



Liberalism in Ecuador

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[LINK TO ABSTRACT](#)

We offer an account of liberalism in Ecuador, past and present. Other Latin American countries treated in the [series](#) to which this article belongs include Mexico (Kuchař 2016), Guatemala (Marroquín and Thomas 2015), and Venezuela (Faria and Filardo 2015). Every country has her own story, but the Ecuador story likewise features a Spanish colonial legacy, a political system that is notably corrupt and unstable, and a poor understanding of liberal ideas and relatively little sympathy in the population. Still, the liberal drama is alive in Ecuador, and worth attending to.

Colonial history of subjugation

Ecuador is a country divided into three regions by the Andes cordillera: the Pacific Coast, the Sierra, and the Amazonian region to the east. Before the arrival of the Spaniards in the 1530s, the territory had been, for about 50 years, under the control of the Incas. But the dominion of the Incas was mostly limited to the highlands (the Sierra), since Incas were more accustomed to that environment. Their attempts to subjugate people from the coast met not just local tribes' resistance but also intolerable weather conditions, and the eastern region was relatively uninhabited.

Civil war between the two heirs to the Incan Empire—Atahualpa and Huascar—enabled the Spaniards to claim the kingdom with surprising ease. Atahualpa had ruled the whole empire for only a few years without establishing

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strong loyalties. After Francisco Pizarro killed Atahualpa in 1533, the European conquerors took over the entire territory. However, they decided to locate mostly on the highlands of Ecuador—centered in Quito, the capital—leaving the coast only for establishing ports.

During the Spanish conquest, the colonizers subjugated local people with similar social institutions already put in place by the Inca rulers. One of these was the *encomienda* system, a royal grant to a Spaniard to control a given number of indigenous people from conquered communities. The main purpose was to secure forced labor and the payment of taxes from the indigenous population in purported exchange for instruction in the Christian faith and protection. The heirs of the original *encomendero* held this grant in perpetuity.

The system of Spaniard overlordship facilitated the organization of exploitative economic institutions that appeared soon after: there were the *mitas*, or mining work; the *latifundia*, or large land estates wherein indigenous people worked on harvesting crops and raising different kinds of cattle; and the *obrajes*, which were textile workshops that mostly produced wool clothing. In Ecuador, the only important mita during the colonial period was in the southwestern city of Zaruma. Although there are still mines there, little remains from the city's early beginnings. The latifundium and the obraje, however, imposed more long-lasting effects from this period on the population (mostly in the Sierra).

The large haciendas perpetuated a system of peasants attached to the land with a high dependence on the landlord. The obraje instead provided workers with opportunities to attain skills, stemming from on-the-job training and more humane treatment. One of the most renowned obrajes was located in the large town of Otavalo, about 90 kilometers north of Quito. Local caciques managed the town, rather than Spaniards, and they are still very well known for their textile handcrafts and vibrant local market.



Otavalo market. Photo by Warren Talbot (CC BY 2.0).

Indigenous people living within the haciendas were called *huasipungos*. This way of life lasted for many indigenous people until the early and, for a few, even the late 20th century. Huasipungos were usually traded with the land. They could not simply opt out and were often forced to stay through trickery, such as an eternal debt to the landlord. Those who ran were hunted down.

Social classes during this period were divided as follows: direct descendants of the Spaniard conquerors or *criollos*; the *mestizos* (mixed-race offspring of Europeans and locals); and the indigenous and Afro-descendant people brought to the region as slaves. The Spanish crown granted the most important public appointments to the *criollos*. That practice combined with the *encomienda* system meant that most people could, at best, only aspire to work for the privileged class as domestic servants or as free artisans in different labors.

It was customary for *criollos* seeking public office to lobby people close to the crown and even pay to get those jobs (Vargas Llosa 2005, 25). Although current Ecuadorian law bans bribery, the custom persists and is legal in some professional contractual contexts. There are those who continue to receive political appointments outside of honest competition.

The Spanish crown exploited the natural resources of the region, and used the slave labor from natives for their main industries. On top of that, the crown also charged these natives tribute. As for the Catholic Church, their role was mostly to accommodate the scheme and therefore further subjugate the indigenous people.

All such arrangements facilitated the process of rent extraction by the Spanish crown from this region, including Ecuador. The metals and minerals such as gold, silver, and mercury were shipped to the mother country and elsewhere in Europe. The textiles were sold throughout the new colonies, and the hacienda output mainly served to supply local markets. A system of directed trade was heavily enforced by the crown, and it instilled a bias towards protectionist businesses, favoring those in contact with Spanish royalty.

By 1700, the imperial economic network had lost most of its drive and begun to increase taxes on the colonies to keep up its fiscal largess. High taxes led to revolts, and after Napoleon's invasion of Spain in 1807, Spain's power and control of the colonies was seriously undermined. The period was ripe for independence movements to spring up throughout Hispanic America, and Ecuador was no exception—although most of these movements neither represented nor were inspired by liberalism, aside from the desire for autonomy and a free press.

Ecuador's independence came in parts, with the first in Quito in 1809. Then, after the Revolution of Guayaquil in 1820, the port city and region became known as the Free Province of Guayaquil, one of three separate entities in what is now Ecuador. This new state was unique among the colonies, and distinct from Quito, in that the leaders were oriented towards trade and liberalism, including the

governor José Joaquín de Olmedo.

