In this first phase, preserving its relationship with the sector, the government increased the quantity of rent by intensifying the use of the same means.

The second step entailed a deeper qualitative change in social property relations in the oil sector, in line with the spirit of the new Constitution, and it was announced by the new hydrocarbon law enacted through presidential decree 1510 in 2001 (República Bolivariana de Venezuela 2001). While the PDVSA had always remained public, it had increasingly subcontracted its activities to joint ventures between public corporations and private corporations. The 2001 law increased state ownership over mixed-property corporations to 50%

+ 1 share and enacted the renationalization of the resource itself, altering the way the rent was collected. Instead of relying on taxes to increase state income, the state collected more royalties and dividends. The combination of these shifts allowed the Venezuelan state to increase its fiscal earnings by close to 10 percent of the GDP by 2007 (table 4.2), in a context where its membership in OPEC contributed to a price wave of similar magnitude to the price hike of the 1970s oil crisis.

The transformation of property in the oil sector sought to offset the opposition the government was encountering from capitalist and labour organizations. Beyond the political pressures they exerted, the concerns of the capitalist class with regard to private property undermined the prospects of attracting much needed new investments (see Table 4.1). Labour's resistance to flexibilization in the oil sector had the same effect. Indeed, Fedecámaras had been complaining since the early 1980s that labour's attitude had undermined discipline and productivity (see previous chapter). The change in social property relations in the oil sector was thus an alternative, which by bringing more rent to the state, increased its autonomy from the process of private capital accumulation in other sectors of the economy. The government, then, was not only changing its relationship with multinational corporations, but also increasing the state's landlord power with respect to the domestic capitalist class and the popular class.

The new law brought about changes to the sector that were considered similar in importance to the 1976 nationalization (L. E. Lander 2002). The main difference with the earlier nationalization was the class context in which it took place. While the 1976 nationalization law was adopted after several years of negotiation in a corporatist framework that included worker and capitalist class organizations, the 2001 process involved an open confrontation with these organizations. In this context, nationalization eventually led to rebellion and a coup attempt. The

state's assertion of its property over petroleum corresponded to the strengthening of its landlord position. Yet nationalization did not exclude capitalists and multinational corporations from the sector, as they had retained a crucial operational role in joint venture companies in charge of extracting, transforming and transporting the hydrocarbons, but the state was now retaining majority control over the joint companies.

This marked a stark contrast with a concession system, where the property over the resource is ceded to the exploiters and state income derives from various forms of taxation on profits, depletion and exports. Taxes treat the extractive industry just like any other industry: the market price determines the value of the product, and once its value is realized and production costs are paid, a share is returned to the state. In contrast, the new social property relations in 2001 meant that the state remained the owner of the resource and of several companies extracting it. As a result, the share of surplus value levied took the form of royalties, which were increased from 16.66% to 30% in traditional fields and to 20% in heavy crude fields in the Orinoco Tar Belt, while taxes were lowered from 67% to 50% (Fontaine 2010, 198).

The impact of this transformation can be seen in the evolution of public finances. Control over the sector and the retrieval of fiscal earnings in a context of rising prices led to an important increase in central government revenue as a proportion of GDP (from 17.4% in 1998 to 29.1% in 2007, see Table 4.2).<sup>79</sup> Given the transformation of the oil sector, it is not the tax revenues on oil that made the big difference, but the royalties from oil, jumping from 2.4% of the GDP in 1998 to 6.4% in 2002 (the first year of nationalization), and eventually rising to about 9% in the following years. Total state petroleum revenues, representing 16% of the GDP in the

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<sup>79</sup> The subsequent drop in 2008 and 2009 is linked to a drop in oil prices and the impact of the world crisis on Venezuela.



early 1990s,<sup>80</sup> had dropped to less than 6% in 1998, but increased to over 10% in 2002 and around 15% in 2006–2007. This alone illustrates the central importance of the recovery of petroleum rent for the state, especially given that it happened in a context of GDP growth (Fig. 4.9) and diminishing petroleum production (Fig. 4.8).

Moreover, a specific form of management of the oil rent increased the autonomy of the central state executive even further. The oil revenue that was transferred to municipalities and state governors was determined by the price estimates set by the Department of Finance and adopted in the budget. The revenue from oil prices above this estimate was allocated to sovereign funds managed by the executive. Corrales and Penfold (2011, 56–58) argue that under Chávez, the Ministry of Finance systematically underestimated oil prices to allow for this discretionary use of oil revenue. Moreover, PDVSA also managed its budget to allocate some of its revenue to funds for social programs (FONDEN) instead of paying them as dividends (see Table 4.2, Dividends). An increasing share of rent was thus at the discretion of the executive or PDVSA management with direct links to the executive.

	1998	99	00	01	02	03	04	05	06	07	08	09
<b>Total revenue</b>	17.4	18.0	20.2	20.8	22.2	23.4	24.0	27.5	29.7	29.1	24.9	21.6
Tax revenue	12.2	13.0	12.9	11.4	10.6	11.3	12.7	15.3	15.6	16.2	13.6	13.5
Oil	1.3	2.2	4.2	2.5	0.9	1.5	1.8	3.7	4.0	4.1	2.7	1.8
Non-oil	10.9	10.8	8.6	8.9	9.7	9.8	10.9	11.6	11.6	12.1	10.9	11.6
Non-tax revenue	5.2	5.0	7.3	9.4	11.5	12.1	11.3	12.3	14.1	12.8	11.3	8.2
Oil	4.5	4.4	5.8	6.9	9.6	10.1	9.4	9.7	11.9	10.6	9.7	5.8
<b>Royalties</b>	<b>2.4</b>	<b>2.8</b>	<b>4.3</b>	<b>3.1</b>	<b>6.4</b>	<b>7.4</b>	<b>8.2</b>	<b>8.8</b>	<b>11.2</b>	<b>9.5</b>	<b>9.0</b>	<b>5.1</b>
PDVSA dividends	2.1	1.7	1.5	3.8	3.2	2.8	1.2	0.9	0.7	1.1	0.6	0.6
Non-oil	0.8	0.6	1.5	2.5	2.0	2.0	1.9	2.6	2.2	2.2	1.6	2.4
<b>Total expenditure</b>	21.4	19.8	21.8	25.1	26.1	27.8	25.9	25.9	29.8	26.0	26.1	26.7

Source: The National Treasury Office, compiled by the Government Finance Statistic Office

<sup>80</sup> The 1990s data come from Parker (2007, 63).

### ***The Big Clash: From Business Strike to Coup Attempt to Recall Referendum***

The announcement of the change in social property relations created a breaking point in the relationship with the capitalist class. Complicating the political moment, the hydrocarbon law was accompanied by several other decree-laws in the last months of 2001.<sup>82</sup> Some of them— notably the land and agrarian development law, allegedly designed to foster the redistribution of land in favour of peasants; the law on fishery encouraging small fishers and cooperatives rather than industrial fisheries; and the banking law, forcing banks to improve their loan conditions for productive investments—provoked a very strong reaction from opponents, especially from the capitalist class. This moment marked the beginning of a long-lasting confrontation, led in great part by capitalists as a class confronting the state and forcing a repositioning of most class organizations.

The *Tal Cual*<sup>83</sup> newspaper published extensive coverage of the Fedecámaras special assembly held in late November 2001, in the immediate aftermath of the last of the decree-laws. The president of Fedecámaras, Pedro Carmona Estanga, summoned all the member federations to debate a potential business strike to be held on December 10<sup>th</sup>. Many federation representatives were interviewed by the newspaper (Conindustria, Consecomercio, Fedenaga, Fedeagro, Construcción, Petrolera, Venamcham, Banqueros), and all were fully supportive of the

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<sup>81</sup> This table presents data on central government operations on a cash basis (rather than an accrued basis), which does not make it immediately comparable to Table 6.4 in chapter 6. I was unable to find exactly comparable data that covered period in question.

<sup>82</sup> In November 2000, the newly elected National Assembly adopted an enabling law authorizing the president to enact laws by decree on a wide range of issues. While the literature mentions 49 decree-laws, a review of the *Gaceta Oficial*, the official gazette publishing all laws and state rules, reveals that there were only 40. See also Valera (2002).

<sup>83</sup> *Tal Cual*, digital edition of November 28, 2001, p.13-15 retrieved through <http://www.talcualdigital.com/> on January 22, 2015.

strike. Three major concerns figured prominently in their statements: while the Constitution had promised more democracy, the decree-laws were adopted without consulting them; the changes introduced represented an attack on private property; and the changes would further undermine investment. The day before the assembly, a large share of the fleet of industrial fishing boats had already stopped operating to protest against the fishery law, as they anticipated that the redrawing of nautical boundaries to favour artisanal fisheries would undermine their profitability. Representatives of the industrial sector (Conindustria), cattle breeders (Fedenaga) and the president of Fedecámaras were present at a public event launching the strike (Liendo P. 2001). The same newspaper reports that the members of the Petroleum Chamber (*Cámara Petrolera*), representing Venezuelan enterprises providing services to the oil sector, and those of the *Asobancaria*, representing private banks, had pushed to support the strike, even though their representatives were more inclined to privilege dialogue with the government.

This mobilization of the whole business sector, coordinated by Fedecámaras, showed an extraordinary ability to rally forces in a joint political act aimed at challenging the shift in the property rights and development policies. This political unity in the defence of private property and demanding freedom for private enterprises constituted a strong class moment, when the convergence of capitalists was organized against a landlord state and in defence of the fundamental tenet of capitalist social relations: private property. It was building an opposition to the transformation of the development model.

Contrary to any structural perspective on class, the CTV announced its support for the actions summoned by Fedecámaras. Its endorsement can nonetheless be explained from an agency perspective, as the previous confrontation with the state had renewed the CTV leadership, but had left its opposition to Chavismo unchanged. Nevertheless, the union backing

for the strike was presented in a carefully worded declaration from the president of the CTV, Carlos Ortega, which clearly distinguished the union confederation from the capitalist class: “we need to distance ourselves... we have other interests to stand up for, different from those of the entrepreneurs” (VLM 2001).

The business strike hurt the government in the ways it had intended. A great deal of economic activity was affected, and large demonstrations took place. But opposition to this action and in support of the government was also significant. Indeed, Chávez, sharpening his rhetoric, tried to encourage militancy against the movement led by the capitalist class: “We, officials of the state, we cannot allow a handful of ‘immorals’ who lived off of corruption and elite camaraderie for several years to mess up the whole country” (Chávez Frías 2005, 3:675). This quote, delivered in a discourse in front of state officials (elected and bureaucrats) using the first person plural, illustrates how the government attempted to rally state officials to act as a class against capitalists.

Facing growing opposition from a coalition of forces now including political parties through the Democratic Coordination (CD, *Coordinadora Democrática*), Chávez eventually adopted some fiscal reforms in February 2002 to diffuse the tension. These included the liberalization of the exchange rate and budgetary revisions to cut spending, measures that gained the approval of the IMF and even Fedecámaras, both recognizing that they pointed in the right direction (Medina and López Maya 2003, 82–85). This policy shift was too little and too late, however, to secure the support of the capitalist class, which was instead building alliances with what was still the main union confederation.

Less than a month later, on March 5, 2002, Fedecámaras and the CTV signed a document establishing the basis for a new social compact. Following the Venezuelan tradition of social

pacts, the new social contract stated, in very general terms, the agreement reached by the two main class organizations to overcome the economic and governability crisis that had affected the country for two decades. As with the previous *Punto Fijo* Pact, the intention was to provide a framework for the functioning of government. It was implicit that Chávez would not be the one to fulfill this role. However, the difference now was that the government derived its support from sectors that were not represented by these organizations.

The attempt to make this new pact a governing reality came in the form of a coup on April 11, 2002. The CD had summoned a protest on that day to show its opposition to a wave of new appointments in PDVSA, perceived as bypassing the company's meritocracy and breaking the remaining trust between Chávez and PDVSA's upper management. The march transformed into a protest rally to oust the president, while supporters of Chávez marched in defence of the president. Accounts of the events will probably remain forever contested, but confrontations among demonstrators and between them and police forces resulted in several deaths (approximately 20) and were used in the mass media to serve as the main argument to justify the actions of certain sectors of the military who asked Chávez to resign and eventually detained him. Claiming that Chávez had resigned and that it was necessary to fill the legal vacuum created, a group of individuals from the business sector, the media, the opposition parties and the military gathered in the Miraflores presidential palace and declared themselves the legitimate body to name an interim president.<sup>84</sup> They signed a decree revoking the new Constitution and the decree-laws, suspending all civil powers, including the legislative assembly, and designating the

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<sup>84</sup> The unfolding of these events shares a bit of the magical reality mentioned in the introduction. Versions can be found in numerous sources. For an account by Chávez himself, see Díaz Rangel (2006). For insight into the sequence of the events, see the documentary by Bartley and O'Briain (2003), *The Revolution Will Not Be Televised*. For a study of the ongoing media manipulation, notably by the very strong bias of private media against Chávez and his supporters, see López Maya (2003b, 154–57). For a political study of the coup's failure, see Coronil (2011).

president of Fedecámaras, Pedro Carmona Estanga, as the new president until elections could take place. Even before naming his cabinet, Carmona's first act as president of the country was to name a new director of PDVSA (Coronil 2011, 49). However, a combination of popular protests opposing the coup, Carmona's political failure to make room for a variety of political forces in his transition government and the loyalty of certain sectors of the armed forces to Chávez led to his return to power on April 13.

The failure of the coup did not stop the opposition. Protests would follow over the course of the year, only to find their counterpart in marches supporting Chávez. Disruptive protests referred to as *guarimbas* involved acts of civil resistance producing ongoing chaos (López Maya 2006, 280). In a declaration adopted six months later in its general assembly, Fedecámaras (2002) linked the coup to the politicization of the armed forces and the bad management of the economy, but stopped short of acknowledging any involvement in the events. The declaration also reiterated the same critique against state property over the oil sector, holding that this provided disproportionate power to the state, creating a clientelistic state able to manipulate the masses (Fedecámaras 2002, 5).<sup>85</sup>

In December 2002, the managers of the PDVSA organized a strike that paralyzed the industry for several months. The combination of an active strike and the sabotage of the company brought petroleum production to almost a complete halt between December 2002 and March 2003. This oil blockade severely affected the GDP for both years (see Fig. 4.9). The state eventually recovered control of the oil company with the support of popular mobilization,

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<sup>85</sup> It would take several years for Fedecámaras to acknowledge its role in the coup, but its president recently said: "From our point of view, having tried to play the game of occupying political power brought dire impacts for this organization, to the point where to date, we have not been able to recover the confidence of the executive, which feels that we are something other than an association of private actors defending their interests" (Venezuela-B3 2013, 3).

notably by relying on people who were not former employees but had the technical knowledge necessary to support the resumption of operations (Villá 2004). These class confrontations were settled only temporarily with Chávez's victory against a recall referendum in 2004 and his electoral victory in the 2006 presidential elections, in which he increased his support both in relative terms and in the sheer number of votes (see Fig. 3.8).

Without untangling the complexity of all these events, it is still possible to identify the elements that allow us to interpret them from a relational class perspective. The threat to private property, the recovery of state control over the state oil enterprise and its greater share of rent were all elements that empowered the state as a landlord vis-à-vis the capitalist class and the existing labour confederation. To do so, the government was relying on the support of a popular sector that was loosely organized, and not structured in stable and autonomous class organizations. In response, capitalists converged into an increasingly politically active class organization, Fedecámaras. Its president was at the core of a coup attempt in which capitalists, as a class, had a fundamental role to play, along with the armed forces. The oil industry, a fundamental instrument of class power, was at the core of the conflict, and thus it was the priority in the brief rule of the "interim" president. Even after the failure of the coup, and once the recall referendum (2004) had confirmed Chávez's electoral support, Fedecámaras was still refusing to recognize his legitimacy by putting in doubt the referendum results (EFE 2004; Díaz Rangel 2006, 184–86).

### **The Class Nature of the Conflict and its Impact on Class Organizations**

The class nature of this confrontation is therefore clear. Its resolution would also change the organization of some classes and their relationships with the state. Political identities and

solidarities and organizations were increasingly divided along the lines defined by economic conditions (López Maya 2006, 259). The landlord-state attempted to buttress its autonomy by wresting the support of the popular sector from the organizations that claimed to represent it, in opposition to the convergence of the capitalist class in Fedecámaras. The failure of the coup thus had a deep impact on class organizations and on their relationships with the state, and it is a pivotal factor in explaining the specific shape taken by the development model, which increasingly relied on rent to create new social programs in an effort to garner support from the popular sector and foster growth.

### ***Capitalist Class: Multinational Oil, Large Industrialists and Retail Traders***

Two main changes affected the organizations of the capitalist class in the aftermath of the coup. First, a separate organization was formed for multinational oil corporations involved in the extraction, refining and transportation of oil and gas in Venezuela. The Venezuelan Association of Hydrocarbons (AVHI, *Asociación Venezolana de Hidrocarburos*) was founded in 2003, right after the oil blockade. One of its representatives emphasized that the organization was founded to fill a gap, as other than an oil committee in the Venezuelan-American Chamber of Commerce and Industry (VenAmCham, *Cámara Venezolano Americana de Comercio e Industria*), there was no organization to unite US multinational oil companies with those from other countries. Nonetheless, the representative added:

Another relevant element was that many Venezuelan business organizations, in the context of the political transformation initiated by President Chávez in 1999, have taken a more political role, and international oil companies, despite recognizing the right of Venezuelan entrepreneurs to behave as they see fit, need to keep a distance from involvement in politics as such.<sup>86</sup>

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<sup>86</sup> Interview - Confidential



A complex issue was emerging with the new Constitution and the new oil law. International oil companies were now forced to enter into partnership with the state to maintain their activities in the country. They were therefore required to maintain regular contact with the government and could not be associated with an organization that supported a coup. AVHI was among the few chambers representing large businesses that kept a fluid relationship with state officials.

The second major change was that the relationships that representatives of business chambers had with the government broke down after the coup. Indeed, not only were their prior contacts with the state and the government no longer in place, but in their view, there were no good channels through which to make their voice heard by state officials. When they did have meetings, they were on technical issues regarding the specific needs of particular sectors, and meetings were best kept secret (Venezuela-B3 2013; Venezuela-B4 2013; Venezuela-B5 2013; Venezuela-B7 2013; Venezuela-B10 2013). Business organizations therefore pursued campaigns of constant and sustained public denunciation of the negative impacts of government policies on private business interests. As a leader of Fedecámaras would put it:

We are a political organization, and I don't have any problem recognizing it. What we are not is party supporters. These are two different things, but we exist to push for public policies, to influence them, and we therefore are a political organization. (Venezuela-B3 2013)

Fedecámaras continued its active campaigning against the government's political choices, and its rejection of the government's development model strengthened the unity of the capitalist class. Member federations, regardless of their sector, all employed a discourse displaying impressive class unity. As a representative of the chamber of industry would put it:

The threat against private property exists above and beyond any difference that used to exist about local matters, or between commerce and industry. (Venezuela-B5 2013)

A representative of a chamber from Caracas that used to comprise only commercial businesses but now also included businesses from the industrial and service sectors explained:

In the last 15 years, all sectoral debates became subordinated to a more general discussion about the survival of private business. One ought to remember that we are now confronting a socialist regime [...]. When one faces such a challenge, everything else is subordinated because there is no economic model to discuss, just the need for protection against a threat. (Venezuela-B1, 2013)<sup>87</sup>

Even the confederation of commercial chambers, representing one of the fastest growing sectors of the economy given the increased capacity for consumption resulting from rent distribution and growing imports due to the reduction in domestic industrial production,<sup>88</sup> defended the alliance with industrial and large farmers' organizations in these terms:

We work as a bloc: industrialists, traders, cattle ranchers. We each try to bring our contribution to the message that private business needs to continue, to maintain its role in development, and that we need to work together. (Venezuela-B7 2013)

These declarations, coming from the leaders of sectoral and regional federations, all show the convergence enabled by the existence of a class organization like Fedecámaras. No similar discourse of unity could be found in Ecuador. In Venezuela, the alliances that were forged

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<sup>87</sup> I was invited to attend a general assembly of the Chamber of Caracas after I interviewed one of its representatives. Through a simple counting of the participants, I determined that over 85% of the participants were male. A similar proportion of the participants were white, a striking feature in a city like Caracas where racial diversity is otherwise so common.

<sup>88</sup> An annual growth of 9% in 2012, and an increase of more than 40% of imports between 2010 and 2012, according to the confederation representative

between industrialists, large retail traders, cattle breeders and bankers continued to operate despite the changes in the economy.<sup>89</sup>

The Venezuelan private economy was, until recently, dominated to a great extent by large manufacturing industries transforming imported materials for the domestic market. Prior to 2008, manufacturing represented more than 15% of the GDP (Fig. 4.8) and was highly concentrated in a small number of industries. In the early 2000s, about 600 industries controlled more than 85% of manufacturing production (Table 4.3). Dividing production into eight main families of products,<sup>90</sup> a study of large businesses showed that for each family, five enterprises or less controlled more than 50% of the sales in 2010 (Instituto Nacional de Estadísticas (INE) 2012). Manufacturing is followed in private activities by retail trade and repair, the importance of which increased from approximately 8% of the GDP to 10% between 2003 and 2008 (Fig. 4.8), and it is also controlled by large businesses.

The convergence of the industrial sector with other sectors, forging a capitalist class unity independently of the relative success of each sector, was fuelled by common complaints about the development model pursued by the government. Indeed, even the commercial sector, growing in this new context, preferred its alliance with the other sectors. The way complaints were shared demonstrates that capitalist class identity, discourse and consciousness were not solely equated with economic success or sectoral interests, but also with the existence of organizations able to forge a common identity and discourse.

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<sup>89</sup> There are some business owners who have benefited from the regime. Referred to as *boliburgueses* by some authors (Corrales and Penfold 2011, 147), they have been able to develop their businesses by taking advantage of their support for the government. They do not seem to represent the majority of the business community, however, and hardly constitute an autonomous political agent independent from the government.

<sup>90</sup> These families of industrial products were food, beverage and tobacco; wood products and paper; fuel and chemical products; rubber and plastic; non-metallic minerals; metal except machinery; machinery and office products; and cars and transportation equipment.

A point of contention nevertheless divided large and small businesses. This separation already existed in the 1970s, as *Fedeindustria* always remained separate from *Fedecámaras*, but the political turmoil around the opposition to the government between 2001 and 2003 had a more dire impact on small and medium-sized enterprises than on large ones (Table 4.3). For instance, in the manufacturing sector, the loss of over 2000 businesses affected mostly small enterprises, whose number was reduced from almost 6000 to 4140 over the span of 4 years. Meanwhile, large industries were maintaining their share of manufacturing profits.

Size of businesses calculated by number of employees	Total number	Large Over 100 employees	Medium 'B' 51 to 100 employees	Medium 'A' 21 to 50 employees	Small 5 to 20 employees
Share of total number of businesses in 2000	8,431	7.5%	5.2%	16.4%	70.9%
Share of total number of businesses in 2004	6,309	9.4%	7.0%	18.0%	65.6%
Share of sales in 2000	25,837 (billions of bolivars)	86.9%	4.9%	4.4%	3.8%
Share of sales in 2004	79,517 (billions of bolivars)	86.9%	6%	4%	3.4%
Share of employment in 2000	369,801	58.5%	9.7%	13.6%	18.2%
Share of employment in 2004	322,907	64.1%	10%	12%	14%

Source: INE, compiled by the author

### ***Small Industrialists and Producers: A Left-Wing Petty Bourgeoisie?***

By contrast, some organizations representing small industrialists, artisans, small cattle ranchers and food processors did not face the same problems in terms of communication with the government. In their own views, their interaction with the government improved with the Chávez administration. A representative explained this in an interview: “When the government and

<sup>91</sup> The data in this Table are taken from the National Institute of Statistics (INE), the annual industrial inquiry, only available from 2000 to 2004 (Instituto Nacional de Estadísticas (INE) 2016). Upon the executive’s request, the INE carried out an economic census in 2007-2008, but the data available do not specify industry size.

Fedecámaras are in a standoff, it makes room for small and medium-sized industrialists, for an organization like [ours], and to all those who have a different perspective” (Venezuela-B9 2013). Despite sharing some concerns with large business owners regarding the direction of economic change, they maintained that the government has provided small enterprises with better opportunities to conduct their business, including the provision of better sources of funding (Venezuela-B6 2013). They also argued that their capacity to influence politics has greatly improved, as they developed fluid relationships with state officials. A former president of Fedeindustria even became the Minister of Economy and Commerce for eight months in 2016.

Their support for the government is, however, of limited impact. As seen above (Table 4.3), SMEs represented less than 15% of manufacturing production, and although their employees counted for about 35% of the labour force in the industrial sector, the value of their sales and the gross value of their production represented less than 15% of the industrial sector in 2004. Therefore, although SMEs supported the development model proposed by the government, and despite their growing importance in the following years, their economic weight was not yet sufficient to become the backbone of the development model.

### ***The Popular Sector and Labour Unions***

The 2002 coup attempt highlighted the perils an alliance between the main labour confederation and the main organization of the capitalist class posed for the government. In response, the Chávez government promoted a new strategy aimed at increasing its control over the popular sector. One of the ways the government attempted to do so was to undermine the power of the CTV by creating a labour confederation aligned with the government. However, this option

proved extremely challenging, as the labour movement was still driven by a strong will for autonomy and still held control over some important organizational structures.

The National Workers' Union (UNETE, *Unión Nacional de Trabajadores*) was formed in April 2003, made up of the unions that left the CTV after the coup, it rapidly supplanted the CTV in terms of political significance. The new organization encompassed two main tendencies, one of which, while opposed to the CTV and its stand during the political crisis, was not willing to surrender its autonomy from the government. As one leader of UNETE puts it:

This central is revolutionary, but it is not married to Chavismo, and although there are members that support the revolutionary process, the workers are not in the government, and the government has not been able to co-opt our movement. We are revolutionary, but independent and autonomous. (Venezuela-S1 2013)

Another tendency within UNETE, however, notably headed by leaders of the Bolivarian Labour Force (FBT), was in favour of providing unconditional support to the government (Ellner 2003b; Ellner 2005). While UNETE remained the main confederation since around 2004 and until 2012, the profoundly different approaches to the government co-existing within it imperilled its capacity to function as an effective labour organization. Indeed, several union leaders (Venezuela-S1 2013; Venezuela-S4 2013; Venezuela-S5 2013) described the 2006 UNETE congress as riddled with insurmountable tensions. An intense conflict exploded when a tendency in favour of an autonomous position, C-CURA, appeared to obtain a dominant position in the congress (López Sánchez 2012, 151), a situation that could not be accepted by the pro-Chávez unions, and the congress, held in a military building, ended in a melee interrupted by military personnel. The tension between member unions supportive of autonomy and those supportive of the government persisted to the point where they were unable to agree to hold another congress (López Sánchez, 2012; Venezuela-I2, 2013; Venezuela-S4, 2013).

Pro-government unions sought a way out of the conundrum by founding a new confederation in 2011, the Bolivarian Socialist Workers' Central (CBST, *Central Bolivariana Socialista de Trabajadores*). The CBST is staunchly supportive of the government, as illustrated by this quote from one of its main leaders:

The president [Chávez] asked us for an organization of workers that would be at the service of the revolution, because if the revolution is to benefit all the workers, the workers' organization needs to work as a function of the revolution, subordinated to the revolution. (Venezuela-S5, 2013)

The CBST is the dominant labour confederation today in terms of the number of affiliated workers.<sup>92</sup> At its core are petroleum workers, many of whom have been hired on the basis of their political loyalty to Chavismo, replacing workers who had supported the 2002-2003 oil blockade. It is only after the foundation of CBST that the process to renew the organic labour law promised by the Constitution was launched. Other confederations (UNETE, CUTV, CTV) survived, but they all face the same difficulties in establishing a dialogue with the government. UNETE, which had been pressing for the adoption of the new organic labour law for several years, was not consulted by the presidential commission in charge of writing the new law (Venezuela-S1 2013). Meanwhile, the representative of the CBST explained that of the twenty members of the commission, six were from the CBST (Venezuela-S5 2013), while others included elected representatives of the National Assembly, state officials in the judiciary, and an entrepreneur supportive of chavismo (the president of Fedeindustria).

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<sup>92</sup> There are no official numbers available comparing the different workers' centrals, but this assessment is shared by the union leaders that I interviewed. Numbers provided by interviewees vary too widely to provide a reliable estimate. However, the number of workers covered by a collective agreement, according to the latest numbers provided by the government, is over two million (Ministerio del Poder Popular para el Proceso Social de Trabajo 2016).

The evolution of the union movement illustrates the government's attempt to control organizations of workers and of the popular sector. A parallel situation developed within the much smaller peasant movement, where the government supported both the formation of a national coordination of peasant organizations (CANE, *Coordinadora Nacional Ezequiel Zamora*) and the inclusion of peasant organizations within the CBST. Notwithstanding these initiatives, some federations continued to strive to maintain their autonomy, such as the Ezequiel Zamora National Peasant Front (FNCEZ, *Frente Nacional Campesino Ezequiel Zamora*). One of its leaders explained in a personal interview that as peasants, they were granted more freedom than workers in the oil sector and other large state-owned enterprises, such as steel, where patronage is an important determinant of who gets hired. According to this peasant leader, the importance of these economic activities for the government translates into a need for a compliant work force (Venezuela-C1 2013).

The government's strategy towards worker and peasant organizations illustrates an important aspect of its relationship with class organizations: a top-down incorporation of various organizations effectively undermining the autonomy of the popular class. Informal workers, whose numbers increased during the neoliberal era, are not represented by national unions. They have a multitude of small local organizations, but rarely enjoy the support of national or regional federations to pressure the central state. They do nonetheless find different points of contact with the state through local development structures and social programs. The relationship between the government and the popular sector is thus also mediated by the distributive policies of the new developmental model described below.



### **The Resulting Development Model: A Rent-Based Social-Developmental State**

This portrait of the evolution of class organizations and their conflicts with the state is pivotal to explaining the form adopted by the development model. The reaction of the capitalist class, both politically (attempting a coup) and economically (reducing investments in 2002–2003, see Fig. 4.2), prompted the government to rely less and less on private initiative to foster economic growth. Unlike the first few years after 1998, the government attempted to foster growth without counting on large private investment, relying instead on the drive resulting from its use of oil rent. It encouraged a development strategy with the state occupying increasing space in the economy, essentially based on the deepening of state control over the oil sector (rent-based) to redistribute wealth to the popular sector (social) through participatory but subservient institutions dependent on state funding, along with state investment in infrastructure and consumption to foster diversification (developmental) by counting on small and medium-sized industrialists and the social economy. Over time, this would be recast as the pursuit of a model that Chávez labelled 21<sup>st</sup>-century socialism, or Bolivarian socialism. The developmental aspect became increasingly one of “dispensing”, as it relied on rent distribution and the control over foreign currency resulting from the almost complete state monopoly over exports (Table 4.3). This “dispenser” character allowed the government to determine which sectors would undergo economic growth.

#### ***Autonomy Based on Rent***

A first step taken in the aftermath of the oil blockade in 2003 led to the replacement of several thousand PDVSA employees (18,000 according to Corrales and Penfold, (2011, 78–79) and Fontaine (2010, 199)), including almost all middle and higher-ranking managers, with other

employees whose loyalty to the government was not in doubt. In 2006, using its landlord power to perceive absolute rent, the government increased the royalties from regular oil fields from 30% to 33% (see Table 4.2). Moreover, following Chávez's victory in the presidential elections of 2006, the government reformed the hydrocarbon law with decree-law 5200, forcing the remaining multinational oil extraction companies in the Orinoco Tar Belt to conform to the Constitution and form joint ventures, with the state company holding a majority of the shares. With this move, the Chavista government completed its nationalization of oil, and all oil exports have since then been exclusively controlled by the state. While nationalization was not the result of expropriations—companies' assets were bought at a high price—it nonetheless created frictions with some multinational oil corporations (for example ExxonMobil and ConocoPhillips),<sup>93</sup> which withdrew from the country. Most multinational oil corporations did pursue partnerships with the state, but investments plummeted, and the share of the sector in the economy shrank as production diminished.

The goal of this increasing control over the oil industry and its rent was clearly stated in the 2007–2013 development plan:

Oil will be crucial, above and beyond the program for capturing foreign currency, in order to increase domestic productive investment, satisfy our need for energy, and support the rise and strengthening of a new productive model [...] it is therefore essential that the core activities of the hydrocarbon industry remain under the control of the Venezuelan state. (Presidencia, República Bolivariana de Venezuela 2007, 75–76)

The 2007–2013 development plan contained only a few mentions of private investment, and these were mainly in connection to the development of partnerships with the state in the oil

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<sup>93</sup> They filed important settlement claims in international arbitration panels for \$18 billion and \$30 billion dollars, respectively (Goldhaber 2013).

sector. State-controlled oil is expected to become a “powerful lever for industrial development”, in part in downstream economic activities related to the petrochemical transformation, and in part in the social economy and through the development of Social Production Enterprises (EPS, *Empresas de Producción Social*), a generic term referring to a variety of forms of enterprises based on collective property (state-owned, community-owned, cooperatives, etc.). Nonetheless, private capitalist enterprises were also expected to stay and maintain their activities in the country (Presidencia, República Bolivariana de Venezuela 2007, 43–51).

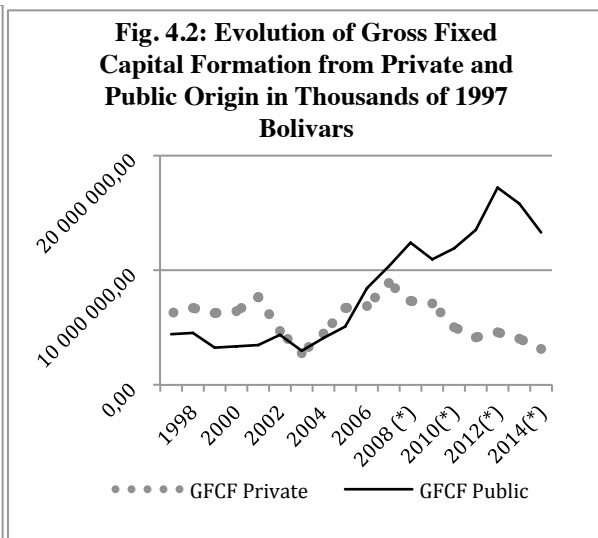
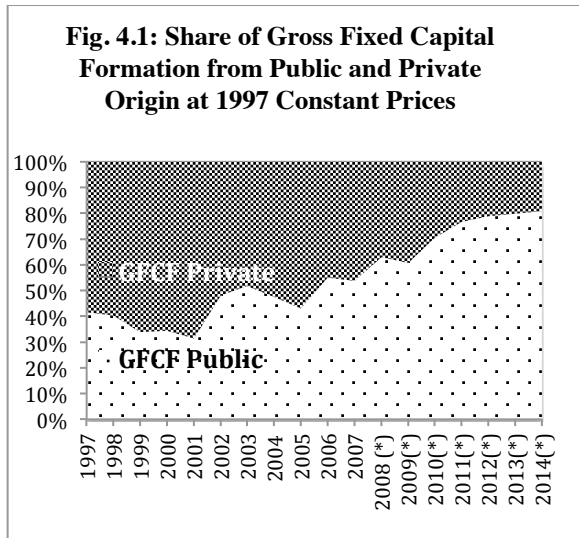
In the context of ongoing tension with the capitalist class, the government expanded the range of state interventions in the business sector, going from the seizure of products from a warehouse for immediate redistribution, to nationalization and even expropriations. Business chambers estimate the number of interventions at over 1000 between 2007 and 2013, with a majority taking place after 2009 (Conindustria 2013). Nationalizations affected a variety of sectors, from the production of agricultural inputs to food distribution, cement production, communications, electricity distribution, banking, and others.

Capitalist class organizations reacted strongly to this process, with important consequences for national and international investments, especially after 2007 (see Figs. 4.1 and 4.2). Meanwhile, several companies filed international arbitration cases against nationalization.<sup>94</sup> For the first time since the return to democracy in 1959, the development model assumed that state investment of rent was not going to produce a parallel rise in private investment. On the contrary, the expectation was that the diversification of production would result from initiatives

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<sup>94</sup> Tensions with foreign companies increased after 2007, as demonstrated by the sharp increase in international arbitration cases presented to the International Centre for Settlement of Investment Disputes (ICSID). From 6 cases filed between 1996 and 2006, the number skyrocketed to 33 between 2007 and 2014, with a number of them concerning oil, notably with Conoco Philips. See International Centre for Settlement of Investment Disputes (ICSID) (2015). Venezuela eventually withdrew from ICSID in 2012.

developed within the EPS and through the democratic participation of workers in production, not from initiatives pursued by large investors. Given that a good part of the economic initiative relied on the state's provision of rent and of hard currency for imports of raw materials and capital goods, the state increasingly became the dispenser of diversification opportunities.



Source: BCV, Table 7.1.13  
 (\*) Preliminary figures

### ***Strengthening Redistribution and Fostering Support from the Popular Sector***

The role of unions in the coup pointed to the need for new institutions that would foster supportive organizing in the popular sector. Moreover, existing state institutions, created in the previous regime, were slow to implement the changes that the government was introducing. This led to a particular form of redistribution designed to encourage popular participation by bypassing institutions, yet in a way that would nonetheless prevent the autonomous organizing of a popular class.

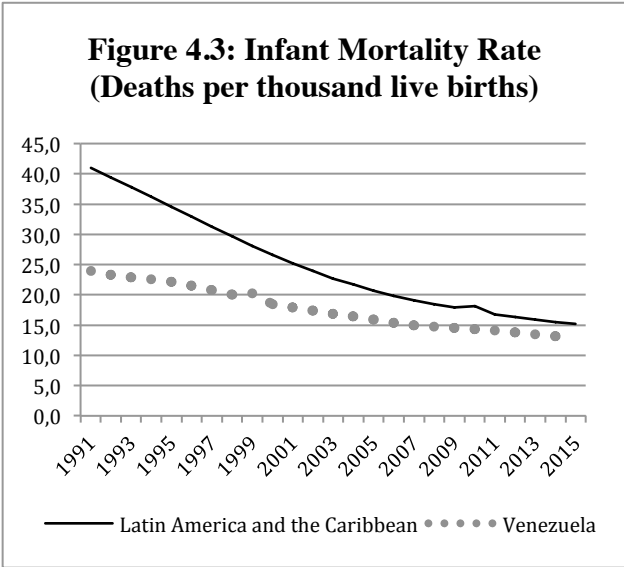
Chávez's original plans and programs clearly expressed a will to increase redistribution. During his first years in office, he fused the Ministry of Health and the Ministry of Family to form a Ministry of Health and Social Development, which was put in charge of developing a

strategic social plan. However, this new ministry took three years just to design the plan, a length judged incompatible with the social emergencies the country faced and the political difficulties facing the government. The president thus decided to bypass this new ministry in order to implement social programs more promptly (González and Lacruz 2008, 80–82).

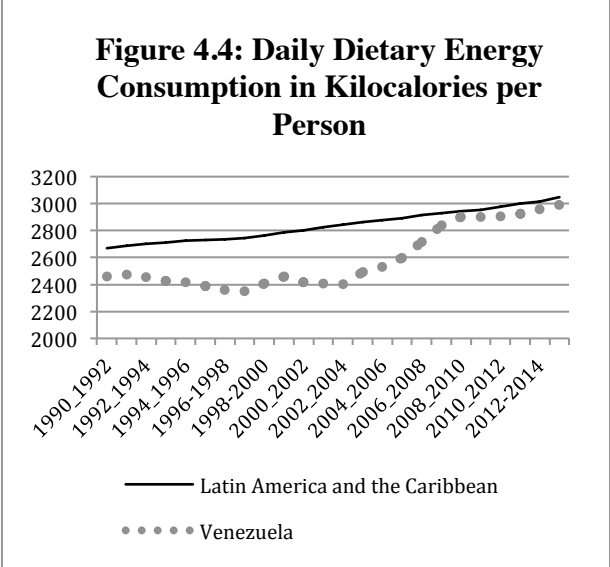
The most well known of these programs were called *Misiones* (missions). They were launched after the oil blockade and inspired by the self-organization of the people in the shanty towns, who had creatively and collectively organized to face the shortages caused by the oil blockade. The *Misiones*—spanning from health care to education, food, housing, economic diversification, culture and sport—relied on the mobilization and direct involvement of the local population for their management and preservation. In the case of the mission *Barrio Adentro*, residents in each neighbourhood were invited to form a committee and submit an application to receive funding and a small building to host a medical clinic, where a Cuban doctor would attend to some of the community’s health needs. Community involvement then played an important role in the ongoing support of the clinic. In education, the Robinson (I and II), Ribas and Sucre missions provided literacy courses and primary and secondary education for dropouts, with the vital support of local volunteers. Bypassing existing health care and education departments, notably to avoid their ponderousness, the missions created structures that were deeply ingrained in society and yet easily controllable by the Chávez administration (Vaisset and Lapierre 2012, 52). Despite the involvement of the population in executing these programs, their objectives and the distribution of resources were determined by highly centralized agencies controlled by the executive.

