Radically Unprepared;
The New Left, its Excesses and Successes in Ecuador, Chile and Uruguay

Lucas Mantilla
2013
Government 271: Political Economy of Developing Countries
Final Paper

14th May, 2013

"In accordance with the Honor Code, I affirm that this work is my own and all content taken from other sources has been properly acknowledged."
Signed: Lucas Mantilla
Introduction

Over the last few decades and in response to the ever-expanding income inequalities in the continent, large swaths of South America have been swept by a new wave of redistributive leftist governments. Although most commonly grouped under the single label of 'New Left,' these governments have proved to abide by rather different paradigms of development and conceptualizations of redistribution. According to Lustig (2009, 3) and other analysts of the region, the two main tendencies followed by 'New Left' leaderships can be pegged as social-democracies (as exemplified by the cases of Chile, Brazil, and Uruguay) or populist radical democracies (usually associated to Venezuela, Bolivia, and Ecuador.) Social-democratic regimes have approached economic development with a nuanced eye, attempting to continue within the constraints of the free-market model while expanding their countries' social safety net, investing heavily in education & healthcare, and setting a more 'equitable' path to economic growth (Antía 2011, 2). Radical democracies, meanwhile, have pursued a bolder transformation by dispatching with the neoliberal model altogether and vastly increasing expenditures in social and redistributive programs via the rents of nationalized resource-extraction (Weyland 2009, 146-7).

In this essay, I will compare Ecuador's economic and social development with that of Chile and Uruguay's, across a variety of human development indicators. Through this analysis, I seek to differentiate the approaches taken by the 'New Left' in Ecuador's more radical government, Uruguay's more moderate one, and Chile's most conciliatory, market-comforming one (Weyland 2009, 159-60), as well as the circumstances that led to these divergences, in an attempt to elucidate more successful approaches to tackling inequality and future economic growth. For this particular study, I have focused on the small time period of 2005 to 2010, as it was at around this time that the leftist governments of Rafael Correa (2006), Tabaré Vázquez (2005), Michelle Bachelet (2006) arrived in power. Although
Bachelet, unlike Correa and Vázquez, was not the originator of her leftist movement, it can be argued that, when compared to previous leaders of the moderate-left *Concertación de Partidos por la Democracia*, her policies are the ones most aligned (and thus, most easily compared) with the redistributive 'New-Left' in other countries of the continent.

The three regimes' policies have yielded contrasting results and these should be analyzed if a constructive analysis of their successes and failures is to be made. Table 1 showcases the diverging paths these countries are taking: Uruguay, the smallest country of the group, stands out as having achieved the largest increase in GDP per capita at purchasing power parity over the five year period. Chile, meanwhile, produced a stable increase in GDP per capita (and still leading the group in absolute GDP), but was also the only country in the group that saw no improvement in its Gini inequality indicators. Most curiously, Ecuador saw the sharpest decline in inequality as measured by the Gini indicators while facing a staggering 20% decline in foreign direct investment, a statistic that illustrates the country's move away from the free-market and towards resource-extracting nationalizations.

Since his election in 2006, Rafael Correa, Ecuador's president, has applied a radically anti-neoliberal agenda, most commonly characterized as the 'citizen's revolution' (de la Torre 2010, 175). Starting as soon as he arrived in power, Correa sought to replace the established institutional framework of the country by “assuming office with an agenda that depended on staging and winning a succession of high-stakes electoral contests – referenda, constituent assembly elections, and a subsequent round of national elections (Conaghan & De La Torre 2008, 269).” Conaghan has labeled this strategy as evidence of President Correa's intent of creating a *plebiscitary democracy*, where his executive power is virtually unchallenged by the legislative branch and sanctioned by the country's populace (2008, 113). He won this referendum by a wide margin in 2007 and a constituent assembly, where his supporters figured prevalently, drafted a document that echoed Correa's radical agenda and
placed near-to-unchecked power upon the executive's hands. His coalition movement, Alianza País, was elected in a clear majority in national elections months after, providing President Correa with relative free reign to conduct widespread change across Ecuador (Conaghan 2010, 113). Additionally, as can be seen in Figure 1, oil prices skyrocketed early in Correa's tenure, providing him with an easy way to finance his party's agenda.