Two years later, though, Ecuador in her entirety joined Gran Colombia, which included Colombia, Ecuador, and Venezuela (and what is now Panama and part of Peru).

In 1830, after about eight years of being officially part of Gran Colombia, the Ecuadorian republic was founded. Vicente Rocafuerte, president from 1834 to 1839, was a notable liberal of that era, in particular for his promotion of free trade and his belief in an educated populace, conscious of their individual rights: “The education of the people strengthens freedom and destroys slavery,” he claimed during the National Convention of 1835, in which he issued a new and freer constitution (*La Revista* 2012). Rocafuerte also made educational efforts to promote liberal republics beyond Ecuador.⁴

However, during the rest of the 19th century, the elites governed the country the only way they knew how: like the colonial empire, with an emphasis on extracting rents from the natural resources and tribute from the poorest people.

Even the abolition of slavery in 1851 was part of a political struggle to obtain power. The prominent conservative president of the century, Gabriel García Moreno, expanded the administrative and regulatory role of the state, relying on support from the Catholic Church (Ayala Mora 2008, 29–30). Having in his tenure the approval of two of Ecuador’s 20 constitutions (1861 and 1869), his approach to political office went from a conservative democracy to a theocratic, authoritarian regime.

At the turn of the 20th century, the so-called Liberal Revolution, presided over by Eloy Alfaro, did not mean a real movement towards liberalism in economic matters. Alfaro enacted a new constitution that declared freedom of religion, abolished the death penalty, and broadened women’s rights, such as the inclusion in the franchise. He accomplished large public works mainly through contracts with foreign private enterprises, yet he maintained socialist and progressive political rhetoric (Ayala Mora 2008, 31–32). Through the late 19th and early 20th centuries, the Ecuadorian dynamic swung from tradition to progressivism and back again. However, both trends followed political opportunism, entrenched intervention, and did not achieve clear acts of liberalization.

4. Gabriela Calderón de Burgos (2017b), a public intellectual in Guayaquil, goes so far as to call Rocafuerte an “ambassador for freedom.”

Citizen revolution: A child of political instability

The usual political race for power

After 1912, members of the banking sector held presidential power for the 20-year period known as the Plutocracy. Over the subsequent 40 years, the most prominent politician was five-time President José María Velasco Ibarra. His ability to engage millions of people with his speeches made him the preeminent populist figure, although he still struggled to maintain high levels of public approval. Midway through his final administration, he established a dictatorship after facing a threat to remove him from office, which had happened to him before. However, the military took power in 1972, his last year of governing, and maintained a dictatorial system for the next eight years (Ayala Mora 2008, 33–35).

An oil boom began in 1972, together with the military rule of Guillermo Rodríguez Lara. As was expected from a nationalist government, the state started its own oil company that year, the predecessor to Petroecuador, and profited from increased oil prices. It had a monopoly on access but functioned as a public-private partnership by granting concessions and sharing ownership with foreign companies. Ecuadorian GDP per capita enjoyed an inconceivable spike during the 1970s, from US\$400 to more than \$1,000 (*El Telégrafo* 2013). Most of the Ecuadorian state budget, however, went to pay foreign debts, and both the central government and the private sector continued to depend on loans from abroad.

Rodríguez Lara and the rest of the military committee agreed in 1976 to return to democracy through a transition process. After a referendum in 1978, Ecuadorians developed and voted on a new constitution, and in 1979 Jaime Roldós Aguilera won the presidential election. Roldós was a young political leader and talented orator with high popular acceptance. He died in a tragic and mysterious accident in 1981 (see Sarmiento and Rivera 2013), and Vice President Osvaldo Hurtado saw out the administration's tenure. Hurtado faced an economic crisis when oil prices fell, so he signed a letter of intent with the International Monetary Fund, assuring the payment of debts and the implementation of any required policies (Ayala Mora 2008, 38).

Meanwhile, in the early 1980s a low-intensity armed conflict began on the border with Peru, and Marxist rebel guerrillas emerged. But popular sentiment for the rebels was drawn away by a populist movement with the slogan “*pan, techo y*

trabajo” (bread, roof, and job), which neutralized any popular sentiment for the rebels and paved the way for León Febres Cordero to win the next presidential election (Ayala Mora 2008, 39).

Febres Cordero’s main campaign promise was to halt the implementation of the import-substitution model proposed by the UN Economic Commission for Latin America and the Caribbean in favor of less central planning (López-Cordero 2018/2001, 4). Once in power, Febres Cordero did not fulfill his economic agenda, on account of political pragmatism and institutional inertia. Further, his promise to end the terrorist group Alfaro Vive Carajo (AVC) became important in his political agenda, so he carried out a military campaign to capture its leaders. AVC was weakened but continued to exist until 1991, when the remnants laid down their weapons during the administration of social-democrat Rodrigo Borja (Ayala Mora 2008, 40).

Corruption scandals, illiberal public opinion, and economic crises did not provide a suitable environment for the consolidation of healthy political institutions, such as the rule of law, accountability, and the separation of powers. Politicians took advantage of and profited handsomely from a broken system. Further, the war with Peru distracted citizens from internal turmoil, and any economic deficit was deferred by printing and devaluing the national currency.