Investment in social programs, notably through missions and redistribution policies, had a positive impact on the population, but the significance varied according to

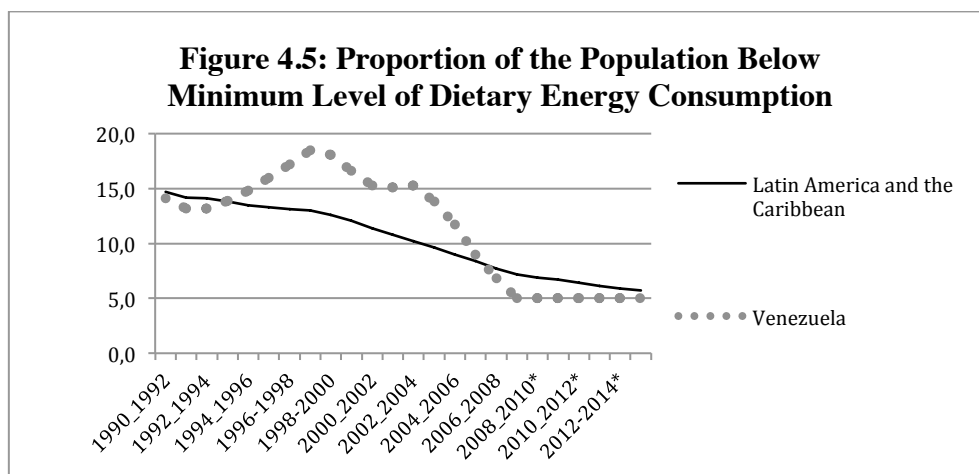
different health and education indicators. Infant mortality dropped, but not at a faster rate than in other countries in the region or in a way that altered already established tendencies (Fig. 4.3). The same applies to life expectancy (PAHO WHO 2015). Food consumption did improve substantially under the Chávez government, both per capita (Fig. 4.4) and in terms of reduction of the number of undernourished families (Fig. 4.5). Improvements in education were also significant, with illiteracy rates dropping and access to primary education increasing from 86% to 96% between 1999 and 2012 and to secondary education from 57% to 85% over the same period (UNESCO 2015).



Source: ECLAC



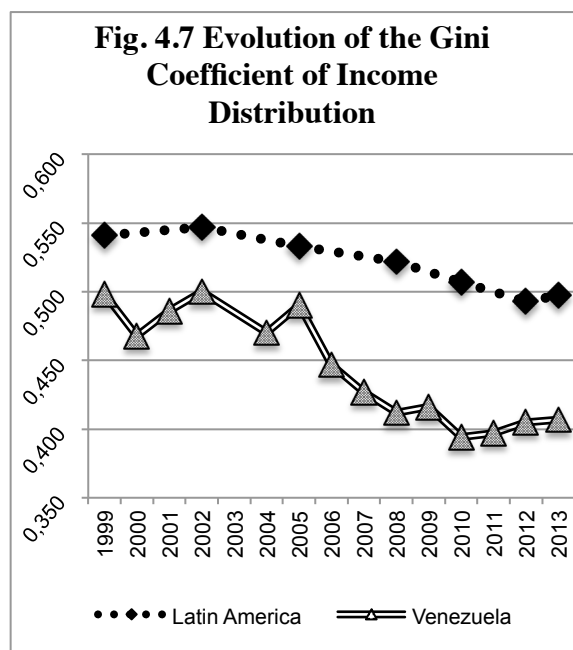
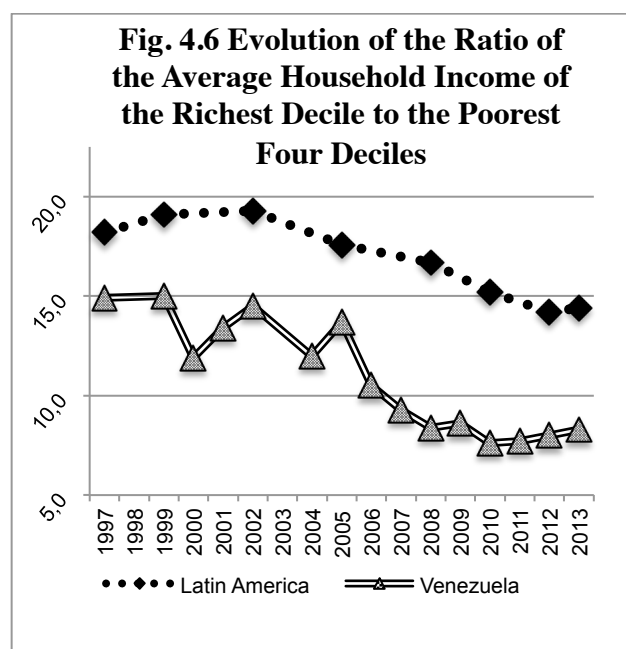
Source: ECLAC



Source: ECLAC

\*In these years, the result is an arbitrary value representing results under 5%

Overall, the redistributive policies had a positive impact on inequality, especially after 2003, with a decreasing ratio of the income captured by the richest decile to that of the four poorest deciles and a reduction in the GINI coefficient for per capita income at a faster pace than that of the region.



Source for both figures: CEPALSTAT.

The marks only appear for the years for which data are available.

The participatory form of the missions was replicated in several other spheres, notably some state-recuperated enterprises and local planning bodies, including communal councils (*Consejos Comunales*). These grouped tens of families in a neighbourhood together to generate community diagnostics, propose solutions for local issues and promote economic development initiatives based on local needs and capacities. Their implementation spurred an important debate regarding their democratic or paternalistic nature and their real contribution to development.<sup>95</sup> There is a valid concern that despite the real involvement of the population in these participatory projects, especially women,<sup>96</sup> their bureaucratic oversight, their central source of funding (essentially derived from oil rent captured and distributed directly by the executive or by PDVSA), and the absence of intermediary institutions allowing the collective empowerment of local institutions vis-à-vis the state left little room for autonomy. As with enterprises taken over by the state, there was a tension between democratization and paternalism (Larrabure, 2014) and between constituent and constituted powers (Azzellini, 2014), wherein popular autonomy was curtailed by the centralization of financial, institutional and organizational resources in the executive's hands.

Chávez founded a socialist party after his second re-election in 2006, the Unified Socialist Party of Venezuela (PSUV, *Partido Socialista Unificado de Venezuela*). The goal was to resolve the tensions between the various parties in the coalition supporting Chávez, with each one asking for a share of power. The new party attracted an impressive amount of support and

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<sup>95</sup> See for instance (Goldfrank 2011b; Goldfrank 2011a; Hawkins, Rosas, and Johnson 2011; Hawkins and Hansen 2006; López Maya 2011; López Maya and Lander 2011; Martinez, Fox, and Farrell 2010; Wilpert 2013; Wilpert 2011).

<sup>96</sup> Women gained an important political space in local participatory initiatives, even becoming their “main protagonists”, but the institutions that controls these initiatives are nevertheless criticized for still being “male-directed from above” (Fernandes 2013), and important advances in women's rights are not always applied in practice (Rakowski and Espina 2011).



swallowed many other political formations. However, the PSUV's ties to the "masses" are questioned even by its own elected members in the National Assembly: "the party... is moving away from the people ... and is increasingly being perceived as a separate and superior entity, like as its 'guide' or 'driver'" in the bourgeois, manipulative, capitalistic sense (Piñate, 2012, p. 76).<sup>97</sup>

This tension in participatory projects and political structures between popular involvement and the top-down control of social forces shows the contradictions that have emerged from the class struggle and its impact on the development model. Recovering oil rent to strengthen its autonomy provided the state with financial resources, but given the opposition, notably from the capitalist class, it reacted by co-opting social organizations and creating institutions to channel the popular sector into initiatives that would ensure their support. This was all the more necessary since the popular class organizations were weak during the neoliberal era, and the ones that remained important, like the main unions, displayed an initial resistance to the government's plans. If, as Coronil suggests, oil money was used in the 1970s in an attempt to buy modernity, it was used, under Chávez, to buy a socialist working class. The shortcomings of this strategy became evident with the drop in the price of oil and the rise in economic difficulties.

### ***The Difficult Economic Transition***

The tension between the capitalist class and the state resulted in a climate of lack of trust with negative impacts on private investment (Figs. 4.1 and 4.2). The leader of Fedecámaras, when asked why there was no investment, had a clear answer: "Confidence! There is nothing more

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<sup>97</sup> After the defeat of the PSUV in the legislative elections of December 2015, Eduardo Piñate was named permanent secretary of the party's presidency. He was a member of the national assembly when he wrote the quoted book.

cowardly than money. Those who make money need to put it in a safe place, and Venezuela is not an attractive place to have money” (Venezuela-B3 2013). Although the Chávez government was certainly responsible to a great extent for this uninviting investment climate, the role of the capitalist class in spreading analyses and views that undermined confidence cannot be ignored. Since the early 1980s, the actions of this class have been directed against the autonomous capacity of the state to manage the economy, even when it attempted to implement neoliberal policies. This led, under Chávez, to the difficult situation in which the state tried to sustain growth by subsidizing consumption and investment, notably through a fixed exchange rate, while investors would use state support for short-term gains and not longer-term investment. Even the president of Fedecámaras recognizes that Venezuelan capital is particularly “cowardly”:

The blame can be placed on Venezuelan entrepreneurs [...],<sup>98</sup> who for a long time, and not only with Chávez, have taken advantage of the government, of public subsidies and loans[...] and notwithstanding important exceptions, in general terms, entrepreneurs live off the government[...]. And yes, I concede, and it is the *mea culpa* that we need to do: the Venezuelan private sector does not have sufficient [sources of] capital accumulation to make significant investment. When somebody suggests an investment that would seem ridiculously small in any other country, two million dollars for instance, you will not find a single entrepreneur here to bid on the long run. (Venezuela-B3 2013)

Fedecámaras itself is not free of responsibility here. It has fostered class solidarity against the state-led development model and conveyed a position that has contributed to making investment unattractive.

A few business spokespeople, even some representatives opposed to the current government (Venezuela-B1 2013), have nonetheless stressed that investment was still possible. However, this view was mostly expressed by representatives of smaller businesses, supportive of the government, who were confident that supporting the government would eventually lead to

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<sup>98</sup> The original Spanish expression he used was “*Culpa a los empresarios venezolanos*”.

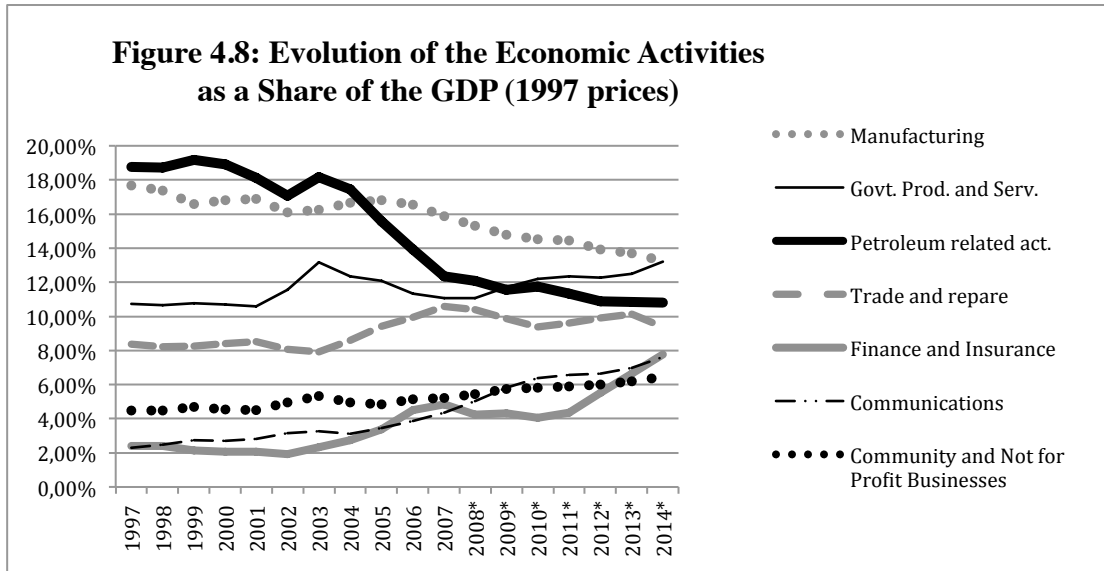
self-sustained growth if businesses would agree to follow the government lead. The new development model has allowed them to exercise more influence on state policies and to obtain more support from the government. According to the representative of *Fedeindustria*, those who survived the difficult economic times before 2004 have grown to occupy a larger economic space:

[our members] are not the small ones anymore, some have become very strong medium-sized enterprises. The genetic composition of our organization has also changed, and we now have very successful entrepreneurs in our federation. We don't talk anymore about [a lack of] money. In *Fedeindustria*, 80% of the meetings in the past were "I don't have money"; "the bank wants to seize my business." We now have other concerns. (Venezuela-B6 2013)

Speaking from a similar perspective, another spokesperson, confident in the government development plan, even downplayed the importance of some of the frequent concerns expressed by other entrepreneurs regarding the problems with ports and electricity provision. Port congestion was causing delays in the delivery of imports, slowing down the supply of raw materials, and electricity shortages stopped production. But this representative of meat producers and processors saw these problems as challenges that could be resolved through organization and the proper calculation of costs (Venezuela-B9 2013). For him, proud of his tremendous business growth, the problem was the risk aversion of other business owners, their refusal to follow the government plan and their lack of confidence in the investment context.

Nonetheless, the general lack of confidence of the capitalist class is clearly reflected in the changing share of different economic activities with respect to the GDP (Fig. 4.8). The change shows an important reduction of the manufacturing sector (from 17.66% to 13.23%

between 1997 and 2014). Combined with the data on fixed capital formation (Fig. 4.1 and 4.2), this has been a clear withdrawal of longer-term investment.



Source: BCV, Table 5.2.4  
\*Provisional data

This lack of mutual confidence was strengthened by the fact that since the coup, neither the government nor the entrepreneurs expected the other to reverse this drop in investment. The use of petroleum money by the government as the source of economic dynamism became even more problematic after 2009, when the world crisis affected oil prices, and government activities in the economy, fuelled by oil, became more important than oil itself (Fig. 4.8).

The Chavista government’s confrontation with the capitalist class, however, did not completely undermine its investment power. Redistributive policies widened access to consumption, and while private investment was reduced in manufacturing, capitalists increasingly sought new opportunities in the importation of finished goods and retail trade, a shift that slowly displaced a part of the economic struggle from the sphere of production to the sphere of consumption. As the representative of large retail businesses would put it:

A few years ago, we created a new type of investment. Previously, when we began in this business, investments were in infrastructure, in machines, in buildings, in fixed capital and assets. Now investment is more than ever in inventories [...] At one point, having inventory was not considered to be an investment. Now, many enterprises have noticed that it is much better to have inventory than to have money in the bank [...] It is worth 5 bolivars today, but the bolivar will drop tomorrow, so people feel that it is much safer [...] this is a new type of investment. (Venezuela-B7 2013)

In this quote, the representative of retail traders clearly expresses several elements that illustrate an important problem with private investment. Inflation was rendering savings in money unattractive. Without savings in money, the accumulation of capital to re-invest in fixed capital became harder, while investment in inventories of consumer goods became increasingly attractive, as the possibility of increasing prices protected inventories from currency devaluation. To try and control this possibility, the government dedicated specific state institutions to control prices, notably the Office of the National Superintendent for the Defence of Economic Rights (SUNDDE, *Superintendencia Nacional para la Defensa de los Derechos Económicos*), with a Superintendent of Fair Prices who set the legal price for several goods and services to try to control retail prices.

The other source of state control over the power derived from inventory investment and the sphere of consumption was in the centralization of access to hard currency. With diminishing domestic production, access to consumption goods increasingly relied on imports. Through its control of oil exports, the government became almost the only exporter in the country (Table 4.3) and therefore almost the only agent to earn foreign currency through trade. Since 2003, in the political context surrounding the coup and the oil blockade, the Chávez government resumed control over currency exchange through a fixed exchange system with various rates. Foreign currency became more accessible for certain kinds of imports (basic consumption goods,

productive inputs) and for individual consumption in specific contexts (such as Venezuelans studying abroad, for instance), and more expensive for other activities. Preferential exchange rates were therefore applied to imports according to criteria determined by the government. Several systems were implemented and amended to manage this over the years (CADIVI, SITME, SICAD, CENCOEX), but they ultimately resulted in a growing gap between the official exchange rates and the market rate—a problem that grew quickly with the lack of currency resulting from diminishing oil prices.<sup>99</sup>

<b>Table 4.4: Exports FOB by Sector in Millions of US Dollars</b>							
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total</b>	<b>70.197</b>	<b>96.057</b>	<b>58.518</b>	<b>66.887</b>	<b>93.747</b>	<b>97.877</b>	<b>88.753</b>
<b>Public</b>	53.724	91.411	55.891	64.005	90.758	95.828	87.035
Oil	51.531	89.035	54.178	62.317	88.131	93.569	85.603
Non-oil	2.193	2.376	1.713	1.688	2.627	2.259	1.432
<b>Private</b>	16.473	4.646	2.627	2.882	2.989	2.049	1.718
Oil	11.416	0	0	0	0	0	0
Non-oil	5.057	4.646	2.627	2.882	2.989	2.049	1.718

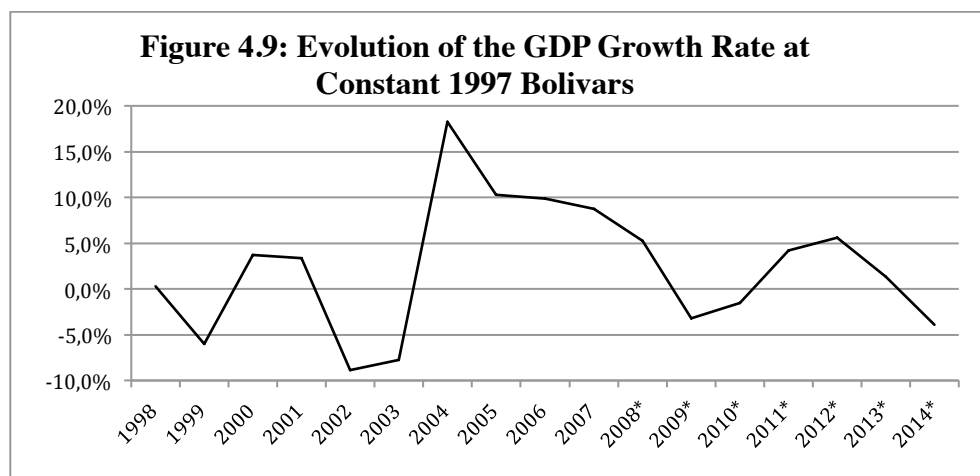
Source: BCV, Statistic on foreign trade, directory 2007-2013

This caused a displacement of the economic struggle to the sphere of consumption. From the supply side, the differential between exchange rates created a strong incentive to import goods at the preferential exchange rate and sell them at a price closer to the value determined by the market exchange rate, or to hoard products to sell them at an even higher price on the black market. Meanwhile, the government tried to increase its control over prices and distribution to avoid this form of speculation, sometimes sending in the military to take control of retail stores and warehouses and distribute their inventory. This created shortages and it fostered hoarding from consumers as well, who bought compulsively when a product was available at the

<sup>99</sup> Until recently, only the official exchange rate was considered legal, leaving the market exchange rate for the black market. The system now includes a rate determined by supply and demand on top of the fixed rate, and while official rates are Bs.F. 10 to Bs.F. 13 per USD, the market rate in August 2016 was at 645 Bs.F. per USD.

government-set price, further increasing the likelihood of shortages.<sup>100</sup> The market dynamic therefore undermined the possibility of organizing and distributing consumption goods in an equitable way.

The reliance on oil to maintain state autonomy and drive the economy generated positive growth (Fig. 4.9) for as long as oil prices were sufficiently high and oil production was maintained at high levels. The drop in oil prices meant a drop in the amount of currency available, diminishing its availability for imports and pushing prices up, which led to inflation and strengthened the pressure for currency devaluation. Moreover, the nationalizations entailed reduced investment in the oil sector, both by private multinational corporations resenting government control over production and by the state itself, as its strategy was oriented more towards the distribution of oil rent, with little re-investment in the sector. This undermined the government's capacity to generate the very income upon which its autonomy was built. In other words, it was slowly sawing off the branch it was perched upon.



Source: BCV

<sup>100</sup> In January 2014, the director of the National Institute of Statistics, Elías Eljuri, attributed part of the shortages to family hoarding and panic purchases (*compras nerviosas*) (Emen 2014).

Despite the divergence of opinions between representatives of SMEs and representatives of large enterprises, they all agree on one important critique regarding the development model: its provision regarding employment security and its restriction of labour flexibility hindered worker discipline and productivity. In their analysis, labour protection was so strong that it discouraged investment. On this issue, even the representative of Fedeindustria, who was a member of the presidential commission that negotiated the new organic labour law decreed in 2012, considered that “we need to find a balance regarding the lack of labour flexibility, because it is causing a decline in production, in productivity” (Venezuela-B6 2013).

Interestingly, this new labour law was adopted by Chávez in 2012 in order to resolve the tensions within the labour movement that prevented the UNETE from actively supporting the government. The law was discussed with the Chavista labour confederation, the CBST, immediately following its foundation, to secure the support of the labour movement that had thus far been elusive. However, it undermined the economic conditions of SMEs, which were the government’s main capitalist allies. For their part, attempts by the EPS and local development initiatives to offer an alternative to capitalism by relying on the social and participatory economy have not been sufficient to overcome the simultaneous reduction in private investment and declining rent.

In short, the transition to a rent-based social-developmental state, let alone a socialist one, continues to present significant challenges pushing the state towards a “dispenser” role. Key obstacles include strong resistance to transition by the capitalist class and the difficulties of an autonomous popular class taking a leadership role in changing the economy while being pressured to support the government. Despite tremendous oil income, transitioning to a



centralized, state-based economic dynamic in a society dominated by market exchanges has proved to be complex.

### **Conclusion**

The domestic class conflict is essential to explaining the evolution of the development model in Venezuela. From an original development plan aiming to recover state autonomy in order to pursue a neostructuralist development plan, the class conflict pushed the government towards transforming social property relations in the oil sector to capture more rent and attempt to build a social-developmental state. The mounting hostility of a unified capitalist class made an agreement with the state around the new development model difficult. This left few options for the government other than to become more radical and to adopt the role of dispenser. Despite the wealth derived from oil rent, the challenge was to find agents with the initiative to pursue an economic transition but that would also support the government.

The transformation of social property relations in the oil sector, undertaken in order to increase rent, was crucial for sustain state autonomy. It decreased the political sway of the capitalist class, because it made the government less dependent upon the immediate success of the process of private accumulation. It provided funds for redistributive policies to the popular sector geared towards maintaining its political support, in a context in which the main organizations of the labour movement were also confrontational. Yet the strength of the reaction of the capitalist class proved that while oil money granted power to the state, it was not enough to be able to ignore the power of capital.

Oil did make the state powerful, vis-à-vis both capital and labour, but it also rapidly became its weakness. The state was unable to buy a revolutionary working class. Guaranteeing

labour conditions did gain some support from labour unions, but it also made private production even harder, undermining the government's support from smaller and medium-sized industries. Despite the power derived from rent, the state could not play the role of landlord and of the leader of a revolutionary working class at the same time.

From a relational class perspective, the resource curse is a self-fulfilling prophecy, in that having resources leads to the expectation that the economy will fail. If extractive resources are managed by private interests, the curse is an incentive to keep extractive activities in enclaves and take the wealth abroad. If the extractive resources are managed by the state and used for redistributive purposes, it is likely to foster a reaction from the capitalist class that will undermine confidence and deter investments. The way out is not only in a set of policies, but in the complex class interaction that can produce the balance of forces and the autonomous space to foster a hegemonic project.

In Venezuela, the strong reaction of a centrally organized capitalist class forced government attempts to transform production that were neither conclusive nor sufficient to occupy the space left vacant by the lack of private investment. This led to the displacement of the class conflict to the sphere of consumption. Furthermore, the drop in oil prices led to inflation and growing scarcity, which eroded the main pillar of the government's strategy: redistribution to secure the support of the popular sector. Despite all the power derived from rent and all the experiments in terms of popular participation and democracy, the landlord state was ultimately unable to foster a successful social-developmental state, let alone a successful socialist society.

## 5. Ecuador Before the Pink Tide: Workers, Indigenous Peoples, and a Fragmented Capitalist Class

This chapter covers the period between the beginning of the dictatorship in Ecuador in 1972 and the election of Correa as president in 2006. Understanding the evolution of class conflicts in this period is essential to elucidating the rise of Correa and the kind of development model that was set in motion since his government took power. This discussion thus sets the stage for the following chapter that analyzes the rent-based social-developmental state under Correa, its achievements, and contradictions.

The current chapter is part of a dialogue with a dominant trend in the literature covering social conflicts in Ecuador that focuses on the role of the Indigenous movement<sup>101</sup> as being contrary to class analysis. These accounts, notably guided by various social movement theories, present the transformation taking place in the space of contestation in the 1990s as a switch from existing class-based movements, or from a weak peasant movement, to stronger Indigenous identity-based movements (Crabtree and Crabtree-Condor 2012, 55–56; Rice 2012, 52–53; Varese and Kearney 2008; Yashar 2005; Pallares 2002; Alvarez, Dagnino, and Escobar 1998; Yashar 1998). Following these accounts, Indigenous identities provided a framework, or “the

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<sup>101</sup> As suggested by Marc Becker (Becker 2008, 195), I use the capital “I” to write Indigenous peoples or movements to respect the choice expressed by the South and Meso American Indian Rights Center (SAIIC). I rather agree that identities are socially constructed, and in the case of Indigenous peoples in Ecuador, the plural is also necessary to represent their diversity.

prime reference point for antineoliberal contention” (Rice 2012, 54). These accounts have deep roots in the political analyses of the last two decades of the twentieth century, and are sometimes presented as an unavoidable “paradigm shift” resulting from the decline of Marxism and the rise of post-structuralism, which contend that contemporary politics consist in the diversification of lines of tensions and points of conflict (Sánchez-Parga 1995, 20–21).

My disagreement does not negate the importance of Indigenous identities in the struggle, but rather challenges their conceptual opposition to a class dynamic. Focusing on identities to the exclusion of class runs the risk of losing sight of at least two attributes that are pivotal to understanding the social conflicts spear-headed by the Indigenous movement and their historical importance. The first is the relational character of the conflict. The Indigenous movement was not fighting alone against an abstract structure of exclusion, but against real policy changes favourable to some sectors of society, and mostly supported by actors organized in business interest groups. When support for the development plans could not be ensured, either because tension between business interest groups prevented their agreement, or because the government was unable to unite them, Indigenous protests had the capacity to destabilize the government. Focusing on Indigenous identities, as opposed to class, therefore, runs the risk of downplaying the importance of the capitalist class and its factions in influencing the development model.

The second attribute that might be missed is the role of the Indigenous movement in forging broad alliances. Too narrow a focus on their struggle related to identity leaves out the Indigenous movement’s notable success in rallying other organizations and non-Indigenous peoples, which enabled the convergence of struggles contesting the neoliberal development model. The Indigenous movement was not opposed to class mobilization. It became the rallying point for struggles related to land and exploitation, opposing the privatization of natural

resources and land; it created ties of solidarity with non-Indigenous peoples and placed the Indigenous movement as the leader of the popular class. To paraphrase Barry Carr and Jeffery R. Webber (2013, 15), separating Indigenous political struggles from the capitalist social relations against which these struggles took aim leads to political conclusions very distant from those of the movements under scrutiny.

This chapter will thus explore the evolution of the development model in Ecuador, particularly in relation to class struggle and the role played by the Indigenous movement within it. In order to do so, it will include the active role played by the capitalist class and its internal factions. The chapter begins by providing a background of the dictatorship years and the foundation of class organizations, and then outlines the austerity and neoliberal periods that preceded the arrival of the pink tide.

### **The Beginning in Broad Brushstrokes: From an Agro-Export to an Oil Economy**

For the first part of the twentieth century, the Ecuadorian economy was largely built on the agro-export sector. Starting with cacao between the end of the 19<sup>th</sup> century and the 1920s, and banana production later in the 1940s and 1950s, the agro-export sector maintained its indisputably dominant position until the mid-20<sup>th</sup> century. It strengthened a dominant class organized around the agro-export sector on the coast and in its main city, Guayaquil, who were distinct from dominant elites in the Andes, whose economic power was still based in feudal land tenure (Guerrero 1994).<sup>102</sup>

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<sup>102</sup> For a discussion on the perpetuation of such a difference and its impact on public education today, see North (2013).

The crisis that affected the banana market in the 1960s forced landowners from the coast and the government to find alternative roads to economic development. Meanwhile, the growing peasant-Indigenous movement opposed to its exploitation in the feudal *hacienda huasipungera* of the highlands added political tension to the moment. During the 1960s and 1970s, a succession of military juntas and authoritarian governments attempted to modernize the economy through plans for promoting industrialization. Among the main challenges the modernizing governments confronted was the division between an economic elite on the coast turned towards agro-export markets linked to external capital (Striffler 2002) and a landed elite in the highlands that, while still enmeshed in feudal social property relations, was nonetheless one of the main holders of the capital necessary to drive industrial diversification (Guerrero 1991, chap. 1).

In the early 1960s, the military junta adopted a 10-year development plan that was prepared with the assistance of the United States Agency for International Development (USAID) and the Alliance for Progress program (Conaghan 1983, 75). It focused on similar objectives as elsewhere on the continent: supporting a successful transition from a feudal agricultural system to a capitalist one in a way that would prevent the uprising of peasants (*campesinos*). Additionally, it proposed to move forward with an industrialization plan based on import substitution. The plan produced growth in investment, from both foreign and domestic origins, often in alliance with one another, thus laying down the basis for the industrial growth of the 1970s (Conaghan 1983, 79–83).

Notwithstanding some achievements with this plan, the most important industrial boom came after the discovery of oil in the Amazonian Rainforest (*Oriente*) and the beginning of its exploitation by the Texaco Company in the early 1970s. A military junta seized control of the state again in 1972, deciding to join OPEC to become its second-smallest producer, just as the

organization began to drive oil prices up. Oil rapidly became the main source of revenue for the Ecuadorian state, representing between a third and half of its budget (Acosta 2009, 58; Acosta 2006, 374). Along with easily available international credit, the oil bonanza sustained the industrial drive that the military junta had envisioned as the path to modernize the country.

The junta's developmentalist ideals were guided as much by modernization as they were by the perception that economic transformation was the most effective antidote against communism (Conaghan 1983, 98–99). Although there was not a strong guerrilla movement in Ecuador, socialist and communist organizations had a strong presence within the Indigenous-peasant movements. This reality was compounded by the fear generated by the Cuban revolution and its reverberations across the whole continent, most clearly manifested in the election of Salvador Allende in Chile at the time. In this context, the potential victory in the upcoming 1972 election of Assad Bucaram, the leader of a party with important support from popular sectors, and his likely access to state oil revenue, was sufficient to push the military to seize power with the backing of business interests (Conaghan 1988b, 79). For the organizations of the capitalist class too, military control over oil revenue was a better option than its control by a politician they disliked.

Although many capitalists supported the 1972 coup, their economic visions diverged from that of the military. For its part, the junta was quick to take distance from business interest groups. It attempted to assert its autonomy in the management of the economy in order to apply its development plan (*Plan Integral*), designed to realize a nationalist, developmentalist, and moderately redistributive vision (Conaghan 1983, 81). It promoted industrialization mostly by supporting private businesses with generous incentives to selected sectors, acquiring minority shares in targeted industries, and curtailing imports of certain products. The state did enter into a

few productive sectors through state-owned companies, some the property of the military (Conaghan 1988a, 9),<sup>103</sup> and attempted to impose some direction to economic development. Business interest groups were quick to oppose this economic role for the state (Conaghan 1988b, 98–100). Their opposition eventually supported an aborted coup that nonetheless contributed to replacing the junta by a more conservative one in 1976. This new junta pursued a more export friendly development strategy.

The growth of oil, a key tool in the hands of the state to support industrial development, also had the effect of changing the balance between the centres of economic activities. The city of Guayaquil, located on the coast and the main port for agricultural exports, was the economic centre of the country. Despite the fact that the oil was extracted in the *Oriente*, it boosted the revenue of the central state, located in Quito, and therefore increased its economic weight. Although the balance remained in favour of Guayaquil, the pendulum started to swing towards Quito.<sup>104</sup> Even though business interests from both the coast and the highlands were opposed to the junta's intrusion in the economy, the main opposition was led by business interest groups from the coast, notably the Chamber of Industry directed by León Febres Cordero. Capitalists from the highlands were more tied to internal markets, and therefore benefiting more from import-substitution policies (North 1985, 429–33).

In spite of the important economic and industrial growth of the 1970s (Table 5.1), the industrialization program failed in some respects. It did increase industry's share in GDP, but without a corresponding increase in the share of employment in the private industrial sector. It

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<sup>103</sup> The armed forces developed an important industrial sector that remained under their control even after the transition to democracy and the adoption of neoliberal development plans.

<sup>104</sup> A recent article by an advisor of the Chamber of Industry from Guayas lamented that since the banking crisis had displaced the financial center of the country to Quito, the port city of Guayaquil was no longer the economic center of the country (Spurrier Baquerizo 2012).



therefore had a limited impact on internal markets. Capitalists took advantage of state protection to buy machinery and increase productivity in ways that contained the need for labour. Industrialization increased the reliance on imports of capital goods, negatively affecting the balance of trade in a way that was only compensated by the growth of petroleum exports (Lefebvre 1985, 19–24).

**Table 5.1: GDP at Constant Prices, Total Dollar Exports (Average Annual Change) and Share of Manufacturing in GDP (Period Averages)**

	1929-45	1945-72	1972-81	1981-95
GDP (rate of growth)	3.3	5.3	7.0	2.6
Exports \$ value (rate of growth)	4.3	7.1	22.6	3.2
Share of manufacturing in GDP (%)	17.7*	16.6	19.5	18.1

Source: (Orihuela and Thorp 2012, 34)

\*1939-45

Notwithstanding the positive results for private investors and the capacity of exporters to influence the military government, business interest groups became increasingly critical of the junta's autonomy. They felt a lack of control over state policies compared to the previous democratic period (Conaghan 1988b, chap. 5). Moreover, the channels of communication with the state no longer ensured sufficient influence over developmental policies, and state investment decisions appeared as an encroachment on their businesses (Conaghan 1988a, 9–12). It was this assessment that led the business sector to support a return to democracy. Like in Venezuela, despite some economic success, capitalists tended to reject a state-led development model.

### **Division and Unification of Class Organizations**

#### ***Capitalists' Division in Regional Factions***

Although the military government's developmental plan did boost industrialization (Table 5.1), they failed to unify the capitalist class in support of developmentalism, and rather produced

moments of capitalist class unity against state encroachment in the private economy. This is notably due to the fact that instead of fostering a distinct group of entrepreneurial industrialists with a modernizing attitude capable of forging class unity behind the state-led development model, policies of industrialization were captured by existing economic groups.<sup>105</sup> Regionally organized around activities related to agriculture and trade, these groups used state support to diversify their portfolios by expanding their activities into the industrial sector, and strengthening their alliances with multinational capital (North 1985, 426–31; Conaghan 1988a, 4). A compilation of the most important business groups in 1984 gives an idea of their relative importance (Table 5.2). On the coast, a smaller number of groups in a less diversified environment controlled a similar share of capital as the economic groups based in the highlands.

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<sup>105</sup> Economic groups (*grupos económicos*) is a common term used in Latin America to describe domestically owned conglomerates of diversified businesses comprising a set of legally distinct firms that operate in different activities, but that are subject to more or less formal centralized control. Please note that they are different in this text from business interest groups, such as chambers of commerce, industry or agriculture.

<b>Table 5.2: Main Economic Groups of Ecuador in 1984</b>			
<b>Economic group</b>	<b>Number of enterprises under control</b>	<b>Known capital (millions of Sucres)</b>	<b>Main sector of activity</b>
Noboa	69	5720	Food
Isaías	61	3018	Textiles
Pacífico	27	4129	Finance
Medranda	12	221	Food
Ortega	11	1688	Finance
<b>Total coastal region</b>	<b>180</b>	<b>14776</b>	
<b>Region: Highlands of the North</b>			
PROINCO	36	2672	Food
COFIEC	29	2786	Food
Granda	29	1061	Agriculture
Mantilla	27	2743	Printing
Pinto	25	1515	Textiles
Alvarez	20	1555	Wood products
Cobo	17	1421	Chemical products
Ponce	14	205	Retail trade
Chiriboga	11	1170	Minerals
Izurietta	11	226	Food
Jaramillo	10	325	Textiles
<b>Total North highlands region</b>	<b>229</b>	<b>15679</b>	
<b>Region: Highlands of the South</b>			
Malo	24	540	Retail Trade

Source: (Ycaza 1991, 285–86).

\*The original list contained 35 groups. I only reproduced here the 17 that controlled 10 enterprises or more because the estimated capital controlled was often not available for the smaller ones.

Although the state sometimes caused the unification of regional factions against its plans, overall, the industrialization of the 1970s maintained the existing division in the capitalist class along regional lines, opposing the coast (Guayaquil) to the highlands of the North (Quito) and of the South (Cuenca). These regional divisions seemed to matter more than sectoral ones (industry vs. agriculture or trade), although they also had some roots in the economy. The economic groups from the coast were historically engaged in the agro-export sector, and industrialization there remained more linked to export markets. In contrast, economic groups based in the highlands tended to be more tied to internal markets.<sup>106</sup>

<sup>106</sup> Still today, despite statements by a representative of a coalescing business organization from the highlands denying the importance of regional division in Ecuador (Ecuador-B1 2012), representatives of organizations from the coast would insist on the presence of differences and

Beginning in the late 1960s, this division was also fuelled by the fact that, following a stricter corporatist model, the affiliation of businesses to regional and sectoral chambers was made mandatory (Naranjo 1993, 26), a reality that undermined the capacity of businesses to develop a political strategy capable of overcoming narrow sectoral and regional interests.<sup>107</sup> Under the leadership of General Rodríguez Lara, the military government even attempted to split some chambers from the coast to undermine their power. Although the government had to backtrack as a result of strong reaction from existing chambers (Conaghan 1988b, 106), it shows how the military attempted to organize the separation between chambers as a way to control business political influence.

There were important moments of capitalist class unity, notably in the face of the agrarian reform in 1973, when the defence of private property and large estates (*latifundios*) stimulated the momentary resolution of tensions (Conaghan 1988a, 13; North 1985), or after the return to democracy in 1979 when business interest groups jointly rejected some of the new government's economic decisions and the popular class' demands and forms of protest. Nevertheless, there remained some important regional tensions during and after the dictatorship, especially since the growth of the state, nourished by oil rent, was perceived as strengthening Quito while the most important economic groups were from Guayaquil.<sup>108</sup> In this context, it is not surprising that the 1981 attempt to create an umbrella organization uniting the chambers of different sectors and regions never passed the stage of a declaration of general principles

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difficulties reaching agreements with similar organizations from the highlands (Ecuador-B4 2012; Ecuador-B9 2012).