At first glance, President Correa's 'citizen's revolution' seems, at least, marginally successful; in his first five years in power, GDP per capita increased by 4.1%, inequality in the country, as measured by Gini indicators, improved by nearly 5 points, and investments in education and healthcare were substantially propped up (**). Contextualizing this 'revolution' in regards to other leftist governments of the region and its country's own history, however, may provide us with a more accurate picture of what to expect in the future from President Correa. The clear differences in strategies and outcomes among the three countries demonstrate that their individual leftist governments have differed substantially in their approaches to economic growth and human development and that, perhaps, Ecuador's radical government is the least prepared to tackle future challenges.

**Policies**

One key factor that sets Ecuador's regime apart from its leftist peers further down South is its reliance on a plebiscitarian, trenchantly populist style of governance. President Correa, by means of constant referendums and constitutional edits, has siphoned power from other branches of government, absorbed, dismantled & terrorized media opposition, and dramatically altered patterns of social-expenditure to the benefit of the poorest, all with one goal: to legitimately accumulate “all political power in order to build a revolutionary society (de la Torre 2010, 197).” Since his original election in 2006, President Correa has pushed forward with a continuous stream of referendums, votes, and
popular consultations, as seen by: his original election in 2006, the constituent referendum in April 2007, the election of the constituent assembly (the new name given to the congress) in September 2007, the constitutional approval referendum in 2008, President Correa's early re-election in 2009, and a constitution review referendum in 2011 (Al Jazeera 2011). This overt reliance on plebiscites points out not only the extent to which President Correa has consolidated power in the executive branch, but also the President's concrete use of his own popularity as a means to sidestep the opposition and pass laws at his command. In addition to this, he has led an aggressive barrage of attacks against his opposition, which he describes as “disloyal,” “anti-patriotic,” and maximum representatives of the exploitative, imperialist North (de la Torre 2010, 188-89). This general demonization of the press and the opposition has allowed Correa to charismatically unite his voter base against the common 'neoliberal' enemies within the country (as represented by the elite classes), and harness the poor's feeling of disenfranchisement to his own benefit.

To maintain his popularity at sufficiently high levels (that is, higher than the 50% majority as established on the 2008 constitution), President Correa and his Alianza País coalition have spearheaded a series of economic reforms and redistributive policies, financed primarily by primary resource extraction (Weyland 2009, 151). Through the creation of a Ministry for Social Development, investments in education, healthcare, and social programs increased dramatically during his first years in the presidency, rising from 5.4% of GDP in 2006 to 7.4% of GDP by 2008; the minimum wage was raised from 170$ to 200$ a month for the poorest blocks of the population (de la Torre 2010, 193); maintained subsidies on natural gas (which powers most Ecuadoreans' stoves), electricity, and gasoline (particularly diesel); and 41.9% of the country's total domestic output was destined to basic visible infrastructure, such as roads, schools and hospitals in 2010 (The Heritage Foundation). These investments are not just substantial, but also high visible – for it is the very visibility of President
Correa's accomplishments that has allowed his popularity to remain so unrelentingly high throughout his two terms in office.

