

POLITICAL DECISION MAKING IN ECUADOR:
THE INFLUENCE OF BUSINESS GROUPS

By

David Parker Hanson

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David Parker Hanson

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Chairman: Dr. O. Ruth McQuown
Major Department: Political Science

Two problems were posed for the dissertation. The first was to determine the extent to which businessmen in Ecuador influenced political decisions on economic issues between 1959 and 1962. The second was to determine the extent to which the political influence of a businessman was determined by his economic position.

The condition and organization of business was analyzed to determine the probable political goals of the various groups, and the patterns of power and dependency among the various groups. It was determined that a central set of Guayaquil businessmen were quite powerful because of their control of credit and market conditions. Banana growers, wheat farmers and other smaller businessmen were among the most discontented.

The recruitment of businessmen to the political campaigns and cabinets between 1959 and 1962 was studied. Relatively few businessmen participated in the campaigns, while most of the people in the

cabinets were businessmen. However, the campaign businessmen often came from the most powerful economic groups while the cabinet ministers were more likely to be smaller businessmen. A plurality of businessmen in all positions came from Guayaquil.

The decisions made by the government generally favored the interests of the incumbents. Groups not represented in government had little success in trying to influence decisions. Therefore it was concluded that the most powerful business groups could generally control decision making through recruitment of their representatives to decision making positions.

CHAPTER I

INTRODUCTION

Who governs? Dahl's question echoes a problem that has been before political science since the days of Aristotle; what are the means and extent to which private groups can influence public decision makers.¹ Two general answers to this question have run through political theory. The "power elitists" have generally held that societies are usually run by an informal coalition of the economic, social, political, and military elites.² Decisions that would challenge the pre-eminence of the "oligarchy" would not be made; the power of the state will be used to defend the positions of the few on top.³ Outside groups would only lay claim to state authority on the issues on which the interests of the oligarchy were not involved. The pattern of elite rule would not be significantly limited by formal constitutional processes or public debates. It would be rare for a politician to be

¹Robert Dahl, Who Governs (New Haven: Yale University Press, 1961).

²The classic statement of the elitist position was made by C. Wright Mills, The Power Elite (New York: Oxford University Press, 1957); Floyd Hunter, Community Power Structure (Chapel Hill: University of North Carolina Press, 1953).

³Hunter, p. 234; Mills, p. 4.

elected who represented mass interests. Once elected he would be either isolated or co-opted.⁴

Many democratic theorists answer that there is competition within elite circles. Elites who are losing internecine battles will be encouraged to find mass allies to broaden their power base.⁵ If forced to a choice, politicians would rather have mass votes than elite financing.⁶ As a result, the existence of a social hierarchy is not necessarily incompatible with a political system in which lower class groups can appeal to government to redress their grievances against elites.⁷ In evidence for the pluralist arguments is the sharp political conflict in most democracies, the relatively high level of mass supports given to governments, and the enactment of government programs regulating business and offering welfare measures for lower class groups against the opposition of elites.⁸

Neoclitists question the scope of the issues that are raised.⁹ The

⁴Mills, pp. 245-247.

⁵Arnold Rose, The Power Structure (New York: The Oxford University Press, 1967), p. 102.

⁶Ibid., p. 2.

⁷E. E. Schattschneider, The Semi-Sovereign People (New York: Holt, Rinehart and Winston, 1960), p. 2; David Truman, The Governmental Process (New York: Knopf, 1951), p. 61.

⁸Robert Dahl, A Preface to Democratic Theory (Chicago: The University of Chicago Press, 1956), pp. 75-81.

⁹Jack C. Walker, "A Critique of the Elitist Theory of Democracy," American Political Science Review, LX, 2 (June, 1966), 285-295.

many issues on which the elites are either not involved or are split can be admitted into politics with ease. However, the issues that are central to the interests of the elites will not be raised. As a result, non-elites cannot easily appeal to politics for relief against key aspects of elite position.¹⁰ Thus, for example, the organization of the American economy around giant semi-private corporations is not questioned in American political life.

The classification of the democratic Latin American polities into any of these three models is hazardous. There is a strong intellectual current in favor of the "power elite" theory.¹¹ Rigid class distinctions and the strong concentration of wealth in the hands of a few are held in evidence.¹² Substantiating evidence comes from the lack of improvement in lower class standards of living,¹³ and the general ineffectuality

¹⁰Schattschneider, Chapter 8; Peter Bachrach and Morton Barratz, "Decisions and Non-Decisions: An Analytical Framework," American Political Science Review, LVII, 3 (September, 1963), 632-642.

¹¹John Gerassi, The Great Fear (New York: Macmillan, 1963); Stanislaw Andreski, Parasitism and Subversion (New York: Pantheon, 1961).

¹²Oswaldo Sunkel, "The Structural Background of Development Problems in Latin America," in Charles T. Nesbet (ed.), Latin America: Problems in Economic Development (New York: The Free Press, 1969), pp. 3-40.

¹³Oscar Lewis, The Children of Sanchez (New York: Random House, 1961).

of most governments.¹⁴ No one in fact has challenged elite predominance.

The pluralist counter-argument would point to democratic modernizing regimes in Mexico,¹⁵ Chile,¹⁶ Costa Rica,¹⁷ Venezuela,¹⁸ and Uruguay.¹⁹ Most governments have used their power to push industrialization and the nouveau riche industrialists at the expense of the traditional landed gentry.²⁰ The power of the industrialists has been matched by a legal control over hiring, firing and pensions that is unheard of in the United States.²¹ Further evidence is an expansion of the electorate which suggest a liberalization not implied by elitist

¹⁴Raymond Vernon, The Dilemma of Mexico's Development (Cambridge: Harvard University Press, 1963); Claudio Velez, ed., Obstacles to Change in Latin America (London: Oxford University Press, 1965), pp. 45, 135.

¹⁵L. Vincent Padgett, The Mexican Political System (Boston: Houghton Mifflin Co., 1966); Howard Cline, Mexico: Revolution to Evolution, 1940 - 1960 (Oxford University Press, 1962).

¹⁶Federico Gil, The Political System of Chile (Boston: Houghton Mifflin Co., 1966).

¹⁷James L. Busey, Notes on Costa Rican Democracy (Boulder: University of Colorado Press, 1967).

¹⁸Robert Alexander, Venezuelan Democratic Revolution (New Brunswick: Rutgers University Press, 1969).

¹⁹Phillip B. Taylor, Government and Politics of Uruguay (New Orleans: Tulane University Press, 1960).

²⁰Charles W. Anderson, Politics and Economic Change in Latin America (New York: Van Nostrand Reinhold Company, 1967).

²¹Victor Alba, Politics and the Labor Movement (Stanford: Stanford University Press, 1968).

views. Mass identification with winning populist candidates has brought class conflict directly into the political arena.²²

We do not know enough about political processes in Latin America to confidently classify many countries. We are lacking data on the contexts of the private elites who would be in a position to press demands on the government. What significant power groups are there in these societies? From what power bases do they operate? What range of policy alternatives do they represent? Is there in fact any "virtual representation" of the interests and demands of lower status groups?²³ The second area on which we are lacking data concerns the political interactions of the private and public elites. Which private elites did achieve access to the government? How? To what forces and demands did they respond? Which counter-demands are ignored? Why?

The traditional literature on Latin America has generally not responded to any of these points. A depressingly large portion of the literature has focused on the formal machineries of government and

²²Velasco Ibarra is an excellent example. See Chapter 8 and George Blanksten, Ecuador: Constitutions and Caudillos (Los Angeles: University of California Press, 1951).

²³For a critique of political studies in Latin America see: William Welsh, "Methodological Problems in the Study of Political Leadership in Latin America" (manuscript, University of Iowa, Department of Political Science, Laboratory of Political Research), p. 2.

has been content to sketch in group demands in terms of "goodness" or "badness" while ignoring the situational aspects that shape demands, supports, and events.²⁴

These considerations prompted a decision to write a dissertation on the actual, informal channels of decision making. The specific topic chosen was the influence of business groups on economic decision making in Ecuador between 1959 and 1962. The choice of Ecuador was dictated by several considerations. Our knowledge of the political process in the country is scanty.²⁵ The country is small. Business and politics are played in only two medium-sized cities.²⁶ Ecuador has the reputation of being free and open for study.²⁷ Superficial examination suggests a pattern of politics similar to that found in other Andean countries thirty years ago.²⁸

Business groups are an ideal subject to study in Ecuador. They are most closely related to the political decisions on economic

²⁴Ibid., p. 21.

²⁵The only full length work on the political processes of the country is still Blanksten's.

²⁶Edwin E. Erickson, et al., Area Handbook for Ecuador (Washington, D. C.: Government Printing Office, 1966), p. 261.

²⁷Martin C. Needler, Anatomy of a Coup d'Etat: Ecuador 1963 (Washington, D. C.: Institute for the Comparative Study of Political Systems, 1964), p. 9.

²⁸Wayne A. Selcher, "The Administration of Galo Plaza in Ecuador, 1948-1952: A Step Towards Stability" (Master's thesis, Department of Political Science, University of Florida), 1966, p. iii.

development which Ecuador needs so badly. They are reputed to be quite powerful and are more open for study than would be the military or the church.²⁹ There is very little known about business groups in Latin America or of their impact on politics.³⁰

The study has been cast loosely around the "participational" methodology suitably modified to take into account the neocelist critique.³¹ Power is measured by successful attempts at influence, not by reputation or social position. However, account has to be taken of who wants to exercise influence. Otherwise we could not differentiate between unanimity of a satisfied public and the apathy of the discontented who know it is useless to try to have policies changed. Therefore the first task was to sketch in the broad outlines of the economy,

²⁹John Gunther, Inside South America (New York: Harper and Row, 1967), p. 424.

³⁰Among the few are: Merle Kling, A Mexican Interest Group in Action (Englewood Cliffs, Prentice-Hall, 1961); Peter Smith, The Politics of Beef in Argentina (New York: Columbia University Press, 1969); William Lopstrom, Attitudes of an Industrial Pressure Group in Latin America: The Asociación de Industriales Mineros de Bolivia, 1925-1936 (Ithaca: Cornell University Dissertation Series, 1968); Carlos Astiz, Pressure Groups and Power Elites in Peruvian Politics (Ithaca: Cornell University Press, 1969).

³¹The literature in this area is endless. For a representative sample see: Robert A. Dahl, "A Critique of the Ruling Elite Model," American Political Science Review, LII, 2 (June, 1958), 463-469; John Walton, "Substance and Artifact: The Current Status of Research on Community Power Structure," American Journal of Sociology, LXVI, 1 (March, 1966), 430-439; Benjamin Walter, "On the Logical Analysis of Power Attribution Procedures," Journal of Politics, XXVI, 3 (November, 1964), 850-866.

to determine the positions of major groups of businessmen in the economy, and to ascertain, insofar as is possible, which groups could be expected to have substantive grievances against the status quo.

The second part of the study is a descriptive analysis of the channels through which influence would be exercised. Special emphasis was given to the organization and dynamics of the business associations that purport to be major channels of influence. A related concern was with the decision making process in the government; who made decisions, to what types of situational limitations and pressures did they respond, and who was in a position to exercise these checks on decision making.

The last part reconstructed specific decisions. The goal was to determine which business groups did have access, and to find out why and how the mechanisms of government actually operated. These data provide the basis of a sketch of business interest articulation. The social and class differences between influentials and non-influentials indicates the extent to which access is restricted to politics. A comparison between the range of issues that were raised in politics to the range of issues that people would like to have raised is also suggestive of whether the neoelitist rejoinder to the pluralists is accurate.

The specific decisions studied all occurred between July, 1959 and August, 1962. There were several reasons for selecting this

particular period. Three presidents held office: Camilio Ponce Enriquez, José María Velasco Ibarra, and Carlos Julio Arosemena Monroy. This offers a basis for comparing regime styles. Later periods would have been unprofitable as a military junta held office from 1963 to 1966. Post-junta politics have generally concerned the fate of junta reforms and the new constitution.

Only a few issues were raised in the three years that involved businessmen. The author tried to select a set of issues that involved most of the major groups and were representative of most on-going issues. The author also looked for a balance between broad issues involving many groups and narrower ones.³² Table 1 lists the issues selected. Table 2 classifies them according to the number of groups involved.

Data on the recruitment of political figures from business positions were included as a major tool in the analysis of the channels of influence. Recruitment is a major means whereby important private groups obtain sympathetic people in positions of power. Therefore the direction and levels of recruitment indicates which groups would be more likely to exercise muscle and which ones would be likely to have an unsympathetic reception.³³ Furthermore recruitment is

³²Ernest T. Barth and Stuart D. Johnson, "Community Power and a Typology of Social Issues," Social Forces, IIXL, 1 (March, 1959), 29-33.

³³Lester Seligman, "Recruitment in Politics," P. R. O. D., I, 4 (March, 1958), p. 4.

TABLE 1
DECISIONS TO BE ANALYZED

Decision Maker	President		
	Ponce	Velasco	Arosemena
<u>Junta Monetaria</u>	Tariff protection for local manufacturing: <u>Baterias Ecuatorianas</u>	Credit expansion Devaluation	Tariff protection for local industry: <u>EPISA</u>
Executive		Inflationary investment Devaluation	Industrial Development Law Repeal of tax on imported wheat
Congress		Packing the <u>Junta Monetaria</u> Tax on imported wheat	

TABLE 2
SCOPE OF ISSUE INVOLVEMENT

Many groups involved	Few groups involved
Inflationary investment	Tariff protection for <u>Baterias Ecuatorianas</u>
Credit expansion	Tariff protection for <u>EPISA</u>
Devaluation	Tax on wheat imports
Packing the <u>Junta Monetaria</u>	Wheat tax repeal
Industrial Development Law	

frequently an efficient explanation of decision making. "Self-interest" is a powerful motive, especially in a Latin culture that plays down the importance of over-reaching loyalties. More indirect channels of influence were looked for only when the events and outcomes did not point to a "self-interest" interpretation.

This is a very broad range of data to research. Some classes of information were relatively well grounded. Data on the organization of the economy and on the social and economic positions of major economic groups were derived from government statistics and developmental studies. The names of political figures were taken from governmental archives and newspaper articles and advertisements. Information on ownership patterns and business backgrounds of political elites was derived from the World Trade Directory Reports of the Department of Commerce and from the membership lists and trade publications of the business groups. These data are probably accurate although incomplete. It is likely that a more complete analysis would reveal additional branches of the business empires and may uncover additional relations with politicians that have gone unrecorded. However, the major conclusions would probably stand.

The data on the political interests of business groups are somewhat shakier--being based on extrapolations from the reported situations and the interviews with some sixty business and political leaders. However, there was no systematic sampling of business leaders, nor was there any way of checking their statements as to the programs,

problems and supports of third parties. It is quite possible that many demands and programs of lower echelon businessmen never were aggregated up to the middle range of politicians with whom most of the interviews were conducted.

The reconstruction of political processes and events was also uneven. Written reports and newspaper accounts were available. However, the many gaps had to be filled in with interviews with peripheral participants who had their own roles to defend and whose memory may have dimmed with the years. Given the Byzantine complexity of Ecuadorean politics, it would take an almost total awareness of the political situation to "completely analyze" any decision. Even experienced politicians, close to the inner circles, report that keeping up with political events and mastering political techniques is a full-time occupation. Foreign observers have a difficult time gaining access unless they have "married into the system."³⁴ Even the events that do seem well reported may tend to be interpreted by foreign observers through an entirely different set of cultural values.

The major defense of the dissertation is that a broad survey of the articulation of business interests, even given its imperfections, is much more than is now available. Tighter studies can hopefully be

³⁴Interview with Sr. José Vicente Ortuño, formerly deputy and advisor to former President Carlos Julio Arosemena Monroy, on October 16, 1968; interview with Dr. Robert Norris, Director of the Andean Studies Center of the University of New Mexico in Quito, on October 24, 1968.

built on this one. There was also a personal reason for the broad approach. It was felt that the author's intellectual development would be best served by having as broad a perspective on Ecuadorean society as possible.

CHAPTER II

THE SOCIAL CONTEXT

The Land

Ecuador straddles the equator on the western coast of South America. With an area of approximately 111,168 square miles, it is the second smallest country in South America.¹ There are four major regions of the country: the coastal plains, the central mountain region (sierra), the eastern Amazonian region, and the Galapagos Islands. Only the coast and the sierra are important for national life.²

Most of the coastal region consists of rolling hills and alleuvial plains. The northern regions are fertile and well watered.³ Rainfall decreases towards the south; the southern coast of Ecuador blends into the Peruvian desert. The rains in the south tend to be highly

¹This is a very approximate figure. The 1942 boundary with Peru is disputed by Ecuador. The geographical features on which the boundary is based have not been surveyed in detail. See Lilo Linke, Ecuador: Country of Contrasts (London: Oxford University Press, 1960), p. 3.

²ibid., p. 10.

³Luis Alberto Lopez Cordovez, Zonas Agrícolas del Ecuador (Quito: Junta Nacional de Planificación y Coordinación Económica, 1961), pp. 141-143. All government publications will be listed by principal author where one is cited.

seasonal.⁴ Guayaquil, the only city of any size on the coast, is located at the top of the delta of the Guayas River.

The backbone of the sierra is formed by two gigantic parallel Andean ridges. Peaks go up to 20,574 feet (Mount Chimborazo, the highest active volcano in the world) and the ridges must average 15,000 feet. The population of the sierra is almost entirely concentrated in the intermont basins between the ridges. These basins average between 7,000 and 9,000 feet in altitude.⁵ Quito, the capital city, is located in one such basin at a height of more than 9,000 feet. Between these basins are the "nudos" or passes, generally over 10,000 feet.

The sierra lands are relatively unproductive.⁶ Most areas suffer from severe erosion due to intensive farming of the hillsides. Rainfall in many of the basins is scarce or irregular. Many areas have lands deficient in required minerals. Many crops suffer from the high altitude and the lack of clearly marked seasons.

The poverty and geography make transportation and communication difficult. Of the 6,500 miles of road in 1960, only 3,500 were open all year. Roads along the coast tend to be more nearly adequate. How-

⁴ibid., p. 172.

⁵Edwin E. Erickson, et al., Area Handbook for Ecuador (Washington, D.C.: Government Printing Office, 1966), p. 78.

⁶Cámara de Agricultura de la Primera Zona, Principales Problemas Agro-Demográficos de la Sierra Ecuatoriana (Quito: Cámara de Agricultura de la Primera Zona, 1968), p. 6.

ever, quality is relative; as of 1968, only a one-lane dirt road connected the second part of the coast, Esmeraldas, with the rest of the country.⁷ There is no train service along the coast.

The dramatic mountains of the sierra form a great barrier to transportation and national integration. The Pan American Highway stretches for 714 miles from Colombia to Peru.⁸ For much of the way it is a one-lane cobblestone road hugging the sides of the mountains. Frequent landslides, steep grades and an uncomfortably slippery surface make the cheap and rapid transportation of goods an impossibility.⁹ The national railway system connects from San Lorenzo, on the northern coast, to Azogues in the sierra, and then to Guayaquil on the coast. The system carried about 500,000 tons of goods and 2,000,000 people in 1956.¹⁰ However, maintenance is poor, and the rails are thought to be unreliable. Transportation from the coast to the sierra is perhaps even more difficult than within the sierra. There is a good road from Quito to Guayaquil. The railroad

⁷This road had been substantially improved to the condition described by the time I made the trip in 1968. I do not know how much worse it had been before.

⁸U.S. Department of Commerce, Investment in Ecuador (Washington, D. C.: Government Printing Office, 1959), p. 94.

⁹Ibid. The highway is very good between Quito and Latacunga. However, it turns into dirt ruts over the difficult terrain outside of Cuenca.

¹⁰Ibid., p. 93.

and the highway between Cuenca and the coast are both difficult.¹¹

The People

The official population of Ecuador as of November, 1962 was 4,581,476 people.¹² This works out to a population density of 43 persons per square mile, one of the highest in South America.¹³ About half of the population (2,363,000 people) live in the sierra provinces, virtually all of the remainder live on the coast. The Galapagos and the Oriente contain less than 1 percent of the total population. Population density per variable square mile in the coast is low. Less than one-sixth of the land has been cleared for agricultural use. Population pressure in the sierra though is very high. Much of the land is too high and too steep to be useful for agriculture.¹⁵

Sixty-four percent of the population is classified as rural.¹⁶ Many "urban" families live in small agricultural towns. Only four

¹¹Ibid., p. 92.

¹²Ecuador, Junta Nacional de Planificación y Coordinación Económica, División de Estadística y Censo, II Censo de Población y Primer de Vivienda: Resumen General (Quito: 1962).

¹³Statistical Abstract for Latin America: 1962 (Los Angeles: Center for Latin American Studies of the University of California, 1962), Table 5, p. 12.

¹⁴Erickson, et al., p. 62.

¹⁵Problemas Principales. . . , p. 60.

¹⁶Erickson, et al., p. 60.

cities had a population over 50,000 in 1962; Quito (355,000), Guayaquil (510,000), Cuenca (60,000), and Ambato (53,000).¹⁷ The general poverty and lack of communication make the urban areas more provincial than we would expect from cities in the United States of comparable sizes. Only in Quito and Guayaquil are there many members of the urban and urbane national upper class. National political and economic decision making is carried out almost exclusively in these two cities.¹⁸

According to the 1962 census, 43% of the population over ten is illiterate.¹⁹ The life expectancy is low at 52 years. However, longevity is substantially greater in urban areas. The high infant mortality skews the gross life expectancy downwards. Even so, the chances of a member of the rural lower class making it to advanced years after the age of five or so are not great.²⁰

Per capita income in Ecuador is quite low at \$150.00 a year.²¹

¹⁷Erickson, et al., p. 62.

¹⁸Investment in Ecuador, pp. 11-12.

¹⁹II Censo

²⁰The writer once spoke with the owner of the general store in Tochinque, a small town on the north coast. He was talking about how, "When you have lived as long as I have. . . ." I asked him for his age. "Thirty-nine," he replied. There was general assent that these advanced years constituted the foundations for great wisdom. The man appeared to be at least sixty.

²¹Estimates of income vary widely. This figure was provided by the staff economist of the USAID mission in Ecuador. See Clarence Zuvekis, "Ecuador: Selected Economic Data with Commentary" (Quito: USAID, 1968), p. 11.

The average income on the coast is perhaps twice as high as it is on the sierra. With the available land and favorable climate, the "costs" of poverty on the coast are probably lower than in the sierra.²²

Standards of living in the cities are probably somewhat higher. However, the unemployment pressure is very high.²³

The validity of a mean income figure is largely nullified by the extremely unequal distribution of wealth. About half of the population is effectively outside of the monetary economy. The net worth of one big businessman is reputed to be about that of the central government.²⁴ Inequality in income is paralleled by inequality in land holdings. The distribution of incomes and lands is shown below in Figure 1.

The inequalities of income distribution result in a highly stratified class system. Members of the lower class, defined as agricultural laborers, blue collar workers, and self-employed artisans, make up some 83% of the economically active population.²⁵

²²This view may reflect my greater familiarity with the sierra. Residents of the coast comment favorably at the low level of starvation seen around Quito.

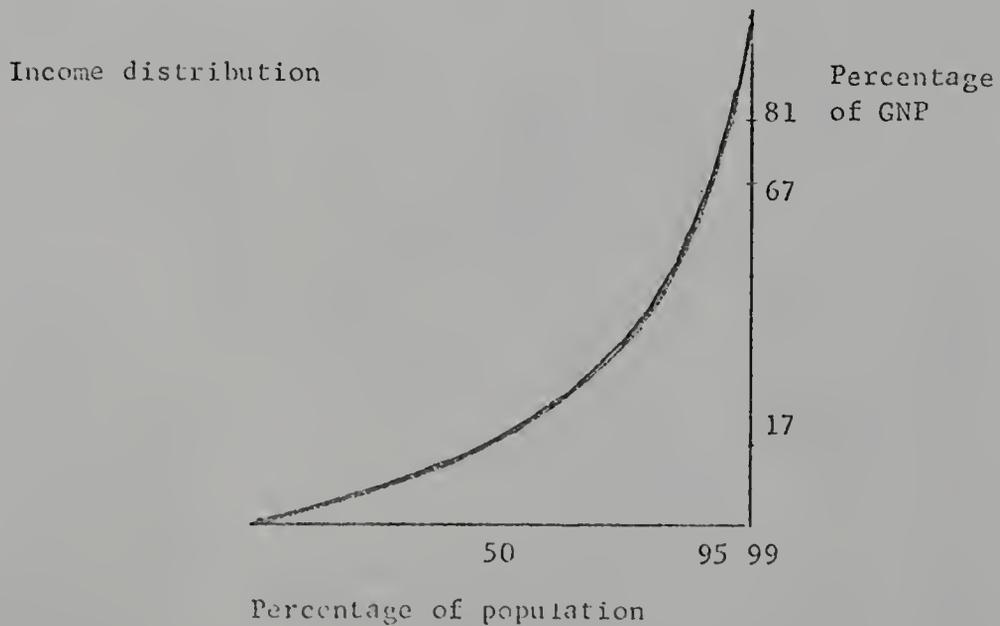
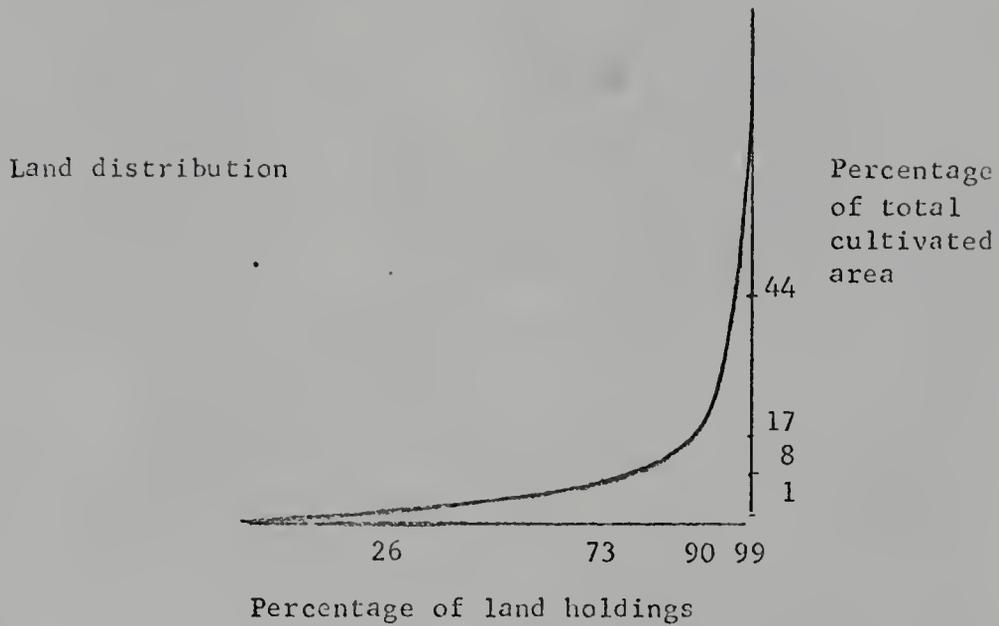
²³Erickson, et al., p. 70.

²⁴Interview with Dr. Alejandro Vega Toral, 1960 deputy from Azuay province and director of the Frente Nacional Velasquista in Cuenca, on October 18, 1968.

²⁵Figures derived from Zuvekis, 34; Instituto de Estudios Administrativos de la Universidad Central del Ecuador, Salarios en el Ecuador: Agosto-Septiembre 1963 (Quito, 1963), p. 119.

FIGURE 1

DISTRIBUTION OF LAND AND INCOME IN ECUADOR



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Figures derived from Herrera Vásconez, El Cultivo en El Ecuador (Guayaquil: ANBE, 1963), p. 184; J.D.V. Saunders, "Man-Land Relations in Ecuador," Rural Sociology XXVI(1) (March, 1961), pp. 57-61.

There are great regional variations in the social situations of lower class people. The poor of the sierra are largely "indians"²⁶ in that they adopt distinctive dress and identify with local "indian" communities and customs.²⁷ The sierra poor are attached to the land, either as small landowners or hacienda workers and sharecroppers. In popular view, the sierra indians (and, by extension, all sierra poor) are dull, sullen, inefficient, possessing a "heart of stone."²⁸ Anthropologists report that indians turn their faces away from the threatening world of the white man. They tend to be very conservative and slow to adopt change.²⁹ Many of the sierra poor are effectively outside of the national economy. Hacienda wage workers usually receive between five and seven sucres a day.³⁰

The coastal poor are entirely different. Along the northern coast there are many Negroes. In the central regions many of the

²⁶Linke, p. 12; Carlos Cisneros, "El Indio: Nadie Hace Nada por Su Causa," Vistazo, October, 1968, p. 81.

²⁷Beate R. Salz, "The Human Element in Industrialization: A Hypothetical Case Study of Ecuadorean Indians," Economic Development and Cultural Change, IV, 1 (October, 1955), part 2, 126.

²⁸Linke, pp. 59-66.

²⁹Ralph R. Beals, Community in Transition: Nayón, Ecuador (Los Angeles: University of California Press, 1966), pp. 115-117; Cisneros, pp. 75-87.

³⁰This is 25 to 30 cents a day. The real purchasing power is perhaps twice that sum. See, "Productivity of the Agricultural Sector in Ecuador," Economic Bulletin for Latin America, VI, 2 (June, 1962), 67.

people are former "indians" who have changed their identities to that of mestizo. The high level of intermarriage between Negroes and others is also evident in the skins of many people on the coast. No major group identify themselves as indians.³¹

The coastal poor are much more vivacious, outgoing and active than are their sierra counterparts. This can perhaps be attributed to the influence of the more open Negro culture, the higher wage levels and superior social position resulting from the scarcity of rural labor. The social horizons of the coastal workers are also expanded through the common patterns of migration. Many of the people move frequently in response to seasonal employment, the search for new jobs in the cities or simply for some change and excitement.³²

Middle class groups: skilled workers, lower level government employees, and clerical workers make up some 16% of the economically active population.³³ They are uniformly "white" and urban oriented. Incomes for middle class workers varies between \$50.00 and \$200.00 a month.³⁴ While the poor, especially in the sierra, can be counted as being outside of national life, the middle class

³¹Linke, p. 58.

³²Linke, p. 67; Erickson, et al., p. 113.

³³Zuvekis, p. 34.

³⁴Salarios en el Ecuador . . . , p. 72; Linke, pp. 79-84.

groups are definitely participants in city life, if not in national life.

Upper class groups are quite varied. The influence of immigrant groups is strong. The Europeans, generally Germans who came before and after World War II and their descendants, are extremely important in Quito commerce. The Lebanese, "Turcos" to the Ecuadoreans, are coming to dominate banking and textiles more and more. However, the total number of immigrants is no more than 20,000.³⁵

The Culture³⁶

Cultural shock and the retreat to prejudice make the accurate reporting of foreign cultures difficult. Therefore the picture presented below is a composite, built up of the observations of more experienced researchers that seem relevant to my understanding of Ecuador. These generalizations must be taken with caution. They are related to the most sharply perceived areas of difference and thus ignore the larger areas of similarity between our culture and that of Latin Americans. The following generalizations are true for some major group of Ecuadoreans in some positions; however, they do not necessarily represent a balanced view of the country as a

³⁵Erickson, et al., p. 89; U.S. Department of Labor, Labor Law and Practice in Ecuador (Washington, D.C.: Government Printing Office, 1963), p. 13.

³⁶The literature is extensive. A basic statement of the concept is given in Young C. Kim, "The Concept of Political Culture in Comparative Politics," Journal of Politics, XXVI, 2 (June, 1964), 313.

whole.

The world view of many Ecuadoreans seems colored by a sense of class and hierarchy. The stations in life are properly ranked. Incumbency reflects intrinsic merit, and not accidents of birth or fortune. There is a sense of "deserving poor" but limited outrage at the fact of poverty. The elites, too, view their positions as being proper, a reflection of their intrinsic merit. Therefore the enormous gulf in status between the national elites and the local middle class is accepted as a natural reflection of the social order.³⁷

The world is seen as essentially static. There is no natural direction for change to take. So the social change that does occur tends to be viewed with suspicion. This is related to the idea of "limited good." In a static world, one person's gain must be another's loss. The idea of all working together for a common good is notably lacking.³⁸

The world is seen as being neutral, tending towards being hostile. With the view of a static environment, there is relatively little sense of "mastery of fate." The best the individual can do is to take advantage of random disturbances for which he is not responsible.³⁹

³⁷K. H. Silvert, "An Essay on Social Structure," American University Field Staff Reports, November 25, 1956; John Gillin, "Ethos Components in Modern Latin American Culture," American Anthropologist, LVII (June, 1955) 511; Erickson, et al., p. 106.

³⁸Frank Tannenbaum, Ten Keys to Latin America (New York: Knopf, 1962), p. 120.

³⁹Tomas Roberto Fillol, Social Factors in Economic Develop-

Latins have a much sharper sense of their own unique identity than Americans are used to. Ecuadoreans, from president to the humblest farmer, seem to be aware that they are masters of their soul if not of the world around them. This has two consequences: an interest in artistic expression as a demonstration of individuality, and a tendency to demand autonomy of life and expression within some sphere. Great sacrifices will be made to maintain pride in individuality.

Social relations are more personal and more intense than we are used to in the United States. People want a close circle of friends and relatives who are aware of the unique individuality of each other. Individuals who are forced into contact with an anonymous public often seem surly and unsure of themselves.⁴⁰ Latins complain that Americans will not make themselves aware of the individuality of the people with whom they are dealing.⁴¹

A high premium is placed on loyalty to the primary group.

People who really understand the inner makeup and merits of their

ment: The Argentine Case (Cambridge: The MIT Press, 1961), pp. 9-12; Samuel Shapiro, ed., The Integration of Man and Society in Latin America (London: University of Notre Dame Press, 1967), p. 5; Gillin, p. 515.

⁴⁰K. H. Silvert, "On Civil Discourtesy," American University Field Staff Reports, February 5, 1967.

⁴¹Jairo Marquéz, Anatomía del Gringo (Bogotá: Ediciones Tercer Mundo, 1966), p. 177.

friends would be willing to accept and understand their actions. People who place loyalties to abstractions over loyalties to their friends are worse than damn fools; they have betrayed the trust of others. The worse charge Latins bring against North Americans is that they cannot be trusted with friendship.⁴² Ties of loyalty link social stations together. Subordinates accord their superiors higher status as long as there is a reciprocal recognition of the subordinate as a worthy individual.⁴³ Superiors in return gain recognition that they are in the center of the world for their subordinates.

Latins seem extraordinarily sensitive to dominance and subordination in inter-personal relations. Leaders emerge and take clear-cut roles in almost all social situations.⁴⁴ The person in the center claims a major share of attention and status by virtue of his superior, more dominant personality. Subordinates want to have a leader sufficiently overpowering to justify their own lower positions.

There are cultural differences between the sierra and the coast.⁴⁵ The sierra reflects the hacienda ideal of a stable feudal society.⁴⁶ Class and status distinctions are much sharper and something

⁴²Ibid., p. 72.

⁴³Norman E. Whitten, Jr., Class, Kinship and Power in an Ecuadorean Town (Stanford: Stanford University Press, 1965), pp. 105-106.

⁴⁴Erickson, et al., pp. 232-234.

⁴⁵Blanksten, p. 28.

⁴⁶Tannenbaum, Chapter 5.

resembling a social aristocracy has emerged.⁴⁷ The influence of the Church is heavy.

Most Quiteños seem guarded in personal relations. People are socially conservative and dress tends to be very modest.⁴⁸ Although people are generally quite friendly, few are willing to commit themselves to close relations except after extended contacts. Quiteños also seem peaceful. Crimes of violence appear to be relatively infrequent.⁴⁹

The sierra businessmen, with the exception of the immigrant entrepreneurs, seem less innovative and dynamic than their counterparts on the coast. Business seems to be a means of achieving a social position and not a pattern of activity to be valued for its own sake. The politics of the sierra seems to reflect the aristocratic ideal. Political recruitment seems relatively closed. Few "self-starters" who lack a family name break into the sierra political arenas.⁵⁰

⁴⁷Elite circles are not completely closed. Former President Galo Plaza is a newcomer to elite circles and yet is influential in sierra business and society.

⁴⁸In theory the co-eds at Universidad Central must be escorted while off campus. Dances, called "bonfires" to avoid unpleasant connotations, usually end by 10:00 P. M.

⁴⁹This observation is based on the relative sense of personal threat felt in Quito and Guayaquil.

⁵⁰Again this is not always true. The present mayor of Quito, Jaime Del Castillo, comes from a poor family of the northern provinces.

The open commercial society of Ecuador is located on the coast where there is a relatively high level of economic development and social mobility. Costeños tend to be open and spontaneous in personal relations. Individuals will make no pretense of friendship if they do not like someone. People may commit themselves to extended adventures on the basis of casual contacts. Women on the coast seem free and open to friendships. The people on the coast also seem more anomic and violent. The level of criminal violence in Guayaquil seems very high.⁵¹

The businessmen of the coast are the most progressive and aggressive group of entrepreneurs in the country. They seem the most receptive to new ideas and new investments. Many managers seem to regard business as a game worthy of its own reward. As a result, the successful businessmen have assembled personal empires and have at times merged these into multi-family combines that have major impacts on the economy.

Coastal politics also reflect these traits. A much wider circle of people seems to be drawn into the political arena than would be found in the sierra. Radical populist movements are all stronger on the coast.⁵² Political movements center around charisma, stressing the

⁵¹ Suggestive of the atmosphere of violence are the fortifications that surround the offices of the leading newspaper, El Universo. Guards are backed up by chain link cages around all offices and entry is controlled through double steel doors. There is nothing comparable in Quito.

⁵² Erickson, et al., p. 319.

personal relation between a leader and his followers. Political violence and power confrontations are common on the coast.⁵³

These cultural differences are both a result of and a reinforcement for the low level of integration in Ecuador. The geographic isolation of many areas and the differences in outlook all contribute to a very high level of regionalism. In Guayaquil, the provincial flag is seen more often than the national flag. The slogan, "For an independent Guayaquil" (Pro Guayaquil Independiente) appears on the doors of the largest bank and on the desks of countless office workers. Regionalism is a fact of life in the other areas of the country too. Clubs formed by residents of Quito and Guayaquil who have "immigrated" from other provinces are quite active.

Regionalism is not a recurring political issue. Most people are willing to accept a common political framework while considering the citizens of other regions to be somewhat deviant.⁵⁴ Regionalism can, though, provide the common loyalties for the construction of large

⁵³The students of Laval Borja High School (colegio normal) in Guayaquil severely burned two policemen with napalm bombs during a demonstration in Guayaquil in 1968. The police had broken up an attempt made by the students to place a plaque on city hall that commemorated a similar incident of the previous year. Such incidents are not uncommon.

⁵⁴Sr. Alfredo Pareja Diezcanseco reported that the coastal businessmen were enthusiastic about the possibilities of buying into sierra companies as a means of healing the regional split. However, the apparent novelty of the proposal points to the size of the gulf between the two regions. Interview with Sr. Alfredo Pareja Diezcanseco, assistant manager of the Banco Popular and former member of the Junta Monetaria, on November 21, 1968.

coalitions on major political issues.⁵⁵ Regional competition for the benefits of politics also limited the possibilities of projects in any one area.⁵⁶

The patterns of business activity can be clearly traced to the culture. In a hierarchical world, the businessmen see themselves as being unique and a bit superior to the rest of the groups in the society. They are the chief guardians of the economic fabric of the society, the only groups responsible for the conduct of the economy.⁵⁷ Frequently they demand freedom from governmental restraint,⁵⁸ while also asking that they be the only group to participate in governmental decision making that affects them. This is far from the ideal of laissez-faire capitalism, as businessmen actively seek governmental credits and protection.⁵⁹

⁵⁵Erickson, et al., pp. 261, 318.

⁵⁶Congress almost rejected an advantageous loan for a needed bridge over the Guayas River because the funds would not be divided equally between the other provinces. See Ecuador, Congress, Diario de Debates: Sesiones en Pleno: Agosto, 1959 (Quito: Archivo Legislativo, 1960).

⁵⁷For an example, see "Manifiesto," Revista de la Cámara de Comercio de Guayaquil, XXXI, July 31, 1959, p. 5; Rafael Dillon Valdéz, "Declaración de la Cámara de Industriales de Guayaquil," El Comercio (Quito), November 10, 1968, p. 3.

⁵⁸Dillon Valdéz, p. 3.

⁵⁹Protection has been demanded by almost all groups. For an extreme example, the drycleaners association demanded tax incentives and protection from "disloyal" competition. See "Se Nos Considera Industria Solo Para Cobrar Impuestos," El Comercio, October 5, 1968, p. 15.

Business activity also reflects the conservative emphasis on being instead of doing, and the Latin demand for autonomy. Latin businessmen seem loathe to take risks, to engage in entrepreneurial activity. Stability is valued over growth.⁶⁰ Competition is not valued. It has been alleged that Latin businessmen generally prefer to raise prices as high as possible instead of expanding the market through price cuts.⁶¹ In a market where prices are informally fixed, business is based on establishing personal loyalties with the clients.

Autonomy and the primacy of in-group loyalties make speculation a valued form of investment. The attitude of South American businessmen could be compared to that of a riverboat gambler who is willing to sink all to fleece the sucker on a sure thing.⁶² Banks, for example, will often finance a market-cornering operation but not a market-producing operation.⁶³

Business organization and decision making tend to be inefficient. Businessmen seem reluctant to accept innovation, preferring the stability of established practices. Stores seem drab, with little use made

⁶⁰Seymour Martin Lipset and Aldo Solari, eds., Elites in Latin America (New York: Oxford University Press, 1960), p. 15.

⁶¹Wendell C. Gordon, The Political Economy of Latin America (New York: Columbia University Press, 1965), pp. 58-59; Fillol, p. 58.

⁶²Egbert de Vries and José Medina Echevarría, eds., Social Aspects of Economic Change in Latin America: Vol. I (Belgium: UNESCO, 1963), p. 192.

⁶³Gordon, p. 8.

of advertising or sales. Cost accounting for many firms is a relatively new technique.⁶⁴ Technical inefficiency may be related to the tendency to concentrate all power in the hands of top management.⁶⁵

Dynamic businessmen work incredibly hard. Sr. Luis Naboja Naranja, the largest banana exporter in Ecuador, runs his business almost single-handed.⁶⁶ Most businessmen understandably prefer the role of gentleman, so decisions related to innovations are not made.

Businessmen usually try to keep the firm within the family. The "heir apparent" is frequently started off at the top. Occasionally, a business will be started specifically for the purpose of giving the next generation business experience.⁶⁷ Staffing of subordinate positions is generally based on family ties. Some feel that highly qualified applicants would be rejected for subordinate positions. If good people are content with low pay and the lack of opportunities, it is only because they are either tapping the till or planning a palace coup.⁶⁸

⁶⁴ Interview with Mr. John J. Snyder, Labor Attaché to the American Embassy in Ecuador on October 15, 1968.

⁶⁵ Lipset and Solari, p. 16; Fillol, pp. 24-26.

⁶⁶ Interview with Mr. Wilfred Griswold, personal pilot to Sr. Naboja, on October 28, 1968.

⁶⁷ Comercial Importadora S. A. was started by Giovanni Malnati Parodi to give his son experience and something to do. There are other examples as well. U. S. Department of Commerce, World Trade Directory Report; Comercial Importadora (date unknown).

⁶⁸ Interview with Mr. Griswold. This has been partly substantiated by personal observations, especially of Sociedad General, the holding company for the operations of Sr. Juan X. Marcos.

Technical inefficiency may also be related to the concern for "inner light" on the part of the top managers. It is reported that major decisions are frequently made intuitively. Research is then done to see how the decision consequences would affect the company. The desire for status, feelings of like and dislike, and general dreams are allowed to replace objective analyses of profit and loss situations.⁶⁹

Labor relations are patterned on the paternalistic ideal. The company is regarded as a family and the workers should be grateful and loyal to their superiors. Making demands against the top management is equivalent to "disloyalty" and "not knowing their place."

At times the system works impressively well. Sr. Ricardo Levy, the general manager of Fábrica Sudamericana de Broches S.A., spends much of his time handling the most intimate problems of his workers. The workers respond enthusiastically in their work and in support of Sr. Levy and his wife.⁷⁰

When paternalism breaks down, labor-management relations can be extremely bad. One survey concludes that most businessmen perceive their workers as being dishonest, lazy, incompetent and disrespectful.⁷¹ Petty thievery, absenteeism and union irresponsibility

⁶⁹Gordon, Chapter 11.

⁷⁰This opinion is based on extended observations made by the author.

⁷¹Frank L. Turner, et al., The Artisan Community in Ecuador's

are evidently very prevalent. However, much of this may be attributed to management attitudes. Many businessmen subsidize communist unions in order to keep out American-style unionization. They would rather deal with the radicals, who can be bought off in a strike and who justify their anger at the workers, than with the American organizers who do not. This attitude seems to be based on the desire to maintain a superior social position over the workers rather than on a desire to maintain profits with cheap wages. Management has generally rejected union proposals that guarantee an increase in total profits through a modernization of work organization and an increase in worker productivity.⁷²

Business often seem ambivalent about politics. High status and visibility are accorded to individual political actors. Most Ecuadorians identify with political factions and are interested in and knowledgeable about political events. Charting the rise and fall of political personalities, and watching the crunch of power plays in the political big leagues is as fascinating to businessmen in Ecuador as professional football seems to be in the United States. Many businessmen seek election to put final public approval to a successful private career. The individual who has served a term in Congress is elevated to a special high status. This fascination with politics has

Modernizing Economy (Menlo Park: Stanford Research Institute, 1963), p. 104; Fillol, p. 74.

⁷²Interview with Mr. Snyder.

probably helped preserve the majesty and legitimacy of political institutions.

Economic demands are easily politicized.⁷³ It is considered quite proper to seek political positions or influence for private gain. There is no concept of "conflict of interest."⁷⁴ Political connections are as much a prerequisite for economic growth as efficiency, product quality and cost reduction.

Politics is also seen as dirty and dangerous. Politicians are seen as being unmindful of the needs of the people.⁷⁵ Corruption and inefficiency are frequently cited as major barriers to economic growth. Businessmen also resent the delay and necessity for political pull to get action from government bureaucracies.⁷⁶ There is also a general fear that the costs of losing may outweigh the pleasures of winning open partisan battles. These factors tend to reduce the political involvements of many businessmen.⁷⁷

Authority is often met with overt compliance and covert resistance. Few businessmen question the general legitimacy of the

⁷³Expanding Private Investments for Ecuador's Economic Growth (Washington, D. C.: Checci and Co., 1961), p. 4.

⁷⁴ Interview with Mr. Madison Monroe Adams, Jr., on March 1, 1968.

⁷⁵ Dominguén, "Dos Meses del 'Honorable' Congreso," Epoca, October, 1968, pp. 22-28.

⁷⁶Expanding Private Investment . . ., p. 4.

⁷⁷ Interview with Sr. Helge Vorbeck, president of Cervecería La Victoria S. A., on July 29, 1968.

government. However, many wish to avoid the application of authority in situations in which they are involved.⁷⁸ Tax evasions are frequent and open.⁷⁹ There are elements of self-hate in this ambivalence about politics. Many people couple a strong identification as an Ecuadorean with feelings that the political and social orders are not worthy of serious regard.⁸⁰

Political roles are centered around the image of el caudillo.⁸¹ Political leaders and their lieutenants have many different motivations for participating. There are substantial differences in the styles of different groups. However, I was struck by the uniformity with which certain heroic characteristics were attributed to leaders at all levels. The impression was very strong that followers must be able to present their leader as an authentic caudillo, even if neither the politician nor the follower has internalized the ideal characteristics of this role.⁸²

⁷⁸Shapiro, p. 8.

⁷⁹Hugo Mas, "Quién Paga Impuestos en El Ecuador," Vistazo, October, 1968, pp. 12-19.

⁸⁰One of the most poignant examples occurred in October, 1959. A bill giving honorary citizenship to an American philanthropist who had resided in Ecuador for many years received wide support in Congress. However, the proposal was allowed to die because no one was sure the man would accept and pride prevented anyone from asking him. See Ecuador, Congress, Diario de Debates, Senado; Septiembre 1959; Vol. I. (Quito: Archivo Legislativo, 1960).

⁸¹George Blanksten, Ecuador: Constitutions and Caudillos (Los Angeles: University of California Press, 1951), p. 34.

⁸²I was impressed by the extent to which many sophisticated

The political leader must have a following loyal to him. His organization is personal, it is not based on intervening variables such as party or organizational identifications. The individual who has not been able to gain the loyalty of a close following deserves no attention by those on the fringes. The leader is combative, powerful, and autonomous. He is supposed to relish political fights. He must be able to project the image of being able to master the competition through sheer force of his personality, superior strategy, or weight of organization. He is also autonomous within his organization. His followers depend on him for direction, advice, and the benefits of his power. Divided leadership through task specialization is weak.⁸³

The leader is pure. Many want to see their captains as "saviors of the country." Therefore, his goals should be idealistic and he should be personally honest. If he deals in corruption, it is in the interests of higher goals or to protect the interests of his followers. Sophisticated politicians who know the wheeling and dealing in Ecuadorean politics insist that their leaders do not participate personally in these arrangements. The dirty work is done by advisors, either

politicians referred to their particular factional leaders and the oppositions in almost exactly the same terms of heroism and villainy. They all seemed quite sincere even though their evaluations were apparently quite unrealistic, given the Ecuadorean political context. Since politicians do not behave as if they regarded leaders as being either all good or all bad, I concluded that this image is "window dressing" that justifies and enables political activities that would otherwise not be quite legitimate.

⁸³Erickson, et al., p. 320.

out of loyalty to the chief or, at times, baser motives.

The leader should be a universal man. The extraordinary individual competent to lead a movement should also be well-rounded intellectually. The ideal of the philosopher-king or the renaissance man, intellectual, valiant and humanistic, is much more appealing in Latin America than it is in the narrowly specialized culture of the United States.

The leader should be human. He should be "simpático"; warm, charming and genuinely interested in others. He should be open to the ideas and wishes of his followers. A constant preoccupation should be the interests of his followers.

The ties between leader and follower are warm and emotional. Many seem to gain a vicarious sense of participation through identification with a leader. For active party workers, the vicarious sense is reinforced by the possibility of employment.

The close lieutenant gains status through association with the political leader. An individual who has the confidence of a president must be exceptional. He also gains power by his claim on the loyalty of the chief and through control of access to the chief.

These factors can be related to the "arrogantly combative" style of politics.⁸⁴ Cooperative efforts and pragmatic bargaining for

⁸⁴This image is consistent with the observations of Colombian politics made by James L. Payne, Patterns of Conflict in Colombia (New Haven: Yale University Press, 1968), Chapters 6-8. However, the social constraints on political conflict in Ecuador seem strong enough to prevent the development of "defensive feuds."

mutual gain seem relatively infrequent in Ecuadorean politics. Politicians have an interest in demonstrating their intrinsic majesty as a true caudillo. Many fear that their following would be swallowed up by competing groups if autonomy is not guarded jealously.⁸⁵ There are few transcending loyalties to serve as common goals in a cooperative effort.

Political conflict often resembles open battle.⁸⁶ Each group claims that the opposition is hopelessly corrupt and damnable. Open negotiations are difficult at first, so outcomes are determined by the results of power plays. This may take the form of mass demonstrations, attacks on the meetings of the opposition, threats of sporadic violence, or a general strike. Negotiations start when neither side can crush the other. Both sides usually can claim a victory. The "ins" have maintained order or have won the election, the "outs" have gained the status of a major competitor who could force negotiations and have demonstrated a significant force for future battles.⁸⁷

⁸⁵Coalitions are formed during presidential elections. However, factional leaders are quite aware of the necessity of maintaining a separate identity. Interviews with Sr. Jorge Luna Yopez, chief party tactician for ARNE on November 13, 1968, and with former president and liberal candidate for president in 1968, Andres F. Cordova on November 29, 1968.

⁸⁶These comments parallel observations of Peruvian politics made by James L. Payne, "Peru: The Politics of Structured Violence," Journal of Politics, XXVII, 2 (June, 1965), 362-375.

⁸⁷Norman Bailey, ed., Latin America: Politics, Economics and Hemisphere Security (New York: Praeger, 1965), p. 81.

Several constraints keep the political order from breaking down. Challengers are careful not to enter conflicts in which they would not put up a respectable showing. A major defeat could spell the end of a political leader and his organization. Political loyalties often cross-cut friendship and family loyalties. Opponents may be joined by a web of social relations that dampen open battles.⁸⁸ No group is willing to strain social ties with uncommitted third parties by pushing the fight too far. The social support of uncommitted groups gives combatants a potent reserve against potential attackers. So leaders are generally careful not to make unnecessary enemies that may return to haunt.