<sup>107</sup> As we will see in the next chapter, some chamber representatives now celebrate the lifting of the mandatory affiliation, because despite its negative economic impact, it produced a filtering of members that did not share the values of the majority of the chamber (Ecuador-B3 2012).

<sup>108</sup> Recently, a representative of a chamber of industry from the coast mentioned that a major source of discontent on the coast in the 1970s and 1980s came from feeling excluded from oil wealth (Ecuador-B4 2012).

(Conaghan 1988a, 39). This organization, located in Quito, still exists, but comprises less than 20 member organizations and none represent important sectors from the coast.

With the return to democracy in 1979, the capacity of business interest groups to influence government policies did not improve as much as they had expected. The enfranchisement of the illiterate,<sup>109</sup> a constitutional change business interest groups from the coast had opposed when consulted by the military government in preparation for the democratic transition (Conaghan 1988a, 27–28), gave power to the very party the dictatorship had wanted to keep at bay in 1972, the Concentration of Popular Forces (CFP, *Concentración de Fuerzas Populares*). With a constitution that centralized the economic decision-making process in a few hands (that is, in the executive), the first democratic government of Jaime Roldós and Osvaldo Hurtado (1979-1984)<sup>110</sup> strived to be immune to business pressures. Analysis of the relationship between business interest groups and the state qualified the relationship at the time as “access without receptivity,” referring to the open channels of communication with the centres of economic decision-making that nonetheless had very little effect on actual policy outcomes (Conaghan 1988a, 41–45).

The state was, nonetheless, structured around corporatist mechanisms that provided functional spaces of representation in public institutions to chambers of commerce, industry and agriculture. Business interest groups were guaranteed seats on many boards of directors of executive commissions. This kind of participation allowed chambers of commerce and industry to indirectly curtail the capacities of the executive to conduct economic policy, but the factional divisions of the capitalist class still allowed the executive to sustain some autonomy by playing

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<sup>109</sup> According to Marc Becker (2014a), banning the illiterate was in fact a means to prevent the Indigenous from voting.

<sup>110</sup> President Roldós died in an airplane accident, leaving his post to Vice President Osvaldo Hurtado of the Christian-Democrats in May 1981.

on the differences between factions, maintaining its distance from particular interests to claim to represent the interests of capitalism as a whole.

This distance between the government and the business interest groups would, however, rapidly change under the next government headed by León Febres Cordero (1984-1988), himself a former president of the Chamber of Industry of the coast who had acted as a unifying figure for the divergent business interests against the dictatorship. His leadership is still praised today by representatives of the Chamber of Industry of the coast (Ecuador-B4 2012).

### **Labour Unity<sup>111</sup>**

For most of the 1970s and 1980s, the popular class had displayed important unifying tendencies behind the worker movement and its unions. Labour unions had been historically divided into five confederations according to the same divisions as the main political organizations. In 1971, the Confederation of Workers of Ecuador (CTE, *Confederación de Trabajadores del Ecuador* – socialists and communists), the Ecuadorian Confederation of Christian Unions (CEDOC, *Confederación Ecuatoriana de Organizaciones Sindicales Cristianas (Clasistas)* – originally Catholic),<sup>112</sup> along with a few other sectoral federations, founded a unitary front, FUT (*Frente Unitario de los Trabajadores*), later to be joined by the Ecuadorian Confederation of Free Unions (CEOSL, *Confederación Ecuatoriana de Organizaciones Sindicales Libres*).<sup>113</sup>

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<sup>111</sup> In a recent essay on the historiography of Ecuadorian worker unions, Hernán Ibarra (2007, 80) notes how the literature on this topic is scarce and the sources that contribute to it have not been well preserved.

<sup>112</sup> CEDOC did, however, take distance from its religious origins from the mid-1950s on, and even changed its name (but kept its acronym), making the last C refer to class instead of catholicism (Alexander and Parker 2007, 197).

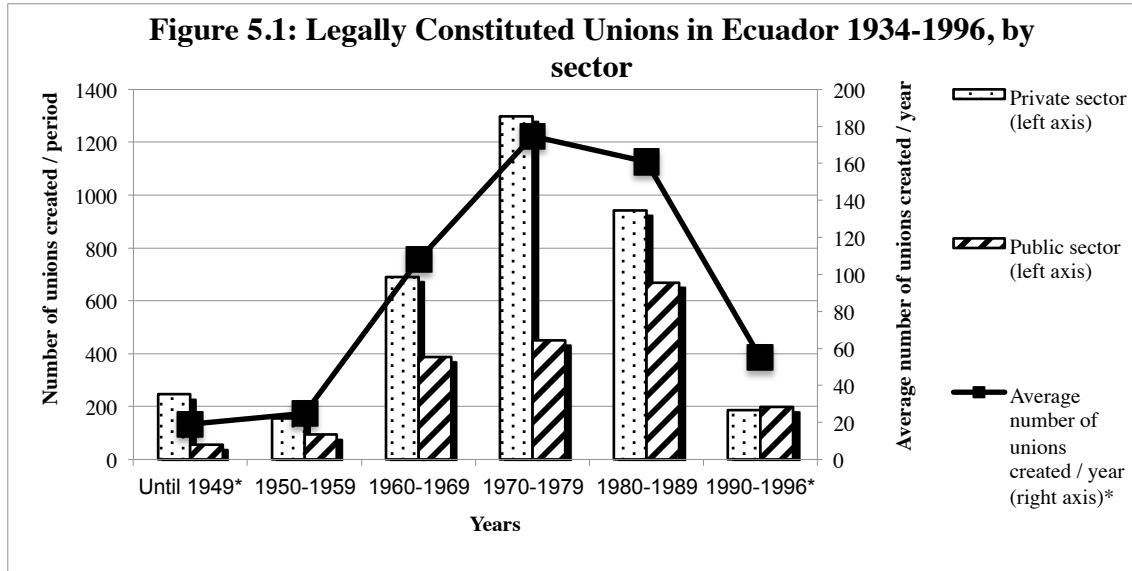
<sup>113</sup> CEOLS was founded in the 1960s with US and ORIT support to compete against the socialist unions. Their decision to ally with the socialist unions signalled the loss of American influence.

The first action of FUT was to call for a general strike during the year of its foundation. The list of demands for this action were not only related to unionized workers: it included various elements concerning the price of basic goods, the conditions of peasants (calling for a radical and democratic agrarian reform), and other macroeconomic and macrosocial changes (Ycaza 1991, 244–45), evidencing a commitment to becoming a voice for the popular class as a whole. This practice of integrating wider social demands remained a key feature of FUT's program for the following decades (North 2010). This approach to unionism was related to the fact that the main union confederations were developed by left political parties or the Church, which historically had tried to simultaneously appeal and organize different social sectors (peasants as well as private and public employees). Instead of being focused on particular sectors, labour organizations tended to go beyond their strict membership base to broadly defend the popular class (Farrell 1985, 338).

Despite successive dictatorships, the 1970s saw the most important expansion of unions<sup>114</sup> in the country's history (Fig. 5.1). Union growth in the private sector was even more significant when one considers that state-led industrialization in the period turned-out to be capital intensive rather than labour intensive, and the number of workers available to unionize was therefore slow to increase in the private manufacturing sector (Lefebvre 1985, 18; Conaghan 1988b, 58).

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<sup>114</sup> The Ecuadorian Labour Law distinguished three different types of worker organizations: worker association, union and enterprise committee. We will refer to all of them as unions.



Source: Darlic Mardesic, Vjekoslav. *Organizaciones Sindicales 1934 -1996*. Quito: Instituto Latinoamericano de Investigaciones Sociales, ILDIS; Ministerio de Trabajo y Recursos Humanos, MTRH, 1997; and author calculations.

\* Before 1949 and for the 1990s, data collection includes a different number of years than the other periods. The calculated yearly average represented by the curve refereeing to the right axis takes it into account and makes all periods more comparable.

The important growth of unions is explained by a combination of factors. Over the 1970s, the union movement was transitioning from a tradition of craft unionism to industrial unionism. The military regime's violent repression of labour protests, especially during the second military government (1975-79), consolidated solidarity between union federations of different political orientations. Moreover, despite repression, the dictatorships did not ban unions, since they saw them as pivotal in the promotion of economic modernization based on internal markets. With opposition parties prohibited, labour unionism became the main form of political opposition tolerated by the dictatorships, becoming then the main channel for the popular class to voice its concerns.

The expansion in the number of unions<sup>115</sup> continued over the 1980s (Fig. 5.1), and FUT, comprising the most important confederations, was able to wage one or two national general

<sup>115</sup> Sources on the history of the labour movement do not mention official indicators of union density. To calculate one for the industrial sector, Gilda Farrell (1985, 351) developed her own methodology by cross-checking data from the Institute for Social Security and the main union



strikes per year by using the strategy of organizing popular fronts. Calls for general strikes lasted until the new century (Alexander and Parker 2007, 197–201; Ayala Mora 2008, 2:105; Ycaza 1991, 314). Their demands were not limited to working conditions, but rather broadly addressed general themes of concern for the whole popular sector. They became the source of the kind of convergence leading to the “conflicts and struggles [that] shape social experience ‘in class ways’” (Meiksins Wood 1995, 82). For instance, as an activist put it:

[In the early 1980s,] a very strong movement of struggle began in the neighborhoods, and despite not having a unionized basis, the neighborhood committees started coordinating with the FUT because in a certain way, the FUT synthesized the whole process of society’s resistance. (Harnecker, 2011, 49)

### ***Peasants and Indigenous Rising***

The June 1990 uprising of the Indigenous movement organized by the Confederation of Indigenous Nations of Ecuador (CONAIE, *Confederación de Nacionalidades Indígenas del Ecuador*) is commonly analysed as something “sudden and unexpected” (Rice 2012, 51). According to Roberta Rice (2012, 3), it was the “first major Indigenous insurrection in the country since the colonial era,” and was based on ethnicity as opposed to previous struggles, which were centred around “class, partisan, religious, and revolutionary” identities. The strength and length of the mobilization was certainly impressive, as road blockages paralyzed the country for an entire week (Becker 2008, 166), provoking the irruption of Indigenous peoples on the political stage. However, Marc Becker, in his comprehensive historical research on the making of the Indigenous movement, demonstrates convincingly that the movement was in fact the result

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confederations. For the year 1981, she obtained very strong results for the private industrial sector in the provinces of Guayas (coast), Pichincha (northern highlands) and Azuay (southern highlands): over 30% in all industrial sectors; it reached more than 40% for the sectors of food, beverage and tobacco, textiles and leather, and non-metallic minerals.

of a long historical process in which, both from the early days to the present, peasant and Indigenous identities have been intimately intertwined and linked with the struggles of worker unions in joint attempts to build a popular class. Far from marginalizing Indigenous identities, the most important peasant federation from the 1940s until the 1970s, organized with the support of the communist party, was called the Ecuadorian Federation of Indians (FEI, *Federación Ecuatoriana de Indios*), a name that its Indigenous leaders preferred over a name referring to peasants (Becker 2008, 85–87).<sup>116</sup>

The 1990s CONAIE cycle of protests deepened the practices that, for a long time, had linked Indigenous and class demands. The movement's main demands were as closely related to land and agrarian questions as they were to the recognition and preservation of Indigenous nationalities and cultures. As Becker argues, “both class and ethnicity have been critical to the success of an Indigenous movement; the two cannot be easily separated” (2008, 14–15). Even when the form of organization of the popular sector divided class from ethnicity in the 1970s, for instance when the Catholic Church supported two separate federations, one for the Indigenous (ECUARUNARI) and one for the peasants (FENOC), the practice of coalition building between them was alive and well, and also included the communist FEI (Becker 2008, 162) as they constituted a united front to push for agrarian reform. Their demands were also supported by the labour unions: FUT also demanded a democratic agrarian reform during its first national strike of 1971 (Ycaza 1991, 244).

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<sup>116</sup> The decision to choose ‘*Indios*’ rather than ‘*Campesinos*’ to name the organization was certainly a gesture to underline ethnic discrimination. At the same time, the first goal of the organization as written in its bylaws was to gain economic emancipation of Ecuadorian Indians. Thus at the very formation of a pan-Ecuadorian federation, there is an obvious desire to both confront ethnic oppression and to build the class struggle at the same time (Becker 2008, 87).

The Indigenous and peasant movements lost political strength over the decade of the 1970s, in part because of their success at pressing for the agrarian reforms of 1964 and 1973. The agrarian reforms introduced a transformation of social property relations that forced an adjustment in the movement's strategies and forms of organization. While previously the main peasant and Indigenous federation, FEI, had mobilized on the basis of its opposition to landlords in the context of feudal land tenure (the hacienda *huasipunguera*), its abolition and the transition to wage labour changed the conditions of many peasants and required adjustments in their form of political organization.

Despite the importance of the change brought about by the dissolution of the *huasipungo* system, the 1964 land reform had little impact on land redistribution. The Chamber of Agriculture of Guayaquil, dominated by large landowners of banana and sugar cane plantation, was able to prevent the law from containing any limitation to the size of the landed estates. Furthermore, the state committee in charge of implementing the land reform was composed of representatives of landlords and workers, but none for the peasants or agricultural workers (North 1985, 434–35). As a result, between 1964 and 1970, only 10.2 percent of highlands campesino families received land, and only 8.5 percent of lands belonging to *haciendas* larger than 500 hectares were distributed (Becker 2008, 139). In this context, instead of solving the issue of peasants confined to very small, hardly viable land plots, the *minifundios*,<sup>117</sup> the land reform actually led to their multiplication. As a clear sign of the military government's support to landlords, it appointed the representative of the Guayaquil Chamber of Agriculture to head the Ministry of Agriculture in 1965 (North 1985, 436). Thus, if the pressure from below by peasants

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<sup>117</sup> *Minifundios*, the Spanish term that refers to very small plots of land and *latifundios*, the large landed estates, have historically been two sides of the same problem of land tenure in several countries in Latin America, and certainly in Ecuador.

and Indigenous organizations was instrumental in provoking the agrarian reform, the control over its results remained in the hands of the landed class.

The distribution of land nonetheless created a new layer of small owners, and increased social differentiation within Indigenous communities. While some Indigenous communities attempted to prevent the parcelling out of land by protecting collective ownership known as *comunas*, the modernization of agriculture through the consolidation of large landed estates and former *haciendas* pushed peasants and Indigenous peoples either into agricultural wage work and/or urban migration, thus effectively undermining the social basis of FEI (Becker 2008, 146). The commodification of land caused the proletarianization of many peasants in conditions that were in fact worse than the latter days of *huasipungo* (Becker 2008, 137–39), and the FEI found it challenging to adjust to the new conditions. Moreover, its link with a divided communist party entangled the FEI in distracting debates among pro-Chinese, pro-Cuban, and pro-Russian factions, while the adoption of a modernization discourse left little space for Indigenous ethnicity-related demands (Becker 2008, 148–51).

For its part, the Catholic Church strengthened its political presence in the countryside, founding the National Federation of Peasant Organizations (FENOC, *Federación Nacional de Organizaciones Campesinas*) in the late 1960s.<sup>118</sup> The Catholic Church also supported the foundation of ECUARUNARI (Awakening of the Ecuadorean Indian, *Ecuador Runacunapac Riccharimui*) in the early 1970s, a confederation gathering Indigenous organizations of the highlands originally more predisposed to giving voice to ethnic concerns. Despite periodic tensions, the three main peasant and Indigenous organizations (FEI, FENOC, ECUARUNARI)

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<sup>118</sup> First formed as the Ecuadorian Federation of Agricultural Workers (FETAP, *Federación Ecuatoriana de Trabajadores Agropecuarios*) to counter communist influence on the countryside, it was later overtaken by peasants who changed it into a classist organization fighting for socialism.

often worked together to push for common causes. They notably pressured for another agrarian reform, which they obtained in 1973 under the military government of Rodríguez Lara.

At the same time, landlords were able to garner support from other capitalist class factions in defence of private property (North 1985, 440–41). In the context of the development program pursued by the military, comprising a policy of extension of cultivated lands, the main result of both agrarian reforms was to modernize existing large landed estates and generalize wage labour while displacing agricultural frontiers, notably by pushing peasants to settle in the Amazonian region (Larrea Maldonado 2008, 130–32).

In the 1980s, the Indigenous-peasant movement experienced a substantial renewal. FEI, historically centred in the highlands where the most important segment of the Indigenous population was located, continued its decline while ECUARUNARI gained ground. Meanwhile, the Indigenous peoples from the *Oriente*, less disturbed by colonization until the 1960s, were shaken by the discovery of oil in the Amazon rainforest and the expansion of the agricultural frontier encouraged by agrarian reforms. The Confederation of Indigenous Nationalities of the Ecuadorian Amazonian Region (CONFENIAE, *Confederación de Nacionalidades Indígenas de la Amazonía Ecuatoriana*) was founded in August 1980 to respond to the challenges these events posed. In the ensuing months, the first efforts at forging a unified organization representing the different Indigenous peoples from the highlands and the *Oriente* were made. The goal was to work through the existing tensions between Amazonian Indigenous organizations, more inclined towards ethnic demands, and highland organizations, more grounded in class politics. While tensions remained, bridges were built, as both dimensions of Indigenous struggles were perceived as integrated to one another.

In 1986, ECUARUNARI and CONFENIAE joined the smaller Confederation of Indigenous Nations and People from the Ecuadorian Coast (CONAICE, *Confederación de Nacionalidades y Pueblos Indígenas de la Costa Ecuatoriana*) to form the Confederation of Indigenous Nationalities of Ecuador (CONAIE, *Confederación de Nacionalidades Indígenas del Ecuador*), a rare case of a unified organization including Indigenous peoples from around the country. Given the size of Ecuador's Indigenous population, it rapidly became an important political player.<sup>119</sup>

To strengthen this process, CONAIE pursued a policy of unity with the popular sector as a whole, seeking alliances with non-Indigenous organizations (Becker 2008, 179–80). During the 1990s, CONAIE was pivotal in coalescing several popular class organizations that were neither peasants nor Indigenous, but also wanted to contribute to the struggle against the neoliberal development model. Together, they formed the Coalition of Social Movements in 1995 (CMS, *Coordinadora de Movimientos Sociales*). It is on the basis of this alliance that the Pachakutik party was founded, to voice the concerns related to both the recognition of Indigenous ethnicity and the demands of popular sectors that were not Indigenous. It was an attempt at making an electoral unity of the popular class against the imposition of a neoliberal development model supported by the capitalist class.

Analyzing peasant struggles as being disconnected from Indigenous ones can be misleading. For instance, FENOC, a confederation originally founded for peasant organizations

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<sup>119</sup> Obtaining an accurate count of the size of the Indigenous population is very difficult, especially given the political importance of such data. For instance, estimates vary between the government census (around 7%) (INEC 2016) and the Indigenous organization estimates (closer to 25%). Historically, Indigenous peoples have resisted censuses, even when the leadership of their organizations were offering their collaboration for data collection (Becker 2008, 106–9). In any case, even in the lowest count, their demographic importance is sufficient to explain a strong movement, especially in the Andes, where 72% of them live, compared to 20% in the Amazonian region and 9% on the coast (Chisaguano 2006).

without an Indigenous denomination, eventually modified its name in the 1980s in recognition of the importance of Indigenous peoples in its membership. It changed its name again in the 1990s to acknowledge Ecuadorians of African descent, and became the National Confederation of Peasant, Indigenous and Negro Organizations (FENOCIN, *Confederación Nacional de Organizaciones Campesinas, Indígenas y Negras*).<sup>120</sup>

### **Corporatism and Austerity before Neoliberalism**

With the adoption of a new constitution by referendum in 1978, and the elections in 1979, Ecuador was the first country to resume a democratic regime among those that had been affected by the wave of dictatorships that had swept across the subcontinent over the previous two decades. In the new state structure, several corporatist mechanisms remained, reserving statutory space for labour unions and business interest groups on committees managing the implementation of designated policies. Some had survived during the dictatorship, especially those hosting business representatives (e.g. Monetary Board, National Development Bank, Wheat National Commission, Border Jury, etc.), placing business interest groups in a somewhat better position to influence state policies after the return to democratic rule (Conaghan 1988a, 56; Naranjo 1993, 56; North 1985, 435–36). However, the first elected government made its objective to maintain its distance from business interest groups and their pressure, therefore causing class tensions to spill out in the public sphere as they overwhelmed existing corporatist arrangements.

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<sup>120</sup> There are organizations with a more targeted focus, like the Eloy Alfaro Peasant Coordination (CNC, *Coordinadora Nacional Campesina Eloy Alfaro*), created in the 1990s and dedicated to the *campesino* issue. Its current leader, obviously Indigenous and denouncing anti-Indigenous racism, sustains that the main reason for not emphasizing the ethnic question is that the poor are all equal in poverty, and what they need is unity (Ecuador-C3 2012). There is also FEINE, a grouping of the evangelical Indigenous, that also addresses peasant issues.

The first elected president of the new democracy, Jaime Roldós, initially attempted to gain the support of labour by responding to some of its most pressing demands. Thus, he retroactively paid state employees that had not been paid in four months by the military junta (Alexander and Parker 2007, 202). He also reduced the working week to 40 hours and doubled the minimum wage (Ayala Mora 2008, 2:117). This kind of policy, along with a pro-human rights discourse, earned him, at least during the first year of his administration, some support from the labour movement (Sánchez-Parga 1996, 15). In contrast, business interest groups had their most intense years of active opposition to the new government from 1980 to 1982 (Naranjo 1994, 159).

The situation degraded rapidly. With the Volcker shock, the foreign debt the dictatorship had acquired to support its industrialization development model skyrocketed. From 38% of GDP in 1979, the debt reached almost 50% in 1982, with debt service reaching 15% of GDP the same year (Acosta 2006, 354). This created increasing fiscal pressure on the state, and the pressure worsened over the 1980s as the drop in oil prices also cut the main source of state revenue (Appendix B). Osvaldo Hurtado, who succeeded president Roldós upon his death, adopted strong austerity measures in an attempt to curtail the growing economic crisis.

These austerity measures stimulated a strong response from the labour confederations and prompted them to seek broader political alliances. They underpinned the creation of popular fronts. In continuity with a strategy elaborated during the 1970s, union confederations called for several general strikes with demands that were not limited to labour-related issues, but that also concerned the whole popular sector, notably by opposing increases to prices of basic consumption goods (Alexander and Parker 2007, 201–2). As general strikes gained strength, so did the repressive measures against them. In October 1982, a national strike against price hikes



(100% for gas and 120% for flour) turned into riots that threatened the government to an extent that made President Hurtado declare a state of emergency. Notwithstanding this development, the government changed its previous decision, limiting price hikes and conceding periodic wage increases.<sup>121</sup>

With mounting inflation and fiscal deficits, the government adopted a new austerity package in 1983. It included increasing interest rates, increasing the price of basic commodities, suspending wage increases for public employees, and passing a law to limit public spending (Thoumi and Grindle 1992, 42), all measures directed at securing a conditional loan from the IMF. The package also comprised the devaluation of the Sucre—the national currency—a measure against which business interest groups reacted strongly. The business chambers called for a business strike against the government (Naranjo 1993, 84–85) that was to coincide with the FUT general strike. Like in Venezuela, the capitalist class, in a moment of unity, claimed devaluation would increase the value of its foreign debt to an extent that could destroy the country's productive apparatus. Caving in to the pressure, the government accepted converting foreign private debt into domestic currency and offered state guarantees for them, a measure called *sucretización*. This measure increased the weight of the public debt by 30% (Thoumi and Grindle 1992, 43). With this political manoeuvre, capitalists were able to force the state into becoming responsible for international risks they had taken.

The Hurtado government adopted austerity measures through a piecemeal approach, without an encompassing vision understanding how such a program could produce the structural changes necessary to solve the crisis. As the president of the central bank at the time put it: “The

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<sup>121</sup> In a recent interview, a current labour leader was of the opinion that in 1982, the general strike was so forceful that workers were very close to taking power (Ecuador-S4 2012). Even without accepting this speculation, it nonetheless denotes the impression of strength left by the movement at the time.

economic policy was formulated brick by brick. We started addressing the symptoms, and not the causes because we did not understand the adjustment process” (Thoumi and Grindle 1992, 45). In this context, different business interest groups focused on their own interests, further diminishing the global coherence (Conaghan 1988a, 51–52). But the most important gain for the capitalist class remained *sucretización*, through which, like in Venezuela, and despite significant union-led popular class uprisings, it was able to overcome its factional divisions to transfer its foreign liabilities to the state.

### ***The Class War Opposing Labour to Capital***

Notwithstanding these divisions, the capitalist class aligned itself behind the leadership of León Febres Cordero (1984-1988). Running for a right-wing party from the coast, he had been director of the Chamber of Industry of the coast, and leader of the Federation of Chambers of Industry. During the dictatorship, he was at the forefront of the struggle to influence the military government’s policy orientation, notably by defending access to foreign investments and support to the export sector. To widen business community support for his government, Cordero astutely appointed as ministers former officers of business chambers from different regions and sectors (Naranjo 1993, 122). Under his presidency, capitalist factions found common ground to negotiate among themselves and with the state without resorting very often to public declarations, which fell by 60% during Cordero’s administration (Table 5.3). Indeed, the government acted as the coordinator of the capitalist class, which proved vital in securing the success of economic policies during the following decades.<sup>122</sup>

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<sup>122</sup> A representative of the Chamber of Industry from the coast that Febres Cordero directed still mentions the particular strength of Febres Cordero leadership, something that is uncommon (Ecuador-B4 2012).

<b>Table 5.3: Number of Business Chamber Public Statements Reported by Newspapers</b>	
<b>Period</b>	<b>Frequency</b>
Roldós-Hurtado (1980-1984)	222
León Febres Cordero (1984-1988)	76
Rodrigo Borja (1988-1992)	123

Source: (Naranjo 1994, 160)

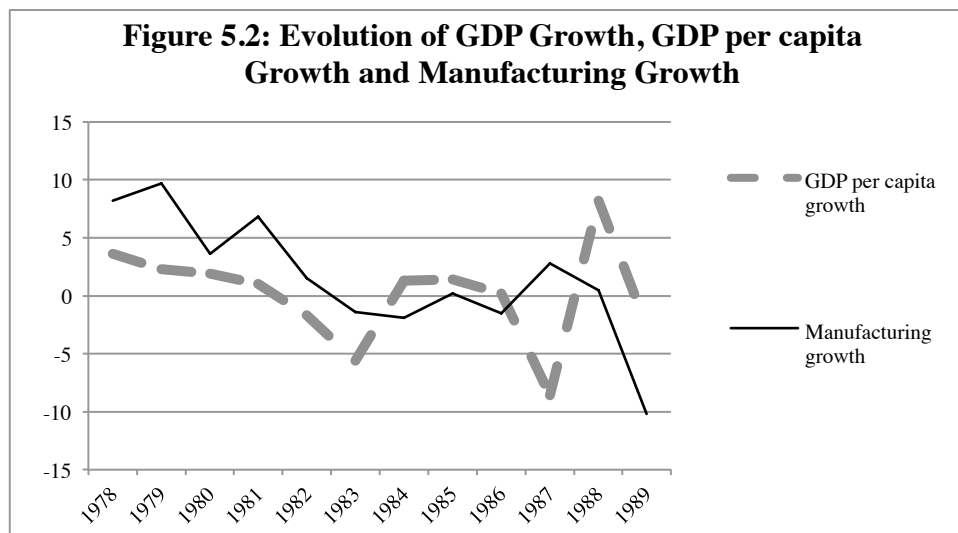
Meanwhile, the labour movement pursued its strategy of protests against the austerity measures, including FUT's calls for seven general unitary strikes (Ycaza 1991, 314, 361–62; Ayala Mora 2008, 2:105). Once again, their platforms included a variety of demands reaching far beyond trade union issues, including the suspension of payments of international debt, a strong opposition to the austerity measures, and wage increases for all. FUT actively engaged in a debate over the development options the government pursued, and effectively fostered the development of broad alliances within the popular sector, an approach that, not surprisingly, secured the support of the recently formed CONAIE (notably in 1987) for some of these strikes.

Labour mobilization succeeded in preventing the lifting of price controls over several products and curtailing price increases, most notably for gas. It also ensured the protection of existing labour legislation. To curtail opposition to his program, the Febres Cordero government increasingly used force and repression against the union-led popular class, calling for a state of emergency on repeated occasions to quell strikes.<sup>123</sup> Repression was justified by the necessity to protect the state against insurgency, linking popular resistance with the action of a small guerrilla group, *Alfaro Vive Carajo*, which had just emerged at this time (Thoumi and Grindle 1992, 54). While some business organizations questioned the means employed to keep order, overall they were supportive of the state's repressive actions (Naranjo 1993, 177–78).

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<sup>123</sup> Human rights became a major issue, with cases of forced disappearance remaining politicized even now, like the case of the Restrepo Brothers (Restrepo 2011).

The pursuit of piecemeal austerity measures, including the privatization of several public enterprises, might have contributed to reducing the impact of economic depression. However, it did not provide the basis for sustained economic growth and, on the contrary, further undermined the gains in manufacturing achieved during the previous decade (Fig. 5.1 and Table 5.1). Nonetheless, because austerity measures were implemented in a context where the various factions of the capitalist class secured their grip on the state to maintain the protection they needed in certain sectors, the adoption of stringent neoliberal policies, at least during the 1980s, remained elusive. For instance, the 1986 tariff policy, liberalizing imports in most sectors while preserving tariffs up to 100% certain sectors (Thoumi and Grindle 1992, 56) was the result of one year of negotiation between the executive economic team and the various chambers of industry, who then publicly defended the policy (Conaghan 1988a, 62–63; Naranjo 1993, 117). This made it apparent that development policies were not the result of the blind enacting of a neoliberal program, but a selective adoption of policies negotiated among business leaders.



Source: Thoumi and Grindle (1992, 119)

The election of Rodrigo Borja, a lawyer from the highlands and the leader of a social-democratic party in 1988, did not alter the course of austerity measures. Debt and inflation limited the government's margin of manoeuvre, and the corporatist mechanisms through which business interest groups had secured their influence on government policy had the same effect. The government attempted to open discussions with representatives of both labour and capitalist sectors to establish a new social pact to find a way out of the continuing crisis, but while capitalists demanded deregulation of exchange rates, and a wage freeze, labour wanted to preserve price controls and opposed any form of devaluation (Thoumi and Grindle 1992, 69–70). There was little room for agreement. Because corporatist mechanisms favoured capitalists within state institutions, their views were more influential compared to those of labour. However, their factional divisions, without a government able to unify them, became an obstacle for their capacity to influence the shape of a cohesive new development model. Internal conflict once again became public, as expressed in the growing number of public complaints by the various chambers (Table 5.3). The adoption of austerity measures by a social-democratic government also provoked disappointment from popular class organizations that, in response, increased their protests. Data on protests shows an increase of 33% in the number of conflicts between 1988 and 1992 (624) compared to 1984-1988 (469) (Sánchez-Parga 1996, 82).<sup>124</sup>

Given the prominent role of union confederations as leaders in organizing the popular class resistance to austerity, chambers of commerce and industry pushed for an amendment to the labour law to increase the minimal number of workers necessary to form a union (Naranjo

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<sup>124</sup> The CAAP data used by Sánchez-Parga show a greater number of conflicts during the Roldós-Hurtado presidential period (1979-1984). It is explained by various factors, notably a change in the way conflicts were registered. During the first period, various regional newspapers were reviewed, while only the major national ones were included in the subsequent periods. Furthermore, the transition to democracy might have led to an increase in conflicts because of newly acquired liberties (Sánchez-Parga 1996; Sánchez-Parga 1995).

1993, 165). Bill 133, adopted in 1991, doubled the number from 15 to 30, which in a country dominated by small businesses, radically undermined the possibility of workers to organize. According to union leaders, employers were then able to divide their activities between various plants or working sites, each of them counting fewer than 30 employees, to keep unions at bay (Ecuador-S4 2012).<sup>125</sup> It also prohibited solidarity strikes, therefore undermining the strategy of national strikes frequently used by FUT during the previous decade (Cano 2010, 292–93). This amendment to the labour law would have a tremendous impact on labour unions. Over the 1990s, the average number of unions formed per year dropped to less than a third of what it had been during the previous decades (Fig. 5.1). This attack on unions can also be seen in the number of strikes they were able to wage and the number of collective agreements signed (Table 5.4).

Presidents	Years	Strikes	Yearly average	Collective agreements*	Monthly average*
Roldós-Hurtado	1980-84	357	89.2	-	-
Febres Cordero	1984-88	320	80.2	1265	26,35
Rodrigo Borja	1988-92	520	130.0	1325	27.60
Durán Ballén	1992-96	(1992-1993) 75**	(1992-1993) 37.5**	888	18.5

Source: Ministry of Labour and Human Resources, quoted in (Sánchez-Parga 1996)

\*Source: (Dirección técnica de planificación 2005)

\*\*Data found only cover 1992 and 1993

The labour code reform was not the only factor affecting the capacity of workers to organize. The change in the development model, including privatization and increased job outsourcing, also diminished the capacity of labour unions to lead the way in class conflicts

<sup>125</sup> Moreover, the Ecuadorian Labour Law included a specific form of organization similar to a “closed shop” through the formation of a legally sanctioned enterprise committee. Founded on the basis of the workplace rather than political sympathy with a specific union, these committees would become the main representative organization directly dealing with the employer. Before Bill 133, 15% of the workforce of a particular worksite was necessary to form such a committee. With Bill 133, it required 50% (Sánchez-Parga 1996, 102).

(Sánchez-Parga 1996, 101–3). Growing labour “flexibilization” further limited the capacity of workers to organize, while rising unemployment at the end of the 1990s (between 9% and 14.4% for the 1996-2004 period) contributed to the same dynamic. Furthermore, rural migration into cities resulted in the growth of informal labour, a sector very difficult to organize. It would eventually result in an important wave of international economic migration. According to a leader of an informal workers association in the newspaper sector, the increase in informal labour became so problematic towards the end of the 1990s that it was hard to conduct meetings. Gatherings tended to turn into fights among members due to growing competition in the streets for desirable vending spots (Ecuador-S5 2012). In sum, a combination of reforms to the labour law and economic transformations undermined unions’ capacity to lead the class struggle.

### **The Turn to Neoliberalism**

The diminishing capacity of the labour movement to lead a successful popular class opposition movement helped enable the implementation of a comprehensive neoliberal program. Pablo Andrade (2009b) convincingly argued that before the election of Sixto Durán Ballén (1992-1996), governments had limited themselves to implementing policies with a neoliberal tone; it was only after 1992 that the intent was not only to fix the economy, but also to implement a neoliberal development model by adapting the state structure required to support it. The neoliberal turn—notably piloted by Vice President Alberto Dahik, a former adviser to the Chamber of Commerce of the coast—was no longer only about macro-economic changes: it was about reforming the state to diminish the capacity of the popular class to influence state policies from within, and diminish the possibility of the state to encroach on private businesses. In such a project, strengthening private property was essential, and among the main areas where private

property was not yet completely secured was in agricultural land and in the extractive sector. Changes in both these sectors threatened to have a major impact on Indigenous peoples. With the capabilities developed through their recent reorganization, they would take the lead in the struggles unleashing class opposition to neoliberalism.

### ***Indigenous Organizations Pick Up the Baton***

While the decline of the union movement in Venezuela left the popular sector very fragmented, in the case of Ecuador a similar decline in organized labour's strength was readily offset by an Indigenous movement able to take a leadership role in producing convergences among the popular sector.

The unification of the Indigenous movement under CONAIE in the late 1980s rapidly made it a central player in the class struggle. It pursued land-related demands as the common ground between Indigenous people living in the highlands with cultures related to communal agriculture and Indigenous people living in the *Oriente* with cultures that survive through maintaining access to large unenclosed territories. In both cases, the capacity to maintain collective ownership of the land was crucial to the defence of Indigenous identities and cultures. Opposition to the commodification of land was therefore central to upholding their cultures, and was also the basis for building solidarity with peasants and other members of the popular sector who also opposed the centralization of land for agro-export projects or for extractive industries. The Indigenous movement was well aware that increasing land commodification would push



peasants, Indigenous or not, into migrating into cities where they would have no alternative but to sell their labour in conditions that could only reproduce their poverty.<sup>126</sup>

The Indigenous movement, mostly organized through CONAIE, was able to gather a wide range of forces at its rallies, enjoying the active support of worker and other peasant organizations. This collaboration eventually led to the formation of a broad Coalition of Social Movements (CMS) opposing neoliberal reforms, a coalition upon which the Pachakutik political party was founded (Becker 2010, 46). Recognizing this dynamic, León Zamosc (2007) argued that:

[...] indigenous struggles in Latin America falsify the basic tenets of the “new social movements” approach. [...] What we are seeing in countries like Ecuador, Bolivia, and Mexico is that their struggles have not been limited to cultural affirmation or ethnic rights. While these goals have been important, the indigenous movements have transcended them, getting involved in broader battles over social issues and political power. (Zamosc 2007, 28)

A relational approach to class helps shed light on the importance of the Indigenous movement as a leader of class conflict. The Indigenous uprising of 1990 was powerful enough to produce a rare and unified collective reaction from the capitalist class in Ecuador. The main business chambers of the country jointly issued a statement expressing the unity of the business sector against the Indigenous uprising, asking the state for an efficient action in defence of private property and the unitary character of the Ecuadorian nation (Naranjo 1993, 147). The Indigenous movement, denouncing the “agrarian capitalist development model, labour exploitation and the bourgeois state” (CONAIE 1994), was becoming the threat that periodically

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<sup>126</sup> Suzana Sawyer’s transcription of the negotiation between President Durán Ballén, chambers of large landowners and cattle ranchers, and Indigenous and peasant organizations in 1994 about the agrarian law demonstrates all of these elements (Sawyer 2004, 182–209).

unified the capitalist class.<sup>127</sup> In contrast to the labour movement, whose access to the polity was now being reduced, Indigenous peoples had historically been excluded from the polity. Thus, they had little institutional space to lose, but much to gain.

The year 1994 witnessed several conflicts around the reform of the hydrocarbon law and the adoption of a new agrarian development law. These conflicts clearly illustrated the centrality of social property relations in defining the conflict opposing the Indigenous-led popular class to a capitalist class converging in defence of private property.

### *The Struggle for Oil*

Soon after his election, President Durán Ballén withdrew Ecuador from OPEC and increased oil production (Fontaine 2010, 193–94). Heading a state still squeezed by debt and low oil prices, his right-wing government saw production increases as a necessary source of revenues. But oil reserves in wells already in production were soon to be depleted. Exploration had identified new heavy crude reserves in the Amazon rainforest, but extractive companies demanded incentives to invest. Reforming the relationship with multinational oil companies to favour investment and profit repatriation was a way to make the country more attractive to foreign direct investment, and not only in the oil sector. It was in such a context and to provide more freedom to private companies that the Durán Ballén government proposed a new hydrocarbon law, written with the assistance of the World Bank, to bypass the constitutional protection for the state ownership of the resource. The reform diminished the control exerted by the public oil company on extractive operations. It also increased the share of profits for private companies and made their repatriation

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<sup>127</sup> Still today, a representative of large property owners identify CONAIE and its 1990s protests as the source of opposition to their vision regarding private property, accusing them of using Indigenous identity to manipulate peasants, which are not all Indigenous (Ecuador-A1 2012).

easier. Finally, the new law, adopted in 1993, increased prices for domestic consumption. The reforms in the hydrocarbon law would lead, in early 1994, to bidding rounds for concessions that formerly belonged to the state (Sawyer 2004, 93–95).

The reforms were met with resistance from various organizations of the popular sector.<sup>128</sup> The convergence comprised Indigenous organizations, especially from the *Oriente*,<sup>129</sup> where they had endured the negative consequences of Texaco oil exploitation;<sup>130</sup> FUT, opposed to privatization and the increase in gas prices; and environmental organizations. Just as the bidding process on concessions was about to be launched, the Indigenous movement occupied the building of the Ministry of Energy and Mines in late January 1994 to protest the intensification of oil exploitation and the granting of more power and freedom to multinational oil corporations (Sawyer 2004, 91–93).