The unification and politicization of indigenous activism also gathered momentum in the 1990s. Although directed towards preserving their heritage and cultural pride, there has been a strong element of racial hostility against traditional, usually European, elites in the country, and Marxist ideology has dominated their political engagement, with class-warfare rhetoric against wealthy Ecuadorians. Ironically, many of these organizations have relied heavily on foreign aid, particularly from Western European nations such as Germany, Sweden, and Norway (López-Cordero 2018/2001, 13).

From 1996 until 2006, political instability characterized Ecuadorian governance: a new constitution, three coup d’états, and seven presidents. Lucio Gutiérrez, for example, led a coup in early 2000, amid the financial crisis, and the military transferred power to Vice President Gustavo Noboa. Gutiérrez, after being removed from the military and serving a four-month prison term, got elected in 2002 as the next president (Vargas Llosa 2005, 4).

One of the seven was Jamil Mahuad, who exercised power from 1998 until the coup in 2000. He made two healthy decisions for the long-run economy and politics, signing the definitive peace accord with Peru and withdrawing the national currency. Nevertheless, his decision to dollarize Ecuador caused his overthrow and his permanent exile in the United States, since he also ended up being blamed for the suffering of many Ecuadorian families who lost a great amount of money in the volatile transition of currencies.

Dollarization: How the Ecuadorian government got out of the money business

Economic conditions tell why dollarization took hold in Ecuador, even if the politicians did not wish or plan for it. Between the last days of December 1997 and the first week of January 2000 the nominal exchange rate between the Ecuadorian sucre and the U.S. dollar went from 4,400 sucres per dollar up to 25,000 sucres per dollar (IEEP 2000, 3). The inflation rate for consumption goods rose to almost 100 percent by the end of 2000, while real GDP fell almost 7 percent in 1999 alone, with disastrous consequences for employment. The financial sector was affected by a banking panic that led to a loss of 70 percent of its assets. The government was highly indebted with a growing and unsustainable fiscal deficit (Beckerman and Solimano 2002, 56–57).

During the second half of the 1990s, Ecuadorians responded to the ongoing crisis by choosing sound money instead of unsound money. Dollarization was bottom-up, rather than a policy imposed by some technocratic, political, or commercial elite. Everyday people simply wanted to avoid the increasing costs of devaluation and inflation. When dollarization became official in early 2000, more than 60 percent of the financial sector was already using the dollar. Workers were willing to wait long lines in the banks and on the streets to change their sucres for U.S. dollars.

Despite the run on the currency, which undermined the financial and fiscal liquidity of the economy, the government was trying to keep the sucre alive by manipulating the exchange rate. When they gave in and liberalized the exchange rate in early 1999, Gresham's Law worked backwards by driving out the bad and letting Ecuadorians keep the good. Given the swift transition to a more reliable and internationally recognized currency, Ecuadorians were able to come out of the recession sooner than otherwise. As early as 2001, the outlook for the Ecuadorian economy had become much more promising.

An important result of dollarization was economic confidence and, in a sense, economic equality. Before dollarization, fixed-wage workers received sucres that were losing their purchasing power by the day. Meanwhile, Ecuadorians with access to local and international capital markets—a minority—were able to transform their assets into U.S. dollars and protect themselves. As they maintained an important part of their assets in foreign currency, they could enjoy earnings merely as a result of devaluation. Local prices of Ecuadorian goods had been depreciating in dollar terms each day. Then, after dollarization, both social groups earned their incomes in the same currency, without any privilege over the other. Hence, dollarization made monetary transactions more impartial, no matter who engaged in those transactions.

Since 2003, Ecuador has enjoyed the longest period in her modern history of single-digit rates of inflation. This is no trivial outcome, and she has achieved this without a central bank with a monopoly on the issuance of currency. Entrepreneurs and just about every Ecuadorian have been able to focus more on real production and competition. Price-level uncertainty has been largely eliminated, and the risk of devaluation does not affect domestic or international transactions.

As dollarization was emerging from the bottom up, particularly 1998 onward, there were public and scholarly discussions regarding its viability and desirability. Two notable people who advocated in favor of dollarization were Dora de Ampuero, the director of the Ecuadorian Institute of Political Economy (IEEP for its acronym in Spanish), and Joyce de Ginatta, a successful entrepreneur. Both Ampuero and Ginatta are from Guayaquil, the commercial hub of the country. Ampuero is also a former student of the late Donald Lavoie and James Buchanan, who were her teachers at George Mason University. In addition, Franklin López Buenaño, an Ecuadorian who lived in the United States and worked as a professor of economics at the University of New Orleans, also proposed dollarization as a remedy to Ecuador's monetary maladies. At that time he was also teaching at ESPOL, the polytechnic college in Guayaquil, and he introduced Austrian economics and public choice to Ecuador (López-Cordero 2018/2001, 5).

Ampuero, Ginatta, and Buenaño engaged in conversation and debate via conferences at different Ecuadorian universities, radio and TV interviews, and op-eds in local newspapers. Moreover, they worked together with a larger group of economists from both cities, Quito and Guayaquil, that helped to persuade government officials, including the sitting president, that dollarization was the way out of the mess. There were also international economists and organizations who supported the people behind the initiative: Kurt Schuler, a former classmate of Ampuero at George Mason University; Steve Hanke of Johns Hopkins University; Juan Moreno from Panamá; and the Atlas Economic Research Foundation (located in the United States), particularly the CEO at that time, Alejandro Chafuen.