The pattern of Ecuadorean politics resembles those found in neighboring republics. Political instability has been apparent. Ecuador has been governed under 16 different constitutions since independence.⁸⁹ Only three constitutionally elected presidents have served a regular term of office since 1924. A total of 31 people have held the presidential office in this period.⁹⁰

However, instability has not meant the absence of political norms and patterns. Participation has always been restricted to a very small section of the society. At best, fewer than 20% of the people

⁸⁸Whitten, Chapter 8.

⁸⁹Blanksten, p. 8.

⁹⁰Ibid. A new constitution was written after Blanksten's book was published.

vote in elections. Formal control of the machineries of government has tended to stay within a small circle. Many recent presidents, José María Velasco, Andrés F. Córdova, Galo Plaza Lasso, Carlos Julio Arosemena and Otto Arosemena among them, have either served several non-consecutive terms of office or are very closely related to past presidents.⁹¹

Oligarchy in Ecuador has been tempered by at least a verbal commitment to freedom and democracy. Most recent presidents have justified their control of the office through an appeal to either a popular mandate or a commitment to reforms which will make democracy truly functional in the future. Personal freedoms have also been generally respected. The coups have generally been run according to gentlemen's rules. Violence has been kept down and the losers have been permitted to withdraw into exile. Ecuador has had no military tyrants to compare with Melgarejo in Bolivia, Trujillo in the Dominican Republic or even Pérez Jiménez in Venezuela.

The themes of personalism, regionalism and the quest for economic advantage have figured often in the panorama of Ecuadorean political history.⁹² The independence of Ecuador from the federation of Gran Colombia was declared in 1830 by the Venezuelan general Juan José Flores, who ruled the country directly or indirectly for the next 15

⁹¹ibid.

⁹²John Edwin Fagg, Latin America: A General History (New York: Macmillan, 1969), p. 423.

years. National life extended very little past the city limits of Quito. Guayaquil and the other coastal areas were generally pest holes fit for smugglers, adventurers and exiles.⁹³

The repressive rule of Flores, together with the resentment of the role played by foreign generals in the country (one of whom was president), and the struggle for the spoils of the government coalesced into a vaguely nationalist opposition movement. The coalition of dissident Quiteños and the always troublesome residents of Guayaquil finally forced Flores from office in 1845. However, the removal of Flores did not bring peace, rather an intensification of internecine warfare was the result.

Peace was achieved with the establishment of the reign of Gabriel Garcia Moreno, the former rector of the University of Quito.⁹⁴ A civilian, modest, upright and scholarly, he was the antithesis of Flores. However, militarism had been exchanged for clerical fanaticism. The Church was firmly entrenched, the Jesuits were brought back and the curses of liberalism and anti-clericalism were combated by the most strenuous means. As a culmination of his religious program, Garcia Moreno reverently dedicated the country to the Sacred Heart of Jesus. An attempt was made in 1870 to raise a clerical army to rescue the Pope after the annexation of the Vatican. The medieval

⁹³Ibid.

⁹⁴Ibid., p. 429.

autocracy that Garcia Moreno was trying to build was brought to an end when the president was hacked to pieces on the palace steps by a group of machete-wielding youths.⁹⁵

If the 19th century had belonged to the conservatives, the 20th marked the rise of the liberals. A prosperity based on the exportation of rice and cocoa together with the eradication of yellow fever brought population and economic power to the coast.⁹⁶ The period between 1875 and 1895 was characterized by an uneasy truce between the liberals and the conservatives. However, a scandal in the administration of Luis Cordero resulted in a civil war between coast and sierra which was won by the coastal general, Eloy Alfaro. Alfaro promptly began to cut back the power of the Church and to modernize the legal and commercial systems of the country to keep up with the new prosperity. Although Alfaro was assassinated by a proclerical mob in 1912, the presidency was firmly held by the coastal liberals until 1924.

The economic development of Ecuador brought new groups into the political process. The military was largely pacified through professionalization. Many of the economic elites, who apparently decided that revolution was bad for business, began to support political

⁹⁵George J. Blanksten, "Ecuador: The Politics of Instability," in Martin Needler, The Political Systems of Latin America (Princeton: D. Van Nostrand, 1964), p. 274.

⁹⁶Fagg, p. 639.

coalitions and more orderly changes in government. Urbanization and rising literacy brought in the spectre of populism.⁹⁷

During the depression years there was a brief experiment with military rule. During the war years the liberals and radicals united for a last election and gave the presidency to Dr. Carlos Arroyo del Rio. However, the dominant figure of the period has been Dr. José María Velasco Ibarra. Between 1937 and 1968, Velasco has been president five times. Only one term has been finished. Three times now he has been ousted because of corruption and violence.⁹⁸ The persistence of Velasco's political career can be attributed to the appeal his brand of populism has for the poor and the marginal businessmen. His presidency from 1960 to 1961 is the subject of Chapter 8.

⁹⁷Blanksten, p. 277.

⁹⁸Velasco was president at the time this was written.

CHAPTER III

BUSINESS GROUPS OF THE COAST

The Economy

The Ecuadorean economy is specialized in the production and exportation of a few agricultural products. There are a few business groups and the economic relations among groups are relatively simple. The importance of agriculture in the economy is suggested by Table 3. Agricultural production is relatively undiversified. Most of the land is taken up in the cultivation of a relatively few crops. This is shown by Table 4.

Exports are highly important to the Ecuadorean economy. With a total gross national product of some fourteen and a half billion sucres in 1963, exports amounted to about two and a third billion sucres.¹ This is a fairly high ratio of foreign trade to total production for a South American country. Since Ecuador has enjoyed a stable balance of payments in recent decades, these figures accurately reflect the importance of international trade.

Virtually all of Ecuador's exports are agricultural goods. The importance of a few crops is shown by Table 5.

¹Ecuador, Banco Central, Boletín del Banco Central: 1965 (Quito: 1965), p. 148.

TABLE 3^aEMPLOYMENT AND EARNINGS IN SECTORS OF THE
ECUADOREAN ECONOMY IN 1963

Sector	People ^b Employed	% of Labor Force	Value ^c Added	% of GNP
Agriculture & Fishing	839,000	56.5	5202	35.9
Manufacturing	209,000	14.1	2409	16.6
Artisans	179,000	12.0	1409	9.6
Industry ^d	30,000	2.0	1000 ^e	7.0
Commerce	92,000	6.2	526	3.6
Services	240,000	16.2	1252	8.6
Construction	48,000	3.2	526	3.6
Transportation	42,000	2.8	609	4.2
Finance	8,000	.6	428	2.9
Mining	3,000	.2	320	2.2
Utilities	3,000	.2	181	1.3
TOTAL	1,484,000	100.0	13,862	100.0

^aBasic data are taken from Edwin E. Erickson, *et al.*, Area Handbook for Ecuador (Washington, D. C.: Government Printing Office, 1966), p. 329; Clarence Zuvekis, "Ecuador: Selected Economic Data" (Quito: USAID, 1968), p. 21 (mimeographed).

^bErickson, *et al.*, p. 64.

^cDue to the complexities of the Ecuadorean exchange system, all local prices will be given in sucres. An average rate would be close to 20 sucres to the dollar. (Figures in thousands of sucres.)

^dThere are many artisans engaged in cottage manufacturing of shoes, clothes, straw hats, and the like. The 1954 industrial census included only businesses employing 5 or more workers with an annual production greater than \$500.00 (approx.) and that had over \$600.00 active capital. Ecuador: Junta Nacional de Planificación y Coordinación Económica, see Primer Censo Industrial: Resumen de Resultados (Quito: 1957), p. v (mimeographed).

^eClarence Zuvekis, "Recent Trends in Ecuador's Manufacturing Sector" (Quito: USAID, 1968), p. 6 (mimeographed).

TABLE 4
 MAJOR AGRICULTURAL PRODUCTS
 IN ECUADOR IN 1957^a

Product	Area Planted in Acres	Tons Produced
Cattle ^b	2, 950, 000	40, 000 head
Barley, oats, corn	696, 000	48, 940
Cacao	410, 000	8, 139
Bananas	232, 000	73, 000, 000 stems
Coffee	209, 000	8, 900
Wheat	173, 000	8, 987
Rice	158, 000	20, 000
Potatoes	78, 000	53, 420
Cotton	70, 000	19, 156
Yuca	48, 000	40, 789
Others	3, 322, 000	N. A.
TOTAL ^c	8, 346, 000	N. A.

^a"Producción Agrícola Estimativa de la Republica del Ecuador en el Año 1957," El Agro (Quito), August-September, 1958, p. 41.

^bEcuador, Junta Nacional de Planificación y Coordinación Económico, Bases y Directivos para Programar el Desarrollo Económico del Ecuador: Tomo I (Quito, 1958), pp. 211-216.

^cIbid., p. 127.

TABLE 5
MAJOR EXPORTS FOR 1960^a

Commodity	Export Value ^b (in millions)	% of Total Export Value (in millions)
Bananas	90.0	60.3
Cacao	21.4	14.4
Coffee	21.9	14.7
Other	15.7	10.6
TOTAL	149.0	100.0

^aStatistical Abstract for Latin America: 1962 (Los Angeles: Center for Latin American Studies of the University of California, 1962).

^bBoletín . . . , p. 153. Figures are in dollars.

The unclassified exports include such items as balsa, pyrethrum flowers, canned tuna, tagua nuts, "panama hats," and pharmaceutical herbs. Few of these have an exported value of over \$2,000,000 a year.

The manufacturing sector of the economy is small and simple. The 1954 census of industry recorded only 1,085 businesses.² Few intermediate products are bought and sold. Most of these are agricultural goods which pass through relatively few hands. Virtually all capital goods and processed raw materials are imported.³ (Table 6)

²Censo Industrial . . . , p. ix.

³Ecuador, Ministro de Tesoro, Anuario de Comercio Exterior: 1960 (Quito, 1961); Lilo Linke, Ecuador: Country of Contrasts (London: Oxford University Press, 1960), p. 147.

TABLE 6
INDUSTRIAL EMPLOYMENT BY SECTORS^a

Sector	Workers Employed	% of Industrial Total
Textiles, ^b clothing	9608	31.6
Foodstuff ^c Processing	7750	25.5
Automotive, ^d railroad maintenance	3897	12.9
Oil drilling, refining	2361	7.8
Other	6754	22.2
TOTAL	30,370	100.0

^aCenso Industrial . . ., pp. 4-9.

^bIncludes spinning, weaving, and dyeing of some imported fibres as well as the processing of domestic cotton and wool.

^cIncludes milling, baking, canning, the processing of chocolates, ice creams, liquors, etc.

^dThis includes the fabrication of bus and train bodies on imported truck chassis as well as such "heavy" repairs as the regrinding of crankshafts.

The organization of the commerce and services sectors reflect the simplicity of the economy in which they are involved. Substantial markets exist only for a few commodities. As a result few businesses can afford to specialize narrowly. Economic expansion has generally been achieved through diversification.

Business Groups

Coastal Agriculture

Agriculture is the least developed sector of the Ecuadorean economy. The level of investment and technology is very low, even by Latin American standards.⁴ The average agricultural worker produces less than one-fortieth of the value generated by his North American counterpart.⁵ It is not surprising then that the value added per worker is also low despite the dismal level of agricultural wages.⁶

There are great regional variations in crops and cultivation techniques. Coastal agriculture is heavily specialized in bananas, coffee, cacao, sugar, rice, and cotton which are the exportable and "heavily processed" commodities. The close working relations among the exporters, the producers and the processors have been a factor in encouraging a relatively high level of development on the coast.⁷

⁴"Productivity of the Agricultural Sector in Ecuador," Economic Bulletin for Latin America, VI, 3 (October, 1961), 66-67.

⁵Ibid., p. 67.

⁶Ibid.

⁷Ibid.

Bananas

Bananas are the backbone of the Ecuadorean economy. Ecuador is the largest exporter and second largest producer of the fruit in the world.⁸ The development in bananas has occurred since World War II. The value of banana exports rose from \$7,000,000 in 1950 to \$90,000,000 in 1960.⁹ This tremendous progress has been attributed to cheap labor, government supports, fertile disease-free lands, and a favorable climate. Although exports are not expected to grow in such a spectacular manner in the future, the long term prospects are considered excellent.¹⁰ Yet the banana growers are one of the most divided, discontented, and politically aware of all business groups in Ecuador. They have a common desire for an improvement in the sucre price of banana exports and for more government investment in banana growing. However, there are sharp splits between the large-scale producers and the smaller growers as to how these goals are to be reached.

The ownership of banana-producing lands is not highly concentrated. There are only some 160 plantations held by the big landowners. The largest, Cia. Bananera Ecuatoriana (United Fruit)

⁸Ralph J. Watkins, Expanding Ecuador's Exports (New York: Frederick A. Praeger, 1967), p. 10.

⁹Economic Bulletin . . ., p. 154.

¹⁰Hans J. Linneman, Analisis y Proyecciones de Las Exportaciones del Ecuador (Quito: Junta Nacional de Planificación y Coordinación Económica, 1961), p. 60.

covers about 4, 500 acres.¹¹ Some of the other large plantations are the French-owned Astral (4, 500 acres), Cia. Frutera Sud-Americana (3, 700 acres), and the Swedish-owned Hacienda Clementina (2, 500 acres). The production of these largest plantations accounts for less than 20 percent of the total crop.¹² (Figure 2 shows the distribution of landholdings.)

The medium producers account for about 50 percent of the total export volume. Although the smallest peasant producers are by far the most numerous, they account for only about a third of total production and only a small fraction of the total volume of exports.¹³

The smallest producers are peasants with less than 12 acres in production. They generally grow bananas with family labor as a sideline to subsistence farming and the cultivation of coffee and cacao. The bananas produced are rarely exported and are frequently not even harvested.¹⁴ These small producers fall outside the scope of this study.

The medium planters have between 25 and 250 acres. They are frequently upwardly mobile middle class "whites" who are in the

¹¹These figures are based on a rough conversion rate of 2.5 acres to the hectare.

¹²Watkins, p. 16; Investments in Ecuador, p. 37.

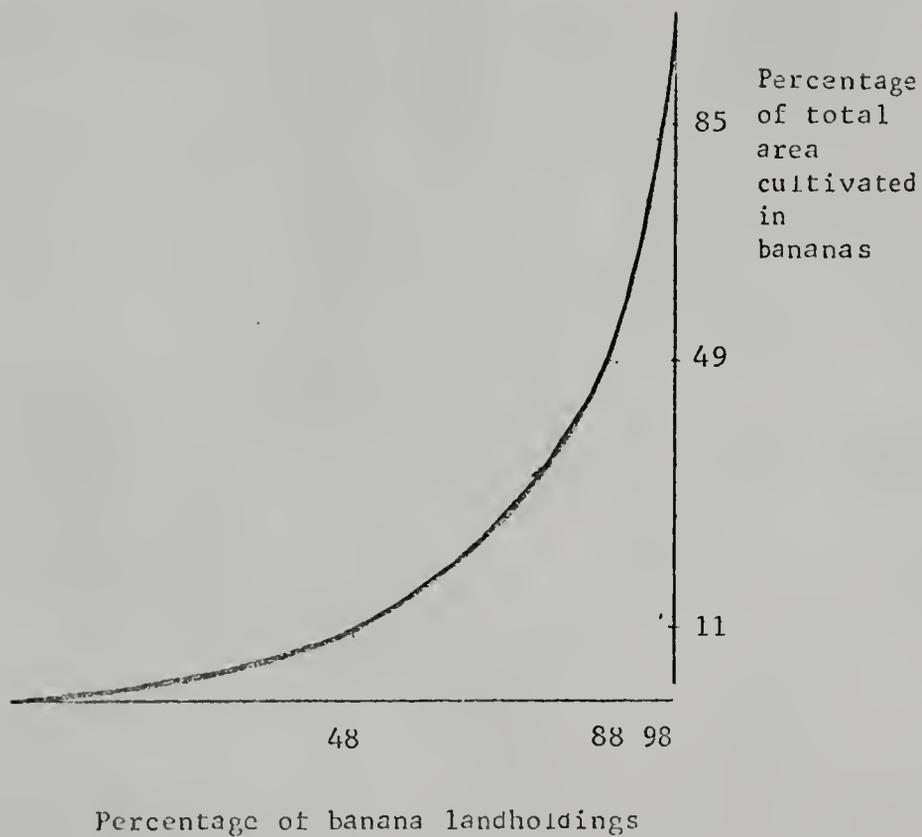
¹³Ibid.

¹⁴Watkins, pp. 15-16.

FIGURE 2

*

DISTRIBUTION OF BANANA LANDS IN ECUADOR



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Figures derived from Herrera Vasconez, El Cultivo del Banano en El Ecuador (Guayaquil: ANBE, 1963), p. 184; J.D.V. Saunders, "Man-land Relations in Ecuador," Rural Sociology, XXVI(1) (March, 1961), pp. 57-61.

process of parlaying a small start into a reasonable planting.¹⁵ The more prosperous planters of this group generally take agriculture quite seriously. They produce for export and are aware of planting, cultivating, harvesting and grading techniques. However, the implementation is often hampered by a lack of capital. The medium planters are highly vulnerable to market factors.¹⁶ They lack the reserves necessary to weather a bad year, to keep fallow land into which to expand, and they rarely have the capital needed to change to the cultivation of coffee or cacao.

The medium-sized plantings cannot be farmed with family labor alone and cannot support a full-time work crew. Therefore almost all planters in this group use floating wage laborers on a seasonal basis.¹⁷ Selection, harvesting, grading and transporting of the bananas to the export docks are very frequently contracted out to professional wholesalers. These wholesalers may be either independent operators or affiliated with one of the export houses.¹⁸

¹⁵Ecuador, Junta Nacional de Planificación y Coordinación Económico, Reformas de la Estructura de Tenencia de la Tierra y Expansión de la Frontera: Plan General de Desarrollo Económico y Social: Vol. II (Quito, 1962), pp. 95-96.

¹⁶Interview with Sr. Vicente Chang, banana grower and owner of "Hacienda san Luis," on October 27, 1968.

¹⁷Anthony Bottomley, "Planning in an Underutilization Economy: The Case of Ecuador," Social and Economic Studies, XV, 4 (December, 1966), 311.

¹⁸Watkins, p. 17.

The owners of the largest plantations (over 250 acres) are solidly in the "white" elite of the upper class.¹⁹ Many of them belong to the old aristocracy which dominates much of Guayaquil business. Their style could be described as patrician in that they expect to receive deference and do not have to compete in the arena for what is rightfully theirs. The social ties between the large landowners and the commercial elites reinforce the economic positions of each. The large landowners could expect to receive favored treatment from the bankers and the exporters as a result.

These largest estates are well capitalized and generally well managed. The operation of the banana plantings often more closely resembles industrial agriculture than the classical latifundia model.²⁰ Almost all have a full-time force of agricultural workers and often a fleet of private spray planes.²¹ Plantings are often diversified into cacao, coffee, cattle, or rice.²² As a result, the largest banana planters are much less dependent on the yearly success of the one crop in a competitive market.

The large planters generally select, harvest, grade and ship

¹⁹Georg Maier, "The Impact of Velasquismo on the Ecuadorean Political System" (Ph. D. dissertation, Department of Political Science, Southern Illinois University, 1966), pp. 1-5.

²⁰United Nations, Economic Commission for Latin America, El Desarrollo Económico del Ecuador (Mexico, 1954), p. 59.

²¹Productivity . . . , p. 70.

²²Watkins, p. 16; Investment in Ecuador, p. 37.

their production directly to the exporters. Whereas the small and medium growers are paid per stem accepted for export, the largest producers have contracts based on total production, regardless of quality. The exporter has a very direct interest in helping the large planters improve quality and to reduce the percentage that cannot be shipped out of the country.

The cultivation of bananas is a highly complex art. It takes a year for a crop to mature. After the fruit is harvested, the land has to be cleared and replanted.²³ Banana "hands" grow in bunches on large stems, which may weigh between 50 and 100 pounds. The stems are picked green and must be placed under refrigeration within 24 hours. Handling and shipping are coordinated so that the stems approach maturity by the time they are delivered.²⁴ This calls for the closest cooperation between shipper and planter.

Bananas are extremely susceptible to bruising in shipment. Bruises that may completely discolor the fruit when it is ripe are difficult to spot when it is green. Therefore utmost care must be taken in moving the fruit to the docks for shipment. The exporters examine the fruit very closely for improper handling.²⁵

The most serious banana disease is sigatoka, a virus which

²³"El Desarrollo . . .," p. 174.

²⁴ibid.

²⁵Watkins, p. 17.

infests the soil. There is no economical way to prevent or control the disease. Land that has become infested must be shifted into other forms of cultivation until the disease has died out. As a result, growers are very interested in finding new uninfected lands to which they can move in the event that sigatoka spreads to their cultivations. The larger growers buy up large tracts of unused land and can make their own improvements on it. The smaller growers generally have to wait for the government to open up areas for colonization before they can afford to move their plantings. The other major plant disease is mal de Panamá, a leaf fungus which can be controlled by oil sprays.²⁶

Profits in bananas can be respectable. Harvested stems are worth about ten sucres (50 cents) on the farm. The average yield is about 250 stems per acre. Cultivation costs for the first year are about \$70.00 and drop down to \$60.00 for subsequent years. The net profits come to about \$60.00 an acre.²⁷

The price of a stem of bananas is about 23 sucres at the dock (\$1.10). Transportation costs are around five sucres and processing, handling, and taxation costs add another five sucres. Therefore, the banana growers could do their own processing and transporting to earn the extra three sucres at the risk of not being able to find an immediate

²⁶Galo Plaza and Stacey May, The United Fruit Company in Latin America (Washington, D. C. : The National Planning Association, 1958), p. 169.

²⁷Ibid., p. 194.

buyer for a highly perishable commodity.²⁸ The only major market for banana export rejects is for cattle feed at ten cents a stem.

The political interests of the small and the large producers on exchange rates are identical. Everyone involved in banana exports has an immediate interest in increasing the buying power of the "banana sucre." This could be done by a general devaluation, which would raise the sucre income from all export dollars, or by altering the terms of the multiple exchange rate to benefit only bananas.

There is a major split between the small and the large banana growers on the issues of regulation of export-buying practices and on government investment in virgin lands for banana growers. The large producer can meet the exporter on equal terms. He can deliver a significant fraction of total current demand at any one time. He also has relatively complete control over the factors of production. Therefore, the large producer can shop around for the best possible contract for his bananas.

The smaller growers do not have these advantages. The organization and timing of selecting, picking, shipping, packing, and loading for export simply cannot be handled by one individual. Because the small grower has been so dependent on exporters and middlemen for handling his bananas, the middlemen have become much more selective in grading small lots of fruit. The minimum stem weight

²⁸Jaques Elias, "Una Banana de Oro Maizco," Presencia Latinoamericana, July 31, 1968, pp. 18-23.

accepted for export has gone up from 30 to 70 pounds since 1950.²⁹ Growers have also charged that processors have demanded a fraction of the total production "under the table" as a price for accepting any of the fruit.³⁰ Exporters and their middlemen have also refused good fruit on occasion only to buy it later as cattle feed and then export it to the Latin American market.³¹

The smaller growers depend on ANBE for oil spraying of their fields. Some charge that the exporters have influenced ANBE to spray the fields of recalcitrant growers at inconvenient times and even to apply useless water instead of oil.³² As a result, the smaller growers in areas in which a single influential buyer handles most of the bananas are prevented from shopping around for a competitive outlet.³³

It is not surprising that many smaller banana growers have a very strong interest in some form of state regulation of the exporters. Specific suggestions have varied from urging the creation of a state

²⁹J. Champion, Las Bananeras del Ecuador (Guayaquil: ANBE, 1959), p. 37.

³⁰Interview with Sr. Vicente Chang.

³¹"Jean Le Rouge" (Pseudonym), "La Gran Catástrofe del Banano," La Calle (Quito), 213, April, 1961, p. 10.

³²Interview with a knowledgeable crop duster who works for ANBE; "Jean Le Rouge" (Pseudonym), "El Negocio de la Fumingación," La Calle (Quito), 219, May 12, 1961, p. 26.

³³Interview with Sr. Alejandro Carrión, editor and publisher of La Calle, on November 12, 1968.

exporting and shipping line³⁴ to the formation of independent cooperatives to market bananas abroad³⁵ to reorganization of ANBE to increase the influence of smaller growers.³⁶ The smaller growers are also interested in government development of future banana lands. The smaller growers fear that the large landowners will buy up available lands when producing fields are infected by sigatoka, thus forcing the smaller growers out of business.

The political interests of the exporters and the large-scale producers are often allied. The large producers have an interest in maintaining the sucre prices of bananas by restricting the production of the middle and small growers. The profits the exporters can make from the medium and small growers give the large plantation owners a "cushion" when negotiating a price for their own crop.³⁷ Therefore the large-scale growers are not so opposed to the lack of influence of the smaller growers in ANBE. Also the large growers are not as much in favor of government road building and colonization

³⁴For recent examples see "Intereses Bananeros: Los Productores Bananeros de Pichincha," El Comercio (Quito), September 24, 1968, p. 9; "La Asamblea Nacional de Delegados de la Federación Nacional de Bananeros del Ecuador," El Comercio (Quito), September 29, 1968, p. 7.

³⁵"Piden No Interferir en Negociaciones de Pequeños Productores de Bananas," El Comercio (Quito), August 11, 1968, p. 28.

³⁶"Asamblea Nacional . . ."

³⁷Interview with Sr. Vincente Chang.

projects in uncleared banana lands.³⁸ Their ability to build their own roads gives them an enormous competitive advantage over the smaller producers in shifting away from sigatoka-infested areas.

Cacao and Coffee

The economic and political positions of the cacao growers is in sharp contrast to that of the bananeros. Cacao is a relatively "sick" branch of Ecuadorean agriculture with low profits and an uncertain future. However, the problems of the cacao growers do not seem to have been reflected in their political programs and goals.

At the beginning of the 20th century cacao was the prime export of Ecuador. When world market prices were 25 cents a pound in 1916, Ecuador exported over 40,000 tons annually, accounting for some 20 percent of total world trade in cacao.³⁹ Prices fell to less than ten cents a pound during the depression and World War II. Annual production fell to less than 12,000 tons in 1933 and has gradually recovered to the current production of 33,000 tons annually.⁴⁰ Future earnings are expected to decline gradually as higher quality cacao produced in Africa enters the world market.⁴¹

Some 400,000 acres are planted in cacao. It is estimated that

³⁸ Interview with Mr. John W. Snyder, Labor Attaché of the American Embassy in Quito, on October 15, 1968.

³⁹ Watkins, p. 21.

⁴⁰ Linneman, p. 69.

⁴¹ Watkins, p. 23.

current production could be easily doubled by recultivating 120,000 acres that have been abandoned and by improving production techniques.⁴²

An acre of cacao produces \$120.00 in gross income. Costs average around \$40.00 an acre. It takes several years for new plantings to produce. Many farmers are unwilling to invest in cacao, fearing that the falling world prices will not make it worthwhile.⁴³

Yearly harvests of trees occur in December-January, May-June, and August-September.⁴⁴ The beans are allowed to ferment after picking and then are dried in the sun. Dried beans are sold in small lots to local representatives of the exporters. Since the beans are a durable, easily transported commodity, local pricing is generally based on economic factors and is approximately the same for both the small farmers and the large producers.

Cacao is generally grown by peasant farmers. About three-fifths of the plantings and one-third of total production come from small plots worked by peasant labor for the free market. Most of the remaining production is held by the large plantation owners.⁴⁵

Usually the landowner will "lease" a set of trees to his peasant workers for them to farm using family labor. The peasant agrees

⁴²Ibid., p. 22.

⁴³Ibid., pp. 22, 24.

⁴⁴U. S. Department of Commerce, Investment . . ., p. 41.

⁴⁵"El Desarrollo . . .", p. 157.

to sell all the production to the landowner for a set price. The owner keeps the profits from reselling the cacao to the exporters.⁴⁶

The Ecuadorean government has set up the Empresa de Renovación de Cacao (cacao renovation enterprise) to promote disease-resistant strains and better cultivation techniques.⁴⁷ Their efforts have not been entirely successful. The resistant strains produce a cacao bean of lower quality and it has been difficult to persuade the peasants directly responsible for cultivation to adopt better techniques.

Given the market and production situation, it is not surprising that the uncertain future of cacao has not resulted in widespread political demands for government help. The landlords and middlemen can recoup their profits by paying a lower price to the peasant producer. Government supports for a price higher than currently being paid on the world markets would be a financial impossibility. Government programs to improve the quality of cacao would inevitably involve working with the peasant producer. Such programs would not be particularly popular. A last strategy for improving the prospects for cacao would be to change the exchange rates on exports. The cacao producers share with the banana growers an interest in devaluation. However, most landowners and exporters are involved in both commodities. Since the prospects for bananas

⁴⁶Ibid.

⁴⁷Ibid., p. 163.

are brighter, most people would rather spend time and money there at the expense of cacao.

The peasant producers who depend on cacao for much of their income have almost no impact on the political process. Unlike the medium and large banana growers, they lack the time, the skills, the power and the social standing needed for a hearing. As a result, the problems of the cacao growers rarely become political issues.

The situation of the coffee growers is quite similar to that of the cacao farmers. World coffee prices have fallen from \$70 to \$33 a quintal in less than ten years.⁴⁸ Ecuadorean coffee sells below world prices due to the lack of quality controls.⁴⁹ Most of the coffee is grown by peasants in Manabí province. The few large farmers who could be effective in national politics also cultivate bananas and cacao. They will probably only invest time and energy in coffee as long as the world prices make it worthwhile. Most large coffee growers seem more interested in the long term development of bananas.

Attempts have been made to boost earnings by improving cultivation, processing and grading techniques. The peasants who are responsible for most of the production have not responded to the proddings of the large growers, the exporters, and the Ecuadorean government.⁵⁰ Therefore it is not surprising that few people continue

⁴⁸Ibid., p. 180.

⁴⁹Watkins, p. 24.

⁵⁰U. S. Department of Commerce, Investment . . . , p. '61.

to press vocally for further development by the government of coffee lands.

Rice

Rice is generally grown by sharecroppers for local and national consumption. Quality is poor and production costs are high.⁵¹ The landlords are generally not concerned with developing techniques as long as their lands are being worked in a profitable manner. Therefore rice production does not seem to have been a political factor.

Sugar

Two major mills, Azucarera Valdéz and Azucarera San Carlos, grow and refine virtually all Ecuadorean sugar.⁵² Profit levels on these integrated operations are high, reputedly around 50 percent of the sale price.⁵³ Since over 50 percent of all production is consumed domestically, sugar growers enjoy excellent security outside of the vagaries of the world market. Who gets the U. S. sugar quota premium has become a political issue in recent years. However, it was not during the period under study.

Some sugar is grown in the sierra foothills for local moonshine

⁵¹Watkins, pp. 42-43.

⁵²Watkins, p. 35; "Reportaje: El Ingenio Valdéz," Cámara de Industriales de Guayaquil, May-June, 1968, p. 41.

⁵³"Establecen Costos y Utilidades en Azúcar," El Comercio, November 11, 1968, p. 5.

(aguardiente). Processing is usually on an extremely small scale. Distillers have become concerned about the problem; however, it has not bothered the sugar men to any extent.⁵⁴

Cattle

Commercial herds are kept only by the large landowners. Some peasants have draft animals which may be used for domestic consumption. They have not been an important factor in the market. About 60 percent of the 1.5 million head of cattle are on the coast.⁵⁵ Most of these are in beef herds.

A good herd of cattle earns about \$40 an acre. Many farmers prefer to keep basic herds, despite the low profits, as a hedge against the highly competitive banana business.⁵⁶ Herds, traditionally of very low quality, have been improving rapidly in recent years. Rising profit margins have stimulated an interest in subsidized importation of purebreds and in the construction of slaughter and chilling houses.⁵⁷

Price ceilings on retail beef (about 30 cents per pound in 1960) have probably reduced profits. Some cattlemen feel that a major

⁵⁴Watkins, p. 36.

⁵⁵Saunders, p. 61; Watkins, p. 77.

⁵⁶Ibid., p. 81.

⁵⁷Ibid., pp. 79-80; El Desarrollo Agropecuario del Ecuador (Quito: Cámara de Agricultura de la Primera Zona, 1968), pp. 18-23; Recomendaciones Básicas Para la Acción Futura en el Sector Agropecuario (Quito: Cámara de Agricultura de la Primera Zona, 1968), p. 11.

price increase would reduce markets more than they would increase profit margins.⁵⁸ Therefore price ceilings have not yet become a major political issue.

The Exporters

Exporters have long been involved in Ecuadorean politics. They all share three general goals: to increase the sucre price of exports on the world market, to reduce the sucre price of commodities bought for export, and to encourage government investments in export agriculture.⁵⁹

Sharp political competition among exporters of similar size is reduced by the lack of differential specialization. All of the largest exporters handle many of the same commodities. This is shown by Table 7.

Political splits occur between the larger and smaller exporters.⁶⁰ The smaller businessmen generally do not have the capital to finance

⁵⁸Suggested by Sr. Luis Del Campo Salvador, member of the board of directors of the Cámara de Agricultura de la Primera Zona, in an interview held November 15, 1968.

⁵⁹Emilio Estrada Ycaza, "Génesis de la Crisis Económica de 1961," La Calle (Quito), August 4, 1961, pp. 16-17 and continued in La Calle, August 11, 1961, pp. 11-12; Jorge W. Villacres Moscoso, Política Económica Internacional del Ecuador (Guayaquil: Universidad de Guayaquil, 1959), p. 115; José Luis Gonzalez A., Nuestra Crisis y El Fondo Monetario Internacional (Quito: Editorial Rumiñahui, 1959), pp. 207-208; Interview with Mr. John W. Snyder.

⁶⁰Interview with Sr. Ec. Abdón Calderón, executive director in Guayas for Partido Liberal Radical, on November 1, 1968.

EXPORTS AND SIZE OF BUSINESS OF THE LARGEST EXPORTERS^a

Reg. Capital ^b	Business	Exports
9, 100, 000	<u>Pedro Maspons y Bigas</u> <u>Intercambio y Crédito S. A.</u> <u>Exportadores Unidos S. A.</u>	cacao, coffee, bananas
4, 000, 000	<u>Grace y Cia.</u>	bananas, cacao
2, 500, 000	<u>Sociedad General^c</u>	rice, coffee
1, 000, 000	Luis A. Noboa <u>Bananera Noboa S. A.</u>	bananas, rice
1, 000, 000	<u>Standard Fruit of Ecuador, S. A.</u>	bananas
800, 000	Raul Cañizares La Madrid <u>Frutera Chilena-Ecuatoriana S. A.</u> <u>Exportadora Ecuatoriana-Europea S. A.</u>	bananas
500, 000	<u>UBESA</u>	bananas
400, 000	<u>Sociedad Nacional Comercials S. A.</u>	bananas
250, 000	<u>Exportadora de Frutas S. A.</u>	bananas
250, 000	<u>C. A. Industrial Azua</u>	cacao, coffee

^aThe names of exporters have been taken from "Lista de Firmas Exportadores de Productos Agrícolas," El Agro (Quito), October-November, 1962, pp. 28-32; "Firmas Exportadoras de Productores Agrícolas," El Agro (Quito), October-November, 1961, p. 35. Ranking by registered capital is based on data found in Guía General de Comerciantes de Guayaquil (Guayaquil: Cámara de Comercio de Guayaquil, 1963).

^bRegistered capital is equivalent to the value of stocks issued by corporations but covers all forms of private business organizations. Since many exporters, particularly Sociedad General and Sr. Noboa, are thought to depend on unregistered foreign capital, registered capital may not accurately reflect the relative volumes of business. However, it is the only index available.

^cSociedad General seems to be a general holding corporation owned by Sr. Juan N. Marcos. Sociedad General also operates as a bank and is involved in shipping and real estate. Sr. Marcos is reported to be tremendously wealthy and to have personal control over much of the lower level public administration of Guayaquil. However the publicly declared volume of business is much less than would be indicated by his reputed fortune. See Hugo Mas, "Quién Paga Impuestos en El Ecuador," Vistazo (Guayaquil), October, 1968, pp. 12-19.

large harvests or the contacts to obtain major contracts. As a result they depend on the smaller growers for the bulk of their business. The smaller exporters and the smaller growers are often allied against the larger producers and exporters in an attempt to encourage more widely spread production.

The smaller exporters cannot afford to wage extensive political warfare against the large growers and exporters. Because they lack capital and economies of scale, the overhead can be substantially higher for the smaller exporters. They depend on the larger exporters to keep purchase prices low enough for the smaller buyers to make a profit. These two goals--encouraging more widely spread plantings and maintaining low purchase prices--are often mutually exclusive. This probably has reduced the political effectiveness of the smaller exporters.⁶¹

Table 8 classifies the exporters by size and number.

Importers, wholesalers and retailers

The comerciantes⁶² have been regarded as one of the most potent groups in Ecuadorean politics.⁶³ The Liberal Party has a

⁶¹ibid.

⁶²Comerciante describes a major businessman engaged in commerce, which is not the sense conveyed by the translation of "merchant." Therefore the spanish term will be used.

⁶³Rafael Galaraza Arizaga, Esquema Política del Ecuador (Guayaquil: Editorial Alborada, 1963), p. 32; John Gunther, Inside South America (New York: Harper and Row, 1967), p. 424.

TABLE 8
 EXPORTERS CLASSIFIED BY SIZE AND NUMBER
 FOR 1960 AND 1961*

Registered Capital in Thousands of Sucres	Number of Businesses	Percentage of Total Registered Capital
Less than 20	9	.5
20 to 49	6	.5
50 to 99	7	1.5
100 to 249	14	7.0
250 to 499	5	5.5
Over 500	7	85.0
Unclassified	18	
TOTAL	66	100.0

*Figures derived from sources used in Table 7.

firm base of support among the Guayaquil businessmen. The commercial sectors of the coast have been very well organized through the Cámara de Comercio de Guayaquil. The status of the cámara is such that a past president could say that he "treated the government on the basis of complete equality."⁶⁴ General strikes organized through the cámara brought down the Military Junta in 1966 and have shaken many less fragile governments.

⁶⁴Interview with Sr. Atahualpha Chavez Gonzalez, former president of the Cámara de Comercio de Guayaquil, on October 30, 1968.

However, the comerciantes do not form a cohesive political body. The larger commercial houses are usually a part of a family-run economic empire. The core businesses have often supplied the capital, the contacts, and the markets for importing and retailing operations. Although virtually no importing business is highly specialized, the larger importers tend to handle capital goods, semi-finished products (raw materials for associated manufacturing plants), and luxury items. One has the impression that wholesaling of "bazaar" and cheap luxury items accounts for a relatively small portion of their business.⁶⁵

Although the political interests of larger importers may be dampened by other economic interests, the logic of their situation would suggest they favor a generally inflationary policy. A rapid expansion of investment and an increase in available spending money benefits the many commodities in which they are interested.⁶⁶ The large businesses with available capital can also profit from inflationary speculation.

The smaller businessmen are in a very marginal position. They

⁶⁵Small luxury imports account for less than 20 percent of the value of all imports. Ecuador, Ministro de Tesoro, Anuario de Comercio Exterior (Quito, 1961).

⁶⁶They certainly are not firmly united on this point. For evidence of involvement of the importers in demands for inflation, see Chapter 8. However, Mr. Albert Gellardin, American business consultant, said in an interview on May 23, 1968 that many importers favor stability as the best condition for long range growth.

are more generally involved in retailing "bazaar" items.⁶⁷ They operate in a crowded market on a small volume and frequently manage only a precarious living despite the high markups.⁶⁸ The general lack of specialization seems more a child of desperation than true diversification.

The retail "bazaar" trade has been most vulnerable to the very widely spread contraband in Ecuador. The smaller businessmen therefore have been most vocal in demanding a government crackdown on smuggling.⁶⁹ Most of the retail sales are made to wage-earning customers. Since prices seem to rise faster than general wages in an inflation, the smaller retail merchants are among the first to be hurt in an inflation. They share a strong political interest in maintaining price stability.

There were 1700 commercial businessmen affiliated with the Cámara de Comercio in 1962. The distribution of commercial businessmen by volume of business is suggested in Table 9.

⁶⁷These observations have been based on an explanation of the sizes and types of businesses listed in the membership lists of the Cámara de Comercio de Guayaquil.

⁶⁸Interview with Sr. Abdón Calderón.

⁶⁹The best examples are given in La Industria, the official publication of the Cámara de Industriales de Pichincha. See the editorial in La Industria, July, 1959, p. 5.

TABLE 9
DISTRIBUTION OF BUSINESSES BY SIZE*

Registered Capital in Thousands of Sucres	Percentage of Businesses Sampled
less than 5	9.8
6 to 10	28.7
11 to 20	18.4
21 to 50	19.5
51 to 100	8.6
101 to 250	5.1
251 to 500	5.7
over 501	<u>4.0</u>
Total	100.0

*Distribution based on a sample of every tenth listing in the Guía General de Comerciantes, excluding all businesses whose main activity was clearly not commerce.

Industry

The economic and political interests of the industrialists are perhaps the most complex of all sectors of the Ecuadorean economy. No other set of businessmen covers such a wide range of activities, positions, and goals. Many industries are relatively new additions to established "family empires," which further complicates the political interests of industrial managers. This diversity has resulted in a fairly high level of political competition among industrialists. This

discussion is only to provide a general framework which seems to account for some major differences.

Over one-half of the national industrial production takes place in Guayaquil.⁷⁰ Virtually all types of national industries, with the exception of textile mills, can be found on the coast. A count of the membership list of the Guayaquil Cámara de Industriales reveals 375 affiliated industries.⁷¹ There are 37 print shops, 37 pharmaceutical houses, 35 bakers, and 33 millers. The 25 businesses involved in metal working are engaged in wire-drawing, canning, bottling, and the manufacture of furniture and construction fittings. Most of the other businesses are engaged in agricultural and food-stuff processing or in industrial servicing.

Ecuadorean industry has been described as being a classic example of "imperfect competition."⁷² Many businesses are crowded into a few fields. Market conditions in each field are established by the few large industries. This condition can be related to the style of Ecuadorean business. Investors are conservative, unwilling to break into new fields that lack an established market and available technology.

⁷⁰Facultad de Ciencias Económicas, Guayaquil en Cifras (Guayaquil: Universidad de Guayaquil, 1964). (Mimeographed)

⁷¹"Clasificación de las Empresas Industriales de Guayaquil" (Guayaquil: Cámara de Industriales de Guayaquil, 1964). (Mimeographed)

⁷²Anthony Bottomley, "Imperfect Competition in the Industrialization of Ecuador," Inter-American Economic Affairs, XIX (Summer, 1965), 83-94; Clarence Zuvekis, "Recent Trends in Ecuador's Manufacturing Sector" (Quito: USAID, 1968). (Mimeographed)

It is considered easier and safer to set up small businesses that will operate far under capacity and to accept the lower profit levels. It is no surprise that most industrial plants in Ecuador are inefficiently small by world standards and operate at 60 percent of capacity or less.⁷³

This high level of competition and lower profits have made industrial investments unnecessarily risky. Consequently, investors are even less willing to break into new fields and much capital is diverted to agricultural mortgages and urban real estate.⁷⁴

There are three major splits among Ecuadorean industrialists; domestic versus foreign owned, large versus small, and domestic-market dependence versus foreign-market dependence. These differences are frequently reinforcing, and so will be discussed together.

The larger industries generally are involved in large-scale processing and what passes for "heavy industry." These include brewing, canning, milling, etc. Many large industries have foreign connections. The Ecuadorean oil refinery is run by the Burmah Oil Company of England. Dow Chemical owns 60 percent of LIFE, the largest pharmaceutical house in the country. The Ecuadorean Corporation is an American-run, Bahamas-based holding corporation which has channeled Ecuadorean capital into the largest brewery, a

⁷³Bottomley, "Imperfect . . .", p. 85.

⁷⁴Interview with Sr. Eduardo Larrea Stacey, former general manager of the Banco Central, on November 20, 1968.

large maltery, an ice house, a cement plant, a large power plant, and several other large enterprises. However, the major sugar mills and the largest oil and soap plants are purely Ecuadorean. Because the larger industrialists often have access to foreign capital and skills, their industries have been quite profitable. The average value added per worker for the larger industries in 1962 was \$2,200.⁷⁵

The larger Ecuadorean industrialists are generally members of the "economic oligarchy" which dominates commerce and banking. Their social ties with the economic leaders in other fields gives them an almost impregnable social and financial position. The social positions of the foreign businessmen seem ambiguous. They appear to move in the best social circles, but are reputed to be "in" but not "of" elite society.⁷⁶

The majority of the smaller businesses are owned and managed by Ecuadoreans.⁷⁷ Many have entered into small scale foodstuff processing or industrial services. Most of the manufacturers of

⁷⁵ Frank L. Turner, *et al.*, The Artisan Community in Ecuador's Modernizing Economy (Menlo Park: Stanford Research Institution, 1963), p. 105.

⁷⁶ Interview with Sra. Susana Ashton Donoso, American Embassy in Quito, geneological expert, on November 6, 1968.

⁷⁷ U. S., Department of Commerce, "American Firms, Subsidiaries and Affiliates: Ecuador." (Mimeographed) Only 61 businesses are listed and many of these have been established recently. There are many Europeans in Ecuadorean business. However, it is reported that very few have maintained foreign commercial ties.

import substitution articles, such as batteries, soaps, cosmetics, records, nails, etc., fall in this category. They are the most marginal of all industrial groups. They suffer from the multiple afflictions of low capitalization, under-developed technology, the threats of cheaper and better foreign imports, and a market with high income elasticity.⁷⁸ Many smaller industrialists are socially nouveau riche. Their frequent lack of social status and personal ties with dominant economic groups adds to their economic disadvantages.⁷⁹

Not unexpectedly, the larger and smaller industrial groups have political as well as economic differences. The major families have solid positions in banking, commerce, and agriculture as well as in industry. This, together with their patrician culture, has made them seem overtly "depoliticized." They have neither the need nor the desire to compete in public.⁸⁰ Since the larger industrial concerns are on a solid economic base and offer few possibilities of expansion in a limited market, many large Ecuadorean industrialists direct

⁷⁸"Necesidad de Proteger la Industrial Ecuatoriana," Cámara de Industriales de Guayaquil, January-February, 1968, p. 7; José Luis Gonzalez, Nuestro Crisis y el Fondo Monetario Internacional (Quito: Editorial Rumiñahui, 1960), Chapters 5 and 6; Ecuador, La Industrial Ecuatoriana (Quito: Junta Nacional de Planificación y Coordinación Económico, 1957), p. 9.

⁷⁹Maier, pp. 1-5.

⁸⁰This may be misleading. The elite businessmen are reported to be quite aware of the utility of political influence. Public indifference may be possible only because of a high level of private influence. The author was never able to determine this for himself. Interview with Sr. Alejandro Carrión, publisher of La Calle, on November 12, 1968.

their attention towards their other interests.

The foreign industrialists seem apolitical for different reasons.⁸¹
 The radical and highly nationalistic unions apparently strike more freely against "foreign exploiters" due to the emotional issue involved and their lack of ties with political elites.⁸² Large foreign businessmen are also fearful of a hostile government that may restrict or expropriate their operations. They have found it best to maintain friendly relations with all factions by avoiding commitments to any one of them. Foreign investors frequently seek alliances with local economic elites as a protection against these forms of raiding.⁸³

The industries that depend on local agricultural products are less involved in issues of vital interest to the "bazaar" or import substitution manufacturer. Demands for low tariffs on raw materials and high tariffs on finished products simply are not of concern to the "domestic market processors." Since the demand for foodstuffs is more or less constant, these businessmen are not nearly so concerned about monetary stability. Many of the agriculture processors have

⁸¹Some Ecuadoreans consider the large foreign businessmen to be a potent pressure group. However, this was not the balance of judgment of the people with whom this author talked. See "El Juego de Poder y los Grupos de Presión," Vistazo (Guayaquil), October, 1968, pp. 35-52.

⁸²This is based on personal observations and interviews with Mr. George Fitch, USAID Industrial Officer, on May 17, 1968, and Sr. Rafael Dillon Valdéz, president of Banco de Guayaquil and Azucarera Valdéz, on October 29 and 30, 1968.

⁸³Interview with Mr. Snyder.

established relations with the large landowners and do not have to compete for government supports.

Smaller industrialists tend to be much more politically aware because they are more likely to be involved in import substitutions. As a result, they have an immediate interest in maintaining protective tariffs on finished goods while keeping tariffs low on needed raw materials and semi-finished products.⁸⁴ Like the smaller comerciantes, the smaller industrialists are more aware of the dangers of inflation. They are also very aware of their marginal social position. The Revista de la Cámara de Industriales de Guayaquil has an aggressive "booster" tone in promoting industrialization as an end in itself and in characterizing industrialists as the major progressive and venturesome force in the Ecuadorean economy.

Bankers. -- Bankers occupy one of the most powerful positions in Ecuadorean business. Since Ecuador does not have a public exchange market,⁸⁵ the banks play an important role in financing and handling bonds and stocks as well as in making loans. Approximately two-thirds of the foreign exchange coming into the country is handled through the banks or their allied money changing houses.⁸⁶ The

⁸⁴"Necesidad . . ."; Gonzalez, Chapter 5 and 6; "Herencia Nefasta Para la Economía," Cámara de Industriales de Guayaquil, November-December, 1967, p. 3.

⁸⁵The Comisión Nacional de Valores has tried to fill this role in the past.

⁸⁶Interview with Mr. Snyder.

dependence of smaller farmers and commercial businessmen on bank loans to finance harvests and sales has already been discussed. The private banks account for approximately two-thirds of all agricultural, commercial, and industrial loans, the remainder is handled by the Banco Central and the public Banco Nacional de Fomento.⁸⁷ Over two-thirds of all private credit is extended by the Guayaquil banks.⁸⁸ As a result, the Guayaquil bankers have major impact on the national economy. The economic power of the bankers is enhanced by the scarcity of credit. The demand for loans is so high that a "black market in credit" has developed in which money is offered at illegally high rates of 20 percent or more.⁸⁹ As a result bankers can be highly selective about who can receive credit without limiting their volume of operations.

The political power of the bankers is enhanced by their connections with the Guayaquil "inner elites." The major banks are managed by the prominent families that have extensive holdings in all other areas of the economy. Another major asset of the bankers is their command of expertise. The banks are the major employers of economists and financial technicians outside of the government. Public planners depend on the bankers for much basic information

⁸⁷Ecuador, Banco Central, Boletín del Banco Central del Ecuador: 1965 (Quito, 1965), p. 91.

⁸⁸Boletín . . . , p. 65.

⁸⁹Interview with Mr. Snyder.

about economic performance. This constant exchange of personnel and information between the bankers and the government gives the bankers high prestige in political circles.

Banking style is rational and very conservative. Collateral requirements are high, bankers usually require clear titles on lands equal to twice the loan for agricultural credits.⁹⁰ Most loans are made for six months or less.⁹¹ Exceptions to both generalizations are made to old and solid clients and to members of the family. This has been considered a sound banking practice; bankers will risk venture capital to trusted managers when it is clearly understood that they can take over a faltering situation without having to formally foreclose.⁹²

Conservatism is also reflected in the preference for large loans to established businesses. About half of all credits were placed in less than four percent of all loans.⁹³ Bankers also tended to avoid the riskier industrial and agricultural loans. Seventy-two percent of all loans went to finance commercial transactions.⁹⁴ Both of these practices placed a severe limit on the private credits available to the smaller farmers and industrialists, which partially explains the

⁹⁰Interview with Mr. Snyder.

⁹¹Boletín . . . , p. 65.

⁹²Interview with Mr. Joel Biller, American Embassy in Quito, Staff Economist, on April 27, 1968.

⁹³Boletín . . . , p. 68.

⁹⁴Ibid. , p. 63.

interests of these groups in government financing and investments.

The political programs of the coastal bankers reflect their economic interests. Although some bankers accept monetary stability as a national virtue, many have been very much attracted to the allures of inflationary investment.⁹⁵ A rapid expansion of the money supply would stimulate the demand for capital goods and luxury imports, which would benefit both the large importers and their bankers. The devaluation which usually follows steady inflation would raise the sucre income of the exporters, benefiting many areas of business on the coast at the expense of the sierra.⁹⁶ Inflation and devaluation would give great scope for monetary speculation, in which the bankers would benefit since they have the dollars.

The bankers are frequently opposed to the minimum reserve requirements which limit the amount of money which can be placed in profitable loans. A related demand is that the government assist in maintaining the financial integrity of the banks. It has been suggested that this could be achieved through the government insurance of bank holdings.⁹⁷

The role of the public banks (Banco Central and the Banco

⁹⁵ Documentation for these observations is extensive and complex. Since the bankers were deeply involved in the devaluation of 1961, the detailed analysis of their programs and roles will be presented in Chapter 7.

⁹⁶ Emilio Estrada Ycaza, "Genesis . . ."

⁹⁷ Documentation to be given in Chapter 7.