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<sup>128</sup> The demand for deepening of the nationalization of oil had been present in the platforms of various movements for a long time. In 1980, one of the first marches organized jointly by FENOC and ECUARUNARI after the return of democracy had in its list of demands a deepening of nationalization of petroleum reserves (Becker 2008, 163–64).

<sup>129</sup> Indigenous people from the *Oriente* organized through OPIP, a provincial federation of Indigenous organization from the Pastaza province, and a member of CONAIE, coordinated a march to the capital in 1992 demanding to receive communal titling of over 2,000,000 hectares of land in the Amazonian rainforest. They were eventually granted some titles covering over 55% of the demanded territory, though titles did not exclude the right of the state to pursue oil exploitation on them (Sawyer 1997).

<sup>130</sup> Texaco, in partnership with the state, was at the heart of the oil extraction activities in the Amazonian rainforest during the 1970s. It directed the oil extraction around Lago Agrio and operated the Trans-Amazonian pipeline transporting oil from the rainforest to the coast. With the support of environmental organizations, Indigenous as well as non-Indigenous Ecuadorians living in the region surrounding the extraction site filed a class action lawsuit in New York against Texaco for the contamination it caused and the resulting health problems. Being sent back to Ecuador in 2003 with the case, an Ecuadorian court found Texaco guilty in 2011 of having neglected environmental protection and used substandard practices in order to cut costs. It ruled that Chevron, who had acquired Texaco's interest in the country, had to pay US \$18 billion, later reduced to US\$10 billion, in damages. The judicial saga now continues in the US, where the company is attempting to have the Ecuadorian court recognized as corrupt.

Riots exploded a few weeks later, when public transportation fares increased as a consequence of the increase in gas prices. Although the uprising resembled the Venezuelan Caracazo in many ways, in the Ecuadorian case unions and Indigenous organizations did not condemn the uprising, but contributed to it. FUT quickly called a 24 hour national strike, a call that was supported by CONAIE.

At the core of this uprising, and of the broader opposition to neoliberal policy reforms that would follow, was the redefinition of social property relations regarding the oil sector. Asserting the primacy of private property over the hydrocarbon sector was the central objective of the reforms, a shift that happened once active measures had been taken to diminish popular classes' influence within the state by undermining worker unions. Indigenous movements had picked up the baton to oppose the neoliberal reforms, but their focus soon settled on land counter-reform.

The Durán Ballén government was able to offset the pressure of the Indigenous-led popular class by coalescing the support of various factions of the capitalist class. Facing a rising Indigenous movement, the capitalist class saw Durán Ballén's neoliberal program as a good way to safeguard private property. A variety of chambers therefore jointly opposed the first Indigenous uprising of 1990. During the second uprising in 1992, the Borja government accused protesters of trying to create a parallel state (Pallares 2002, 20), but nevertheless eventually received the protesters and granted them titles for large territories in the Amazon rainforest. By contrast, the firm attitude of Durán Ballén in favour of private property and private participation in extractive activities pleased the different factions of the capitalist class.

Reform of the hydrocarbon sector resulted in a greater role for private corporations at the expense of the public sector, and by the early 2000s, the former had become more important than

the latter (Acosta 2009, 45–53). The securing of private property to please international and domestic capital, as well as the international financial institutions, was against the explicit demands of the Indigenous-peasant movement. In the previous year, a coalition of peasant and Indigenous organizations led by CONAIE had created a common umbrella organization, the National Agrarian Coordination (CAN, Coordinadora Agraria Nacional),<sup>131</sup> which demanded that a specific fund be created to channel oil rent into addressing land conflicts and the lack of land for peasants, which caused rural poverty. In this context, the agrarian question became the main issue of class confrontation.

### *The Struggle for Land*

In 1994, the Durán Ballén government adopted a new Agrarian Development Law that replaced the agrarian reforms of the 1960s and 1970s. Its goal was to favour private investment to promote agro-export activities and the modernization of agriculture. It was a way to mobilize the capitalist class behind his plan. A spokesperson for the Chamber of Agriculture representing large landowners from the highlands emphasized the class nature of the reform:

The main reason the [1994 agrarian] law was created was as a response to the political-social uprising of the early 1990s about the 500<sup>th</sup> anniversary of the discovery of the Americas. There was a chant by a very radical Indigenous organization that said: ‘no more hacienda by the year X’, but I am not sure of the year. I think it was 1994. It was the famous CONAIE, the most important Indigenous federation. This is what sparked the debate. There were very violent invasions of private properties, of farms, very violent... there was a strong conflict. There was a need for a law that would act as a pressure outlet on this matter. (Ecuador-A1 2012)

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<sup>131</sup> The main organizations included were CONAIE, FEI, FENOC-I and FENACLE, an organization mostly of wage peasants from the coast.

This illustrates how President Durán Ballén, through his proposition of a new agrarian law, was able to mobilize private landowners against CONAIE. The latter was organizing land invasions to demand a deepening of agrarian reform. Against them, the new law would secure private property. It also garnered the support of industrialists in the agro-export sectors. In Suzana Sawyer's (2004) terms:

The president's proposal sought to liberalize and privatize land and water rights, guarantee land security and future land expansion and intensify export production. Crafted in conjunction with landed and agro-industrial interests, the executive branch's proposal aspired to re-entrench an agricultural oligarchy as an important political and economic force within Ecuador. As expressed by the former president of the Chamber of Agriculture, Nicolás Guillén, Durán Ballén's project was 'vital' for Ecuador's future: 'It will permit the reactivation of agriculture activities such that they reassert their weight in an Ecuadorian economy which has become overly dependent on petroleum. (Sawyer 2004, 153)

The former president of the Chamber of Agriculture was understandably optimistic that the expansion of large estates for industrial agriculture directed at the export market could reduce the relative share of petroleum in the economy. The problem was that, far from reducing the importance of oil in the economy, the overall impact of economic policy during the Ballén administration was to maintain or even increase it. However, the most meaningful transformation taking place was not in the relative weight of oil *vis-à-vis* other sectors, but rather in the extension of protection for private property in the hope that large private investments would drive production and growth in both sectors. Therefore, economic policy sought the growth of a certain kind of agriculture, and the peasants quickly understood that it was going to be done at their expense.

The President's agrarian law proposal evidenced the state taking a leadership role to unify the capitalist class against the popular class. Indeed, during the two years prior to his

proposal, the CAN had launched a broad national consultation of its membership to draft a common project to reform the agrarian law. They had submitted a law proposal (*Proyecto de Ley Agraria Integral*) aimed at achieving five main goals: food security; equitable land redistribution; protection and defence of natural resources; security and peace in the countryside;<sup>132</sup> and the protection of territories for ancestral and traditional communities (CAN 1993). With complete disregard for this proposal, and despite the fact that it had been presented to the congress by members of the movement in 1993, the President chose to defend a law written with and for large landowners, cattle breeders, and agro-industrial exporters.

Interestingly, and displaying the relational character of class conflict, the manifesto that accompanied the CAN's law proposal was also clear about the fact that "the current government, instead of solving the hunger of a majority of Ecuadorians, imposes privatization of state enterprises that is nothing but big business for the benefit of a few national and foreign entrepreneurs linked to state bureaucrats" (CAN 1993). By demanding in the same declaration that oil rent be used to support peasants and agrarian issues, the movement challenged the appropriation of rent to pay foreign capitalist interests.

In the context of these critical setbacks, CONAIE called a series of protests in June 1994 to block the main roads linking the country's largest cities. The blockade was effective for over a week. CONAIE protests and the process of negotiation it opened up were also revealing of the class conflict that was taking place. Through the protests, several alliances were forged with other organizations, including with organizations of *colonos*, the peasants that had been pushed to colonize the *Oriente* in the previous decades. *Colonos* had a history of tense relationship with Indigenous peoples in the Amazonian region, since they had been sent with the support of the

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<sup>132</sup> The importance of the question of security in the countryside was in reaction to the murder of Indigenous and *campesino* leaders (CAN 1993).

state to settle and cultivate lands in a territory previously used by Indigenous communities. Nevertheless, the reform of the hydrocarbon law in the previous months had favoured a convergence between Indigenous and *colonos* organizations in the *Oriente*, since they were equally concerned about the threat that oil exploitation represented for their communities' living conditions. As alliances became more entrenched, CONAIE protests against the Agrarian Law began to include several demands that were related to issues of greater concern for *colonos* (Sawyer 2004, 162–65).

To quell the protests, the President declared a state of emergency, allowing the armed forces to intervene. Protesters abandoned their barricades, but the President nonetheless opened negotiations with CONAIE and FENOC-I.<sup>133</sup> In the presence of the country's President, flanked by state officials defending the law, the highly broadcasted negotiation involved CONAIE and spokespersons of business interest groups representing large landowners and cattle ranchers, and took place over several weeks. CONAIE, perpetuating the tradition of class convergence, pressed for representatives of other peasant, Indigenous, and Afro-descendant communities to be allowed to join CONAIE's representatives in the negotiations.

On one side of the table, the state-supported representatives of the agrarian faction of the capitalist class used abstract liberal notions of the unity of the Nation, of democracy, and formal equality to defend private property as a tool for progress. On the opposite side, a popular class composed of a mix of Indigenous, peasant and Afro-descendant representatives recounted the materiality of existing inequalities and historical exclusion, defended the necessity of a differential treatment and the preservation of collective forms of property. The latter conditions, they argued, were essential to enable Indigenous and Afro-descendant communities to administer

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<sup>133</sup> Suzana Sawyer attended the negotiation and extensively reported on them, notably in *Crude Chronicles* (2004, chap. 6).



lands in ways that would allow not only the preservation of their way of life, but also the improvement of food security in the country.

At the core of the unfolding class conflict was the extension of private property, and its entrenchment in the new law emerging from the negotiations that abolished the former regulation that allowed for land redistribution of idle estates. The negotiations secured the popular sector organizations some gains, notably the recognition of the diversity of the agrarian sector and the importance of Indigenous peoples and *campesinos* within it. It acknowledged the importance of domestic food production and of environmental protection, yet it stopped short of entirely protecting communal lands. The negotiations also limited the privatization of Indigenous communal lands by requiring the agreement of two-thirds of the residents to divide or sell a *comuna*; while the President's original proposal had suggested to simply abolish them.

The capitalist class, coordinated by the state, advanced the protection of private property, but the popular class fought and preserved other forms of property. As Indigenous leader Nina Pacari argued during the negotiation: "Breaking up communal lands [...] would lead to land monopolies, to those who have and those don't. It will produce migration to the cities and unemployment in the countryside. It will cause the belt of misery to tighten" (quoted in Sawyer 2004, 201).

### **A Lasting Class Conflict**

The form of class conflict typical of the early 1990s, exemplified by the struggle around oil and land, continued over the decade to produce rising levels of institutional instability. When the government was able to mobilize the different factions of the capitalist class to support policies that pleased the international financial institutions, it was in control of an alliance with the

necessary strength to sustain rapid changes.<sup>134</sup> However, it had to confront the strong opposition of a popular class led by an Indigenous movement capable of curbing the scope of some of those policies. When the government was not able to congeal the capitalist class behind its plan, the opposition of the popular class would threaten its survival.

The ousting of President Abdalá Bucaram illustrated this dynamic. Elected in 1996 with a promise to alleviate growing poverty, Bucaram did not last long in office. Despite his electoral campaign and some targeted measures of redistribution (Carrasco V. 1998, 126–30), he introduced in February 1997 a neoliberal package of reforms without having secured the necessary support from business interest groups. To show their opposition, some chambers of production extended their support to the civic strike (*paro cívico*) called by the labour unions, the Indigenous movement and a wide array of social organizations demanding the President's resignation (Andrade A. 2009a, 155). Abdalá Bucaram was eventually impeached by the congress on the day of the strike for alleged mental insanity (*incapacidad mental para gobernar*). Without a government able to build a strong alliance of business interests, neoliberal policies appeared as difficult to implement in Ecuador as they were initially in Venezuela, particularly because of the capacity of the Indigenous movement to foster a convergence of oppositional forces.<sup>135</sup>

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<sup>134</sup> Seeing such an alliance at play, the former Managing Director of the IMF, Michel Camdessus, commented that “an incestuous relation between bankers, political-financial pressure groups and corrupt government officials characterized Ecuador’s governing system” (quoted in Becker 2013, 102). It was probably a way to place the blame on domestic actors for the poor results of the economic policies proposed by his organization.

<sup>135</sup> Exemplifying the class convergence at play, a union leader originally from the electric sector proudly said that his union had mounted the stage and the sound system by the congress “so that the popular struggle in the street could kick Bucaram out and put Alarcon in power” (Ecuador-S4 2012).

The interim government that filled the gap left by Bucaram's impeachment called a referendum that managed to garner consensus over the necessity of writing a new constitution. A Constitutional Assembly dominated by traditional parties was elected (Andrade A. 2009a, 160) and proposed a new constitution that was eventually adopted in 1998. However, the reorganization of the state that the new Constitution entailed did not offer a solid alternative to the gap left by the erosion of the corporatist model of class compromise that had existed since the 1960s. Under corporatist mediation of class conflicts, the labour movement and, to a lesser extent, the peasant organizations, had been protected and integrated within some state institutions to channel the demands of the popular sector and adjust policies to balance the tensions. The undermining of labour unions and of these institutional channels of negotiation also weakened the state's capacity to sustain political order.

The Indigenous movement assumed the leadership role in the formation of a popular class and its struggle during the 1990s, but there was no mechanism within the state to take into account and integrate popular class demands. To answer Indigenous-led popular class pressures, the state had formed ad-hoc bodies of negotiation, like in 1994, when the President met with representatives of Indigenous-peasant organizations and landowners to negotiate the agrarian law. But there were no permanent structures or processes put in place to integrate popular sector concerns into the policy-making process.

The 1998 Constitution did create new channels for Indigenous representation (§ 83-85). It also acknowledged the "pluricultural" and "multiethnic" character of the country and guaranteed Indigenous control over communal lands, all critical elements for advancing the recognition of

Indigenous peoples in the country.<sup>136</sup> It also included several provisions that responded to other Indigenous demands, notably granting Indigenous organizations control over publicly-funded institutions concerned with Indigenous health, economic development in Indigenous communities, and education oriented towards transmitting Indigenous cultures.<sup>137</sup>

These provisions improved official recognition of ethnic concerns voiced by the Indigenous movement, but stopped short of recognizing the other role played by the Indigenous movement: that of a leader of the popular class, the organizer of the convergence of struggles arising from the popular sector. Therefore, despite the class confrontation that had been conducive to an institutional renewal, there was little in the state structure announced by the new Constitution to institutionalize channels of mediation for the popular sector as a whole. In fact, as Pablo Andrade concludes regarding the new Constitution:

[...] The dominant class can even liberate itself from the accessory components of domination, such as ethnic and cultural discrimination, but it can't renounce its control of the economy. Concretely, in Ecuadorian conditions at the end of the 20th century, control of the indigenous rural populations through extra-economic means long ago became unnecessary. [...] In fact, through the dispositions that specifically protect the control of economic decisions for conservative sectors, the latter can continue to block the demands for socio-economic change, perpetuating highly unequal socio-economic structures. (2009a, 268)

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<sup>136</sup> It nonetheless stopped short of recognizing the plurinationality demanded by CONAIE. The Constitution rather insists that it is among the first duties of the state to strengthen the unity of the nation in its diversity (§ 3).

<sup>137</sup> Three main state-funded institutions with an important degree of autonomy were dedicated to such issues and created in the aftermath of the new Constitution: the Council for the Development of Nationalities and Peoples from Ecuador (CODENPE - *Consejo de Desarrollo de las Nacionalidades y Pueblos del Ecuador*); the Office for Indigenous Health (*Dirección de Salud Indígena*); the Fund for the Development of Indigenous Peoples (FODEPI - *Fondo de Desarrollo de los Pueblos Indígenas*). They were added to the National direction for Intercultural and Bilingual education (DINEIB - *Dirección Nacional de Educación Bilingüe*), which existed with significant autonomy since the late 1980s.

Through his analysis, Andrade underlined that the 1998 Constitution, essentially the result of elite negotiations, could make important advancements on ethnic issues, and even recognize specific rights to Indigenous peoples on communal land, as long as it was not really increasing the power of the popular class within the state or changing the basic socio-economic structure of society. It is in such a context that the new Constitution maintained state ownership over non-renewable resources (§ 247) in order to preserve control over their exploitation, and not to transfer property of extractive resources to Indigenous peoples. Indigenous peoples were only guaranteed to be consulted on these issues, but the state preserved for itself the right of property over all extractive resources. Moreover, the new Constitution did not eliminate the possibility for private corporations to be directly involved in the exploitation of these resources and left open the key issue of the division of profits from such activities between the public and the private, the international, the national, and the local levels.

The issue was not only that the “dominant class” as a whole had secured its control over the state at the cost of increasing inequalities and class tensions with the popular class. In fact, the problem arose from the fact that by securing this control, there were fewer incentives for the capitalist class to unify behind a development model. Therefore, tensions continued between factions, and governments had difficulty forging alliances strong enough to stay in power (Crabtree and Crabtree-Condor 2012, 51; F. Ramírez Gallegos 2005, 52). These tensions undermined the capacity of the state to pursue a cohesive development program and exposed individual administrations to crises they could not overcome.

The conflict among opposing regional capitalist factions had very visible political expressions. For instance, the neoliberal measures adopted in 1994 included financial liberalization, which diminished state control over private banking. What remained of an

oversight of the sector was the responsibility of the Office of the Superintendent of Banking, which became paralyzed by the power conflicts opposing different business interest groups (Miño 2008, 255–56). Several external factors contributed to a difficult economic conjuncture and mounting internal political tensions, including the CENEPA war with Perú, the El Niño effect in 1997 that affected production on the coast, and the spreading of the Asian economic crisis. By the end of the 1990s, the combination of these factors contributed to the final push into the abyss of the liberalized banking system. Between 1998 and 1999, the government had to bail out one failing bank after another (Miño 2008, 249–74; Páez Pérez 2004), and all banking operations had to be suspended for several days in March 1999 to cool down the crisis. By that year, the bailing out of banks had cost the state the equivalent of 24% of GDP (F. Ramírez Gallegos 2010b, 22).

The banking crisis reignited deep-rooted regional tensions. In April 1999, several business chambers from the coast, in a clear moment of regional factional class unity comprising a great variety of interests from small to large enterprises in the commercial, industrial and agricultural sectors,<sup>138</sup> along with right-wing parties, called for a program of political protests. The march of the black ribbons (*Crespones Negros*) was the most emblematic of these events. In the assessment of representatives from these sectors, the measures adopted by the government to face the banking and economic crisis disproportionately favoured the highlands at the expense of productive and commercial sectors from the coast. At the time, the former president and then mayor of Guayaquil, León Febres Cordero, voiced the opposition from the coast, threatening “an

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<sup>138</sup> The Chamber of Small Industry (CAPIG), the Chamber of Construction, the Chamber of Commerce, the Chamber of Large Industry of Guayas (CIG), the National Corporation of Banana Producers (CONABAN), and the Chamber of Aquaculture, all from the coast, took part in the organization, according to the newspaper *Hoy* of April 8th 1999 (Redacción *Hoy* 1999).

uprising of the coast against the ‘banko-crazy of Quito which attacks the interests of Guayaquil’” (Barrera 1999, 96).

Business interest groups of the coast demanded greater regional autonomy, and some of their spokespersons pressured for the adoption of the US dollar as the national currency (dollarization) (Romero C. 1999, 14). According to Mario Unda Soriano (2001, 167), while organized through a regionalist discourse, opposition from the coast concealed a competition for securing opportunities for economic and political accumulation and benefits in the distribution of public subsidies. However, for businessmen on the coast mostly active in the agro-export sector, dollarization could mean both stabilization of the relationship with international markets as well as difficulties in remaining competitive in primary exports. The point to underline is that, beyond what the conflict might have masked in terms of agents’ interpretation of their immediate economic interests, long-standing regional divisions that had taken form in specific organizations were an important element structuring the conflict.

Yet coastal business interest groups were not the only dissenting voice against the government’s response to the banking crisis. The CMS and the Indigenous movement also organized several protests against the measures taken to cope with the financial crisis, denouncing the use of public funds to pay for the dubious management of bankers. Their opposition accomplished the reinstatement of the income tax provisions suspended in the early days of the Mahuad presidency (1998-2000), the imposition of a special tax on luxury cars and the reconsideration of the suspension of some state subsidies. Business chambers from the coast, notably the Chamber of Commerce of Guayaquil, had a prompt and furious response. They accused the government of being a “hostage of the left” and stressed instead the need to change the economic model by adopting the US dollar (Andrade A. 2005, 93–94). They retracted the

little remaining support they had for the government. It prompted right-wing parties with a coastal base to follow them, which threatened the governing coalition. It is in this context, and in order to preserve some support from the capitalist faction of the coast that the Mahuad government announced the dollarization of the economy for the new millennium (F. Ramírez Gallegos 2010b, 22).

Dollarization could in principle eliminate the historical conflicts among capitalist factions, and between them and the state, regarding the most beneficial exchange rate for the promotion of competing sectors. But this potential benefit was eclipsed by the political consequences of the indignation in the popular class who saw dollarization as a continuation of the neoliberal jettisoning of macro-economic management tools. In the middle of a rising wave of protests, a protest rally called by CONAIE against dollarization and austerity at the beginning of 2000 reached the presidential palace, demanding the resignation of the President. Protesters were allowed in by a sector of the armed forces directed by colonel Lucio Gutiérrez, who was sympathetic towards the demands of protesters. A governing junta comprised of Lucio Gutiérrez, Antonio Vargas, president of CONAIE, and a former president of the Supreme Court claimed to be the new head of state. The military hierarchy supported the ousting of President Jamil Mahuad, but attempted to replace Gutiérrez by one of his superiors. The military hierarchy eventually reviewed its position and restored the constitutional order by appointing Vice President Gustavo Noboa (2000-2003) as president of the country. It was, to paraphrase Marc Becker (2010, 68), the last short coup of the twentieth century.<sup>139</sup>

The economic and banking crisis at the end of the 1990s and the resulting political tensions leading to the ousting of two presidents were the manifestation of the difficulties the

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<sup>139</sup> Mark Becker himself borrowed the expression from Theodore MacDonald.



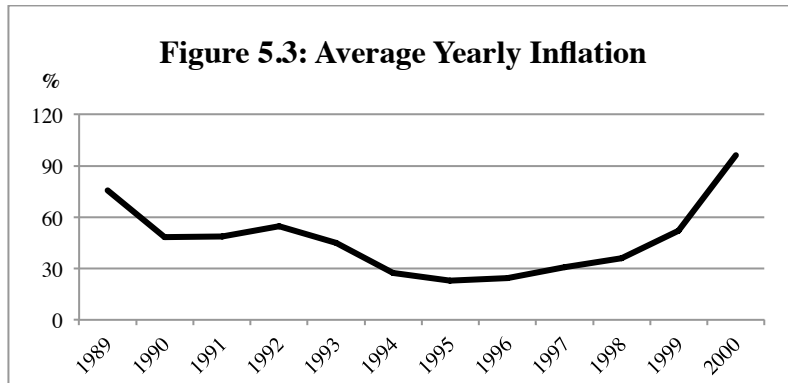
capitalist class encountered in forging the level of class unity necessary to propose an economic model and make it hegemonic. This unity, in turn, was constantly challenged by the strong resistance of an Indigenous movement-led popular class who bore the harsh consequences of the crisis.

### ***The Economic Results***

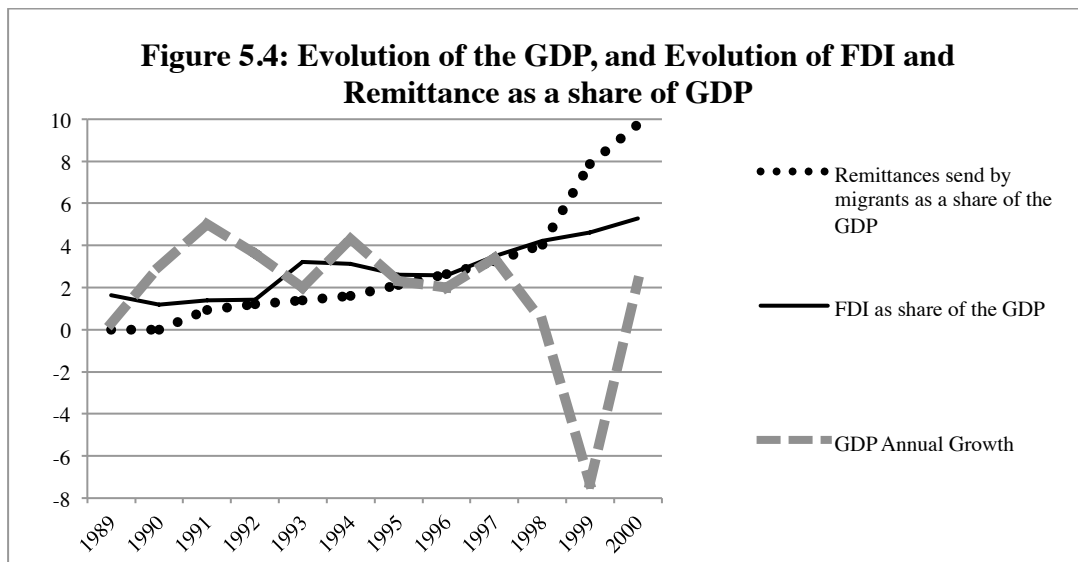
Economically, neoliberal policies were not producing the expected results, and although they kept inflation under 30% for a few years (1994-97), reducing inflation further proved impossible. Moreover, with the banking crisis and the initial effects of dollarization, inflation reached very high levels again before stabilizing (Fig. 5.3). Meanwhile, the 1998-99 economic and banking crisis caused a dramatic drop in production (Fig. 5.4). The World Bank noted the rapid pauperization that the neoliberal turn caused in Ecuador: the poverty rate jumped from 34% to 46% between 1994 and 1998 (Andrade 2009, 75–76). According to the Ecuadorian Central Bank and the Ecuadorian National Institute of Statistics (INEC), the results are even worse (Table 5.5). Confronted with these increasingly difficult conditions, hundreds of thousands of Ecuadoreans opted to migrate between the end of the century and the beginning of a new millennium (Camacho Zambrano 2009, 62–64). Although neoliberal policies did attract foreign direct investment, they were much more efficient at pushing people to leave the country, find employment abroad and send money back to their families and friends. Indeed, money influx in the form of remittances became much more important than the contribution of foreign capital (Fig. 5.4).

Living in poverty was also made harsher because the process of privatization in the oil sector initiated in 1994 diverted oil revenue away from state control. This led the contribution of

oil revenue to the fiscal budget to plummet from 45% to 50% in the early 1990s to less than 35% in the late 1990s (Acosta 2006, 374), and finally to less than 20% by 2006, a reduction that cannot only be blamed on low production and prices, but rather also on the drop in the share collected by the state (Acosta 2009, 58–59). These changes forced the state to slash public expenses, diminishing its capacity to support social programs and services that were critical for the well-being of people in the popular sector. The reduction in public spending also worsened the conditions of the people living in poverty and extreme poverty (Larrea Maldonado 2004, 58–60).



Source: Banco Central del Ecuador, quoted by Acosta (2006 Table 8)



Source: Banco Central del Ecuador, quoted by Acosta (2006 Tables 8, 19, 21)

	Share of the total population living in poverty	Share of the total population living in extreme poverty
1995	34%	12%
2000	71%	31%

Source: INEC, Banco Central del Ecuador, quoted by (Acosta 2006, 379)

### **The Alliance that Could Not Last**

This political and economic context made it difficult for any political force to forge an alliance among factions of the capitalist class to make viable an alternative development program. In the absence of such a program, it was equally difficult to secure sufficient electoral support from the popular sector. In these circumstances, Lucio Gutiérrez, the military officer behind the ousting of President Mahuad in 2000, forged an alliance with the Pachakutik party, a force that had originated from a coalition of social and Indigenous movements and that had been gaining growing electoral space since 1995. Although the alliance can be seen as the continuation of the association that had led to the dismissal of Mahuad, it was in fact a more complex issue. The basis for political agreement evolved rapidly in the years following the coup attempt. How the alliance came to be and how it delivered Gutiérrez's electoral victory in the presidential election of 2002 is a subject worthy of more detailed consideration.

By the turn of the new century, Indigenous organizations, especially CONAIE and Pachakutik, were going through difficult times. The strength of the Indigenous movement during the 1990s had been based on its capacity to bridge two dimensions that sometimes were in tension with one another: ethnicity and class. Although the novelty brought forth by the Indigenous movement was to bring identity concerns to the forefront of the popular struggle (Rice 2012, 3), its strength originated from its capacity to link such concerns with both socio-economic demands related to land, exploitation and capitalism, and civil and political demands

regarding democratic citizenship (F. Ramírez Gallegos 2010b, 20–21). With the new Constitution of 1998 and the economic crisis, the direction of political struggles in Ecuador at this particular time increased the tensions between these two dimensions.

The 1998 Constitution promoted a form of integration of the Indigenous movement into state institutions that contributed to increasing tensions within CONAIE itself. As a social movement, CONAIE encompassed a particular political leaning within the Indigenous population that while dominant, was certainly not the only one. Its control over publicly-funded institutions, bearing responsibility for defining and applying public policies affecting whole segments of the Indigenous population, forced it to be responsive to a much broader set of political positions within the Indigenous population and to adopt policies that were at times in tension with the position of the organization (Ospina Peralta 2009, 17). The existence of other organizations with a claim of representation among the Indigenous population, like FEINE (Federation of Evangelical Indigenous organization) or FENOCIN, was part of the embroilment, as they pressured effectively for policies that benefitted them politically. Moreover, as demonstrated by Victor Bretón Solo de Zaldívar (2009), several forces, notably international NGOs and IFIs, contributed to switching the emphasis of Indigenous organizations to ethnic concerns at the expense of the peasant (class) ones, allowing in fact for the deepening of land concentration and the proletarianization of the rural Indigenous. These evolutions contributed to the transformation of the socio-economic conditions of Indigenous populations in ways that also posed new challenges to CONAIE.

Indeed, social and political conditions became progressively more complex over the 1990s. While Indigenous organizations were rooted mostly in rural areas as peasants, an increasing share of the population lived as wage workers and in cities, where they experienced a

variety of socio-economic realities (Sánchez-Parga 2010, 100). For example, there was a growing number of young Indigenous professionals that, as a leader of CONAIE put it, represented a new form of “Indian Capitalism (*Capitalismo Indio*)” or as Bretón Solo de Zaldívar (2009, 109) put it, a ‘neo-indigenist neoliberalism’. For people in this group, becoming entrepreneurs was the way forward, and thus they tended to identify more closely with right-wing politics (Ecuador-I1 2012):

What we do have are economic, and above all, political tensions, because the people linked to this kind of economic activities [financial, construction or manufacturing], and retailing as well, were born politically outside of the Indigenous movement, outside of its main streams, or in other words, outside of particularly CONAIE or FENOCIN, even outside of FEINE. And political and electorally, they have been closer to other sectors, of centre-left [...] or directly on the right [...]. Now, they all support the [Correa] Government.

Thus, as the Indigenous population acquired a more diversified economic profile, tensions mounted around the positions the Indigenous movement had historically defended. Between 2000 and 2003, these growing tensions were expressed through a series of contradictory political events. At this time, Indigenous organizations were still leading an important protest movement in opposition to the neoliberal measures President Noboa had adopted. The proposed policy packages, known as Trolleys, included the privatization of state-owned enterprises, notably of subsidiaries in the oil sector (Acosta 2009, 208) and a section of the social security systems (health care), and price increases for gas and public transportation. In a newly dollarized context, these policy packages received the support of chambers of commerce and industry of the whole country, but they nonetheless opposed some of its aspects, for instance, their loss of control over the state corporation in charge of controlling customs (*Corporación Aduanera*) (Unda Soriano 2001).

The 2001 Indigenous-led protests' demands were grouped under the umbrella slogan "nothing only for Indians" (*Nada solo para los Indios*) (F. Ramírez Gallegos 2010b, 24), despite having been organized by an alliance composed exclusively of Indigenous organizations. However, a few months later, CONAIE withdrew from the CMS, the coalition it had co-founded in the mid 1990s to create convergences with non-Indigenous social movements. Notwithstanding the president of Pachakutik's disagreement with this divisive move (Becker 2010, 73), the party eventually dissociated itself from the social movement coalition as well (Rice 2012, 64). The dilemma for political organizations was how to come to terms with what appeared to be conflicting political strategies. On the one hand, there was the option of an increased focus on ethnic demands as the means to forge unity on the basis of indigeneity and, on the other, the possibility of a coalescing approach with the broader social movement around class demands (Sánchez-Parga 2010, 99). The problem was reinforced by the tension between the social movement approach of CONAIE and the growing electoral emphasis of Pachakutik (Van Cott 2005).

It is under these circumstances that Pachakutik forged an electoral alliance with Lucio Gutiérrez (2003-2005), the military officer who had supported the overthrow of Mahuad in January 2000. The tensions within Pachakutik had led to a divisive race between two potential nominees, one from the *Oriente*, and one from the highlands. To avoid a split, the party leadership asked both nominees to withdraw their candidacy. Without its own candidate, the Pachakutik leadership negotiated an electoral alliance with Gutiérrez, who went on to win the presidency. After assuming office in January 2003, Gutiérrez rapidly showed his true colours and named a neoliberal advocate to head the Ministry of Finance. As negotiated, several executive positions were granted to Pachakutik leaders, including the Ministry of Agriculture, which was

offered to Luis Macas, and the Ministry of Foreign Affairs granted to Nina Pacari, making her the first Indigenous person to assume this position in the Americas.<sup>140</sup> They eventually complained that their voices were not heard within the government, which might not have come as a surprise given that the President was more concerned with securing the support of the business community and the US (Becker 2010, 85–87). For instance, while Nina Pacari was known for her opposition to the leasing of the Manta base to the US military for their operations in the region, Gutiérrez decided to maintain it. Moreover, while people of Indigenous background had risen to executive positions, the state was still filled with corporatist mechanisms controlled by business interest groups that excluded Indigenous concerns.<sup>141</sup> These corporatist spheres of policy making had been the site of competition and control between business interest groups since the return to democracy.

Given the policies adopted by the government, contrary to Gutiérrez's electoral promises, several branches of the Indigenous movement, starting with ECUARUNARI in April 2003, pulled their support. Although Gutiérrez originally seemed to acquiesce to some of their demands, limiting the price hikes and abandoning the privatization of some state enterprises, he eventually expelled a Pachakutik minister, forcing the rupture of the alliance. Gutiérrez still managed to remain in power through skilful political manoeuvring, quickly forging an alliance with the right that he had so adamantly criticized during his campaign.

As a leader of CONAIE would put it, the Gutiérrez episode represented much more than the failure of the Indigenous movement, since most of the left had supported his

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<sup>140</sup> Both Pacari and Macas were representing CONAIE at the negotiation table during the agrarian law reform in 1994.

<sup>141</sup> In a personal interview, a representative of business interest groups with export activities was complaining of his loss of control over institutions dedicated to promoting and organizing exports, like CORPEI and PROECUADOR since the election of Correa (Ecuador-B7 2012).

election (Ecuador-II 2012). However, it certainly affected the Indigenous organizations more deeply because they had supported his candidacy after having taken distance from other movements. Winning office did not allow Indigenous leaders to change policies or, even less so, state structures. Meanwhile, the ethnicist tendency in CONAIE and Pachakutik was gaining ground as a fallback position (Becker 2010, 89), and the popular class was therefore losing its main leading organization, since without its support, the CMS was also losing strength.

The loss of leadership of the Indigenous movement translated quickly into a transformation of social conflicts. The number of protests, all categories included, radically declined between 1999 (754) and 2002 (261) (Sánchez-Parga 2010, 87), and remained low until the year of Gutiérrez's impeachment in 2005. There was also a change in the nature of protests that José Sánchez-Parga (2010) qualified as the decline in social struggles and conflicts, and the rise of social violence. As he emphasized, the deepening of a market society tends to atomize individuals in such a way that it undermines collective struggle, while the state tends to develop its repressive capacities (Sánchez-Parga 2010, 151–52). Although he underlined that the transformation of society affects the nature of social struggles within them, I would stress that we must also consider the evolution of the social organizations that lead social conflicts.

Given these changes, it is not surprising that the social mobilization leading to Gutiérrez's impeachment in 2005 was of a different nature than the wave of protests that led to the impeachment of Bucaram and Mahuad. While labour unions were at the forefront of the protests surrounding the impeachment of Bucaram, and the Indigenous movement led the protest that accompanied the ousting of Mahuad, no organization could claim the leadership in the impeachment of Gutiérrez. The rallies were not directed nor summoned by the labour nor the Indigenous movement, who rather stayed on the sidelines (Becker 2010, 94). The CONAIE had



failed in rallying social forces behind two marches in 2004, notably because of the above-mentioned tensions, but also because of differences with other Indigenous organizations (FENOCIN, FEINE). None of them were in a position to take leadership of the popular class. However, the popular rejection of political elites and neoliberal policies was still alive.

The impeachment of Gutiérrez was decided in April, after a few weeks of numerous protests in Quito called by a large variety of smaller and more local organizations (De la Torre 2008, 209–11) sharing a rejection, not always for similar reasons, of the government (F. Ramírez Gallegos 2005). Following continued street protests, the Congress dismissed the President for having abandoned his responsibilities.<sup>142</sup> Given the diversity of protests, it would be hard to identify a single cause or a list of demands. Nevertheless, in their background, Gutiérrez's pursuit of neoliberal policies despite his campaign, the replacement of 32 judges, including the head of the Supreme Court, by a simple majority vote of the President's supporters in Congress, and the naming of friends of the President and his allies to replace them, were central issues fuelling the malaise. Several marches rallied this widespread discontent that was also echoed by the mayors of the main cities (Quito, Guayaquil, Cuenca). There were even business interest groups that publicly criticized the way changes in the Supreme Court had been brought about, showing the erosion of political support for the President from capitalist class organizations (F. Ramírez Gallegos 2005, 19). The lack of support from capitalist class factions had also been expressed earlier in January, when representatives of the ring-wing parties of the coast had called for a rally demanding more regional autonomy (De la Torre 2008, 207).

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<sup>142</sup> Similar to the impeachment of Bucaram for mental insanity, adopted without any formal medical examination, Gutiérrez was impeached for having abandoned his duties while he was in fact barricaded in his office.

To underline the absence of central organization or leading spokespersons, some emphasized the diversity that characterized the protesters, others their “sociological anonymity” (Sánchez-Parga 2010, 82). Others still reduced it to a “middle class” mobilization (Rice 2012, 57), but the term “*forajido*” (outlaws, bandits) used by Gutiérrez to bring the variegated protesters into disrepute was adopted by some protesters, and is now the common expression used to refer to this political moment. As in the 1989 Venezuelan *Caracazo*, it was an example of a class struggle without a centrally coordinated popular class, where popular sector expression overflowed the institutional channels that had long been clogged.

As Vice President Alfredo Palacio (2005-2007) took presidential office, CONAIE slowly started to recover its capacity for mobilization; and so did the capitalist class. In the subsequent year, the Indigenous movement led important protests, notably against free trade agreements. With the failure of the negotiations for a Free Trade Agreement of the Americas (FTAA), the Gutiérrez government took part to negotiations for bilateral agreements with Europe and the USA. Free trade negotiations produced the most important convergence of responses from business interest groups in years. It led to the formation of a new organization joining chambers of production from the whole country, the Ecuadorian Entrepreneurial Committee (CEE – *Comité Empresarial Ecuatoriano*), founded to present a united voice to the government regarding the negotiation of free trade deals. Against this push, in 2006, CONAIE called for its most important protest in many years. The multiple tensions that had run through the Indigenous organizations in the last half decade left the organized movement in a weaker position, and the popular class more fragmented than it had been in many years.