All of this was influential in shaping public opinion in favor of the atypical policy of dollarization, even against the advice of the International Monetary Fund and Goldman Sachs, not to mention the disposition against dollarization in general among many renowned economists such as Joseph Stiglitz (2001, 6–9), Jeffrey Sachs, and Felipe Larrain (Sachs and Larrain 1999). At the time, Paul Krugman (2000) said that Ecuador's dollarization experiment was more likely to fail than to work, and Ecuador's own central bank warned that it was simply not viable (Hanke 2003, 135).

In the last 10 years, dollarization has showed resilience in the face of the populist government, the Citizen Revolution of Rafael "Mashi" Correa. During his presidency, a new constitution was approved and a new set of laws and bureaucratic

organizations were established with a populist-statist vein. Dollarization remained largely intact, while there was an ineffective state attempt at an alternative digital currency—an attempt that included a ban on private cryptocurrencies.

Correa’s rule, spanning 2007 to 2017, coincided mostly with the oil boom in the region brought about by the international market. Yet the new administration elected this year—that of Lenín Moreno, from Correa’s own party, the PAÍS Alliance (AP)—has revealed the enormous fiscal deficit and public debt that were caused by Correa’s unsustainable increases in public expenditure on white-elephant projects. Correa is a U.S.-trained economist, having earned a Ph.D. in economics from the University of Illinois at Urbana-Champaign, where he studied under the late Werner Baer. For his dissertation, Correa included a chapter that criticized dollarization and recommended the adoption of a currency union exclusively for South American countries. He has always been hesitant regarding the efficiency or adequacy of dollarization for an economy such as Ecuador. In spite of all that, and the drastic changes he implemented, he still could not force Ecuadorians out of dollarization.

The Citizen Revolution

In the years preceding Rafael Correa’s reign in Ecuador, the absence of rule of law and of separation of powers badly damaged the public’s confidence in their government, which was primarily driven by moderate to conservative policies. Corruption plagued administration after administration, and the government’s ability to collect taxes was diminished. In 2006, the poverty rate was close to 40 percent (Jácome and Serrano 2016, 3), and the Gini index of 53 was relatively high.⁵ The panorama was fertile ground for a new trend of ideas that was already spreading through the region under the banner of “21st Century Socialism” (Weyland 2013, 19).

Professor and former Minister of the Economy Rafael Correa was the man who implemented those ideas in Ecuador. He ran for president in 2006, promising a fairer and more egalitarian country. His progressive rhetoric, along with his image as an outsider and leftist populist leader, propelled his political party, the AP, to an electoral victory. Although Correa’s “Citizen Revolution” gained control of the presidency by a slim margin in 2006 and its popularity has fluctuated throughout the years, it continues to influence institutions in Ecuador through the government of Lenín Moreno.

The playbook of 21st-century socialism, already implemented by Hugo Chávez in Venezuela, was key for the success of the AP’s political strategy. Accor-

5. Gini index data from the World Bank ([link](#)).

ding to Kurt Weyland, the script begins with convening a constituent assembly to expand executive power and weaken checks and balances (2013, 20–22). That is precisely what Correa did by promoting a new constitution to consolidate his model of governance. While Ecuadorians had been accustomed to changing their entire constitution with each shifting paradigm, this instance carried with it a new attraction: the prospect of establishing a long-lasting, comprehensive, and civil-rights-based document.

The resulting Constitution of 2008 set forth a decentralized political system which invoked the slogan *sumak kawsay*, or “good living.” It divided the state’s power into five categories: the traditional executive, legislative, and judicial branches, and the new electoral and participatory branches. The new constitution created an extensive governmental structure and broadened the state’s responsibility to protect and guarantee rights, thereby establishing more regulation and bureaucracy.⁶

Populism, which is generally understood as the strategy to win and exercise state power by creating tension between the common people and an opposition, was another important element in this socialist script. Carlos de la Torre (2013, 34) describes Correa’s style of governance as technocratic populism, because Correa “combine[d] populist rhetoric with top-down technocratic policies.” Correa enjoyed an economic bonanza after oil prices rose and a more effective tax-collection system was installed; he used central planning to promote certain social policies and wealth redistribution without negatively impacting Ecuadorian elites directly.

The media, the traditional political parties, and certain social movements were often quarters of opposition. Correa selected his opponents wisely, since public confidence in those who usually maintained balance in a liberal democracy had decreased dramatically during the first few years of his rule. Therefore the AP was able to legitimize its hegemony without significant pressure from media or popular confrontation.

6. The new constitution is a good example of what Frédéric Bastiat called “the seductive lure of socialism.” While it attempts to “extend welfare, education, and morality throughout the nation,” the constitution, in effect, undermines individual liberty (Bastiat 2007, 18).

Correa positioned the “U.S. empire” as a key enemy of Ecuador and shifted the country’s foreign-policy focus towards Third World nations—formalized with membership in the Bolivarian Alliance ([link](#)) with the socialist regimes of Cuba, Venezuela, Nicaragua, and Bolivia, among others. He sought to foster their cooperation and autonomy, with the belief that U.S. aid had been a facade for counter-productive meddling and that peer nations offered a more fruitful avenue



Socialist Latin American leaders meeting in 2009. Photo by Fabio Rodrigues Pozzebom/ABr (Agência Brasil) (CC BY 3.0 BR).

for development. In 2008, Correa announced that Ecuador would not pay the interest payments on her foreign debt. That same year he also demanded that U.S. officials vacate the Eloy Alfaro Air Base in the port city of Manta.