Nacional de Fomento) does not seem to have been attacked by the private bankers. The volume of business of the Banco Central is quite small and the Banco Nacional de Fomento specializes in the higher risk agricultural credits. Many private bankers seem to have established useful working relations with the public banks and many bankers are glad to see the expansion of credit, even under the aegis of a competing public agency.⁹⁸

Political splits among the bankers are kept to a minimum by the lack of specialization and the domination of two major banks. There are 16 banks registered in Guayas Province.⁹⁹ The largest two, Banco La Previsora and Banco De Descuento, hold 72 percent of all deposits. These two banks are allied by very strong managerial and family ties.

The Pattern of Business Ownership on the Coast

Business ownership and control tends to be rather centralized on the coast. Several business families have part or full ownership of a wide range of businesses. These individual "empires" are also joined at many points through joint participation in common business ventures.

⁹⁸ Interview with Sr. Alfredo Pareja Diezcanseco, assistant manager of the Banco Popular and former member of the Junta Monetaria, on November 21, 1968.

⁹⁹ Guayaquil en Cifras (Guayaquil: Universidad de Guayaquil, 1962), p. 129.

The "interlocking directorates" have a strong impact on the political, social and economic positions of the "oligarchs." To an extent, the power of several individual businesses tends to be additive. A combination of most of the major banks would have a greater effect on the supply of credit than would any one bank operating alone. A wider combination of most large manufacturing firms would offer a potent political base for businessmen advocating protective tariffs. The social position of the central managers could not but be helped by the added income from many businesses and the subsequent non-availability of a business base for social competitors.

However, the range of situations in which power could be applied may well be reduced by bringing many different businesses together into one combination. A single manufacturer can easily press for protective tariffs for an entire segment of the economy. His maneuvering room would be significantly reduced if he had to worry about the effect protective tariffs would have on an import-export company in which he was also involved. Managers involved in a wide range of companies might find their political maneuvering room to be quite narrow. The only interests they could comfortably defend would be those that applied to a major portion of their business empire. As a result, the owners of large business empires could be expected to have a rather weak interest in defending the interests of a business sector, while being very active and powerful in the defense of either the specific business needs of their specific companies or the defense

of the entire "business class."

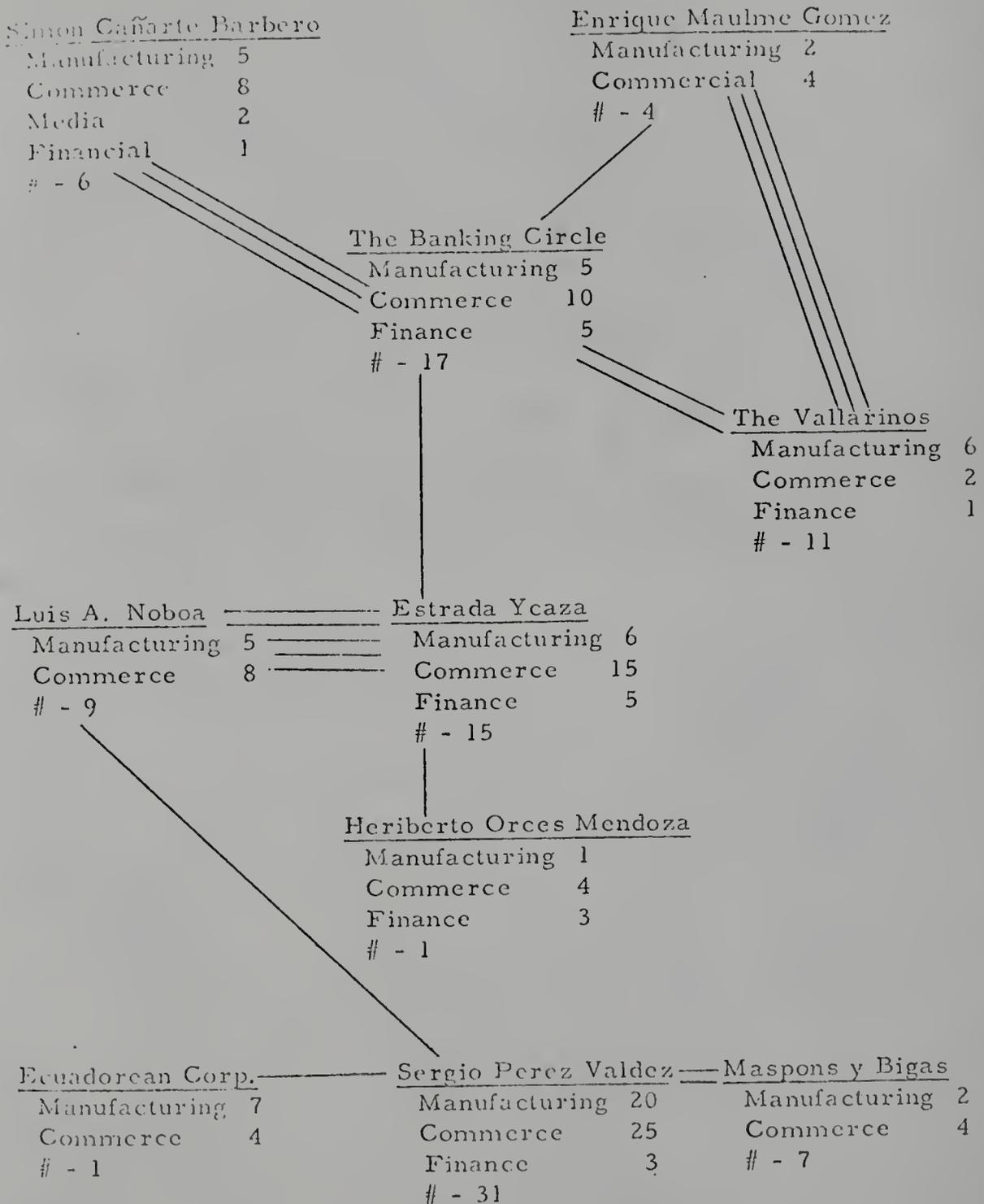
The level of integration of the several business empires would also have an effect on the political and economic positions of the business leaders. The formation of a closed "inner circle" through a high level of integration of business empires would be expected to facilitate cooperation in promoting a "business candidate" and the dampening out of personal conflicts in the political wars. Lower levels of integration would probably result in a greater tendency for the business leaders to break down into separate factions.

These considerations suggest that we should be looking for three factors when examining the pattern of business ownership: the extent that the major businesses in one field have been brought under one management, the range of businesses included within the empires, and the extent that the businessmen involved have been highly integrated through many points of shared business contact and family relations. Although no indices have been developed, the situation of the Guayaquil business leaders with respect to these factors can be estimated through an examination of Figure 3 below. A breakdown of the listed groups by participants is given in Appendix A.

The central set of associated groups clearly occupies a very powerful position within the coastal economy. The potential for power partly depends on sheer accretion. Fifty-five industries are included in the group which is some 14 percent of the coastal total. The percentage of larger plants is probably even higher. Also

FIGURE 3

RELATIONS AMONG GUAYAQUIL BUSINESS EMPIRES*



= number of associated businessmen

* One line is drawn between empires for each person who participates in both of the units joined. Figure 3 is based upon data presented in Appendix A.

included in the grouping are 22 large commercial firms and 11 large financial firms. The combined economic weight of these businesses is impressive.

The potential for power has also been aided by the complementarity of the powers of the participants. The combine includes the managers of the five leading coastal banks, La Previsora, Banco de Descuento, Banco de Guayaquil, Sociedad General and Banco Territorial. Also included are the major exporters who control much of the foreign exchange in the country and the managers of the insurance companies who make many of the long term investments. The coordinated use of the financial powers of the inner elites would have a major impact on the Ecuadorean economy.¹⁰⁰

Several factors mitigate against the coordination of all members of the "inner elite" --the interlocking groups. One factor is sheer size. Many other businessmen, in addition to the 79 listed, participate in running the associated businesses. It would be difficult to assume that all would be willing to cooperate on a common project except in special circumstances.

¹⁰⁰Many Ecuadorean observers feel that the economic position of the Guayaquil oligarchy makes them one of the most powerful of all political groups. The success of the 1966 general strike in bringing down the military junta is cited as an example of what the elites can do. Similar views of the powers of the businessmen are expressed in Rafael Galaraza Arizaga, Esquema Política del Ecuador (Guayaquil: Editorial Alborada, 1963), p. 33; "Pocas Familias Han Controlado La Economía desde Época Colonial," El Comercio, September 29, 1968, p. 1.

A second factor is the composition of the sub-groups within the major interlocking set. All of the sub-groups contain both commercial and manufacturing businesses. The diversification of an empire into several types of businesses makes it improbable that grand coalitions could be assembled to defend the interests of only one sector. It is more probable that the businessmen would rise to defend only the specific interests that affected their specific businesses.¹⁰¹

The high level of integration of the sub-groups would probably result in two effects. Given the emphasis on primary group loyalty in Ecuador and the high degree of overlapping business associations compounded by family loyalties, it would be expected that the members of the sub-groups would work very closely together. However, the construction of larger coalitions would be dampened by the lack of tight integration among the sub-groups. Sub-groups seem to be joined at only a relatively few places by a few businessmen who have associations with several groups. The Guayaquil "oligarchy" seems to be composed of many more or less overlapping groups, each trying to scramble for a place at the expense of the others. The competition is controlled by ties of friendship, station, and family, and an

¹⁰¹ Perhaps the idea of conflict management through fractionation of competing coalitions should be examined as a supplement to the more traditional view of the importance of demand aggregation in conflict resolution.

awareness that they all have a common interest in meeting challenges to the larger business world.¹⁰²

¹⁰² An example of the "hanging together" of the Guayaquil businessmen is the close cooperation between Sr. Marcos and Sr. Dillon, men of almost antithetical views of business responsibility. The general view of the relations among Guayaquil businessmen is consistent with the opinions of Mr. John Snyder and those expressed by Sr. Ec. Abdón Calderón, director of the Partido Liberal Radical of Guayas, on November 1, 1968; and the interview with Sr. Rafael Dillon Valdéz, president of the Banco de Guayaquil, on October 29, 1968.

CHAPTER IV

BUSINESS GROUPS OF THE SIERRA

Business and the Social Structure of the Sierra

The nature of business in the sierra is quite different from that of business on the coast. Some of the major cultural differences have been discussed in Chapter 2. These are reinforced by differences in family style and in other aspects of social organization.¹ Some of these differences will be discussed below in the general comments on agriculture.

The level of development in the sierra is much less than it is on the coast. Per capita income is about half as great.² Wage levels of unskilled urban workers are only half that offered in Guayaquil.³ The difference in wages paid to agricultural workers is even more extreme. The rate of economic growth in the sierra is also about

¹Edwin E. Erickson, et al., Area Handbook for Ecuador (Washington, D. C.: Government Printing Office, 1966), pp. 107-108, 120.

²Lilo Linke, Ecuador: Country of Contrasts (London: The Oxford University Press, 1960), p. 9.

³Ecuador, Salarios en el Ecuador: Agosto-Septiembre 1963, p. 27. Manual workers were paid 395 sucres per month in Quito and 730 sucres per month in Guayaquil.

half of that of the coast. The economic development is largely confined to the major urban center of Quito.

The character of the sierra labor force has been affected by the processes of population change. While the coast has a very rapidly growing population due to the continual immigration of young, upwardly mobile workers from the sierra,⁴ the sierra population increase has been a result of the explosive birth rate of the poorest group of sierra rural workers.⁵ The children of the rural poor do not make good candidates for skilled working positions.⁶

Business Groups of the Sierra

Sierra Agriculture

The conditions of sierra agriculture are quite different from those of the coast. Unlike the coast, population pressure in the sierra is very high. Each family requires about 60 acres in cultivation for a decent standard of living.⁷ Because of rural overpopula-

⁴ Hans Linneman, The Economic Regions of Ecuador (Quito: Junta Nacional de Planificación y Coordinación Económico, 1960), p. 29.

⁵ Cámara de Agricultura de la Primera Zona, Principales Problemas Agro-Demográficos de la Sierra Ecuatoriana (Quito: Cámara de Agricultura de la Primera Zona, 1968), p. 8.

⁶ Beate R. Salz, "The Human Element in Industrialization: A Hypothetical Case Study of Ecuadorean Indians," Economic Development and Cultural Change, IV, I (October, 1955), Part II, 1-264.

⁷ Principales Problemas . . ., p. 10.

tion, the average farming family actually has between seven and twenty-five acres to farm in most provinces of the sierra.⁸ There are very few areas that could be opened up for new cultivation. Some 20 percent of the land now being tilled should be held fallow to ease a very serious erosion problem. The rapid increase of the sierra population will result in even greater land pressure in coming years.⁹

Population pressure is aggravated by the extreme inequality in land holding. Almost half of all sierra agricultural lands are in holdings larger than 1,200 acres. Less than 4 percent is held in what could be called "family farms."¹⁰ By comparison, 20 percent of all lands on the coast are in family farms. The larger farms do not use their lands efficiently. Less than 20 percent of all lands in holdings larger than 1,200 acres are being cultivated.¹¹ A compounding factor is the difference in fertility between the larger and the smaller holdings. The large farms are almost always in the well-watered, flat, and fertile bottom valley lands, while the small landowners have their plots on the sides of the mountains where the fertility is less

⁸Ecuador, Junta Nacional de Planificación y Coordinación Económico, Reforma a la Estructura de la Tierra y Expansión de la Frontera Agrícola (Quito, 1961), Table II-16, p. 44.

⁹Principales Problemas . . ., p. 22.

¹⁰Reforma a la Estructura de la Tierra . . ., p. 50.

¹¹J. D. V. Saunders, "Man-Land Relations in Ecuador," Rural Sociology, XXVI, 1 (March, 1961), Table II, 62.

than a fourth as much.¹²

The small farmers generally exist almost completely outside of the money economy. They exist on what little they can raise on their plots and only rarely have any appreciable surplus to sell.¹³ Therefore only the larger landowners fall into the definition of "businessmen" used for this study.

There are regional differences in the pattern of landholdings. The latifundias are generally found in the northern sierra between Quito and Tulcan and in the south around Cuenca. The central region around Ambato is largely broken up into many small holdings.¹⁴ It is in this area that the very poorest of the sierra farmers are to be found.

There are also differences between the coast and the sierra in the pattern of rural labor. Most of the agricultural workers in the sierra are more or less permanent residents of the farms in which they work. Some 85,000 families are either sharecroppers (huasipongeros) or tenant farmers (yanaperos). Very few rent or squat. Only 2 percent of all sierra rural labor depend on wages for the bulk of their income.¹⁵ This is in sharp contrast to the coast,

¹²Principales Problemas . . ., p. 10.

¹³ibid.

¹⁴Linneman, p. 29.

¹⁵Reformas a la Estructura . . ., Table II-15, p. 42.

where over half of the rural workers depend on wages and where there is a high level of seasonal migrations from area to area.

Sierra farmers have generally concentrated on raising temperate crops for domestic consumption. Cereals have been a major product. The small farmers have grown barley for their own use and the larger estates have grown a great deal of corn and wheat.¹⁶ A few "truck farms" produce some fruits. Most of the vegetables are raised by the sharecroppers and the smaller farmers. Almost all of the sierra produce is consumed within the region. Pyrethium is the only sierra export crop and it is raised on a minor scale.¹⁷

The larger farms generally follow the classic latifundia model. The basic idea is to develop a self-sufficient estate that produces enough surplus income to allow the landlord to live in urban comfort.¹⁸ Ideally, the latifundia should be an almost self-contained unit, requiring very little investment or ongoing supervision by the landowner. Self-sufficiency is enhanced by binding the people to the land through sharecropping arrangements and debt bondage.

Latifundias are traditionally inefficient. Agricultural production per worker is lowest in the Ecuadorean sierra. It is far below even the Latin American average and between one-tenth and one-fortieth of

¹⁶ Erickson, et al., p. 347.

¹⁷ Ibid., pp. 350-351.

¹⁸ Frank Tannenbaum, Ten Keys to Latin America (New York: Alfred A. Knopf and Co., 1962), Chapter 5.

the output per man of North American agriculture.¹⁹ This extremely low efficiency can be related to the very low levels of capital investments. Capital inputs run about 7 percent of the value produced, which is less than one-fifth of the investments made in North American agriculture. Very little use is made of selected seeds, fertilizers, or irrigation.²⁰ Less than one-third of all large farms had any form of mechanization in 1954. Efficiency is also cut by the lack of skilled and energetic labor. Many indians suffer from diseases and malnutrition. Almost all of them reject the more efficient work patterns of the "white" world.²¹ The absentee landlord gives little supervision and the huasipongeros have little incentive to spend their free time improving someone else's lands.²² The demand for self-sufficiency has resulted in an uneconomical level of diversification rather than specialization in areas of comparative advantage.

The system of agricultural marketing used in the sierra is equally inefficient. Unlike the coastal farmers, who have more or less direct commercial ties with the exporters and processors of their products, the sierra farmer sells his produce through an endless net of small

¹⁹"Productivity of the Agricultural Sector in Ecuador," Economic Bulletin for Latin America, VI, 2 (October, 1961), 67-70.

²⁰Erickson, et al., pp. 345-346.

²¹Salz, pp. III, 190.

²²Anthony Bottomley, "Agricultural Employment Policies in Developing Countries: The Case of Ecuador," Inter-American Economic Affairs, XIX, 4 (Spring, 1966), 56-57.

middlemen who ship small lots a short distance for a high markup.²³ Retail sales are made in small quantities in open air markets that lack sufficient refrigeration or storage equipment.²⁴ This system is almost perfectly designed to insure a maximum level of spoilage and highest prices consistent with a minimum profit for the producers and intermediaries who handle the highly perishable produce.

For some, the latifundia is a way of life that legitimates membership in the small elite of old, rich, and landed first families. A whole cluster of social attitudes accompany these positions. The latifundista traditionalist often feels a sense of responsible command beyond his lands and indians that includes the society over which the elites proudly reign. The traditionalist may provide a minimum of stability and security for the people and things in his care; however, he is not likely to feel responsible to produce wealth or to distribute it except to the few who rule the land.

Other progressive landowners, probably a minority, have felt a responsibility towards a greater Ecuador and have tried to modernize their lands. Many have been shifting to modern methods of cultivation and more efficient crops. They want to invest, to produce, and to profit as fast and as much as they can.

The political interests of the sierra agriculturalists can be

²³Principales Problemas . . . , p. 23.

²⁴Produce for La Favorita, Quito's largest "supermarket," is purchased in the open markets.

classified in three ways. All farmers are more or less united on one set of issues. Almost everyone is interested to some degree in gaining more private and government credits for agriculture,²⁵ in reducing tax loads on land and produce,²⁶ in gaining higher prices for all agricultural commodities, and in achieving government-financed improvements in the antiquated marketing system.²⁷ Landowners are also united in the drive to keep the prices of imported agricultural capital goods down. In this they are united with the comerciantes against tariffs or industrial protection for local production of these materials.²⁸

A second set of issues tends to differentiate between the "progressive" and the "traditionalist" landowners. The traditionalists tend to see politics as a means of maintaining social stability, even at the expense of economic development. They bitterly resist land reforms that would increase the power and standing of the peasant at the expense of the landowner. Profit increases are sought through government guarantees of wages and prices and not through technological or

²⁵Cámara de Agricultura de la Primera Zona, Recomendaciones Básicas para la Acción Futura en el Sector Agropecuario (Quito: Cámara de Agricultura de la Primera Zona, 1968), pp. 9-10.

²⁶Principales Problemas . . ., p. 20.

²⁷Cámara de Agricultura de la Primera Zona, El Desarrollo Agropecuario del Ecuador (Quito: Cámara de Agricultura de la Primera Zona, 1968), p. 13; Principales Problemas . . ., p. 23.

²⁸El Desarrollo Agropecuario . . ., p. 17; Recomendaciones Básicas . . ., p. 11.

social change. In fact, the whole process of industrialization that brings in uncultured nouveau riche groups is highly suspect.²⁹

The political and social spirit of the progressive landowners is quite different. Economic and social development have been more highly valued goals. As a result, the progressives have tended to be more concerned with how land reform shall be arranged so as to have the benefits of market expansion outweigh the price of increased labor costs. They have also been more interested in obtaining help for market rationalization³⁰ and the capitalization of agriculture³¹ rather than in achieving income increases within the existing organization. In these goals they are more allied with the immigrant comerciantes against tariffs on imported agricultural supplies than are the traditionalists.

It is almost impossible to analyze the competition between the traditionalists and the progressives. It is impossible to distinguish between people at either end of the continuum without direct interview evidence. It is equally difficult to separate the traditional and the progressive positions on an issue. People with a progressive reputa-

²⁹Interview with Sr. Alejandro Carrión, publisher of La Calle, on November 12, 1968.

³⁰Ecuador, Cámara de Senado, Diario de Debates, August 20, 1959, p. 0183; El Desarrollo Agropecuario . . ., pp. 16-18.

³¹This can be contrasted with the more "traditionalist" program for the construction of a bullfight ring that would be used for only one week out of the year but would have high ornamental and status meaning.

tion have opposed the cheap importation of capital goods for fear of the financial integrity of the government;³² they have opposed introduction of new seed types out of fear of the problems that result from rapidly expanding production without also increasing consumption;³³ and they have been as ready as the conservatives to oppose government-sponsored land reforms. The style of political dialogue compounds the difficulties. Traditionalists can speak in the accepted liberal, reform-oriented vocabulary. Opposition to reforms appears mainly in their reluctance to implement them.³⁴

The differences in spirit and substance between the progressive and traditionalist positions set the backdrop for other political maneuverings. These differences in social perspective may determine the participation and programs of political coalitions as much as do the substantive interests of the participants.

A third set of issues divides the agriculturists according to their economic position. Divergences of interest are few; the lack of specialization and direct economic relations have kept conflict down. Specific issues are mainly raised by the shepherders and the wheat growers. A few large progressive landowners have started raising

³²Ecuador, Cámara de Senado, Diario de Debates, August 20, 1959, pp. 0189-0190.

³³Ibid.

³⁴Interview with Sr. Ec. Abdón Calderón, Executive Secretary for the Liberal-Radical Party in Guayaquil, on November 11, 1968.

sheep for their wool and selling it more or less directly to the textile mills. They have cooperated closely with the millowners in improving the quality of local wool. Their success is directly tied to the conditions of woolen textile production in Ecuador. Therefore, the economic situations and the political interests of the sheep raisers and of the textile manufacturers will be discussed together later on.

The cattle raisers of the sierra have interests and problems similar to those of the cattlemen of the coast. One difference is the greater interest in dairy herding in the sierra.³⁵ The sierra cattlemen have become involved in disputes over government regulation of adulterated milk, credits for dairies, and minimum prices for milk. However, few of these issues have involved widely contested national political decisions.

The wheat growers

Wheat is the major sierra crop to be handled through national distribution systems. One hundred and thirty thousand acres of wheat were planted in 1959.³⁶ Annual production had increased from 25,000 tons to 70,000 tons between 1952 and 1963.³⁷ One factor in

³⁵Ralph J. Watkins, Expanding Ecuador's Exports (New York: Frederick A. Praeger, 1967), p. 77

³⁶"Producción Estimativa de los Principales Productos Agrícolas," El Agro (Quito), July-September, 1960, p. 30.

³⁷U. S. Department of Commerce, Investment in Ecuador (Washington, D. C.: Government Printing Office, 1959), p. 45; Erickson, et al., p. 347.

the expansion of wheat has been the deliberate government policy to end dependence on imported flour and grains. However, domestic production was 50,000 tons short of national consumption in the early 1960's.³⁸

Another reason for the increased production has been the willingness of the producers to accept innovation. Most wheat is grown on rather large farms by upwardly mobile white and mestizo middle class farmers. They have been progressive; 80 percent of all wheat is threshed by machine and growers have paid unusual attention to fertilization, seed selection, and mechanization.³⁹ Production per acre has increased 140 percent since 1945.⁴⁰ However, yields are still low by world standards; each acre of wheat produces 1,300 pounds of grain as compared to 2,100 pounds in Colombia.⁴¹

Ecuadorean wheat tends to be of low quality. This is partly due to the conditions of cultivation. The available wheats are not suited for the high altitude and lack of clearly differentiated seasons.⁴² Much research has to be done on fertilizer needs. The result has been the production of a hard grain that will not hold the water needed for baking high quality bread.⁴³

³⁸Ibid., p. 349.

⁴⁰Ibid.

³⁹Ibid., pp. 348-349.

⁴¹"Productivity . . .," p. 69.

⁴²Interview with Dr. Edward Andrews, Staff Plant Pathologist for the FAO mission to Ecuador, on November 14, 1968.

⁴³Ibid.

There are also deficiencies in the handling of wheat. Many farmers lack storage facilities for keeping grain clean and dry. The public facilities have been inadequate and poorly controlled. As a result, a large fraction of otherwise good wheat has often become rotten and dirty.⁴⁴

Ecuadorean wheat is also expensive. The official price per quintal (105 pounds) of good quality wheat during the harvest is 110 sucres. The price of the superior American imported wheat is 54 sucres (before taxes) at port of entry.⁴⁵ It is not surprising that the bakers would rather use the cleaner, cheaper, and more suitable imported wheat.

These factors have resulted in a constant battle of the wheat growers and their government sponsors against the importers and the bakers. Past administrative solutions have favored the wheat growers. The Comisión Nacional De Trigo (National Wheat Commission) was set up in 1949 to stabilize the domestic market, to promote the production of national wheat, and to administer the price support programs.⁴⁶

Under the law, the sierra bakers must use up 70 percent of all

⁴⁴Investment in Ecuador, p. 45.

⁴⁵Interview with Sr. Rafael Chambers Matamoros, Executive Director of the Comisión Nacional de Trigo, on November 6, 1968.

⁴⁶Ecuador, Decreto Ley of November 7, 1949, published in Registro Oficial of December 21, 1949.

local wheat and the coastal bakers must consume the remaining 30 percent. The CNT surveys wheat acreage in November to determine production for the following year. Recommendations on how much wheat should be allowed to be imported are sent to the Minister of Development who issues import permits and establishes import quotas for the sierra and coastal millers and bakers.⁴⁷ Another facet of the price stabilization program has been the stiff import tariff on wheat. This has been set to make the price of imported wheat 5 percent more than the price of domestic wheat on the coast. Coastal users of domestic wheat are offered a rebate to increase the price differential even further.

These arrangements have not worked well. Two importers, Sr. Luis A. Noboa and Sr. Francisco Illescas Barrera, have controlled 90 percent of all wheat imports.⁴⁸ It is reported that a substantial amount of wheat has been imported illegally.⁴⁹ Since domestic prices are high and illegally introduced wheat avoids all taxes, the smuggled wheat can be sold for a very high markup and still undercut prices on the legitimate market. Both the importers and the bakers benefit.

Wheat has been imported in bulk. Tonnage is estimated by the

⁴⁷Interview with Sr. Chambers.

⁴⁸Interview with Sr. Alejandro Vega Toral, Executive Director of the Frente Nacional Velasquista for Cuenca, on October 18, 1968.

⁴⁹Interview with Sr. Luis Del Campo Salvador, member of the Board of Directors of the Cámara de Agricultura de la Primera Zona, on November 15, 1968.

flow of wheat through a chute and not by an actual bag count. Flow meters have been provided by the importers themselves. Customs inspectors paid \$40 a month are not likely to have the sophistication, zeal, or political muscle to challenge the accuracy of flow meters certified by very important importers. The possibilities of underestimating the actual amount of wheat imported under these circumstances are great.⁵⁰

The millers do not care whose wheat they grind. However, they are caught between one major set of suppliers (the importers) and their best customers (the bakers), both of whom want the imported wheat.⁵¹ All three groups juggle the figures reported to the government to account for the unusually high consumption of imported wheat. The result has been consistently low estimates of national consumption, resulting in lower production of national wheat and a continual need to import more when local supplies run out. Growers who insist on "over-producing" wheat find they cannot sell it despite apparent limits on the importation of foreign wheat.

Wheat growers have other topics for discontent. A government corporation, EDIALGE,⁵² was set up to develop adequate storage

⁵⁰Ibid.

⁵¹Interview with Dr. Gonzalo Gordova G., member of the Board of Directors of the Cámara de Agricultura de la Primera Zona between 1956 and 1958, on November 25, 1968.

⁵²Edificios y Almacenes Generales; general buildings and warehouses.

facilities for wheat. Membership on the governing board was split between the two importers and the representatives of the many wheat growers, with the Minister of Development holding the balance of power.⁵³ The growers have charged that facilities have been built to benefit the importers and that the corporation has generally been inefficient and not responsive to the needs of agriculture.⁵⁴

Wheat growers are also unhappy about the price of fertilizers in Ecuador. A local plant, Fertilizantes Ecuatorianas S. A. (FERTIZA), produces fertilizers locally. However, inefficient operation and tariff protection have resulted in very high prices. Reputable authorities have stated that farmers would have to spend about half of their gross income on fertilizers to obtain the maximum yield from the infertile sierra soils.⁵⁵

Wheat growers feel a credit pinch. Less than 2 percent of all private credits go to the sierra agriculturists and only a small fraction of this amount is extended to the wheat growers. Since loan periods are short and interest levels are high, the wheat growers have diffi-

⁵³Interview with Sr. Chambers.

⁵⁴"Peter The Wolf" (pseudonym), "EDIALGE: Primera Presa de la Rosca," La Calle (Quito), June 3, 1961, p. 10; "Mortensen Hace de las Suyas con El Trigo," La Calle (Quito), July 30, 1960, p. 4; Erickson, et al., p. 424.

⁵⁵Interview with Dr. Andres F. Cordova, former president and member of the Board of Directors of the Cámara de Agricultura de la Primera Zona, on November 29, 1968.

culty financing capital improvements.⁵⁶

These conditions have led to many political demands from the wheat farmers. Their demand for more government credit to finance agricultural improvements is generally shared by the other farmers. The wheat farmers also have a special interest in promoting cheaper fertilizer prices, either through ending tariff protection for the local fertilizer plant or through the encouragement of competing producers of fertilizers.⁵⁷ Both demands have been strongly fought by the managers of the existing fertilizer plant.

The wheat farmers have also been very interested in seeking wider markets and better prices for their crops. They have wanted to lift the price controls on bread to allow for an increase in the sale prices of wheat and flour, and they have been very interested in obtaining a larger share of the domestic market for domestic production.⁵⁸

One root cause of the political malaise of the wheat farmers has been the feeling that the government has not been pro-wheat or even pro-agriculture. Many of the problems of the wheat farmers could be helped by more energetic use of existing administrative machinery,

⁵⁶Ecuador, Junta Nacional de Planificación y Coordinación Económica, Bases y Directivas para Programar el Desarrollo Económico del Ecuador: Tomo I (Quito: Junta Nacional de Planificación y Coordinación Económico, 1961), Part IV.

⁵⁷Interview with Sr. Chambers.

⁵⁸Interview with Sr. Del Campo.

together with a more intelligent and stable development policy for local wheat production. Many of the above demands would probably be somewhat moderated if the wheat farmers felt that they could receive a more sympathetic hearing from the government decision makers.⁵⁹

The Commercial Sector

The merchants of Quito and Guayaquil are involved in the same types of business. Parallels in their economic and political situations end there. A major difference is the result of the inland location of Quito. Few businessmen in the sierra are involved in either importing or exporting.⁶⁰ Most of the Quito retailers buy wholesale from the Guayaquil importers.

The commercial market in Quito is much smaller than that of Guayaquil. The sierra standard of living is lower and Quito has only half the number of inhabitants of Guayaquil. Some of the sierra market is supplied by the businessmen of Cuenca and Ambato, while the supremacy of Guayaquil on the coast is unchallenged.

A large fraction of commercial business in Quito is trade in household and personal goods and light luxury items. The demand for capital goods is lower in the sierra than on the coast. A

⁵⁹Interview with Dr. Gonzalo Gordova G.
⁶⁰Cámara de Comercio de Quito, Guía Comercial de Quito (Quito: Editorial Santo Domingo, 1967).

respectable fraction of agricultural supplies are imported through the Banco Nacional de Fomento or the agricultural centers. Much of the remaining business in capital goods and heavy luxury items is conducted directly through the Guayaquil importers.⁶¹

Because of this emphasis on light consumer items, contraband cuts into the legitimate Quito market even more than it does in Guayaquil. The contraband market in Quito, located one block from the police station, is large and well organized. In the past, the sucre volume of the contraband market has been estimated to be as great as the legitimate market in similar types of goods. Legitimate business has also been hurt in past years by competition from illegal sales through the "grey markets" of the police and military commissaries.⁶²

The major comerciantes of Quito are generally in a more competitive and less organized situation than are their counterparts in Guayaquil. Trade seems to be somewhat more evenly spread around among competing independent houses. Ethnic differences also split the Quito trading community. German-Jewish names such as Abrahamson, Stadler, Kywi, Anhauser, Nussbaum, Katz, and

⁶¹ Interview with Sr. Jaime Calderón P., staff engineer for Comercial Kywi in Quito, on October 22, 1968. This statement is also supported by a simple inspection of the Quito commercial district; most of the import houses are branches of the Guayaquil firms.

⁶² "La Labor de los Senadores Funcionales por el Comercio en la Legislature," Comercio Ecuatoriano, 106, July-September, 1960, p. 5.

Hervath dominate trade in hardware, crystal, china, and electronics. Trade in petroleum and fertilizers is dominated by the German companies of Iloesch-Eleco and Max Mueller C. A. Automobile imports are dominated by the Guayaquil importers and an American of Ecuadorean descent, Mario Cabeza de Vaca.

The German business community has generally kept apart from the mainstream of the Quito elite social life. However, many foreign comerciantes have started to invest in industry and are beginning to marry into established families. So the social positions of the Jewish businessmen in Quito may become more integrated in the future. These observations on the divisions within the Quito business community are supported by the data on the ownership of sierra businesses which are presented in Appendix B.

The Quito commercial businessmen share relatively few political interests with their counterparts in Guayaquil. Although both favor higher profits and market expansion, they generally seek different means to these ends. Unlike the Guayaquil businessmen, the Quito merchants are almost uniformly against inflation.⁶³ Rising prices and the falling real incomes of the salaried and wage workers would cut markets more than speculation and increased capital investments could increase it.

The Quito merchants are more in favor of industrial development

⁶³"Declaración," Comercio Ecuatoriano, July-September, 1960, p. 7.

and protective tariffs than are their Guayaquil counterparts. Since there is almost no export market to expand, increased purchasing power in the sierra is more dependent on local industrial development. Since the Quito merchants do relatively little importing of their own, they are more willing to sell domestic products as long as the price and quality remain competitive. There is also the hope that domestic competition will improve the position of the Quito retailers with respect to the Guayaquil importers.

Bankers

There are fewer bankers in the sierra than on the coast. Only six banks are based in Quito and they extend less than a third of all private credit.⁶⁴ The sierra banks are more closely involved with agriculture than are the coastal banks. This conclusion is suggested by the lower level of industrial and commercial development in the sierra and the great fraction of all sierra credits extended in the rural provinces.

One bank, the Banco de Pichincha, dominates the field in the sierra. The directors are associated with the major landowning families. However, they do not have the ties with the commercial elites that the coastal bankers have.

The style of sierra banking is strongly conservative. Banking

⁶⁴Ecuador, Banco Central, Boletín del Banco Central del Ecuador: 1965 (Quito, 1965), p. 65.

and credit practices seem more orthodox in the sierra than on the coast. Sierra bankers seem to take their social roles more seriously. The manager of the leading Banco de Pichincha, Jaime Acosta Soberón, is thought of as a public figure with public responsibilities.⁶⁵

Sierra banking leaders strongly favor a stable money policy.⁶⁶ Inflation hurts the agricultural interests of the bankers and the banking institutions of the sierra might not be strong enough to ride out a severe financial panic. Bankers also object to devaluations that would damage the sierra economy for which they feel responsible. The sierra bankers are therefore more inclined to cooperate with the government regulation of private credit and banking practices. Alliances have been formed in the past between the sierra bankers and the Banco Central against the coastal bankers.⁶⁷

The industrialists

Industry is less developed and less efficient in the sierra than it is on the coast. Although almost as many people are employed in Quito as in Guayaquil, the value of industrial production in Quito is

⁶⁵ Interview with Sra. Susana Ashton Donoso, U.S. Embassy in Quito, social authority, on November 6, 1968.

⁶⁶ Interview with Sr. Eduardo Larrea Stacey, former General Manager of the Banco Central, on November 20, 1968.

⁶⁷ Ibid.

less than half of that in Guayaquil.⁶⁸ The sierra industrial sector is highly specialized in textiles. Less than 10 percent of the industrial working force is employed in "foodstuffs," as compared with 27 percent on the coast. Fifty-two percent of all Quito industrial workers are employed in the textile industry. Textiles account for less than 4 percent of employment on the coast. Threads and dyes make up about half of all raw material imports to sierra industry. No single item has anywhere near such a position on the coast.

Sierra industrialists have relatively close ties with the comerciantes and are frequently drawn from the same immigrant groups. A simple classification of the names of the managers of the 454 industries affiliated with the Cámara de Industriales de Pichincha suggests that some 36 percent have a foreign background.⁶⁹ A brief examination of the Guayaquil industrial directory reveals only a few scattered foreign names. Therefore the social position of most Quito industrialists is probably weaker than that of the Guayaquil group. Although some "established" immigrant families have married into a sierra social position, many have stayed within the active Quito German community.⁷⁰

⁶⁸Ecuador, División de Censos y Estadísticos, Primer Censo Industrial (Quito: Junta Nacional de Planificación y Coordinación Económico, 1951), pp. 80-83.

⁶⁹Cámara de Industriales de Pichincha, Bodas de Plata (Quito: Cámara de Industriales de Pichincha, 1961), pp. 51-85.

⁷⁰Interview with Mrs. Helen Wulf, Assistant Commercial Attaché of the U.S. Embassy in Quito and long-time resident in Quito,

The political interests of the Pichincha industrialists are similar to those of the smaller Guayaquil manufacturers. Both groups abhor inflation. Both have an ambiguous position on tariffs; they want low tariffs on imported raw materials but high protection against the finished products.⁷¹ Some degree of commercial protection is given by the "intrinsic tariff" of the costs of importation and transportation to the sierra. The range of tariff interests is much narrower. Almost all attention is focused on textiles.

The textile manufacturers

The textile industry is one of the oldest in Ecuador. The first mills were built during the 1920's. Only six out of 24 mills currently in operation were built after World War II.⁷² The first mills were located in the sierra to take advantage of cheap labor, a favorable climate, and the available domestic market. The more recently constructed mills were also located in the sierra to take advantage of the existing marketing arrangements and the pool of skilled labor.

The textile manufacturers have higher status within the sierra elite society than do the other manufacturing groups. The two

on April 26, 1968; and interviews with Sr. Ricardo Levy, General Manager of Fábrica de Broches Sudamericana on many occasions. Sr. Levy is an Ecuadorian of German parentage.

⁷¹ Luis Roman Perez, "Dice El Presidente de la Cámara de Industriales de Pichincha," La Industria, XXXVIII (May, 1961), 3; La Industria, XXXXIII (May, 1962), 16.

⁷² UNECLA, El Desarrollo Económico de Ecuador (Mexico: United Nations, 1954), p. 118.

largest corporations are controlled by established landed families. Lorenzo Tous, manager of La Industria Algodonera, married into the Cordero family, and members of the Mena Caamano family are major stockholders in La Internacional. The major woolen mill, Fábrica Chillo-Jijón S. A., is run by Manuel Jijón Camaño y Flores, a member of the most aristocratic of all sierra families. Another landed family, the Pinto Dávilas, owns seven mills. Only two mills are owned by an immigrant family, the Dassums. One mill, Textiles Nacionales S. A., is partly owned by American interests.

The textile industry has been a typically Ecuadorean example of imperfect competition. Two mills, La Internacional S. A. and La Industria Algodonera S. A., produce about 45 percent of all textiles. The rest of the market is divided up among the 20 remaining factories. The average textile mill operated at 40 percent of capacity in 1959.⁷³

Ecuadorean textile mills are very inefficient. The early mills were based on a labor-intensive technology so the investment per worker is far below the Latin American average.⁷⁴ The newer mills are too small to be efficient. The minimum size for efficient operation on the world market is around 10,000 spindles per mill. Most textile plants in Ecuador have between 1,400 and 2,500 spindles for

⁷³Anthony Bottomley, "Imperfect Competition in the Industrialization of Ecuador," Inter-American Economic Affairs, XIX, 1 (Summer, 1965), 85; El Desarrollo Económico . . . , p. 119.

⁷⁴Bottomley, "Imperfect Competition . . .", p. 89.

spinning. As a result, the output per man is 57 percent of the Latin American average and the output per loom is between 10 and 20 percent of the world standard.

The Ecuadorian textile industry has not been adequately financed. Although profits are reported to be high, less than 14 percent of net earnings are reinvested in the plant. External credits have also been lacking. Most loans mature in less than a year and carry high interest charges. These are not suitable for financing a long range program of modernization.

The textile manufacturers also have problems with raw materials. All synthetic fibers have to be imported and only half of all cotton and less than 20 percent of all wool is produced locally.⁷⁵ This dependence on imported cotton and wool is dangerous for the manufacturers. Several times in the past tariffs have been raised on cotton imports to guarantee the consumption of local cotton. These tariffs are rarely lifted during poor harvests.

Local cotton and wool are of poor quality. The coastal cotton producers are generally peasants who are not familiar with seed selection and proper cultivation techniques. As a result, Ecuadorian cotton is weak, has a short fiber, and doesn't dye properly.⁷⁶ Most of the sheep have traditionally been raised by peasants who do their

⁷⁵Erickson, et al., p. 390; Investment in Ecuador, p. 78.

⁷⁶Investment in Ecuador, pp. 76-77.

own spinning and weaving. Most of the flocks have been made up of criollo strains that produce poor wool. Large landowners have taken up sheep raising and have been trying to improve the breed. But the practice of selling dirty, wet and uncarded wool to middlemen for shipment to the factory has driven down prices. The lack of grading in the field has impeded an awareness for the necessity of quality controls. As a result, domestic wool has been inferior to the imported dirty, ungraded discards of foreign producers.⁷⁷

The textile manufacturers have been working with the wool and cotton producers in an attempt to raise the quality of local fibers. The Association of Textile Manufacturers of Ecuador (Asociación de Industriales Textiles de Ecuador) has sponsored the organization of the National Sheep Raisers Association (Asociación Nacional de Criaderos de Ovejas) and has underwritten the efforts of those organizations in improving cultivation techniques.⁷⁸

Ecuadorean textiles are expensive and of poor quality. Most of the cotton prints are not color fast and are unevenly dyed.⁷⁹ Fabrics are weak and are offered in a narrow selection of unimaginative colors and patterns. The market for domestic cloth is maintained behind a stiff tariff wall. However, contraband from Colombia accounts for

⁷⁷Ibid., p. 78.

⁷⁸Ibid.; interview with Sr. Alfonso Mosquera Arco, Secretary-Treasurer of ARCO, on November 26, 1968.

⁷⁹Plan de Desarrollo . . ., p. 107.

25 to 30 percent of the market.⁸⁰ Although the market for textiles is expanding, more people are beginning to prefer the higher quality imported materials. As a result, the National Planning Board forecasts only a moderate and irregular expansion of the domestic textile industry.⁸¹

The textile manufacturers are ambivalent on government regulation of the industry. They want to keep tariffs high on textile imports while having a low tariff on imported raw materials.⁸² Textile manufacturers have also asked for more government credits and benefits for industrial expansion.⁸³ However, the established manufacturers have also asked the government to deny tax and tariff benefits to recently established mills in order to restrict competition in an already crowded field.⁸⁴ The textile manufacturers, along with almost all other Ecuadorean manufacturers, have been vocal in defense of a stable currency.⁸⁵

⁸⁰Ibid., p. 107.

⁸¹Ibid., Table II-17, p. 50.

⁸²Ecuador, Junta Nacional de Planificación y Coordinación Económico, La Industria Ecuatoriana: 1950-1957 (Quito: Junta Nacional de Planificación y Coordinación Económico), pp. 10-11. (Mimeographed).

⁸³La Industria (Quito), January, 1959, p. 3.

⁸⁴Interview with Sr. Ing. Julio Ulloa, staff engineer for CENDES, on May 28, 1968.

⁸⁵"Documentos para la Historia Industrial del País," La Industria (January, 1961), p. 4.

Patterns of Business Ownership in the Sierra

Joint ownership of businesses is less common in the sierra than it is on the coast.⁸⁶ This substantially restricts the possibilities of developing the interlocking business empires that were found on the coast. In fact, only one small set of "interlocking directorates" appears. It is presented in Appendix B.

Several other empires have been built by individual businessmen. The major one is headed by Sr. Pinto Dávila and includes eight spinning, weaving, and clothing mills. However, none of these businesses are "large" and no outside businessman with other resources has apparently been involved in the Pinto Dávila chain.⁸⁷

An "oligarchy" of "inner elites" does not emerge from these few groups of businessmen. Although the largest group includes the managers of the largest airline, the largest sierra bank, the largest textile mill, and the largest pharmaceutical manufacturing house, the managers involved do not seem to be extraordinarily important to either sierra business or politics. Only the bank and the textile mills are in a position to exercise significant economic power over other Ecuadorean businesses. Only 10 percent of all sierra "large manufacturing" businesses are included in the group. The percentages of

⁸⁶The data for the business chains was taken from the card file on businessmen discussed in Appendix A.

⁸⁷Cámara de Industriales de Pichincha, "Bodas . . ."

major commercial houses included are far less. Therefore it seems doubtful that the group has gained much power by sheer weight of accretion. Neither does the chain seem particularly well integrated. None of the businessmen included have more than one business in common. There is no evidence of family ties among the businessmen.

A comparison of the major with the minor chains reveals an interesting tendency towards differentiation by ethnic group. All of the minor group businessmen seem to have European names. The two apparent exceptions also are in the sierra minority. The Ribadenieras were originally Jewish and the Plaza Lassos, despite their political successes, are very much nouveau riche to the sierra aristocracy. A few Italians are associated with LIFE and Domogas in the main chain. However, these two businesses were unique in having either government sponsorship or foreign financing. The high technical requirements for managing LIFE would also seem to call for foreign expertise.

If the apparent tendency towards ethnic specialization is not a random occurrence, then the probable economic and political power of the sierra businessmen would seem to be even less than their economic position would suggest.

The Relation Between the Sierra and the Coast

The economic ties between the sierra and the coast are weak. The low level of trade is suggested by large regional differences in prices. The price of domestic wheat on the coast is two and a half times the price in the northern sierra, and rice is one and a half times more expensive in Quito than it is on the coast.⁸⁸ Consequently each region has been forced to be more or less self-sufficient and would rather import than depend on the other region for foodstuffs.

Divisions on political policies can be classified in two ways. The previous chapter concentrated on rivalries within the coastal business community. However, the differences in situation and organization that divide the coastal and the sierra economies promote regional differences in political views. In many cases, the two types of splits are mutually complicating. Intra-regional rivalries are hampered by the necessity for preserving a common front against the other sector of the country. The great regional differences can also be dampened by the inability of either side to marshal all their forces.

Several major political issues divide sierra and coastal business groups. As was pointed out in the last chapter, many coastal bankers, importers, and exporters favor inflation and devaluation. Almost all

⁸⁸"Promedios de Precios al Por Mayor de los Principales Productos Agrícolas del País," El Agro (Quito), July-September, 1960, p. 30.

business groups in the sierra strongly favor a stable money policy with no alteration in exchange rates. A devaluation would raise the price of imports and would increase the sucre income of the exporters. This would have the effect of shifting money from the sierra to the coast.⁸⁹

Regional conflicts also take place over tariff levels. The Guayaquil comerciantes have an interest in maintaining low tariffs on all imports. They are joined at times by other businessmen who would like to stimulate general demand through increasing the purchasing power of the mass of people with the cheaper imported goods. The Quito comerciantes do not care that much about tariff levels and the sierra industrialists are very much afraid of competition from the outside. The major sierra group with enthusiasm for lower tariffs are the agriculturists, and their interest covers only capital goods for agriculture.⁹⁰ Another regional conflict is over the importation of flour and textiles. The Guayaquil businessmen and consumers would far rather use the cheaper and higher quality imported goods. No group on the coast has an interest in defending local production of these materials.

Several issues have only a regional impact. The employers of the sierra cannot find allies on the coast in their fight against higher

⁸⁹V. E. Estrada, El Momento Económico en el Ecuador (Guayaquil: Imprinta La Reforma, 1950), pp. 7-10.

⁹⁰Interview with Sr. Ramiro Cabeza de Vaca, former president of the Cámara de Comercio de Quito and president of Distribuidora Volkswagen, on November 25, 1968.

minimum wages. The wage level on the coast has already been bid far above any sierra minimum and the Guayaquil businessmen are not interested in making unnecessary enemies.⁹¹

Land reform is another regional issue. Although the distribution of land is unequal in both regions, the two problems of overcrowding and the latifundia exist mainly in the sierra. Sierra land reform would bring many acres into useful production, would greatly improve the standards of living of the rural poor, and would sharply cut into the social and political base of one of the most conservative of all Ecuadorean elites. These considerations make sierra land reform a potent human issue.

Land reform is not such a vital factor in the coastal areas. Although organized "invasions" of squatters have taken place, these have occurred mainly when medium-sized landowners have locally taken up the most accessible banana lands. Organized squatting has also frequently been directed against the smaller banana growers who have been isolated from power.⁹² Given the abundant supply of free land and the relatively high level of rural wages that are paid on the coast, the demand for general land reform has not been a potent issue on the coast. Therefore the coastal planters have not

⁹¹Interview with Sr. José Torres, President of the Cámara de la Agricultura de la Segunda Zona, on October 29, 1968.

⁹²"Peligro! Invasión de Propiedad Privada," Epoca I, 3 (October, 1968), 40.

been particularly sympathetic to the conservatism of the sierra-landed elites on the land reform issue.

Another issue promoting inter-regional rivalry has been the economic dependence of the Quito businessmen on the Guayaquil importers. The quiteños are interested in buying from the Guayaquil businessmen at the lowest possible price while the coastal importers would like to sell at the highest feasible price. There is also a fear among the Quito business community that the Guayaquil merchants could use their economic power for regional advantage.⁹³

These regional differences in political interests are mutually reinforcing. Sierra businessmen interested in opposing minimum wages and land reform can work comfortably with the businessmen who are interested in monetary stability. Although a consensus on a wide range of issues is harder to achieve on the coast, the combination of bankers, exporters and importers of capital goods can unite on many issues opposed by most of the sierra. The cultural differences between the sierra and the coast also reinforce the divisions of political interest. As a result, the general banner of regionalism can be used as a rallying cry whenever major groups on the coast or in the sierra feel the other side may threaten their basic interests.⁹⁴

⁹³"Informe de Labores del Directorio de la Cámara de Comercio de Quito en el Año 1960," Comercio Ecuatoriano, January-March, 1961, p. 4.

⁹⁴Erickson, et al., p. 261.

CHAPTER V

THE BUSINESS ASSOCIATIONS

Associations for the advancement and protection of business interests have been organized to cover almost every type of business activity in all major regions of the country. These organizations have frequently led an active and independent social and political life. However, they do not necessarily fit into the classical image of how interest groups operate in the United States. The functioning of the Ecuadorean business associations has been shaped by an entirely different set of social and economic circumstances.

Business groups in Ecuador will be classified into one of two types. The "service" organizations are organized by businessmen engaged in a specialized branch of business for the purpose of facilitating the achievement of common goals. The cámaras,¹ on the other hand, have been organized by the government for the purpose of facilitating liaison with broad sectors of the economy.

Two criteria have been used in identifying the "service groups."

¹The translation of the word cámara is "chamber" which does not carry the implications of political authority and semi-public status connoted by the Spanish term. Therefore the Spanish word will be used.

They must have been listed in the 1963 and 1967 telephone books for Quito or Guayaquil,² and they must have a membership drawn from one sector of the economy. The organizations included are listed as follows:

Quito:

Asociación de Fomento de la Industria Molinera (AFIM)
Members include only grain mill managers

Asociación de Industriales Textiles de Ecuador (AITE)
Represents textile mill managers

Asociación Holstein-Frisian de Ecuador (AHFE)
Association of the breeders of these types of cattle

Asociación Nacional de Criaderos de Ovejas (ANCO)
Association of large sheepherders

Asociación de Radiodifusoras de Ecuador (ARE)
Association of radio broadcasters and radio station managers

Guayaquil:

Asociación de Ejecutivos de Ventas (AEU)
Association of importers

Asociación de Ganaderos de Litoral (AGL)
Association of coastal cattlemen

Asociación de Exportadores de Cacao y Café del Ecuador (AECCE)
Association of coffee and cocoa exporters

²Existence in 1963 and 1967 was made a condition for inclusion in this classification for two reasons. First, many associations were organized as "fronts" for groups during a particular political campaign. They were disbanded as soon as the crisis was over. Ad hoc organizations of this type were not important from 1959 to 1962 and are not an enduring part of the Ecuadorean political scene. Furthermore, it was difficult enough to obtain information on existing organizations without having to do further research on associations that had disbanded years ago.