It is in this context that the then Minister of Economy and Finance under President Palacio, Rafael Correa, gained a great deal of recognition for having adopted firm positions *vis-*

*à-vis* both the IMF, regarding the foreign debt, and the multinational oil corporations, with respect to their profits. His position on these matters resulted in both his dismissal from office, and his victory in the following presidential elections.

### **Conclusion**

This chapter has presented the evolution of class struggle in Ecuador, emphasizing the contentious nature of the country's development model. In the decades preceding the pink tide, class conflict was marked by the division of the capitalist class in regional factions, by the decline of the labour movement, and the rise and decline of the leadership exerted by the Indigenous movement over the popular class.

The discussion has addressed the conflict through four main periods. The first, covering the 1960s and 1970s, comprised the rise of a popular class led by labour unions, and growing tensions between the dictatorship and the various factions of the capitalist class. The discovery of oil allowed the state to gain the economic leverage necessary to accelerate industrialization, originally tolerated by the capitalist class to avoid its appropriation by a government they disliked. However, the coastal capitalist faction rapidly pulled its support to the development model chosen by the dictatorship. In their assessment, the state took up too much space in the economy, and its focus on internal markets undermined the export sector where they thrived. The pressure they exerted on this matter led to the replacement of the military junta by a more conservative one, and, with their skilful use of corporatist spaces within the state, allowed them to use the industrialization policy to diversify their portfolio. In so doing, they preserved their export orientation and thwarted the rise of a separate faction of industrialists focused on internal markets. The remaining tensions between factions of the capitalist class were based on regional

rather than sectoral concerns, as diversified economic groups from the coast opposed policies supporting competing groups from the highlands. Meanwhile, the peasants and Indigenous movement were the subjects of an agrarian reform that affected the very basis of their organization. It was labour unions that managed to rally forces under a united front, the FUT, which became the main opponent to the dictatorship, given the prohibition of political parties of the opposition. FUT integrated demands from the whole popular sector, including peasants, in their contestation, initiating a tradition of class solidarity that endured the test of time.

The return to democracy, the second period, coincided with the beginning of the debt crisis, causing major fiscal constraints. Both the popular class, led by labour unions, and the capitalist class, despite tensions between factions, reacted strongly to the government's change in economic policies, although for different reasons. While popular class protests were trying to defend the policies that protected its living conditions, the capitalist class was trying to shield its international obligations from currency devaluations.

The debt crisis initiated a long-lasting economic crisis. The resulting class dynamic implied that the government had to secure the unity of the capitalist class in order to advance its policies and stay in power, while its different factions strove to maintain their grip on various state institutions in order to orient their policies in a direction beneficial to their own sector/region. In this context, the pursuit of austerity required the curtailment of labour's capacity to lead the class struggle. While a policy change did undermine the capacity of workers to organize, the Indigenous movement soon assumed a leadership role. It was extremely skilful in bridging ethnic, economic and civic demands, allowing the consolidation of solidarity and class convergence. Nevertheless, the only access to the state was through protests and ad-hoc institutions, mostly established in reaction to their protests.

It was in this context that the Durán Ballén government initiated the third period by unifying the capitalist class and gaining their support for its neoliberal program. The government rapidly targeted the oil sector, slashing its rent and increasing private capital's profits to boost production. Gains were channelled to reimburse the debt instead of meeting peasants' and Indigenous peoples' demands. While the popular class had a unified reaction against such a shift, this was soon overwhelmed by a fight to preserve collective forms of land ownership that were essential to the perpetuation of Indigenous and *campesino* communities, cultures and their contribution to the country's food production.

The growing importance of the Indigenous movement as leader of the popular class presented an effective challenge to the state. Governments, unable to forge unity within the capitalist class, had difficulty staying in power, because the combined pressure of important factions of the capitalist class along with the popular class undermined their power. Difficult economic circumstances, combined with the destabilizing effect of the liberalization policy, heightened the tensions between regional factions of the capitalist class, adding fuel to the explosive context. No president was able to finish his term in a decade.

The evolution of the conditions of the Indigenous population, combined with the contradictions resulting from the movement's involvement in state institutions, caused tensions within the Indigenous movement. It undermined its capacity to act on behalf of the popular class as a whole. Such factors contributed to an electoral alliance with Lucio Gutiérrez, which negatively impacted the Indigenous movement and the popular class. Under these circumstances, the nature of popular class struggle changed, giving rise to a fourth period, that of a class struggle without a centrally coordinated popular class.

Through this tortuous evolution of class conflict, this chapter shows the influence of class organizations on the transformation of the development model. The struggle over property rights for both land and extractive resources has always been at the core of the class conflict in Ecuador. The rise of the Indigenous movement, striking for the capacity it had to overcome the historical marginalization of Indigenous peoples and nations, was impressive in its ability to become the leader of a popular class in a struggle that could effectively undermine state capacity to impose a neoliberal program. It was only when a combination of factors undermined the capacity of the Indigenous movement to lead the popular class that a class struggle without a centrally coordinated popular class opened the door for the election of Rafael Correa.

## 6. The Rent-Based Social-Developmental State, the Extractive Sector, and the New Class Relations in Ecuador

We can't say Correa is our friend, nor even our enemy: he's heading a government of transition with dramatic effects, but not under a [social] project. So it will depend a lot on the power, the consciousness of social forces, whether or not they'll allow Correa to continue on this path or, if not, whether they'll force him, by a mobilization of the people, to work in their interest.  
Humberto Cholango, 2008<sup>143</sup>

This chapter analyzes the evolution of the class struggle in Ecuador in the period leading to and governed by President Correa's after his first electoral victory in 2006. It presents the changing nature of the relationship between class organizations and the state, and the transformation of the development model the country has followed since then. The reassertion of ownership over oil, the increase in the collection of rent it implied, and the support that Correa secured from popular class organizations, allowed the state to take its distance from business interest groups. In contrast to Venezuela, and notwithstanding Correa's openly confrontational attitude, factional divisions within the capitalist class constrained its first reactions to the changes proposed by the government. Interestingly, it was this self-restraint that allowed the capitalist class to move forward with its reorganization and unification, changes that were central to its capacity to resume a more fluid interaction with the state. This class scenario allowed for the construction of

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<sup>143</sup> Quoted in Ross and Rein (2014, 223). Humberto Cholango was president of ECUARUNARI at the time, but later became the president of CONAIE.

a rent-based social-developmental state that, as in the case of Venezuela, used oil rent to fuel important redistributive measures. In contrast to Venezuela, however, the Ecuadorian state maintained greater capacity to incentivize private investment, while its heavy reliance on extractive activities generated opposition from popular class organizations.

### **Correa's Victory: The Context**

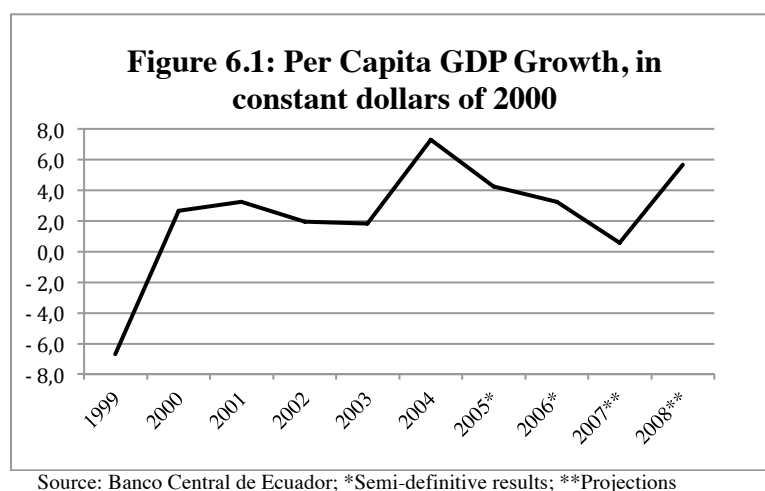
Correa's electoral victory in 2006 took place in a context of popular sector fragmentation similar to the conditions prevalent in Venezuela before Chávez, a situation I have referred to as class struggle without a centrally coordinated popular class. However, the economic circumstances in Ecuador were markedly different. Chávez won the elections when the Venezuelan economy was still embroiled in the turmoil of the 1980s and 1990s, amid low oil prices. In contrast, Correa was elected when the economy was slowly recovering (Fig. 6.1), and oil prices were high (see Appendix B).

Acknowledging these divergent economic contexts casts doubt on explanations that mechanically relate the victories of pink tide governments or "populist" leaders to particular economic conditions or hikes in oil prices. After 2000, the Ecuadorian economy slowly recovered from the banking crisis, and the three years preceding Correa's victory in 2007 were among the best in terms of economic growth of the previous two decades. This economic growth was closely related to changing international factors, notably the growing demand from BRICS countries for energy and natural resources, which affected positively the price of oil and further encouraged an increase in exploration, the precondition for a later increase in production. Another key contributor to economic reactivation was the sustained inflow of remittances (Carrasco Vintimilla, Beltrán Romero, and Palacios Riquetti 2011). Internal factors, like



stabilization of the currency resulting from dollarization,<sup>144</sup> and stabilization of the banking system, also contributed to economic recovery. It must therefore be noted that this period belies the predictions of Dutch disease models. Indeed, dollarization prevented the monetary effect that increased value of oil exports could have had. Moreover, the period witnessed an increase in exports of manufactured products, which maintained their share within growing total export value (Fig. 6.11) (Orozco Medina 2013, 61). Yet export growth was not sufficient to offset the deficit of the non-oil trade balance, since the improvement of economic activity also increased the demand for imported goods (Carrasco Vintimilla, Beltrán Romero, and Palacios Riquetti 2011, 122).

Economic growth did little, however, to reduce unemployment and underemployment, while it increased the centralization of wealth (Table 6.1). If poverty was decreasing over this period, extreme poverty remained higher than in the mid-1990s, consumption inequalities were still on the rise (Table 6.2), and wealth inequalities were not dropping (Fig. 6.9 and 6.10).



<sup>144</sup> The year 2000 was marked by much higher inflation as a result of dollarization, but it settled to lower levels soon after, resulting in an average of 17% inflation for the period 2000-2008.

	Average unemployment (%)	Average underemployment (%)	Share labour income/GDP	Share operating surplus/GDP
1983-1999	9.2	44.9	20.6	72.3
2000-2008	9.15	44.7	18.5	81.5

Source: Economic Investigation Unit of Cuenca University (Carrasco Vintimilla, Beltrán Romero, and Palacios Riquetti 2011).

Poverty rate (%)			Extreme poverty rate (%)			Gini coefficient of consumption expenditures		
1995	1999	2006	1995	1999	2006	1995	1999	2006
41.0	52.2	41.7	14.7	20.1	16.1	0.424	0.451	0.455

Source: INEC, Compendium 2013, Living conditions, Table 3.3.14

This period presented popular class organizations with particular challenges. Labour unions had been in retreat since the 1990s, and economic turbulence and privatization had done nothing to help them. Although FUT, the workers' unitary front, survived the 1990s and was still effective in its calls for national strikes and other forms of protest, its capacities for mobilization were nonetheless declining. The number of labour protests constantly declined from the end of the 1990s to the mid-2000s (Sánchez-Parga 2010, 88–96). Although the Indigenous-peasant movement had assumed a leadership role in the struggles against the neoliberal turn during the 1990s and early 2000s, a combination of factors also undermined its strength.<sup>146</sup> As a result, overall social conflicts were declining in the 2000s except for the period immediately surrounding the impeachment of Gutiérrez in 2005 (Sánchez-Parga 2010, 87).

Capitalist class organizations were still regionally divided. Nevertheless, the opening of bilateral negotiations with the US for a free trade agreement created the opportunity for a new organization to be established in 2004, the Ecuadorian Entrepreneurial Committee (CEE –

<sup>145</sup> Although the data in this table are different from the data provided in Table 5.5 of the preceding chapter, they show a similar tendency.

<sup>146</sup> As mentioned in the previous chapter, the socio-economic diversification of Indigenous populations weakened their commonalities; disputes over the management of publicly funded entities dedicated to Indigenous peoples caused tensions between Indigenous organizations (CONAIE, FEINE, FENOCIN); electoral alliances resulted in negative outcomes (between Pachakutik and Gutiérrez). All of this contributed to undermining the class leadership of Indigenous organizations.

*Comité Empresarial Ecuatoriano*). Its original objective was to be the collective voice of business during the free trade negotiations. According to one of its leaders, it was at this time becoming clear that the FTAA would not be adopted. As an alternative, chambers of commerce and industry, mostly from the coast but also from other regions, rallied behind the idea to promote negotiations for a free trade agreement with the US. In these circumstances, a unified voice seemed appropriate and desirable (Ecuador-B6 2012). While negotiation with the US government came to a close in 2005, the organization continued to lobby, now with a lower profile, for free trade. It would take on more importance later.

Attempts to unite all chambers of commerce, industry and agriculture had already begun in 1981 through the Council of Chambers (*Consejo de Cámaras y Asociaciones de la Producción*). As Catherine Conaghan (1988a, 39) notes, the federation “never functioned” as it “never got beyond the declaration of general principles,” even if, three decades later, it continued to hold weekly meetings (Ecuador-B1 2012). Nonetheless, Conaghan’s reading seems still accurate today as the council has only a small number of affiliates, mostly from the highlands.<sup>147</sup>

While business interest groups coalesced around their support for free trade, the main struggle undertaken by CONAIE in alliance with other popular sector organizations in 2006 was precisely against this option. Notwithstanding the difficulties the Indigenous movement had faced during the previous years, CONAIE successfully mobilized the growing opposition to free trade through a number of marches (Becker 2010, 95; F. Ramírez Gallegos 2010b, 32).

The Ecuadorian political party system had been particularly fragmented since the return to civilian rule, especially when compared to Venezuela. Since 1979, the eleven presidents who

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<sup>147</sup> As of 2016, the council announced 20 affiliates on its website (Consejo de Cámaras y Asociaciones de la Producción 2016), while the CEE was already counting 38 in 2012.

assumed office belonged to ten different political parties, and often rose to power in alliance with other political groups. Moreover, an even greater number of parties managed to win seats in Congress. The Ecuadorian party system was therefore qualified as one of the most fragmented of the continent (Freidenberg and Alcántara Sáez 2001, 15–16). Most parties had a regional character, a peculiarity that goes beyond the coast-highland divide as many small local parties dominated their specific region without any capacity to garner wider national support. This fragmentation explains Ecuador's very high electoral volatility. However, while the system had remained stable for almost 20 years (1979-1997), it began showing important signs of weakness and instability with the impeachment of Bucaram in 1997, a problem the new constitution adopted in 1998 would not resolve by itself. Between 1996 and 2006, no elected president finished his term in office, and electors expressed very low levels of confidence in political parties.<sup>148</sup>

A highly fragmented party system was not the only factor explaining the institutional weakening that preceded Correa's victory. As in Venezuela, there was a crisis of hegemony since political institutions lacked the legitimacy to maintain contested leaders in power. Business interests widely dominated the institutions channelling corporatist representation (SENPLADES 2009) and, given the existing regional tensions, they were also the theatre of a tug of war between different chambers trying to secure sectoral advantages. Meanwhile, channels for popular class organizations to influence policy were ineffective and not able to adjust policies to popular sector needs and demands. Some identify this situation as a crisis of legitimacy

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<sup>148</sup> Surveys by Latinobarómetro show that between the mid-1990s and the mid-2000s, more than 80% of the surveyed population in Ecuador said they had little to no confidence in political parties, with a strong majority for the second option (Corporación Latinobarómetro 2016).

(Conaghan 2007, 77), or as a crisis of the state (Burbano de Lara 2006, 308–10), since a marked feature of political life became the lack of confidence in the state.

It was in this context that the candidacy of Rafael Vincente Correa Delgado, an economist with a Masters degree from Belgium and a PhD from the US, came to embody the hopes for the reformation of the state. His PhD dissertation (Correa 2001) criticized, from a Keynesian-nationalist perspective, the lack of proven positive results, and therefore, the dubious desirability of the structural reforms inspired by the Washington Consensus in Latin America. With his degree completed, Correa pursued an academic career in Ecuador, and eventually self-identified as a “humanist Christian of the left and an anti-Gutiérrez *forajido*” (Conaghan 2011, 265). Alfredo Palacio (2005-2007), the former vice-president who replaced Lucio Gutiérrez (2003-2005) after his impeachment, appointed him Minister of Economy and Finance. Correa retained this portfolio only for three short months, but it was enough for him to become the most popular member of the cabinet, notably by adopting a hard line against the IMF and the oil industry, and advocating that poverty reduction should prevail over debt repayment (Becker 2010, 104). It was his non-orthodox attitude towards the US and the IFIs that allegedly led President Palacio to ask for his resignation (Redacción El Universo 2005).

During his brief tenure as minister, Correa promoted the cancellation of the Oil Stabilization and Debt Reduction Fund (FEIREP, *Fondo de Estabilización, Inversión Social, y Reducción del Endeudamiento Público*)(Harnecker 2011, 104–5). This fund, resulting from a budgetary law of 2002, channelled 70% of the revenue derived from the exploitation of a new heavy crude oil pipeline to repay the debt, leaving only 20% for stabilization and emergencies, and 10% for human development. FEIREP was managed by the central bank acting as a trustee, and therefore oil income was automatically allocated without government control. Over its 19

months of operation, FEIREP transferred more than half a billion dollars to repay the debt. Correa's proposed reform, adopted after his forced resignation, replaced FEIREP by an account in the central bank administered by the government with a much more diverse distribution: while still promising to use 35% for debt repayment, it included 15% for education and culture, 15% for health care and environment and smaller percentages for technological research, infrastructural works and environmental and social restoration. This political decision bore great importance for social movements that had been fighting against neoliberal policies, for oil nationalization, and rent redistribution for decades.

Correa's performance as a minister, his lack of affiliation to previous political parties,<sup>149</sup> and his nationalistic and anti-neoliberal views made him a convincing candidate to represent the desire for deep change. Although often presented as the embodiment of the accumulation of strength resulting from social and political struggles of the left against neoliberalism (Paz y Miño Cepeda 2012, 26), Correa's relation to social movements was in fact distant. Correa himself had little involvement in social movements prior to his electoral campaign. He had participated in some social campaigns with organizations connected to the Catholic Church, notably in an Indigenous community of the central highlands (Becker 2010, 104; Harnecker 2011, 105), but had not occupied any leadership position in a social organization. In reality, it was rather some of his close allies who could justifiably claim to possess those credentials.<sup>150</sup> For some analysts, the critical factor was precisely the existing connection between the newly created PAÍS Alliance's

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<sup>149</sup> Correa had served as a cabinet minister under the presidency of Alfredo Palacio, but was not himself affiliated to a political party.

<sup>150</sup> Ricardo Patiño, for instance, one of Correa's closest allies who served as minister in various portfolios in the Correa administration, had taken part in the Sandinista revolution in the 1970s. He was an economic advisor to the labour union CEDOC during the 1980s. He was one of the founders and coordinators of Jubilee 2000, an organization established to document, criticize and find solutions to the debt problem.

(AP, *Alianza Patria Activa I Soberana*) leadership and prominent figures from the *forajido* uprising (Sánchez-Parga 2010, 85). It was this link that established an association between the party and a movement where popular mobilization extended beyond the leadership of any single popular class organization.

The PAÍS Alliance was founded in April 2006 to promote Correa's candidacy in the upcoming October presidential election. Given its rapid formation, the party did not present candidates for congress. Unlike Pachakutik, with its obvious links to social movements and especially with CONAIE, the AP was created as a political structure of its own, keeping its distance from social movements and developing its own territorial branches of mobilization. Franklin Ramírez Gallegos (2010b, 36–37) reports that the goal was to reach out to citizens who were not affiliated to social movements, since for the party leadership, “[t]he [AP’s] articulation with parties and movements with a longer history of organization was always seen as unnecessary and potentially problematic.” According to Ricardo Patiño, one of Correa’s closest allies: “we started putting together a movement that was not built from existing social organizations or political parties, but directly from citizens, and that’s why it was later converted in what we called the citizen’s revolution” (quoted in Harnecker 2011, 107).

These origins of the AP in the political arena help explain the difficulties it confronted in finding an agreement with the Indigenous movement. At the time, the Pachakutik was divided over strategy. The previous alliance with Gutiérrez had been problematic for the organization, a “cyclone” to use the expression of the Indigenous leader and former minister Blanca Chancoso (Harnecker 2011, 117). In the negotiations with AP’s leadership seeking an electoral alliance between the two forces, Pachakutik’s proposition was to find a “political mechanism that would facilitate the convergence [of the two organizations]” (Ecuador-II 2012). The challenge was to

identify the points of agreement and then to find the most appropriate candidates to stand up for them. Indigenous leaders proposed a primary election as the means to structure the merger, fully aware that its long history of grass roots organizing and links throughout the country was likely to favour its candidate. On the contrary, AP's team, counting on the impact of Correa's high media coverage, preferred an opinion survey to select the presidential candidate. After a few rounds of negotiation, it became clear that Correa was not interested in running as a vice-president as was most likely to be the case if a primary election was held. Given the lack of agreement, he announced in a public letter that he would run on the AP's own ticket (Becker 2010, 104–5; Ecuador-II 2012).

A month before the first ballot on October 15, 2006, other Indigenous and peasant organizations (FENOCIN, FENACLE, FEI) signed an agreement with Correa. In exchange for their support of his candidacy, Correa agreed that, if elected, he would implement a list of 27 demands that Luis Andrango, former president of FENOCIN, summarized in an interview (Ecuador-C1 2012) in the following way: respect for national sovereignty (against the Manta US military base and for regional integration); political and institutional reform (a constituent assembly); democratization of the means of production (land, water, seeds, credit); strengthening of social and popular organizations; and finally, the inclusion of social organizations in the public policy-making process. This agreement was the main formal alliance with social movements with a wide territorial coverage forged before the elections.

It is in such a context that Rafael Correa ran for president during the 2006 elections, with few formal alliances to existing popular class organizations, but with high levels of support from a popular sector tired of the instability of existing institutions. In the first ballot, Correa scored second with 23% of the votes after Alvaro Noboa, a banana tycoon from the coast and the richest



man in the country, who garnered 27% of the votes by using his wealth and business network as a powerful lever (Conaghan 2007, 78). For the third time, Noboa ran on a clientelistic right-wing program competing for the right-wing votes with the Social-Christian party. Luis Macas, the Pachakutik candidate, limited in his campaign by both a very low budget and the divisions that affected his movement,<sup>151</sup> came in with only 2% of the vote. The poor showing in the presidential ballot also affected Pachakutik in the concurrent legislative elections, dropping from ten to six seats. In preparation for the presidential runoff, many left-wing parties and movements, including Pachakutik, supported Correa's candidacy against Noboa (Becker 2010, 111).

Having no support in congress—AP had presented no candidates—meant that a significant institutional battle was to be expected. Correa's first action was therefore to call for a constituent assembly as a way to transform institutions to better suit his program. Moreover, his other four campaign priorities were also bound to elicit a deep institutional fight.

### **The Government Program Announcing the Fight for Autonomy**

Although socialism would become, like in Venezuela, part of the official state discourse, Alianza PAÍS's first government program, the *Plan de Gobierno de Alianza País 2007-2011* (Alianza PAÍS 2006), and its first development plan (SENPLADES 2007) were far from suggesting such a path. Nonetheless, what was clear was that the government was willing and ready to confront business interests in order to regain state autonomy.

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<sup>151</sup> Pachakutik was confronted with an unexpected contender when Lucio Gutiérrez was liberated from jail. Denied the possibility of being a candidate himself, his brother Gilmar ran for the presidency. According to Mijeski and Beck (2008), he was able to use the patronage network of his brother's party, the PSP, to capture an important share of the Indigenous vote and secure third place in the first ballot with 17%.

Unsurprisingly for the program of a party led by an economist, more than 40% of the document was dedicated to economic development. The development model proposed presented a marked departure from neoliberalism, without rejecting capitalism, a concept that otherwise does not appear in the document. The document is presented as a work of consensual collective authorship rather than a formal and official program adopted by a well-established party structure. It introduced, without definition, the notion of *buen vivir* or ‘living well’ as the goal that should be attained by the whole population, and especially the “popular sector” (Alianza PAÍS 2006, 11). In describing the means to achieve it, the program skilfully combined environmental concerns with some of Amartya Sen’s ‘development as freedom’ vocabulary, and some buzzwords from the neostructural approach to development. The plan emphasized the fact that development should allow individuals to develop their skills and capacities to achieve what they value (development as freedom), notably by proper insertion into the labour market. The reform and funding of education should expand human capacities in a way that was “highly articulated to economic policy” (Alianza PAÍS 2006, 55). It was to foster the constant enhancement of productivity based on the improvement of human capacities and on improving people’s skills for the production of new technologies. A better educated population working for an increasingly productive and competitive domestic industry would support the growth of internal markets as a first step for the whole system to become more competitive in international markets (Alianza PAÍS 2006, 17). The program therefore articulated visions to systematically develop national competitiveness, a concept dear to the neostructural development approach advocated several times in the document (Alianza PAÍS 2006, 8, 16, 42, 53).

Although sternly critical of neoliberalism, this approach to development was in no way conceived as contradictory to private businesses or private accumulation. It relied on private

investors, albeit through a “new social contract” where profits were to be based on “fair and equitable labour relations,” and not on the “irresponsible and merciless exploitation of nature” (Alianza PAÍS 2006, 25). The development model proposed was directed towards the creation of conditions amenable to fostering private domestic investment in small and medium enterprises (SMEs), the main contributors to the creation of employment and the growth of the domestic market.

The plan was thus based on the objective of fostering more equitable capitalist development by allowing more people to achieve *buen vivir* instead of reproducing the growing inequalities of the neoliberal years. Its realization, nonetheless, required a confrontation with capitalist forces:

To achieve these changes, we are conscious that it will be necessary to remove the political obstacles that stand in the way: the economic groups with veto power who have their representation and puppets in the executive, legislative and judicial powers, and keep the country in chains. (Alianza PAÍS 2006, 14)

Such a statement clearly illustrated AP’s basic analysis—connecting the grip secured by business interests within the state apparatus to the obstacles encountered in transforming private investment into an effective instrument for a form of development beneficial to the majority. Instead of competing to increase their productivity, capitalists were competing for state-provided advantages, a kind of rent-seeking behaviour that hindered growth: “we cannot conceal that an important factor in poverty and national backwardness is the result of the system of accumulation of rentier capital, oligopolistic and also oligarchic, in which markets do not operate properly” (Alianza PAÍS 2006, 69). Therefore, a proper capitalist development required a “radical

change,”<sup>152</sup> and this “alternative strategy will not be accomplished without a reform of the state” (Alianza PAÍS 2006, 17).

Reading the Alianza PAÍS program makes clear how the constituent assembly was not only summoned to rectify a bad institutional design, but also, if not mainly, to deal with the actual groups and actors that operated within the state. Seen from this perspective, the insistence on democracy and citizen’s participation and the emphasis on the independence of the judiciary can be explained as an attempt to shield the state and its institutions from the kind of influence “economic power groups” had exerted in the past (Alianza PAÍS 2006, 21).

This interpretation of the call for a constituent assembly, which was the first axis of the plan, also explains why its second axis, expressing the need to address corruption, was not only focused on state officials misappropriating public money for personal benefits, but also included the necessity of fighting tax evasion and auditing the external debt. Indeed, the colonization of the state by business interest groups and the influence of IFIs channelling resources towards debt repayment were depicted as forms of corruption as well.

Therefore, the call for a new constitution was notably justified by the need to recover the autonomy of the state, an autonomy that was undermined by the overwhelming influence of business interests controlling several state functions from within. According to Marc Becker (2010, 108), the constituent proposition was “co-opted” from Indigenous movements, who even after the adoption of the 1998 Constitution, kept pressuring for a more inclusive state willing to recognize the collective rights and identities of Indigenous peoples and nations (plurinationality) (CONAIE 2001). Yet, if Correa’s party did co-opt this demand, it was from a different perspective. The AP’s program did not mention anything specific regarding plurinationality, or

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<sup>152</sup> The expression “radical change” appears numerous times in the program.

the need to reframe collective identity. It rather justified the new constitution by the need to exclude business interests who had occupied state institutions for too long.

Moreover, as explained in the previous chapter, divided business interests competed from their different positions within the state to gain advantages for their specific sectors in ways that undermined the capacity of government to rule for the reproduction of capital as a whole. This situation was such that an official of the Council of Chambers, who also worked for the Quito Chamber of Commerce, recognized the importance of such an influence, and admitted that it contributed to political instability:

I understand that chambers, through important economic groups, were meddling in appointments, by suggesting people, or suggesting an action or another, something that is obviously wrong and that we hope does not happen today [...] and I can tell you that this kind of lobbying of chambers not only happened with one president, but with many of them. (Ecuador-B1 2012)

From this perspective, Correa's electoral victory can be understood as the success of a small group of left-wing agents occurring at a time when the competition between business interests for control over the state had undermined their own capacity to forge the levels of unity required to build a hegemonic project (Unda Soriano 2008).

Taking state control away from business interest groups would allow the Correa government to reassert control over rent and jurisdiction over oil exploitation. According to AP, oil was a key part of the state's depleting patrimony and it needed to be used as efficiently as possible to foster the industrialization that was required to finally break the country's dependency on oil (Alianza PAÍS 2006, 44–45). It was a source of power that had been taken away by “petroleum hijackers” (*adueñados petroleros*), and this reality demanded a “change of relations between the state and oil enterprises” within the country and Latin American more

generally (Alianza PAÍS 2006, 45). Despite environmental and resource depletion concerns justifying the call for an energy conversion, oil rent was nonetheless needed so that the state could cement its sovereignty.

Given the continental context created by a rising pink tide, it became possible for an Ecuadorian candidate to count on some international support when confronting both international oil corporations and capitalist class power within the state.

### **The Making of a New Constitution**

Rafael Correa ran alone as a presidential candidate, without the nomination of other AP candidates for Congress. Thus, despite its name, Alianza PAÍS's stated objective of launching a constituent process was a project in urgent need of an alliance. The problem was that the congress was not only dominated by political forces that had written the previous constitution and taken advantage of it, but by parties that had been repeatedly condemned by Correa himself as forming a *partidocracia*,<sup>153</sup> the "political mafia" that had mismanaged the country (Alianza PAÍS 2006, 13).

Notwithstanding this scenario, Correa eventually managed to strike a deal with some of those parties, but not without reproducing the kind of elite trade-off that characterized the Ecuadorian parliamentary system at the time. In exchange for their support in calling for a referendum for a new constitution, Correa named one of Gutiérrez's allies to head the Supreme Electoral Tribunal (TSE). But tension grew with other parties in Congress opposed to the Constituent Assembly when they attempted unsuccessfully to block the appointment. In

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<sup>153</sup> *Partidocracia* is a common word in Spanish to lambast an elite of untrustworthy political parties that control the state.

retaliation, the new head of the TSE dismissed 57 members of congress for overstepping their bounds (Becker 2010, 127–30).

According to Pablo Dávalos (2007, 77–83), this kind of inter-party institutional conflict obfuscated the competition among various segments of business interests to retain or gain new spaces of influence within the state. This way of advancing class interests undermined the legitimacy of the state institutions: they appeared as the politicized distribution of privileges among competing elites. Institutional clashes also illustrated the factional conflicts that had contributed to the previous political and economic crises. Correa's political acumen was to play factions against one another to undermine their strength, highlighting the negative dynamics of institutions which made them unpopular, while also validating the need for state renewal (Conaghan 2011, 262–64).

The population was invited on April 15, 2007, to vote on the necessity of changing the constitution. A striking 80% of the voters backed the proposal for a constituent assembly. While the unpopularity of existing institutions explained these results, the struggle for a constituent assembly had also galvanized and unified popular class organizations behind Correa's position. Marc Becker (2010, 130) underlines the importance of the Indigenous pressure on the political system in favour of a constituent assembly. Humberto Cholango, then president of ECUARUNARI, celebrated the achievement as a victory for the Indigenous movement and the result of the accumulation of struggles by the popular class. The fight for a new constitution also rallied labour organizations.

Unsurprisingly, elections for members of the Constituent Assembly in September 2007 gave a strong majority—80 seats out of 130—to members of Alianza PAÍS. With the support of four Pachakutik and four MPD (a small Marxist-Leninist party with an important presence in

social movements) members, AP gained control over two thirds of the assembly. Meanwhile, Gutiérrez's party (PSP) won 18 seats, Alvaro Noboa's PRIAN 8 and the PSC 5. As with Venezuela, the dominance of left-wing forces was sufficient to render negotiations with right-wing forces on the agenda of proposed changes unnecessary.

Alberto Acosta, a well-known university professor of economics critical of the impact of extractive resources on development,<sup>154</sup> originally assumed the presidency of the assembly. Acosta had a significant history contributing to social movements and Indigenous people. He was part of the founding team of AP, and had been named minister of Energy and Mining by Correa. Committed to making the Constituent Assembly a democratic space, he encouraged the participation and debate of more than the elected assembly members themselves, including social movements and a wide range of actors interested in contributing to the debate (Acosta 2008, 10, 36–37). The assembly started working in late November 2007 in Ciudad Alfaró, a location built for the occasion close to Montecristi in the Manabí province. It continued its work until July, when the proposal was completed.

To assume its functions without conflict with the existing legislative power, the Constituent Assembly voted for a recess for Congress. It therefore took upon itself the task both of interim legislator, as well as that of writer of the new constitution, a disposition that asserted its independence from the power exerted by previous elites.<sup>155</sup> In short, the election of the Constituent Assembly was a crucial instrument in the hands of Correa to gain autonomy in the management of the state.

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<sup>154</sup> Alberto Acosta published a book that can be translated as *The Curse of Abundance* (2009). It develops a critique of the negative impact of natural resources on the economy. He is part of the authors that have developed the concept of extractivism discussed in chapter one.

<sup>155</sup> The combination of legislative powers with the task of drafting a new constitution is what differentiates a constituent assembly from a constitutional assembly, which would be limited to the writing of a new constitution (Becker 2010, 128).



### ***Capitalist Factions Feel Excluded***

The organizations of the capitalist class felt excluded from the constituent process. With the exception of representatives of small and medium industries, all representatives of chambers of commerce, industry, and agriculture from both the highlands and the coast that I interviewed expressed their shared sense of disappointment with the lack of access to the process and, especially, their inability to control the agenda or influence outcomes.<sup>156</sup> As the representative of the Chamber of Commerce from Quito insisted, the fact that its proposals were rejected by the Constituent Assembly proved one thing above all:

We don't have political power. Maybe in the past there was this type of political power to pressure so that they would accept our ideas. But in this case, we only made propositions out of good will, and the group on the side of the government did not accept them. (Ecuador-B1 2012)

What made this feeling of rejection worse was that the government had openly campaigned against them. This was expressed with stronger words on the coast, the stronghold of the main political parties that lost power to Correa:

Entrepreneurs attempted to assert their presence, but they were bullied because they were identified as being the representatives of exploiters: the triggers of the financial crisis, of the banking meltdown, and they were even given a name, a nickname to stigmatize them: *pelucón* [big shot]. All these *pelucones* were the allies of the *partidocracia*, a symbol of the shameful past that needed to be fixed. (Ecuador-B4 2012)

The representative of the CEE—the committee responsible for promoting free trade agreements that was in the process of becoming the most representative federation of business chambers in the country—explained that the proof they were not taken into account by the government was

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<sup>156</sup> In very explicit terms, business representatives expressed their proposals were rejected (Ecuador-B1 2012; Ecuador-B2 2012; Ecuador-B3 2012; Ecuador-B5 2012; Ecuador-B6 2012; Ecuador-B7 2012; Ecuador-M1 2012).

the content of the Constitution itself. Its “presidentialist” tone and its inclusion of a new citizen power<sup>157</sup> that promoted greater participation in institutions “is of no use at all because it is a franchise of the government, without any independence, absolutely useless, worthless.” He concluded by saying: “We disagree with a lot of what is in the current Constitution” (Ecuador-B6 2012).

Capitalists’ sense of loss of control over the state apparatus directly reflected the shifting nature of the institutional channels that had previously mediated the relation between the state and social classes. While business interests had previously enjoyed direct access to state officials through corporatist mechanisms or personal contacts, the Constitution created a new body, the Council for Citizen Participation and Social Control (CPCCS - *Consejo de Participación Ciudadana y Control Social*) (República del Ecuador 2008, § 207–210) designed to choose the citizens that would take part in participatory state institutions. In other words, the new institutional setting openly undermined the access to power business had exercised in the past, and it was against this assertion of state autonomy that they reacted negatively.

For their part, representatives of SMEs stated that their demands were heard during the Constituent Assembly, and observed that their interaction with the government had improved since the adoption of the new Constitution (Ecuador-B9 2012; Ecuador-B10 2013; Ecuador-P1 2012). Similarly to Venezuela, in the view of representatives of SMEs, once the government gained some distance from large businesses, it created more room for SMEs’ concerns. Several sections of the new Constitution promote differential and preferential treatment for micro, small and medium production units (República del Ecuador 2008, § 281, 288, 311).

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<sup>157</sup> On top of the common division of legislative, executive and judicial functions, the Constitution includes an electoral function, an independent power in charge of supervising elections, and the function of accountability and social control, that involves citizens in audits and decision-making processes. The interviewee refers to the last one.

### ***The Indigenous and Labour Movements: The Beginning of the End***

In contrast with the experience of interest groups of large businesses, at least during its early stages, leaders of labour and Indigenous organizations were initially well-received by the Assembly. However, the constituent process contained the seeds of what was to become a growing tension between organizations of the popular class and the government.

Initially, representatives of labour unions expressed satisfaction about their participation and the inclusion of their propositions in the new Constitution. Notwithstanding his current disagreements with the government, a labour leader from FUT proudly mentioned that while they had two representatives in the assembly, their involvement had not been restricted to representing labour issues. Instead, labour representatives contributed to the assembly as citizens concerned with the development of the country as a whole (Ecuador-S1 2012), while the new sections on labour rights in the Constitution were themselves substantial and comprehensive (República del Ecuador 2008, § 325–333). This was an achievement owed in no small measure to the support Indigenous organizations gave to the inclusion of important provisions to protect workers in the Constitution, which contributed to creating broader popular pressure for such provisions (Becker 2010, 152).<sup>158</sup>

The assembly nonetheless adopted some positions related to labour in the public sector that were especially contentious for unions. Acting upon its legislative prerogative, the Constituent Assembly approved some resolutions (Constitutional Orders – *Mandatos Constituyentes*) allowing the government to assert control over the civil service and unilaterally modify the working conditions of the public sector. For example, Constitutional Order 2

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<sup>158</sup> CONAIE's proposal for the constitution contains an extensive section on labour rights (CONAIE 2007, § 16–19).

established a maximum wage for civil servants, Constitutional Order 4 set a maximum severance payment for dismissed public employees, and Constitutional Order 8 unilaterally suppressed “excessive privileges”<sup>159</sup> in the public sector in a way that was perceived as encroaching with previously negotiated collective agreements (even labour leaders overwhelmingly supportive of the regime criticized this) (Ecuador-S4 2012). However, Constitutional Order 8 also prohibited subcontracting of labour and the hiring of workers on a per-hour basis in both the private and the public sector.<sup>160</sup> It was this provision, and the assessment that the impact of proposed changes was restricted to privileged employees, that allowed the government to maintain the support of labour organizations.

The Indigenous-peasant movement was also very active around the Constituent Assembly, mobilizing and pressing for its demands. CONAIE opened an office near Ciudad Alfaro, where the assembly was taking place, and presented their demands both from within, notably through Pachakutik elected officials, and from without, by organizing marches and protests. During the process, CONAIE even organized a march in support of the Constituent Assembly against negative evaluations of its slow progress (Becker 2010, 137–39). Like the labour movement, Indigenous organizations pressed for demands beyond strictly Indigenous issues. CONAIE actually put forward a text for the whole constitution to the assembly (CONAIE 2007), and their conceptions of plurinationality and interculturality were advanced as issues of concern for the society as a whole, and not only for Indigenous people (Wray 2009, 56).