The government of the Citizen Revolution proceeded with related protectionist policies, such as the development of the industrial and agricultural sectors through a new production matrix for import-substitution. China became a strategic ally for the government in the financial, commercial, and political fields. Correa also spent considerable effort in the development of an unfruitful regional alliance, the Union of South American Nations (UNASUR), with an extravagant headquarters in Quito. The government imposed customs tariffs and implementing safeguard fees for balance-of-payment purposes. To encourage national production, the Correa administration banned importation of a long list of products. Ecuador proceeded to experience a decade of commercial isolation, with her heavily regulated economy chasing foreign investors and transnational companies from the country.

Domestic businesses also struggled under internal economic barriers, such as required advance payment of the income tax and unnecessary red tape that hindered production. Many businesses, including homegrown firms, decided to move operations out of Ecuador. For example, the clothing chain Pinto and the pharmaceutical firm Birm relocated to Peru and Colombia, respectively.

To boost the control and influence of state-run enterprises, the government also updated legislation regarding hydrocarbons and the mining sector. The reforms negatively affected private companies, which had to renegotiate or finish existing contracts before losing their share of extraction to state firms (World Trade Organization 2012, x–xi). This combined with the rise in oil prices supported the government’s welfare promises, and the Correa administration updated its budgets each year with more ambitious oil-price projections and social policies.

Regardless of whether or not the oil-price-based budget or the production matrix were sustainable over time, impressive short-term outcomes boosted the government's popular approval and led to more protectionism and the continued expansion of the welfare state.

The economic crisis that Ecuador has faced since the second half of 2014, however, demonstrates the vulnerability of such policies. In order to maintain its size, the enormous Ecuadorian state not only wasted all of its own revenue; it also took on enormous debt. The foreign debt has grown from \$14 billion in 2006 (AFP 2006) to \$40 billion in 2017 (Angulo 2017), and the equivalent of more than one-and-one-half years of oil extraction is already sold to China. While non-oil products surpassed oil exports in 2015 (Araujo 2016), the Ecuadorian economy has still become more dependent on the government.

International-trade competitiveness put pressure on the Ecuadorian government to open up its borders, which is why it requested that the European Union restart negotiations for a trade agreement. In 2016, the parties signed on to the agreement that was already in place with Colombia and Peru (European Commission 2017). After recognizing the benefits of this agreement, such as a 20 percent increase in exports to the European Union, Ecuador sought to sign an agreement with China as well (*El Comercio* 2017b).

Nevertheless, legal uncertainty and weak rule of law continue to discourage foreign investment and entrepreneurship in Ecuador and have seemingly damned the country to the bottom of most respected global indexes.

Rankings tell the tale: Forgone development, rule of law

Economic freedom

The current downturn affecting Ecuador demonstrates the weak performance of the economic system. The vast extent of government intervention and the always-changing regulations are the most acute shortcomings. The Heritage Foundation (2017) ranked Ecuador 160th out of 180 countries in the *2017 Index of Economic Freedom*, and the Fraser Institute rated Ecuador 130th out of 159 countries in the *Economic Freedom of the World: 2017 Annual Report* (Gwartney, Lawson, and Hall 2017). A frequent reference for foreign investors, the World Bank's Doing Business index, ranks Ecuador in 168th place out of 190 countries when it comes to starting a business (World Bank Group 2018, 4). The government of the United

Kingdom warns of the risks involved with investing in Ecuador, since it can take six to 12 months simply to set up a business; it suggests that investors who are interested in doing business in Ecuador first build solid relationships with potential local partners (Department for International Trade 2014). The Heritage Foundation (2017) says, “Government spending has amounted to 42.4 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.1 percent of GDP. Public debt is equivalent to 34.5 percent of GDP.” Those numbers should be considered in the context of a default as recent as 2008.

As for tax policy, Ecuadorians pay 31 different taxes, and the tax burden in 2016 has been estimated at more than 21 percent of GDP (*La Hora* 2016). The income tax is progressive, and the top rates are 35 percent for individuals and 22 percent for corporations. The value-added tax is set at 12 percent, and services 10 percent. Luxury goods have an extra fee, and the government charges 5 percent when people move \$5,000 out of the country with any transaction (Department for International Trade 2014). Tax collection increased by more than 160 percent in 10 years, but more than half of the collected money covered administrative expenditures rather than infrastructure or social spending (Alarcón 2016).

In terms of foreign trade, the U.S. Department of Commerce’s International Trade Administration exposes how tariff, non-tariff barriers, and state-owned enterprises interfere with trade. Interventionist policies in the banking and primary sectors are, in particular, the main shortcomings. The financial sector is poorly developed due to excessive state interference, and exporting to Ecuador requires adhering to a plethora of technical and customary regulations (Export.gov 2016).

Rule of law

The World Justice Project (2016) ranks Ecuador 91st of 113 countries in its *Rule of Law Index 2016*, making her one of the worst for political and judicial institutions. The prevailing corruption scandals in Ecuador, ranked 120 out of 176 countries in the Transparency International’s Corruption Perceptions Index 2016, have unveiled the inefficient and unscrupulous judicial system that failed to prosecute several cases and whose former attorney general is now a suspect (*El Comercio* 2015; 2017a). President Lenín Moreno called for a referendum to reevaluate the selection process of judges, yet the problem goes beyond personnel; it consists in the constitution of the state.