Asociación Pesquera del Ecuador (APE)
Association of Ecuadorean fishing fleet

Cámara de Compañías de Seguro de Ecuador (CCSE)
Chamber of Ecuadorean insurance association

Cámara Oficial Española de Comercio (COEC)
Official Spanish chamber of commerce

There is not much data available on the service organizations. No one answered telephone or office inquiries at the Asociación de Fomento de la Industria Molinera for over two weeks. The Asociación Holstein-Frisian de Ecuador and the Asociación de Ganaderos de Litoral were radically reorganized between 1961 and 1968.³

Requests for information were refused in a few cases. Therefore the analysis of the service associations is based on direct observations in only a few cases. Generalizations are based on an analysis of the reports of other observers and the author's own knowledge of the political situation.

Several service organizations draw members from areas in which many small businessmen sell to a common, highly competitive market. The AITE, ANCO, AHFE, ARE, and AGL are of this type. The service organizations facilitate market coordination. For example, the members of AITE share information on market condi-

³The Asociación de Ganaderos del Litoral was re-formed into a corporation for the purpose of managing the Guayaquil slaughterhouse and the Asociación Holstein Frisian de Ecuador became the Asociación de Introdutores de Ganados Mayores. Interview with Sr. José Torres, president of the Cámara de Agricultura de la Segunda Zona, on October 29, 1968.

tions, pricing policies, and business decisions.⁴ The ARE is a trading center for information on programming, audience responses, reception conditions, and frequency usage.⁵ The shepherders use ANCO as a forum for exchanging information on sales, prices and livestock-raising techniques.⁶ Presumably this was also true for AHFE and AGL.

The organizational requirements for serving as a center for business coordination are minimal. It is only important that the members have both the opportunity and the desire for interaction. It would be expected that as people found an association to be valuable as a source of market information, intra-group rivalries that might break group cohesion would be suppressed.

The service organizations also act as "agents of development." Most of the associations have a full-time staff engaged in solving common membership problems. The role of AITE in sponsoring the development of FANCA and ANCO in promoting cheaper, more stable supplies of higher quality textile fibers has already been noted. ANCO is both a partner and a client of AITE in the effort to develop improved grading schemes, to introduce better strains of sheep, and

⁴Interview with Sr. Rafael Borja.

⁵Interview with Mr. David Gleason, President of Radio Nucleo, on May 23, 1968.

⁶Interview with Sr. Alfonso Mosquera Arco, Secretary-Treasurer of the Asociación Nacional de Criaderos de Ovejas, on November 26, 1968.

to upgrade herding techniques.⁷ The AHFE and AGL performed similar functions for the cattle industry.

The service organizations have generally maintained close relations with the government planners. The national planning agencies depend on the service organizations to provide information and statistics on market conditions and the business operations of members.⁸ Many agencies under the Ministro de Fomento⁹ have worked closely with the association bureaucracies in coordinating and planning development programs.¹⁰ Association representatives participate in decision making and can exercise at least an informal veto over plans.¹¹ The members of the associations also have the benefit of advance information on government efforts.¹²

However, the development of close relations with the government has apparently been at the expense of public participation in politics. At no time was it found that these service organizations entered into

⁷Ibid., interview with Sr. Rafael Borja.

⁸Ibid.

⁹Republica de Ecuador, Ministro de Fomento, Informe a la Nación: 1959 (Quito, 1959).

¹⁰Decreto Ejecutivo 419 of March 13, 1962 in Registro Oficial 123 of April 1, 1962.

¹¹Interview with Sr. Rafael Borja.

¹²Ibid.

public debate, either on a partisan or a non-partisan basis. Neither did political observers attribute any political influence to these service organizations.¹³

The non-political nature of the service associations can be attributed to several factors. It would be difficult to maintain close contact with the professional bureaucracy if the organizational leadership were overtly participating in public politics. The expert power of the organizations would not be helped with affiliations with the politics of the regime. However, open hostility to the regime in power would make cooperation very difficult.¹⁴

Another factor depends on the function of the organizations as business coordinators. The interaction among members can best be maintained when the members are not split on debates over politics. Therefore only the policies of immediate common interest will be easily raised for discussion among the members.¹⁵

However, the path to public political power is not closed by the overt non-involvement of the service organizations. Members of the service organizations are also members of their cámaras. Participation in cámara activities can bring political power and personal

¹³Interview with Sr. Alejandro Carrión, editor-publisher of La Calle, on November 12, 1968.

¹⁴Interview with Mr. Madison Monroe Adams, Commercial Attache to the American Embassy, on March 1, 1968.

¹⁵Interview with Dr. Georg Maier, Professor of Political Science at Southern Illinois University, on August 20, 1968.

exposure. Concerned businessmen have frequently used the support of a service organization as a basis for influencing the appropriate cámara. As a result, the service organizations have tended to become institutionalized pressure groups within the larger cámara organizations.¹⁶ This phenomenon will be discussed at length below.

The political positions of the service organizations also affects the internal organization. The importance of the organization staff in the relation between the association and the government is very great. The apolitical nature of the public life of the service organizations has tended to reduce the participation of the members. Therefore the staffs of the service organizations have become more or less autonomous.¹⁷

A few of the service organizations have taken a political role. The Asociación de Exportadores de Cacao y Café de Ecuador, The Asociación de Ejecutivos and the Cámara de Compañías de Seguro de Ecuador probably all fit into this class. The managers of the larger businesses affiliated with these organizations are all members of the Guayaquil "inner elite." As such they are very powerful and very visible in the business and political worlds. The associated businesses are generally strong, stable and are highly affected by

¹⁶Interview with Sr. José Torres; interview with Sr. Mauricio Yepez, Secretary General of the Cámara de Industriales de Pichincha, on November 26, 1968.

¹⁷Interview with Dr. Maier.

government regulation. Regulation is directly applied to the insurance companies. The large importers and exporters are equally affected by the indirect regulation of quotas and monetary policy.

One major function of these organizations is to act as a smoke-screen for the members. The names of organization spokesmen appeared in relevant public debates fairly frequently. The "public relations" function of the political organization seemed much more developed than it was for most service organizations. The organization members may not want to become publicly involved in political questions for a variety of reasons. As a general rule, the elites prefer to remain out of the public eye.¹⁸ The patrician attitudes of some elites make justifying actions or arguing for policies in public very distasteful. Public responses to the members may also be embarrassing. The fact that a spokesman is a member of the "oligarchy" will tend to polarize many audiences. Politicians may fear that an association with the "oligarchs" may alienate many leftists and provide ammunition for political enemies.¹⁹

The political organizations provide a more nearly neutral front for the legitimate demands of the group members. Group spokesmen can assume the air of impartial expertise and avoid all mention of the

¹⁸Edwin E. Erickson, *et al.*, Area Handbook for Ecuador (Washington, D. C.: Government Printing Office, 1966), p. 261

¹⁹Interview with Sr. Rafael Dillon Valdéz, President of the Banco de Guayaquil, on October 27, 1968.

political, social and economic positions of the persons they are representing. A hired staff can also attend on a daily basis to all the details of political issues and public relations campaigns.

The functions of the more political organizations influence their operation. Organizational activity is intermittent.²⁰ It reaches a peak during political campaigns but remains at a very low level between crises. The organization staffs have almost no institutionalized bases of power. The authority of the political organizations depends on the degree the members are willing to back them up with their own political and economic muscle.²¹ As a result, the role of the organizational staffs in deciding internal policies is apparently minor.

A few service organizations have official roles to fulfill. One example is the Asociación de Fomento de la Industria Molinera. The AFIM elects a representative of the milling industry to the board of EDIALGE, the state-run grainery. The association also has the nominal role of officially promoting the interests of the millers in conflicts between the wheat growers and the importers, together with the bakers.

²⁰No one answered the telephone during the week the author attempted to gain information on these organizations.

²¹Interview with Mr. Peter Mitchell, representative of the Confederation of British Industries, on October 16, 1968; interview with Mr. Madison Adams; interview with Mr. John Snyder, Labor Attaché to the American Embassy, on October 15, 1968.

However, the organization does not play an effective role. The millers are also caught in regional splits. The coastal millers are allied with the importers while the sierra millers maintain a more independent position. Coastal representatives do not even bother to show up for AFIM meetings.²² The sierra representatives to EDIALGE are elected through AFIM, while the coastal millers decide on their representative through informal bargaining. Both elections are apparently based on the relative economic positions and social status of the contestants as tempered by past obligations and future promises.²³

The effectiveness of AFIM in public politics has also been affected. Most of the major mills are located on the coast. The sierra mill owners lack effective business allies. Therefore the defection of the coastal millers has made the AFIM more or less ineffective. The result is a low level of institutional activity. The offices were apparently closed for the several weeks in which the author attempted to gain information on the organization. However, people in the next office reported that a clerk was usually there a few times a week to read and answer the mail. The continued existence of AFIM seems to be a result of the legal position of the

²²Interview with Sr. Luis Del Campo Salvador, member of the board of the Cámara de Agricultura de la Primera Zona on November 15, 1968; interview with Sr. Antonio Teran Salazar.

²³Interview with Dr. Georg Maier; interview with Mr. Adams.

organization, and not to any activities of the organizational members.

Some service associations neither coordinate business activities nor act as political intermediaries. They range from the "booster" type of self-improvement organizations, such as the Cámara Junior de Comercio and the Club Rotary or the Club de Ejecutivos,²⁴ to the non-profit development foundations and major service organizations like the Fundación Ecuatoriana de Desarrollo and the COFIEC.²⁵ Officially sponsored groups, such as the Comite de Información y Contactos Externo, occupy a position mid-way between that of an organ of the government and a free association. However, none of these groups seemed to have any political or economic impact on business and will not be discussed further in this dissertation.

The second major type of business association in Ecuador is the cámara.²⁶ These organizations are made up of all businessmen in wide areas of the economy. The cámaras have a rather substantial legal and political position. Membership is mandatory and the cámaras are given the power to elect several representatives to many official policy-making bodies.

²⁴Interview with Sr. Rafael Borja, Executive Secretary for the Asociación de Industriales Textiles de Ecuador, on October 14, 1968.

²⁵Interview with Sr. Antonio Teran Salazar, Executive Secretary of the Asociación Nacional de Empresarios, on November 14, 1968.

²⁶The term is equivalent to our "chamber." The cámara leaders have been discussed in Chapter I as being potential public participants in Ecuadorean politics.

These factors have given the cámaras an important role in the political process. The size and powers of the cámaras have given wide backing and substantial visibility. The leaders of cámaras are generally assumed to be legitimate representatives of the business interests in their areas. Cámara leaders are almost inevitably brought into the political process. However, the size of the memberships and the range of interests represented have frequently created problems in the internal organization of the cámaras.

The cámaras were formed under the direction of the government, a common practice in Latin America. The Cámaras de Industriales were organized in August, 1936. The Cámaras de Comercio, the last to be formed, was started two years later.²⁷ The cámaras are considered to be "decentralized agencies" of the government. Their formal status is that of a "legal body formed for public ends with private rights." In actual practice, the autonomy of the cámaras from the government is almost complete.

The several cámaras of Quito and Guayaquil are all at the apex of systems of local business organization. Local organization is weakest for the industrialists. Virtually all important industry in Ecuador is located in the provinces of Pichincha (Quito) and Guayas

²⁷Decreto Supremo 24 of February 10, 1937, published in Registro Oficial 271 of August 22, 1936; Decreto Supremo 5 of January 5, 1938, published in Registro Oficial 61 of January 8, 1938.

(Guayaquil) with only minor industries located in Cuenca.²⁸ Since the national federation of cámaras de industriales has been rendered impotent by regional rivalries, only the Quito and Guayaquil organizations are important for our purposes.

The cámaras de agricultura are more effectively organized on the local, provincial, and regional levels. There are two types of members of these organizations. One official representative from each "lower order" agricultural organization goes to the provincial and regional cámaras. All centers in a province are represented in the provincial camera and all provincial cámaras send delegates to the appropriate regional body. There were two regional cámaras. The Cámara de la Agricultura de la Primera Zona, which is located in Quito, includes all of the sierra provinces, and the Cámara de la Agricultura de la Segunda Zona, with headquarters in Guayaquil, represents all of the coastal organizations.²⁹ Some of the provincial and regional cámaras also have direct members. There were 78 direct members to the Cámara de la Agricultura de la Primera Zona,³⁰

²⁸Ecuador, Junta Nacional de Planificación y Coordinación Económica, Primer Censo Industrial: Resumen de Resultados, Quito, 1957, pp. 78-91; Erickson, et al., p. 374.

²⁹Ecuador, Instituto de Estudios Administrativos, Manual de Gobierno (Quito, Instituto de Estudios Administrativos, 1962), p. 210. A third regional cámara was formed after 1961.

³⁰Typewritten membership list taken from the files of the cámara.

but the coastal cámara is made up exclusively of provincial representatives.³¹

Under the law, membership in a cámara de comercio is mandatory for all retail and wholesale businessmen of all provincial and cantonal seats of government. Membership is obligatory for all traders with a registered capital of more than 5,000 sucres (about \$250).³² However, this is not rigidly enforced. Almost all of the members of the cámaras de comercio outside of Quito and Guayaquil are very small businessmen who are involved with, at best, the provincialeconomy. Only the cámaras de comercio of Quito and Guayaquil normally have an impact on national life.³³ The many cámaras de comercio are informally joined in a national federation which apparently exists only on paper and will not be discussed here. There are no other associational ties among them.

The cámaras are charged with the duties of aiding business development, engaging in some internal self-policing and of assisting in relations between businessmen and the government. The several statements of formal duties reveal interesting differences; the

³¹Interview with Sr. José Torres, President of the Cámara de Agricultura de la Segunda Zona, on October 29, 1968.

³²This varies slightly with the location of the cámara. See Manual de Gobierno.

³³The businessmen of Cuenca have occasionally been active in leading revolts against the authority of Quito. They were apparently involved in the coup that overthrew Velasco in 1961. However, they do not normally participate in political decision making.

cámaras de la agricultura are concerned with aggressively representing the planters against the government,³⁴ while the cámara de industriales should assist the government and police members in trade disputes.³⁵ The directors of the cámaras no longer feel strong ties to the legal niceties of the cámara charters in their daily conduct so these differences are mostly of historical interest.

A much more important aspect of the legal and constitutional positions of the cámaras is with respect to the election of the functional senators. Under the 1946 Constitution, the major interest blocs have direct representation in the Senate. There were 12 functional senators, representing public education, private education, the armed forces, and the press and cultural establishments of the nation, together with sierra and coastal representatives for agriculture, labor, commerce and industry.³⁶ The six functional senators for business are elected by electoral colleges made up of representatives from the appropriate cámaras. Each delegate carries as many votes as his cámara has members. The votes of the provincial cámara de la agricultura members are weighted according to the total number of affiliated farmers at the canton and province level.

Cámara members also elect representatives to several admin-

³⁴Manual de Gobierno, p. 210.

³⁵ibid., p. 301.

³⁶Constitución Política de Ecuador; 1946, Section II, Part 42.

istrative boards. As of 1959,³⁷ the cámaras de la agricultura elected representatives to the Comisión Nacional de Trigo, the Banco Nacional de Fomento, the Comisión Nacional de Valores, the Consejo Superior de la Agricultura, and to the Jurado de Aduanas. There were four business representatives to the Junta Monetaria, two representing the banks of the coast and the sierra, and two representing the cámaras de industriales, comercio and agricultura of both regions.³⁸ Having representatives who directly participated in the operation of these bodies allowed the cámara leaders to keep in touch with political conditions at several levels of government. However, the position of the cámaras in the national political situation was equally important in determining how influential the cámaras would be in the formation of government policy.³⁹

Only the cámaras de la agricultura receive direct state support; 5 percent of all rural property taxes are assigned to them. The cámaras de comercio and industriales are financed by membership dues.⁴⁰ Mandatory membership and available legal sanctions for

³⁷The government has been reorganized several times since 1962. Passages phrased in the past tense refer to matters that may not still be valid.

³⁸This was changed slightly in 1960. See Chapter 8.

³⁹Rafael Chambers Matamoros, the Executive Director of the Comisión Nacional de Trigo, reports that both the comisión and the cámara de la agricultura fall from political influence when the national political decision makers cool to the cámara leaders. Interview with Sr. Chambers on November 6, 1968.

⁴⁰Estatutos y Reglamentos de La Cámara de Industriales de Pichincha (Quito, 1967), p. 18.

levying dues provide the cámaras with adequate financing.

There are some differences in the public positions and internal processes of the several cámaras. One major factor contributing to these differences is the difference in the interests and cohesion of the members. There are relatively few differences among the functioning members of the coastal cámara de la agricultura. The indirect membership results in a balancing of the demands of the several groups at the provincial cámara level before they are expressed in the regional organization. A potentially major internal split between the larger and smaller agriculturists is dampened by the strong upper class bias of the effective members. The more humble members do not have access to information on cámara politics and policies and cannot go easily to Guayaquil or the provincial capitals to press their interests. Only the higher status members generally have continued access to cámara decision making. However, the poorer members can petition for cámara help in solving local agricultural or political problems not involving the larger planters.⁴¹

The cámara de la agricultura of the coast has not become involved in the problems of the smaller banana growers. Conflict between the growers and the exporters was generally articulated through the Asociación Nacional de Bananeros Ecuatorianos. The influence of

⁴¹The smaller middle class agriculturists have formed their own interest groups in recent years, apparently to avoid dependence on the cámaras. The Federación Nacional de Cooperativos Bananeros is one such example.

the larger planters in the cámara has not given the cámara leaders any incentive to push for a change of the status quo.

Because the sierra social system is more highly stratified, the upper class bias of the effective members of the Cámara de la Agricultura de la Primera Zona is even more pronounced. However, there has been a split between the traditional and the progressive members of the cámara, especially with respect to such issues as land reform and agricultural development. All members who are interested in development look for government credits to help improve farming techniques and to develop rural marketing facilities. The progressive members are more inclined to depend on self-help and to direct more of the state aid to the smaller farmers.

Several of the other agricultural interest groups form "internal pressure groups" in the cámara. Twenty percent of the members directly affiliated with the sierra cámara are also members of ANCO.⁴³ The offices of the AIGM (formerly the AHFE) are in the same building with the cámara. There is free passage between the offices of the two organizations.

The Cámara de Industriales de Pichincha had 445 members.⁴⁴

⁴³Taken from the typewritten membership lists in the files of the Asociación Nacional de Cráteros de Ovejas and the Cámara de Agricultura de la Primera Zona.

⁴⁴Cámara de Industriales de Pichincha, Bodas de Plata (Quito: Tallares Graficos Minerva, 1961), pp. 51-85.

Virtually all the members were legitimate industries.⁴⁵ The range of interests represented has been suggested in Chapter 4. Although affiliation is registered usually in the name of a manager, it is accorded to individual industries. Therefore businessmen who control several industries, the Pinto Dávilas for example, carry a proportionately greater weight in cámara affairs.

Members are classified according to size of registered capital. However, a very informal classification according to business interest is provided by membership in the sectarian service organizations. Twenty percent of the cámara members also belong to AITE.⁴⁶ They form a major block and wield substantial influence over cámara politics.⁴⁷ Although the members of AFIM may form another block, they do not seem to have exercised as much visible influence over cámara politics.

There were 223 members of the Cámara de Industriales de Guayaquil.⁴⁸ The range of businesses included is very wide; the members

⁴⁵Only ATESA, an air taxi service, did not seem to be a legitimate industry.

⁴⁶Data are taken from mimeographed membership list in the files of the Asociación de Industriales Textiles de Ecuador.

⁴⁷Generally one major news item or feature article on AITE was run in each issue of La Industria, the house organ of the Cámara de Industriales de Pichincha. This was not true for any other industrial association.

⁴⁸The source is the mimeographed membership list from the files of the Cámara de Industriales de Guayaquil, dated 1965. Most of the members who affiliated between 1962 and 1963 were listed at the end of a separate appendix.

are engaged in everything from managing restaurants to running hotels and airlines.⁴⁹ The Cámara de Industriales is broken down into 14 sub-associations, each representing a particular branch of industry. Membership is through the appropriate sub-group.⁵⁰ The non-industrial businesses are all dumped into their own residual category, where their diverse interests more or less cancel out.

The two cámaras de comercio differ widely in the range of interests held by members and in the extent that informal relations provide cohesion for cámara membership. The members of the Cámara de Comercio de Quito, who are almost all retail merchants or representatives of service organization (such as bankers and the owners of dry cleaning establishments) are not divided by great differences in business interests. As has been pointed out in Chapter 4, though, the Quito businessmen are not highly integrated. Few have ties of overlapping ownership and the larger businessmen do not have sufficient economic power to keep the others in their orbits.

The factors for both dissension and cohesion are much greater for the members of the Cámara de Comercio de Guayaquil. Businessmen from all sectors of the coastal economy, from manufacturing to

⁴⁹A plausible reason for this diversity could be that many businessmen would rather participate in the smaller Cámara de Industriales than be swamped in the very much larger and elite-dominated Cámara de Comercio de Guayaquil.

⁵⁰Interview with Sr. Hugo Chavez, Secretary General of the Cámara de Industriales de Guayaquil on October 30, 1968.

finance to service to agriculture, are affiliated with the cámara. As a result, there is a great diversity of interest among the members. Some groups of members can be found to support almost any position on national issues.⁵¹ The extent and power of the interlocking elites of Guayaquil serve to give some cohesion to the members. The few central businessmen control the votes of several hundred affiliated businesses, which gives them substantial direct influence over cámara voting. Perhaps more important is the economic position of the inner elites. The smaller merchants, the importers, and the businessmen looking for investment capital are all within the economic orbit of the bankers and large importers and exporters. Although this dependence is not overtly important in the daily life of the cámara, there is little question as to which side the smaller members will support if the cámara leaders become seriously split.⁵²

The formal procedures for elections in the cámaras vary. The cámaras de comercio and the cámaras de la agricultura all have direct elections by all members for the offices of the presidency, vice presidency and the seats on the cámara boards. The periods of office are all two years. The Cámara de Comercio de Quito and both of the cámaras de la agricultura have eleven men on the boards of

⁵¹ Interview with Sr. Atahualpha Chavez Gonzalez, former President of the Cámara de Comercio de Guayaquil, on October 30, 1968.

⁵² Interview with Mr. John J. Snyder, Labor Attaché at the American Embassy in Quito on October 15, 1968.

directors.⁵³ There are twenty directors elected in the Cámara de Comercio de Guayaquil.

Elections to the boards of the camaras de industriales are somewhat different. Each sub-group of the Cámara de Industriales de Guayaquil elects one member to the board of directors.⁵⁴ The president and vice-president are elected by the board from within their own ranks. The representatives on the board of directors of the Cámara de Industriales de Pichincha are elected by various classes of members. The three largest classes elect three representatives in common, two representatives are elected by the three medium-sized groups of industrialists, and the four ranks of the smallest businessmen elect two representatives in common. The elections of the president and vice-president are held among all members of the board of the cámara.⁵⁵

Elections in all of the camaras are overtly non-political. The style strongly resembles "local notable" politics. Voters apparently choose on the basis of the relative perceived status of the candidates within the cámara and in terms of their own personal relations with

⁵³Typewritten lists of the members of the board of directors from the files of the Cámara de Agricultura de la Primera Zona and the Cámara de Agricultura de la Segunda Zona; Comercio Ecuatoriano, February-March, 1960, p. 3.

⁵⁴Interview with Sr. Hugo Chavez.

⁵⁵Cámara de Industriales de Pichincha, Estatutos y Reglamentos de la Cámara de Industriales de Pichincha (Quito: Cámara de Pichincha, 1967), p. 32.

the several candidates.⁵⁶ Reputation is based on commercial success, business style, past participation in cámara affairs, and possession of the necessary dignity, force and charisma required of an effective business representative. Almost all observers stated that most cámara voters did not decide on the basis of external political factors (even though the political relations between the cámara leaders and the ruling politicians would determine much of the political effectiveness of the cámara in coming years) and that disputes over internal policies were, in general, not a major factor.⁵⁷

The cámara elites politick among themselves for office positions. Many small sets of notables often form coalitions for office. Payments and profits in these games seem to be visibility and status within the cámara elites and agreements for supports in future elections.⁵⁸ The competition often dies down before the formal announcements of candidacies. The many underdogs would rather negotiate a settlement than face a graceless defeat.⁵⁹ Although formal cámara leadership is more or less kept within a sub-group of elites, new faces are always entering this "inner circle," either through the

⁵⁶Interview with Mr. Peter Mitchell; interview with Sr. Rafael Dillon Valdéz; interview with Sr. Atahualpha Chavez Gonzalez; interview with Professor Georg Maier.

⁵⁷Interview with Sr. Rafael Dillon Valdéz.

⁵⁸Interview with Sr. Hugo Chavez; interview with Mr. Peter Mitchell.

⁵⁹Ibid.

bargaining process or through the sponsorship of retiring leaders.⁶⁰ Hard-fought election contests for individual seats do occur, generally when the cámara leadership is relatively weak or divided. However, it is rare for competing slates to contest cámara elections.⁶¹

Campaigns for cámara office are long and expensive. Even "shoe-in" candidates will campaign intensively in order to develop the status and visibility commensurate with their future offices. Candidates take out full-page advertisements presenting their qualifications, programs and declarations of support from other cámara notables. Campaign organizations engage in extensive telephone drives and leaflet mailings to cámara members.⁶² It is rare for candidates to directly attack their opponents. Needless political enmity could damage future business and personal relations.⁶³ As a result, losers are given the chance to merge back into the cámara elites with public grace.

Although the candidates are generally large businessmen, the election outcomes are usually controlled by the medium to smaller businessmen.⁶⁴ The smallest businessmen often drop out from

⁶⁰ Interview with Sr. Atahualpha Chavez Gonzalez.

⁶¹ Ibid.

⁶² Undated conversations with Sr. Ricardo Levy, general manager of the Fábrica Sudamericana de Broches.

⁶³ Interview with Professor Georg Maier.

⁶⁴ Interview with Sr. Alejandro Carrion, publisher of La Calle, on November 12, 1968.

effective participation since they have neither the time nor the status to be a force in cámara politics. The larger businessmen lack the votes. However, in the Cámara de Comercio de Guayaquil they can force voting through an exercise of their economic power.

The elections of the functional senators are closely involved with the elections to cámara office. The same non-political, local notable style of politics prevails. However, the candidates themselves may have introduced political considerations in their decisions to run. Some candidates, seeking final public approval for a successful private business career, may not be politically motivated. Many businessmen recognize that having political connections with leading politicians can be very good for business. A few functional senators have used their offices to switch from business to a political career.⁶⁵ Functional senatorial candidates have to take into account national political complexities in order to implement any of these goals.

The leaders of the Quito and Guayaquil cámaras are very influential in the elections for the functional senators. Most of the "local notables" are affiliated with these cámaras. Almost all of the big businessmen belong to the big city cámaras. Members of these cámaras have the greatest national exposure. Influentials in the outlying cities rarely are known much beyond their own cámaras. The leaders of the Quito and Guayaquil cámaras can usually exercise

⁶⁵Interview with Sr. Ricardo Levy, on June 2, 1968; interview with Professor Georg Maier.

substantial influence over which candidates will receive their block of votes.⁶⁶

The favored candidates do not always come from the big city cámaras. Considerations of fairness and political harmony will often cause the regional cámara leaders to throw their weight behind candidates from the smaller cámaras. It is almost axiomatic that when the main candidate is from the big city, the ticket will be balanced by having the alternate from the outlying districts.⁶⁷

There is generally a consensus that the introduction of partisan politics within the cámara could have disastrous effects on cámara unity and on the relations of the cámara to unfriendly political figures. However, voters may weigh political considerations in making their choices. It is difficult for a candidate to be completely pure politically. Past participants in cámara politics have inevitably made associations with national figures. Voters should also realize that the family ties, home town location, personal associations and sympathies will all influence the extent that a particular candidate would be able to work effectively with certain politicians.⁶⁸

Policy formation of the cámaras can perhaps be best thought of

⁶⁶Interview with Sr. Rafael Dillon Valdéz; interview with Sr. Atahualpha Chavez Gonzales; interview with Sr. Mauricio Yepez, Secretary General of the Cámara de Industriales de Pichincha, on November 26, 1968.

⁶⁷Interview with Sr. Mauricio Yepez.

⁶⁸Ibid.

as occurring on three different levels. The lowest level involves the relation between the cámara staff and the cámara members, the second level is the relation between the cámara leaders and the public bureaucracies, the third level is between the cámara leaders and the national politicians. Although the activities on the three levels are interdependent, the interests and relative influence of participants will change according to which focus of cámara politics is most relevant.

Much of the internal life of the cámaras, especially of the cámaras de comercio and industriales, is oriented towards member status. Much of the space in the cámara journals is taken up with articles on the vital role played by cámara businessmen in national development or with biographical sketches of successful businessmen.⁶⁹ The staffs of the cámaras also spend much of their time rendering services to businessmen. The cámaras de la agricultura are heavily involved in rural extension and advisory services. The pages of the journals of the cámaras de industriales and comercio are taken up with information useful to businessmen. The cámaras also sponsor "administrative development" seminars. Some of the cámaras also engage in everything from legal aid services to funeral

⁶⁹Twenty-six out of eighty-five full page or longer articles that appeared in La Industria, the house organ for the Cámara de Industriales de Guayaquil, were concerned with personal activities or articles on various industries. Many of the remaining articles were written about cámara social activities and on interviews with newsworthy people.

credit clubs.⁷⁰

The cámaras will often help individual members with their relations with the government. Usually a member can obtain help when his problem is either one of a mix-up in "red tape" or when he has a case worth defending in principle, the outcome of which could also affect other businessmen. How much support the cámaras are willing to give the members will depend on the level of political opposition involved. A cámara may argue a case for a member before the Junta Monetaria but not try to fight a highly specific tax increase that is pushed by a strong president.⁷¹

The leaders of the cámaras also reflect concerns for business conditions and public policy to the members. These public policies of the cámaras are "non-political." Issues that may divide cámara members are played down. For example, the Cámara de Comercio de Quito was concerned in 1959 about control of contraband, the establishment of a customs house in Quito, the elimination of payments of anticipated taxes, the regulation of the armed forces commissaries, and in representing the interest of the Quito merchants who imported items through the Guayaquil port.⁷² However, the cámaras took no

⁷⁰Both services were offered by the Cámara de Comercio de Quito.

⁷¹Interview with Mr. David Gleason, owner and manager of Radio Nucleo on May 23, 1968.

⁷²"Actividades del Directorio," Comercio Ecuatoriano, July-September, 1959, pp. 16-19.

specific public positions on the very sensitive issues of devaluation, tariff reforms, land reform and reorganization of the Junta Monetaria.

There is a fair amount of popular participation in the establishment of the narrow-gauge public policies of the cámaras. The Cámara de Comercio de Quito established several committees to study many areas of business problems.⁷³ Although the members of these committees seem to have been drawn from the cámara elites,⁷⁴ their deliberations and their recommendations were public knowledge. The Cámara de Industriales de Pichincha has established several functional committees to serve in a permanent advisory capacity to the cámara leaders. Many people outside of the leadership circle are drawn into the workings of these committees. Cámara leaders may guide the wider political orientations of the organization through control of the house publications. The journal of the Cámara de Comercio de Guayaquil seemed to contain many articles and interviews favorable to the Velasco regime at a time when the policies of the regime were favorable to the financial and commercial elites but not necessarily favorable to the cámara rank and file.⁷⁵

A second level of activity is the relation between the cámara

⁷³"Reunión de Ejecutivos de las Cámaras de Comercio del Ecuador," Comercio Ecuatoriano, October-December, 1959, p. 9.

⁷⁴Most of the members were members or had been members of the directory of the cámaras.

⁷⁵Interview with Professor Georg Maier; "Mensaje del Presidente," Revista de la Cámara de Comercio de Guayaquil, No. 37, July 31, 1960, p. 3.

leaders and the government bureaucracies. The cámaras are occasionally involved with virtually all government agencies from time to time. However, they are most vitally concerned with the activities of the Junta Nacional de Planificación e Coordinación Económica, the agencies under the old Ministro de Fomento, and with the Junta Monetaria. The relation between the cámaras and the government agencies is largely based on mutual dependence. The interests of the cámara members are directly affected by the activities of the government agencies. The Junta Nacional de Planificación is responsible for establishing long range plans for economic development and social reform. Although JNPCE opinions are only advisory, businessmen have found that favorable opinions offer a valuable talking point while unfavorable opinions can be very embarrassing for policies they are advocating.

The agencies under the Ministro de Fomento have generally administered the development programs of most immediate interest to the members of the cámaras. The agriculturists have been the major clientele for the efforts of the ministry to improve agricultural techniques and yields. The industrialists have been the beneficiaries of the administration by the ministry of the industrial development programs. Both the established manufacturers and the commercial businessmen have been very interested in opposing attempts by the ministry of development to establish competing industrial firms.⁷⁶

⁷⁶Interview with Sr. Ing. Julio Ulloa, Staff Engineer for CENDES, on May 20, 1968.

The Junta Monetaria has substantial control over the trade and monetary policies of the government. Most of the battles between the advocates of free trade and the industrialists interested in protective tariffs are fought here. As a result, it has become of vital concern to the businessmen that they cultivate amiable relations with the majority of the board and with the manager of the Banco Central who is quite influential in board deliberations.

The cámaras have substantial services to offer the government agencies which smooth the path towards cooperation. Many of the government agencies are quite dependent on the cámaras for information about business conditions and activities. The government agencies would be planning and administering in a vacuum without the cooperation of the cámara staffs in data collection. The cámaras also work closely with the Ministro de Fomento and, at times, the Junta Nacional de Planificación in the administration of development programs. The role of the ANCO in running development programs for the improvement of wool production under contract to the minister of development has already been discussed. The Cañaras de la Agricultura have been involved in similar programs on a wider scale. The cámaras offer a different type of service to the agencies when they run political interference for jointly sponsored programs. The cámaras have been able to develop wider contacts with more overtly partisan politicians that have been very useful in promoting technical programs. The planning agencies both lack a significant clientele

from which to speak and also run the risk of compromising their on-going positions if they enter too deeply into partisan politics.

The relation between the agencies and the cámaras is also eased by the interchange of personnel between the government and private business. Both sides are competing for the same small group of trained people. Businessmen are interested in working with people who can cut red tape and the government planners want senior staff personnel who have skills that can only be gained through practical experience. The government experts are generally ready to take advantage of business opportunities that come up in the course of their government service.⁷⁷

The powers and the programs of the cámaras appear to be significantly altered through their relations with the bureaucratic agencies. The cámara members gain a considerable advantage through their access to government planners. The cámara leaders can offer the services of advance information on government planning and administrative decisions and can use their good offices to help cámara members who are having difficulties with the government. Since these services would not otherwise be generally available to private businessmen, the relation between the cámaras and the government strengthens the position of the cámara leaders with respect

⁷⁷This is partly based on conversations with Sr. Oscar Loor, who seemed to have followed this career pattern. Interview with Ec. Oscar Loor, former staff economist of CENDES and currently an investment and management counselor, on November 21, 1968.

to the members.

The relations with the planners also guide and limit the positions taken by the cámaras in public politics. It seems that the government agencies have a substantial impact on cámara thinking and policy planning. Although the government agencies are dependent on the cámara for basic data, the cámaras are equally dependent on the government for the finished analyses. The political presentations made by the cámaras on the impact of economic policies probably reflect the influence of government thinking. As a result, the cámaras would seem to be influenced by the bureaucratic agencies when charting their own role in Ecuadorean politics. The importance of having smooth working relations with the government planners has an impact on the range of political involvements of the cámaras. It would be difficult to maintain a close working relation with the planners if open political warfare broke out between the regime in power and the cámaras. Therefore the cámaras would be encouraged to not take openly partisan stands unless it were necessary.

The third level of political involvement is between the cámaras and the national politicians. The cámaras rarely take overtly political stands. The few policy preferences expressed in public are usually couched as statements of the interests of cámara members that are presented for dispassionate consideration. Although cámara spokesmen may attack policy proposals out of principle or rally to the "interests of the nation," they will rarely explicitly align them-

selves with the positions of a politician or a regime. The political impact of the cámaras can be substantial at times. Every government is concerned about the possibilities of a general strike if the relations between the cámaras and the government become too strained. At the very least, the public participation of the cámaras will introduce new actors to political dialogues. Therefore much of the influence of the cámaras appears in the actions of politicians who are trying to head off anticipated problems.⁷⁸

Several factors determine the political reactions of the cámara leaders. Some of the most significant elements are the political interests of the cámara members. The economic and political circumstances of the major cámaras members will guide cámara participation. The cámaras must act, at least on a symbolic level, during economic crises. The cámaras are also quick to defend any slurs by the government on the symbolic positions of the cámara members in national life or to threats to sensitive areas of business interests.⁷⁹

⁷⁸Interview with Mrs. Helen Wulf, Assistant Comercial Attaché of the American Embassy in Quito, on April 26, 1968; interview with Mr. Joel Biller, staff economist for the American Embassy in Quito on April 27, 1968; interview with Mr. Albert Gelardin, financial consultant to American businesses in Ecuador, on May 23, 1968.

⁷⁹This is a partial interpretation of an event that occurred in 1968. President Velasco, who was not backed by the Guayaquil commercial elites, called for private businessmen to assume responsibility in national public development. Around the same time the government took steps to split the U.S. sugar quota premium between the government and the sugar exporters instead of giving it all to the exporters. The combination of these two relatively small incidents touched off an emotional campaign defending the rights of business autonomy. Sr.

Not all cámara members are equally influential in determining cámara policies. It is reported that many large landowners have effective control over local public administration in many rural areas. This has carried over into an effective veto over cámara policies for their areas.⁸⁰ The commercial elites of Guayaquil are also quite powerful in their cámara policies. Their interests differ from those held by most of the rank and file members. The Guayaquil elites have not been shy in the past to use their economic power to force cámara compliance to the desired ends.

A second set of factors involves the relation between the cámara leaders and the functional senators. Generally, they work closely together.⁸¹ Both represent the same sets of constituents, both are recruited from the same set of high-status businessmen. A senator who cannot count on the cooperation of his cámaras will have a hard time claiming to speak for his sector of the economy. Cámara

Rafael Dillon Valdéz, the current president of the Cámara de Industriales de Guayaquil, made an emotional and widely publicized speech promising "death before intervention." As Sr. Dillon explained to me later, this stand was taken "on principle" defending against the "slur on the business community."

⁸⁰Undated conversations with Mr. Madison Adams, Jr., former Commercial Attaché to the American Embassy in Quito; undated conversations with Sr. Alfredo Pareja Diezcanseco.

⁸¹Interview with Mr. George Fitch, Chief of Industrial Section of the USAID Mission to Ecuador, on May 17, 1968; interview with Sr. Carlos Rota, President of Sociedad Radio Técnico, on October 15, 1968.

leaders who do not have the confidence of the senator have lost a major voice in government. There are several factors that pull the senators and the cámara leaders in different directions. Politically motivated senators will be seeking a wider range of contacts and will participate in programs not relevant to cámara considerations. Outside political groups will generally try to co-opt even non-political senators. They are valued not only for the votes they control, but also for their roles as front men for business interests.⁸² The informal rules of the game in Ecuadorean politics imply that groups affected by a policy must at least seem to be a party to the decisions. Politicians want to bring in the functional senators both to avoid public opposition from within the Senate and to help mobilize the cámara leadership behind the presidential or party programs. Cámara leaders are not always happy about being brought into political coalitions and political strategies they did not help form.⁸³

A last set of factors is the political and personal relations between the cámara leaders and the presidential decision makers. The cámara

⁸²Interview with Professor Georg Maier; interview with Mr. Madison Adams, Jr.

⁸³Cámara leaders can also compromise the political positions of the functional senators. President Arosemena wanted to eliminate the tax on imported wheat, a move that was opposed by a majority of agriculturists. However, he found a member of the board of directors of the Camara de Agricultura de la Primera Zona who would support a temporary tax relief for the millers, who were having problems with striking employees. He used this to cut the ground out from under the functional senator who tried to organize an opposition to the move in the Congress. See Chapter 9.

leaders usually have channels to the presidency that bypass the functional senators. One route is through recruitment of businessmen into the cabinet. The public position, the lack of partisan ties and the business positions of past cámara leaders make many of them ideal candidates for cabinet positions. Once in the cabinet, many retain their former business loyalties. Thus the leaders of the Cámara de Comercio de Quito attributed their political successes in 1959 to the appointment of a former cámara president, Luis Gomez Izquierdo, as minister of the treasury.⁸⁴ Recruitment from the cámaras may have become institutionalized. It is reported that the ministers of agriculture in recent years have been named by the cámara de la agricultura most favorable to the regime in power, subject to the vetos of the cámara in the other region.⁸⁵

During periods of political and economic calm, the cámaras and the presidential decision makers have relatively little need for each other. Favored cámaras would receive more symbolic recognition and perhaps an inside track to administrative planning. However, during periods of tension, the presidential politicians may seek more open political supports from powerful cámaras. Legislation strongly favoring the interests of the cámara members (but not necessarily harming the interests of other cámaras) is often the price for an

⁸⁴"Actividades del Directorio," Comercio Ecuatoriano, July-September, 1959, pp. 16-19.

⁸⁵Interview with Professor Georg Maier.

alliance. These programs favoring business are often sponsored by bureaucratic agencies within the government; the cámara leaders are not involved until the legislation is ready for final passage.⁸⁶

It is difficult to adequately assess the relative influence of the several cámaras. Political influence depends to a large degree on the political circumstances and areas of politics. The cámaras de comercio, especially the Guayaquil cámara, are generally thought to be the most powerful in public national politics.⁸⁷ They have maintained a relatively high level of member discipline and the economic power of the Guayaquil chamber is very great. Guayaquil is especially volatile politically. A general strike by the Guayaquil merchants would bring most of the economy to a crawl, and the possibilities of a public insurrection would be great.⁸⁸ The Quito cámara is visible, but not necessarily as effective.

The cámara de industriales is more powerful inside many government agencies. Public economists often support an ideology of autonomous development and modernization which favors the industrialists. Many people concerned with political development see the industrialists as nationally minded people who can break the hold of the

⁸⁶This is what happened with the Ley de Fomento Industrial. See Chapter 9.

⁸⁷Interview with Mrs. Helen Wulf; interview with Sr. Alejandro Carrión.

⁸⁸Interview with Sr. Alfredo Pareja Diezcanseco, former member of the Junta Monetaria, and assistant manager of the Banco Popular, on November 21, 1968.

comerciantes and traditional landowners on the society.⁸⁹

The cámaras de la agricultura are much less visible on all levels of politics. As a pressure group the cámaras suffer from the problems of effectively coordinating members spread all over the countryside. As a further handicap, national Ecuadorean politics is strongly slanted towards the urban areas. Even planters who come to the city often become involved in city politics.⁹⁰ Few political figures effectively represent rural concerns in public.

The general political impact of the agriculturalists can be very great. Being a landowner still carries great prestige, especially in the sierra. Many very prominent public figures come from elite families who have held family lands for centuries. As a result, proposals attacking elite agricultural interests seem to become dissipated, bogged down in a morass of detail and revision. Agencies sponsoring land reforms and rural development end up "working very closely" with the large landholders whose positions they are supposed to be undermining.⁹¹ The agricultural development banks are relatively well financed and have come under the control of the large landowners out of public sight. The whole concern of agriculturalist policies has been to slow the pace of urban development, which can be done without

⁸⁹Interview with Ec. Manuel Naranjo Toro, former Minister of the Treasury, on October 17, 1968.

⁹⁰Interview with Sr. Luis Del Campo Salvador.

⁹¹ibid.

ever having the cámaras enter into political discussions.⁹²

The working relations among the several cámaras are generally rather poor. Only the Cámara de Comercio de Quito and the Cámara de la Agricultura de la Primera Zona (sierra) have formed a well-established alliance.⁹³ The two groups have shared interests in stable money, free trade and favor local agricultural development over industrialization. The planters are wary of wage increases that usually accompany industrialization. Both the agriculturalists and the comerciantes dislike price increases that are caused by protective tariffs. The comerciantes feel that most of the sierra buying power is earned through agriculture.⁹⁴

Close personal relations between the leaders of the two cámaras are facilitated by geographic proximity and shared memberships. Many comerciantes also own farms. Some 20 percent of the members directly affiliated with the Cámara de Agricultura de la Primera Zona are also members of the Cámara de Comercio de Quito.⁹⁵

⁹²Interview with Sr. Lic. Gonzalo Cordova G., son of former president Andres F. Córdova and member of the Board of Directors of the Camara de Agricultura de la Primera Zona, on November 25, 1968.

⁹³Interview with Sr. Luis Del Campo Salvador; Ecuador, Diario de Debates; Cámara de Senado; September, 1960, p. 42.

⁹⁴Interview with Sr. Atahualpha Chavez Gonzalez.

⁹⁵Cámara de Comercio de Quito, Guía Comercial de Quito (Quito: Editorial Santo Domingo, 1967), typewritten membership list of the Cámara de Agricultura de la Primera Zona taken from the files of the cámara.

The cámaras de industriales of Quito and Guayaquil have formed a much looser alliance. Industrialists of the coast and the sierra have much in common. Industrialists seeking business expansion must think in terms of national markets and national development. As a result, the industrialists tend to share political and economic views to a greater extent than do the comerciantes and farmers who think in terms of the interests of their regions.

The relations among the other cámaras are not close. The break between the cámaras de comercio and the cámaras de industriales is a result of their lack of common interest on tariffs, monetary policies and development priorities. The relations between the cámaras de la agricultura of the sierra and of the coast are equally bad.⁹⁶

The sierra farmers are worried about wage increases, land reform and price controls on fertilizers. The coastal farmers, who have been faced with wage levels bid far above the minimum levels, are not concerned with minimum wage increases. Neither do they care much about fertilizers and land reforms since they have almost limitless areas of cheap fertile lands awaiting cultivation. The progressive coastal farmers are not sympathetic to the other problems faced by the inefficient feudal sierra landowners.

The cámaras de comercio of Quito and Guayaquil also have few interests in common. The coastal cámara is generally dominated by

⁹⁶Interview with Sr. Luis Del Campo Salvador; interview with Sr. José Torres.

the large exporters, importers and financiers. The split within the cámara between the dominant leaders and the smaller retail shopkeepers is usually papered over. However, it is a basis for open conflicts between the sierra and the coastal comerciantes. The comerciantes in both regions look for local economic development to increase their own markets. Not only does this cause conflicts over development priorities, it also is a basis for disagreement on how to expand the economy since the wealth of the two areas is based on different types of activities.⁹⁷

The leaders of every cámara have institutional interests in preserving separate political identities. The cámara elites are generally concerned with maintaining power and status within their organization. The leaders of the relatively low status organizations, such as the Cámara de Comercio de Quito, would not be enthusiastic about being overshadowed by the higher status elites of Guayaquil. Neither is it in keeping with the character of the leaders of Guayaquil business to share public participation in a program with "outsiders."⁹⁸ Every set of cámara leaders carefully cultivates its own political connections to promote its own programs and business interests.

Political and personal antagonisms are kept carefully under

⁹⁷Interview with Sr. Atahualpha Chavez Gonzalez.

⁹⁸Interview with Mr. Bill Geschwiend, regional director for the Peace Corps, on October 28, 1968. I received the same impression in conversations with members of the Guayaquil elites.

control. Since the different cámaras generally operate in different spheres of politics and are concerned with different programs, there are relatively few areas in which open competition will break out. There is a spirit of "live and let live."⁹⁹ Political antagonisms are bad for business relations. The cámaras are most powerful when they can operate behind the scenes. Open disagreements may bring in new combatants with unforeseen consequences. Far more than the special issues under debate would be endangered by open breaks among the leaders of the business community.

Political circumstances can also force political alliances among otherwise distant cámaras. Most of the alliances are along regional lines. The cámaras of the sierra will pull together if the leaders fear that the coastal elites have been able to monopolize political power to an unacceptable degree. However, public cooperation seems more symbolic than programmatic. Even on issues of common interest, the several sierra cámaras have seemed interested in keeping sufficient political distance among themselves to allow for the possibilities of a separate peace.¹⁰⁰

⁹⁹The best illustration was given in a series of letters between two cámaras on the extent of opposition to a tariff change. Unfortunately, the citation cannot be more complete.

¹⁰⁰For example, the interests of most of the cámaras were being threatened in 1961 by the devaluation and inflationary money policy of the Velasco government. However, the only cooperation they could manage was to issue a sternly worded but very vague statement calling for a return of "a climate of business confidence," and for "assurances that business interests could be guarded." One inter-

The Asociación Nacional de Bananeros Ecuatorianos is an entity half way between an independent business association and a politically captive arm of the government. The members of ANBE are the banana growers, whose interests the organization is charged with promoting. However, ANBE also has become an agent of the government in the promotion and regulation of the vital banana industry. One result has been that the conflicts among the banana growers has carried over into the manner in which the government administers its role in the association, and the functioning of the association has become severely warped by national political factors.

The national association is the peak organization of a system of provincial and cantonal associations. The members of the canton boards are directly elected by the local banana growers. The local banana growers also have direct membership in the national assembly (Asemblea General) of ANBE. Three of the five members of the provincial boards (Junta Provincial) are elected by the cantonal boards and three are nominated by the national board of directors of ANBE (the Junta Directiva). The national board of directors is made up of the minister of development, one representative of the national development bank (Banco Nacional de Fomento), one from the Cámara de la Agricultura de la Segunda Zona, one from each of the provincial

pretation is that each cámara was hoping for separate negotiations to guard its own interests, and no one wanted to be tarred with the failures of the others.

boards, and one representing the director of agriculture.¹⁰¹

ANBE has two legal responsibilities. It is charged with acting as the political agent of the banana growers in the defense of their interests.¹⁰² This would assume some degree of organizational independence and effective internal processes. The second task has been to act as an agent of the government in the development and regulation of the banana industry. ANBE is legally charged with helping the government expand plantings, maintain quality, improve production, and stabilize domestic prices. It is also supposed to seek new ways in which bananas can be used in domestic manufacturing and processing. The major administrative responsibility of ANBE has been to administer the national campaign against banana diseases.¹⁰³ It is in this role that ANBE has become involved with the politics of spraying that were discussed in Chapter 3.

Political power within ANBE is nominally split between the national board and the general assembly.¹⁰⁴ The Board has been responsible for making all "administrative" decisions, but the assembly has had the power to reject the budget and to review board

¹⁰¹Ecuador, Instituto de Estudios Administrativos, Manual de de Gobierno (Quito: Imprinta Nacional, 1957), p. 203.

¹⁰²Decreto de Emergencia No. 30 in Registro Oficial 864 dated July 9, 1955.

¹⁰³Decreto Legislativo dated December 7, 1957, published in Registro Oficial 382 of December 9, 1957.

¹⁰⁴Manual de Gobierno, p. 203.

policies.¹⁰⁵ The board, holding the power of initiation and administration, has been quite dominant. Since the government appoints a majority of the board members, ANBE politics have become influenced by the national political situation.

Hard data on the decision process within ANBE are not available. However, fragmentary evidence suggests that the large planters have been able to use their positions as financial angels to the political parties to control ANBE activities.¹⁰⁶ The regime of Camilio Ponce was generally based in the sierra, and the policies of ANBE were relatively more favorable towards the smaller planter.¹⁰⁷ However, personnel and policies were altered with the victory of José María Velasco Ibarra who owed a large financial and political debt to the Guayaquil comerciantes and their allies among the large banana growers.¹⁰⁸ It was at this point that the systematic deprivation of the smaller producers in favor of the large banana growers became most pronounced. This also is the reason that the smaller banana growers have demanded that ANBE be scrapped in favor of a more truly

¹⁰⁵Decreto de Emergencia No.1, p. 30.

¹⁰⁶Interview with Mr. Wilfred Griswold, spray pilot for ANBE, on October 28, 1968.

¹⁰⁷"Jean Le Rouge" (Pseudonym), "La Gran Catástrofe del Banano," La Calle 213, April 8, 1961, p. 11.

¹⁰⁸"Jean Le Rouge" (Pseudonym), "Repuesto al Sr. Entólogo," La Calle 215, April 22, 1961, p. 28.

autonomous business association that could defend the interests of a majority of the bananeros.¹⁰⁹

¹⁰⁹Interview with Sr. Alejandro Carrión.

CHAPTER VI

THE STRUCTURE AND DYNAMICS OF GOVERNMENT

Introduction

Only those political factors that seem relevant for the understanding of the influence of business groups on economic decisions will be discussed in this chapter. As a result, the view to be presented is out of balance. Institutions and processes that are important to an overall understanding of politics may have been left out as being irrelevant to this narrower concern.

There are two further caveats concerning this analysis; some aspects of the political analysis are dated. The 1946 constitution was in force during the period under study. However, the 1966 constitution now in force has some important changes. A second caution is to repeat a warning stated in the introduction; the generalizations given here are not "facts." They are more or less coherently related sets of assumptions backed up by preliminary data which can be used to organize hypotheses for later and more detailed studies.