President Correa and his party have sustained these massive expenditures through nationalizations, incurring massive debt (primarily with China), and extractivist policies, meant on re-establishing national sovereignty over the country's natural resources. Ecuador's primary export, oil, received the most attention: in 2007, the Correa administration passed a decree changing the windfall gains tax on oil from 50% to 99%, channeling almost all excess profits from the sector into the governments' central, recently nationalized petroleum company, Petroecuador (Weisbot & Sandoval 2009, 8), and helping to explain the sudden decrease in FDI during President Correa's tenure. In addition to this, Correa greatly expanded oil production across the board by selling egregious quantities of oil in long-term contracts to Chinese mining companies (Kennenmore & Weeks 2011, 8). In fact, World Bank figures show that Ecuador's account balance (sum of net exports of goods and services, net primary income, and net secondary income in current US$) fell from 1,739,926,904US$ in 2006 (demonstrating a surplus) to -1,612,774,564US$ in 2010, demonstrating that Correa's administration has been incurring massive debt to sustain its staggering expenditures, and perhaps illuminating a deeper effect of the decline in foreign direct investment in the country. In many ways, Correa reverts to traditionally neoliberal ways of extractivism as a solution to his need for high expenditures. Gudynas (2010, 6) illustrates this vicious cycle quite clearly: “the state wishes to absorb the excess gains from resource extractions and use this to finance their social programs, and by doing such allows for this social legitimacy to be used to defend even more extractive activities.” Thus, the meaning of the values in Table 1 become clearer: Ecuador's GDP is being inflated and Gini is being reduced through high oil prices, the incurring of massive debt, and massive expenditure in social programs; the debt, being incurred as a means to make up for the lost foreign direct investment.
The policies of the 'New Left' in Chile and Uruguay offer various similarities and discrepancies with the Ecuadorian case. Chile's leftist Concertación during the Bachelet administration from 2006 to 2010 is perhaps the farthest from the Ecuadorian case, as Bachelet's administration, rather than reject a neoliberal framework, chose to work closely within the tight constraints of free-market institutions left over from the Pinochet era (Weyland 2009, 158). The Bachelet administration did not spearhead any significant economic reforms but it did push forward a series of deep social reforms, meant to tackle increasing poverty and the rampant inequality (steepest in the continent) facing the nation. According to Pribble & Huber (2010, 12), the Concertación effectively consolidated and expanded programs like the “Universal Access to Guaranteed Rights” (AUGE), a widespread healthcare reform where the state guaranteed treatment to a number of important diseases through the creation and expansion of contributions to a national health fund. In addition to this, investments in education were expanded, educational cash-transfer systems were introduced to increase demand for education among the poorest sectors in society, and Chile Solidario, the continent's first poverty-exit program, started during the Lagos administration, was deeply expanded (Pribble & Huber 2010, 20). The increased expenses incurred by the Bachelet administration to expand these programs were funded, in the most part, by taxation, copper revenues, and a sterilization fund (Frankel 2011, 1), which kicked into action during the copper crisis of 2009 (this topic will be further discussed in the next section). Thus, President Bachelet's government took a milder stance to leftist politics than President Correa's radical one – her investments were less radical (as might be explained by Chile's relatively stagnant Gini coefficient during her tenure), but GDP per capita and foreign direct investment continued to increase, symbolizing the country's sound economic stability despite adversities.

The case of Uruguay under the regime of Tabaré Vázquez and the Frente Amplio (FA) coalition could be said to tread a more middle ground between the cases of Chile and Ecuador. There was some
economic reform, mainly in the form of the establishment of a progressive tax system and the creation of a personalized VAT tax (Barreix et al 2011, 28), meant to reduce the regressive impact of fiscal policy on poverty and inequality across the country by awarding the poorest quintiles with a 'Social Card' that would be accredited with funds to purchase basic food basket goods (Filgueira et al, 2009: 219). This, as well as other social programs, were part of Vázquez's centerpiece plan for the nation: the Plan for Social Emergencies (PANES), later evolved into the Plan de Equidad, or 'Equity Plan.'

Established in 2005 as a means to tackle with the negative consequences of the 2001 Economic Crisis and under the direction of the recently founded Ministry for Social Development, (Pribble & Huber 2010, 15) PANES quickly evolved from a curative measure to a preventative one; its main social programs were centered around educational cash-transfer systems, meant to increase demand for education among the poorest and tackle the growing problem of early schooling desertion (Aristimuño 2009: 183); Uruguay Trabaja, a social-integration program with a vocational component, meant to provide poor families with vocational instruction and poverty-exit counseling; and Uruguay Integra, a social cohesion program meant to empower communities and decentralize the political system (Uruguay Government Websites). In addition to this gamma of social programs, in 2008, Vázquez's administration approved the pivotal extension of health care coverage in the form of the new National Health Service (NHS). The new, integrated system was aimed at “extending comprehensive care to all residents and guarantee equitable and universal coverage” by coordinating the public and private health sectors (Bérgolo et al, 2011: 7).” To achieve this aim, the NHS was established under the idea of “healthcare as a guaranteed right citizenship” (Pribble et al, 2010: 13) as accessible both by formal and informal workers (Bérgolo et al, 2010: 23), thus targeting the poor informal sector which had once been excluded from substantial health benefits (Mantilla 2012, 12).