The latest election proves this assessment. The AP, the ruling party, breached the law on many occasions and enjoyed impunity, with multiple concerns raised regarding electoral fraud.⁷ Lenín Moreno’s opponent was the banker and business-

7. See the presentations made at the Interamerican Institute for Democracy/Diario Las Américas forum

man Guillermo Lasso, who defended liberal principles to a greater extent. However, he struggled against a wave of clientelism and foul play. Incumbent officials, for example, in view of the severe 2016 earthquake, centered on the northern coast as an opportunity to buy votes with public works. Further, they unapologetically used their media presence to make political campaigns, discredit opponents, and promote the government's actions over the last decade.

The electoral court purported to modernize the electoral process with the installation of a new mechanism for vote counting, including digitalization of the official documents and computer automation. The president of the electoral court, Juan Pablo Pozo, touted this updated system as the ultimate mechanism for a fair electoral process. However, that flew in the face of the lack of an audit or transparency, suggesting the contrary (Calderón de Burgos 2017a). In the presidential runoff, the electoral court withdrew the contract with the firm that was supposed to audit the initial count. Observers documented many instances that warranted investigation, and the processes of verification lacked transparency and clarity, yet the electoral court simply concluded that Lenín Moreno won with a slight advantage.

Civil liberties

Rated as “partly free” by Freedom House, Ecuador has caught the attention of watchdogs such as Human Rights Watch (Human Rights Watch 2015; 2016), as the central government has trampled the civil liberties of its citizens. Freedom of expression and association have been particularly threatened by the Citizen Revolution, and Human Rights Watch says the Moreno administration “should address long-standing human rights problems.” Some of the events that concerned Freedom House (2017) were the dissolution of the National Union of Teachers, which was the largest association of teachers, and the status of academic freedom. After a political dispute with the authorities of a graduate university that was established in the country under international agreements, Correa demanded the National Assembly reform the Law on Higher Education to cut the public funding for the two independent graduate universities (*El Comercio* 2016). The reduction of funds, approved in December 2016, would undermine the viability of the two institutions (Freedom House 2017).

Another concern for Freedom House (2017) was harassment towards citizens on social media: “The local press watchdog Fundamedios reported that in 2016, officials continued monitoring speech on the social-media platform Twitter and filing complaints against accounts that are critical of the Correa administra-

“Fraude Electoral en Ecuador,” April 13, 2017, in Miami ([link](#)).

tion.” TV and radio programs, as well as printed media, have to meet the requirements of the Communications Act in order to have a license for their transmission.

In mid-2015 the government attempted to implement new taxes, and Ecuadorians went to the streets in protest. These strikes uncovered the authoritarian nature of the Correa administration: The police were unnecessarily combative with the citizens; the authorities jeopardized freedom of expression and restricted information; and public employees were obliged to protest in favor of the government.

Although many journalists and freedom-of-speech advocates perceive a freer and calmer environment in the Moreno administration, nothing has changed legislatively. The president has not rejected the latest constitutional amendment that declares communication as a public service, which implies that the field needs more government interference.

One recent example of denounced irregularities comes from the latest selection process for radio frequencies. Those conducting the process requested up to \$200,000 in exchange for a frequency, as supposed campaign donations, and yet these individuals remain in their posts with impunity (*El Universo* 2016). Although the law permits external oversight during public procedures, the concerned entity did not allow Fundamedios, for instance, to monitor the selection process.

Time for a liberal turn?

The weak capacity of Ecuadorian institutions to protect fundamental rights, with checks and balances and rule of law, is a consequence of high reliance on populist leaders rather than on stable programs or a consistent philosophy of government (U.S. Department of State 2010). As stated above, historically, the preferences of the elites and the heads of state have defined the political and economic courses of the country. To have had 20 constitutions and myriad legal reforms is to follow the pattern of Latin America, which has “the world’s most tortuous constitutional history” (Azul 2017, 209) owing to predilections for “wiki-constitutionalism” (Lansberg-Rodriguez 2010). But all the reforms have failed to establish effective normative frameworks for the public administration and the penal system.

The Citizen Revolution project, rather than addressing these shortcomings, became a successful political strategy to legitimize the hegemony of the AP political party. The current economic crisis and political instability demonstrate how many of the Citizen Revolution public projects were unsustainable, paid for by buoyant oil prices and nationalized oil extraction. Since 2015, under the gun of fiscal pressure, the government has had to reduce the size of its staff as well as its number of public contracts and works. This unraveling has also revealed an obscure side of

the Citizen Revolution and its populist facade: Conflicts among members of the AP and government officials have uncovered a systemic corruption network (Bureau of Democracy, Human Rights, and Labor 2016).

After six months of ruling, Lenín Moreno is gaining acceptance, from a perception that he has a peaceful and non-confrontational governing style. But the economic environment remains the same: attenuating the private sector while broadening the role of the state. Moreno continues to disdain free-market policies, such as reducing the tax burden or liberalizing restrictions on private initiative, with the belief that such measures would represent a backward step in the march for social rights.

While liberal ideas have been largely absent from Ecuadorian politics, the prevailing state-centric policies over the last 10 years have aggrieved the natural performance of the economy. Dollarization, as a protection of property rights, has been the lone economic decision and institution with notable positive results in the 21st century.