Parties and Elections

Parties and elections are major components in the social backdrop for governmental politics. Parties and elections will be

examined from three perspectives: how parties serve to sort participants according to attitudes and goals; how the nature of party operations tends to reward some types of political activities and penalize others; and how party operations tend to suggest certain tools for managing the national political situations.

Direct national elections were held for president, vice-president, senators and deputies. Deputies were elected at two-year intervals, the other offices were filled every four years. Two senators were elected from each of the 15 sierra and coastal provinces. The Galapagos and the oriente regions were represented by four senators.¹ One deputy was elected from each province for every 50,000 people in the population. The minimum representation was two deputies. Deputies were elected on the list system of proportional representation. Candidates ran on a slate. One candidate on a slate was elected for every 50,000 votes received for the ticket. Therefore a candidate's chances for election were determined by the popularity of his slate and his position on the slate.²

Twelve senators represented functional groups. Representatives from the coast and the sierra were elected by labor, industry, commerce and agriculture. The armed forces, public education, private education, and the press and cultural establishments were represented

¹Ecuador, Constitución Política de la Republica del Ecuador: 1946, section II, article 42; section III, article 47.

²Constitución . . . , section III, article 47.

by one senator apiece. The elections of the business representatives have already been discussed in the previous chapter. The other functional senators were elected in approximately similar ways.³

All male literates over 18 and literate women over 21 could vote.⁴ The electorate was small; 800,000 votes were cast out of a population of over 4,000,000 in the 1960 presidential elections. The literacy requirement also gave the electorate a strongly urban bias because the level of literacy drops rapidly outside of the major cities.

Elections have been reputed to be fairly honest. It is probable that local fraud and pressures were important. However, these are difficult to manage on a national level. Although presidential election results have been altered by fraud, it is highly unlikely that any candidate who did not have a major political following could be imposed through ballot manipulation.⁵

Although data are lacking, the impression is strong that the electorate was deeply divided and the voters tended to be quite cynical about political parties.⁶ It is easy to point to possible causes. The differences in regional cultures and social organizations would break

³Ecuador, Instituto de Estudios Administrativos, Manual de Gobierno (Quito: Imprinta Nacional, 1957), p. 11.

⁴Constitución . . . , section I, article 17.

⁵Alfredo Pareja Diezcanseco, "Teoría y Práctica del Conductor Conducido," Combate, XX (January-February, 1962), 13.

⁶Alfredo Pareja Diezcanseco, "Democracia o Demagogia en el Ecuador," Combate, XV (March-April, 1961), 22.

down common ties to national political symbols and institutions. Class tensions were strong; members of the urban lower classes were frustrated by low standards of living, the lack of institutionalized routes for social mobility, the lack of the myth of progress, and the lack of legitimated lower middle class social positions. Many national elites and members of the rural middle class "establishment" seemed to fear urban lower class life styles and the resentment of the poor and tried to keep the old social system that supported those privileged with status.⁷

Although most parties had a regional base of strength, most politicians have reported that few voters identified with a party. Most were attracted by the symbols of the party leaders, and by pressures of local elites and personal advantage.⁸ Most of the activists were attracted by the promise of status and jobs. Many in the electorate were swayed by social relations to the political elites or the lack of a local political opposition.⁹ Political parties were reportedly seen as being completely corrupt and self-serving. A part of the personal

⁷Ibid., p. 21.

⁸Interview with Dr. Alejandro Vega Toral, director of Federación Nacional Velasquista for Cuenca and deputy to the 1968 Congress, on October 18, 1968.

⁹Interview with Dr. Vega Toral; this finding is also suggested by the high degree of unanimity in voting in many areas. A spread of at least three to one was registered between the leading and second place candidates in 30 percent of all parishes in the 1960 election. Data courtesy of Professor Thomas Page, director of the Latin American Data Bank, University of Florida.

appeal to many candidates was that they stand for a personal, definite alternative to the morass of faceless and nameless party politicians of the opposition.

Ecuadorean politics has been a fertile field for the many small, temporary parties and party coalitions that sprout up in time for the election harvests. Several major national parties have endured, although these have been beset by personal feuds and factionalism. Two parties on the right have been the principal spokesmen for the high-status groups favoring conservative politics. The Partido Conservador and the Movimiento Social Cristiano have both been supported by a coalition of the church and the landed aristocracy.¹⁰ Support is strongest in the sierra where the people have always been highly conservative and the "friends and neighbors" effect seems to have been powerful. However, the established commercial elites of the coast have been reported to be conservatives in spirit if not always in politics.¹¹

The conservatives tried to present an image of stability and achievement based on the rule of the elites who inherited the rich historical and cultural tradition of the Spanish nobility. A sense of mission was based on an attitude of noblesse oblige. The natural nobility has an obligation to save the country from the turbulence

¹⁰ Interview with Sr. Alejandro Carrión, publisher of La Calle, on November 12, 1968.

¹¹ Interview with Mr. John Snyder, Labor Attaché at the American Embassy in Quito, on October 15, 1968.

of the ignorant populists and the urban nouveau riche. Progress would be a gift from those who are best suited to run the country. The historical hero of the right is Garcia Moreno.¹²

The politicians of the right have shown a preference for stable money, free trade, an absence of land or social reform and a trickle-down theory of social development. Right wing political figures have frequently been drawn from the best ranks of the sierra aristocracy. The several factional leaders of the right have fallen out at times. However, unity has been generally forced through a common fear of the left and a common basis of elite support, as well as through social and personal ties.

There is only one major middle left party, the Partido Liberal Radical. However, they have been frequently joined with the moderate wing of the Partido Socialista Ecuatoriana. These parties appealed mainly to the urban middle class professional types and the commercial classes. The party programs strongly valued orderly reform within the existing framework. Favored symbols were secularism, education, expertise, development through planning, opportunity based on merit and not family ties, and change from the feudal past. Eloy Alfaro was the hero of the moderate left and the administration of Galo Plaza was often held up as a political model. The images of the moderate politicians were somewhat marred by the

¹² Interview with Ec. Abdón Calderón, Executive Director of the Partido Liberal Radical for Guayas, on November 1, 1968.

lack of concrete proposals for reform.¹³ It would seem that the moderates may have been trying to join together too many diverse groups and diverse politicians to be able to present a consensus on reform.

Also on the left were the populist parties. The major organized party has been the Concentración de Fuerzas Populares, which is a major power within Guayaquil but weak outside of Guayas province. The sporadic Velasquista organizations deserve to be ranked as quasi-parties. Velasco has been central to Ecuadorean politics for over 30 years and during this time the same people and same appeals have been presented by his organizations.¹⁴

The populists have appealed to the many discontented and anomic members of the urban poor. Party elites have been drawn from upwardly mobile groups who apparently seek to parlay political success into economic and social status. Mixed in have been many populist reformers who have been disillusioned by the dogmatism of the ideological left and by the lack of alternatives offered by the traditional parties.¹⁵

Party symbols have generally been radical and violent, highly

¹³Alfredo Pareja Diezcanseco, "Democracia o Demagogia. . ."

¹⁴Interview with Sr. Alejandro Carrión.

¹⁵Alfredo Pareja Diezcanseco, "Democracia o Demagogia. . ."; Rodrigo Borja C., "Panorama de la Política Ecuatoriana," Combate, XIX (November-December, 1961), 18.

tinged with the spirit of "machismo." Election contests were depicted as historical events. The electorate was seen as an elemental force that would sweep away the upper classes in a cleansing and revolutionary change. Party followers are given the chance to vicariously participate in the good life through an identification with their candidates as well as to act as immediate agents in the downfall of those responsible for all current and past miseries. Election violence was prevalent. In national politics, the world of the populists began and ended with the figure of José María Velasco Ibarra.¹⁶

Almost all of the parties were controlled by small groups of activists. They are reported to have been motivated by desire for personal status, visibility, or personal, political or business rewards. "Public service" appeared to be an undervalued incentive.¹⁷ Party organizations were generally based on coalitions of politicians, each of whom had personal organizations and followings. Politicians contributed these political properties to the common efforts in return for specific rewards or promises of future benefits.

National elections were generally contested by coalitions of parties. No one party was strong enough to win the fruits of victory needed to pay off elites and active followers. Factionalism further

¹⁶Alfredo Pareja Diezcanseco, "Teoría y Práctica del Conductor . . .".

¹⁷This observation parallels the report made by James L. Payne, Patterns of Conflict in Colombia (New Haven: Yale University Press, 1968), Chapter 2.

reduced party strength. Coalition formation was the result of more or less rational bargaining by elites.¹⁸ Each leader tried to maximize his returns on his political capital. The trick was to avoid established parties where there was little room for newcomers by forming competing coalitions strong enough to win some of the fruits of office. Many of the defectors of the established parties seemed to drift to the left, reflecting perhaps the possibilities of the organizational chaos and the voter appeal of the populists. Provincial party organizations and slates were strongly influenced by national party politicians who try to increase their own political capital by co-opting local leaders as necessary.¹⁹

Finances were a critical consideration for party elites. Political campaigns have become quite expensive in recent years. Some money came from the candidates. Some funds came through party dues. The conservatives would count on some contributions from the sierra elites while the liberals could depend on the urban small businessmen. However, almost all parties needed contributions from the Guayaquil business elites to adequately finance a national campaign.²⁰

Most of the Guayaquil businessmen looked upon their donations

¹⁸Interview with Ec. Abdón Calderón.

¹⁹Interview with Sr. Alejandro Carrión.

²⁰Interview with Sr. Alejandro Carrión; interview with Sr. Alejandro Vega Toral.

as proper business investments. They demanded the right to make it back, with interest, through control of government programs and policies. Funds were slow in coming until the political analysts got a general idea as to who was probably going to win. The leading candidates were approached with a business proposition: so much in return for the right to name a certain minister or to dictate certain policies once in office. Even honest politicians found it hard to refuse such an offer if it meant that the funds, and probably the election, would go to unscrupulous opponents.²¹

The businessmen ran some risks in this aspect of politics. A miscalculation about the outcome would leave the contributors facing a hostile government.²² Politicians seemed to have long memories and long lives in Ecuador, so there was the added danger of political opponents coming to the presidency at a later date. As a result the industrialists tended to leave partisan politics to the comerciantes, who are less dependent on official good will and have more of their assets in potentially liquid capital.²³

²¹Ibid.

²²This occurred in the 1968 presidential campaign. "Smart money" backed Dr. Andrés F. Cordova against Velasco. Velasco won an unprecedented fifth term and promptly began attacks on private control of the American sugar quota premium and other aspects of business practices. Political observers felt the government pressure was in retaliation for the lack of election support.

²³Interview with Sr. Helge Vorbeck, president of Cervecería La Victoria, on July 29, 1968.

Party dynamics and characteristics of the electorate placed sharp demands and limitations on presidential decision making. Political calculations centered around the necessity to appear as a "strong" president. Political leaders knew that their support among the party elites was based on an ability to offer more benefits for allegiance than their opponents. Presidential charisma, a necessary basis for popular support, required that the national leader always appear to be in complete control of the situation, that he has been able to leave his opponents divided and impotent. "Weak" presidents who allowed the opposition to become vocal, organized and politically powerful soon found that all the troops have deserted to the camp of the coming political leaders. Politicians who feared they might have changed sides too late often tried to buy the good graces of the new national leaders by heaping total opposition on the heads of the departing politicians. As a result, a subtle shift from political strength to weakness often marked the start of a violent slide into political impotence and a possible coup.²⁴

A basis for presidential strength was personal dominance. However, this was combined with the proper liberality with the favors of state on key political supporters and ruthless actions against political opponents. Favors of patronage and contracts were often necessities

²⁴ Interview with Sr. Alejandro Vega Toral; this discussion parallels analyses of James L. Payne, "Peru: The Politics of Structured Violence," Journal of Politics, XXVII (2)(June, 1965), 362-374; Payne Patterns of Conflict in Colombia.

for the regime.²⁵ The second key was to keep political opponents disorganized. Presidents could not advocate policies antagonistic to elite groups too strenuously. An alienated elite clique could form an untouchable base for political opponents. However, the president gained some maneuvering room from the caution of the private elite groups. The costs of an unsuccessful opposition to the president could be high.²⁶

It was almost impossible for a president to develop a program pleasing to all those groups whose support was important. Party lines generally did not divide elites along lines of political interests. Velasco was supported by marginal elites and the urban poor. The conservatives were joined by the sierra feudal landed elites and some of the Guayaquil commercial leaders. Coalitions this diverse could not be joined easily behind concrete programs.

The split between leaders and followers was even sharper. National political elites, even those in the populist organizations, had a vested interest in the status quo. Few favored new taxes or many reforms. Yet mass support, even for many conservative candidates, was largely based on the promise of reform. Politicians

²⁵Interview with Ec. Manuel Naranjo Toro, former minister of treasury under Carlos Julio Arosemena Monroy, on October 17, 1968.

²⁶Similar observations have been made elsewhere in Latin America. See Norman Bailey, ed., Latin America: Politics, Economics and Hemisphere Security (New York: Praeger, 1965), p. 81; Payne, Chapter 8.

usually had to substitute rhetoric for reality of change. It is probable that any president who pushed for reform with vigor would have been ousted within the month. The increasing transparency of the political language has probably contributed to the popular anomie, cynicism and readiness to abandon politicians in trouble.

The Structure and Process of Decision Making in the Government

The process of government decision making was a conflictual one. Policy was determined by competition among several independent political groups all of whom contributed to some aspect of decision making. The leaders of the several groups had different political styles, different political and social interests, and different resources with which to influence the final outcomes. The changes in outcomes could be attributed to shifts in political conditions that alter the balances among the groups.

The legal organization set the framework for the political competition within the government. Ecuador was governed through a unitary government organized along the lines of the American presidential system. There were several legal differences. The major change from the American system was the greatly increased power of the president and the autonomous regulatory agencies.

The president was the major political force in the Ecuadorean political system. Other, more or less independent, political decision

makers tailored their strategies around him. The president had two complementary sources of power. One was his position in the political arena. The other was his legal powers over the operation of government.

The successful president was above all else the caudillo in republican dress.²⁷ It has been pointed out before that men who can successfully wield great power could be the centers of at least public adulation. The president had the podium to emit this aura of majesty over the entire country. Many people, mired in hopelessness by a static world, seemed to turn to the president as the one symbol of benevolence in authority. The poor could also vicariously participate in the life of grandeur and power through an identification with the chief magistrate since few other political figures are usually visible. An historical tradition of power had also been built up around the office of president in the land where coups and dictators have been common phenomena.²⁸

One legal base of power of the president has been control of the cabinet. Under the 1946 constitution there were nine cabinet positions: defense, education, public works, government, social welfare, development (Fomento), treasury and economy. An assistant minister acts as a deputy and alternate to the regular minister. Cabinet

²⁷George Blanksten, Ecuador: Constitutions and Caudillos (Los Angeles: University of California Press, 1951), p. 34.

²⁸Ibid., p. 36.

ministers were legally responsible for all action taken by the bureaucracies under their control. Ministers must countersign all legislation and rules passed that affect their domains. Congress can force the removal of any minister through a vote of censure.²⁹ However, this has not resulted in a move towards British cabinet politics.

Presidents have had free power of appointment and removal of cabinet officers. Most presidents have respected certain political traditions.³⁰ A balance was maintained between ministers from the coast and from the sierra. The minister of defense must be acceptable to the ranking generals. The minister of social welfare has often been a socialist and the minister of foreign affairs has usually been a conservative.

Within these limitations, the styles of cabinet selection played an important role in determining the tone of presidential decision making. There were three major factors in making appointments: first, was the candidate personally loyal and reliable? This was of utmost importance in a culture of personalism. Second; did the candidate have the necessary political and personal affiliations? Cabinet positions have usually been used to weld together the coalitions of presidential support. Presidents have had to juggle appointments from various cliques to maximize their support. Major

²⁹Constitución Política . . ., section IV, article 109.

³⁰Blanksten, p. 98.

contributors to the campaign were also recompensed through the right to name a minister.³¹

The third factor was whether the minister is expendable. Many presidents have frequently used their cabinet ministers as sacrificial lambs when the political situation deteriorates. Blame for unpopular conditions or programs could often be displaced onto the shoulders of the fallen minister even though the new appointment did not usually result in a change of situation. The ministries of economy and government have been particularly prone to this type of turnover. Therefore the candidates for these jobs were usually people sufficiently well known to be held popularly accountable yet not so strong as to be able to cause discontent upon dismissal.

Expertise was not usually a major job qualification.³² The politically appointed ministers have frequently been reliant on instructions from the president or the senior members of their staffs. Many times the assistant minister was selected to act as a qualified back-up for a minister who was not particularly capable.

The nature of recruitment often tells much about the style of decision making. The cabinet ministers were among the chief architects of the presidential programs. Ministers who have been

³¹Interview with Sr. Alejandro Carrión; interview with Sr. Alejandro Vega Toral.

³²Interview with Professor Georg Maier, Professor of Political Science, Southern Illinois University, on August 20, 1968; interview with Sr. Alejandro Carrión.

brought in to expand the basis for presidential support have often been in a position to push certain programs as a price for continued collaboration. "Weak" presidents found that they must curry the favor of so many independent political groups that they were not in a position to develop their own political program. Many of their ministers were "mortgaged out" to groups with other interests. When these situations arose, the nature of the presidential political coalition was a major factor in determining cabinet recruitment, and presidential decision making was largely determined by the interests of the cabinet members appointed. "Strong" presidents were in a much better position to dominate their cabinets. The limitations placed on their policies were determined by other factors.

One route through the legislative process was controlled by congress. The politics of congressional-presidential relations has been substantially influenced by the organization and process within congress. The congress was legally required to be in session for 60 days starting August 10. The session could be extended another 30 days by a majority vote. The president could call the congress into an extraordinary session at will. However, only the issues enumerated in the enabling decrees could be discussed by congress.³³

The legislative process was relatively direct. Bills could be introduced by the president, the cabinet ministers, or members of

³³Constitución Política . . .

congress. The Comisión de la Mesa was responsible for scheduling newly introduced bills onto the floor for the first reading. The first reading presented the text of the bills without any substantive debates. A vote was taken on the legislative priority to be assigned.

After the first reading the bill was referred by the Comisión de la Mesa to the appropriate legislative committee. In the 1960 session, the senate was organized into twelve committees (including the Comisión de la Mesa). Areas of specialization went from foreign relations, government and religion to economy, commerce and banking and to finances and public administration. The Cámara de Diputados was divided up into fourteen committees. Each committee was further divided into subcommittees.³⁴ Congressmen were assigned to committees by the Comisión de la Mesa on the basis of interest and political balance. Seniority was apparently not an important factor.³⁵

The only time a serious consideration was given to the contents of bills was when they were in committee. Committee members generally examined the bills closely to see how they would affect private groups with which they were affiliated. Since there was a strong minority representation on the more important committees of congressmen who had very definite personal interests in the types of bills being reviewed, relatively little weight could be given to factors

³⁴Ecuador, Labor de Congreso Nacional de 1960 (Quito, Imprenta Nacional, 1961), pp. 12-22.

³⁵Interview with Sr. Alejandro Carrión.

of abstract "public interest" in committee deliberations. Consequently, representatives of groups affected by legislation have played a very important role in the drafting and passage of bills.³⁶

Bills went back to the floor with the committee reports. Floor debates and votes were generally determined by the committee reports, the political and personal influence of the authors of the committee reports, and above all, by presidential interest and political power. The floor debates were limited largely to "politiquería . . . exhibitions of eloquence without substance."³⁷ Congressmen in debate were much more interested in using the occasion to promote themselves to national attention rather than to consider the substantive issues, which were much less potent politically. Congressmen were primarily interested in the substance of tax bills and public works which could benefit their districts.

Legislative roles taken by Ecuadorean congressmen would seem to differ from those acted out by their North American counterparts. A major concern in political activities was the desire for personal status and position rather than interest in programs. Congressmen looked for control over local patronage and jobs and for the control of political resources for their local organizations. It would seem that more general constituency demands were given only symbolic

³⁶ibid.

³⁷Georg Maier, "The Impact of Velasquismo on the Ecuadorean Political System" (Ph. D. dissertation, Department of Political Science, Southern Illinois University, 1966).

representation.

The "rules of the game" followed the same pattern. Politicking for personal advantage was legitimate. Congress seems to have been organized into small cliques for mutual advancement. Given the wide range of personal loyalties and political sympathies represented, it is not surprising that cliques only generally followed the party lines.³⁸ However, congressional discipline could be enforced by a strong president. Wider alliances along party lines would tend to be formed if the president was in a position to effectively use his power to enforce them.

Despite the limited attention to the substance of legislation, presidents were usually quite interested in the deliberations of congress. Congressmen were the most visible independent political figures. Their reactions to the presidential programs were a major factor in determining presidential strength. A hostile congress could reduce a president to legislative impotence and pave the way for a coup. A friendly congress made the relations between the president and marginal political supporters much easier.

The president had several legal and political bases of power to use in his relations with congress. Presidential vetos could be overridden only by a two-thirds vote of both houses. The veto was of limited usefulness since congress only rarely initiates legislation

³⁸Interviews with Sr. Alejandro Carrión and Dr. Alejandro Vega Toral.

and the president has other tools for influencing policy. A congressional revolt would be a sign of a deep-seated presidential weakness not to be remedied through a veto.

The major political resources of the president were control of the national political situation and control of private benefits for congressmen. The president could dispense highly valued benefits in the form of patronage for congressional supporters, public works, and the use of presidential powers to impede the path of opponents of his congressional friends. The president also had the greatest control over national political events. The initiation of dramatic political moves could cut the ground out from under opponents. Congressional friends could also be catapulted to prominence through the sponsorship of the president.

The political influence of the president over congress moved in definite cycles. Newly elected presidents, coming into office with the power to appoint thousands of people to government jobs and with great independence in the dispensation of public works and other political benefits, generally had any bill they wished passed by congress. By the end of the four years, congressmen lost interest in the lame duck president who had few favors to dispense and would soon fall from power.³⁹ In the last year, congressional opposition was at a high as all politicians were seeking alliances with the heir

³⁹Ibid.

apparent. Strong presidents, those who kept control of public events and who did not owe their election successes to groups not directly beholden to them, often kept control of congress for two to three years. Weak presidents, whose election coalition was never very strong and who had lost public ground in office, found the congressional honeymoon had ended much earlier.⁴⁰

A last political strength of the president was his ability to bypass congress completely. The 1946 constitution gave the president the power to issue emergency decrees when the congress is not in session. In theory, there were three checks on this power. Congress had the right to review emergency decrees in the following sessions; the decrees must be approved as being constitutional by the Consejo del Estado, and tax legislation cannot be passed through emergency decrees.⁴¹

The Consejo del Estado was made up of one representative from each branch of congress, the comptroller general, the procurator general, a representative of the armed forces, a representative of the Consejo Nacional de Economía, the president of the Instituto

⁴⁰The 1960-1961 presidency of Velasco is a good case in point. Although Velasco had won a stunning election victory, his mismanagement of the economy cost him most of his effective public support. The coup that ousted him was not organized by the businessmen who had suffered substantial injury at the hands of Velasquista mismanagement, but by the congressmen who eagerly abandoned the sinking ship of state.

⁴¹Constitución Política . . . , Title III, Section IV, Article 53.

Nacional de Previsión (welfare and social security fund) and two private citizens elected by a joint session of congress. Cabinet ministers had a voice but no vote.⁴²

The Consejo del Estado reflected the vices of congress. Strong presidents could force the election of delegates favorable to them. Even uncommitted delegates would be loath to risk the ire of a powerful president. However, weak presidents would constantly face opposition from the consejo. The smaller consejo was probably somewhat easier to dominate than the larger and more unruly congress.⁴³

The second check, congressional review of presidential decrees, was generally a dead letter. Congressmen generally had little interest in rehashing old history which would provide little political mileage. The prohibition against passing tax bills through emergency decrees was somewhat more effective.

A major influence on presidential decision making came from the advisory agencies. Under the 1946 constitution, all economic bills had to be published with the text of advisory opinions issued by the Consejo Nacional de Economía. Often this was accompanied by the statements of motives from the ministers under whose authority the legislation would be implemented and by advisory reports drawn up by the Junta Nacional de Planificación. These advisory agencies

⁴²Constitución Política . . . , Title X, Section 145.

⁴³Interview with Ec. Oscar Loor, former Executive Director of CENDES, on November 21, 1968.

could, in the long run, exercise more independent power than their legal advisory roles would suggest.

The core of the advisory groups was the bureaucratic technicians--the middle class professionals who generally enjoyed tenure because of their indispensable expertise. They were responsible for most of the data collection and planning which formed the basis for programmatic evaluations. The style of decision making within the bureaucracies was generally professional. A high premium was placed on expertise. Decision criteria were more or less universalist. Explicitly political considerations were usually rejected, at least in internal planning studies. The bureaucratic technicians usually tried to develop broad policy outlines that could be used to develop, coordinate and evaluate public policies.⁴⁴

The bureaucratic technicians usually made no pretense of being ideologically neutral. Planning papers showed a very definite preference for the central coordination of private and public development through the advisory agencies. A premium was placed on economically rational development policies. Also evident was an undercurrent in favor of the economic autonomy of Ecuador. Investments in capital intensive industries to replace imports were favored over possible gains in living conditions through specialization in the areas of economic comparative advantage. Little attention was paid

⁴⁴Interview with Eng. Julio Ulloa, Staff Engineer for CENDES, on May 20, 1968. This observation was also made by many others.

to possible benefits of the projected Latin American Free Trade Area. The technical studies also generally placed a high premium on increasing domestic savings, on monetary stability, and on achieving a balance in international payments.⁴⁵

The Junta Nacional de Planificación y Coordinación Económico was the most professional agency dominated by the technicians. The technicians were also influential in the Consejo Nacional de Economía and the ministerial agencies involved in economic and social planning. The extent and bases of influence of technical and non-technical groups varied from agency to agency. The following discussion is intended to be only illustrative and not definitive.

The major differences between the technicians and the politicians was over the criteria for political decision making. The políticos wanted to be able to give specific policy benefits to specific groups with the goal of enhancing the power and status of the dominant political coalition. The technicians wanted to develop general policies covering relations with many groups on the basis of an abstract concept of public interest.

The advisory technicians were rarely in a position to offer overt opposition to presidential programs. The president had the political

⁴⁵Analysis of técnico ideology based on Edward Wygard, Bases Para Una Política de Fomento Industrial en El Ecuador (Quito: Junta Nacional de Planificación y Coordinación Económico, 1962). This document has generally been considered among the most influential in the development of policy.

muscle and legal authority to win favorable public evaluations on almost any program he wished. However, the advisory agencies, through persuasion and participation, could introduce new rules by which to judge political issues that subtly shifted the tone and balance of many programs.

A factor was the control the technicians exercise over the interpretation of data. Politicians had a hard time challenging the conclusions of the technicians in public since they lack both the information and the expertise to know what it would mean. Another weapon was the pattern of institutional organization around on-going programs. Some areas in most agencies have been organized for the technical evaluation and development of programs. Politicians could only cut off the flow of the program by abolishing the technical staffs or by trying to bypass them. However, technical advice would seem to be necessary for many politically neutral programs so it is difficult to abolish or alter the planning agencies.

The technicians could gain a more direct access to presidential decision making through the partial co-optation of cabinet ministers to technical standards. Ministers sat on the Junta Nacional de Planificación and the Junta Monetaria to represent political interest in these agencies. However, it is reported that they frequently had been educated into a professional orientation through their continued

participation.⁴⁶

The advisory agencies also entered directly into presidential calculations through their ability to co-opt or side track political opponents under the guise of technical consultation. The technicians were usually careful to take into account the interests and goals of all affected groups when presenting political programs. Disaffected groups were forced into the difficult position of arguing for special privilege when opposing technical evaluations. This reduced their political effectiveness.

In recent years the technicians have gained a powerful ally on some issues from the Alliance for Progress and USAID agencies. North American experts were in a position to work with the planners in the formation of programs and then to apply pressure directly on the president and cabinet. However, friction had apparently developed over differences in planning goals and ideology and personal resentments over the overwhelming "advisory" role of the North Americans. The Alliance and USAID, of course, were not effective prior to 1962.

There were several situational constraints on presidential decision making. One major factor has already been mentioned in another context: the necessity of keeping down organized public opposition to the regime. Presidents could not afford to push through

⁴⁶Interview with Dr. Eduardo Larrea Stacey, former General Manager of the Banco Central, on November 20, 1968.

programs which would seriously alienate important elite groups. One common technique was to bring all of the major groups affected by a proposed program into public planning to gain at least the appearances of public commitment. The functional senators can play an important role in this process. Other techniques were to assign "responsibility" for planning in a sensitive area to a "loaded" conference of public officials and private representatives. Another device was to find one member of potentially disaffected groups who would be willing to support some form of the desired policy and to give his statements the maximum amount of coverage. Many times this took the form of covering letters for the legislation when it was published in the Registro Oficial.

A second situational restraint was the pressure of financing. Budgets have traditionally been imbalanced. In 1961, the central government took in 1,564,505 sucres and spent 2,349,351 sucres for a deficit of 784,846 sucres.⁴⁷ Presidents found it very difficult to keep expenditures from rising. The maintenance of political support required the availability of government jobs for patronage, public works available for local political coalitions, and contracts available to placate commercial groups. Congressmen usually resisted taxes on their districts unless the money raised be spent within the district.

Not only was the presidential budget imbalanced, it was out of

⁴⁷Ecuador, Banco Central, Boletín del Banco Central: Octubre-Diciembre, 1965 (Quito: Banco Central, 1966), p. 197.

presidential control. Sixty percent of all tax revenues went directly to autonomous decentralized agencies. Although many of these agencies register a budgetary surplus, excess monies did not go back to the common pot. As a result, a disproportionately large share of the total budget imbalance was shifted on to the relatively small portion of the budget under direct presidential control.⁴⁸

The president had only limited power to shift around items of the budget under his nominal control. One-third of the central budget went to the military. It was not politically expedient for presidents to touch this money.⁴⁹ Much of what was left went to necessary state services or for on-going projects. Many fund allocations were supported by politically powerful groups. Major shifts in these areas would invite political disaster. A result was a natural tendency for presidents to take as much money as possible out of politically inspired public works programs started by his predecessors and to constantly push for gradual budgetary increases.

A final limitation on presidential decision making was his lack

⁴⁸United States General Accounting Office, Questionable Aspects of Budget Support Loans Made to the Government of Ecuador (Washington, D. C.: Government Printing Office, 1965).

⁴⁹Evidence of the independence of the military is given by the following: the organization of the Ministro de Defenso Nacional is not given in the government organization manual, the expenditures of the military are only published in one lump sum with no breakdowns by costs. Military expenditures are nominally supervised by a board of review. Apparently the majority control of the board is in the hands of the military.

of legal authority in major spheres of policy. State powers had been delegated to autonomous agencies, usually to take decision making out of presidential hands and to guarantee the on-going influence of politically powerful groups that have vested interests in a certain area.⁵⁰ Most of the autonomous agencies operated within relatively small spheres of policy and represented no particular challenge to the powers of the president. Such agencies were represented by the Autoridad Portuaria de Guayaquil, the several local housing programs, the national lottery, the several road building authorities and the many health campaigns.

One autonomous agency, the Banco Central, had been given major powers over monetary policy. The Junta Monetaria, which established policies for the Banco Central, was charged with the responsibility of maintaining the integrity of the sucre and of managing the finances of the government.

The Banco Central had several legal tools with which to tackle its responsibility. The Banco had exclusive right to print and call in currency. Government accounts were also held in the Banco so credit could not be generated through overdrafts. The Banco, under the direction of the Junta Monetaria, set the minimum deposits that all private banks maintained with the Banco as reserves.

The Banco Central also had jurisdiction over import-export

⁵⁰Interview with Dr. Carlos Rota, President of Sociedad Radio Técnico, on October 15, 1968.

regulation. All currency transactions carried on at the official exchange rates were handled by the Banco. The Banco also issued import and export licenses. A major means of regulating imports was through varying the level of "prior deposits" necessary for licenses. All foreign reserves held by the government were kept by the Banco.⁵¹

The Banco Central could also influence economic conditions through free market operations. The interest rates charged private banks by the Banco Central was a major determinant of the costs of private credits. The Banco could sell foreign exchange on the free market to stabilize the unofficial exchange rates. The Banco could also influence credit policies of the banking industry through its own free market operations.⁵²

The Junta Monetaria, through the Banco Central, could influence monetary policy through recommendations made to the president. Most of the changes of tariff levels or shifts of items from list to list were based on Banco recommendations. Junta recommendations were backed up by the authority of expertise and the backing of the International Monetary Fund.⁵³

⁵¹Ecuador, El Banco Central del Ecuador y Las Políticas Monetaria, Credencia y Cambiaria del País (Quito: Banco Central, undated).

⁵²Interview with Sr. Eduardo Larrea Stacey, former Manager of the Banco Central on November 20, 1968.

⁵³Ibid.

Political conflicts between the Junta and the president centered on monetary policy and financing the budget. Presidents who would have liked to promote either an inflationary policy or to finance other programs through increased budgetary deficits were frequently blocked by the Banco and the Junta. Since the government did not do its own banking, deficits have to be financed through loans from the Banco or through the funding of bonds. The limited capacity of the economy to absorb bonds was influenced by the Banco credit policies. The president could only force loans from an unwilling Banco by passing a bill through congress requiring such a measure. This was cumbersome and politically embarrassing.

The Banco Central was run by the Junta Monetaria. Until 1960, the Junta was made up of nine members: the minister of economy, the minister of the treasury, the president of the Instituto Nacional de Previsión, the head of the Social Security fund, two regional representatives from agriculture, commerce and industry, and two regional representatives of the private banks. The ninth member was elected by the others from private life to represent "the public interest."⁵⁴

The manager of the Banco Central had a voice but no vote. Junta decisions were taken by a majority vote. The manager of the Banco Central was traditionally influential in determining Junta policies. The influence of the manager was based on the strong com-

⁵⁴Ecuador, Memoria del Gerente General del Banco Central de 1959 (Quito: Banco Central, 1960), p. 220.

mitment of the staff of the Banco to a stable money policy. The Banco managers often had a basis for evaluating proposals and problems that the voting members could not match. Another tool was control over the advisory opinions issued by the staff of the Banco on Junta proposals. The technical competence of the Banco staff has always commanded respect even from politicians and businessmen who did not agree with their policies.

The managers of the Banco have generally been astute about managing the timing and context of staff reports. Small requests from powerful groups for minor exceptions that would be difficult to refuse individually looked different when presented in a bundle with a stern evaluation of the total costs. Reports were also timed so that the political and economic climates would be advantageous for a "proper" decision.

The managers could usually exploit the political deadlock of the Junta. Ministers who nominally represented the point of view of the president were often co-opted into sharing the professional regard for stable money held by the Banco staff. The splits among the private representatives often gave the supporters of the Banco the necessary margin.⁵⁵

The authority and independence of the Banco was maintained for many years by several factors. Many politicians and businessmen

⁵⁵Interview with Sr. Larrea Stacey.

avored the stable money policy. They knew that few presidents would be able to resist pressures for budget deficits and inflation if they had control of the Banco. The status among the professionals of the staff of the Banco was a further prop. Any take-over of the Banco and Junta would be on behalf of a particular set of political or economic interests. This would violate the cardinal rule of Ecuadorean presidents: never give the opposition an issue around which it can organize.⁵⁶

⁵⁶Occasional interview with Mr. Madison Monroe Adams, Jr., Commercial Attaché to the American Embassy in Quito.

CHAPTER VII

CAMILIO PONCE ENRIQUEZ
JULY, 1959 TO SEPTEMBER, 1960

Introduction

The Ponce regime offers a baseline against which the following two administrations can be compared. In some ways, the Ponce regime is the most "normal" of the three. Ponce was the only president elected to office through constitutional means who served out his entire term. Velasco was overthrown in a coup and Arosemena achieved office through a coup. These factors had an influence on their political styles and concerns.

The final year of the Ponce regime was a year of almost complete inactivity. Almost no decisions were made by the president. Very few were made by the Junta Monetaria. A comparison of the activities and situations of the later regimes will suggest some of the correlates of political activity.

Political Situation

Camilio Ponce Enriquez was elected president of Ecuador in July, 1960, with the support of the Alianza Popular, a coalition of

the Partido Conservador, Ponce's own Movimiento Social Cristiano and several minor parties of the right.¹ Ponce received 185,335 votes out of less than 400,000 votes cast.² His main strength was in the conservative sierra provinces and among the coastal upper classes. It was alleged that Ponce received substantial help from the outgoing regime of José María Velasco Ibarra in whose cabinet Ponce had been Minister of Government.³ The first runner-up in the presidential race was Raul Clemente Huerta who received 175,574 votes and ran on a coalition ticket organized around the Partido Liberal Radical.⁴

Ponce was the model oligarch in style of living and ideology. He enjoyed patrician antecedents; the family name is one of the most aristocratic of all in the sierra and the family fortune is still based on landed wealth.⁵ His political ideology was firmly based on Christian-conservative principles. The rulers of the model society guard established truth, morality, the church and the upper classes. This can best be achieved through the leadership of the elite groups in the

¹Edwin E. Erickson, et al., Area Handbook for Ecuador (Washington, D.C.: Government Printing Office, 1966), p. 271.

²New York Times, June 7, 1956, 7:1.

³Ibid., January 31, 1956, 3:1.

⁴Ibid., June 6, 1956, 12:5.

⁵Georg Maier, "The Impact of Velasquismo on the Ecuadorean Political System" (Ph.D. dissertation, Department of Political Science, Southern Illinois University, 1966), p. 78.

society. In the view of Ponce, this arrangement would result in the trickling down of the benefits of development and order to the more humble strata in the society.⁶

However, the political style of Ponce was more in keeping with the rough and tumble traditions of Ecuadorean presidential politics. Observers have suggested that Ponce's main political goal was to achieve and keep power.⁷ A major use of power was to perpetuate rule. Ponce had the reputation of using his mastery of political intrigue to beat down any claims made by friends and competitors alike.⁸ Ponce was careful not to risk his political position for programmatic ends.

⁶John DeWitt, "The Christian Democrats of Latin America: Their Ideology and Political Parties" (Master's Thesis, Department of Political Science, University of Florida, 1967), p. 56.

⁷Interview with Sr. Alejandro Vega Toral, former director of the FNV for Cuenca and 1968 deputy to the national congress, on October 18, 1969.

⁸The relations between Ponce and Velasco illustrate this well. Ponce had been a very able minister of government for Velasco from 1952 to 1956. Another minister, Manuel Araujo Hidalgo, persuaded Velasco that the government should back Ponce as the "official candidate" even though he was the leader of an independent political movement. Observers have credited the pressure exerted by Velasco as the major factor that gave Ponce a narrow edge over the liberal candidate for president, Raul Clemente Huerta.

Ponce announced his break with his Velasquista supporters soon after the elections. During a formal official reception, Ponce ordered a large dog to attack Araujo Hidalgo. Poor Araujo could only find refuge in the swimming pool. After the humiliation of Araujo was complete, Ponce fished him out of the water and sent him home. The next week Ponce started to make a series of strong attacks against the previous regime of Velasco Ibarra in which he had been a key minister. Ponce would not tolerate rivals to whom he was obligated.

Ponce's political position in the last year of his presidency could be described as a state of incipient weakness. His popular support had never been high. He was a minority president who had won office through a possibly fraudulent election. The popular mood had evidently drifted to the left, further weakening his position. His political supporters were well aware that he would not have the largesse of state to distribute past September, 1960. Many former allies were looking for other bandwagons onto which they could climb.

Ponce's relations with congress were particularly strained. A loan Ponce had obtained from the United States for a badly needed bridge to Guayaquil was almost rejected. Opposition senators, usually eager to spend money, had demanded that the funds be divided evenly among all of the provinces. The apparent intent of this unacceptable demand had been to embarrass Ponce.⁹

Ponce had been faced with unusually heavy demands on his government. Dissatisfaction was widespread among businessmen who had been hurt by the recession in the United States.¹⁰ Contraband was running very high which had further hurt the positions of the smaller businessmen. Ponce had also been faced with very serious public insurrections. The officers of a small army garrison in Portoviejo had been lynched by a mob after reports of brutality in

⁹República del Ecuador, Actas del Congreso Extraordinario de 1959; Cámara del Senado, pp. 5-17.

¹⁰New York Times, May 30, 1959, 5:15.

military discipline.¹¹ A few weeks later a radical demonstration against the Guayaquil police chief erupted into a very serious riot that cost the lives of hundreds in a week of violence.¹²

However, the Ponce regime had several bases for support. He had not alienated the military or the elites in the major regions. The combined threats of public anarchy, the radical left, and the return of Velasco Ibarra helped consolidate their backing.¹³ Ponce also had an unusually large public works budget with which to play in his last year.¹⁴ He had kept expenditures down in the first years of his regime. The money saved was used to encourage the later support of many political and commercial groups. Ponce's domestic position was also enhanced by the Inter-American conference scheduled to be held in Quito in 1960. A military coup would have seriously embarrassed the international standing of the government.¹⁵ No other government on the horizon was as acceptable to the elites as Ponce's.

¹¹"Violence in Three Stages," Time, 73:41, June 15, 1959.

¹²Republica del Ecuador, Mensaje que el Excellentísimo Sr. Dr. Don Camilio Ponce Enriquez, Presidente Constitucional de la República, Dirige a H. Congreso Nacional (Quito: Tallares Graficas Nacionales, 1959), p. 28.

¹³New York Times, June 7, 1959, 32:3.

¹⁴Republica del Ecuador, Memoriadel Banco Central; 1959, p. 174.

¹⁵New York Times, June 4, 1959, 1:4.

Recruitment to the Ponce Administration

Recruitment was one of the major explanations of political decision making discussed in Chapter 1. It was hypothesized that some share of political decision making could be explained by having businessmen in government voting for their own economic self-interest. To test this hypothesis, data are needed on how many businessmen were in the Ponce regime, which positions they occupied, and from which business groups they were drawn.

Businessmen in government will be classified according to their regional background, the size of their business and the types of business they managed. The first two factors are self-explanatory. The third factor is broken down into the classes of "marginal," "established," and "inner elite." "Marginal" businessmen are either people who had tenuous connections to business or who were well connected with businesses that were in financial trouble. "Inner elite" businessmen were associated with the chains of businesses owned by the Guayaquil oligarchy or who had "very large" holdings in sierra business. All others are "established" businessmen.

The first level of recruitment to be analyzed is the pattern of office holding in the political campaign supporting Gonzalo Cordero Crespo, the Alianza candidate for president in 1960. There were several reasons for not studying the recruitment to the political campaign of 1956. The impetus generated by the 1956 campaign was

largely dissipated by 1960. There was no guarantee that the businessmen involved still supported Ponce; however, the businessmen in the 1960 campaign were closely tied to the regime since Cordero Crespo was running on Ponce's record. Utilizing the recruitment data for the 1960 campaign also makes the data more comparable with the patterns for the other parties. The positions to which recruitment will be studied are the national executive offices of the parties in the conservative coalition, the national executive offices of the campaign, the regional offices for the party and campaign organizations and the congressional candidates from Guayas and Pichincha provinces.¹⁶

These were the most important positions. All of the significant businessmen in the political organization behind Cordero Crespo held one of these seats, and comparable data are available for equivalent positions in the other campaign organizations.

The overall level of business recruitment was low. Out of a total of 144 positions, only 15 were held by businessmen. Since a few businessmen held several positions, there were only 12 individuals in the list. The characteristics of the businesses to which they were affiliated are presented in Table 10 below.

¹⁶Recruitment data are taken from articles in El Comercio from May to September of 1960. The names of incumbents of many more positions were available. The positions selected for analysis were chosen for their evident managerial importance. They represented the top of the organizational hierarchies and were staffed by the nationally known political figures. Few businessmen were recruited to any lower positions.

TABLE 10

CHARACTERISTICS OF BUSINESSMEN IN PONCE
POLITICAL ORGANIZATION

No. of People	Business Characteristic
7	"inner elite"
5	established
0	marginal
3	manufacturing
5	service
1	finance
3	commerce
0	media
7	coast
5	sierra

The power of the businessmen may have been out of proportion to their small numerical representation. Four of the seven coastal businessmen were on the directorship of the Partido Conservador of Guayas, where they held all but two seats. One of the Guayaquil business elites ran for a key position in public office under the conservative banner. Joaquín Orrantía González was the first candidate for the conservative list for the Cámara de Diputados, probably the single position most likely to be elected by the conservatives in the liberal coast. Three other businessmen filled slots on the conservative slates; however, they were all small businessmen in positions not likely to be elected.

There is an interesting relation between the regional residence and economic position of the businessmen in the Ponce organization.

Five out of seven businessmen with "large holdings" were from Quito. The president of the Partido Conservador Ecuatoriano, Manuel Jijón Caamaño y Flores, ran Fábrica Chillo Jijón, the largest textile mill in Ecuador. He was the scion of one of the richest and most aristocratic sierra families.¹⁷ The other sierra elites were Francisco Pinto Dávila (owner of the chain of textile mills), Rafael Febres Cordero (part owner of Ecuatoriana de Aviación and from an old family), and Luís Tobar Donoso, who was also an owner of Ecuatoriana. The remaining sierra businessman, Gonzalo Ruales, ran Transportes Aereos Orientales, a large airline, but was not affiliated with the "inner circle."

However, out of the seven businessmen from Guayaquil, only two came from the inner circle. They were Joaquín Orrantía Gonzalez, whose family ran COMANDATO, Corporación Automotriz, Orrantía y Estrada Casa de Comercio, Distribuidora de Autos and Fleischman Ecuatoriana in connection with the Estrada family empire. The other was Gabriel Luque Rohde, who runs La Union insurance company and the Banco Territorial with other members of the Guayaquil inner circle. The remaining businessmen from Guayaquil, Enrique Amador Marquez, Rafael Carbo Noboa, Cesar Eduardo Perez Moscoso, Luís Rigail Roca and Hector Polit Orellana, were all affiliated with independent businesses of medium size and little national importance.

¹⁷Georg Maier, p. 3.

All of the sierra businessmen were in the party organization of the Alianza Popular. None ran for office. Most of the coastal businessmen not in the commercial inner circles were candidates for congress and occupied low ranking spots on the slate.

These data suggest a pattern. The Ponce government had closest relations with the sierra textile manufacturers and the Guayaquil commercial elites. All of the businessmen from these groups were plugged into the highest levels of party management. Although only the coastal businessmen were represented, they were recruited from the financial heart of the Guayaquil oligarchy. The Orrantias in particular have had the reputation of being the political "front men" for the coastal interests.¹⁸ It would be hard to believe that Joaquín Orrantia would participate if he had not been assured of having substantial influence. The businessmen recruited from outside of the sierra and coastal "inner elite" groups were generally candidates for offices they had little hope of winning. This factor reinforces the impression that the most important business connections of the Ponce regime were with the coastal and sierra elite groups.

This analysis would suggest a very conservative government. The major political positions were given to businessmen who would be expected to favor the status quo. Given the major differences between the interests of the coastal elites and the sierra manufac-

¹⁸Interview with Mr. Madison Monroe Adams, Jr., Commercial Attaché, United States Embassy in Ecuador, on March 1, 1968.

turers, it would also be expected that the Ponce government would have a difficult time settling on any course of action.

The next higher level of recruitment is to the cabinet. The business positions of the businessmen in the cabinet are given in Table 11 below.

TABLE 11
CHARACTERISTICS OF BUSINESSMEN IN
THE PONCE CABINET

Characteristics		No. of People
Regional location	Guayaquil	5
	Quito	4
Position of business	inner circle	4
	established	1
	marginal	4
Type of business	manufacturing	7
	foodstuffs	6
	other	1
	commerce	1
	finance	1
	media	0

The position of businessmen in the Ponce cabinet is surprisingly different from their importance in the political organization. The gross level of business representation is much higher. Nine out of thirty-two people who had cabinet positions were business types. The

major businessmen in the cabinet held positions that were related to their areas of economic self-interest. Two financiers, Isidro de Icaza Plaza and J. Federico Intriago, held the portfolios for economy. The Minister for Public Works, Sixto Duran Ballen, was an architect and importer of construction materials. Businessmen were also in the financially powerful positions of defense and social welfare.

Several businessmen held positions that were not directly related to their own economic interests. However, these ministers were the most marginal businessmen in the cabinet. The Minister for Public Education, Fernando Aspiazu Semenarío, was a manager of farms in Guayaquil. The minister and sub-minister for foreign relations were as well known as lawyers as they were as businessmen.

There were important differences between the staffing of the cabinet and the campaign organization in the direction as well as the level of business recruitment. Not one businessman in the campaign also held a cabinet position. The cabinet also had a strong over-representation of coastal foodstuff manufacturers. The campaign interests of sierra manufacturing and coastal commerce were relatively under-represented.

The major parallel between the campaign and the cabinet staffing was the reliance on "inner elite" businessmen. The central position of the inner elite businessmen in the campaign was

paralleled by the staffing of the key economic portfolios by elite businessmen in the cabinet. In both the campaign and the cabinet, the peripheral positions were held by the peripheral businessmen.

A cabinet with this composition would be expected to advocate stable money supply and to go very slowly on the regulation of business elites in favor of the smaller businessmen. There would be little reason to expect that the Ponce government would pick up the demands of either the coastal banana growers or the sierra wheat growers. Cabinet members would not seem to have any preferences for either side of the free trade versus tariff protection issue. It is interesting that these policy preferences are similar to those of the businessmen in the campaign organization despite the substantial differences in the pattern of recruitment.

Decision Making Under Ponce

As would be predicted from the pattern of business representation, the political circumstances, and the personal inclinations of Ponce, very little was done in the last year in office. The major decision was to build the new Legislative Palace in Quito.¹⁹ This represented a major investment in the government public works program and helped the standing of the regime with the politicians, the contractors, and the construction supply houses. However, it was

¹⁹Hispanic American Report, October, 1959, p. 501.

far from the sort of decision listed in the issues of interest to major business factions.

A second decision of the Ponce government was to sponsor increased regulation of the tax free imports of the military commissaries.²⁰ The Quito Cámara de Comercio considered this a major political victory. It was the result of private negotiations between former Minister of the Treasury Luís Gomez Izquierdo and the military leaders who were eager to clear up an obvious abuse. Again, this was a useful policy that did not split the business community.²¹

A last economic decision of the Ponce regime was to veto a bill repealing the payment of business taxes a year in advance on the basis of income projections. These anticipated taxes have long been considered a nuisance by everyone in the business community. The reasons for having it die in the house on orders of the president were that granting credits to cover the year of missing revenues would promote inflation, that the granting of tax relief for businessmen would justifiably result in the demand for tax relief on the part of many other groups and that the bill was poorly drafted.²²

²⁰"La Labor de los Senadores Funcionales por el Comercio en la Legislatura de 1960," Comercio Ecuatoriano, No.106, July, August, September, 1960, p. 1.

²¹"Reunión de Ejecutivos de las Cámaras de Comercio," Comercio Ecuatoriano, 103 (October-December, 1959), p. 11; "La Labor de Los Senadores Funcionales por El Comercio en La Legislatura," Comercio Ecuatoriano, 106 (July-September, 1960), p. 5.

²²"Labores del Presidente," Revista de la Cámara de Comercio de Guayaquil, 37 (January 31, 1960), p. 27; La Industria, 26-2, p. 14.

The tax veto probably illustrates how narrow is the margin of success for most Ecuadorean presidents. A repeal of anticipated taxes would have been a needed reform that would have pleased most business elites. This program would have been consistent with the attributed interests of the cabinet and political supporters. Therefore there is little reason to doubt that fears of popular political reaction and the fiscal position of the government were responsible for the veto.

The Junta Monetaria

The Junta Monetaria was also relatively quiescent during the last year of the Ponce regime. The only significant policy decision rendered was to give tariff protection to Baterias Ecuatorianas S. A., the national battery factory.

Recruitment is one explanatory factor for understanding the tariff decision. Two aspects of recruitment are of interest: from where were the businessmen drawn and what was their relation to the president and his cabinet. Both factors are presented below in Table 12.

The pattern of recruitment would suggest that political interests of the president were well represented. Some of the members whose political affiliations have not been determined undoubtedly were not conservatives. However, many of them, Sr. Alfredo Pareja for example, felt that they had no political ties. Those whose party

TABLE 12

RECRUITMENT TO THE JUNTA MONETARIA^a

Member of the Junta	Organization Represented	Political Affiliation	Business Interests
Enrique Arizaga Toral	Congress	Conservative	None known
Isidro de Icaza Plaza	Ministry of Economy	Conservative	<u>Banco de Guayaquil</u> <u>Intercambio Comercial</u> <u>Sud America Life Ins.</u>
Rafael Febres Cordero	Consejo Nacional Economía	Conservative	<u>Ecuatoriana</u>
Julio Espinosa Zaldumbide	Instituto Nacional de Previsión	Conservative	Former President of <u>Banco Provincial</u> of Quito
Federico Bravo Basurto	Coastal Cámaras		Landowner
Carlos Ponce Martinez	Sierra Cámaras	Conservative	EDIALGE
Augustín Febres Cordero Tyler	Coastal Banks		<u>Sociedad General</u>
Gregorio Ormaza Eguez	Sierra Banks		<u>Banco de Pichincha</u>
Alfredo Pareja Diezcanseco	Private Citizen		None ^b

^a República del Ecuador, Memoria del Gerente General del Banco Central correspondiente al Ejercicio de 1959 (Quito: Banco Central, 1960), p. 220.