In order to pay for these large-scale expenditures, the Vázquez administration attracted foreign
investment by continuing to follow a free-market orientation. Instead of eliminating it, as was done in the Ecuadorian case, Vazquez left the economic system relatively free of regulation, while focusing his attention in creating a robust safety net that tackled issues of equity and inequality across the country (as symbolized by the continued growth of foreign direct investment, shown in Table 1). These strategies seemed to have worked well for Uruguay, as GDP increased considerably, and some improvements were seen in the Gini inequality measures between 2005 and 2010.

Thus, it can be said that, while the three countries measured experienced economic growth, they did so through in markedly different ways – despite the fact that the social emphasis on all three countries remains very similarly applied. Most importantly, Uruguay's independence from resource-extractive policies and Chile's successful sterilization funds to remediate the challenges that from their extractive nature, may indicate that Ecuador's radical social investments stand on much shakier ground that its Southern counterparts'.

**Contexts**

Perhaps one of the singularly important contexts that must be discussed to understand the paths to development Uruguay, Ecuador, and Chile took between 2005 – 2010 is by looking at the importance of certain export goods in their economies. The three countries find themselves at three ends of a dependency gradient: Ecuador derives 64% of its total export revenue from oil, its leading export, Chile derives 33% of its export revenue from copper (although, according to the Wall Street Journal, this figure varies often, having reached up to 60% in 2011), while Uruguay's export revenues distributed across a range of agricultural & chemical products, such as soy beans (10%), bovine meat (10%), chemical soda or sulfate (8%), and rice (4%) (Weyland 2009, 151 & Economic Complexity Index). The oil boom of 2008 thus greatly benefited Ecuador's GDP (as seen in Table 1) above the
other two, with oil prices rising from about 64$ a barrel in 2007 to upwards of 100$ a barrel in 2008 (see Figure 1). This increase in oil prices also coincided with Rafael Correa's arrival in power, allowing him to conduct his massive populist social spending schemes without much financial constraint, unlike in other countries, as they were fueled almost in their entirety by oil revenues (Weyland 2009, 151).

Chile, which is also dependent on a single export for at least a third of its yearly revenues, experienced a similar boom early in President Bachelet's tenure, with copper prices reaching around 8500US$ per metric ton (according to Thomson Reuters Datastream, see Figure 2). However, unlike in the case of oil, where prices, though fluctuating, have remained markedly high, copper prices experienced a jarring decline, with prices bottoming at around 3000US$ per metric ton in early 2009 (see Figure 2), and did not return to 2008 prices for another three years, a change that could have very well crippled the Chilean economy. However, understanding its dependency on capital inflows from copper, previous administrations had created a stabilization fund during the copper boom years earlier, meant to address future market distortions (Frankel 2011, 1). When the crisis occurred, growth slowed dramatically – however, using the aforementioned sterilization fund, the Bachelet government sharply increased government spending across the board, moderating the effects of the crisis, and eventually securing continued growth (Frankel 2011, 1-2). In the case of Uruguay, its diverse array of export products allows it to sustain price changes in different goods, as the economy cannot be as substantially affected as in the case of Chile and Ecuador.

Ecuador does not have a sterilization fund and, as shown in the previous section, is not saving money from the current oil boom for the future. Instead, Correa's government continues to accrue debt and increase spending – fueling growth, but exposing Ecuador's economy to the possibility of severe economic decline (Kennenmore & Weeks 2011, 8), were oil prices to fall: President Correa and his party have created a massive social safety net that stands on thin ice. Not only that, but given the depth
of spending incurred in Ecuador, were oil revenues to fall as precipitously as they did for copper in 2009, even more basic needs, like electricity and adequate health and schooling supplies, could be cut short. This is a gamble the less radical presidents of the left in Chile and Uruguay would not be willing to take.