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<sup>159</sup> Although the broad language of the order mentions examples of dubious privileges that it will suppress, like the transmission of positions in state institutions to family members upon retirement, it also nullifies all “excessive or disproportionate privileges and benefits” of collective agreement that infringe upon collective interest, a wide term that can encompass many different things.

<sup>160</sup> The prohibition of labour sub-contracting is only regarding the main purpose of an enterprise. Complementary activities, like security or catering could still be sub-contracted.

The Indigenous-peasant movement was, however, not united regarding a number of key issues, notably the way to acknowledge cultural diversity in the new Constitution. CONAIE pressed for plurinationalism, a debated concept even for its supporters (Becker 2010, 142–46). The generic definition of the term emphasizes that in order to recognize the lasting impact of colonization, it is necessary to decentralize state powers through the recognition of autonomous power structures for different Indigenous nationalities and peoples. Meanwhile, the FENOCIN president, and its former president Pedro de la Cruz, elected as a member of the assembly for the AP party, argued for interculturalism. Unlike plurinationalism's emphasis on parallel and autonomous power structures, interculturalism in the Ecuadorian context stressed the need to recognize diversity transversally within all state institutions (Ecuador-C1 2012). Given these disagreements, while the Indigenous and peasant organizations actively participated in the process, they tended to be more fragmented than they had been in their previous struggle against neoliberalism (Muñoz 2008).<sup>161</sup>

In a way reminiscent of Venezuela, the most contentious issue between social movements and AP assembly members was the change in the work pace of the assembly. On June 23, 2008, when the original six-month term allocated to the assembly was already expired and the two-month extension was to conclude by the end of July, the assembly had adopted only 57 articles. Although its term could be extended again, this possibility displeased Correa. Notwithstanding the AP's dominance, under the chairmanship of Alberto Acosta, the assembly's first stage allowed for broad social participation. But the pace was too slow for the AP's leadership. Returning to its initial distant attitude towards social movements, the party leadership wanted to

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<sup>161</sup> Barrington Moore (1966, 479–80) notes that variations in the types of solidarity arrangements among peasants determines their alliance with other sectors and their revolutionary potential. In the case of Ecuador, the solidarity arrangement was strong to oppose neoliberalism, but less cohesive to push for a common transformative program.

regain control over the dynamic and asked Acosta to step aside in order for a new chairperson to achieve the completion of the Constitution (Acosta 2008, 49). The rest of the work towards a new constitution, counting a total of 444 articles, was adopted in the remaining few weeks. During the first day following Acosta's resignation as the assembly chair, and to mark the change, the new Chairperson pushed for the adoption of 90 articles (Becker 2010, 142). During a marathon day from July 18 through the following night, 120 articles were adopted and 50 rejected in less than 24 hours.

The closure of the process, like in Venezuela, illustrated the moment of abrupt transition between an inclusive and participatory dynamic allowing for social movements to express their demands in a way that could have effectively shaped the structure of the state, to a process that favoured insulation from movements' influence. Acosta himself was therefore forced to conclude that in the end, social movements were no longer the most important agents of the process (Unda 2011, 116). The referendum for the adoption of the Constitution further displaced the leadership and agency of social movements, bringing the debate to the electoral scene where the spotlight was oriented towards Alianza PAÍS.

### ***The Resulting Constitution***

The resulting Constitution was submitted to a referendum in September 2008. Mario Unda (2008, 43) interpreted its content as an expression of the balance of power at the moment, and therefore as the result of a compromise between social mobilization and technocratic reason. This interpretation matches with the two phases of the assembly that I have identified. It is, moreover, illustrated in the two concurrent sections of the Constitution concerned with development: one describes the "development regime" (Title 6) as the activities that the state

must pursue to sustain economic development and manage redistribution; the other, on the “*Buen Vivir* regime” (Title 7), considers the effect economic development should produce on citizens and the country, the rights it should uphold, and some of its limits (especially protection of nature). The Constitution certainly embodied this key integration of the concept of *buen vivir*, towards which various innovative provisions were oriented. But the actual reach of this concept is debatable.

*Buen vivir* was not a proposition emanating from Indigenous organizations; for them, the key issues were plurinationality or interculturality and communitarian economy (Ecuador-II 2012, 1). In fact, the concept of *buen vivir* had been promoted by Alberto Acosta since 2005 as a response to the crisis of development theory, and it had already appeared in AP’s first program.<sup>162</sup> According to Acosta (2005), all development theories, even critical approaches, objectify nature as a source to extract the goods for economic growth without acknowledging nature’s own cycles and limits. The environmental crisis clearly showed that nature’s limits had been reached, and that the replication of the living standards of the North was impossible. *Buen vivir*, a concept inspired by the Indigenous notions of *sumak kawsay* or *ali kawsay*, was for him a way to reopen the conversation about the goals of development in order to emphasize human needs rather than the needs of capital, in a way that was environmentally sustainable.

The new Constitution did not precisely define the meaning of *buen vivir*, or *sumak kawsay*, leaving it as an open field for debate. Government officials presented it as a change of paradigm opposed to “economicist” visions of development based on liberal individualism,

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<sup>162</sup> Acosta (2005) attributes the origin of the concept and its link to an Indigenous cosmovision to Carlos Viteri Galinga (2002), who explains how the concept of development as a linear progression from under-development to development, has no equivalent in Indigenous cosmovisions. They rather include concepts such as *alli káusai* or *sumac káusai*, referring to the necessity for a community to autonomously take care of its members through a solidaristic and reciprocal relationship, and through a harmonious relation with the surrounding nature.

emphasizing instead the gregarious nature of human kind, and the need for economic activity to contribute to the fulfillment of each and everyone's potential in an equitable way (R. Ramírez Gallegos 2010, 128–30). According to this view, the goal of development was the provision of the conditions for individuals to live in harmony with each other and with nature.

Although the concept represented a change of paradigm, the Constitution did not propose a radically different path through which this transformation could take place. It explicitly acknowledged a wide range of forms of property (e.g. public, private, communitarian, state, cooperative, domestic) and different types of organization of production (e.g. public and private enterprises, cooperatives, family and domestic production units) (República del Ecuador 2008, § 319–324). It also privileged national over foreign investment (§ 339) and micro, small and medium businesses over large enterprises. However, as argued by Magdalena León (2010, 111–13), it also contained important elements of “inertia” or changes that “were not entirely taken on,” especially since the development model the Constitution advanced, while not being limited to the goal of economic growth, did not re-define the market. In this way, the market remained an end in and of itself, an economic institution to pursue accumulation, profit and private interest (República del Ecuador 2008, § 284, 304, 335, 336). The Constitution incorporated a great amount of collective and individual rights—including some rights for nature—and eliciting from its detractors the critique of being “*garantista*” (overprotective) (Ecuador-B4 2012, 4) or “*estatista*” (statist). Nevertheless it equally protected property rights, the freedom of entrepreneurship and the sanctity of contracts (República del Ecuador 2008, § 66, 15–16).

At the level of extractive resources, the new Constitution clearly established that “Non-renewable natural resources and, in general, products coming from the ground, mineral and petroleum deposits [...] are the unalienable property of the State, immune from seizure and not



subject to a statute of limitations” (República del Ecuador 2008, § 408).<sup>163</sup> The previous constitution already contained a similar provision (República del Ecuador 1998, § 247), but the 2008 Constitution asserted more clearly that even when the exploitation of said resources was undertaken in partnership with private enterprises, “[t]he state shall participate in profits earned from the tapping of these resources, in an amount that is no less than the profits earned by the company producing them” (República del Ecuador 2008, 408). The Constitution established the basis for the state to exert its landlord power to increase its rent. It asserted state property in a way that allowed the state to change the balance of forces with classes in society.

While supporting state ownership, the original position of CONAIE was not to oppose the possibility of extraction, but to demand that it be done only after consultation with and approval of the communities living on the land and territories affected by extractive projects. In other words, CONAIE’s position challenged the absolute landlord power of the state by questioning the legitimacy of its claim of property over certain territories. While the 2008 Constitution (República del Ecuador 2008, § 57) did include the obligation of prior consultation for extractive projects, it stated that if the agreement was not obtained, the matter should be resolved by abiding with the Constitution and the law. Thus, while consulting was mandatory, no agreement was required to move forward with the development of an extractive site. The power over resources therefore still legally lied in the hands of the state.

It was therefore with mixed reactions that Indigenous-peasant organizations debated their support for the new constitution. FENOCIN and FENACLE, with positions and leaders that were closer to AP, were quick to endorse it. CONAIE and its member federations faced deeper

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<sup>163</sup> Even Section 1 of the Constitution states in similar terms that “Nonrenewable natural resources of the State’s territory belong to its inalienable and absolute assets, which are not subject to a statute of limitations” (República del Ecuador 2008, § 1).

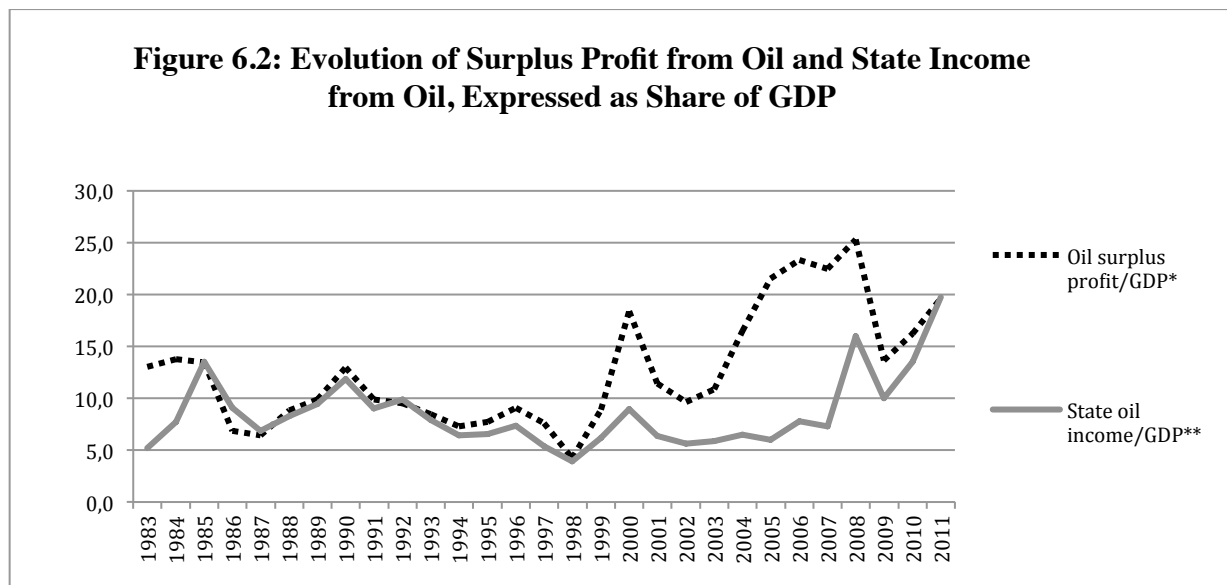
internal debates, although eventually it tepidly supported the actual content of the document. Nevertheless, even CONAIE actively contributed to the campaign in support of adopting the new constitution. The risk of losing the legislative improvements it contained for Indigenous peoples was sufficient to actively campaign for its approval (Becker 2010, 154–57).

The referendum campaign won the support of two-thirds of voters, an important sign of support reinforcing the legitimacy of the government and rebuilding the legitimacy of the state. A significant exception was the city of Guayaquil, the seat of power of the coastal economic elite, which rejected the Constitution by a small margin. Given the importance of the institutional changes embodied in the Constitution, general elections were called for all elective offices. Correa won the presidency on the first ballot with a majority of votes, an unprecedented feat in a presidential election in the country, and his own party secured a strong plurality in the assembly (59 seats out of 124).

With that victory, and maintaining his distance from both the organizations of the capitalist class and the organizations of the popular class, Correa had confirmed the success of his strategy for strengthening state autonomy. His victory in this process had allowed him to reform the state and reassert the control of his party over these institutions. Finally, he had strengthened his capacity to use property over natural resources to assert the landlord power of the state.

## Clashes Following the Recovery of the Extractive Sector

Notwithstanding the provisions of the previous constitution that asserted public ownership over extractive resources, the share of revenue collected by the state had been dropping relatively to the profits and surplus profits<sup>164</sup> accruing to extractive companies. This problem was related to the government's decision in 1994 to switch to participation contracts to attract private investment.<sup>165</sup> These contracts resulted in an increasing gap between the private surplus profit earned from oil extraction and rent (the share the state collected). This difference took very important proportions in the 2000s, when prices started to increase (Appendix B), especially when the IMF supported policies that directly channelled oil incomes into fiduciary funds earmarked to paying the debt (Fig. 6.2).



\* Oil surplus profit expresses the difference between the value of crude oil production at world prices and total cost of production as a share of GDP. Source: World Bank.

\*\*Source: Banco Central del Ecuador: Sector Nacional No Financiero.

<sup>164</sup> In this section, I use the expression surplus profit to differentiate private rent from rent captured by the state. The expression used by the World Bank in the data used in Figure 6.2 is however 'rent'.

<sup>165</sup> These contracts, negotiated when oil prices were low, were designed in such way that despite important price increases, state rent remained marginal.

This dynamic began to change slowly in the year prior to Correa's election. In 2006, under the presidency of Alfredo Palacio (2005-2007), the government adopted a law that allowed it to collect 50% of the 'extraordinary earnings', which corresponded to the difference between the selling price and the prices that prevailed when most of the participation contracts had been signed with private oil companies in the 1990s. As a result, there was an increase in state oil income for 2006 and 2007, when the state collected an amount equivalent to 7.8% and 7.3% of the GDP, as compared to 6% in 2005 (Fig. 6.2). However, even with this minor increase, Palacio reported that he experienced harsh criticism for jeopardizing foreign investment (Orozco Medina 2013, 85). This illustrated the extent to which a change in property and rent required shifting the balance of class forces.

After his election in 2007, Correa went much further. His government resumed membership in OPEC, asserted state property over the resource, and threatened to increase the state share on extraordinary earning to 99%. In essence, Correa's hard negotiating position was to convert the participation contracts with oil corporations into service contracts where they would be paid a fixed price per volume, and the state would collect all the rent minus 1%. Nevertheless, Correa left open the alternative for private oil companies to renegotiate their contracts with the state (Fontaine 2010, 200). While some companies reacted by bringing their disagreement to the International Centre for the Settlement of Investment Dispute (ICSID), most renegotiated their contracts, accepting a greater share going to the state.<sup>166</sup> The resulting share of the state varied in the different fields between 40% and 60% (Fontaine 2010, 200-01).

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<sup>166</sup> One of the most important of such cases opposed the state to Occidental Petroleum Corporation and Occidental Exploration and Production Company. The assets of the company were seized by the state after it had transferred a share of its assets in some of its fields to another private company, Encana, without the prior authorization of the state. Investment arbitrators, after years of legal proceedings, agreed with Occidental, and ruled that Ecuador must pay

The Constituent Assembly followed suit in 2008 by adopting the Organic Law for the Recovery of State Oil Resources, which abolished the fiduciary funds that allocated oil rent for dedicated purposes. It transferred oil rent directly to the central state budget, and therefore gave more autonomy to the government in the management of oil rent. In addition, the new constitution established that the participation of private companies in the extraction of non-renewable resources must benefit the state at least as much as the private companies (República del Ecuador 2008, § 408). It also adopted Constitutional Order 6, referred to as the ‘Mining Order’, that nullified most mining concessions previously granted and forced the renegotiation of those that were not invalidated in order to allow the state to exercise more effective control over mining activities.<sup>167</sup>

The changes to the extractive sector meant that the state would be confronted with a capitalist class reluctant to accept the transition to a new development model. To respond to the challenge, Correa originally counted on the support of popular class organizations. However, the state’s assertion of autonomy in decisions regarding the expansion of extractive activities eventually put Correa at odds with these same organizations. Thus, while Correa enjoyed strong electoral support from the popular sector, he faced growing opposition from the organizations of the popular class. Considering the prior evidence of institutional instability resulting from the combined opposition of both popular class organizations and capitalist factions, the assertion of landlord state powers was fraught with dangers, even as it represented a critical step in the exercise of state autonomy.

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US\$1.77 billion in compensation, an amount that was reduced to US\$980 million in January 2016 through negotiations (Reuters 2016).

<sup>167</sup> The development of mining projects has become a contentious issue, especially the development of open pit mines. However, most of these projects are still at the exploratory stage, or only recently began operating, with the first major project (Mirador) already in construction, but not expected to start production until 2018.

### *The Reaction and Reorganization of the Capitalist Class*

Capitalist class organizations perceived the changes coming with the new Constitution and the transformation of social property relations in the extractive sector as evidence of a mounting opposition against them. A representative of the Chamber of Industry from the coast, whose members, according to him, represented 85% of Guayas industrial production and up to 30% of the country's industrial GDP, stated it clearly:

For the chambers, it has been, and it still is, a process very difficult to understand because we were used to another template, another framework, other rules of the game. The Constitution created this new framework, and enterprises had a hard time getting used to it [...] Correa is against the chambers because he sees them as power groups that produced, for instance, Febres Cordero. (Ecuador-B4 2012)<sup>168</sup>

Given Correa's manifest disapproval of the influence of business interest groups on the state, he requested the constitutional court to repeal the mandatory affiliation of businesses to a sector-specific chamber and, in May 2008, the constitutional court agreed with his argument,<sup>169</sup> while the Constituent Assembly was still conducting its deliberations. Most chambers interpreted this move as directed against them politically (Ecuador-A1 2012; Ecuador-B1 2012; Ecuador-B3 2012; Ecuador-B4 2012; Ecuador-B8 2012; Ecuador-M1 2012), and only one business leader, wishing to remain confidential in this study, explained that he supported this change and saw it as an opportunity to expand the membership of his chamber to new sectors. In contrast, a representative of large landowners from the highlands noted the impact of the court's resolution:

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<sup>168</sup> León Febres Cordero, the leader of a chamber of industry from the coast, had mobilized the chambers against state-led industrialization in the 1970s. He became president of the country (1984-1988) and was again, from the state, able to mobilize business interests behind his call for austerity policies and a repressive approach towards unions.

<sup>169</sup> The court decision has been published in the Official Register of May 14, 2008 (Gobierno del Ecuador 2008).

The political strength of the chambers is undermined by the fact that it is no longer mandatory for businesses to be affiliated with a chamber, and it is not only that the number of members diminished, but it undermined chambers' incomes. This weakens our capacity to be present in the press, in advertising, in contracting for studies and experts for communicating our message. (Ecuador-A1 2012)

The measure had a transversal impact on business interest groups of all sectors and sizes, including those representing micro, small, and medium enterprises (SMEs), which were supportive of the government. Nevertheless, most officials in the chambers I interviewed ended up accepting the decision as a challenge to reorganize and strengthen their organizations (Ecuador-B1 2012; Ecuador-B2 2012; Ecuador-B3 2012; Ecuador-B5 2012; Ecuador-B9 2012). Significantly, the legal change also offered an opportunity for member businesses that disagreed with the political profile of their corresponding business association to leave them, enabling a reorganization of business interests that ultimately helped to strengthen the political cohesion of each organization (Ecuador-B3 2012).

It is this transformation in the membership of business chambers that accounted for the way the capitalist class' opposition to the new development model now took shape. As a representative of a chamber of agricultural producers from the highlands explained:

From [then] on, we [were] in a distinct economic model. Previously, there was a model that came to be called neoliberalism, and I am not sure if it is the right name, but it was taking the public sector out so that the private sector could grow and sustain the economy. The [new] idea [was] the exact opposite: the attempt [was] for the public sector to make the main investment and sustain the economy. I am not an economist, I don't know which one is the best, but I do certainly know that they are diametrically opposed. And looking at it from the point of view of private property as such, and of private activity, [business] won't have the same protection from the state as it used to have. (Ecuador-A1 2012)

The involvement of the state in the economy, and capitalists' worries about their property, were critical factors undermining their confidence. Their representatives were suspicious of state

intrusion in the economy when it was for something other than the protection of their property. Moreover, despite the potentially positive impact of state investment on their businesses or on immediate economic growth, especially through infrastructure building, business organizations were concerned by the lack of sustainability of public resources based on extractive revenues (Ecuador-B1 2012; Ecuador-B4 2012; Ecuador-B7 2012; Ecuador-B8 2012). Accordingly, they did not trust the government's involvement in the economy for the kind of long-term planning that was necessary to support large private investments.<sup>170</sup>

This concern about the capacity of the state to sustain its contribution to the economy was also true when it came to its redistributive policies. Representatives of commercial and industrial chambers in Cuenca (Ecuador-B2 2012; Ecuador-B3 2012) disapprovingly referred to redistributive measures as the “Robin Hood” vision of the state to denote a government busy redistributing wealth without increasing production. As a representative of the CEE would put it: “on the entrepreneurial side there is no confidence in what the government is doing. A part of this distrust comes from the fact that there often prevails a socialist vision seeking to distribute wealth before it is even produced” (Ecuador-B6 2012).

Some business chamber representatives underlined that growth driven by state redistribution of rent was mostly wasted in consumption of imported goods, and did not increase production or domestic investment (Ecuador-B1 2012). Similarly, they expressed concerns regarding private investment that relied on rent redistribution, for instance in production for local consumption, as it ran the risk of being wasted if the state capacity to sustain redistribution were to fall. Therefore, although some business chamber representatives admitted that their members

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<sup>170</sup> Interviews were conducted in 2012 and 2013, when oil prices were still relatively high. There had been a slump in 2009, but prices returned to their peaks between 2010 and 2014. See Appendix B.



were making good profits from the new development model, they did not trust it because if oil prices dropped, the model would crumble (Ecuador-B8 2012).

This insecurity resulting from the changing role of the state in the economy was often exacerbated by the uncertainty related to frequent tax reforms (Ecuador-B7 2012), and concerns elicited by the socialist discourse of government officials “inspired by Cuba and the Venezuelan model” (Ecuador-B4 2012). According to the representative of the Chamber of Industry from Cuenca, all this contributed to undermining both international and domestic investment:

The legal uncertainty that prevails in the country is what puts a nail in the coffin of the credibility, not only of this government, but of the whole country. Investment is continuously diminishing, not only from abroad, but domestic as well, and the taxes on capital export are not diminishing capital flight. (Ecuador-B3 2012)

This last point on the failure of taxes to curtail capital flight indicates the ineffectiveness of traditional macroeconomic tools to tackle the challenges the Ecuadorian economy faced at this time, and an important leverage for capitalists in their power struggles with the state.

Such a rejection of the model included the possibility among some segments of capital, as explicitly mentioned in my interviews with two business chamber representatives about being pushed into doing something “like in Venezuela,” an expression that essentially means to attempt a coup.<sup>171</sup> Yet, these comments were immediately followed by explanations of their own decision to reject such an approach, and to mobilize other chambers to focus instead on improving their lobbying efforts by developing more sophisticated and forceful technical arguments (“*contundencia técnica*”).

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<sup>171</sup> This was expressed twice in interviews. For obvious reasons, they will be kept confidential.

The decision to pursue a lobbying approach rather than supporting a coup was also explained by the regional tensions between the coastal chambers and those from the highlands. Indeed, while spokespersons of federations of chambers from various regions, like the Council of Chambers and Production Associations (*Consejo de Cámaras y Asociaciones de la Producción*) or the CEE, recognized but belittled regional tensions, representatives of regional chambers, especially those on the coast, resolutely asserted the existence of substantial differences. A representative of large industrialists from the coast mentioned their specific exclusion from the economic program of the government as it sought to move away from primary exports, the sectors where the coast is dominant (banana, cacao, coffee, shrimps and fish) (Ecuador-B4 2012). The persistence of regional tensions was nowhere clearer than in the speech of a representative of a chamber of small and medium industries, who, paradoxically, also presided over the national Federation of Chambers of Small and Medium Enterprises in charge of uniting chambers of SMEs from the whole country:

There are two countries: one is named Quito, and the other is called Guayaquil. From this perspective you can fully see that the difference will always persist. Who is going to negotiate [a free trade deal]? The bureaucrats from Quito! And you can ask those bureaucrats when it is that they managed a business, if in their life they ever managed a business [presuming a negative answer]! You can negotiate with a businessman when you've been a businessman yourself. But bureaucrats don't know what they are negotiating. We have always been against their way of thinking. (Ecuador-B9 2012)

This depiction of the regional opposition between Quito-Guayaquil was especially interesting as it was framed as concomitant with the opposition between bureaucracy and business, although he paradoxically represented one of the chambers supportive of the Correa government, and agreed in essence with the government's approach to free trade. At the time of the interview,

negotiations with Europe were suspended. His narrative therefore expressed the persistence of a historical regional opposition in spite of his current proximity with the bureaucracy in Quito.<sup>172</sup>

The regional tension was also acknowledged by the spokesperson of a chamber of industry from Cuenca who believed that Cuenca's position in the tension opposing Quito and Guayaquil had always been as a mediator between the other two regions (Ecuador-B3 2012).

The existence of these regional tension explains why historically, and in contrast with Venezuela, regional chambers were more politically important than sectoral federations of chambers with national coverage. It also contributes to explaining why, despite a negative perception of the government widely shared by business interest groups, a solution like a coup was not adopted. Although the failure of the coup in Venezuela certainly informed such a decision, the division of capitalist class organizations is key to explaining why radical strategies were less viable in Ecuador. A representative of a chamber of industry from the coast mentioned that a spokesperson from another chamber, who he refused to name, saw himself as a "potential Febres Cordero" (Ecuador-B4 2012), or a business leader potentially able to mobilize the business class against the state-led development plan, and eventually become the new president. He nevertheless added that he was lacking the appropriate kind of leadership, something that had been a quality unique to Febres Cordero. Here, the specifically regional attachment to the leader was clear.

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<sup>172</sup> This spokesperson from a SME chamber from the coast was an industrialist in the pharmaceutical sector producing generic drugs. Other chamber representatives attributed his opposition to free trade to his interest in avoiding stronger intellectual property rules. Nevertheless, not only has this leader remained in place for a long time, but he was also president of the national federation of SMEs. The SME chamber from Quito similarly shared his opposition to free trade.

However, subsequent years gave rise to a slow process of increasing convergence between chambers of large industries, landowners and retail traders, especially in the CEE. This organization, which counted 38 affiliates in 2012, grew to close to 50 affiliates by 2016. It was for a long time the most important federation of business interest groups, but it expanded by going beyond its primary focus on free trade to widen its mission so as to become the main representative of the business sector in the country in general. One of its representatives explained that in fact, regional divisions were fading away as opposition to the government had engendered a new unity within the business community against it (Ecuador-B8 2012). Several spokespersons mentioned that their board of directors had been renewed to include younger people with a new mentality to face the changing approach of the government (Ecuador-B1 2012; Ecuador-M1 2012; Ecuador-B7 2012; Ecuador-B8 2012; Ecuador-B10 2013).

A key policy on which the various chambers agreed with the government was in connection to the development of mining. All of the business interest groups interviewed, representing both SMEs and large businesses, were supportive of the development of the mining sector as a source of wealth that should not be left untouched, as long as the appropriate measures were adopted to mitigate the potential environmental impact. Among them, the mining chambers, grouping both multinational and local enterprises in the sector, were well aware of the government's support for expanding the sector:

For us, while we have some difficulties in our relation with the government, we know that it is the main ally for mining activities, and that is good for us. Yes, I would say that it sets complex rules for the game, but it is our duty to comply when possible, and when it is too complex, to look for alternatives. (Ecuador-M1 2012)

### *Medium, Small and Micro businesses: A Lefty Petty Bourgeoisie?*

As the chambers of large industrialists, traders and landowners coalesced against the government's economic policies and the lack of access to state institutions, they also increased their differences with chambers of SMEs that perceived government policies as much more supportive to their growth. While the chambers of large businesses complained about their lack of contact with state officials and the loss of influence and control over the institutions, representatives of SMEs were much closer to the government than before, a situation that afforded them new opportunities to influence policy making (Ecuador-B9 2012; Ecuador-B10 2013; Ecuador-P1 2012). As a representative of a chamber of small and medium industries from Pichincha<sup>173</sup> puts it:

We build public policies in many cases. We are associated to the theme of public procurement, in determining what needs to be included to guarantee the inclusion of domestic production [...]. We are working with the minister coordinating industrial policy, in the design of a competitive matrix and the transformation of production. (Ecuador-B10 2013)

For small and medium enterprises, gaining a privileged access to the state as a provider, as prescribed by the Constitution, meant a regular client to stabilize their income. In exchange for promises of reinvestment in the modernization of their plants, chambers representing SMEs were negotiating to secure from the government multi-year supply contracts and a commitment to advance policies that provided easier access to credit, training and technical assistance, to import restrictions, and to increase the availability of qualified workers (Ecuador-B10 2013). Given that several of these policies conflicted with common provisions in free trade agreements, chambers representing SMEs were reluctant to support free trade deals. Part of their support to the

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<sup>173</sup> Pichincha is a province in the northern Andes where the capital city of Quito is located.

government resulted from the fact that Rafael Correa publicly shared their point of view (Correa 2012, chap. 9).

However important this reciprocal support between chambers of SMEs and the government, its economic significance must be placed in perspective. While one of their representatives claimed that SME employees represent 80% of the labour force (Ecuador-B9 2012), or 67% of national industry (Ecuador-B10 2013), their economic contribution was considerably smaller (Table 6.3). According to recent national statistics, large enterprises, all sectors included, while representing only around 4% of the total number of businesses, still accounted for more than 70% of sales, a share that increased under Correa. Their employees represented almost half of the labour force (Table 6.3). Although it is true that small and medium businesses provided much more employment (46.1% in 2014) in proportion to their economic weight (26.1% of sales in 2014), the capacity of large businesses to centralize control over workforces and capital was still important and rising under Correa.

<b>Table 6.3: Importance of Enterprises, by Size</b>					
Size of businesses are calculated by their sales in US Dollars	<b>Large</b> over 5 million	<b>Medium ‘B’</b> Between 2 and 5 million	<b>Medium ‘A’</b> Between 1 and 2 million	<b>Small</b> Between 100 000 and 1 million	<b>Micro</b> <sup>174</sup> Under 100 000
Share of total number of businesses in 2009	4.1%	5.8%	8.0%	52.5%	29.6%
Share of total number of businesses in 2014	3.7%	5.3%	7.3%	54.4%	29.3%
Share of sales in 2009	71.6%	10.4%	6.5%	10.7%	0.7%
Share of sales in 2014	73.3%	9.4%	5.9%	10.8%	0.7%
Share of employment in 2009	45.5%	14.4%	10.0%	24.3%	5.8%
Share of employment in 2014	47.8%	13.4%	9.2%	24.1%	5.4%

Source: (INEC 2016)

Moreover, the importance of SMEs in export markets was marginal as their production tended to be oriented towards internal markets. With dollarization, Ecuador was under higher pressure to maintain a positive trade balance since it could no longer use monetary tools to cheapen the international price of its exports. When oil prices were high, oil exports could offset deficits in foreign trade. But representatives of large industries were aware that given the reliance of the economy on agro-exports processed by large businesses to balance foreign trade, their political leverage remained strong (Ecuador-B4 2012). This distinction also explains why chambers representing large enterprises were more supportive of free trade.

### ***The Reorganization of Popular Classes***

Most organizations of the popular class supported the reassertion of state property over natural resources. CONAIE had included in its proposed constitution the assertion of the people’s

<sup>174</sup> According to other data provided by INEC, micro-enterprises would in fact represent 90% of the total number of businesses (731,761 over a total of 810,272) (INEC 2015). However, the data was filtered to eliminate the 700,000 enterprises that do not report income nor employees. This data however does not account for the informal economy, which represented 45.1% of total employment in 2007 and 40.4% in 2015. It was therefore more important than the formal employment in 2007 (41.2%), but not in 2015 (50.5%) (INEC 2016). It is nonetheless fair to assume that the economic weight of informal businesses, by extending the relation between employment and economic weight of the micro-businesses, would not be more important than small businesses.

property, by means of the state, over non-renewable natural resources (CONAIE 2007, § 311). However, the pursuit of natural resource extraction and its potential effect on water sources soon proved to be more contentious than in Venezuela. The Mining Order adopted by the Constituent Assembly that nullified most existing concessions represented an initial signal in support of the recovery of property over natural resources and against the expansion of extractive activities. However, since it was adopted by the Constituent Assembly in its first stage while it was still being presided over by Alberto Acosta, it became the subject of revision.

Soon after the adoption of the new Constitution, the AP group in the Constituent Assembly formed a sub-commission of 78 members, commonly referred to as the *Congresillo*, which assumed legislative powers until the election of a new National Assembly. This legislative commission adopted a new mining law (Comisión legislativa y de fiscalización 2009) that allowed the resumption of mining exploration and the development of the sector in a way that was soon rejected by social movements. Although it asserted state property over the resource, planned active institutional control for taxation and environmental protection, and created a state-owned company to perform some of the exploitation both by itself and in joint ventures with private corporations, it nonetheless kept the door open for mines fully controlled by private corporations and for contested extractive techniques, notably open-pit mining. Several thousand protesters took part in the march summoned by CONAIE to oppose the law in January 2009. The Correa government reacted to the mounting opposition of Indigenous and peasant organizations by withdrawing funds to CODENPE, the Bilingual Intercultural Education program, and FONDEPI, which were all CONAIE controlled public institutions that had been developed after the 1998 Constitution specifically for Indigenous people (Becker 2010, 182; Ospina Peralta 2011, 129–30). Some of these institutions were transferred to existing ministries.



In the mounting confrontation that ensued in April 2009, CONAIE strongly criticized the AP government, an event that marked the rupture of the organization with the Correa administration. FENOCIN followed suit in March 2010, announcing that it was also taking its distance from the government. Although FENOCIN celebrated that Correa had fulfilled a part of the promises contained in the 2006 agreement they signed in exchange for their support, it nonetheless complained that the government was not doing much to democratize the land and protect water (Ecuador-C1 2012). Despite constitutional provisions favouring land redistribution and the democratization of access to water in rural areas, and their confirmation in the development plans and in the Organic Law on Land Sovereignty, actual progress was slow, and bordering on the non-existent (Carrión and Herrera 2012, 91–92; North 2013, 125–28). Indeed, economic trends in the agricultural sector showed the growth of agro-industrial production and the decline of peasant agriculture (Carrión and Herrera 2012, 26–30). Moreover, Correa has publicly stated that “small rural land properties go against productive efficiency and poverty reduction... dividing a large property into several small ones, and distributing them, is spreading poverty” (quoted in Herrera 2012, 51). Such a discourse is obviously not supportive of small peasant production.

Also important for Indigenous-peasant organizations was that the state did not support the development of independent social organizations or their effective participation in the policy-making process (Ecuador-C1 2012). The government reacted to popular protests through increasingly repressive means, notably arresting protesters and accusing them of terrorism, actions that were criticized by human rights organizations, both at the national (Defensoria del Pueblo de Ecuador 2011) and international levels (Amnistía Internacional 2012). But the AP government also reacted by co-opting existing organizations and attempting to build parallel

groups to compete with the existing ones. FENOCIN was the subject of co-optation when it experienced an internal rift just prior to the 2013 elections. In this case, with the support of the Ministry for Social Inclusion, in charge of providing legal recognition to social movements, a pro-Correa faction debated control of the organization. In the case of CONAIE, the government fostered the creation of a competing organization. As part of the strategy to undermine the organization, the state informed the leadership of CONAIE in December 2014 that they were to be evicted from the building that had hosted the organization since the early 1980s. Due to significant national and international pressure, CONAIE was able to stay in the building, but the schism was further entrenched as Correa's political party announced the formation of a new organization: the Indigenous Alliance for the Revolution (*Alianza Indígena por la Revolución*) (Redacción Política, 2014).

The labour movement experienced similar trials. In line with efforts to improve its control over the state, the government adopted a new Organic Law on Public Services, enacted through Decree 813 in 2011, authorizing “mandatory resignation by buying out” or dismissal of any public officer if given the appropriate compensation. By 2013, estimates suggest that around 5000 public officers were dismissed as a result of this decree (González Ospina 2013; Redacción El Comercio 2012; Redacción El Universo 2012). Although several long-established unions opposed this policy, the government had supported the creation of subservient unions that defended the measure by arguing that it was necessary to get rid of dishonest public officers whose corruption, although obvious, could not be demonstrated (Ecuador-S4 2012). In this context, some union leaders saw their organization being divided by factions the government supported:

CEOLS [one of the union confederation members of FUT], during the past few years, has been destroyed with the support of the government; it has been mutilated [...]. Instead of getting united, instead of being a positive force in which we would work together, they allowed the creation of the new union federation [CSE – *Confederación Sindical del Ecuador*]. We have also been victim thereafter of the creation of the Confederation of social security workers, again with the support of the government. (Ecuador-S1 2012)

President Correa himself attended the founding ceremony of the government supported Confederation of Public Sector Workers (CTSPE, *Confederación de Trabajadores del Sector Público*) in 2011. This organization eventually attempted to form a unitary front to compete with FUT, joining several organizations loyal to the government. This included the Confederation of Autonomous Workers (CUTTAE, *Confederación Unitaria de Trabajadoras y Trabajadores Autónomos del Ecuador*), a national organization of informal workers formed with the support of the government and whose leader identified the government as its top ally in an interview (Ecuador-S5 2012). Founded in April 2011, the creation of this organization surprised the long-standing organization of street vendors, the United Confederation of Retailers and Autonomous Workers (CUCOMITAE, *Confederación Unitaria de Comerciantes Minoristas y Trabajadores Autónomos del Ecuador*) (Ecuador-S7 2012), whose connection with the political party MPD was broadly acknowledged, a fact that partly explains the tension with pro-Correa forces once they broke apart.

While this overview of the rapid evolution of popular class organizations at the national level is hardly exhaustive, it demonstrates beyond a doubt a deliberate attempt to co-opt existing organizations or, where this failed, to create parallel ones in all sectors (peasant-Indigenous, formal, and informal workers). This tendency is in part explained by the need of the government to maintain a balance of forces congruent with its goal of keeping control over the state apparatus. Popular support remained critical in a context where some state reforms often

prompted strong reactions from public officers.<sup>175</sup> It was, moreover, necessary to counterbalance the power of the main organizations of the capitalist class strongly opposed to the development plan and progressively more organized to pressure for their demands. Finally, creating a supportive faction in the popular sector was also necessary to offset the pressure from popular class organizations critical of the expansion of extractive activities on which the autonomy of the landlord state was based.

### **The Resulting Development Model**

This portrayal of the evolution of class organizations and their relations with the state is pivotal to understanding the evolution of Ecuador's development model. The reassertion of public ownership over the oil sector was not solely a tool for the state to increase its income but also the means to establish the autonomy of the state from both class organizations and the economy. The various strategies class actors pursued in response to the growing autonomy of the state helps to explaining the resulting development model. The capitalist class opted to avoid open confrontation, instead strengthening its lobbying capacities and developing internal unity behind its free trade agenda. For its part, the government did not abandon its commitment to using rent to foster private investment and diversification. The result was a development model relying on the capacity of the state to capture a larger portion of rent (rent-based) to support redistributive policies (social) to garner popular support. Like in Venezuela, it increased its developmental involvement, seeking the right policies to foster economic diversification, but unlike Venezuela,

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<sup>175</sup> In September 2010, a violent episode threatened President Rafael Correa. He was detained for 15 hours by insurgents after he directly intervened to quell a police mutiny sparked by a reform of their working conditions and rank attribution. But there was no evidence of any coup plot to overtake the whole government either behind or in support of this.

remained more reliant on policies directed at sustaining the reinvestment of private capital to foster growth.