^b Sr. Alfredo Pareja Diezcanseco has been associated with banking and commerce. However, he was elected by the other members of the board because they felt sure he would not take sides. Interview with Alfredo Pareja Diezcanseco on November 21, 1968.

identification was listed could, however, be expected to be either representatives of the administration in power or to have close political and personal contacts with the political leaders supporting the regime.

The banking community was very heavily represented on the Junta Monetaria. Four out of the nine members were from banks. This was a much higher level of recruitment than was found for either the cabinet or the campaign organizations. However, only two of the bankers were from the coast, where the sentiment in favor of inflationary expansion was highest. Since one of them, Isidro de Icaza Plaza, was also in the cabinet, only the representative from the coastal banks, Augustin Febres Cordero Tyler, remained as a probable spokesman for the coastal financial interests. The balance of the Junta was generally amenable to the traditional stable money policies of the Banco Central. Since the three remaining businessmen represented a diversity of public and private interests, all relatively minor, it would be doubtful if they would push for a consistent set of policies opposed to the goals of the Ponce government. Overall the Junta reflected many of the interests and policy preferences of the regime.

The Junta Monetaria was relatively inactive during the last year of the Ponce regime. Most of the decisions taken by the Junta were more or less routine "fine tuning" of the economy. The seasonal changes in credit demand with the various periods of planting and

harvesting were primarily responsible for the relatively slight alterations in the minimum deposits for banks and some exports. Several of the changes in tariff lists and prior deposits for imports were attributed to a concern for small shifts in the balance of international payments. Over all, though, the relative quiescence of the Junta reflected a satisfactory state of affairs--the maintenance of stable money and balanced growth without draconian measures.²³

The major political decision taken by the Junta was the shift of imported batteries from List I (vital goods, paid for through foreign exchange at the advantageous official rate) to List II ("luxury" items, bought on foreign exchange from the open market) in order to protect Baterias Ecuatorianas, S. A.

Baterias Ecuatorianas, S. A. was started in 1958 by Oswaldo Tamayo Benalcazar. His initial plant for Baterias Ecuatorianas, S. A. was little more than a simple assembly operation. The labor force of some eight men merely inserted imported plates into imported cases and filled them with imported sulphuric acid.²⁴ The prospects of the new company were aided by the excellent political and commercial connections enjoyed by Sr. Tamayo. Sr. Tamayo also was formerly Minister of Finance for the Ponce government in 1956. He

²³"El Banco Central del Ecuador y las Políticas Monetaria, Credencia y Cambiaria del País" (Quito: Banco Central). Mimeographed.

²⁴Interview with Sr. Ramiro Cabeza de Vaca, president of Distribuidores Volkswagen, on November 25, 1968.

was a member of the board of Ecuadoriana de Aviación in partnership with Luis Tobar Donoso and Rafael Febres Cordero.

Sr. Tamayo received tax and some tariff benefits for imported capital goods under the 1957 Industrial Development Law. In 1959, Sr. Tamayo applied for tariff protection against imported batteries under Clause 68 of the Industrial Benefit Law which authorized protection against excessive foreign competition. This immediately set off a storm between the importers and local manufacturing interests.

Sr. Tamayo's argument was that he could not make the factory into anything but an assembly plant until he had first demonstrated that there was a market for Ecuadorean batteries. He argued that there should be a market since he was providing high quality batteries at a competitive price and a wide diversity of models. The flaw was that the Ecuadorean public was prejudiced against domestic products due to the past poor performance of some manufacturers. Therefore he was entitled to a 25 percent differential between his price and the price of imports in order to establish his market. Since he would not increase prices, the consumers would not be affected in any way. Therefore opposition to Baterias Ecuatorianas, S.A. came from the "irresponsible oligarchs."²⁵

The automobile importers opposed tariff protection for Baterias

²⁵Letter written by Pedro Pinto Guzmán, president of the Cámara de Industrias de Pichincha, and published in El Comercio on August 3, 1959, p. 1; editorial in Industria Ecuatoriana, November, 1959, p. 11.

Ecuadorianas, S. A. They argued that since there was virtually no "manufacturing" going on in the plant, what Sr. Tamayo wanted in effect was a monopoly on the right to import batteries, only he would do it in pieces instead of in completed units. It would be difficult for him to manufacture more of the intermediate products since Ecuador had neither a rubber industry, a sulphuric acid industry nor a lead industry that could compete with the imports. Furthermore, it would be very doubtful if he could replace all imports with domestic production. Such a wide variety of vehicles, requiring a wide variety of batteries, were being imported that the local production would have to import a few examples of many different styles of cells and plates, which would be an uneconomical process. Another element of the argument probably influenced the opponents of tariff protection; should local industry get both tax and tariff protection? Should local industry be developed at the expense of the importers?²⁶

The political battle between the importers and Sr. Tamayo was fought generally before the Junta Monetaria. The Departamento de Investigaciones Económicas of the Banco Central gave an ambivalent report. They were not opposed to the idea of market protection and conceded that the quality of the batteries produced was not bad. However, they were aware that the "factory" was generally a simple

²⁶Interview with Sr. Atahualpha Chavez Gonzalez, former president of the Cámara de Comercio de Guayaquil, on October 30, 1968.

assembly operation covering piecemeal importation. Therefore tariff protection would be tantamount to conceding to Sr. Tamayo an import monopoly that would have little benefit for the national economy.²⁷

Sr. Tamayo started looking for allies when the Banco Central made their report. He gained the backing of the Cámara de Industriales de Pichincha. On August 3, 1959, Sr. Tamayo published an open letter to the manager of the Banco Central charging that the anticipated refusal was the result of the influence of "las oligarquias de altas importadores en contra de los intereses nacionales." A subsequent letter from the president of the Cámara de Industriales was published that supported Sr. Tamayo's arguments.²⁸ The major impact of the letters was to serve public notice that Baterías Ecuatorianas had won public commitment from the prestigious Cámara de Industriales de Pichincha.

The Junta voted to recommend to the president that the importation of batteries be regulated so as to give Baterías Ecuatorianas the desired market protection. There is no information on the course of discussion within the Junta nor on the reasons for the final decision. However, there are several probable motives.

A factor favoring the tariff increase is the interest of the Junta

²⁷ Interview with Sr. Cabeza de Vaca.

²⁸ Letter from Pedro Pinto Guzmán, president of the Cámara de Industriales de Pichincha, in El Comercio, October 3, 1959, p. 1

in conserving foreign exchange. The problems in maintaining the balance of foreign exchange are such that the burden is generally on the importers to show why tariffs should not be raised.²⁹ The protectionist bent would naturally be augmented for Baterias Ecuatorianas by the close political and personal relations between Sr. Tamayo and key members of the Ponce regime. Protection in this case could also be consistent with the economic policies of the regime. One consideration was that tax benefits had been granted to Baterias Ecuatorianas. Many técnicos felt that there was little point in sponsoring development benefits for local manufacturers if they could not be guaranteed a market as well.³⁰

Perhaps the major reason for granting benefits was that the importers, in opposition to the protection, were not able to gain many allies to their arguments. Major Guayaquil financiers had bought into the company.³¹ The sierra financiers, industrialists and landowners closest to the regime did not care about industrial protection per se as long as it did not raise their own costs. The automobile importers were more or less isolated from any allies that could have

²⁹"Resumen de las Principales Observaciones de Caracter General al 'Plan General de Desarrollo'" (Quito: Banco Central, undated manuscript, p. 2.

³⁰Interview with Sr. Economista Manuel Naranjo Toro, former minister of the treasury, on October 15, 1968.

³¹World Trade Directory Report on Baterias Ecuatorianas S. A., date unknown.

carried weight with the Junta or the administration.

CHAPTER VIII

JOSE MARIA VELASCO IBARRA

Political Situation

José María Velasco Ibarra has been a major phenomenon of modern Ecuador. He has been president five times between 1934 and 1968. However, he has managed to finish only one term. Three times he has gone out in an orgy of violence and economic and political collapse, only to later be acclaimed president again. The account of his regime from 1960 to 1961 will undoubtedly seem bizarre, but it cannot be said to be atypical.¹ It held the distinctive stamp of Ecuadorean politics.

An understanding of Velasco's regime must start with an understanding of Velasco. He has become the modern caudillo and political hero for many low status Ecuadoreans. He is a matchless orator; even sophisticated political opponents have been taken under his spell. He has commented that given a balcony in every town, he would rule Ecuador for life. This is probably close to the truth.²

¹Alfredo Pareja Diezcanseco, "Teoría y Práctica del Conductor Conducido," Combate, XX, 4 (January-February, 1962), 9-23.

²George Blanksten, Ecuador: Constitutions and Caudillos (Los Angeles: The University of California Press, 1951), p. 50.

Velasco's charisma is based on a time-tested recipe. He has a tremendous emotional rapport with the masses. He offers himself to them as the embodiment of the Ecuadorean pueblo, the symbol of the restless, all powerful people who will, someday, rise up and smash the oligarchy that is responsible for all of the ills of the country. Velasco also keeps an identifiable enemy in front of the people. He gives them someone to hate and to whom responsibility can be attributed for all personal and national ills.³ The people cannot see how sophisticated plans and complicated economic schemes affect them. Abstract programs do not represent concern for their specific problems. Velasco, however, has put a water fountain, a road, or a school in almost every corner of the coast.⁴ He also shows personal concern. An indefatigable campaigner, he was the first public figure to visit the small towns where much of Ecuador lives. In his presence he shows interest, concern and sympathy for the poor, rather than an emphasis on his dignity and distance from the people. Many people have responded with adulation bordering on worship. There are many homes in which a picture of Velasco stands beside an image of the Virgin. Candles are often lit to both images. When out of office, Velasco has sought an alliance with the masses both as a springboard to power and to revenge himself on the elites who have

³Pareja, p. 21.

⁴Occasional conversations with Sr. Alfredo Pareja Diezcanseco.

generally scorned him as a buffoon. As soon as he approaches office, members of the elite community come flocking to his side to get on the inside track to political power.⁵ Velasco revels in this attention. He receives the plaudits of those who count as no more than the long delayed recognition of his social and intellectual merits. The often proclaimed plans for revenge and revolution then are shelved as Velasco, in complete trust, turns his administration over to his new allies and comrades.⁶

Velasco has generally had three main problems in office. He is temperamentally unable to understand opposition and criticism. As soon as his administration runs into heavy weather, he lashes out in fury at his critics, thus alienating the moderates who were dubious but loyal.⁷ His second problem is his total inability to administer. He seems to have no idea of coordinated planning, of financial limitations, or of due process.⁸ His troubles have been compounded by his third problem: those who have supported Velasco in the past have frequently done so because they wanted to make a bundle of money in

⁵Rodrigo Borja C., "Panorama de la Política Ecuatoriana," Combate, 19 (2) (November-December, 1961), 16-22.

⁶Interview with Professor Georg Maier, Assistant Professor of Political Science, Southern Illinois University, on August 20, 1968.

⁷Ibid.

⁸Interview with Sr. Eduardo Larrea Stacey, former general manager of the Banco Central, on November 20, 1968.

a hurry from their government positions.⁹ The programs pushed by those near to Velasco have often been personal triumphs but national tragedies. The great trust Velasco places in the transparent scoundrels around him has been explained by his need for status with those who count.¹⁰

Velasco was not rated as a major threat in the 1960 presidential elections.¹¹ He had been in self-imposed exile in Argentina since 1956. The country had enjoyed stable, if not especially progressive, administration for four years.

The liberal and moderate socialist candidate was the popular Galo Plaza Lasso, who, while president from 1948 to 1952, had promoted the vast banana industry in Ecuador. Sr. Plaza also had the political benefits of his personal popularity and formidable prestige built up as president and as an international statesman. Galo Plaza was the candidate for all others to beat.¹²

The conservative candidate was Gonzalo Cordero Crespo, a reasonable member of the progressive wing of the right. He was running on the good will and administrative record of Ponce. The church was a major ally of the conservatives in the election. Archbishop

⁹Interview with Professor Maier.

¹⁰Ibid.

¹¹Hispanic American Report, 43(6) (August, 1960), p. 399.

¹²Ibid., 43(1) (March, 1960), p. 43.

de la Torre of Ecuador made effective use of the threat of excommunication for all Catholics who voted for Plaza.¹³

Velasco's strategy was to continue campaigning on the time-honored basis of opposition to the "oligarchy." He most effectively tarred Plaza as a tool of the "yanquis" by pointing to a technical study Plaza had written on the operations of the United Fruit Company in Latin America.¹⁴

The strategy was successful. After a long campaign marked by violence, Velasco was swept into office by 350,000 votes, almost as much as the totals received by Cordero Crespo and Plaza combined. This phenomenal upset was matched in the congressional elections where the Velasquistas won a majority in both houses. Velasco entered office with one of the strongest political mandates enjoyed by any Ecuadorean president in recent years.¹⁵

Velasco had carried almost all of the provinces. However, he had run up his tremendous margin of victory in four provinces: Pichincha, Guayas, El Oro and Los Rios.¹⁶ These results reflected Velasco's populist base. The two national cities are located in

¹³Ibid., 13(4) (June, 1960), p. 259.

¹⁴Ibid., 3(6), p. 399.

¹⁵Ibid.

¹⁶"Results of the 1960 Presidential Elections in Ecuador" (Xeroxed copy of data loaned by the Latin American Data Bank, University of Florida, undated).

Pichincha and Guayas provinces. El Oro and Los Rios are the heart of the coffee and banana regions which depend substantially on migrant labor.

Political Recruitment

The major positions within the Velasquists organizations were held by speculation-minded bankers who were marginal members of the Guayaquil elites. The decisions they made catered to the appetites of the Guayaquil bankers for speculation and helped improve their own financial, social and political positions. They apparently did not act to defend the interests of any wider sector of the Ecuadorian business community.

Gross recruitment data suggest a rather low level of business influence in the campaign organization.¹⁷ Only 14 out of 107 executive positions within the political organization were held by businessmen.

¹⁷The positions to which recruitment had been considered are: officer in the Frente Nacional Velasquists (FNV), officer in the FNV organization in Pichincha; a candidate for the FNV for the Senate or the Chamber of Deputies, officer in the Frente Nacional Velasquista de Independientes, the Frente Nacional Centro-Derechista pro Velasco Ibarra and the Union Velasquista Independiente. The proliferation of organizations is partly a result of the great diversity in background, ideology and goals of the groups around Velasco Ibarra. The positions listed were generally held by prominent people, and they were approximately equivalent to the positions analyzed for recruitment in the other campaign organizations.

Data on the recruitment to the positions were generally obtained from articles in El Comercio between March and June of 1960. Data on the business holdings of political figures in the Velasquista organizations contained in the master card file on businessmen discussed in Chapter 6.

Some of the characteristics of the businessmen in the Velasquista campaign and party organizations are given in Table 13 and Table 14 below.

TABLE 13
CHARACTERISTICS OF BUSINESSMEN IN
VELASQUISTA PARTY POSITIONS

Characteristics		No. of people
Location of business	Coast	11
	Sierra	3
Type of business	commerce (importers)	5
	financial and service	5
	manufacturing	4
	media	0
Financial and commercial positions of business	inner circle	5
	established	4
	marginal	5

TABLE 14
RELATION BETWEEN BUSINESS AND
POLITICAL POSITIONS

Political Position*	Business Position		Not in Business
	Inner Circle	Other	
Central	5	1	6
Peripheral	4	4	87

*"Central" political positions are the officers of the FNV, officers of the FNV organization in Pichincha, and the senatorial candidates of the coast. These people were most prominent in the later history of the Velasco regime. Other positions in the Velasquista organization have been defined as "peripheral."

Interview with Dr. José Vicente Ortuña, former member of the Cámara de Diputados, a confidant of former President Carlos Julio Arosemena Monroy and a leading Quito lawyer, on October 16, 1968.

Table 14 suggests that a majority of the important positions within the Velasquista campaign organization were held by "inner elite" businessmen. The six businessmen who occupied central political positions deserve special mention. They are listed below in Table 15.

TABLE 15
SITUATIONS OF BUSINESSMEN WHO HELD
CENTRAL POLITICAL POSITIONS

Name	Political Position	Business Position
Carlos Julio Arosemena Monroy	Vice Presidential candidate President of FNV	Son of founder of <u>La Previsora</u> , <u>Banco de Descuento</u> ; inner elite
Eduardo Arosemena Monroy	UVI candidate for Senator from Guayas	same as above
José Icaza Roldos	FNV candidate for Senator from Guayas	Stockholder of <u>Banco la Previsora</u> ; inner elite
Fernando Ponce Luque	FNV candidate for Senator from Guayas	Brother is partner with Luis A. Noboa in <u>La Familiar S. A.</u> ; inner elite
Nicolas Valdano Raffo	First Deputy candidate for deputy from Guayas	Owned <u>Cia. Chileno-Ecuatoriana</u> ; <u>Concreto Ecuatoriana</u> ; <u>Industrias Quimicas</u> ; <u>Ecuatorianes</u> ; inner elite
Rafael Gomez de la Torre	FNV candidate for Senator from Pichincha	Owned <u>Indian Comercial</u> ; established businessman

The major business leaders were from Guayaquil. Rafael de la Torre was the only man from Quito. Most of the Guayaquil businessmen favored inflation and devaluation. Three of them were from the major bank, La Previsora. Nicolas Valdado Raffo shared their preference which would benefit his investment and building companies. The interests of Fernando Ponce Luque are ill-defined. He apparently participated with Luis A. Noboa in business ventures not listed in the business file.

A theme of "elite marginality" runs through much of the business recruitment pattern. Although Carlos Julio Arosemena Tola, the father of Carlos Julio and Eduardo Arosemena Monroy, had started the two banks, he apparently passed on only a few shares of stock to his heirs. Both brothers had made a name for themselves in politics. Eduardo had been the manager of several government banks and funds on the coast. Carlos Julio had been a deputy and later a minister of defense in the 1952-1956 Velasco regime. He apparently had no independent business relations outside of his inheritance from his father. His personal relations with the other inner elites from Guayaquil had been very poor for many years.¹⁸ The Ponce Luques had been political allies of Velasco for many years. Some observers felt that they were using their political successes to boost their

¹⁸Interview with Sr. Rafael Dillon Valdéz, president of the Banco de Guayaquil and the Azucarera Valdéz, on October 20, 1968.

positions within the inner elites.¹⁹

A parallel phenomenon was the presence of marginal businessmen in peripheral political positions. It is plausible to speculate that businessmen with financial difficulties who took time out to enter politics at a low level might have been motivated by self-interest rather than in the defense of a business sector. Thus the recruitment data for most levels tend to support the idea that the businessmen in Velasco's campaign organizations were generally more interested in promoting their own individual good rather than the interests of a sector of the economy.

A second channel between Velasco and the speculators of the coastal banking community opened up with the election of Otto Arosemena as commerce senator for the coast. Otto Arosemena, first cousin to Carlos Julio Arosemena Monroy, came from a poor but proud branch of the aristocratic Arosemena clan. . Although he had the appetite for elite status and living, he lacked the money. His income as the lawyer for La Previsora and as manager of an insurance company was not enough to keep up with the high living coastal elites.²⁰

Otto Arosemena apparently made a deal with the major specula-

¹⁹Interview with Dr. Alejandro Carrion, publisher of La Calle, on November 12, 1968.

²⁰Ibid.

tion-minded bankers of the coast--their backing in the functional election in return for a direct pipeline to Velasco after Arosemena was in office.²¹ Although several other representatives of La Previsora were already in the Velasquista campaign organization, they were socially and economically "marginals." The bankers had no guarantee that they would not push their own personal interests instead of the interests of the bankers. Otto Arosemena was to be the official emissary of the bankers to Velasco.

Otto Arosemena's opponent in the election was Atahualpha Chavez Gonzalez, a former president of the Cámara de Comercio who enjoyed widespread support. In other circumstances Sr. Chavez would probably have been a sure winner against the relatively unknown Dr. Arosemena. The managers of the Banco La Previsora combed their lists of debtors for the names of members of the cámara. Businessmen who owed the bank money or who were likely to borrow in the future were told they were expected to vote for Dr. Arosemena. Two assistant managers of La Previsora were on hand to personally deposit the ballots of debtors in the voting urns. Although the election was close, Sr. Arosemena won control of the cámara votes for functional senator and thus the election.²²

²¹ Interview with Dr. Eduardo Larrea Stacey. However, Sr. Alejandro Carrión said he was not sure of an alliance. Sr. Rafael Dillon Valdéz, who was probably in the best position to know, declined to answer the question.

²² Interview with Sr. Atahualpha Chavez Gonzalez, former president of the Cámara de Comercio de Guayaquil, on October 30, 1968.

Policy Coalitions and Recruitment
to Decision Making Positions

Policy making in the Velasco regime was not a result of discrete policy decisions, rather it was a result of a stream of political events in which many different groups participated at different times for a wide variety of reasons. Therefore the emphasis will be on the narrative of the decision making process. The comparisons among the specific phases of the process will be untangled in the last chapter.

Events started with the establishment of an alliance between Otto Arosemena and José María Velasco Ibarra. Velasco had no economic program to offer during the campaign.²³ The Velasquista paper La Nación presented a very vague draft of areas of concern for the new administration. Velasco wanted to do something about unemployment, agrarian reform, rural tax reform, easing of agricultural credit restrictions, and to make banana production more efficient. However, the only means presented were the selection of "technically qualified" men for the cabinet who would take care of the detailed planning.²⁴ Velasco also offered a rehash of the "Plan Vial," a statement of public works priorities first developed in the

²³Interview with Mr. John Snyder, Labor Attaché to the American Embassy in Quito, on October 15, 1968.

²⁴La Nación (Guayaquil), June 7, 1960, p. 1.

1952-1956 administration.²⁵

Velasco wanted three things from an economic plan. First, it had to show he was tackling the problems of the country in an energetic and orderly manner. Second, it had to have the support of the "people who count," the Guayaquil financial elites. Third, it had to justify the heavy level of public investments that Velasco wanted to make.

The search for a politically viable economic policy started immediately after the election. Velasco organized a series of conferences to discuss economic questions and problems. The first meeting was held in Guayaquil on June 9.²⁶

Otto Arosemena Gomez was the first speaker. According to Sr. Arosemena the commercial sectors of the country were being badly hurt by a recession caused by contraband and lack of circulating money. The Junta Monetaria, which had the responsibility for promoting the proper monetary climate, had come under the influence of foreigners who advocated a sterile policy of absolute stability. As a result there was not enough specie in circulation to move commerce, and this was the root of the problems of the farmer, comerciante and industrialist alike. "Con circulante hay trabajo, con circulante se puede emprender en obras y entonces hay trabajo para los

²⁵ Interview with Sr. Alejandro Carrión.

²⁶ La Calle, 171 (June 18, 1960), p. 3.

desempleados. Y ésto es lo que todos piden: trabajo!"²⁷

Several measures would be necessary to achieve proper level of money circulation. The first would be to restructure the Junta Monetaria so the government would have a majority and could set public policy. The second would be to invest the minimum balances held by the private banks through the Banco Central. This would put some hundred million sucres into circulation and would create a market for government bonds needed to finance vital construction.

Arosemena recognized at this time that the result would be inflation. But it would be an "inflación de ensayo" needed to restore prosperity. This inflation would, by implication, be easily managed through restrictions on the same credit measures that caused it.

Other measures would be needed to restore the monetary health of the nation. Sr. Arosemena strongly advocated unification of the exchange rates. The system of multiple exchange rates hurt the exporter who sold dollars at the official rate of 15.15 sucres to the dollar but had to buy dollars at the higher rate of the free market. The multiple exchange rate was maintained, in Sr. Arosemena's opinion, only due to pressure from the unrealistic foreign technicians of the IMF. Sr. Arosemena also advocated the abolition of the highly unpopular levy of taxes on anticipated income and retroactive tariffs. He asked that Velasco reorganize the budgetary procedure to end the

²⁷Ibid.

necessity for emergency tariffs to cover large deficits.

Three groups seem to emerge in the discussion among Velasco's advisors about Arosemena's plan. The advisors who were interested in making money out of their political positions backed Arosemena. They probably included Jaime Nebot Velasco, Oswaldo Menendez Gilbert, Galo Garay, Leonardo Stagg and the Ponce Luque brothers.²⁸ A second group of advisors were most interested in their personal political goals. The políticos, led by Carlos Julio Arosemena, Manuel Araujo Hidalgo and Gonzalo Alameida Urrutia, disliked the speculators as being bad for politics. However, they did not want to jeopardize their relations with Velasco and probably felt they could make political capital out of an economic collapse. A group of conservative manufacturers, led by Ernesto Jouvín Cisneros, tried to get close to Velasco to offset the influence of the first two groups. However, the ties between Velasco and the La Previsora people were too close and Sr. Jouvín soon dropped out of sight.

The balance of influence was swung by major Guayaquil bankers intent on speculation. This is suggested by three factors: a committee of Guayaquil bankers was secretly formed to advise and back Velasco on economic problems.²⁹ Several of these bankers had a reputation for rapacity. It was reported in La Calle that the Guayaquil

²⁸ La Calle, 156 (March, 1960), p. 13; La Calle, 164 (April 30, 1960), p. 5.

²⁹ El Telegrafo (Guayaquil), June 10, 1960, p. 1.

bankers had been "seduced" by an offer to devalue.³⁰ The second piece of evidence is that the bankers moved from public neutrality to more active social approval of Velasco. Fernando Ponce Luque held a private reception in honor of the president-elect, inviting his elite political supporters and personal friends. Several managers of La Previsora and Sociedad General were prominent and honored guests.³¹ A third indicator was the reaction of the vice-president-elect. In an interview granted to the major Guayaquil paper, El Universo, Vice-President Carlos Julio Arosemena said that most parties were corrupt because they auctioned candidacies among competing groups of campaign contributors. Government executives were equally corrupt because they exploited the moral lapses of legislators to achieve personal political goals. Vice-President Arosemena also attacked the functional representatives as being "anti-democratic" and said that a major economic problem was the usury undertaken by banks under political protection.³² These statements were not directed against opposition presidents or parties. Since they seem to fit into a pattern of later opposition to Velasco, it is believed that they were made in response to the alliance between Velasco and Otto Arosemena.

The pattern of recruitment of businessmen to the Velasco cabinet

³⁰La Calle, 164, p. 5.

³¹El Universo (Guayaquil), April 1, 1960, pp. 5, 8.

³²El Universo, June 20, 1960, p. 1.

was the most definite sign that an alliance had been made among Velasco, the bankers and the speculation-minded politicians. All of the major ministers were drawn from this narrow circle.

Velasco made a phenomenal number of cabinet changes in response to a continually deteriorating political situation. There were 25 incumbents for the nine cabinet positions in the 14 months that the Velasco regime was in power. Most of these shifts took place in two ministries. There were 11 ministers of government and four ministers of treasury. No changes were made in public education, development, public works and foreign relations. The remaining three portfolios were changed once.

There were only six identifiable businessmen in all of the months of the Velasco cabinet.³³ The key figure was José Ceballos Carrión, Minister of Economy from September, 1960 to July, 1961. He was the assistant manager of Banco La Previsora. Sr. Ceballos had no other business connections. He was an employee of Otto Arosemena, who had been moved up to a full seat on the board of directors of the bank.³⁴

The second businessman in the original cabinet was Jaime Nebot Velasco who held the portfolio for development during the entire Velasco government. Nebot entered government service with marginal

³³Data on the business relations and holdings of cabinet members have been taken from the master card file.

³⁴Triemestre Económico (Guayaquil: Banco La Previsora, March, 1961).

business holdings. He apparently pushed development with skill and vigor. His own private holdings were expanded greatly through his knowledge of where and how the government was going to invest development funds.

Carlos Valdano Raffo was Minister for Public Works. He stood to gain from an inflationary investment policy through his ownership of an investment firm and concrete plant. His holdings have already been listed in Table 15.

Some of the businessmen who moved into cabinet positions at a later date were recruited from other government positions. Leonardo Stagg Durkopp replaced Sr. Ceballos after devaluation in July, 1961. He was the president of the Junta Nacional de Planificación, which played an important advisory role in the development of economic policy while Sr. Ceballos was in office. His appointment represented a lateral shift of an established team member rather than the introduction of "new blood." Sr. Stagg owned two contracting companies, Constructora de Carreteras (CONACA) and Constructora Guayaquil. Both companies were reported to be in a weak position before Sr. Stagg entered politics. Both of them received several substantial government contracts during the Velasco regime.³⁵

Another later addition to the Velasco cabinet was Enrique Ponce Luque who held the position of Minister of Defense in April and was

³⁵Interview with Sr. Alejandro Carrión; "Los Doce Hombres del Año," La Calle, 252 (January 5, 1962), p. 4.

Minister of Government from August to September, 1961. Sr. Ponce was a subordinate partner to Luis A. Noboa in Sr. Noboa's banana exporting firm, his importation house, and in La Familiar, the largest sugar mill in Ecuador. It is impossible to know what his economic and political interests were without more data on his relations with Sr. Noboa and the other inner elites. However, it may be significant that Sr. Ponce had been in politics with Velasco for a very long time and that Sr. Noboa was a self-made man within the Guayaquil business community.

The only businessman from the sierra was Jorge Acosta Velasco, the son of Jaime Acosta Soberon, who was manager of the Banco de Pichincha. Sr. Acosta was briefly Minister of Government and of the Treasury. However, he was reported to have been estranged from his father and his connections with the sierra banks was most tenuous.³⁶

Decision Making

The problems of implementing Arosemena's economic policy was attacked in two stages. The first step was to alter the legal context of economic decision making. The Junta Monetaria had long been the chief opposition to Velasco within the government and could be expected to offer stiff resistance to any program of devaluation or

³⁶Interview with Sr. Susana Ashton Donoso, genealogical expert of the American Embassy in Quito, on November 6, 1968.

inflationary investment.³⁷ Furthermore, the Junta lacked power, had they the will, to authorize the several measures that were intended for use.

The first step taken by the Velasco government towards the projected economic policies was to restructure the Junta Monetaria.

Otto Arosemena Gomez drafted and introduced the first major administration proposal in the Senate during the August sessions.³⁸

Arosemena's sponsorship is suggestive of the position he enjoyed within the Velasco administration. Arosemena's sponsorship also paid political dividends for the government. Opponents of the measure had to argue with the commerce senator on commercial conditions and economic policy.

The bill, Reformas a la Ley de Regimen Monetaria, was presented as a "reform" of the Junta and Junta practices. The few major proposals of direct interest to the administration were buried within a welter of small changes designed to "give the Junta more flexibility" or to "bring the law in line with current practice."³⁹

A major change was to alter the membership of the Junta. The original proposal was to add the ministers of Treasury and Develop-

³⁷Interview with Peter Mitchell, Representative of the Confederation of British Industries for Ecuador, on October 16, 1968.

³⁸See the debates on the reforms of the Ley de Regimen Monetaria, Diario de Debates, Cámara de Senado: Agosto 1960, p. 47 on.

³⁹Ibid., p. 52.

ment and to take off the member elected by the Instituto Nacional de Previsión. However, the representative of the INP was restored in senate debates and the Minister of the Treasury was added to replace the member formerly elected by the board to represent "public interest."⁴⁰ These changes gave the president and congress the majority over the private members of the Junta.

The only significant debate on this proposal took place in the senate. The alteration of the membership had been opposed by both the Junta and the Junta Nacional de Planificación. However, only former members of the Junta Monetaria rose in defense of the established membership. Cesar Alvarez Barba, the sierra commerce senator, demanded that the two new public ministers be replaced by two more representatives from the cámaras; one senator for industry and one for commerce and agriculture from each region. The senators from the south asked that the cámaras of Cuenca and Azuay be given their special representation. Similar demands were made for the special representation of workers and artisans. The result was predictable; the opposition to Junta-packing was unprepared to unite on a common counter-proposal and the provisions as written were easily passed by the Velasquista majorities in both houses.

A second major change was passed almost without notice. All of the members of the Junta were to be elected at the same time. They

⁴⁰Ecuador, Diario de Debates, Cámara del Senado: Septiembre, 1960, p. 336.

previously were elected on staggered terms.⁴¹ This resulted in an immediate change of the entire membership of the Junta. The new elections were to be held when Velasco was at the height of his power.

Other major reforms altered the legal powers of the Junta. Under the bill, Junta could allow private banks to hold up to half of their minimum required cash balances in bonds approved by the Comisión Nacional de Valores. The free liquidation of the bonds on demand would be guaranteed by the Comisión Nacional de Valores.⁴²

This proposal strongly favored the private banks and the large investors. The banks would be able to make money on their minimum deposits as well as on the money they loaned out. The bonds would be a preferred form of investment since they were completely secure as long as the government was sufficiently solvent to effectively back them. The large investors were favored by the creation of a major new source of capital credits. The Velasco regime was favored by the establishment of markets for government bonds that had been difficult to float for several years.

However, this proposal was a direct blow to the small businessmen and farmers who depended on bank credit to finance their operations. The money available to private loans would drop if banks would be able to place their investments in guaranteed government

⁴¹Ibid.

⁴²Ibid., pp. 132-182.

bonds. The proposal also hurt the many small businessmen who depended on monetary stability. The regulation of the level of minimum deposits had been a major means of restricting credit and dampening inflationary pressures. Under this proposal, raising the minimum deposits would have little effect on total credit volume, since half of the increase in encaje would immediately go for the purchase of bonds. Drastic elevations in encaje would be politically difficult as the credit available to small loans would drop to almost nothing.

The provisions for "guaranteed convertability," which was supposed to provide for monetary security, was an illusion. A government funded on bond sales would not be able to back those very same bonds with "hard currency" on demand. The only recourse for backing deposits would be to print some more money.

There was little opposition to this provision in the congressional debates. Supporters of the bill alleged this was a change in the tools available to the Junta and not a change in the policies of the Junta. Opponents of the Junta were already predisposed to side with the authors of the bill. The supporters of the conservative policies of the Junta had a hard time explaining why they felt that the Junta, in which they had so much trust, should not be given this new power.⁴³

The last major provision of the bill was to increase the redis-

⁴³Ibid.

count period for Banco Central operations from 270 days to two years.⁴⁴ The Banco had used their rediscount operations to regulate the short run changes in level of credit interest. However, the national development banks, which had been depleted of capital for years, had come to depend on these short term loans to finance their own operations. The development banks provided some 20 percent of all agricultural credits and the farmers felt very strongly that the available loan period was far too short to finance any capital improvements.

This section provoked the most controversy in congress. Many small farmers, especially those on the coast, saw this provision as a means of re-capitalizing the development banks, and for gaining vital long term agricultural credits. Coastal representatives were consequently slow to attack the measure. Farmers and comerciantes involved in the export trade would have at least a chance to use their dollars to buy on the stable foreign markets even if the credits resulted in a domestic inflation. Other representatives were apparently swayed by the argument that this provision only made legal and fair for all what the Banco Central had been doing for the favored few for years.

Opposition to the measure was divided. The representative of sierra agriculture, Marco Tulio Gonzalez, argued strongly that the delights of credit would be more than offset by the pains of the

⁴⁴Ibid., pp. 290-311.

subsequent inflation. Many conservatives argued that the measure would also deprive the Banco Central of a prime weapon for the stabilization of short term credit rates. There would be no capital available to make short term loans if all was tied up in long term loans. The radical head of the Confederación de Trabajadores Ecuatorianos, Telmo Hidalgo, violently opposed the measure in the chamber of deputies on the grounds that the workers would suffer from fixed wage rates in an inflationary situation. The combined opposition was not strong enough to prevent the increase of the rediscount period to two years.⁴⁵

A theme that pervaded debates within and outside of congress on the entire bill was the fear of inflation. The supporters of the measure were careful to state that these changes represented a shift in the legal weapons available, not a change in policy of opposing inflation. However, the administration spokesmen continually argued that Ecuador would need an increase in the amount of circulating money if prosperity was to be achieved and that this could be done without inflation only if the new tools were used with imagination and skill. The Junta Monetaria presumably had neither.

The bill passed both houses with only minor changes. Only voice and standing votes were taken in the debates on specific sections and on final passage. The failure of the opponents to slow

⁴⁵ Ecuador, Diario de Debates, Cámara de Diputados, 1960, Vol. 4, pp. 1156-1160.

passage can be attributed to the lack of consensus around any counter-proposal, the general feeling that the new government should be allowed to set policy, the overwhelming power of Velasco as a result of his personal triumph in the presidential elections, and the large Velasquista majorities elected to both houses.

The second step of the administration was to recruit members to the Junta that would be in favor of the administration proposals. Leonardo Stagg, Velasco's nominee for president of the Junta Nacional de Planificación, started attacking the management of the Banco Central. In a sharply worded series of newspaper articles, Stagg questioned the policies and personal qualification of the bank manager, Guillermo Perez Chiriboga.⁴⁶ This resulted in a direct confrontation between Sr. Perez and President Velasco. Sr. Perez, either by intent or accident, resigned and Nicolas Fuentes Avellan, the former assistant manager of the bank, was named general manager. Although Sr. Fuentes was quite capable and honest, he lacked the reputation and political skills of the former manager. This inevitably eased the opposition from the Banco staff to Velasco's proposals.⁴⁷

Armando Espinel Mendoza from the Consejo Nacional de Economía, José Ycaza Roldos, from the Instituto Nacional de Previsión, Juan Emilio Roca Carbo from the coastal banks, and Gregorio Ormaza

⁴⁶These articles appeared in El Comercio at irregular intervals during August and September, 1960.

⁴⁷Interview with Sr. Eduardo Larrea Stacey.

Eguez from the sierra banks were members of the Junta. Miguel Espinosa Paez represented the sierra cámaras. Also on the board were the ministers of economy and development.⁴⁸

The pattern of political affiliation on the Junta was more important than the pattern of business representation. The Junta had clearly come under the control of the administration with the passage of the reforms and the election of Sr. Arosemena as president of the Junta.

The political position of Otto Arosemena was very strong. He personally had been responsible for using the resources of the Banco La Previsora to force his own election. He personally had engineered the reforming of the Junta. An employee of his bank, Sr. Ceballos Carrión, was named Minister of Economy. His bank had been influential in the election of the coastal cámaras to the Junta. And it was due to his position in the Banco La Previsora that Juan Roca Carbo had been elected as coastal representative of the banks. President Velasco would probably have had a difficult time electing sympathetic people to any of these positions without the aid of Sr. Arosemena.⁴⁹

The Junta promptly made decisions which amounted to a major shift from a policy of stable money to one that favored inflationary investment and eventual devaluation. The new Junta removed most

⁴⁸Ecuador, Banco Central, Memoria del Gerente General del Banco Central Correspondiente del 1961, Quito: Banco Central, 1962, p. 351.

⁴⁹Interview with Dr. Alejandro Carrión.

of the controls on credit and importations. All prior deposits were removed for imports, minimum deposits of banks in the Banco Central were placed in bonds, and the interest rates for the bonds was raised from 7 to 10 percent. All of the interest on the minimum deposits was kept by the banks.⁵⁰

Parallel with this was the passage through the congress of a bill requiring the Banco Central to loan ten million dollars to the government against the deposits held by the bank. This amount, large as it was for Ecuador, was more than matched by a fifteen million dollar bond issue floated by the central government. With these funds the government promptly embarked on an ambitious, but ill-coordinated, program of development projects and public works.⁵¹

The character of the operation of the Banco Central also was changed. The volume of credit operations increased 30 percent, from 40 million dollars to 55 million dollars. Most of this money went to large loans as the total number of operations dropped slightly. The new credit was also kept on the coast. While almost all of the coastal offices registered dramatic increases in the volume of credit extended, there was little increase in credit for the sierra. Similar patterns of credit operations were shown by the private

⁵⁰Ecuador, Banco Central, Memoria . . . 1960, pp. 261-264; Enrique Arizaga Toral, "El 'Crack' Monetaria y Sus Responsabilidades," La Calle, 234 (September 10, 1961), pp. 16-71.

⁵¹Interview with Dr. Alejandro Carrión.

banks.⁵²

The rapid expansion of credit resulted in a sharp upswing of inflation. The cost of living in 1960 increased by 6 percent despite the maintenance of monetary stability for the first half of the year.⁵³ The demand for imports was responsible for a rise of the price of dollars on the free market from 18 sucres to over 22.⁵⁴ The foreign reserves held by the Banco Central dropped from 34 million dollars at the start of 1960 to 28 million at the end of the year.⁵⁵

The combination of price rises, new credit facilities and the fear of a continued drop in foreign exchanges prompted a rapid increase in imports. The total imports of 1960 were \$100,310,360, far above the 1959 total of \$86,695,358. Almost all of the increase in importations was registered in the final four months of the year. The types of commodities in which importation increases were registered is suggestive of the direction the boom was taking. The importation of manufactured metal goods tripled. Great increases were

⁵²Ecuador, Banco Central, El Banco Central del Ecuador y Las Políticas Monetaria, Credencia y Cambiaria del País, Quito: Banco Central, undated. (typewritten manuscript) Tables 3 to 7.

⁵³U. S. Department of Commerce, Overseas Business Report; Living Conditions in Ecuador (Washington, D. C.: Government Printing Office, 1963), p. 6.

⁵⁴Ecuador, Banco Central, "El Banco Central y La Políticas . . .", Table 8.

⁵⁵Ibid., Table 7.

also registered in the importation of cars, furs, wood and paper products, machinery, chemical products and "diverse manufactured goods" (chiefly luxury items). However, there was a drop in the importation of many popular consumption items. Decreases were registered for foodstuffs, gasolines, lubricating oils, clothes, textiles, glass and ceramics.⁵⁶

The initial boom stimulated domestic industry for a while. Industrial employment climbed by 10 percent. Dramatic increases were registered between 1959 and 1960 in the production of cement and quarried stone. The production of chemicals and textiles also increased. However, the long term effect was to shift investments from domestic production to speculative areas as a hedge against the inflation and a possible devaluation. The shift of credits from agriculture to commerce was partly responsible for the relative stagnation in banana production and the declines in coffee, cotton and animal fats.⁵⁷

Monetary stability suffered greatly in the first half of 1961. The foreign reserves of the bank continued to decline. The price of dollars on the free market was bid up to 25 sucres as businessmen tried to shift their resources out of the country from fear of a possible

⁵⁶Ecuador, Banco Central, Memoria del Gerente General del Banco Central Correspondiente de al Ejercicio del Año de 1965 (Quito: Banco Central, 1966), p. 210

⁵⁷Ibid., "El Banco Central y Las Políticas . . .", Tables 2-6.

collapse. The amount of money in circulation actually dropped below the 1959 level, despite the tremendous increase in credits.⁵⁸

The central government tended towards bankruptcy for the first time. The debt had been run up from seven hundred million sucres to one billion two hundred million sucres in less than a year. The budgetary imbalance had been very heavy.⁵⁹ An income of one billion, four hundred million sucres in 1960 was far outweighed by expenditures of two billion, one hundred and fifty million sucres.⁶⁰ The funds originally provided by the initial loans and bonds were soon eaten up as the situation continued into 1961. Velasco and his advisors started looking around for additional taxes to cover the difference. Between September, 1960 and July, 1961, thirty-eight new taxes were created. Almost all of them fell directly on the consumers.⁶¹

There was relatively little opposition by the business community to this rapid deterioration of economic conditions. The cámaras of the sierra issued a joint statement that sternly protested the political climate that caused a lack of business confidence in the government. However, no specific recommendations or policy preferences

⁵⁸Banco Central, Memoria del . . . 1965; La Calle, 233 (August 25, 1961), p. 16.

⁵⁹La Calle, 234 (September 10, 1961), pp. 12-13.

⁶⁰Memoria del . . . Banco Central: 1960.

⁶¹La Calle, 225 (September 17, 1961), p. 12.

were expressed. The statement seemed to have relatively little political impact and received widest publicity only within the cámara house publications.⁶² The personal influence of the cámara leaders in the government dropped to an all time low.⁶³

There are several plausible reasons for the lack of political opposition by the sierra cámaras to the Velasco regime. The joint statement was not only a reflection of widespread concern, it was also an indication that cámara leaders were aware that the government still was more powerful than they were. Velasco could take major reprisals against a single sector of business in retaliation for isolated opposition. A joint statement broadened the base of opposition at the expense of an ability to agree on any alternate policy.

The coastal cámaras remained silent about the role of the government in the oncoming crisis. The official position of the cámara de comercio and industriales seems to have been that businessmen should look to the government for help for any economic difficulties. Neither was there any evidence that the cámara leaders attempted to have the official policies changed behind the scenes.⁶⁴

⁶²"Documentos Para la Historia Industrial del País," La Industria, 34 (January 26, 1961), p. 4.

⁶³Interview with Dr. Eduardo Larrea.

⁶⁴See the report on the speech given by Jaime Nebot Velasco before the Cámara de Comercio de Guayaquil in the Revista de la Cámara de Comercio de Guayaquil, 51 (March 31, 1961), p. 5; for a criticism of the regime, see "La Crisis Económica," Revista de la Cámara de Comercio de Guayaquil, 55 (July 31, 1961), p. 5.

The political silence of the coastal cámaras was probably not due to the power of the banks and Sr. Arosemena. The affluent coastal businessmen who had capital and foreign exchange available to invest could make a substantial profit through imports, investments in construction and real estate, or in speculation on exchange rates. It seems certain that the key business leaders, those who were most influential within elite circles, must have given at least tacit approval to the economic policies of the government. Sr. Arosemena's use of the Banco La Previsora could only have been arranged with the aid of the other managers and owners. Credit conditions could have been substantially altered by the managers of the three or four other large banks. This is not to say that all of the Guayaquil financial elites were in support of the Velasco regime, only that those privately opposed to it did not choose to enter politics.⁶⁵

One more act of the drama was yet to come. Previous chapters have discussed how the coastal exporters would benefit from a devaluation and how the List Two importers favored a unification of the exchange rates. A combination of both measures would have been a major political plum for influential businessmen in sectors of the coastal economy. Devaluation under the conditions that existed in the first months of 1961 would have been of help to those who had

⁶⁵Interview with Mr. John Snyder.

been speculating on the currency. Many sucres had been used to purchase dollars at a relatively cheap rate. These dollars could then be converted back into sucres after devaluation at a substantial profit.

Most businessmen outside of the Guayaquil elites strongly opposed devaluation and unification. Producers and exporters of coffee and cacao had been able to sell much of the foreign exchange earned on the inflated free market. Unification, even at a devalued rate, would reduce their sucre earnings.⁶⁶ Manufacturers and agriculturists who depended on imports would be faced with a serious price rise in the event of devaluation.⁶⁷ Almost all of the small businessmen and wage earners who lived on the margin of solvency were very vulnerable to the added burdens of devaluation on top of the already serious inflationary situation. The potency of devaluation as a political issue can be judged by the actions of Velasco's economic advisors in the early days of the regime. Although inflation and devaluation were stated as an explicit goal by Sr. Arosemena in the conferences before the inauguration, and inflationary policies were heavily pushed as soon as the administration was in control of the Junta, administration spokesmen had been very careful to

⁶⁶"Unificación del Cambio, Mas Desvalorización del Sucre," La Calle, 229 (July 28, 1961), p. 4.

⁶⁷The dependence of manufacturing on imported materials is suggested by: Ecuador, Junta Nacional de Planificación, Anuario de Comercio Exterior (Quito: JNP, 1965).

publically reject an inflationary policy during the debates on the Junta reforms. The possibility of devaluation was explicitly rejected by the authors of the administration bill.⁶⁸

Although devaluation might not have been politically possible in September, 1960, by June of 1961 it was rapidly becoming an economic necessity. The last step prior to devaluation taken by the administration was to sell a large portion of the remaining foreign reserves of the Banco Central on the free market.⁶⁹ The public justification of the sale ran something like this: Ecuador was faced with several economic problems in addition to a shortage of foreign exchange. A lack of confidence in the administration's determination to defend the sucre was causing a run on the bank. The rise in prices was caused by a lack of cheap imports. The rise of the price of the dollar on the free market was responsible for both phenomena. Therefore selling dollars from the coffers of the bank would both promote price stability and give confidence in the solvency of the Banco Central.

Responsible economists discount this explanation. Businessmen lacked confidence in the government because they were all too aware that the level of foreign exchange was dropping rapidly. Free market sales would not restore faith. The price rises were due to the

⁶⁸Ecuador, Congress. Diario de Debates, Cámara del Senado: September 1960, pp. 121-122.

⁶⁹Memoria del . . . Banco Central . . . del 1961, p. 358.

demand for dollars to send out of the country. The rise of the dollar on the free market exchanges was an indication that the dual exchange rate system was operating to shift imports from luxury items to capital goods.

The true motives for the sale of dollars probably lay in a power struggle over economic policy that was going on within the Velasco administration. One group, centered around Sr. Otto Arosemena, had been advocating a policy of inflationary investment followed by devaluation that would benefit the importers, exporters, and bankers of Guayaquil. However, these groups stood to lose heavily if the economic situation deteriorated to the point where the Banco Central could no longer finance anything over a bare minimum of imports. The business of the importers would almost cease and the exporters would probably be required to sell all dollars to the bank at a very low rate in order to build the supply of foreign exchange back up to the level of solvency. This group advocated that the government devalue before the foreign exchange level dropped any further.⁷⁰ Another group of Velasquista policy makers, centered around Sr. Leonardo Stagg, the president of the Junta Nacional de Planificación, were primarily interested in currency speculation. They wanted to have more dollars available for speculation on the free market

⁷⁰Interview with Dr. Eduardo Larrea; interview with Sr. Alfredo Pareja Diezcanseco, former member of the Junta Monetaria, on November 21, 1968.

exchange rate and devaluation.⁷¹

Otto Arosemena resigned from the Junta Monetaria on May 30, 1961. Ceballos Carrion resigned from his position as Minister of the Economy on July 13, 1961 to return to his position in La Previsora. Leonardo Stagg was named the new minister.⁷²

Complete information is not available on the details of the disagreement between Otto Arosemena and Leonardo Stagg. One possible interpretation of the resignations is that Arosemena left because Velasco had sided with Stagg. However, this seems unlikely in view of the lack of any prior warning of a weakening of Arosemena's position in the administration. An alternate explanation is that Arosemena and Ceballos were quite happy to leave the administration before they were tarred with the upcoming devaluation. The pains of leaving the field to their very uncertain ally, Stagg, and to his dubious economic preferences would be partly balanced by the pleasures of watching him try to save something of his political career out of the coming disasters.

The Junta Monetaria decided to sell dollars on the free market from April 28, 1961 to the end of June, 1961. The sale price was

⁷¹Interview with Dr. Maier.

⁷²El Comercio, May 30, 1960; Enrique Arizaga Toral, "El Decreto Treinta y Tres no Existe; Stagg Lo Falsificó," La Calle, 229 (July 13, 1962), pp. 4-5.

above the official exchange rate but below the current market rate. In theory anyone could buy the dollars. However, the sale was not widely advertised and it apparently took some persistence to have the appropriate paper work processed.⁷³

Over ten million dollars was sold. Most of the money went in large transactions. Although the names of the official buyers are available, little can be learned about who benefited. Many banks, especially the Banco de Londres y Montreal, and Banco La Previsora made purchases on behalf of third parties.⁷⁴ The impact of the sales on the resources of the Banco Central was disastrous. Total foreign reserves had fallen to only seven million dollars, down from forty-two million dollars at the end of Ponce's administration. Devaluation had become an absolute necessity.⁷⁵

A unification of exchange rates at a devaluated rate of 18 sucres to the dollar for sellers of foreign reserves and 18.18 for buyers of dollars was ordered by Executive Decree #033 of July 14, 1961. All purchases of dollars were to be made at the new official rate. The free market was almost completely abolished except for relatively minor transactions involving the movement of profits in and out of

⁷³Interview with Sr. Ec. Manuel Naranjo Toro, Former Minister of the Treasury, on October 17, 1968.

⁷⁴Ecuador, Congreso, Actas del Senado: Congreso Extraordinario de 1961, pp. 17-61.

⁷⁵Memoria . . . del Banco Central . . . del 1961.

the country. The decree also levied a 5 percent tax on all official exchange transactions.⁷⁶

Devaluation provoked a tremendous political storm. Importers and consumers of capital goods and raw materials immediately demanded compensations to offset the 20 percent rise in prices of List I imports.⁷⁷ Hardest hit were the sierra textile manufacturers and the sierra farmers who did not benefit from the rise in sucre price of exports brought about by devaluation. The public political fury was led by the congressmen and opposition politicians; the cámaras of the sierra were relatively quiet in public. However, an informal "import strike" was organized among the members of the cámara de comercio. The sierra businessmen cut their imports to a bare minimum in order to bring pressure on the government, which was dependent on revenue tariffs and on the influential Guayaquil businessmen who did the importing. However, the movement soon collapsed. The government agreed to name a commission of businessmen to make recommendations about compensations. The leaders of the cámaras also realized that the government was simply too broke to pay compensations in any case.⁷⁸ It is probable that the

⁷⁶Decreto Ejecutivo 33 in Registro Oficial 264 of July 14, 1961.