Another important issue that should be contextualized to further our understanding of these leftist governments is that of the strength of their institutional frameworks. Weyland (2009, 150) ventures briefly into this subject, explaining how radical democratic regimes like Ecuador or Venezuela, “captured power in collapsing party systems” and “pushed aside the discredited political class” that had monopolized leadership for years past. The case of Ecuador follows this description quite closely: prior to the arrival of President Correa, Ecuador face a deinstitutionalization crisis, with several presidents having been removed from power by popular force over the decade past, and fragmented parties unsuccessfully vieing for a coalition (de la Torre 2010, 178-9.) Given this thoroughly fragmented scenario, charismatic leaders like Rafael Correa could invoke the established cults of personalism as well as popular sovereignty to “revamp the institutional frameworks” of the country by the creation of a new constitution (Weyland 2009, 150). Consequently, Correa's plebiscitary style of government has only further delegitimized the new institutions he has endeavored to construct by consolidating systems of clientelism and patronage based on his massive social spending. Such a dramatic framework did not exist in Uruguay or Chile prior to the arrival of the new left there – despite the fact that distrust for neoliberalism was widespread across the continent. In Chile, Pinochet's lingering image in the past may have scared off voters from any new radical alterations, as the fear from the excesses of the previous regime remained fresh. In Uruguay, the fragmentation of the established Colorado and Blanco party elites and their combined failure to aid the poorest during the 2001 crisis, as well as the detached, medical figure of Tabaré Vázquez successfully rallied the masses
away from the status quo (Luna, 2007: 1).

The combination of these two contextualizing factors clearly played a substantial role in orienting the paths of the new left governments in Ecuador, Chile, and Uruguay. However, it is their current policies which dictate the stable or fragile path they will tread, and the pleasant or terrifying outcomes they will arrive at.

Conclusion

It is clear that the New Left, as it is now popularly called, is not a single entity – but many. The approaches of different leftist-leaning Latin American regimes is so distinct at times, that conjoining them all under one same banner only because of their shared concern for increased social investments would not be appropriate. Among this new wave, some countries are treading paths that are perilous and endanger their country's economy and population, while others follow a stable path, seeking less radical change. Chile and Uruguay's governments are not perfect (Bachelet's Concertación was not re-elected, although her chances of returning to power in this year's elections are high), but their lack of radical attachment to an ideology or system may, in fact, be allowing them to veil for something that is closer to their people's best interests. In Ecuador, Correa's populist sway remains firm, despite the fact that the country could be easily threatened by an economic catastrophe. Only time will tell if Correa's revolutionary experiment will survive (with Venezuela's aid, it very well might last long), but it seems only sensible that other countries in the continent look further South for emulation, and away from the radically unprepared equator.
Tables and Figures

Table 1

**GDP05, GDP10:** GDP per capita at purchasing power parity in 2013 international dollars according to World Bank, World Development Indicators online. Accessed April 8th, 2013, at [http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD](http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD): Growth of GDP per capita at purchasing power parity in 2013 international dollars from 2005 to 2010, calculated with a compound growth function (RATE in Microsoft Excel using the formula =RATE(20,-,GDP90,GDP10).

**GINI05 ('06 for Chile), GINI10 ('09 for Chile):** Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. World Bank, World Development Indicators online. Accessed April 8th, 2013, at [http://data.worldbank.org/indicator/SI.POV.GINI](http://data.worldbank.org/indicator/SI.POV.GINI): Change in GINI in percentage (where positive = increase in inequality, and negative = decline in inequality) from 2005 to 2010, calculated with a compound growth function (RATE in Microsoft Excel using the formula =RATE(20,-,GINI05,GINI10).

*Note: The values above were compared to those available at SEDLAC (Socio-Economic Database for Latin America and the Caribbean) and found very little, if any difference. Values for Chile were only available in the years 2006 and 2009 on BOTH databases.*

**FDI05, FDI10:** Foreign Direct Investment It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. World Bank, World Development Indicators. Accessed May 13th, 2013, at [http://data.worldbank.org/indicator/BN.KLT.DINV.CD](http://data.worldbank.org/indicator/BN.KLT.DINV.CD): FDI change in percentages from 2005 to 2010, calculated with a compound growth function (RATE in Microsoft Excel using the formula =RATE(20,-,GINI05,GINI10).

Figure 1

**Figure 2**