### *Autonomy Based on Rent... and Taxes*

As announced in AP's program, state autonomy would be supported by public ownership of the oil sector, without, however, ruling out private participation. It was aimed at capturing oil rent that could be reinvested to diversify the economy in order to eventually diminish the importance of oil in the economy (Alianza PAÍS 2006, 43–48). The 2009–2013 development plan set this goal on a two-decade perspective, thereby clearly assuming that for the first decade or so, the reliance on primary exports, and especially on oil, would remain dominant (Consejo Nacional de Planificación 2009, 94–98). In the macroeconomic goals for 2009–2013, the role of extractive resources was clear:

The starting point of the strategy is to work on achieving a sustainable macroeconomic productive balance. For this purpose, it is imperative to identify the sources of internal and external saving to efficiently channel it towards public and private productive investment. [...] This safe and productive use of internal savings will be leveraged by the placement of rents derived from non-renewable resources in productive investment providing high economic and social return. (Consejo Nacional de Planificación 2009, 116)

This exemplifies how the AP's macroeconomic strategy relied on the reinvestment of oil, and eventually mineral rent, to foster private investment. Increasing the amount of rent accruing to the state was therefore essential. Indeed, oil revenue for the public sector more than doubled in the year following Correa's coming to power, and only returned to lower values when the price of oil dramatically dropped in 2009 and 2014–15 (Appendix B). However, and in contrast to

Venezuela, in the Ecuadorian case non-oil tax revenues also experienced a steady increase similar in magnitude to the rise in oil revenue (Mejía 2012, 180).

	2006	2007	2008*	2009*	2010*	2011*	2012*	2013*	2014*	2015*
<b>Total Revenue</b>	24.06	26.72	35.80	29.40	33.32	39.34	39.32	39.31	38.68	33.31
Oil revenue	6.91	6.51	14.05	8.34	11.28	16.32	13.90	12.06	10.81	6.29
Non-Oil revenue	17.81	18.55	20.30	19.79	20.11	20.80	22.50	23.88	23.72	25.73
Tax revenues	10.58	10.91	11.20	12.08	12.46	12.32	13.94	14.42	14.33	15.45
Social Security contributions	3.32	3.51	3.39	3.30	3.65	5.01	5.41	4.80	4.68	5.02
Other (2)	3.90	4.13	5.71	4.41	4.00	3.47	3.15	4.66	4.72	5.26
Operational surplus of non-financial public companies	-0.65	1.67	1.45	1.27	1.94	2.23	2.92	3.37	4.15	1.29

SOURCE: Ministry of Economics and Finance, Public Sector Entities and the Central Bank of Ecuador.

\*Provisional data

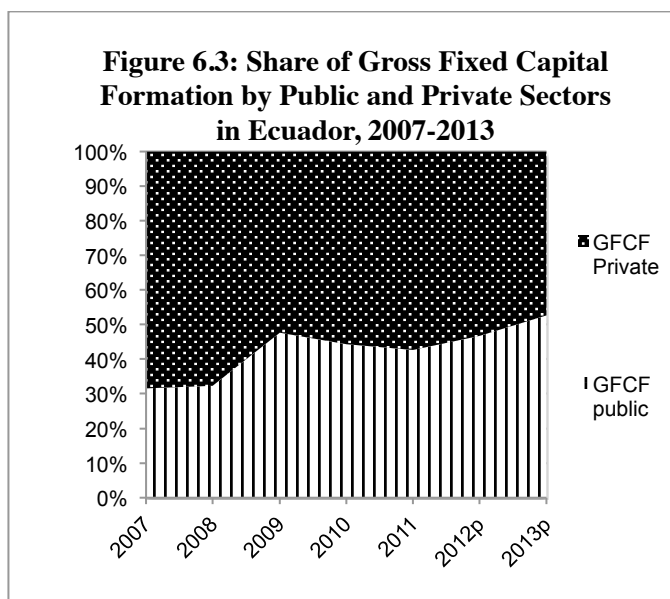
Despite the greater contribution of tax income to the state budget, oil rent remained pivotal in maintaining the autonomy of the state, so much so that it justified relinquishing initiatives that had been originally considered essential in generating a new logic for the development of the country. That was the case with the Yasuní-ITT initiative (ITT standing for Ishpingo-Tambococha-Tiputini, the name of a region within the Yasuní National Park located in the Amazonian rainforest) (Pellegrini et al. 2014). The project was the alternative the government proposed in its early years to respond to the critique social movements and popular class organizations articulated against extractivism. This initiative promised to prevent the extraction of oil in this region in order to prevent damage to the immediate environment, disturbance to the Indigenous communities living in the areas, and the pollution that would result from the combustion of the extracted hydrocarbons. The Yasuní-ITT area shelters one of the highest densities of biodiversity in the world (Consejo Nacional de Planificación 2009, 125). The government quoted this initiative extensively as proof of its environmental commitment, even in

<sup>176</sup> This table shows non-financial public sector operations data on an accrued basis. It is therefore not immediately comparable to Table 4.2 of Chapter 4, which shows the central government operations of Venezuela on a cash basis. I could not find exactly comparable data for both countries that would cover the necessary periods.

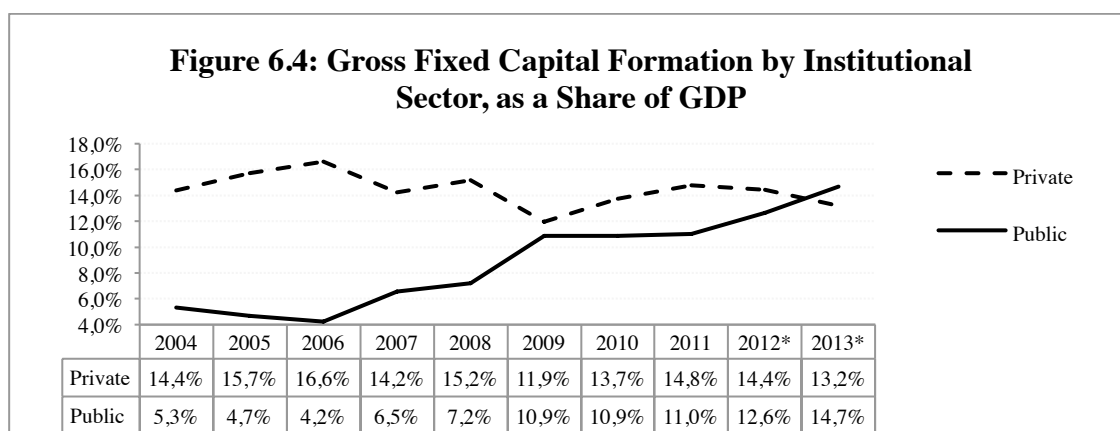
its most recent development plan (Consejo Nacional de Planificación 2013, 231). It was also cited as an example of an environmental engagement to discredit opponents' claims that the government was blindly pursuing an extractivist development model.

However, the Yasuní-ITT initiative relied on the idea that the Ecuadorian people were not the only ones who should be deprived of the potential income from the exploitation of petroleum. Given that avoiding pollution would benefit the global environment, the government committed to give-up only half of the potential income, and asked for international donations to contribute to a trust fund managed by the United Nations Development Program (UNDP) for a value representing the other half of the estimated reserve to support environmentally sustainable development projects in Ecuador. Proclaiming that the international donations were not sufficient, Correa himself eventually abandoned the project in 2013 in order to clear the way for resuming extraction in the Yasuní-ITT region. Correa explained his choice thus: “we don't have another way, we need that money to overcome poverty” (AFP 2014). This illustrates the reliance of the state on rent for its redistributive objectives; it must also be read against the backdrop of Correa's commitment to fostering overall economic growth through public investments and support to diversification.

Indeed, given the reluctance of the capitalist class to support the development model, public investment acted less as a leverage than as replacement for private investment. As can be seen in Figures 6.3 and 6.4, while public investment, particularly important in infrastructure supposed to favour growth, helped to maintain private investment over the years, it occupied since 2007 an increasingly important share of gross fixed capital formation. Private investment did maintain, however, a more important place in the economy than in the Venezuelan case.



Source: BCE, Gross Fixed Capital Formation  
(p) Preliminary figures



Source: BCE, Gross Fixed Capital Formation  
\*Preliminary figures

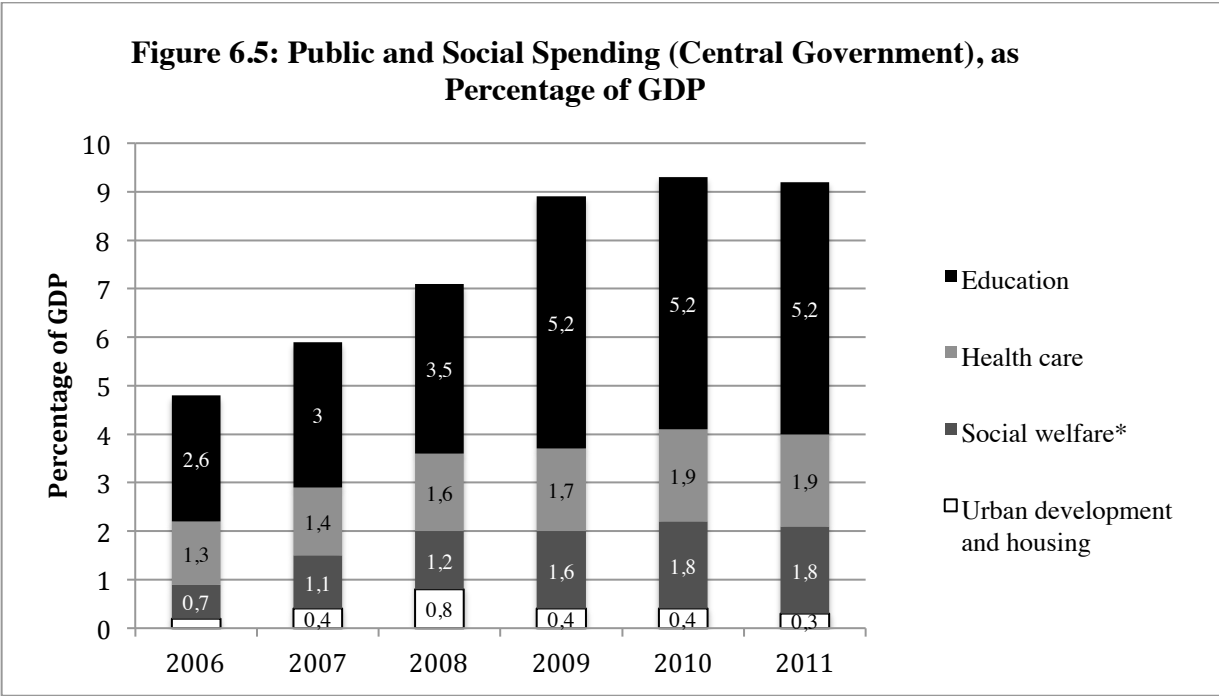
Under these circumstances, the phasing-out of the role of the primary sector was postponed. While the projection in the 2009-2013 plan expected the primary sector to be marginal by 2030, this sector is still expected to represent a third of exports in 2030 according to the 2013-2017 development plan.



### ***Redistribution and Control Over the Popular Sector***

Like in Venezuela, the recovery of rent was used in part to increase social spending. Aside from addressing pressing social needs, this form of redistribution was a central component of Correa's struggle to displace social movements from their leadership role within the popular sector. As shown in the earlier quote referring to the abandoning of the Yasuní-ITT initiative, state redistribution of rent was a means to maintain its legitimacy, and this amply justified the pursuit of extractive development.

Increasing social spending was fundamental and this was undertaken—as opposed to Venezuela where parallel channels of distribution were created—through existing institutions in the areas of education, health care, and housing, in addition to direct cash transfers, both conditional and unconditional. Between 2006 and 2011, social spending relative to GDP in most categories almost doubled, with investment in health care increasing from 1.3 to 1.9% and spending in education from 2.6 to 5.2% of GDP (Fig. 6.5). In terms of direct and conditional cash transfers (included in the social welfare category in Fig. 6.5), their share of GDP jumped from 0.7% to 1.8% between 2006 and 2011, while the number of beneficiaries jumped from 1.1 to 1.9 million after a substantial reform of the program in 2009 (Ray and Kozameh 2012, 16–17).

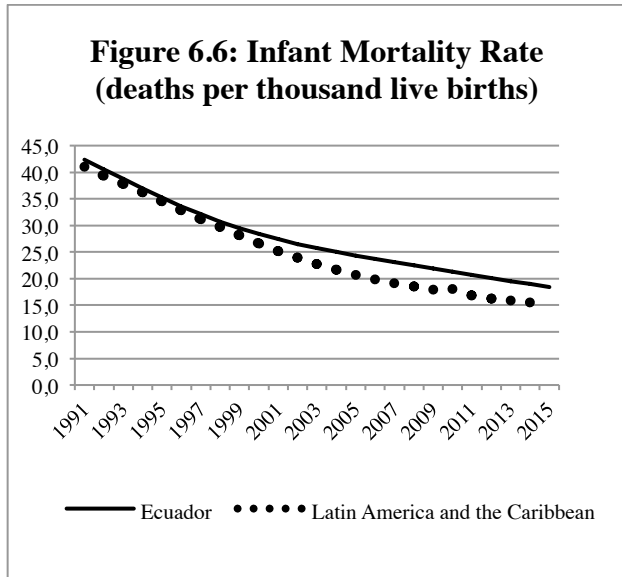


Source: (Ray and Kozameh 2012)

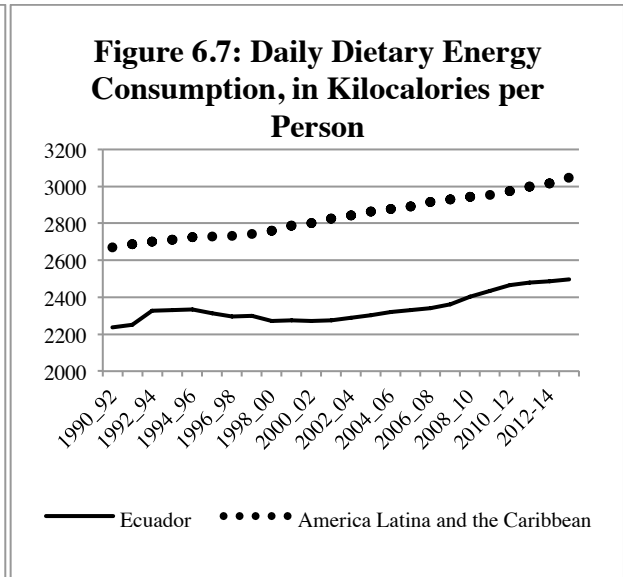
\*The Social Welfare category consists of funding for a variety of social programs including the *Bono de Desarrollo Humano* (BDH) and other cash transfer programs, the *Instituto para la Niñez y la Familia*, an institute supporting child and family development, the food security program *Alimentate Ecuador* and other nutritional development programs, as well as funding for the construction and maintenance of a diverse array of community centres.

Although many of these changes represented significant improvements for the population, especially in terms of wealth distribution (Figs. 6.9 and 6.10), their impact was uneven and certainly not as radical as in Venezuela. For instance, new investment in health care has not yet reversed the trend that started in the 1990s, and Ecuador has shown slower improvement at the level of infant mortality compared with the Latin American average (Fig. 6.6). However, when compared to a group of 15 countries in the world with similar GDP per capita, some observers note that Ecuador has a marginally better score for infant mortality rate, and it has improved faster than the others under Correa (Ray and Kozameh 2012, 18). In terms of food consumption, the Correa government radicalized a trend that had started immediately before him, contributing to increasing food consumption per capita (Fig. 6.7) and reducing levels of malnutrition (Fig. 6.8).

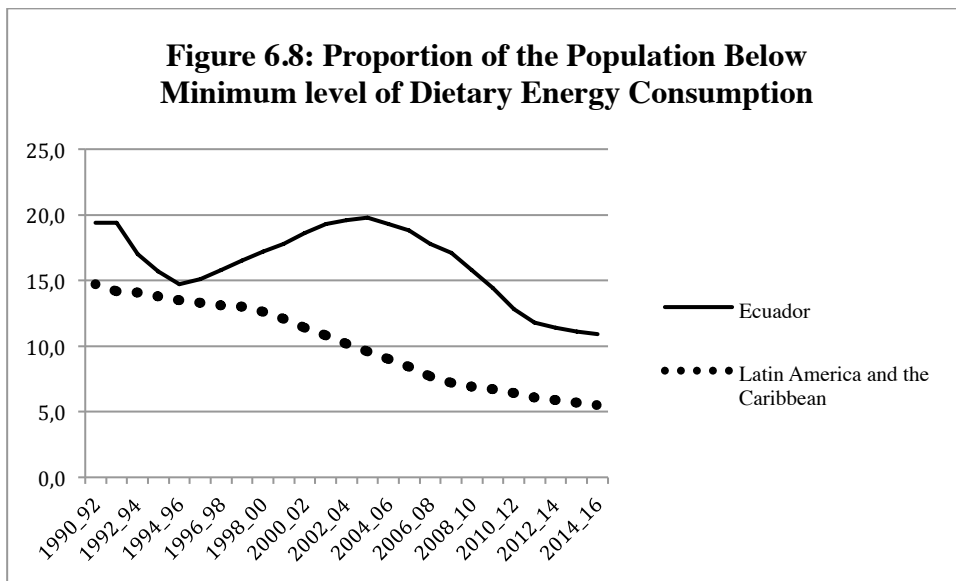
In terms of education, the results are impressive. The literacy rate improved, reaching 93% in 2013 from 84% in 2007 and enrolment in secondary education improved by more than 20% during the same time span. While the data shows a certain decrease for primary education, it is very low and the overall results are still over 95% (Table 6.5).



Source: ECLAC



Source: ECLAC

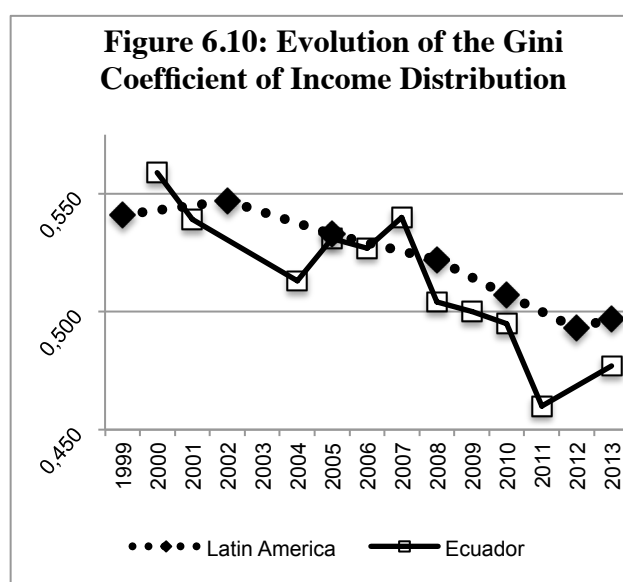
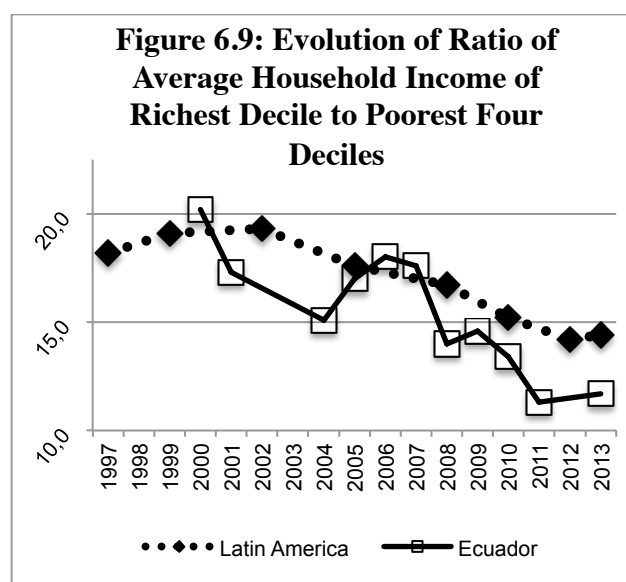


Source: ECLAC

<b>Table 6.5: Comparative Education Indicators Including Both Sexes (%)</b>		
	<b>2007</b>	<b>2013</b>
Adult literacy rate, population 15+ years	84.19	93.29
Adjusted net enrolment rate, primary	99.37	98.73
Adjusted net enrolment rate, lower secondary	57.72	80.78
Adjusted net enrolment rate, upper secondary	40.57	60.76

Source: World Bank, Core indicators

In addition to the overall positive impact of social policies on social indicators, measurements of wealth distribution indicate an important evolution towards greater equality, and the year of Correa's election in 2007 marks the turning point. Wealth distribution as measured by the household income ratio between the richest decile and the four poorest deciles (Fig. 6.9) and by the Gini coefficient of income distribution (Fig. 6.10) clearly illustrate the improvement.



Source for both figures: ECLAC

The marks only appear for the years for which data are available.

While these forms of redistribution corroborated the government's concerns for the well-being of the popular sector, it should not be equated with a concerted effort to better integrate popular class participation within state institutions. Unlike the experience in Venezuela, the transformation of the Ecuadorian state did not entail building parallel institutions based on

popular or social movement participation (Becker 2014b, 136). It included spaces for citizen involvement in several institutions, but it did so in a very selective way. The 2008 Constitution, and the government's interpretation of it, structured popular participation through the mediation of the Citizens' Participation and Social Control Committee (CPCCS, *Consejo de Participación Ciudadana y Control Social*). This is the organ in charge of selecting who can play a part in participatory state institutions through merit-based competitions ranking candidates according to their previous training, diplomas, experiences, roles in social organisations, and other relevant criteria.<sup>177</sup> In short, although prior involvement in popular organizations is alleged to increase the likelihood of nomination, the selection process, administered by state officials, disengaged citizens from their prior social movement attachments to make participants solely accountable to the state, as abstract citizens (Ospina Peralta 2010).

The government justified such a selection mechanism by arguing for the need to dismantle the corporatist mechanisms that privileged the participation of business interest groups over those of popular sector organizations (Ospina Peralta 2010). It is therefore not surprising that one business group representative complained that it was a patronage structure for the government's supporters (Ecuador-B6 2012) (reported in an earlier quote). As an official report put it, under the previous regime, more than two thirds of state committees with executive powers used to include corporatist representation, and the balance heavily tipped in capital's favour, as representatives of business chambers made up two-thirds of this corporatist representation, while only slightly more than a quarter (27%) were representatives of workers'

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<sup>177</sup> The nomination criteria established by the CPCCS for different committees include, along with other factors like training, diplomas, and working experience, elements of citizen participation and leadership, where involvement in social organizations is positively valued. See, for instance, the nomination process for the Council on Food Sovereignty (*Consejo de Participación Ciudadana y Control Social* 2013).

organizations (SENPLADES 2009; Ospina Peralta 2011). Although the state reform originally kept the capitalist class organizations at bay, it also did the same for popular class organizations. Against corporatism, the central government increasingly disparaged social movements and popular organizations as representing partial interests (Conaghan 2011, 274).

This form of control over popular sector participation offers an insight into the shape class tensions acquired in Ecuador. The reassertion of property over extractive resources provided the state with increased rent that was used to maintain autonomy from the capitalist class and to garner support from the popular sector through redistributive policies. But this also required muffling the increasingly critical voice of popular class organizations against the government and its heavy reliance on extractive activities. Popular class organizations criticizing state reliance on the extractive sector were attacking a key source of state autonomy right at a time when the government confronted the challenge from an increasingly united and vocal capitalist class. Faced with this reality, although the original attitude of the government had been to cut ties with the capitalist class, it moved, as we shall now see, towards re-assessing this strategy, opting instead to open new avenues of dialogue with the business sector.

### *A Developmental State*

While representatives of business organizations complained in interviews about their lack of access to the government, some mentioned that the communication became considerably more fluid after a meeting with the highest government officials in August 2012. This meeting followed Correa's declaration in an interview regarding his evaluation of the first five years of his government in January 2012: "Basically we are doing better within the same model of accumulation, rather than changing it, because we do not want to harm the rich; but it is our

intention to have a more just and equitable society” (Pérez 2012). Similarly, while the development plan of 2013–2017 used the term ‘socialism’ abundantly, it was deployed not in opposition to capitalism, but specifically in opposition to neoliberalism (Consejo Nacional de Planificación 2013). The plan still sought to incentivize private investment with the goal of diversifying the productive structure of the country, increasing higher value-added production, diversifying exports, and substituting imports.

To sustain such a diversification, industrial policy was central, and it consisted of a mix of policies inspired by the economic models adopted by East Asian countries after the Second World War (Andrade A. 2015, 17), some selective restriction of imports, and innovation policies (support to higher education and training). The state approach did not pick specific industries, but rather chose certain sectors to promote and sustain new investment and growth, attempting to create clusters of knowledge production to support production and development of high technology able to compete in international markets. Taking some inspiration from neostructuralism, and in contrast to the ISI model, the goal was not only to substitute imports, but to concomitantly conquer niche international markets. This policy included the building of important institutions to sustain a new knowledge economy. To this end, the government developed two new universities, one in the Andes, Yachay Tech,<sup>178</sup> and one in the Amazon, Ikiam. Yachay Tech was certainly the site of much governmental effort, the showcase for the policies Correa fostered to create a new economy. A public corporation was founded to administer the construction of what was to encompass an entirely planned city around the university from scratch to foster a knowledge hub with the mission to “drive the conversion of

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<sup>178</sup> Interestingly, the name of this university has an English form, since “Tech” with an “h” at the end refers to the English term for technology, while in Spanish, it is spelled *tecnología* without the “h”.

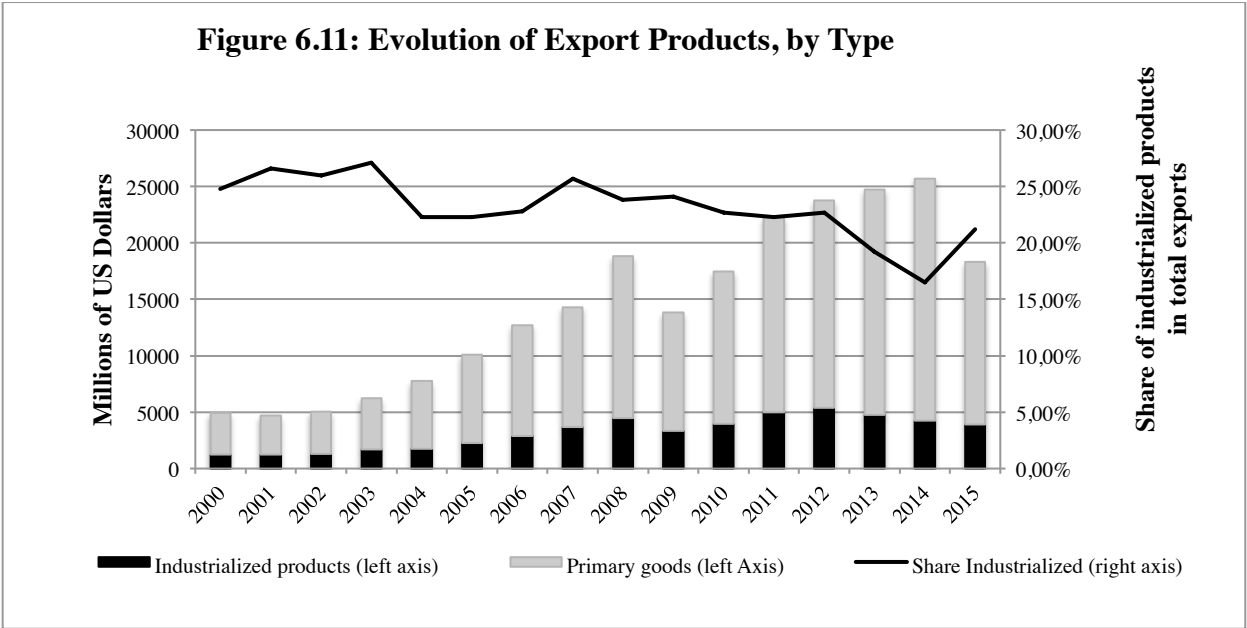
Ecuador into a knowledge-intensive economy” (Gobierno del Ecuador 2016). Because the university only started its activity in March 2014, it would be premature to attempt to reach any conclusion about its impact. Nonetheless, what is beyond dispute was the government’s expectation that its support to knowledge production was likely to foster the kind of innovation cluster that, with the decisive involvement of the private sector, had the potential to promote the diversification of the economy. For this reason, the Yachay City project included incentives for private businesses to settle around the university to take advantage of the cluster.

This example of developmental initiative was made possible because of the less confrontational reaction the capitalist class now exhibited with respect to the assertion of state autonomy. Despite an initial repudiation, business interest groups did not foreclose the opportunity for communication with the government. Their reorganization at the local and national level, first around the priority of a free trade agreement with Europe, and later around a wider range of issues, did provide the basis for a more stable relation with the state that delivered results. For instance, despite the original resistance of the Correa government to engage in a free trade agreement with Europe—it had withdrawn from the joint negotiations with Peru and Colombia for a similar deal with the European Union in 2009—pressure from the capitalist class made it difficult to continue to avoid this, especially while the goal of diversification of exports was not materializing. Primary products remained the main ones able to offset the trade balance (Fig. 6.11), and there was even a reduction of manufactured exports. Moreover, dollarization deprived the government of the monetary tools that could have contributed to boosting exports. Peru and Colombia, both with free trade agreements with the European Union and the US, had an edge relatively to Ecuador, especially since their exports were similar. Moreover, since safe export conditions were a major consideration for large foreign productive investments, Ecuador

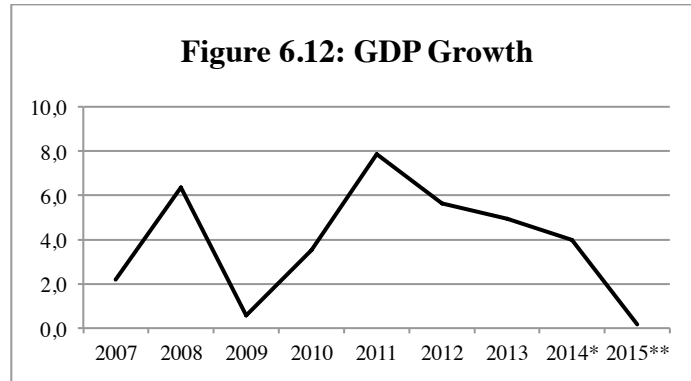


was a less attractive investment destination in light of its weaker protections and lacking a formal trade agreement. This explains in part the smaller amount of FDI directed to Ecuador relative to Peru and Colombia. These factors, combined with pressure from the capitalist class, provided a major incentive for resuming trade negotiations with Europe in January 2014 (EFE 2014). An agreement was concluded between negotiators, and is currently in the process of being implemented.

Active state policy to sustain economic growth did achieve positive results for a number of years, preserving a balance between raising consumption as a result of redistribution, and fostering private investments, a balance which was sustained by the existence of extractive rent. The Ecuadorian economy was impressively resilient after the most recent world crisis (Katz 2012) and its impact on oil prices, but it has, more recently, suffered severely from the drop in oil prices (Fig. 6.12).



Source: BCE; Estadísticas Macroeconómicas, Presentación Estructural 2016.



Source: BCE; \* Semi-definitive; \*\* Provisional.

Moreover, the reliance on oil rent also meant increasing tension with social movements that in Ecuador were strongly opposed to the expansion of extractive activities. The environmental concerns, notably resulting from Texaco's practices in the Amazon, and the fear of contamination related to large-scale open pit mines,<sup>179</sup> aggravated the concerns of social movements and drove their opposition to the expansion of what constituted the main tool to maintain the autonomy of the state.

### Conclusion

This chapter has analyzed the evolution of classes, their struggles and their relation with the state under the pink tide government of Rafael Correa in Ecuador. It has showed how the understanding of their positioning, actions, and struggles are essential to understanding the evolution of the development model.

Rafael Correa was elected during a crisis of hegemony with the promise of recuperating the autonomy of the state from the power exerted within it by business interests. Like Chávez in Venezuela, Correa could embody a viable alternative because social movements were at a low point in their political capabilities, and no organization could organize a strong popular class. It

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<sup>179</sup> Some attempts at developing open pit mines have been actively opposed by local communities, like in the case of the Junín community of the Intag Valley. See (Rogge 2008).

was a fragmented popular sector that could nonetheless undermine institutional stability. Correa's project kept distance from popular class organizations, rather aiming to recover control over the extractive sector in order to capture a greater share of rent to consolidate the autonomy of a landlord state. An autonomous state could direct the rent towards a developmental model inspired by neostructuralism, 'development as freedom', and environmental concerns. Success would be measured by the ability of this model to diversify the economy away from its reliance on oil.

Correa rapidly encountered resistance from business interest groups who perceived their loss of control over state institutions as a threat. Nevertheless, their historical division in regional factions prevented open confrontation as in Venezuela, while some chamber leaders strove to defuse the conflict and attempted to reorganize the class around common objectives (free trade) and methods (argumentative efficiency). Business interest groups became increasingly united around the CEE, and were successful in their demands on some fundamental aspects, notably free trade with Europe, despite the fact that chambers of small and medium enterprises had mobilized against the alternative.

Meanwhile, social movements achieved an important presence in the Constituent Assembly and were able to enshrine important demands in the Constitution. However, the recovery of government control over the state created a clash with labour unions, while the expansion of extractive activities alienated Indigenous-peasant organizations, particularly on issues of property rights over land. To confront the challenges of simultaneous pressure from both capitalist and popular classes, the government attempted to maintain its autonomy by increasingly controlling existing popular class organizations or by sponsoring alternative ones of its own creation.

The analysis of these particular class dynamics provides a fruitful approach to interpret Ecuador's rent-based social-developmental state. Its reliance on rent, although less important than in Venezuela, has been central to preserving some state autonomy and sustain a redistributive policy that allowed for more stability. The less confrontational attitude of capitalist class organizations left room for the government to develop a program that could rely on private capital participation to foster development. But the reliance on extractive income has also been its weakness. The country's economy and the state's capacity to sustain distribution is now deeply affected by the drop in oil prices. The developmental aspect of the model had nonetheless established some avenues to produce an economic diversification whose results are still to be seen.

7.

Conclusion:

## Comparing Venezuela and Ecuador: The Importance of Capitalists as a Class in Struggle

After a lost decade and a long neoliberal night, a pink tide rose in Latin America. Understanding the achievements and limits of this wave of progressive governments requires looking at the history of each country's class struggles to comprehend how these struggles have changed development models and the role that extractive resources play within them.

What first attracted attention to cases of the pink tide like Venezuela and Ecuador—the “magical power” of leaders to amass loyal followers, their grandiloquence in weekly TV shows, their unmediated links to electors that secured impressive levels of popularity, or what were seen more generally as their populist characteristics—obfuscated a critical examination of the conditions that led these governments to power. The attention paid to the detrimental effect of populist practices for democracy assumes an enduring rational bureaucratic state, forgetting that Chávez and Correa became appealing because elites had previously gained an important influence on state institutions that allowed their interests to prevail over that of the popular sector, and at the expense of the institutional channels through which popular sectors might influence the state and gain recognition for their demands. I have advanced a class perspective as an alternative to overcome these shortcomings.

While many studies of populism focus on the relationship between charismatic leaders and their followers, a different body of literature inquires into the influential role of natural resources for developing economies. From the latter view point, the leader's posture is of lesser relevance because in the end, natural resource endowment is likely to push these countries into a situation where the possibilities of economic diversification and development would be undermined by the political, economic, and environmental consequences of the 'curse' of their own resource wealth. Over the last few decades, the share of oil in the exports of the two countries in this study—close to 90% for Venezuela and 50% for Ecuador—readily qualifies them as highly mineral dependent (Hinojosa, Bebbington, and Barrientos 2012, 92–93). Nevertheless, the role of resources in their development model, along with their impact on the economy and society, has greatly changed over the last 50 years. Moreover, in both countries, the main push towards industrialization took place during the oil windfalls of the 1970s, a situation undermining predictions of a resource curse. These realities led me to place the focus of my study on the social conditions that were conducive to a change in the role of extractive resources in the development model. Extractive resources need to be part of the explanation, but to better understand their role in development models, I have repositioned them as a factor, an important one to be sure, but a factor influencing and being used within a set of social relations.

With these objectives in mind, I revisited the field of development studies to search for alternatives to build on the notion of classes in ways that would allow me to overcome the recurrent shortcomings of class analysis. Indeed, in deriving class agency directly from an economic position, some approaches to class condemn class agents to reproducing their existing position, and therefore foreclose any understanding of their contribution to change, and eventually, their role in development. Instead, I examined classes in terms of the formation of

collective political agents, building (or sometimes losing) their capacities in struggles with one another to influence the development model. My study is geared precisely to elucidating the role of class organizations in fostering, and eventually embodying, the convergence of agents who share a similar position in social property relations. Through the struggles they wage against other classes, the class organizations I studied actively worked to redefine the state, the development model and, in the process, also themselves. This approach thus emphasizes the agency moment of classes, where changes in the development model are understood as the outcome of class struggle.

Looking at classes through such a lens meant paying special attention to the main organizations at the national level that mobilized specific sectors, be it popular or capitalist, to create classes as collective agents in oppositional struggle to define the development model. I defined underdevelopment as the condition of a market dominated rather than market driven society, which means, for societies like Venezuela and Ecuador, that they share the challenge of fostering productive re-investment as a condition for development. This not only opened a window to the specific relevance of capitalists, but directed my attention to the role played by their organizations—mostly chambers of commerce, industry or agriculture—in actively forging them into a class to collectively interact with the state on a variety of issues.

This dissertation has endeavoured not to derive class orientations directly from imputed or immediate material interests. Class organizations make political decisions that are influenced not only by the economic context and their position within it, but also by their political reading of that context. Their actions yield consequences that can be contrary to their immediate interests, and produce reactions from other classes and the state that can bring about unexpected outcomes. This perspective required listening to the actual voices of capitalist class

representatives, and, without taking them at face value, providing ample space for including them as political agents shaping the conditions for the very nature of development. This accounts for why I paid more attention to the expression of the positions of the main class organizations instead of analysing their political shifts as if they were the direct and unmediated result of the economic transformations taking place in the two countries at the time. From this active class perspective, one can make sense of the seemingly contradictory views held by some chamber leaders who in the same breath report that their members have made a lot of money under the left-wing government, but nonetheless do not trust the economic program. Understanding their political positioning and the effects of their interventions also required simultaneously following the changes that took place within the main organizations mobilizing the popular sector, which were therefore involved in the formation of popular classes. The relations between these classes, and between them and the state are, I argue, what gives a particular shape to the development model.

Following this theoretical perspective also implied taking some distance from common approaches in political science. It moved away from explanations that focus on political parties and their electoral ups and downs to emphasize, instead, the class organizations that act on the terrain that a Gramscian perspective would refer to as ‘civil society’, which greatly influences what ‘political society’ can do. Nevertheless, the division with political society is not always clear, as class organizations sometimes act directly within the state in a way that leaves little space for the autonomy of the government, and certainly undermines the conception of a sharp separation between the economic and the political.

Comparing Venezuela and Ecuador has been very fruitful for bringing to light the significance of the specific forms under which capitalist classes have organized themselves,



based on their historical foundations and their idiosyncrasies, so as to differentiate their decisive impact on the development model. The comparison also exposed the dangers of conflating abstract economic interest, or a particular world dominant economic program, with the actual position of the capitalists as a class. Finally, comparing the trajectory of Venezuela and Ecuador demonstrates the importance of studying the balance of class forces to understand the evolution of the role of the extractive sector as a key component of the development model.

A comparative synthesis of the previous chapters will be helpful to underlining the similarities and differences that justify such an endeavour, and which contribute to illustrating the importance of the capitalist class in influencing the development model. It is also an opportunity to revisit some of the conceptual categories that have been necessary to the analysis, including the question of the nature of the autonomy of the state. Indeed, the re-assertion of state ownership over resources and the resulting rent have been instrumental to the creation of a landlord state that could be in a stronger position to face the other classes.

### **Similarities and Differences**

The empirical research undertaken in this dissertation points to an important difference in the form of organization of capitalists in both countries. The centralized federation of large capitalists in Venezuela, *Fedecámaras*, made the mobilization of capitalists much easier over different historical periods. By contrast, a regionally divided capitalist class in Ecuador experienced moments of class unity and division that are pivotal to understanding the changes in development model.