Liberal thought

Academics

Keynesian economics and state-centric thought dominate post-secondary economics education. Thirty universities are public, including the previously mentioned ESPOL, and of the 18 private universities only two of them, to our knowledge, the University of the Holy Spirit (UEES) and San Francisco University of Quito (USFQ), provide free-market perspectives in economics, and only USFQ offers a flexible, open curriculum that emphasizes liberal-arts education. These two universities organized an event in January 2016 called Ecuadorian Economic Perspectives (CADE 2016), where professors met in Quito and Guayaquil to talk about the economic situation of the country.

The leadership and many professors of USFQ have overtly demonstrated their preference for liberalism, and in 2013 they hosted the first Mont Pelerin Society (MPS) meeting in Ecuador at their satellite campus in the Galapagos Islands. However, the university tends to have a negative public image as biased.

At the beginning of the Correa administration, in 2007, the government imposed regulatory pressure and restrictions on the university for having evident links with liberal free-market advocates and organizations. The crackdown included bans on specific classes, such as introduction to liberalism. Due to this, USFQ liberals have been more discreet in participating in liberal initiatives, even

if they have hosted important events such as the Economic Forum of late 2015. That event led to the publication of an economic manifesto to reduce government intervention and eliminate the public deficit in an orderly manner, and its signatories included 20 young economists from the best universities of the country, along with some in international posts. By such activities of those who espouse liberalism put a target on their backs and expose them to abuse by the government and its socialist allies.

USFQ Economics Professors Juan F. Carpio, Luis Espinosa Goded, Santiago José Gangotena, and Pablo Lucio-Paredes treat free-market and liberal principles in their courses, as Professors Jorje Zalles and Jorge Gómez Tejada do with their humanities courses. More generally, USFQ aims to raise the awareness of its students about their liberties as means to achieve success in the marketplace and personal life.

Media

Liberal ideas get very limited media coverage, since few programs analyze economic and political events from a liberal perspective. The most important program and exception is *Contrapunto Liberal* ([link](#)), hosted by Dora de Ampuero, Joselo Andrade, Xavier Andrade, and Rodrigo Calderón—members of IEEP. A radio station in Guayaquil transmits the program once a week in the morning, and many young leaders of Students for Liberty have recognized the influence of the program in their current way of thinking.

In Quito, USFQ also has a radio program on financial education. The host is Professor Sebastian Oleas, who maintains a pragmatic or moderate posture on public issues. There are programs that refer to some free-market or individualist principles, but they are not liberal-oriented programs per se. That is also the case of *Clarito Está*, a radio program hosted by two economics professors, Oleas from USFQ and Vicente Albornoz from the University of the Americas (UDLA). They analyze the economic situation from an academic perspective.

The television journalist and interviewer Janeth Hinostriza holds a civil-libertarian perspective and firmly questions the quality of work the government does. Cartoonist and media personality Xavier Bonilla, commonly known as Bonil, is a relevant critic of government power who provides constructive ideas through humor and cartoons. His work has been internationally recognized, and his personal confrontation with Correa has positioned him as an important reference for the defense of freedom of expression.

Even these relatively rogue personalities, however, maintain a centrist or progressive posture, partly perhaps from defensive regard for regulatory hazards to their operation and partly from a simple regard for the preferences of the audience.

Newspapers lived a nightmare during Correa's reign, including 2,308 documented attacks on free speech, such as a \$3,500 fine on *La Hora* newspaper in 2015 for *not* covering an event (Fundamedios 2017; PanAm Post Staff 2015). However, when many local periodicals go to print, there is still a space for alternative ideas in the op-ed section.

Gabriela Calderón de Burgos, a research fellow of the Cato Institute, is a columnist with *El Universo*. This newspaper from Guayaquil has the longest history of liberal sentiment in Ecuador, including the recruitment of a Peruvian defector from communism, columnist Eudocio Ravines, in the late 1970s (López-Cordero 2018/2001, 3). Calderón has, in recent years, developed an impactful career in the sphere of the ideas of liberty, with op-eds on policy issues and a book called *Entre el Instinto y la Razón* ("Between Instinct and Reason," Calderón de Burgos 2015).

The president of the Chamber of Commerce of Guayaquil, Pablo Arosemena Marriott, also writes for *El Universo*. He had declared himself to be a liberal advocate, and the World Economic Forum Young Global Leaders gave him an award as the Global Leader of 2016 (Idepro 2017). There appears to be a movement of young leaders who are finding success in their personal and professional lives and trying to advance ideas of liberty, from time to time getting a place in popular media.

Research institutes

Prior to liberal think tanks in Ecuador, industry associations led educational and lobbying efforts for free enterprise. In particular, Rómulo López Sabando was an entrepreneur with a focus on tuna exports, and he became a member of the MPS and a liberal advocate at the helm of the Tuna Exporters Association and the Chamber of Industries in Guayaquil. He organized the translation of *Free to Choose*, the U.S. public television series featuring Milton Friedman, into Spanish, and the two trade associations held workshops and sponsored prominent international speakers such as Manuel Ayau, founder of Francisco Marroquín University (UFM), Latin America's most brazenly liberal university.