⁷⁷El Comercio, July 19, 1961, p. 1.

⁷⁸Interview with Sr. Ramiro Cabeza de Vaca, president of Cabeza de Vaca Hnos, and former member of the board of the Cámara de Comercio de Quito, on November 29, 1968.

government was not too displeased at the prospect of a slow down in importation; it eased the pressures on the Banco Central and helped build up the exchange level a bit.

Exchange unification was probably a camouflage for the bitter pill of devaluation and another means of making money for the exporters and speculators. The original proposal for exchange unification resulted in a panic among the producers of coffee and cocoa. They stood to lose a great deal when the lucrative free exchange rates were abolished. The first result was a drop in the domestic price of coffee and cocoa beans. Although the 5 percent tax was soon taken off of exchange transactions on these commodities, the 1961 fall crop was harvested and sold to the exporters at a price substantially below that registered a year before.⁷⁹

"Exchange unification" was effectively abolished in Decreto Ejecutivo 44 in Registro Oficial 284 of August 9, 1961 through a re-establishment of the free market sales for foreign currency earned by the sale of coffee and cocoa on the world markets.⁸⁰ This was done after the crops had been harvested and before any substantial part of it had been exported. The difference between the devaluated domestic price of these crops and the more substantial earnings

⁷⁹"Lo Que Gana La Rosca, el Pueblo lo Prende," La Calle, 215 (April 22, 1961), p. 13.

⁸⁰Interview with Sr. Eduardo Larrea.

from the free market exchange sales was kept by the exporters.⁸¹

Decision Making: The Tax on Imported Wheat

The economic and political pinch facing the sierra wheat growers has already been described in Chapter 5. One solution that had been advocated for many years was to place an additional tax on the importation of wheat. This would allow the domestic producers to realize an additional profit by raising the price of the major competing source. This was also intended to expand the markets for domestic wheat. The additional price differential between domestic and imported wheat would give more incentive for millers to choose domestic suppliers. The major advocates of the wheat tax were the cámara de agricultura and the wheat growers.⁸² Many economists also supported the projected tax as a means of making the country self-sufficient in wheat production.⁸³

The wheat growers made little headway under the Ponce regime. Although the regime was generally sympathetic to the interests and

⁸¹ Abdón Calderón, "Yo Acuso el Ministro," La Calle, 217 (May 5, 1961), p. 5.

⁸² Interview with Sr. Luis Del Campo Salvador, member of the board of the Cámara de la Agricultura del la Primera Zona, on November 15, 1968.

⁸³ Interview with Sr. Jorge Luna Yopez, party leader of ARNE, on November 13, 1968; interview with Dr. José Vicente Ortuño, former member of the Cámara de Diputados and confidante of Carlos Julio Arosemena, on October 16, 1968.

demands of the sierra aristocracy, the political problems of a tax on wheat imports were too explosive. A significant rise in taxes would have produced a rise in the price of bread which would have been very unpopular politically with the urban workers. It would have laid the administration open to the charge of exploiting the poor in the interests of the rich.⁸⁴ The rise in the price of imported wheat was opposed by the wheat importers who did not want their market wheat reduced, and by the bakers who did not like to use the inferior local wheat.

Conditions for passage had become much more favorable during the second year of the Velasco regime. Inflation and political uncertainty made the wheat growers even more anxious for an expansion of their market. The instability also made the demands for an increased tariff on imported wheat easier to justify. The budgetary deficits created by the freehanded policies of Velasco created a tremendous pressure to find additional sources of revenues. The attraction of the extra finances largely offset the political problems resulting from an increase in the price of bread. Furthermore an increase in the price of bread was not difficult to handle politically since all other prices were rising too.⁸⁵

⁸⁴Interview with Dr. Andres F. Córdova, former president of Ecuador and former member of the board of the Cámara de la Agricultura de la Primera Zona, on November 29, 1968.

⁸⁵Interview with Sr. Alfredo Pareja Diezcanseco.

The political weaknesses of the Velasco regime made it easier for the wheat growers to raise their demands. Congressional leaders knew they could afford to be more independent. Velasco needed them as much as they needed him. Many politicians were also interested in finding outside allies for support in case the ship of state went down in the expected coup d'etat. Since the major elite support for the Velasco regime came from the coastal financial and commercial speculators, it was logical for politicians to turn to the sierra landowners as a counter-balance. This was especially attractive to the sierra congressmen who had not brought back symbolic victories for their local élites for a long time.

A tax on imported wheat was first raised for serious debate publicly when it was included in the 1961 budgetary support law (Ley de Nivelación de Presupuesto) which provided for a one cent per kilogram increase in the tariffs on imported wheat. This represented a 10 percent increase over the existing tariff. Support for the measure was strongest among the sierra congressmen who were working informally with the wheat growers through the Cámara de Agricultura, and among the Velasquistas who were worried about financing the budget.

Public opposition to the tariff increase was led by the two major importers of wheat; Luis A. Noboa and Francisco Illescas Barrera.⁸⁶ They had the organized backing of a coalition of grainery managers

⁸⁶Interview with Sr. Ec. Abdón Calderón Muñoz, director for the Partido Liberal Radical for Guayas, on November 1, 1968.

and mill and bakery operators. Congressional opposition to the tariff increase was generally found among the coastal delegates who had no political interest in the sierra wheat growers. Some of those who opposed undoubtedly were influenced by the very powerful position of Noboa in the banana industry and within the Guayaquil "inner elites." Other congressmen were against the measure on principle. The tariff would have hurt regional interests and resulted in an increase in the price of bread to benefit the inefficient elite landowners of the sierra.

The wheat tax had been passed in the draft bill approved by the senate in August, 1961. The major conflict over the provision took place in the Chamber of Deputies. Although the tax received fairly wide support, the opponents were strong enough to block it on the floor. Supporters of the tax needed the votes of the opponents to pass other unpopular measures of the bill. The threat of a filibuster would have made passage of the entire bill problematical. It is also probable that the presence of the anti-wheat leaders had an inhibiting effect on those prepared to break ranks.

The tax measure had been defeated in an early vote to strike the appropriate provisions of the bill. As the debate on other less controversial provisions droned on, many congressmen wandered in and out of the chamber. At a crucial moment, the chair was passed on to a "pro-wheat" delegate as the leader of the anti-wheat tax faction, Gregorio Ormaza Eguez, left the room. The tax was immediately

re-introduced for consideration. The floor managers opposing the tax were summoned back to the chamber by troops who sensed defeat, but they arrived too late. The tax had been passed by a voice vote and was written into law.⁸⁷

Epilogue to Velasco

The sad narrative of the economic policy of the Velasco government has been taken from an equally dreary political history. One of the major political failings of the Velasco government was that the relations with political opponents were almost completely mishandled. The Velasquista mayor of Guayaquil, Pedro Menendez Gilbert, used police against political opponents while raiding the city treasury. The use of violence drove political opponents to a willingness to resort to violence. The looting of the mayor's home after the coup against Velasco suggests the depth of popular resentment against the regime.⁸⁸

Sierra elites never were very much in favor of Velasco. Opposition based on the economic policies of the regime were compounded by the failure of the government to give any symbolic recognition to the sierra. A delegation from Loja called on the president in July, 1961 to protest tax increases, the handling of public works in the

⁸⁷Interview with Sr. Alfredo Pareja Diezcanseco; Decreto Legislativo #8 in Registro Oficial 89, of December 15, 1960.

⁸⁸"Todo El Mundo Comenta," La Calle, 245 (November 18, 1961), p. 6.

area, and the conduct of the local police chief. Velasco refused to see them. In October Velasco made plans to visit Cuenca for local festivals. The city fathers asked that the president not come. The president made a point of coming over local opposition. The troops were called out to prevent demonstrations. However, a riot ensued that cost several lives and the president was forced to curtail his trip.⁸⁹

The Velasquista regime also suffered from severe internal tensions. The leftists, lead by Araujo Hidalgo and Carlos Julio Arosemena Monroy, had hoped to push the government into a pro-Fidel position. Velasco refused and Araujo was ousted from his position as Minister of Government. Carlos Julio Arosemena moved to covert opposition to the regime.⁹⁰ While public opposition to the regime was building up, he had been cultivating support among congressional leaders for a possible coup. An open break between the president and vice-president apparently took place when Carlos Julio Arosemena went to Moscow over the express objections of Velasco. At the time of the Cuenca riots, Velasco had Carlos Julio Arosemena arrested and jailed for plotting a rebellion. The army quickly stepped in to speed Velasco to exile in Argentina. After a brief discussion between military and congressional leaders, Carlos Julio

⁸⁹New York Times, October 18, 1961, p. 1.

⁹⁰Hispanic American Report, 13 (12), February, 1961, p. 903.

Arosemena was named president.⁹¹

⁹¹El Comercio, November 7, 8, 1961, p. 1.

CHAPTER IX

THE ADMINISTRATION OF CARLOS JULIO AROSEMENA MONROY

Political Situation

President Arosemena achieved power through a military coup. The situational constraints that bound and guided the decisions made during his administration were quite different from those encountered by the previous two presidents. In one sense he enjoyed wide latitude, especially at the beginning of his regime. He entered office on a wave of popular support. Arosemena, while in "political exile" during the final months of the Velasco government, had courted the support of politicians from all parts of the ideological spectrum. He offered himself as the single alternative to Velasco who could maintain constitutional continuity and lead a true coalition government of reconstruction. This approach had great appeal in the post-Velasco years. Many leaders in and out of government would have agreed that the country had been pushed to the brink of ruin by irresponsibility, special privilege and political violence.

However, the coalition government also limited the range of political moves open to the president. The lack of partisan support

meant that the government could not follow a partisan policy. All groups expected that their voices would be heard equally. This was an extremely difficult feat in a country as fragmented as Ecuador. The president also was faced with the initial lack of any viable alternative to coalition support. No groups of politicians were committed to supporting the regime in heavy weather. Neither did President Arosemena have the substantial aura of constitutionality given by electoral victory. What the congress had bestowed on him, the congress could take away.

Carlos Julio Arosemena Monroy was not temperamentally suited for his political situation. His politics were clearly of the left. His ideological radicalism was probably fed by the tensions between him and the scions of Guayaquil society, into which he had been born and later became estranged. Carlos Julio had the reputation of scrupulous personal honesty. He could not be bought. His principles were active; he apparently moved with vigor against relatives and supporters in his administration who were tempted.¹

Carlos Julio is a man of extraordinary intelligence. His capacity to think on his feet is almost legendary. Even dry state documents prepared under his direction sparkle with a brilliant and

¹The following assessment of the character of President Carlos Julio Arosemena Monroy is based on comments made by politicians on opposing sides. Particularly useful were talks with Sr. Alejandro Vega Toral, president of the FNV for Cuenca and member of the Chamber of Deputies, on October 18, 1968; and with Dr. José Vicente Ortuño, leading Quito lawyer and former member of the Cámara de Disputados, on October 16, 1968.

economical analysis. Like many very able men, he seems to have the ability for logical reason through a ruthless elimination of the irrelevant.

The darker side of his character begins with his talent and thirst for political intrigue. Even his admirers feel he has been unscrupulous in the pursuit of larger political goals.² These talents are combined with a harsh, vindictive cruelty against opponents. In debate, observers say, he may speak words of moderation but his eyes usually flash a bitter hate against those who take opposing views. The most tragic aspect of his character is a problem with alcohol. Carlos Julio Arosemena seems to mix long periods of sobriety with bouts of masochistic dipsomania.³

Perhaps the best summary of the political career and personal character of Carlos Julio Arosemena was given by "Juan Sin Cielo" (Alejandro Carrión):⁴

Little by little it was discovered that he was a pure man, a man who did not desire money. When he described his companions in political adventure as "men eloquent with money" one saw clearly the distance that separated them

We have the impression that he is a man of explosive indolence,

²Ibid.

³President Arosemena's problems with alcohol are very common knowledge in Ecuador. However, for obvious reasons, specific people will not be cited for references. See Martin C. Needler, Anatomy of a Coup d'Etat; Ecuador, 1968 (Washington, D. C. : Institute for the Comparative Studies of Political Systems, 1964), pp. 1, 14, 16.

⁴"Juan Sin Cielo" (Alejandro Carrión), "La Guerra Contra el Vice-Presidente," La Calle 240 (October 14, 1961), p. 7.

incapable of a continuing activity. He explodes like a bomb and later disappears. His comments in interviews with the press or in debate . . . show a man of the highest intelligence; agile, penetrating. Many of his activities demonstrate a singular personal valor. But his disappearances indicate, in turn, an almost pathological irresponsibility and an alarming instability He does not look towards the people, he has no communication with reality. He is away, isolated, alone, one can almost say, defenseless.

A conflict between the political demands on the administration and the personal goals of Carlos Julio Arosemena was probably inevitable. The conflict first appeared as an attempt to combine the recruitment of a coalition cabinet with the desire to bypass cabinet policy making for personalist radical politics.

Due to the peculiar nature of political circumstances, cabinet selection preceded party supports. Therefore order of analysis of recruitment will also be reversed. The pattern of recruitment to the cabinets of Carlos Julio Arosemena will precede and be used to explain the pattern of party organizational supports.

Recruitment

Three cabinets held office in the Arosemena administration. The first cabinet was formed soon after President Arosemena took office. This was explicitly intended to be a move towards national reconciliation.⁵ All major political parties outside of the Velasquistas were represented. The recruitment procedure was simple.

⁵"Todo El Mundo Comenta," La Calle, 245 (November 17, 1961), p. 6.

Party leaders nominated candidates. Arosemena went through the list and picked a representative group from the best the parties had to offer. Virtually all observers have agreed that Arosemena exercised a free hand in this, and that he selected his ministers as much for technical competence as for party balance. The only jarring notes to conservative sensibilities were the presence of left radicals as undersecretary of Previsión Social and as prosecretary of administration.⁶

The first problem faced by the administration was over the policy towards Cuba. Arosemena clearly desired to keep close relations with Fidel Castro despite the alleged presence of "imported agitators."⁷ The anti-communist right and the military pressed openly for a break with Cuba. It is probable that many leftist politicians also opposed maintaining relations that would tend to foster subsidized and competing radical movements. The situation had deteriorated to the point where the Cuenca military garrison revolted in March, 1962 in a demand for a break with Cuba. In response, the cabinet tendered mass resignations, ostensibly to "give the president maneuvering room," but more probably in order to allow the right to drop out of political participation without moving into a position of political opposition until the situation cleared.⁸

⁶La Calle, 246 (November 24, 1961), p. 5.

⁷Hispanic American Report, 15 (2), April, 1962, p. 154.

⁸Ibid., 15 (3), May, 1962, p. 244.

The second cabinet was appointed on April 2, 1962. This cabinet was intended to have the stamp of the political and policy preferences of the president. Although this was too ostensibly a coalition cabinet, the political base was much narrower. The major political prop for the second phase of the Arosemena administration was the Frente Democratico Nacional, the coalition of independents, liberals, and moderate socialists that had supported Galo Plaza in the elections. The right was out of the government but not in political opposition to it.⁹

The recruitment pattern to the second Arosemena cabinet was more complicated. As of the Cuenca revolt, the president enjoyed a substantial reserve of political good will. Yet he had no firm political base on which he could draw to support his specific policy goals. At this point, Alfredo Albornoz Sanchez, the general manager of the Banco Popular and a major figure in the sierra, offered himself as an honest broker. He made an agreement with Arosemena to recruit the best possible moderate-left cabinet under the general political sponsorship of the FDN. He asked of the president in return that the government allow five cabinet posts for FDN leaders, that the government cut back the influence of the military in national politics, and that the government break political relations with all dictator-

⁹La Calle, 257 (February 9, 1962), p. 5. Hispanic American Report, 15 (4), June, 1962, p. 342.

ships, including Fidel Castro's.¹⁰ The last condition was that the president give the cabinet, under the leadership of Alfredo Alborno, substantial leeway in establishing and implementing broad reformist programs.¹¹ Apparently this political deal was consummated, for the government soon broke with Cuba with as much grace as could be mustered. The FDN and the Arosemena administration settled down for a long spell of political housekeeping.

Arosemena was not content with reigning without the power to govern. Although he apparently supported the major programs of the cabinet "técnicos," he also apparently continued with his passion for radical intrigue.¹² The sweep of his political emotions would impel him towards the preserves previously marked off for his ministers. This situation inevitably pushed towards a confrontation between the "camarilla" (kitchen cabinet in North American parlance) and the regular cabinet. The FDN and the second cabinet lost and their resignations were offered on May 18, 1962.¹³

The third cabinet took office with several holdovers from the

¹⁰Hispanic American Report, 15 (4), June, 1962, p. 342; interview with Sr. Alejandro Carrión, publisher of La Calle, on November 12, 1968.

¹¹"La Camarilla: Causa de Todos los Males," La Calle, 272 (May 25, 1962), p. 4.

¹²Interview with Sr. Ernesto Jouvin Cisneros, former minister of development in the Arosemena cabinet, on October 31, 1968.

¹³Hispanic American Report, 15 (5), July, 1962, p. 437.

FDN experiment. Although the government still professed to have the FDN as a political base, there were relatively few signs of any FDN organization in or out of the government to offer support.¹⁴

The third cabinet was almost entirely based on Arosemena's personal organization and following. By the time of the third cabinet the conservatives, who had won heavily in the June elections, moved to a position of overt opposition to the government.¹⁵

This rather convoluted story of the Arosemena cabinets explains the high level of turnover during the first year of the administration. By gross count, there were 34 ministers and subministers between November, 1961 and August, 1962. Six ministers had "business connections," four were businessmen in their own right and two had brothers in business.

There were definite differences in the level of business recruitment among the three cabinets. The first cabinet held only two businessmen, Teodoro Alvarado Olea and José Salazar Barragán, who were minister and subminister of economy. The second cabinet contained four businessmen. Alvarado Olea and Salazar Barragán moved over to development, Antonio Mata Martínez came to economy and Roberto Serrano Rolando joined as subminister of public works. Serrano, however, was only involved in business through

¹⁴La Calle, 269 (May 4, 1962), p. 4.

¹⁵"La Camarilla: No Existe Camarilla Alguna," La Calle, 272 (May 25, 1962), p. 6.

his brother. The third cabinet occasioned the departure of two businessmen, Mata Martinez and Alvarado Olea. Their places were filled by Salazar Barragan who moved up to minister of development, and by Ernesto Jouvin Cisneros, who was appointed to economy. Jorge Espinosa Correa, brother to businessman Jose Espinosa, came in as subminister of foreign relations.

The businessmen were all in the sensitive ministries of economy, development, and foreign relations. The other most important cabinet post, the portfolio of treasury, was continually held by Sr. Ec. Manuel Naranjo Toro, a socialist but ardent promoter of industrial development along the lines of técnico policy. He would have to be counted as a potential ally of the industrialists.¹⁶ Another index of business influence in the Arosemena administration is suggested by the fact that of the ministers who remained in some cabinet post from beginning to end, three were businessmen or allied with the businessmen (Sr. Naranjo). These two considerations suggest that business influence in the Arosemena administration could be rated as a probable "high."

Data on the social and economic position of the six businessmen in the cabinet are presented below:¹⁷

¹⁶Interview with Ec. Manuel Naranjo Toro, former minister of the treasury, on October 17, 1968.

¹⁷Names of the cabinet ministers from a list supplied by Sr. Piedra Solis, head of the Archivo Biblioteca del Poder Legislativo.

There are some problems in identifying the business connections of cabinet and political figures. Two figures had names that could

Teodoro Alvarado Olea headed Artes Graficas Senefelder, a large Guayaquil printing shop that published Vistazo, Estadio and Hogar, the major magazines for public events, sports and home-making. He was an established Guayaquil businessman not directly associated with the "inner elites."

Antonio Mata Martinez ran Cia. General de Industrias, a Guayaquil contracting business. He was also associated with the building contracting firms of Constructores de Maquinaria Agrícola e Industrial and the Corporación de Maquinaria Agrícola e Industrial. Other interests were Aserradero San Pedro (saw mill), Proveedora S.A. (exports balsa and bamboo), and Billord (unknown). He is, therefore, classified as an established Guayaquil industrial contractor with no formal ties to the "inner elites."

Ernesto Jouvín Cisneros ran a major print shop, Impronta e Litografía "la Reforma", and two real estate businesses, Inmobiliaria Agrícola and Inmobiliaria La Reforma. He was a former president of the Guayaquil Cámara de Industriales and would be classified

have been the same as the names of people in business. However, there was insufficient data for a complete analysis. A leading liberal, Ernesto Plaza Danín, was listed by the World Trade Directory Reports as having participated in a Colombian neon sign company but later he was reported to have dropped out. Since there is no other supporting citation, he has not been included as a businessman.

Several other political figures in the PLR-FDN were listed as businessmen on the basis of firms managed by brothers or other relatives. Since we are looking for the probable "circle of associated," family holdings are as indicative as personal participation.

as an established industrialist not formally a member of the "inner elites."

José Salazar Barragan ran Agro-Comercial and Sociedad Industrial e Comercial, both importers of industrial goods and household goods. The latter organization has the Mercedes-Benz franchise for Ecuador. He is, therefore, an established Guayaquil importer also not formally tied to the "inner elites."

Roberto Serrano Rolando's brother ran a small air cargo business on the coast, Cia. Ecuatoriana de Transportes Aereos. Jorge Espinosa Correa's brother ran two metal-fabricating businesses in Quito. None of these businesses were allied with the "inner elites."

The uniformity of this pattern suggests that the economic policies of the Arosemena administration would be expected to generally favor the coastal manufacturers.

The next step is to determine whether this can be associated with the support offered to the administration by the FDN political organization.¹⁸ Although the Partido Liberal Radical clearly dominated the campaign organization for Galo Plaza, the differences between the PLR and the whole FDN coalition must be kept in mind. Although few businessmen were ever affiliated with the Socialists, many independents were brought in to back Galo Plaza who were not officially a part of the Liberal Party. It would be expected that

¹⁸Names taken from articles that appeared in El Comercio between April and June of 1960.

these independents would have been more liable to leave the FDN organization when the organization shifted political support from the defeated Galo Plaza to the incumbent President Arosemena.

The gross level of recruitment of businessmen to the various political positions in the FDN was rather high. A total of 21 businessmen were to be found in the key positions of the party or campaign organizations. Eight more businessmen filled positions of lesser importance. However, there is no particular evidence that any small group of businessmen in the FDN assumed undue importance in the highest circle of party decision making as they apparently did within the Velasquista organization. A closer look at the details of recruitment will make this clear.

In addition to the candidates of the FDN for president, senator and deputy from Pichincha and Guayas provinces, the major party posts were the central committee for the Liberal Party in the sierra, the executive bureau of the party on the coast, the FDN campaign committee for Guayas and the Union Civica Independientes pro Galo Plaza Lasso. There were 81 positions (not counting the candidacies) in these organizations. The 21 businessmen were neatly divided up so as to make up between one-fourth and one-fifth of the total members on each organization. The only committee where the businessmen had a commanding majority was in the Union Civica executive committee where they held four of seven seats. It is probably significant that none of the 21 businessmen held more than one major

position in the organization. The hard core of party professionals who show up repeatedly on all major positions do not include businessmen.

That the businessmen in the FDN and PLR do not have a commanding presence is also suggested by the pattern of recruitment to candidacies. The two alternates for the senate from Pichincha for the Liberals were businessmen. The first candidate on the FDN slate for the Camara de Diputados from Guayas was also a businessman. However, none of the other positions were filled by men from the business world. The key positions of senatorial candidates from the coast, where the FDN and PLR were the strongest, were given to people from other professions. One major contender for the PLR-FDN presidential candidacy was Teodoro Alvarado Oleas, a leading liberal businessman. He dropped out in favor of Galo Plaza Lasso. Sr. Plaza has business interests in the sierra. However, he has been most widely known as a progressive farmer.¹⁹

The business situations of those connected with organizational positions in the FDN are shown below in Table 16.

¹⁹Galo Plaza is best known as the owner of Hacienda Zuleta near Otavalo and of the Hacienda La Avelina, on the road between Quito and Riobamba. Most of his business interests have been involved with selling the dairy products from his lands and as a part owner of an agricultural supply house, SIECA.

TABLE 16
 ECONOMIC AND SOCIAL POSITIONS OF
 BUSINESSMEN IN THE FDN

Type of Business	Region		Size of Business		Social Position	
	Sierra	Coast	Medium	Large	Independent	"Inner Elite"
Manufact.	4	0	3	1	4	0
Commerce	2	7	4	5	8	1
Financial	0	4		4	1	3
Media	7	3	3	1	4	0
Totals	13	14	10	11	17	4

There are some differences between the characteristics of businessmen recruited only for positions in the FDN and those who were affiliated with the PLR. These are shown in Table 17.

TABLE 17
 DIFFERENCES BETWEEN BUSINESSMEN
 IN THE PLR AND THE FDN

Characteristics	Organizational Affiliation	
	FDN Only	PLR and FDN
Type of business:		
Manufacturing	2	2
Commerce	3	6
Financial	3	1
Media	1	3
Totals	9	12
Region:		
Coast	5	9
Sierra	4	3
Totals	9	12
Social Situation:		
Inner Elite	3	1
Independent	6	11
Totals	9	12

Although it is doubtful if these figures have any statistical significance, they can be interpreted in terms of the relative influence of various business groups in the FDN/PLR campaign organization. Table 16 demonstrates that most of the participating businessmen came from the well-established medium to large businesses. However, businessmen from four distinct groups were involved. Regional differences indicated that there was joint participation of the sierra manufacturers, the coastal merchants, and the financiers. The differences between the FDN and the PLR indicate that many of the coastal elite comerciantes had been drawn out only for the candidacy of Galo Plaza; they were not generally involved with PLR politics. Most of the people who just participated in the FDN were engaged in commerce. The balance between manufacturers and merchants in the PLR was thus almost even.

These data suggest that the PLR enjoyed support among many well-established businessmen who were generally outside of the "inner elites" of either the sierra or the coast. However, the businessmen did not dominate recruitment to key positions in the PLR, probably because too many diverse groups were included, and possibly because the daily grind of running the party was carried on by people from other groups. The figures also suggest that Galo Plaza was able to bring in his own associates, drawn surprisingly enough from the best commercial circles of Guayaquil. There is no reason to expect that these people would have stayed in politics when Galo

Plaza left the political scene. These conclusions are generally consistent with several political reports and the author's own impressions.²⁰

A comparison of the recruitment patterns to the Arosemena cabinets and to the FDN campaign organizations suggests that the organization that formed around Galo Plaza had indeed largely evaporated by 1962.²¹ Only one of the six businessmen in Arosemena's cabinet was active in the campaign. Teodoro Alvarado had been a presidential pre-candidate in competition with Galo Plaza. There is no evidence that any of the other five people took even a minor official role in the campaign or party activities. Also suggestive of there being only a tenuous relation between the economic interests of the FDN leaders and the interests best represented in the Arosemena cabinet is the difference in the sectors from which the businessmen were recruited. The Arosemena cabinet was dominated by coastal manufacturers, the FDN/PLR was dominated by the sierra manufacturers and coastal comerciantes.

All of these factors suggest that political organization was based on personal followings. Galo Plaza brought in an entirely different

²⁰This has been primarily based on personal impressions and is consistent with the observations of Mr. John Snyder, Labor Attaché for the United States Embassy in Ecuador, interview on October 15, 1968.

²¹Edwin E. Erickson, et al., Area Handbook for Ecuador (Washington, D. C. : Government Printing Office, 1966), p. 274.

group of businessmen than did Carlos Julio Arosemena, and the group that participated in the regular PLR activities was different from either. So one is brought back to the conclusion that analysis of cabinet recruitment suggests that the administration of Carlos Julio Arosemena Monroy was probably most influenced by the coastal manufacturers.

Decision Making: The Law of Industrial Development

The "Ley de Fomento Industrial" of August 8, 1962 marked an important step in the development policy of Ecuador. Although the law shifted the allocation of only a few resources, it definitely committed the government to a larger development policy that did have an impact on the pattern of most other branches of the economy. This policy was to try to seek relative economic self-sufficiency through the subsidization of local industries that would produce goods otherwise imported. The immediate economic benefits of this policy would be felt only by the relatively small group of industrialists and industrial workers. The potential costs, in the form of higher prices, higher taxes for subsidies, and the costs to commercial groups of a fall in foreign commerce, were to be borne by everyone else.²²

Camilo Ponce Enriquez had passed the first major development law in June, 1957. Since the law of 1962 was offered as a reform, the

²²Interview with Sr. Atahualpha Chavez Gonzalez, former president of the Cámara de Comercio de Guayaquil, on October 30, 1968.

original law bears some consideration.²³ Under the 1957 law, three categories of industries were defined. Industries in category "A" produced basic goods for industrial use, could promise that their products would substitute for 10 percent of all imports, and used imported raw materials that were less than 15 percent of the value of the final product. Category "B" industries produced goods needed for people but that were not vital for industrial development, and used up to 40 percent of product value on imported materials. All other industries fell in the "C" category.

Tax and tariff benefits were extended to the three classes of industries. These are summarized in Table 18 below.

Although this program was ostensibly intended to promote new industries, the major benefits went to previously established business.²⁴ New industries could only receive the benefits of tariff reductions on imported machinery and raw materials. All of the other benefits would be earned only after a business had been in production long enough to have tax credits for financial losses, re-investments or depreciations. Another provision of the law spread the tax benefits around rather widely; established businesses that would be

²³"Ley de Fomento Industrial Existente" in Enrique Coello Garcia and Antonio Vaca Rulova, Leyes de Ministerio de Fomento (Quito: Editorial ABC, 1961), pp. 23-61.

²⁴U. S. Department of Commerce, Basic Data on the Economy of Ecuador. OBR 64-74; Ecuador, Centre de Desarrollo, "Lista de las Firmas Acogidas de las Beneficiencias del Ley de Fomento Industrial," manuscript, 1962.

TABLE 18

BENEFITS OF THE 1957 INDUSTRIAL DEVELOPMENT LAW

Benefit	Industrial Classification		
	A	B	C
Tariff reductions on imported machinery	most off	most off	half off
Tax reductions on imported raw materials	most off	nothing	nothing
Tax reductions on invested capital; high figure for "efficient" industries, low figure for all others	from 2/3 to 1/2 off over 1st 5 yrs.	1/2 to 1/4 off over 1st 7 yrs.	10% off for 3 yrs.
Tax credits for total losses sustained	losses for 1st 4 yrs. applied against 10 yrs. of taxes	losses of 4 yrs. applied against 7 yrs.	losses of 2 yrs. applied against 5 yrs.
Tax credits for profits reinvested in company	tax reduction equal to 50% reinvestment	tax reduction equal to 35% reinvestment	tax reduction equal to 25% reinvestment
Period in which new investment can be amortized for depreciation	5 years	5 years	8 years

seriously hurt by competition from industries receiving tax benefits could apply for up to 80 percent of the benefits even though they might not otherwise qualify.

Bureaucratic procedures also encouraged granting most of the benefits to established industries. All of the applications had to be submitted to the full inter-ministerial committee for consideration.²⁵ The factors that determined benefits were not spelled out in the law. Benefits to industries were to be granted only for highly specific imported items or tax payments. As a result, the "red tape" and bureaucratic convolutions that surrounded the granting of benefits were very large. Established businessmen usually had more leisure in which to process applications as well as fewer applications to submit at any one time.

The major draft work on the 1962 law was done by administration experts. Most economists in Latin America had accepted a strategy that encouraged national autonomy through the promotion of industrialization. It was only natural that government economists would turn to an analysis of the 1957 law as a part of the development of an overall plan for economic expansion of Ecuador.

The first studies were done by Ec. Walter Pitarque, an economist from the Banco Central who was "on loan" to the Junta Nacional de

²⁵Ecuador, Banco Central, Informe del Gerente General del Banco Central Correspondiente al Ejercicio del Año 1962, p. 178

Planificación in the early months of 1960.²⁶ Parallel work was carried on by Ing. Edward Wygard, a UN economist under contract to analyze the development policies of the country. Although both men worked independently, they reached many of the same conclusions. The 1957 law was considered too cumbersome, didn't provide adequate benefits for new industries, and resulted in a bureaucratic tangle which slowed the pace of industrial development.²⁷

These critiques were saved from the obscurity of bureaucratic filing cabinets through the sponsorship of two men. The Velaquista minister of Development, Jaime Nebot Velasco (no relation), encouraged the Junta Nacional de Planificación to see what could be done to amend the defects in the 1957 law. Apparently this was not related to any political factors in the Velasquista administration. Jaime Nebot has the reputation of having been one of the most innovative and capable of all recent ministers of development. Neither is there any evidence that any one else in the political end of the government took any interest in the project at that time.²⁸

About the same time, the Alliance for Progress had established the Centro de Desarrollo (CENDES), an independent agency intended to promote the establishment of new industries in areas recommended

²⁶Interview with Ec. Oscar Loor, former director of the Centro de Desarrollo, on November 22, 1968.

²⁷Edward Wygard, p. 71.

²⁸Interview with Ec. Oscar Loor.

by the Junta Nacional de Planificación. Nebot Velasco and the director of industries for CENDES, Gerald Walker, jointly sponsored a project for the drafting of a new industrial development bill based on the critiques that had been made of the existing law. Although CENDES brought in businessmen for consulting purposes, the project remained as it started, a técnico effort.²⁹

The second round took the project out of the hands of the government economists and introduced it for serious political discussions. President Arosemena apparently backed the project for several reasons. He favored industrialization as a means for developing Ecuador.³⁰ Industrialization would also raise new groups into politics that might compete with the relatively corrupt inner circle of politicians. Industrialists, by virtue of their high investments in plant and machinery, are somewhat restrained from practicing the "smash and grab" tactics of some of the marginal businessmen who participated in the fourth Velasquismo.³¹ His ministers often were sympathetic to the experts and could be counted on to support their proposals. This was especially true for the second cabinet, which was specially organized for technical expertise. Arosemena and his ministers also sought to stabilize the regime both by winning the

²⁹Ibid.

³⁰Interview with Sr. José Vicente Ortuño.

³¹Interview with Sr. Helge Vorbeck, President of Cervecería La Victoria, on July 29, 1968.

support of the industrialists and by creating public confidence that the regime would be progressive in fact as well as rhetoric.³² All of these objectives were served by reforms of the 1957 Ley de Fomento Industrial.

A round of discussions was held between the minister of development and interested private and public parties.³³ Most of these groups could have been expected to have a very definite point of view on the project and on the development policy of which it was a part. However, as far as can be determined, no major changes were made to the bill. All groups agreed at least not to oppose it. One possible factor was the relative instability of the regime. Few political leaders were prepared in the early days of 1962 to move into a position of active opposition to the government until the course of state became more definite and as long as the probable alternative was a military junta.³⁴

The Junta Monetaria favored the project since it might save foreign exchange through the development of import substitution industries.³⁵ However, several reports of the 1962 law later circulated

³²Interview with Sr. Ernesto Jouvín Cisneros.

³³Preamble to Decreto Ejecutivo 47 in Registro Oficial 228 of August 9, 1962; El Comercio, July 12, 1968, p. 1.

³⁴There is no direct evidence on this point; however, it is an assumption that is consistent with both the events of the development of the law and of the conditions of politics during this period.

³⁵Interview with Sr. Ing. Jaime Calderón P., Manager of Comercial Kywi, on October 22, 1968.

within the Banco Central criticized the project on the grounds that the approach taken had made economic expansion through the Latin American Common Market more difficult because of the commitment to protect local industries.³⁶

The Cámara de Industriales of the coast and sierra also favored the project. They were obviously committed to a policy of development through industrialization. However, the government experts and the industrialists had frequently differed on specific measures needed. The industrialists were enthusiastic about the possibility of more benefits for existing industries. They were much cooler to the encouragement of the establishment of competing industrial firms.³⁷

The industrialists did not like any conditional benefit provisions. They opposed any time limits on benefits or any provisions for benefits only for "efficient" industries. Many industrial investors also looked forward to the creation of simple assembly plants to compete with the importation of finished goods. They opposed extending benefits only to the more complex industries which would contribute to national infra-structure.

The attitude of the cámaras de comercio is less easy to understand. Although several staff economists of the Cámara de Guayaquil

³⁶Ecuador, Banco Central, "Resumen de las Principales Observaciones de Caracter General al 'Plan General de Desarrollo Económico del Ecuador'." Manuscript undated.

³⁷Interview with Sr. Ing. Julio Ulloa, staff engineer for CENDES, on July 12, 1968.

called public attention to the implications of aggressively promoting industrialization,³⁸ and several past presidents of the organization favored the prior development of agriculture,³⁹ the cámaras took very little official notice of the project.⁴⁰

The banks may have had an influence on the cámara. Bankers anticipated the opening up of new areas for investment as a result of the new law.⁴¹ The comerciantes, on the other hand, apparently did not see that the law would have any major impact on the pattern of economic development of the country. The businessmen were willing to vaguely support "national development" projects, as long as their trade was not directly affected. Few businessmen saw any harm in granting benefits to a branch of the economy that was then almost non-existent.⁴² Import-substitution industries might not have seriously affected the importers. Higher tariffs and local production would just mean that everyone would have to increase his markup to compensate for the smaller volume of business. It would seem to be very difficult to develop a local industry that would eliminate a demand for imported

³⁸Interview with Sr. Ec. Gonzalo Enderica Espinosa, staff economist of the Cámara de Comercio de Guayaquil, on October 31, 1968.

³⁹Ibid.

⁴⁰Interview with Sr. Ec. Oscar Loor.

⁴¹Interview with Sr. Ing. Jaime Calderón P.

⁴²Interview with Sr. Atahualpha Chavez Gonzalez.

goods.⁴³

The 1962 law retained the three classes of industries defined by the 1957 law. However, some of the categories were expanded. "Assembly" plants that could use imported parts up to 80 percent of the final product value, were specifically included in all of the classifications.⁴⁴ A new "special" class was defined to include all industries that were both unusually difficult to establish and unusually beneficial to the rest of the economy.⁴⁵

Most of the benefits of the 1957 law were either retained or increased. Provisions for tax and tariff reductions were expanded. Industries in the "special" category were granted total exemption from all national and local taxes and tariffs.⁴⁶ Class "A" industries were granted complete exemption from all tariffs and 50 percent exoneration from taxes. Benefits for the other classes were raised correspondingly. Under the new law, all classes of industries were allowed to apply all reinvestments against current profits for tax purposes if they desired.⁴⁷ The depreciation allowances and provisions for protective tariffs were both retained. However, the provision for tariff protection was expanded.

Two clauses of the 1957 law were not retained. No distinction

⁴³Interview with Sr. Ing. Jaime Calderón P.

⁴⁴U. S. Department of Commerce, Industrial Development Law of Ecuador. OBR 62-17, p. 2.

⁴⁵Ibid.

⁴⁶Ibid., p. 3.

⁴⁷Ibid.

was made in the 1962 law between "efficient" and "other" industries in granting exemptions from local and national taxes. The provisions for granting write-offs of current profit taxes against previous losses were not retained. However, it was explicitly stated that all benefits enjoyed by previously established industries under the old law would be retained under the new classifications.⁴⁸

In another major change from the 1957 law, the administrative provisions of the 1962 law were greatly simplified. The Director General of Industry in the Ministry of Development was made responsible for having the paperwork processed and for collecting the appropriate data once application had been filed.⁴⁹ This relieved the applicant from the burden of walking his application through every step of the way. Also of benefit to the applicant was the provision granting categorical benefits to industries. Under the 1957 law, industrialists had to process papers for each new item of machinery desired. Under the 1962 law, all that was needed was to show that the specific requests fell in the general categories for which benefits had been granted.

The intent and effect of the new law was to give substantial aid to manufacturing plants in the process of being established. Most of the on-going manufacturing concerns had already been receiving benefits through the 1957 law. Although the established firms were helped

⁴⁸Ibid., p. 6.

⁴⁹Ibid., p. 3.

by the increases in allowances granted, the categories were not broadened sufficiently to allow existing plants to petition for a reclassification to a higher status and a substantial increase in benefits. Recently established industrial firms received substantially more benefits from the 1962 law than they could have from the 1957 version. The creation of the special class and the inclusion of assembly operations for benefits were specifically aimed at encouraging the development of industrial plants in these branches of activity.

In 1962 no existing plant could qualify for these provisions.⁵⁰

The elimination of provisions covering "specially efficient" operations and write-offs for losses sustained in previous years ended benefits for which recently established plants could not qualify. The greatly streamlined administrative procedures allowed many new industrial entrepreneurs to take full advantage of benefits of the law. That the new law was an efficient instrument for encouraging new industries was shown by the speed with which investors flocked to take advantage of the opportunities opened up. One hundred and twenty-three businesses were classified in the first year of the new law--a very substantial increase over the 83 businesses that received benefits of the 1957 law in the entire five years it was on the books.⁵¹

The new law was evidently a compromise between the experts

⁵⁰"Industrias Acogidas a la Clasificación Industrial" (Quito: CENDES, undated mimeographed manuscript).

⁵¹Basic Data on Economy of Ecuador, p. 5.

and the industrialists. The critiques of the 1957 law suggested several reforms that would have the effect of restricting benefits. For the most part these were not included in the 1962 law. The Wygard report suggested that tariff protection for local production only be granted when the resulting price rise would be more than offset by the savings in foreign exchange.⁵² It also suggested that there be a time limit for tariff protection so as to discourage the creation of artificial industries behind a tariff barrier.⁵³ Wygard also suggested that the provisions granting special benefits for efficient industries be strengthened rather than eliminated.⁵⁴ All of these measures would have put more economic pressure on industries to modernize. The managers of existing industries were not greatly enthusiastic about the new law since it did not give any major increases in benefits for them, and it had the effect of stimulating the creation of potential competitors in several branches of industry.

There are several probable explanations for the compromise nature of the 1962 law. The aim of industrial encouragement directed attention towards those portions of the old law that were most disadvantageous to the industrialists. Creation of new limitations on benefits would be partially self-defeating. A major goal of the new law was to improve administrative procedures. The inclusion of

⁵²Edward Wygard, Chapter 5.

⁵³Ibid.

⁵⁴Ibid.

criteria of efficiency and relation between costs and benefits in tariff protection would have marked a return to the company-by-company analysis that was so cumbersome under the old law. The general spirit of the critiques of the 1957 law in these areas was to have been retained through the restructuring of the tariff systems and the creation of JNP guidelines for preferred areas of industrial investment.⁵⁵

A last probable explanation was that the project was promoted from the draft report to political reality by the industrialists sitting in cabinet positions. It would be expected that they would cut back on projected limitations to benefits. However, there is no evidence that the changes from the draft reports could be accounted for by pressure from businessmen outside of the government.

Repeal of the Wheat Tax

A tax placed on imported wheat during the Velasco regime had not worked out as well as its supporters had hoped, but had not been as disastrous as the opponents had feared. The major effect was to raise the prices of all wheat sold in the country.⁵⁶ This increased the profits made by the local wheat farmers. Part of the additional costs to the bakers was passed on to the public in the form of higher

⁵⁵René Garcia, "Una Crisis Aguda," La Calle, 275 (June 15, 1962), p. 24.

⁵⁶Interview with Sr. Alejandro Vega Toral.

bread prices.⁵⁷ Therefore the middlemen were not placed in an unmanageable profit squeeze. The political impact of the increase in the price of bread was not very great. The Velasco regime had mismanaged the economy to such an extent that this one additional issue was more or less lost in the confusion. By the time Carlos Julio Arosemena came to power, the additional cost of bread was accepted as a fact of life.

The increase in the domestic price of wheat did not result in any increase in local wheat production.⁵⁸ Either by design or accident, the local growers kept production down so as to realize the maximum benefit from the increase in prices. As a result, the wheat tax did not seriously affect the business of the wheat importers. They continued to supply most of the coastal market. The increase in taxes had the effect of actually increasing the profit margin of any wheat smuggled in. Despite these mixed results, there was increased opposition to the wheat tax by the time of the Arosemena administration. The técnicos, who had been hoping that the tax would help make Ecuador self-sufficient in wheat production, were no longer interested in only giving benefits to the comparatively inefficient farmers of the sierra.⁵⁹

⁵⁷Ibid.

⁵⁸Interview with Dr. José Vicente Ortuño.

⁵⁹Interview with Dr. Jorge Luna Yopez, senior party official in ARNE, on November 13, 1968; interview with Dr. Gonzalo Cordova G., former member of the board of the Cámara de la Agricultura de la Primera Zona, on November 25, 1968.

Many other groups not seriously hurt by the tax hoped to achieve new benefits through its repeal. The importers, millers and bakers hoped that they would be able to keep as extra profits any reduction in the costs of wheat. The Arosemena administration was eager to establish its opposition to the economic policies of Velasco. Reductions or eliminations of the many unpopular taxes levied by the Velasco government were to be symbolic of the "return to normalcy." The wheat tax was particularly attractive since it was unpopular with the people on whom it was levied and benefited only the conservative sierra groups who were not political supporters of the president. The removal of a tax that hurt the common man to the benefit of the elites also helped the regime establish its radical-reformist credentials in the eyes of the voters.⁶⁰ The principal pain of the tax repeal--loss of revenues--was not particularly important since the tax had not been particularly lucrative.

The sierra wheat growers were aware that the tax was in danger of repeal. The Cámara de Agricultura de la Primera Zona organized several public meetings that were well attended by the sierra social and economic elites. The ostensible purpose of the meetings was to decide on a common policy with respect to such issues as land reform,

⁶⁰Interview with Dr. Andres F. Cordova, former president of Ecuador and former member of the board of the Cámara de la Agricultura de la Primera Zona, on November 29, 1968; interview with Sr. Luis Del Campo Salvador, member of the board of the Cámara de la Agricultura de la Primera Zona, on November 15, 1968.

the abolition of sharecropping, and tax and credit policies of the state with respect to agriculture. However, one effect of the meeting was to serve public notice that the landowners were prepared to defend their interests against the government.⁶¹ Therefore the main political problem of the Arosemena administration was how to maneuver the sierra wheat growers into a position where they could not oppose the planned repeal.

Hard information on the sequence of events is lacking. However, a plausible reconstruction runs as follows. The wheat mills were having a wave of labor trouble during the summer of 1962. The minister of development started an informal series of discussions among groups involved in the wheat business on how best to relieve the marginally solvent millers from the added burdens of the anticipated wage increases. One proposal that was informally mentioned for consideration was the possibility of tax relief. A vice-president of the Cámara de Agricultura de la Primera Zona wrote a private letter to the government saying that tax relief could be worth considering.⁶² This letter, oficio 794 of July 24, 1962, was picked up by Aurelio Dávila Cajas, the president of the Consejo Nacional de Economía, as a demonstration that the cámara de agricultura had given its official backing to the specific project of repealing the .20 centavo/kg. tax on imported

⁶¹"Intereses Agrarios," La Calle, 254 (January 19, 1962), p. 14; El Comercio, December 19, 1961, p. 1.

⁶²"La Marcha del Tiempo," La Calle, 281 (July 27, 1962), p. 10.

wheat.⁶³

The tax was repealed in Decreto Ejecutivo published in Registro Oficial 226 of August 7, 1962. The reason and justifications given for the repeal were that the milling industry had suffered the twin effects of the general inflation and the specific cost increases that resulted from the original wheat tax.⁶⁴

The wheat growers were very unhappy about the repeal but could not attack the executive decree without both directly confronting the president and seeming to repudiate the leadership of the Cámara de la Agricultura de la Primera Zona. The sierra wheat growers retained their influence in the unusually independent congress. An attempt was made to have the wheat tax reinstated as a part of the Budgetary Support Bill of 1962.⁶⁵ However, the provisions for the tax were deleted in debate and the repeal of the tax became a dead issue.

Recruitment and Decision Making for the Junta Monetaria

The Junta Monetaria was dominated by businessmen during the

⁶³Ibid.; introduction to Decreto Ejecutivo 45 published in Registro Oficial 226 of August 7, 1962.

⁶⁴Ibid.

⁶⁵Ecuador, Congress, Actas: Cámara de Diputados; Octubre-Novembre 1962, p. 9.

administration of Carlos Julio Arosemena. At the start of the year six out of nine positions on the Junta were held by businessmen. However, there was almost an even balance among all business groups.⁶⁶

The commercial and agricultural interests of the sierra were represented by Miguel Espinosa Paez, a well-known Quito landowner and general comerciante. Sr. Espinosa was elected by the cámaras of the sierra. The representative for the sierra banks was Jaime Acosta Velasco, the son of the general manager of the Banco de Pichincha. The representative from congress, Gregorio Ormaza Eguez, was a major stockholder in the very large Quito pharmaceutical firm of LIFE.

Three members of the Junta were affiliated with the coastal business groups. The cámaras of the coast had elected the prominent manufacturer, Ernesto Jouvín Cisneros, to the Junta. The business affiliations of Sr. Jouvín have already been discussed in connection with his later role as Minister of Development. Sr. Fernando Manrique Morales, brother to a manager of the Banco de Guayaquil, was elected to the Junta by the coastal banks. The Minister of Economy sitting on the Junta was Teodoro Alvarado Olea, the publisher of VISTAZO. His business affiliations have already been analyzed in connection with the recruitment to the cabinet.

The only people on the Junta who did not have identifiable business

⁶⁶Ecuador, Banco Central, Memoria del Gerente General del Banco Central Correspondiente al Ejercicio del Año 1962, p. 475.

connections were Armando Espinel Mendoza, the representative from the Consejo Nacional de Economía, Enrique Arizaga Toral, the Minister of Development, and Jorge Polit Ortiz, the representative from the Institute Nacional de Previsión.

The composition of the Junta changed during the year as a result of the many cabinet shifts of the Arosemena administration. One shift gave Ernest Jouvín Cisneros a double role, first as the representative of the coastal cámaras, and second as the Minister of Development. Other shifts brought first Antonio Mata Martinez, a prominent Guayaquil contractor, and then José Salazar Barragan to the Junta.

The Guayaquil commercial businessmen were the only group that was not directly represented most of the time on the Junta. Sr. Salazar Barragan was the single merchant to sit on the board and he was not appointed until late in May of 1962. However, the banks had substantial interest in commercial activities and only Sr. Ormaza represented a manufacturing concern that could be in direct competition with imported goods.

Given this balance among commercial and industrial groups, it would be expected that factors of political and personal loyalties would play a major role in determining policy choices. Two factors are of interest here. The first is that four of the members of the Junta were holdovers from the Velasco regime. Miguel Espinosa Paez and Ernesto Jouvín Cisneros held the same positions. Armando Espinel

Mendoza represented the cámaras of the sierra and Gregorio Ormaza Eguez represented the banks of the sierra. Jaime Acosta Velasco was the brother of Jorge Acosta, one of the last of Velasco's ministers of government. However, it is understood that family relations were somewhat strained so that this may not have implied any mutual influence.

The second aspect was the relation between the members of the Junta and President Arosemena. Under normal circumstances, it would be expected that the selection of delegates representing congress, the INP and the Consejo Nacional de Economía would be greatly influenced by the president. However, a coalition of congressional leaders had put Arosemena in the presidency; therefore it would be expected that they would also have very substantial influence over who was named to the Junta, and the president would have correspondingly less control of the election.

The major conflict before the Junta Monetaria during the first year of President Arosemena's administration was whether to give tariff protection to EPISA, a local manufacturer of sanitary fixtures. EPISA had been started around 1968 by Gonzalo Hinostrosa. Jaime Nebot Velasco had become an investor in the company. Some 60 percent of the stock was held by the Banco de Guayaquil. Therefore EPISA received the sponsorship of high elite Guayaquil circles⁶⁷ and

⁶⁷U. S. Department of Commerce, World Trade Directory Reports, "Empresa Promotora de Industrias, S. A. "

the political leaders of the fourth Velasquismo.

Although the quality was not too poor, the product made by EPISA did not find a wide market. The major defect of the product was weight. Since facilities for making steel stampings were lacking, the EPISA fixtures were made on imported and obsolete cast-iron bases. The weight of the cast-iron made the fixtures unwieldy to install in any circumstances and a structural embarrassment for many light frame houses.⁶⁸

The dependence on obsolete imported bases reduced the range of fixtures offered by EPISA. The types of facilities in demand by modern architects simply were not available. Neither could the company provide for many other more specialized demands.⁶⁹ The costs of importing the materials for production also raised the sale prices considerably above the prices charged for imported fixtures.⁷⁰ A final barrier to market acceptance was the fact that it was a local company. The attitude that imported goods must be better than local items is widely shared.

EPISA was granted a "C" classification under the 1957 industrial development law in 1960.⁷¹ However, the benefits granted were not enough to offset the losses due to the limited market and obsolete

⁶⁸Interview with Sr. Eduardo Larrea.