In Venezuela, the political construction of a unified capitalist class organization, mirroring labour attempts at forging a single umbrella organization, began in the 1940s. Through

the federation of local and sectoral chambers, a centralized organisation grew and became increasingly able to face the state, itself becoming stronger through increasing rent collection. *Fedecámaras* accepted the nationalization of oil and the state-led development model in the 1970s in a way that allowed for the oil bonanza to sustain the most important period of industrial growth in the country's history. At the time, the capitalist class, despite some patronage competition, was integrated into a set of corporatist state institutions that ensured its fluid interaction with the state and the working class around an ISI developmental state. When the capitalist class reforged its unity around the rejection of the state's leadership and the protection it granted to workers, it became a major factor in pushing for the transformation of the development model. Its pressure prevented the implementation of a coherent austerity program in the 1980s as capitalists fought for a greater share of rent, and contributed incrementally to undermining the stability of the state. This became blatantly clear after the attempts to transition to a neoliberal development model in the 1990s. *Fedecámaras'* original refusal to support the transition, despite its similarities to their own proposals, weakened the capacity of the state to see the program through. Finally, the organized interests of the capitalist class contributed to undermining the possibility of a neo-structural agenda in early 2000, supporting an attempted coup that pushed the government towards a socialist position that was not part of its initial program and propositions.

In contrast, a capitalist class divided into factions reacted differently at every turn in Ecuador. Unifying the capitalist class was a constant challenge that impacted the successes and failures of development models. While capitalist factions had initially endorsed the Rodríguez Lara dictatorship in 1972 and its control over oil, notably to prevent oil rent from falling into the wrong hands, regional divisions made it difficult for the dictatorship to keep the capitalist class

mobilized behind a development model directed towards domestic markets. Instead, capitalist interest groups from the coast preferred to push for maintaining their agro export-led model and mobilized to overturn Rodríguez Lara, and later for the return to democracy. During the three decades following the return to democracy, enlisting the support of the capitalist class behind a development project was a constant challenge for successive governments. In the early 1990s, opposing the Indigenous irruption in class conflict, capitalists rallied around the neoliberal program of financial liberalization and oil privatization. But this very policy led to a crisis whose resolution ended up upsetting the existing balance of power among domestic business groups. The perception that business interests from the highlands had managed to reap most of the benefits of the new situation produced yet a new political crisis which pushed the government to accept the demand of business chambers from the coast and proceed with the dollarization of the economy. Since the neoliberal development model had taken rent away from the state, governments became too weak to fend off the combined pressure of some capitalist factions as well as the rejection of the development model by popular classes.

On the popular sector side, trade union federations were, in both countries, the main organizations leading the popular class for most of the 1970s and 1980s. Their demands, especially in Ecuador, tended to include issues beyond those strictly connected to labour and their members; as such, they could claim to represent a much broader spectrum of subaltern groups. Moreover, unions also had a space within the corporatist state and this lent credibility to their claims as the representative of the popular class as a whole. In both countries, it took active state measures, supported by the capitalist class, to undermine their political capacity to organize the popular class. The space left open by weakening trade unions was quickly filled in Ecuador by Indigenous-peasant organizations that took the leadership in organizing the popular classes to

oppose the transition to a neoliberal development model. Their capacity to do so was maintained for several years, until transformations affecting the internal coherence of Indigenous-peasant organizations hindered their capacity to build the same degree of solidarity with other sectors to forge a popular class. This organizational deficit eventually led in both countries to a situation of class struggle without a centrally coordinated popular class, or of continued protests that nonetheless failed to find a point of convergence or result in a leadership organization.

The class perspective I followed in my analysis led to a reassessment of several comparative features that are often associated with pink tide governments. The economic contexts of the victory of Chávez and Correa were not similar. While Venezuela was at the height of an economic crisis and oil prices were still low, Ecuador was in a phase of economic recovery and oil prices were high. Moreover, similarities in the crisis of state institutions were not simply connected to the flaws in their design, but were mostly the result of the way class agents had been or were able to access these institutions to promote their own class interests. In the case studies, important institutional reforms had preceded the elections of Chávez and Correa, but they did not tackle one important issue: the colonization of the state by representatives of capitalist class organizations had led spaces of participation for organizations of the popular classes within the state to shrink. This was so even though the popular classes had already been undermined in their capacity to organize and to influence the state. As a result, the popular sector was not integrated into formal channels for the negotiation of conflicts, and was even left without organizations centrally coordinating an opposition to the changes in the development model; both countries experienced important disruptive protests in the period preceding the pink tide (the *Caracazo* in Venezuela, and the *Forajidos* in Ecuador). These were

momentous events in terms of popular mobilization, but they were also the expression of deeply fragmented popular classes.

As a result, among the main similarities between both cases was the lack of an organic link between Chávez and Correa and the surviving organizations of the popular class. Once in power, both governments quickly initiated institutional reforms to regain control over the state apparatus and weakened the influence of capitalist class organizations. This approach to institutional change was one of the main aspects of the new governments against which the capitalist classes reacted. In both cases, capitalist classes negatively responded to the assertion of state autonomy, hindering the possibility of a successful developmental state. In both cases, the state had to offset this pressure by disputing the leadership of the popular sector with popular class organizations

However, the diverging form and capabilities of capitalist class organizations led to very different results. While the centralized class apparatus in Venezuela was quickly able to rally forces to mount a joint opposition to organize protests and a coup, the division of the capitalist class into regional factions in Ecuador favoured another solution relying upon improving lobbying capacities based on technical efficiency. Different capabilities on the part of the organizations of the capitalist class also led to divergent governmental approaches to reasserting autonomy. For instance, while the renewal of state employees in Venezuela, notably in the PDVSA, was done on the basis of political loyalty to the government, a less openly confrontational attitude from the capitalist class in Ecuador allowed for more emphasis on the professionalization of civil service.

What this shows is that differences among capitalist class organizations are fundamental to explaining the particularities of the development models adopted by each country. While both

governments relied on rent to consolidate state autonomy, the relationship with the capitalist class in Venezuela gave a stronger “dispenser” character to the rent-based social-developmental state that involved relinquishing the expectation that an important diversification would result from large-scale private investment. The model still supported small and medium enterprises, most notably in the industrial sector, but it relied on the state to assume leadership in investment and increasingly dispense consumption goods as well as access to hard currency. In doing so, it effectively displaced the arena of intra-and inter-class struggles to the sphere of consumption, where capitalists vied for access to hard currency that allowed them to speculate on the exchange rate and where the state increasingly had to focus on policing the resulting distribution.

By contrast, the less negative reaction of capitalist factions in Ecuador left more possibilities open for private investment, leading to a rent-based social-developmental model more confident in its capacities to foster private investment. To be sure, initial interactions between the capitalist class and the state were far from friendly, but they did not completely foreclose the possibility of communication through already established channels. After 2012, these channels were reactivated as the capitalist class became increasingly united around the objective of obtaining a free trade agreement, including around the organization promoting this policy, the CEE. A less confrontational attitude meant that despite a development plan that was nominally called socialist in Ecuador no less than in Venezuela, there was still much more space in the plan, and for state actions more generally, to promote private innovation and investment. The expectation that support from the state will lead, in the long term, from a market dominated to a market driven society remained a credible transformation for key actors within the state.

## **Rent and Extractivism**

In both cases, the recovery of state autonomy was sustained by rent. The collection of greater rent was itself the expression of state power; that is, the power to assert property rights over extractive resources. By reclaiming ownership over natural resources, states of the Latin American pink tide first engaged in a battle with multinational extractive corporations. This battle was, in most cases, quickly settled by renegotiating the role that extractive companies would have in the process and in the distribution of the resulting wealth, although several conflicts extended to international arbitration.

This transformation of the relation between the state and multinational corporations in the extractive sector could only be achieved in a specific context, one where the state assumed its landlord position, and was prepared to confront other domestic class actors. Just like the process of oil privatization had been undertaken in a moment when popular classes had only limited access to the state and weakened mobilization capacities to oppose it, the reassertion of public ownership over natural resources could only take place by confronting the domestic capitalist class.

From a class perspective, the pink tide governments' pursuit of resource extraction in Venezuela and Ecuador was not simply a continuation of extractivism, but a transformation of the management of property rights over natural resources, with tremendous consequences for the balance of class forces. The assertion of a landlord state eventually meant not only opposing the capitalist class, but also crafting a new leadership of subservient popular classes to underpin its power. Simply stated, even with the growing resource wealth accruing to the state and its redistribution, the risk of facing the combined opposition of a well-organized popular class and an adamant capitalist class was a challenge the state could not take on alone.

From a class perspective, the resource curse hypothesis in several of its renditions bears some of the characteristics of a self-fulfilling prophecy. The concern is not only regarding the specific economic or institutional effect that extractive resources might have, but about the negative impact that the expectation of such an effect can have on class behaviours. A close look at the history of Venezuela and Ecuador tells us that the most important phases of industrial investments and diversification have tended to follow oil booms, not undermined by resource wealth. However, from a Dutch disease perspective, the oil bonanza should be an indicator to investors that it is a bad time to invest, and this perception was conveyed by Ecuadorian business interest group representatives. Following an institutional approach to the resource curse, rent is likely to foster bad behaviour from governments. In Venezuela, the strong opposition from the capitalist class, which supported a coup attempt and an oil blockade, was a major factor that explains, at least in part, political nominations in the public sector over the meritocratic construction of state capacities. Another approach to the resource curse suggests that easy access to financial resources diminishes the need for sound taxation arrangements with business elites and makes patronage an easy way to dampen democratic pressures from below. It is useful to remember that in a context of high rent, capitalists are likely to be the first to complain about taxes. In Ecuador, representatives of the capitalist class complained about the legal uncertainty that tax reforms caused, explaining that it undermined investment. Resources are not by themselves the cause of industrial disinvestment or bad institutions; however, capitalists' concerns with the impact of resource endowment can have just the same negative impact as it might discourage investment and undermine institutions, especially when the state asserts its ownership over extractive resources against one of the main tenets of capitalist classes: private property.



Notwithstanding these concerns, some business organization representatives also underlined the potential cyclical drops in resource prices and their potentially radical effect on the whole economy, likely to bring other sectors down with them. The most recent drop in oil prices has indeed caused economic difficulties in both countries, and especially in Venezuela where the alternative options the government proposed delivered disappointing results in terms of increasing domestic production. As I have mentioned, it is still too early to measure the effect of the alternatives the Ecuadorian model advanced to tackle the challenge of sustaining economic growth.

### **State Autonomy and Development**

These reflections on the role of the capitalist class in influencing the development model touches on a key discussion about the nature of the autonomy of the state. From a class perspective, the state's relative autonomy is both the object and the result of the permanent struggle between classes (Clarke 1991, 47). State autonomy is curtailed by the very fact that the capitalist mode of production allows capitalists to accumulate tremendous power, shaping the conditions within which class struggle takes place. In other words, the power that capitalists gain through the accumulation of capital is not confined to the economic sphere but rather influences all spheres of life. Indeed, the state's capitalist character can be traced back to the actual capacity of a capitalist class and its factions to deploy their strength and impose their rule on the state. However, all too often the interests of the capitalist class are mistakenly deduced from an abstract logic of capital accumulation rather than from an empirically informed assessment, leading to the conclusion that the capitalist classes always make the right decision for themselves

and for the development of capitalism. Following Leo Panitch and Sam Gindin (Panitch and Gindin 2014, 7), this is the kind of positioning that I have attempted to avoid in this study.

The approach taken in this study also proposes ways to further advance some of the recent developments regarding the developmental state paradigm (Fine 2013; Evans 2008; Williams 2014). The developmental state paradigm was mostly developed in the 1980s and 1990s as an answer to the neoliberal call for a retreat of the state. It re-valorized the role of the state in development by analyzing the specific features of the successes of certain East Asian countries, but it often remained confined to successful examples (Fine 2013, 3). It mostly reduced concerns about classes to the industrial elites (Evans 2008, 7) and to the capacity of the state “to neutralize if not to override them” (Fine 2013, 5). It became obvious to many authors that the approach needed to re-engage more thoroughly with state-society interactions (Chibber 2005a) and focus not only on industrial elites, but also take seriously domestic politics and the myriad of demands of various class forces (Williams 2014, 24).

Through this dissertation, I have retraced the evolution of the positions the capitalist class adopted *vis-à-vis* the state and other classes as a way to understand how they evolved and changed. To do so, it has been essential to carefully assess capitalist class positions quite often at variance from an abstract logic of capital accumulation. One of the most enlightening discoveries in this regard has been the shift in disposition of the capitalist class with regard to neoliberalism in Venezuela, a shift traceable both through the declarations of their organizations and through the interviews I conducted with class representatives. Similarly, in Ecuador, protests by the regional chambers of the coast pressuring for dollarization also showed the contentious character of some critical class positions that end up affecting the development model in major ways.

The capacity of the capitalist class to influence the state must be conceptualized as the result of a political capacity that is built, renewed and challenged through conflicting dynamics, both between capitalist class factions and with other classes, and this very conflict influences the state. In other words, capitalists form into a class through struggles to defend what they perceive as their common interests in given contexts. They do have recurrent themes that structure their positioning—including, but not limited to, the defense of private property, a distaste for state encroachment on business affairs (especially if they do not have control over state policies), and a strong sense of what constitutes entrepreneurial freedom. Within these general guidelines, capitalist class organizations adopt positions they believe offer the best alternatives to strengthen their position, improve the conditions for the generation of profits and advance capitalist development. However, as the case studies show, sometimes the positions adopted can be detrimental for the economy as a whole, causing crises that erode their own position as a class or undermine specific sectors of the economy.

More than only a reminder about the need to study capitalist classes without deducing their logic from the abstract logic of capital, the cases of Ecuador and Venezuela also point to the significance of the relationship between class agents and the nature of state autonomy itself. Indeed, class positions are rarely limited to the exercise of economic influence; rather, they often contain an essential political character aimed directly at curtailing the autonomy of the state. Following this reasoning, it also becomes clear that before the pink tide, the claim of the autonomy of the state, even relative, was difficult to uphold. The power of the capitalist class within state institutions was such that it had undermined even the capacity of popular classes to sustain its organization. Moreover, the capacity of the capitalist class to colonize the state had reached such proportions that the state had lost the ability to integrate popular sector demands

and even preserve its image as neutral arbitrator to the point where it had seriously eroded the government's stability, resulting in the onset of the crises that preceded the pink tide. It is this lack of autonomy of the state that was first opposed by pink tide governments.

Reasserting state autonomy by promoting reforms and driving away the capitalist class representatives that had previously exerted power directly within state institutions was not without consequences. This transformation brought about a reaction from capitalist class organizations, different in both cases, but that nonetheless illustrates another aspect of capitalist class power: their class capacity to undermine a development project when they do not feel that they exert enough control over it. Indeed, while both Chávez and Correa were elected on platforms that promised to create the conditions for private capital growth and initially adopted programs that pointed in this direction, the negative reaction from capitalist class organizations contributed to undermining the programs' potential realization. The oil wealth was, in such a context, an important tool to provide the state with the economic leverage required to influence wealth production and distribution. It is also in this sense that extractive wealth, retrieved by the state through the assertion of property rights over resources, contributed to the constitution of the state as a landlord. But class power is always relational. That is, the state became a class actor in a conflict where it counted on the creation of subservient popular class organizations, and even then, had a hard time fostering the expected private re-investment. This dynamic also uncovered another side to the complex relational dynamics. Given the antagonistic stand of the capitalist class, the government can rely on its landlord position to use rent to sustain growth and redistributive policies, but becomes thereafter all the more vulnerable to oil price volatility. Therefore, state autonomy is not a given, but is a feature which is the object of continuing struggles.

From this perspective, the development models Venezuela and Ecuador have pursued, based on the state acting on and in the market to foster private competitive reinvestment and growth, have become increasingly contradictory. The state autonomy that is necessary to foster a transition from a *market dominated* to a *market driven* society is likely to meet strong resistance unless there is a powerful capitalist class organization supporting the state program. It is therefore necessary to enhance reflections on development to include, in addition to policy proposals, assessments of the existing balance of class forces and of the kind of relations which are necessary between the state and classes for policies to work. Development policies need to consider ways to offset class powers likely to undermine development plans. Significant attention is placed in the development literature on the question of state capacity. Indeed, the argument that the professionalization of state officials and their isolation from social pressures can contribute to supporting state decisions that are less influenced by immediate class interests, and can better contribute to development, is convincing. But state capacity is not solely about policy design; it is rather a relational capacity to balance class power in ways that make policy implementation possible and likely to consolidate successful development models.

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## Quoted Interviews

Ecuador-A1. 2012. Interview Ecuador-A1Sound Digital.  
Ecuador-B1. 2012. Interview Ecuador-B1Sound Digital.  
Ecuador-B2. 2012. Interview Ecuador-B2Sound Digital.  
Ecuador-B3. 2012. Interview Ecuador-B3Sound Digital.  
Ecuador-B4. 2012. Interview Ecuador-B4Sound Digital.  
Ecuador-B5. 2012. Interview Ecuador-B5Sound Digital.  
Ecuador-B6. 2012. Interview Ecuador-B6Sound Digital.  
Ecuador-B7. 2012. Interview Ecuador-B7Sound Digital.  
Ecuador-B8. 2012. Interview Ecuador-B8Sound Digital.  
Ecuador-B9. 2012. Interview Ecuador-B9Sound Digital.  
Ecuador-B10. 2013. Interview Ecuador-B10Sound Digital.  
Ecuador-C1. 2012. Interview Ecuador-C1Sound Digital.  
Ecuador-C3. 2012. Interview Ecuador-C3Sound Digital.  
Ecuador-I1. 2012. Interview Ecuador-I1Sound Digital.  
Ecuador-M1. 2012. Interview Ecuador-M1Sound Digital.  
Ecuador-P1. 2012. Interview Ecuador-P1Sound Digital.  
Ecuador-S1. 2012. Interview Ecuador-S1Sound Digital.  
Ecuador-S4. 2012. Interview Ecuador-S4Sound Digital.  
Ecuador-S5. 2012. Interview Ecuador-S5Sound Digital.  
Ecuador-S7. 2012. Interview Ecuador-S7Sound Digital.

Venezuela-B1. 2013. Interview Venezuela-B1Sound Digital.  
Venezuela-B3. 2013. Interview Venezuela-B3Sound Digital.  
Venezuela-B4. 2013. Interview Venezuela-B4Sound Digital.  
Venezuela-B5. 2013. Interview Venezuela-B5Sound Digital.  
Venezuela-B6. 2013. Interview Venezuela-B6Sound Digital.  
Venezuela-B7. 2013. Interview Venezuela-B7Sound Digital.  
Venezuela-B8. 2013. Interview Venezuela-B8Sound Digital.  
Venezuela-B9. 2013. Interview Venezuela-B9Sound Digital.  
Venezuela-B10. 2013. Interview Venezuela-B10Sound Digital.  
Venezuela-C1. 2013. Interview Venezuela-C1Sound Digital.  
Venezuela-S1. 2013. Interview Venezuela-S1Sound Digital.  
Venezuela-S2. 2013. Interview Venezuela-S2Sound Digital.  
Venezuela-S4. 2013. Interview Venezuela-S4Sound Digital.  
Venezuela-S5. 2013. Interview Venezuela-S5Sound Digital.

## Appendix A: On Methods

To trace the influence of classes on the development model, I tracked the evolution of the relation between classes, and between them and the state, with specific attention paid to the capitalist class. In order to do so, I relied on a multilayered qualitative and quantitative approach that comprised four main sources of information. The first is composed of over 50 semi-directed **interviews** conducted in Venezuela and Ecuador between July 2012 and May 2013 with representatives of class organizations.

Interviewees were selected on the basis of their role as representatives of organizations (business interest groups, trade unions or Indigenous-peasant organizations, etc.). To find interviewees, I did a general mapping of existing organizations with a national scope or an important regional reach through literature and Internet research and discussion with informants. I deliberately sought diversity in the economic sectors and regions of origin of the organizations. Each interviewee was also asked to identify other organizations that I should consider connecting with regarding my object of study. Organizations were thereafter contacted by phone and/or email to their office, and provided with examples of questions (provided below) and the informed consent form prescribed by the *York University's Ethics Review Board*. Each organization designated the person I was going to meet. In a few cases, when email or phone contacts were unfruitful, I found the street address of the organization's office and paid a visit to ask in person. A small number of organizations could not be reached. Others refused to take part in the study, notably in Venezuela, where my research stay coincided with the death of Chávez and a presidential election to replace him, creating a changing political context that they judged unfit for an interview.

Interviews were directed at identifying the kind of class awareness these organizations build, and the evolution of their relationship with the state and other class organizations. A summary of the origins and sectors of the organizations represented by the interviewees is in tables A.1 and A.2 below. Interviews followed the same general frame of open-ended questions (see generic questions below), but were adapted to fit the specific context of the sector of the

interviewee. Interviews were all concluded with open-ended questions offering the participants the opportunity to expand on something he/she would consider essential for me to know about his/her organization given the nature of the previous questions. Interviews lasted between 60 and 100 minutes and were recorded with digital support.

Audio recordings were then transcribed and coded using the TAMS software. The TAMS (Text Analysis Mark-up System) is an open-source software that provided coding and analytical tools allowing me to find similarities more easily and contrasts between positions expressed by interviewees, and to retrieve the relevant passages to illustrate the analysis.

Given that Interviewees were selected on the basis of their roles as representatives of organizations, I privileged a treatment of their explicit discourse related to the position of their organization, paying particular attention not to refer to passages when interviewees expressly said that their answers to a specific question represented a personal view and not that of the organization. It was otherwise clear that I was interviewing each person as a representative or spokesperson for an organization. In this context, the protection of anonymity has been an issue. It was nevertheless offered to all participants following the standards of ethical research practices. Only a few participants requested anonymity, and some even asked that I not record the interview, but they nonetheless agreed to let me take notes and refer to our conversation as long as their identity was concealed. In such cases, I took extensive notes during the interview and transcribed them immediately after the interview to make sure I captured as many of the details of the conversation as possible. Their insights are therefore sometimes integrated, and to protect their identity, I have avoided naming most representatives when not necessary, and referred to some organizations in broad terms, defining them by their characteristics rather than their name. The references provided in the text allow me to retrace which precise informant is quoted. A letter code identifies the generic type of organization they represent (Table A.3).

**Documents** produced by these organizations and available on their websites, both historical and more contemporary, are the second source of information for this research. While mapping class organizations, I realized that some websites contained important positional documents that offered key insights into the evolution of the organization. In this regard, the Fedecámaras website contains a large number of documents detailing the evolution of the position of the federation in relation to different historical moments. These documents were



systematically analyzed, along with other positional documents found at the library of the CENDES (Centro de Estudios del Desarrollo – UCV) in Caracas. Most other organizations provided less information on their websites, especially of historical relevancy, limiting the comparability. I nonetheless decided to include website documents for the importance of the information they contained.

This thesis is nevertheless not the work of a historian, nor do I claim to be one, and although systematic archival work in each of these organizations would represent a promising path into their political evolution, I privileged a wider scope, aiming to grasp the simultaneous evolution of different organizations rather than studying more deeply a single one. Given the particular importance of Fedecámaras in Venezuela, it made sense to pay special attention to this organization. The regional and sectoral spreading of business organizations in Ecuador, and their limited online material, made the possibility of a similar analysis more complex. I therefore decided to rely more on the interviews and on the existing accounts in tertiary sources of their actions and positioning.

The third source of information includes **economic and social data** from the Central Banks of both countries, processed in order to understand the evolution of the macroeconomic situation. They were complemented with data from each country's National Institute for Statistics (INE in Venezuela, INEC in Ecuador) and analysis completed by each country's Ministry of Finance. When comparable data were not available from local institutions, I relied on international organizations to obtain comparable data. The data available online from Ecuador was more diversified and up-to-date than the Venezuelan data, which were often harder to find, older, and less systematic.

The fourth source of information is the pink-tide parties **main programmatic documents and the developmental plans** they adopted while in government. Their contents were carefully read and analyzed. They were complemented in specific cases with the official texts of law concerning more relevant issues for specific debates.

The analysis was conducted through a careful triangulation between primary, secondary and tertiary sources combining discourse and policy analysis to retrieve the evolution of the class positioning in the changing context.

**Table A.1: Sectorial and Regional Distribution of Interviews with Leaders of Class Organizations Conducted in Ecuador**

Sector \ Region	Quito	Cuenca	Guayaquil	National*	Total
Indigenous-Peasant	4			4	4
Union-Formal workers	4	1	1	4	6
Workers in Informal Economy	2			2	2
Chambers in Large Industry and Retail Trade	5	2	4	7	11
Chambers of SMES	1		2	2	3
Chambers of Agriculture	1		1	1	2
Other activists and politicians**	5		1	-	6
<b>Total</b>	<b>22</b>	<b>3</b>	<b>9</b>	<b>20</b>	<b>34</b>

\*This category counts the number of interviewees from other regions that were spokespersons for organizations with a national scope or representing businesses in various regions

\*\*I complemented interviews with a few elected officials and activist that although not heading a social movement at the time, were nonetheless able to provide useful information and points of view.

**Table A.2: Sectorial and Regional Distribution of Interviews with Leaders of Class Organizations Conducted in Venezuela**

Sector \ Region	Caracas	Maracaibo	National*	Total
Indigenous-Peasant	1		1	1
Union-Formal workers	5	1	5	6
Workers in Informal Economy				0
Chambers in Large Industry and Retail trade	6	2	5	8
Chambers of SMES	2	0	2	2
Chambers of Agriculture	0	0	0	0
Other activists and politicians**	2	1	-	3
<b>Total</b>	<b>16</b>	<b>4</b>	<b>13</b>	<b>20</b>

\*This category counts the number of interviewees from other regions that were spokespersons for organizations with a national scope or representing businesses in various regions

\*\*I complemented interviews with a few elected officials and activist that although not heading a social movement at the time, were nonetheless able to provide useful information and points of view.

**Table A.3: Letter Code for Interviews**

A	Chamber of Agriculture or large landlord
B	Business Association in the industrial or retail sector, Large and SMEs
C	Peasant Organization
I	Indigenous organization
S	Worker Union
M	Mining sector business association
P	Small fisher association

## **Generic Questions for Business Interest Groups in Ecuador**

### **Descripción de organización**

- Cuál son las características que mejor describen los miembros de su organización?
- Cuál son las actividades económicas que desempeñan?
- Hubo cambios en los socios de su organización en los últimos años?
- Son únicamente empresas nacionales, o hay empresas extranjeras también?
- Hay otros grupos u organizaciones que usted identifica como sus aliados en la sociedad ecuatoriana?
- Hay otros grupos u organizaciones que ustedes perciben como sus oponentes?

### **Debilidad del régimen antiguo**

- Entre 1997 y 2006, cayeron varios presidentes, y parecía que el régimen político era inestable. Según su análisis, cuál fueron las causas de tal inestabilidad?
- Su organización a tomado posición respecto a los eventos que llevaron a que se terminaron presidencia antes del final del mandato?
- Qué explica la crisis económica del final de siglo pasado,
  - y cuál fue su impacto sobre sus miembros
  - Sobre su organización

### **Asamblea constituyente**

- Su organización ha tomado parte en los debates que se dieron alrededor de la asamblea constituyente? Cuál fueron sus principales demandas en ella?
- Le parece que estas demandas fueron integradas o no?
- Hay personas en la constituyente que han defendido los intereses de su organización o de su sector?
- Hay grupos que se opusieron a sus demandas en la constituyente? Usted identifica que ellos pertenecen a un grupo en particular de la sociedad?

### **La nueva constitución**

- Piensa Usted que la anterior constitución era mejor, igual o peor que la actual constitución y por qué?
- Su organización ha percibido un cambio en sus relaciones con el estado desde que fue adoptada la constitución? Cómo lo calificaría usted?

### **El Desarrollo económico**

- Su organización opina que con el gobierno actual, se ha cambiado o no la forma de desarrollar la economía?
- Sobre que sectores el gobierno debería apostar para producir el mejor desarrollo?
- Esto sirve el mejor interés de sus miembros? Hay otros sectores que deberían estar más desarrollados?
- Hay un debate sobre el extractivismo. Usted piensa que el sector extractivo ocupa demasiado espacio en el modelo económico?

## **Generic Questions for Business Interest Groups in Venezuela**

### **Descripción de organización**

- Con cuántos socios cuenta su organización?
- Cuál son las actividades económicas que desempeñan?
- Hubo cambios en los socios de su organización en los últimos años (10-15)?
- Son únicamente empresas nacionales, o hay empresas extranjeras también?
- Hay tensiones entre regiones o entre sectores económicos que componen las cámaras (entre los industriales y los importadores por ejemplo, o entre Zúlia y Caracas y Miranda).
- Hay otros grupos u organizaciones que usted identifica como sus aliados en la sociedad ecuatoriana?
- Hay otros grupos u organizaciones que ustedes perciben como sus oponentes?

### **História**

- Cuáles son las principales causas de la crisis económica que afecto al país durante los años 1980-1990s.
- Que hizo caer el bi-partidismo de punto Fijo?
- Con el antiguo Estado, existían representación de su gremio directamente en ciertas instituciones?
- Su organización pudo promover sus reivindicaciones o intereses adentro de la asamblea constituyente?
  - Le parece que estas demandas fueron integradas o no?
- Desde la adopción de la constitución, cómo ha cambiado la relación que tiene su organización con el gobierno.
- Ustedes fueron consultados sobre los diferentes planes de desarrollo que adoptó el gobierno actual desde su primera elección?
- Ahora, tienen espacios donde pueden comunicar sus demandas y necesidades al gobierno y al estado? (por ejemplo sobre la LOTTT)?

### **El Desarrollo económico**

- Cómo interpreta usted la manera que ha tenido el gobierno de manejar la economía?
- A pesar de las bajas del 2002-2003 y de la más reciente crisis, hubo crecimiento económico. Sus miembros han aprovechado de este?
- Qué opina usted sobre las nacionalizaciones de empresas? Los consejos de trabajadores y la construcción de empresas de propiedad social directa y de las empresas de propiedad comunal?
-

## **Generic questions for Trade Unions in Ecuador**

### **-Para empezar, unas preguntas generales sobre su organización.**

- Cuántos miembros cuenta su organización, y en que sector se encuentran (sector de la salud, de empresas estatales, educación...)
- Su organización tiene relaciones fuertes con un sector de los sindicatos del sector privado?
- Hay otras organizaciones sindicales que considera como sus aliados?
- Hay otras organizaciones sociales o instituciones que usted considera como sus aliados
- Al contrario, hay organizaciones que usted consideran como sus opositores?

### **-Historia**

- Cómo se fundó su organización.
- Los sindicatos del sector público tienen los mismos derechos de negociación colectiva que los del sector privado?
- En varios escritos, se dice que el movimiento sindical se encuentra en su momento de mayor fuerza al inicio de los ochentas. Qué paso después para que se disminuyera la fuerza de las organizaciones sindicales?
- Cómo las reformas neoliberales han tenido un efecto sobre las capacidades organizativas del movimiento laboral?
- A partir del final de los noventa, parece que los gobiernos tienen problema a mantenerse en el poder. Qué es lo que explica esta fragilidad.
- Cuál fue el papel del movimiento sindical en este contexto de lucha de poder
- Después de un periodo de 10 años, llegó el gobierno de Correa que convocó la constituyente. Cuál fueron las demandas de su organización para la constitución?
- Hubo representantes del movimiento sindical en la constituyente?
- Lograron que las demandas del movimiento sindical sean integradas?
- Ahora, está retomando fuerza de movilización?
- Cuáles medidas de la nueva constitución favorecen al movimiento sindical?
- Tiene la impresión que la constitución está bien hecha para defender a los intereses de los miembros de su organización?

### **Ahora**

- Piensa usted que la constitución está aplicada como se debería?
- Varios sindicatos proponen un nuevo código del trabajo. Qué opina usted de este?
- Cuáles son las causas de la reorganización del movimiento sindical en nuevas organizaciones nacionales?
- Se va a formar un nuevo frente unitario paralelo a la FUT?
- Usted cree que el gobierno defiende los intereses de los trabajadores? Sino, los intereses de cuál grupo social defiende?

Que opina usted sobre la coordinadora de las izquierdas?

## Generic Questions for Trade Unions in Venezuela

### **-Para empezar, unas preguntas generales sobre su organización.**

- Con cuántos miembros cuenta su organización, y en qué sector se encuentran (sector de la salud, de empresas estatales, educación...)
  - Que federaciones hay
- Hay otras organizaciones sindicales que considera como sus aliados?
- Hay otras organizaciones sociales o instituciones que usted considera como sus aliados
- Al contrario, hay organizaciones que usted consideran como sus opositores?

### **-Historia**

- Cómo se fundó su organización.
- En los años 1980 y 1990, la CTV tenía un quasi monopolio de la representación sindical. Lograba defender los derechos de los trabajadores?
- Cómo las reformas neoliberales han tenido un efecto sobre las capacidades organizativas del movimiento laboral?
- En su estimación, los sindicatos lograron defender los trabajadores durante la época de las reformas neoliberales?
- Después de la victoria de Chávez, hubo la convocación de la asamblea constituyente. Usted piensa que los sindicatos o el movimiento de los trabajadores y trabajadoras lograron incluir sus reivindicaciones en la constitución?
  - Cuáles fueron los logros
  - Qué es lo que no se pudo ganar
- Tiene la impresión que la constitución está bien hecha para defender a los intereses de los miembros de su organización?
- Los sindicatos, o el movimiento de trabajadores/as tenían anteriormente una representación gremial directamente dentro de ciertas instituciones estatales. Sigue existiendo tal representación
- Cuáles medidas de la nueva constitución favorecen la organización de los trabajadores y trabajadoras?

### **Ahora**

- Piensa usted que la constitución está aplicada como se debería?
- Qué opina su organización de la nueva ley orgánica del trabajo (LOTTT)?
  - Por qué demoró tanto el gobierno antes de adoptar una ley para los trabajadores y trabajadoras?
- Cuáles son las causas de la reorganización del movimiento sindical en nuevas organizaciones nacionales?
- Qué opina usted de los consejos de trabajadores
- Qué opina usted de la construcción de empresas de propiedad social directa y de las empresas de propiedad comunal
- Usted cree que el gobierno defiende los intereses de los trabajadores? Sino, los intereses de cuál grupo social defiende?

## Generic Questions for Indigenous-Peasant organizations

### **-Para empezar, unas preguntas generales sobre su organización.**

- Con cuántos miembros cuenta su organización? En todas las regiones? Son todos campesinos?
  - Se sabe la proporción de los campesinos que tiene también empleo a fuera de la agricultura?
- Usted se identifica con una clase social en particular?
- Hay organizaciones que consideran como sus aliados?
  - Sindicatos? Partidos políticos? Trabajadores agroindustriales?
- Al contrario, hay organizaciones que usted consideran como sus mayores opositores en los 30 últimos años?
- Hay un vínculo entre las cuestiones étnicas y las de naturaleza económica (debate plurinacionalidad-multiculturalidad).

### **-Historia**

- Desde los 1980s, hay momentos en los cuales su organización se encontraba en un momento de particular fuerza?
  - Y de particular debilidad?
- Cuál fue el efecto de la ley del desarrollo agrario del 1994
  - Y sobre su capacidad organizativa?
- A partir del final de los noventas, parece que los gobiernos tienen problema a mantenerse en el poder. Qué es lo que explica esta fragilidad.
- Cuál fue el papel de su organización en este contexto de lucha de poder

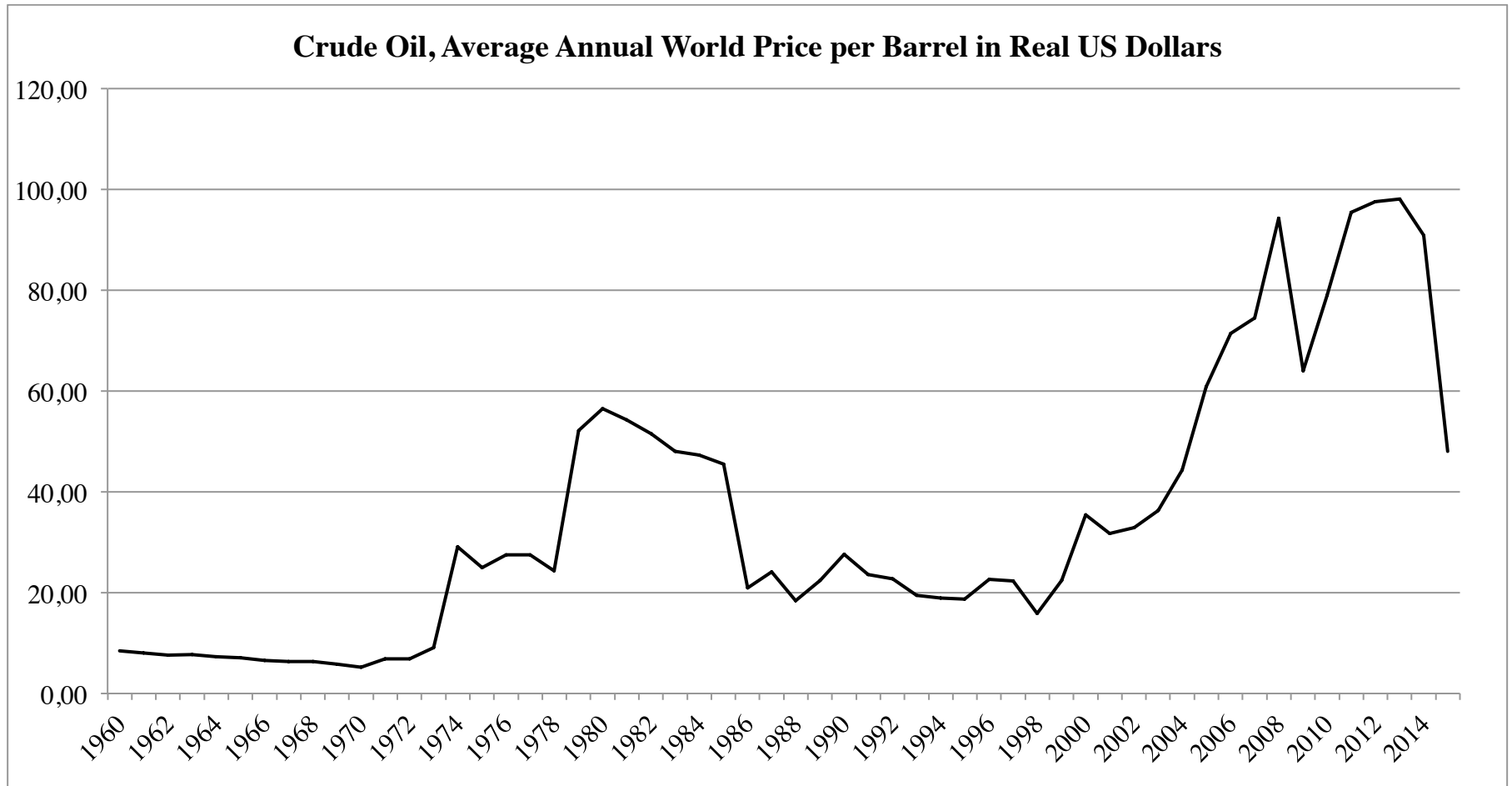
### **Constituyente**

- Después de un periodo de 10 años, llegó el gobierno de Correa que convocó la constituyente. Cuál fueron las demandas de su organización para la constitución.
- Había personas en la constituyente que las defendían?
  - Cree que sus demandas fueron incluidas en ella
- Tiene la impresión que la constitución está bien hecha para defender a los intereses de los miembros de su organización?

### **Ahora + Debate sobre ley de Tierras**

- Piensa usted que la constitución está aplicada como se debería?
- Su organización se siente representada en la actual asamblea nacional?
- **Piensa usted que el sector extractivo ocupa demasiado espacio en la economía?**
- Este gobierno ha transformado la economía o no?
- Hay un debate ahora sobre la ley de Tierras. Usted pudo presentar una propuesta. Cuál fue el proceso que siguieron para diseñarla
- Usted ha visto que hay 4 otras propuestas que fueron presentadas. Cree usted que la suya es la mejor y por qué?
- - ¿Existen acuerdos de su organización con sectores del gobierno
- Por qué cree usted que la economía campesina es mejor que la empresarial
  - Que opina usted sobre la coordinadora de las izquierdas?

## Appendix B: Oil Prices



Source : World Bank