López Sabando got heavily involved in the Febres Cordero campaign for



Bonil was sued in February 2015, for criticizing the government, by the public communications agency. Photo by Agencia de Noticias ANDES (CC BY-SA 2.0).

president in 1984, which was successful. However, he became dejected by corruption and a lack of policy reforms, and he accepted a diplomatic post in Hong Kong (López-Cordero 2018/2001, 4). Regardless, he got the ball rolling as far as liberal education and paved the way for the organizations to come. López Sabando influenced another lawyer and politician from Ambato in the Ecuadorian highlands, Luis Fernando Torres, who is currently a member of the National Assembly. Torres has been part of the opposition during AP's apogee, emphasizing the repetitive violations of the rule of law and the concomitant increase in populist politics and subversion of the individual in the country.

Among policy-research institutes, IEEP ([link](#)), founded in 1991, has been the most important source and catalyst for the ideas of freedom, and it was the lone think tank in Ecuador for more than two decades. Its founder and leader, Dora de Ampuero, lived abroad for 15 years, including for her graduate studies at George Mason University, as well as an internship with the Atlas Network, before founding her own research center. As mentioned above, she and IEEP had a key role during dollarization.

While additional small liberal-research operations began in the late 1980s and 1990s, such as the Friedrich von Hayek Center for Studies of Ecuador and the Guayaquil Liberty Foundation, none garnered traction or remain to this day. In communication with the authors, Ampuero has shared that competing researchers struggled to garner funding and maintain or even achieve legal status as nonprofit organizations.

The Ecuador Libre Foundation ([link](#)) began in 2015 as a private nonprofit that conducts research and analysis aimed at promulgation of liberty-based public policies. The organization is led by the two-time presidential candidate Guillermo Lasso, and other directors and members of the staff supported him during his campaigns. The organization had a key role in developing the governance plan that Lasso presented for the last election. But Lasso faced a tall order on the campaign trail, since the Ecuadorian population heavily identify themselves as leftists, by essentially two-to-one over the right in a 2015 Latinobarómetro survey,⁸ in line with their suspicions of free



In 2016, the Ecuadorian liberal community paid tribute to Dora de Ampuero for devoting her life to communicating the ideas of liberty. Photo by IEEP.

8. The data can be found by navigating the Latinobarómetro online analysis page ([link](#)), for Ecuador

markets. Just 8 percent of Ecuadorians have confidence in private corporations, versus 20 percent who have no confidence at all (*ibid.*). Cuban exile Armando De La Torre, now dean of social sciences at UFM, says Ecuador has one of the most intellectually socialist traditions of any nation he has visited (López-Cordero 2018/2001, 15).

In 2016, young organizers gave birth to three new initiatives: Choose Freedom, Instituto Olmedo, and Libre Razón (LIRA). The process for obtaining legal status, however, takes considerable time. The cofounders of LIRA ([link](#)), for instance, began the paperwork in mid-2016 and expect to finish in the first months of 2018. LIRA is the first liberal think tank in Quito, and it develops research on current economic and political developments in the country with the aim of spreading the ideas of liberalism and introducing liberty to the sphere of public opinion. Choose Freedom ([link](#)) develops networks and relationships with several institutes advocating liberty throughout the world, and it provides scholarships to young Ecuadorians to attend educational programs. Instituto Olmedo ([link](#)) promotes the history of the city of Guayaquil by recounting how liberal principles shaped its evolution, trade prowess, and urbanization.

Advocacy organizations

There are only a few active liberal advocacy organizations in Ecuador. The oldest one is the Libertarian Movement (ML), and it is also the one with the strongest national presence. During Correa's presidential tenure, the ML earned an important place of influence in public opinion, yet still its activities reach only a minority of people.

Under Correa many disillusioned students turned their attention towards the ideas of liberty. For that reason, the Ecuadorian chapter of Students for Liberty has had a great reception and strong support from young people, who encourage the activities from new members as graduates and entrepreneurs.

In November 2017 the liberal institutes and organizations joined their efforts to celebrate the fall of the Berlin Wall with a "freedom week," which included many events in various cities throughout the country. In the face of intimidation, associates of the current initiatives are raising their voices for the ideas of liberty and trying to overcome the straw-man image that populist and socialist leaders have attached to liberalism.

These organizations face two cultural challenges: first that individualism and the principles of liberty are wanting in the way of thinking of Ecuadorians, and

for the year 2015, to "La Democracia," then "Política," "Escala Izquierda-Derecha," and finally to the question "Escala de ubicación ideológica de partidos políticos."

second that neither enterprises nor individuals have the habit of contributing to ideas-promoting organizations that are not directly involved in politicking. Consequently, the organizations not only have to introduce the liberal approach to public policy and legislation but also to educate Ecuadorians and address the underlying culture.

Concluding remarks

Despite what seems like a very negative overview, as the international rankings attest, there are some reasons for optimism. Dollarization demonstrates the entrepreneurial leanings of the Ecuadorian populace and their willingness to respond to incentives in favor of economic development. The rise of communications technology is shining a light on corruption and criminality in both the socialist regime and the elections process, and new educational campaigns nearly brought the most liberal candidate to office in the 2017 presidential election. Further, the fiscal austerity imposed by falling petroleum prices has caused fragmentation in the statist establishment and a widespread realization that the Citizen Revolution largess is unsustainable, as is happening in the other countries of the weakening Bolivarian Alliance. Despite the hostile environment for liberal ideas in the media and in universities, advocacy and research organizations are still rising, punching above their weight and threatening the government-backed anti-liberal narrative. Persecution by state media and law enforcement is a badge of honor and has served to exemplify the authoritarian nature of the socialist regime.

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