⁶⁹Ibid.

⁷⁰Ibid.

⁷¹"Industrias Acogidas . . ."

manufacturing procedures. Therefore the managers of EPISA applied in 1961 to the Junta Monetaria for tariff protection. They asked for a prohibition on the importation of fixtures on the grounds that local production was adequate to fill all national needs. However, any substantial market protection would have been welcome.⁷² It should be noted that EPISA was not eligible for the provisions for tariff protection given in the 1957 law.

The cases for and against tariff increases were argued before the Junta Monetaria. Opposition to the proposed change was organized by Norberto Kywi,⁷³ a leading Quito merchant and one of the largest importers of hardware in the country. Allied with him were several minor Quito retailers. Building contractors were very interested in the outcome of the case, but did not take an active role. The Cámara de Comercio evidently took very little interest in the case. The attitude of the Cámara de Guayaquil is perhaps explainable by the substantially greater involvement of the leaders in EPISA through the Banco de Guayaquil than in the problems of the one or two major importers of sanitary facilities. However, the Cámara de Quito apparently felt that it was not worth becoming involved in the conflict since Norberto Kywi was the only sierra merchant who directly imported

⁷²Letter written by Fernando Robles Zanatta, the manager of EPISA, to the president of the Junta Monetaria, on February 23, 1962, as quoted in a letter written by Sr. Robles to El Comercio on April 1, 1962, p. 15.

⁷³Interview with Sr. Jaime Calderón P.

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these items.

Kywi brought representatives from American Standard and other U. S. manufacturers before the Junta as expert witnesses for his case. Kywi argued that EPISA should not be granted tariff protection because they could not provide for national market. The range of styles, colors and prices offered was too limited to fit all building requirements and the weight of the fixtures created engineering problems in many situations. Furthermore, market experience indicated that customers would prefer the imported fixtures over domestic production regardless of the price difference between them. Supporting their arguments was the generally unfavorable report made to the Junta Monetaria by the staff of the Banco Central.⁷⁵

EPISA was supported by the Cámara de Industriales de Guayaquil in seeking increased protection. The most appealing argument for the Junta Monetaria was that tariff increases would both save foreign exchange and would produce additional revenue. An important psychological factor was that the EPISA had been granted benefits under the Industrial Development Law. Although the company was not directly eligible for provisions for tariff protection under the law, there was a general feeling that there was no point in granting half measures for

⁷⁴Ibid. However, Sr. Robles charged in a letter written to El Comercio that the cámara had been able to block the tariff increase through Julio Espinosa Zaldumbide, the president of the Cámara de Comercio de Quito who also sat on the Junta.

⁷⁵Interview with Sr. Eduardo Larrea.

industrial encouragement. It would be pointless to give tax benefits if the company were to go out of business through a lack of tariff protection.⁷⁶

The association of Jaime Nebot Velasco with the company was also of advantage to EPISA. Nebot had made a wide reputation as a very astute businessman while in office. Many of the people in the Arosemena cabinet and on the Junta were his personal friends even if they were not his political allies. Nebot can be presumed to have had at least privileged access to many of the members of the Junta.⁷⁷

The conflict between the importers and EPISA was generally confined to making arguments before the Junta. Neither side enjoyed sufficiently wide support to mobilize for a wider battle. The promoters of EPISA started an abortive newspaper campaign at the time of the unfavorable report of the Banco Central staff, charging that opposition to tariff protection was led by a "trust" of Guayaquil importers. The charge was apparently not true and the public exchanges soon died down after a few more letters had been written.⁷⁸ The Arosemena government was not apparently involved except insofar as cabinet ministers sitting on the Junta personally participated in deciding the issue.

⁷⁶Interview with Ec. Manuel Naranjo Toro.

⁷⁷Interview with Sr. Eduardo Larrea.

⁷⁸Letter written by Fernando Robles Zanatta, the manager of EPISA, to El Comercio, April 1, 1962, p. 15.

The decision of the Junta was that the government should continue to allow the importation of sanitary fixtures but that the tariff should be tripled. This resulted in a price rise of a third for the imported fixtures, which allowed EPISA to meet the competition on price. However, the company soon discontinued production.⁷⁹ Even at the higher tariff level EPISA could not supply most of the market. Several production problems were never solved to complete satisfaction and the company soon ran into labor problems. Jaime Nebot Velasco decided to cut his losses and pulled out of the company. Gonzalo Hinostrosa continued on his own. EPISA is still in existence; however, they are no longer manufacturing sanitary fixtures.⁸⁰

⁷⁹Interview with Ing. Jaime Calderón P.

⁸⁰Interview with Sr. Eduardo Larrea.

CHAPTER X

SUMMARY AND CONCLUSIONS

Who governs? The fragmentary evidence at hand still does not lead to a definite conclusion. However, there are materials at hand with which to assemble preliminary hypotheses.

Who governs? The overall picture is elitist. The elites seem to have preferential access to governing positions. Outcomes can be understood in terms of self-interests of the decision makers. However, the lead in political activity seems to have been taken by the "second echelon" business leaders who are engaged in sharp partisan conflict in business and politics. Alternation of elites is related to changes of governmental policies, and, in some situations, the maintenance of a governmental policy in the face of private demands.

The following propositions summarize the evidence leading up to this picture of Ecuadorean politics.

Proposition One: There is a sharp concentration of wealth and economic power in the country. The most powerful economic group in the country is the Guayaquil elite business community.

As in most Latin American countries, the gross inequalities of income distribution in Ecuador are apparent to even casual obser-

vers.¹ Data on the distribution of land, income and business sizes have been given in previous chapters.

Of more immediate concern is the distribution of wealth and economic power within the business community. It was shown that most of the business activity in the country was located in Guayaquil. The dependence of the Quito businessmen on the Guayaquil importers was discussed. The sierra wheat farmers and merchants were especially affected. The economic position of the Guayaquil businessmen was enhanced by a strong concentration of economic power. A tracing out of the patterns of ownership revealed a series of overlapping and interlocking business empires. The business combines seemed to have a major position in banking, import-export and manufacturing.

The sierra businessmen were not organized into competing empires. Only fragmentary chains of businesses came to light. They were nowhere nearly as well integrated and did not have anything like the commanding economic position of the Guayaquil business elites. Neither did there seem to be any major link with the Guayaquil businessmen.

This concentration of power in a relatively few economic combines is frequently observed in Latin America. Highly diversified

¹Oswaldo Sunkel, "The Structural Background of Developmental Problems in Latin America," in Charles T. Nisbet, ed., Latin America: Problems in Economic Development (New York: The Free Press, 1969), p. 10.

business groups controlling major portions of the economy have been observed in Mexico, Argentina, Colombia, and Peru.² Ecuador does seem to be special in the extent to which foreign and immigrant groups have been left out of the dominant Guayaquil groups and in the extent to which the business community has been cohesive and integrated.

Proposition Two: The top business elites have relatively few partisan interests to defend; their interests are either in a very narrow level of decision making or in very large issue areas.

This statement is implied by the data summarized under Proposition One. The top elites have a very wide and general set of business interests to defend. Therefore they do not usually have a "self-interest" in taking one side of the great issues which traditionally split the business community, such as tariffs, development policy, tax reforms, etc. Their political interests are more likely to come out on very narrow issues of specific benefits to their specific companies or on the very large "class conflict" issues. In Latin America this pattern is common but not the rule. In many countries the major business groups are sharply specialized and thus have tended to enter

²Frank Brandenburg, "A Contribution to the Theory of Entrepreneurship and Economic Development: The Case of Mexico," Inter-American Economic Affairs, XVI (Winter, 1962), 3-23; Carlos Astiz, Pressure Groups and Power Elites in Peruvian Politics (Ithaca: Cornell University Press, 1969), p. 64; Peter H. Smith, The Politics of Beef in Argentina (New York: Columbia University Press, 1969), p. 39; Robert H. Dix, Colombia: The Political Dimensions of Change (New Haven: Yale University Press, 1967), p. 389.

strongly into politics on the middle-range issues.³

Proposition Three: The greater the power of a political position over political and economic decision making, the greater the probability of having a businessman fill it.

We can approximately rank political positions in terms of their immediate impact on economic policy making as follows: cabinet positions for treasury, development and public works; other cabinet positions; positions on the governing boards of the political campaigns and other positions in the campaigns. The relation between position and level of business recruitment for all regimes is shown in Table 19 below.

The evidence supporting Proposition Three is summarized in Table 19. There is, in fact, a very dramatic shift in the level of recruitment from the peripheral campaign positions to the central cabinet positions. Businessmen are virtually absent from the first and dominate the latter.

Proposition Four: There is a relation between the economic position of a businessman and the probability that he will be recruited to political positions.

Proposition Four (a): The greater the importance of a political position in one particular sector of the economy, the greater the chance that a businessman from that sector will be recruited to the position.

Cabinet positions for public works and development were the

³For example see, Peter H. Smith, op. cit.; William Lopstrom, Attitudes of an Industrial Pressure Group in Latin America: The Asociación de Industriales Mineros de Bolivia, 1925-1935 (Ithaca: Cornell University Dissertation Series, 1968); Merle Kling, A Mexican Interest Group in Action (Englewood Cliffs, Prentice-Hall, 1961).

TABLE 19
RECRUITMENT TO POLITICAL POSITIONS

Recruit- ment Source	Political Position*			
	Central Cabinet	Campaign Officer	Peripheral Cabinet	Peripheral Campaign
Business	62% (16)	24% (34)	15% (5)	4% (13)
Other	38% (10)	76% (106)	85% (29)	96% (226)
TOTAL	26	140	34	239

*"Central cabinet" positions are: Development, Treasury, Public Works, and Economy. "Campaign officer" positions include the governing boards of the national parties, the governing juntas for the campaigns, the committees in charge of Pichincha and Guayas provinces, and the candidates for president, vice president and senator in areas of party strength.

most highly specialized. It would be expected that people from contracting and manufacturing would hold these positions. Conversely, it would be expected that the remaining cabinet positions and the campaign positions would not draw from any one specialized sector of the economy. This hypothesis is tested below in Table 20.

The basic hypothesis of Proposition Four (a) is substantiated by Table 20. The greater the specialization of a political office, the greater the likelihood that someone from a specialized sector of business would fill it.

Proposition Four (b): The greater the economic importance of a political position, the greater the likelihood that a businessman from a more powerful economic position will fill it.

The same general rankings of the economic importance of

TABLE 20

SPECIALIZED RECRUITMENT WITHIN
THE BUSINESS COMMUNITY

Business Sector	Political Positions			
	Public Works	Development	Other Cabinet	Campaign
Contracting	3	0	2	0
Manufacturing	0	2	6	11
Commerce	0	1	3	22
Financial	0	0	3	8

political positions can be used. Cabinet positions on economic decision making come first, followed by other cabinet positions. Officials in the campaign organizations would come next and other campaign positions would come last. The classification of business positions is as follows:

"Inner elites" - people who manage several major companies within the Guayaquil "interlocking directorate."

"Established businessmen" - people who own large established companies outside of the Guayaquil combine.

"Marginal businessmen" - people who depend on small or medium businesses, or whose businesses are in trouble, or who are dependent on some established business.

The relation between the economic strength of businessmen and the positions to which they are recruited is shown in Table 21 below.

A curvilinear relation is apparent in Table 21. The higher the position, the lower is the recruitment of "marginal" types to

TABLE 21
THE RELATION OF POLITICAL AND ECONOMIC
POSITIONS OF BUSINESSMEN

Business Position	Political Position			
	Cabinet Economic	Cabinet Other	Campaign Official	Campaign Other
Inner elite	1	2	12	4
Established	6	6	9	17
Marginal	2	4	0	5

political office. The converse is not true for the "inner elite" businessmen. There are in fact more inner elite businessmen in the "campaign officer" positions than are in the cabinet or campaign peripheral.

The understanding of this phenomenon rests on Propositions Two and Four (a). The key cabinet offices reflect rather sharp splits between sectors of the economy. The top level of economic elites has diversified interests and so would probably not want to participate in specialized decision making. This has the very important implication that policy decisions are made by the middle-range established businessmen, not necessarily by the top elites. The remaining question is, however, who selects the businessmen for cabinet positions? Is it necessary that established businessmen in the cabinet have the approval of the inner elites in the campaign or is the president free to assemble his own coalitions? It is to this problem

that the next proposition is directed.

Proposition Five: Presidents have relatively little latitude in recruiting to campaign officer and cabinet positions. There is more latitude in recruiting to the marginal campaign positions.⁴

There are three classifications of businessmen for this proposition. The first is a division by region, either sierra or coastal; the second is a classification by economic sector; and the third is a classification by economic strength. The results are presented below in Table 22.

Proposition Five represents the "null hypothesis" of no political independence of the party organizations from the business elites. The intent is to see to what extent evidence can be marshalled for or against it.

The major evidence in favor of Proposition Five comes from an examination of the campaign staffing patterns. A majority of businessmen in all campaigns came from Guayaquil. This is especially significant in view of the sierra bias of Ponce. The businessmen in commerce were a plurality in all campaigns. The level of "inner elite" representation was much higher for the campaign organizations than for the cabinets in all three presidencies. This suggests that all three groups found it expedient to have a strong representation of the

⁴"Central cabinet" positions are Development, Treasury, Public Works, and Economy. "Campaign officer" positions include the governing juntas of the national parties, the governing committees for the campaigns, the local committees in charge of Pichincha and Guayas provinces, and the candidates for president, vice-president and senator in areas of party strength.

TABLE 22

RECRUITMENT BY REGION, BUSINESS SECTOR
AND ECONOMIC POSITION

Recruitment Source	Campaign			Cabinet		
	Ponce	Velasco	Arosemena	Ponce	Velasco	Arosemena
Region:						
Quito	5	3	7	4	1	1
Guayaquil	7	11	14	5	5	5
Business Sector:*						
Commerce	7	5	9	1	3	2
Manufact.	3	4	4	7	1	3
Finance	1	4	3	1	2	0
Media	2	1	4	0	0	1
Mixed	0	0	1	0	0	0
Economic Position:						
Marginal	0	5	0	4	2	0
Established	5	4	17	4	2	6
Inner elite	7	5	4	1	2	0

* Discrepancies between this table and Table 20 are due to a reclassification of "contractors." Contractors who had a major import supply house are listed above in "commerce," those whose sole business was contracting are listed here as "manufacturers."

Guayaquil inner elite commercial community. This would greatly reduce the independence of the political coalitions from the major economic elites of the country.

However, there is evidence pointing to independence in the selection of specific members of the inner elites. There was no overlap of people from campaign to campaign. More importantly, each campaign had a significantly different emphasis in business representa-

tion. Ponce relied much more heavily on the sierra elites and drew only from a relatively narrow stratum of the Guayaquil commercial inner elites. Velasco's support rested on a coalition of marginal Guayaquil businessmen and speculation-minded elite Guayaquil financiers. The Galo Plaza campaign organization, which provided the nominal political supports for Arosemena's presidency, was split between the regular PLR party organization and the FDN campaign coalition. Business representation in the PLR was relatively low. Most of the businessmen came to support Plaza and the coalition. The campaign coalition was built around the established Guayaquil manufacturers and two major liberal publishers. The inner elite supports were lowest for Arosemena and Plaza among all the political organizations.

There seems to be a loose relation between the pattern of elite recruitment to campaign organizations and the staffing of the cabinets. The general tendencies of campaign staffing seem to be accentuated in the cabinets. Velasco relied more heavily on people drawn from banks, and marginal businessmen for his ministers. Arosemena relied even more heavily on the manufacturers in the cabinet than in the campaign. Ponce's cabinet contained a larger proportion of men engaged in sierra commerce than did his campaign.

It is presumed that the cabinet staffing decisions were made with the active participation of the inner elites in the campaigns. The probable control exercised by campaign elites on cabinet recruitment

can be inferred from the subordinate economic position of the cabinet businessmen, their relatively higher levels of economic specialization, and the temporal sequence of appointments. The campaign businessmen were in office when the decisions to name cabinet officers were made.

There was no overlap between cabinet and campaign positions. However, there is no way of knowing whether or not this reflects a consistent pattern of Ecuadorean politics where campaign politicians do not sit in the cabinet. Velasco was the only president in the study who was supported in office by the same political coalition that he had organized for the election. Arosemena had the support of a coalition that was originally organized by Galo Plaza Lasso, and Ponce's political support had been organized for the 1956 elections. The 1960 conservative effort had been organized to support Gonzalo Cordero Crespo.

In summary, the data on campaign and cabinet recruitment suggest that all presidents relied heavily on the Guayaquil "inner elites" for campaign backing and that the campaign officers probably had a major voice in the selection of cabinet officers. However, there was some latitude in selecting which sub-groups within the elite circles would be given preference and with which non-elite groups they would be allied.

Proposition Six: The major decisions of each administration can be explained in terms of the cabinet recruitment patterns.

It is assumed that the prime beneficiaries of Ponce's inactivity were the coalition of inner elite manufacturers and comerciantes. Given the balance between manufacturers and merchants, it would have been hard for him to have developed a program that would appeal to all of his elite constituents.

Velasco's cabinet was made up of elite financiers and speculation-minded marginals. The "marginal" contingent was made up of two hustling small businessmen, Leonardo Stagg and Jaime Nebot Velasco, who held the portfolios of Economy and Development. The delegates from the "inner elite" worlds were José Ceballos Carrión, from Otto Arosemena's Banco La Previsora, and Jorge Acosta Velasco, from the Banco de Pichincha. Both groups benefited from the major administration policies of inflationary investment and devaluation.

The major policy decisions of Carlos Julio Arosemena's administration was the Ley de Fomento Industrial. Industrialists, representing the economic sector that stood to benefit most from the law, occupied the posts of Economy (Antonio Mata Martinez, Ernesto Jouvín Cisneros) and Development (Teodoro Alvarado Olea and Jose Salazar Barragan).

This apparent relation between cabinet recruitment and administration decision making is summarized below in Table 23.

Minor decisions made by the three administrations also reflected the interests of the elite backers. However, situational factors seemed to have played a more important part. Ponce's decision to

TABLE 23
RECRUITMENT AND DECISION MAKING

Business Recruitment	Major Decisions of Each Regime		
	Ponce (status quo)	Velasco (speculation)	Arosemena (industrial development)
Inner elite manufacturers and comerciantes	4	1	0
Inner elite financiers and marginals	1	4	2
Established manufacturers	1	1	4

end the free importation by the military commissaries was in the interests of the elite commercial and manufacturing groups. However, his veto of the bill repealing anticipated taxes was unpopular with elite groups and seems to have been prompted by the sheer need for governmental financing.

Velasco's decision to devaluate, although it was certainly consistent with the interests of the financial speculators who backed his regime, was forced by the bankruptcy of the Banco Central and the central government. His tax on imported wheat seems to have also been pushed as much by the need for money as by the demands of his backers.

Financing was not the major motivation for Arosemena's decision to repeal the tax on imported wheat. Rather it seems to have been prompted by the needs of the Guayaquil importers and bakers and the desire to establish the "reforming" credentials of the administration. However, the decision does not seem to have been related to the interests of the dominant manufacturers who backed the administration.

This line of reasoning, which emphasizes the importance of elite groups in recruitment and decision making, does not explain the decisions of the Junta Monetaria or the evident independence of the Banco Central in establishing fiscal policy. Velasco's efforts to pass the reform of the Junta Monetaria is ample evidence that the Junta and the Banco were expected to exercise policy preferences opposed to the goals of the administration. There would have been no reason to go to public effort to cut down the Junta if it was expected to be subservient in any case.

There are several factors that seem to be related to the independence of the Junta. First is the policy area in which the members of the Junta have authority. Fiscal policy and stable fiscal management are major requirements for the long run development of almost all areas of the economy. Even a policy of inflationary subsidization of financiers and manufacturers should be competently run if it is to be effective. Many groups would find that a mildly unfavorable policy is better than a rapidly changing policy or no policy at all. It is

doubtful if even the Guayaquil financiers would have welcomed Velasco's policies as a steady diet. The importance of fiscal policy for the businessmen would probably give them a vested interest in accepting a relatively narrow range of policy alternatives.

A second factor that seems related to the Junta autonomy is the complexity of the task of fiscal management. Very few people have the expertise to manage a Central Bank. As a result, outside groups have an interest in finding competent managers and giving them the authority needed to do the job. Thus the managers of the Banco would be expected to be able to exercise some independent power.

Fiscal policies are also at the center of the conflicts among elite sectors of the business world. Tariff levels, interest rates, and import quotas are all of vital interest to most sectors of the economy. As a result, the business community is generally split on almost any policy alternative the Junta could propose. This conflict between sectors of the economy would tend to give the Junta and the manager of the Banco Central more maneuvering room in establishing policy.

The assumption that conflict among competing groups gave the Junta significant latitude in decision making leads to a consideration of what other factors might have been related to decision outcomes. An important factor was the task of the Junta: managing monetary policy and maintaining adequate foreign reserves. This responsibility tended to lead to an acceptance of protective tariffs and an import substitution policy as a means of maintaining the precarious balance

of solvency. It is also plausible to assume that the neutralization of elite pressure groups would increase the importance of personal relations and ties of friendship within the board as determinants of policy.

Both factors were probably important in the decisions of the Junta to grant tariff protection to EPISA and Baterias Ecuatorianas. The saving of foreign exchange resulting from decreased importation was mentioned as a factor in favor of protection both times. Both companies were managed by people who had been on the Junta in previous years. Sr. Tamayo Senalcazar, the manager of Báterias Ecuatorianas, served on the Junta while he was Minister of the Treasury in 1956. Jaime Nebot Velasco was on the Junta while he held the portfolio of Development in the Velasco government. Unfortunately no cases were studied where the Junta denied tariff protection and so it cannot be determined whether the absence of personal ties with Junta members would have made a difference.

Proposition Seven: the influence of private groups that did not have a member placed in a strategic decision position was minimal.

This proposition is implied by Proposition Six; if recruitment accounts for most decision making, then groups not brought in through recruitment would not be influential. The evidence in favor of this proposition seems solid.

The major victory of the cámaras--the regulation of the military and police commissaries--was briefly discussed in Chapter 7.

However, two special circumstances seem to have been important. There was no opposition from the military and the project received the backing of the Secretary of the Treasury who was a former president of the Cámara de Comercio de Guayaquil.

The cámaras had less success in other efforts to influence public policy. The closest approach to success was achieved by the Cámara de Agricultura de la Primera Zona which momentarily won a tax on imported wheat. Again though there were special factors which eased passage. The Velasco government badly needed any money the tax could raise. The administration was also quite weak and congress was exercising undue independence. This suited the farmers since they could count on the support of all sierra provinces. However, the weakness of the cámara was later underscored by their failure to prevent the Arosemena administration from repealing the tax. It could have been expected that an administration as unstable as Arosemena's would have been vulnerable to outside pressures.

Other attempts at influence were even less effective. The cámaras were not able to prevent Ponce from vetoing the bill repealing anticipated taxes, a measure which had long been pushed by the rank and file of most chambers. The failure to block the veto is especially noteworthy given the close ties between the cámaras and the Secretary of the Treasury and the generally close relations between the sierra businessmen and President Ponce. The last serious attempt to influence public policy made by the cámaras was the

commercial strike organized by the sierra businessmen to obtain devaluation compensations. The movement collapsed when it became apparent that the government was simply too broke to pay.

The inactivity of the cámara leaders during the period when the financial and political crises of the Velasco administration were building up is also suggestive of relative impotence. No cámara came out in clear opposition to the administration. The closest approach was the joint statement of the sierra business organizations expressing alarm at conditions and implicitly spreading around the risks of opposition.

The cámaras themselves did not seem to be independent of elite pressures. The Banco La Previsora was reported to have used economic power to secure the election of Otto Arosemena as functional senator for commerce on the coast. There is little in this narrative that would suggest that the rank and file could expect to hold out against elite pressures.

Given the relative impotence of the well-established cámaras in influencing public policy, it is not surprising that the small businessmen outside of the cámaras were also unsuccessful. The small banana growers were vocal in their newspaper campaigns to win a greater regulation of the large growers and the exporters. However, there was no visible motion on behalf of the small growers in politics. Neither did the smaller comerciantes achieve any redress of grievances against the larger importers. There was simply very little

support in politics for the small businessmen who were being hurt by the established and elite businessmen who dominated the political scene.

The picture thus far points to an elitist political system. Political competition took place within the relatively restricted ranks of the business elites and where issues related to elite-subordinate relations were not raised. It may be worthwhile to point to some factors that may have supported the oligarchies and kept out the non-elite insurgents.

The economic position of the elites is clearly important. Otto Arosemena used the power of the banks to bring his opposition within the Cámara de Comercio de Guayaquil to heel. It is hard to imagine that the banks would not use their power to reward and punish in other, less visible, ways. The power of the major businessmen in party financing was also reputed to give them a veto over presidential appointments. It was also reported that the Guayaquil elites used their financial power to corrupt lower levels of government. However there is no direct evidence of this.

Cultural factors dampen out the enthusiasm of the politicians for the representation of disadvantaged groups. In Ecuador great emphasis is placed on personal loyalties and a self-expression which sometimes borders on self-aggrandizement. Political leaders drawn from the upper segments of society are not likely to go against their friends to represent the larger segments of their constituency.

The drive for self-expression, status and self-aggrandizement can often be manifested as a desire for upward mobility into the charmed circles controlled by the inner elites.⁵ The effective representation of the masses would impede this desire for acceptance by the elites.

The study provides substantial indirect evidence for this line of reasoning. The "program orientation" of the three presidents--the desire to use power to reform or to manage society and not for the aggrandizement of personal position--seems weak. The circle of influentials never seemed to extend far beyond the small group of elites involved in the campaign organizations and the cabinets. Velasco was the only president who could have been expected to have an interest in representing the mass of disadvantaged citizens. However, the reports of his personal motivation, the speed of his alliance with the Guayaquil financiers, and the nature of his subsequent policies all point to a desire for personal power and upward mobility.

Political instability also supports a narrow elite domination. Regimes seem to live on a narrow margin of political survival. The "life cycle" of presidential administrations described in Chapter 6 is paralleled by the unstable political history of the country. Given

⁵The thesis that status and conflict rest at the roots of the Latin American political process has been discussed by: Charles W. Anderson, Towards a Theory of Latin American Politics (Knoxville, Vanderbilt Occasional Papers, 1965); James L. Payne, Labor and Politics in Peru (New Haven: Yale University Press, 1965); James L. Payne, Patterns of Conflict in Colombia (New Haven: Yale University Press, 1968).

endemic political conflict, few regimes would have the political strength to confront the conditions of elite domination. It probably would not be necessary for elite groups to throw out a hostile regime; denied elite supports, most administrations would collapse from their own weight. There is little evidence that the political difficulties of Ponce, Velasco and Arosemena were the work of hostile inner elites.

This sketch of Ecuadorean politics seems to confound several pluralist arguments. Although no one group of people participated in all or most of the decisions, the evidence pointed to the existence of a "power structure." Even though there was a substantial level of public political competition during the period under study, there was virtually no representation of mass political interests. This study would suggest that "power" emerged out of economic and social patterns in the larger community and that representation is limited by stiff requirements for effective participation in politics.⁶ Perhaps future studies of power and participation should be more concerned with how community organization keeps people out of the political process.

⁶Thomas J. Anton, "Power, Pluralism and Local Politics," Administrative Science Quarterly, VII, 4 (March, 1963), 425-457.

APPENDIX A

The presentation of the business groupings has been based on a card file of businessmen. Listed in the file are names, types, and sizes of businesses with which each businessman is associated, together with the names of all other managers who are also involved in the businesses. The file has been compiled from the World Trade Directory Reports provided by the American Embassy in Quito,¹ the directory to the Cámara de Comercio de Quito,² the Cámara de Industriales de Pichincha,³ the Cámara de Comercio de Guayaquil,⁴ and the Cámara de Industriales de Guayas.⁵ Information was also gathered from the Quién Es Quién en Guayaquil,⁶ the "Quién Es

¹The World Trade Directory Reports are prepared by the Embassy on specific Ecuadorean businesses for use by interested American businessmen. By this time the file covers virtually all major Ecuadorean businesses.

²Cámara de Comercio de Quito, Guía Comercial de Quito (Quito: Editorial Santo Domingo, 1967).

³Cámara de Industriales de Pichincha, Bodas de Plata: 1936/1961 (Quito: Tallares Graficas Minerva, 1961), pp. 51-85.

⁴Cámara de Comercio de Guayaquil, Guía General de Comerciantes de Guayaquil (Guayaquil: Editorial Orbe, 1964).

⁵Cámara de Industriales de Guayaquil, "Clasificación de las Empresas Industriales de Guayaquil" (Guayaquil, 1964), mimeographed.

⁶Quién Es Quién en Guayaquil (Guayaquil: Ediciones Cruz del Sur, 1966).

Quién" section of the Libro de la Ciudad de San Francisco de Quito,⁷ the annual reports of the larger banks,⁸ and the lists of names of businessmen frequently published in the newspapers to demonstrate support for a candidate or policy.

An effort was made to obtain information accurate as of January, 1962. All sources, except for the Quién Es Quién en Guayaquil and the Libro de la Ciudad . . . were within two years of that date.⁹ The results have not been completely accurate. The World Trade Directory Reports are frequently based on secondary sources, mainly the reports of bankers and "knowledgeable informants." Clerical errors in the directories were obvious at times. Additional errors have crept in the transcribing. However, checks of the file against new information have usually been successful.

Not all businessmen were included in the file. Agriculturists were not included due to a lack of information. Cámara de

⁷El Libro de la Ciudad de San Francisco de Quito (Quito: Ediciones Cegan, 1952), pp. 131-393.

⁸Banco La Filantrópica, Directorio (Guayaquil: Banco La Filantrópica, 1964); Sociedad General, "Directorio; 1958-1960" (Guayaquil, 1968, typewritten); Banco de Descuento, Directorio del Banco (Guayaquil: Litografía e Imprinta La Reforma, 1968); Banco de Guayaquil, Informe Anual (Guayaquil: Banco de Guayaquil, 1962); Banco La Previsora, Trimestre Económico (Guayaquil: Banco Le Previsora, 1961).

⁹Changes in affiliation or ownership in other sources that were published later could be dated by examining membership numbers or sections on "later additions."

Agricultura membership is indirect for most farmers.¹⁰ Other sources left too many gaps, especially for the coast.

Businesses are divided into a simple "manufacturing-commercial sources-media-financial" classification. Financial businesses are sources of capital, such as banks, insurance companies, and investment companies. Construction is classified as a commercial business, due to the interest of builders in free importation of materials and in inflationary investment. Service businesses include such businesses as airlines, dry cleaning establishments, and travel agencies.

Businesses listed have been classified as being either "medium" or "large." A "medium" business is one that has a registered capital of between 100,000 and 499,999 sucres reported by the cámara guides to the Pichincha industrialists or the Guayas comerciantes or who have a "medium" volume of business listed by the WTDR. Businesses with more capital or a greater commercial turnover are listed as "large." Smaller businesses have not been listed in the file. This

¹⁰This omission will probably not affect the results significantly. Businessmen who participate in large commercial and industrial empires are not likely to sacrifice these interest in favor of the family farm to any significant degree. Agriculturists have noted this lack of concern by urban elites for rural problems despite personal farm ownership. Interviews with Sr. Luis Fernando Del Campo Salvador, member of the board of directors of the Cámara de Agricultura de la Primera Zona, on November 13, 1968; Sr. José Torres, president of the Cámara de Agricultura de la Segunda Zona, on October 29, 1968; and Sr. Rafael Chambers Matamoros, executive director of the Comisión Nacional de Trigo, on November 6, 1968.

classification will be applied to all sectors of business. Therefore the smallest banks will be classified as "large" while few import houses will be anything but "medium." An additional classification of "important business" will be used to highlight any firm that is particularly powerful or is very large within its particular classification. This will replace a possible classification of "very large."

Classification of businessmen into family groupings is the most indefinite aspect of the data presented here. Classification has been based on information in the WTDR's, on the biographical reports of the Embassy unclassified files, and on the reports of "knowledgeable informants," particularly Sra. Susana Ashton Donoso, of the American Embassy. I have also taken advantage of the Spanish system of retaining both the mother's and the father's name. Persons who share one of their two last names and who are also affiliated with the same business groups are presumed to be related. Brothers are classified together in a single set of entries with appropriate notations made to show which one controls what.

Listed in the Guayaquil business file are businessmen associated with 399 industries, 220 commercial businesses, and 37 financial institutions. The file includes about 875 businessmen. Joint ownership of businesses is quite common. Two or more businessmen are listed as jointly participating for some 230 firms. On the average, there are approximately three businessmen listed for each firm that is not managed by one person exclusively. Multiple ownerships are

common in all areas of the coastal economy.

There are several sets of interlocking business groups. Each group seems highly integrated by many overlapping business affiliations compounded by family ties. These sets seem somewhat less tightly bound into one large "super-group" that covers literally hundreds of businessmen and businesses. This central set of "oligarchs" has been resolved into the groups seen in Table 24 below.

A note on reading this table may be helpful. The businesses in which a particular person is involved are listed below his name in a column indented to the right. Other businessmen in these firms are listed below the appropriate company, also in a column indented to the right. People listed in columns with more than two horizontal spaces separating them are not jointly involved in the same companies. For example, Sergio E. Perez Valdéz, Enrique Baquerizo Valenzuela and Rafael Franco Barba all operate Productos del Mar. However, Sergio E. Perez Valdéz has nothing directly to do with the management of Comercial y Industrial del Pacífico.

TABLE 24

THE GUAYAQUIL BUSINESS EMPIRES

Name and Business	Type of Business & Size
A. Sergio E. Perez Valdéz	
<u>Mecánica Técnica</u>	manufact. -medium
<u>Productos del Mar</u>	manufact. -medium
Rafael Franco Barba	
<u>Comercial y Industrial del Pacífico</u>	commer. -large
Jose Estrada Guzmán	
<u>Guayaquil Bottling Plant</u>	manufact. -large
Enrique Baquerizo Valenzuela	
<u>PHAYGESA</u>	manufact. -large
Juan José Vilaseca Valls	
Gabriel Vilaseca Soler	
<u>Industria Jabonera Ecuatoriana</u>	manufact. -large
Juan José Vilcaseca Valls	
<u>Tenería Vilaseca Soler</u>	manufact. -medium
Juan José Vilaseca Valls	
<u>La Llave</u>	commer. -medium
<u>IMSA</u>	manufact. -medium
<u>Fabrica Automático de Envasos</u>	manufact. -medium
<u>Industria Ecuatoriana de Productos</u>	
<u>Sanitarios</u>	manufact. -medium
<u>CODINASA</u>	commer. -medium
<u>Negocios Industriales Reales</u>	manufact. -medium
<u>Auto Imports</u>	commer. -medium
Xavier Ycaza Suarez	
Manuel Suarez Pareja	
<u>Sociedad Nacional Comercial</u>	manufact. -medium
Xavier Ycaza Suarez	
Manuel Suarez Pareja	
<u>Equipos Mecanizados</u>	commer. -medium
<u>Maquinarias y Vehiculos</u>	commer.
<u>Perforaciones Unidos</u>	manufact.
<u>Credito Mercantil del Ecuador</u>	commer.
<u>Sucresores de A. Dillion Valdéz</u>	commer.
<u>Sociedad Técnica Comercial</u>	commer. -large
Gustavo Gomez Ycaza	
<u>Cia. de Intercambio y Credito</u>	commer. -large
Victor J. Maspons y Bigas (assoc. with group E.)	
<u>Mercantil Distribudora Inter-Quimica</u>	commer. -medium
<u>Cia. Nacional de Melizas</u>	commer. -medium
<u>International Balsa Co.</u>	commer. -medium

TABLE 24--Continued

Name and Business	Type of Business & Size
<u>Intercambio Comercial</u>	commer. -medium
Gustave Gomez Ycaza (assoc. with group E)	
Carlos R. Coello Valdéz	
<u>Cia. Colonial de Credito</u>	commer. -large
Isidro de Ycaza Plaza	
<u>Sud America Cia. de Seguros sobre La Vida</u>	financial-large
<u>Cia. Para El Desarrollo Industrial</u>	manufact. -large
Guillermo Arosemena Coronel	
<u>Ecuador Motors</u>	commer. -large
<u>Arosemena Hermanos/Financiera del Ecuador</u>	
Forest L. Yoder (assoc. with group J)	
Alberto Wright Vallarino (assoc. with group I)	
Federico Goldbaum (assoc. with group I)	
Heraclito Weisson	
<u>Intersiones Generales</u>	commer. -large
<u>Banco de Guayaquil</u>	financial-large
Carlos R. Coello Valdéz	
Isidro Ycaza Plaza	
Edwin Bernett Coronel	
<u>CIESA</u>	commer. -large
Cesar Monge Serrano	
<u>Cia. de Cervezas Nacionales</u>	manufact. -large
Forest L. Yoder (assoc. with group J)	
Edmund Valdéz Murillo	
Octavio Roca Carbo (assoc. with group I)	
Xavier Medina Illingworth	
<u>Caramel Ltda.</u>	manufact. -medium
<u>Servicio Philco</u>	commer. -small
<u>Comercial Importadora J. J. Medina</u>	commer. -medium
<u>Cia. de Seguros Huanicavilca</u>	commer. -large
José Plaza Luque	
<u>Representaciones y Distribuciones</u>	commer. -small
<u>Colombia Pictures of Ecuador</u>	commer. -small
Emilio Ginetta Saccone	
<u>Mercantil Importadora Sucesores de A. Ginetta</u>	commer. -medium
Rafael Dillon Valdéz	
<u>Ecuadorean Enterprise</u>	commer. -small
<u>Azucarera Valdéz</u>	manufact. -large
Edmund Valdéz Murillo	
<u>Ingenio San Carlos</u>	manufact. -large

TABLE 24--Continued

Name and Business	Type of Business & Size
Augustin Febres Cordero Tyler	
<u>Emulsiones de Asfalto</u>	manufact. -medium
Juan X. Marcos ^a	
<u>Sociedad Agrícola e Industrial</u>	manufact. -large
Augustin Febres Cordero Tyler	
<u>Agro Aereo</u>	commer. -large
<u>Corporación Pesquera</u>	manufact. -medium
<u>Banco de Credito Hipotecario</u>	financial-large
Juan X. Aguirre	
<u>Sociedad General</u> ^b	financial-large
Juan X. Aguirre	
<u>Exportadora Bananera Noboa</u>	commer. -large
Luis A. Noboa Naranja (assoc. with group B)	
B. Luis A. Noboa Naranja Empire ^c	
<u>Taller Automotriz</u>	commer. -medium
<u>Cia. Inversionista Guayaquil</u>	commer. -large
<u>S. A. San Luis</u>	
<u>Industria Molinera</u>	manufact. -large
<u>Industria Continental</u>	manufact. -medium

^aSr. Marcos is one of the wealthiest men in Ecuador. He is reputed to be Sr. Noboa's "silent partner," providing financing and "political protection" but not directly participating in management. Interview with Sr. Ing. Carlos Rota, president of Sociedad Radio Técnico, on October 15, 1968; Hugo Mas, "Quién Paga Impuestos en el Ecuador", Vistazo, October, 1968, pp. 12-19.

^bThe listed assets for Sociedad General are small in comparison with many other Ecuadorean banks. Furthermore, there is not much evidence of business in the main office. However, Sociedad General is reputed to be very important in the coastal commercial world because it holds many long term credits granted to business. It is also possible that the assets of Sociedad General have been significantly understated.

^cSr. Noboa is a major exporter of bananas. He also picks and ships bananas to the docks for other exporters. Sr. Noboa was reputed to handle some 60 percent of the domestic processing of exported bananas in 1968. However, his share of the market would have been much smaller in 1959-1962.

TABLE 24--Continued

Name and Business	Type of Business & Size
Richard Allendt <u>Industria Plásticas</u> Raul Cañizares	manufact. -medium
Rodolfo Gerber <u>Corporación Ecuatoriana-Europea</u> Raul Cañizares	commer. -medium
Rudolfo Gerber <u>Cia. Agrícola Tropical Hacienda Guaramos</u> <u>Industria Ecuatoriana de Aceites y Grasas</u>	manufact. -medium
<u>Ultramares Corp.</u>	commer. -medium
<u>Inversiones y Predico</u>	commer. -large
Miguel Macías Burnham <u>Droguería Latina</u>	
<u>Luis A. Noboa Naranja Cia.</u>	commer. -large
Miguel Macias Burnham Enrique Ponce Luque <u>La Familiar</u>	
Henry M. Crawford	
<u>Agro-Aereo</u>	
Juan X. Marcos	
<u>Exportadora Bananera Noboa</u>	commer. -large
Miguel Macias Burnham J. X. Marcos Enrique Ponce Luque	
<u>Corporación Automotriz</u>	commer. -large
Juan X. Marcos Miguel Macias Burnham Carlos Alberto Aguirre Joaquin Orrantia Gonzalez (assoc. with Estrada Ycaza Empire)	
C. Banking Circle	
Rodrigo Ycaza Cornejo <u>La Previsora Banco de Credito</u>	financial-large
Kleber Viteri C. <u>Kleber-Ceballos Cia.</u>	manufact. -medium
Carlos Julio Arosemena Monroy <u>Productos del Ecuador</u> (Eduardo Arosemena)	

TABLE 24--Continued

Name and Business	Type of Business & Size
<u>SERIA</u> Instituto-Farmo-Biologico José Arosemena Jaramillo	commer. - small
Victor M. Janer <u>Inprinta Janer</u> Clemente Yerovi Gomez	manufact. - medium
<u>Internacional Automotriz de Comercio</u> <u>Sociedad Financiera y Comercial del</u> <u>Pacifico (assoc. with group B)</u>	commer. - medium
J. X. Marcos José Rubira Ramos Eduardo Salazar Gomez Clemente Yerovi Indaburu	commer. - large
<u>Distribuidora Volvo</u> José Rubira Ramos	commer. - medium
D. The Estrada Ycaza Empire	
<u>Financiera Comercial</u> Rafael Jaramillo V.	financial-medium
<u>Empresa Ecuatoriana de Inversiones</u> <u>Julio Estrada Ycaza y Cia.</u>	financial-medium
<u>Guayaquil Bottling Plant</u>	financial-medium
<u>Distribuidora Agrimotor</u>	manufact. - large
<u>Cia. Industrial Financiera</u>	commer. - large
<u>ATOMECE Ltda.</u>	commer. - large
Heriberto Orces Mendoza (assoc. with group F)	
<u>Equipos S. A.</u>	commer. - medium
<u>Guayaquileña de Inversiones</u>	financial-large
<u>Agrovía</u>	commer. - small
<u>Frutera Ecuatoriana</u>	commer. - small
<u>Centro Automotriz</u>	commer. - small
<u>Corporación Automotriz</u>	commer. - large
Luis A. Noboa (has own empire, group B)	
Juan X. Marcos (assoc. with group A)	
Miquel Macias B. (assoc. with group B)	
Carlos Aguirre (assoc. with group B)	
Luis Orrantia Gonzalez	
<u>Fleischman Ecuatoriana</u>	manufact. - large
<u>Sociedad Ecuatoriana de Navegacion</u>	
<u>Cia. Comercial y Mandato (COMANDATO)</u> owned in part by <u>La Previsora</u> (see Banking	commer. - large
Circle)	

TABLE 24--Continued

Name and Business	Type of Business & Size
Luis Orrantia Gonzalez <u>Estrada-Orrantia Casa de Comercio</u>	commer. -medium
Luis Orrantia Gonezalez (assoc. with group B)	
René Ycaza Lafourge <u>Distribuidora de Autos</u>	commer. -large
René Ycaza Lafourge	
Luis Orrantia Gonzalez <u>La Previsora (see Banking Circle)</u> <u>Cia. Industrial y Comercial Confort</u>	manufact. -medium
Gabriel Roldos Garces	
<u>Laboratorios Pávil</u>	manufact. -medium
Gabriel Roldos Garces	
<u>Patria Nacional Cia. de Seguros</u>	financial-large
Luis Marcillo	
<u>Industria Inmobiliaria</u>	manufact. -medium
Luis Castagneto	
<u>Librería y Imprinta "Bola de Oro"</u>	manufact. -medium
Simon Pareja	
<u>Continental Bananera</u>	commer. -medium
Joaquín Febres Cordero Mendoza	
<u>Servicio de Transportes</u>	commer. -medium
<u>El Condor</u>	commer. -medium
<u>Granja Avicola Azul</u>	commer. -medium
<u>Hacienda Zoraida</u>	
<u>Industrial Financiera</u>	commer. -large
E. The Maspons Family Circle	
Luis Fernando Gomez Ycaza	
<u>Cia. de Intercambio y Credito</u>	commer. -large
Pedro Maspons y Camarasa	
<u>Exportadores Unidos S. A.</u>	commer. -medium
Victor J. Maspons y Bigas	
Victor J. Maspons y Bigas	
<u>Fábrica de Cementos "Cerro Azul"</u>	manufact. -large
Santiago/Alberto Maspons Guzman	
Pedro Maspons Wray	
<u>La Casa Española</u>	manufact. -medium
Roberto Maspons Pifaire	
<u>Mercantil Importadora Maspons</u>	commer. -medium
<u>Agencias Mimca</u>	commer. -medium
Augustín Maspons y Camarasa	

TABLE 24--Continued

Name and Business	Type of Business & Size
F. Heriberto Orces Mendoza (assoc. with group D)	
<u>B. Aviles Alfaro</u>	commer. -medium
<u>Quito Motors</u>	commer. -large
<u>Construcciones y Anevos</u>	manufact. -medium
<u>S. A. Comercial Anglo-Ecuatoriana</u>	commer. -large
<u>Cia. Nacional de Seguros Sucre</u>	financial-large
<u>Cia. Arcentales Comercial Industrial</u>	commer. -large
<u>Aviación Para Agricultura</u>	financial-medium
<u>Atomec</u>	financial-large
G. Simon Cañarte Barbero	
<u>S. A. Industrial Comercial Editorial</u>	
<u>Ecuatoriana</u>	manufact. -medium
<u>Arrocería del Ecuador</u>	manufact. -medium
<u>Tallares Naval Witting</u>	manufact. -medium
<u>Cia. Agrícola y Industrial del Ecuador</u>	commer. -medium
<u>Transportes y Servicios Maratimos</u>	commer. -medium
<u>Empresa de Transportes</u>	commer. -medium
<u>Casa Comercial Coleman</u>	commer. -medium
Francis V. Coleman	
<u>Cia. Frutera Chileño-Ecuatoriana</u>	commer. -large
<u>Editorial Ecuatoriana</u>	media-medium
David C. Huerta	
<u>Radiodufusora "Ondas del Pacifico"</u>	media-small
Francis V. Coleman	
<u>Tropical Fruit Company</u>	commer. -medium
<u>Francis V. Coleman y Cia.</u>	commer. -medium
<u>Droguería y Laboratorio Coleman</u>	manufact. -medium
<u>Cia. de Exportaciones y Consumos</u>	commer. -large
<u>La Samborondeña</u>	manufact. -small
<u>"La Union" Cia. Nacional de Seguros</u>	financial-large
F. L. Goldbaum	
Simon David Zevallos Menendez	
Gabriel Luque Rohde	
H. Enrique Maulme Gomez	
<u>DIDASA</u>	commer. -medium
Francisco Pino Maulme	
<u>Droguería Maulme</u>	commer. -large
Francisco Pino Maulme	
Francisco Pino Ycaza	

TABLE 24--Continued

Name and Business	Type of Business & Size
<u>E. Maulme C. A. de Comercio</u>	commer. -large
Francisco Pino Maulme	
Francisco Pino Ycaza	
<u>Importadora Farma</u>	commer. -medium
Francisco Pino Ycaza	
<u>Planta Reconstructora de Llantas</u>	manufact. -medium
<u>Pino Ycaza y Cia.</u>	manufact. -large
<u>Banco de Descuento</u> (a part of Banking Circle)	financial-large
<u>Intercomercial S. A.</u>	
Enrique Maulme Gomez	
Fernando Gomez Vallarino (assoc. with group I)	
I. Guillermo Wright Vallarino (assoc. with group A)	
<u>Sociedad San Luis</u>	manufact. -large
<u>Agencias Internacionales</u>	financial-large
José Julio Montesdioca	
<u>Productos Ecuatorianos</u>	
<u>Financiera del Ecuador</u>	commer. -medium
Forest L. Yoder (has own empire)	
Arosemena Coronel (assoc. with group C)	
Federico Goldbaum (assoc. with group C)	
<u>La Favorita Fábrica de Aceites y Grasas</u>	manufact. -large
<u>Jabonera Nacional</u>	manufact. -large
Juan/Gustavo/Luis Vallarino Febres Cordero	
Octavio Roca Carbo (assoc. with group A)	
Alberto Vallarino Benites	
<u>ABASA</u>	manufact. -small
<u>Cosméticos del Ecuador</u>	manufact. -small
<u>Franja Trading Co.</u>	commer. -small
Fernando Gomez Vallarino	
<u>Intercomercial</u>	commer. -small
Enrique Maulme Gomez (assoc. with group H)	
Juan Vallarino Duran Ballen	
Xavier Vallarino Marques de la Plata	
<u>ALUMAR</u>	manufact. -medium

TABLE 24--Continued

Name and Business	Type of Business & Size
J. The Ecuadorean Corporation ^f	
<u>Cia. de Cervazas Nacionales</u>	manufact. -large
<u>Cia. Ecuatoriana de Maltas y Cervezas</u>	manufact. -large
<u>La Cemento Nacional</u>	manufact. -large
<u>Mecánica Nacional Automotriz</u>	commer. -medium
<u>Canteras Nacionales</u>	manufact. -large
<u>C. A. San Miguel</u>	commer. -large
<u>Pildora San Miguel</u>	manufact. -large
<u>Cia. Inmobiliaria</u>	manufact. -large
<u>Cia. Fregorífica del Guayas</u>	manufact. -medium
<u>Financiera del Ecuador</u>	commer. -medium
<u>Cia. Agrícola-Química</u>	commer. -medium

^fThe Ecuadorean Corporation is an American-owned, Bahamas-based holding company for the companies listed. Most of the stock is owned by a Mr. Norton. Mr. Yoder is the Ecuadorean manager who has married into the family. The Ecuadorean Corporation acts much like a local corporation. Many of the holdings are joint ventures with local capital. Mr. Yoder has probably formed an alliance with the local economic powers in order to gain "political protection." Interview with Mr. John Snyder, Labor Attache of the American Embassy, on October 15, 1968.

A group of Lebanese bankers form the major independent grouping.

There are at least eight other minor sets of businessmen who do not control any significant portion of the economy. These groups are listed in Table 25 below.

TABLE 25

SIGNIFICANT INDEPENDENT GROUPS

Name and Business	Type of Business & Size
The Lebanese Opposition	
Nahim/Juan/Estefano/Alfredo Isaias Barquet	
<u>Inversiones S. A.</u>	commer. -medium
<u>Embotelladora Canada Dry</u>	manufact. -large
<u>S. A. San Vicente (Quito)</u>	manufact. -large
Roberto Isaias Dassum	
<u>Emilio Isaias C. A. de Comercio</u>	commer. -large
<u>Banco La Filantrópica*</u>	financial-large
Roberto Isaias Dassum	
Eduardo Anton Diaz	
<u>Predios Y Comercio S. A.</u>	commer. -large
George E. Fayad	
<u>Plásticos Industriales</u>	manufact. -medium
<u>Almacenes Anton</u>	commer. -medium
José Barakat	
<u>Almacenes Barakat</u>	manufact. -medium
<u>Importadores Nacionales</u>	commer. -medium
Manuel Fayad	
Ernesto Raad	
<u>Comercio General y Industrial</u>	commer. -medium
<u>Confecciones Robbins</u>	manufact. -medium
<u>Industrias Textiles Fatima</u>	manufact. -medium
Federico Saporiti	
<u>Ecuatoriana Venezolana</u>	commer. -medium
<u>CEDICA</u>	commer. -medium
<u>Salon Fortich</u>	commer. -large
Jorge Kronfle	
Gonzalo Noboa Elizalde	
<u>CADISA</u>	commer. -small
<u>CIESA</u>	manufact. -medium
<u>Burchard Von Campe</u>	

*Banco La Filantrópica has been growing very rapidly and is now the largest bank in Ecuador. However, the bulk of its business has been in smaller loans to individuals and to farmers and there have been some fears for the financial stability of the institution.

Minor business groupings are listed as follows:

Jaime Nebot Velasco
Fernando Robles Zanatta
Jacobó Ratinoff
Five businesses

Francisco Piana Ratta
Jose Bruno Cavanna
Three businesses

Eduardo Marcillo R.
Gonzalo Murraigui
Five businesses

Carlos Perez Noriega
Hugo Gozenbach
Orlando Rodriguez Valarizo
Seven businesses

Jorge/Eduardo Duran Wauge
Jorge Salcedo Salcedo
Seven businesses

Leonardo Stagg
Enrique Jonaux
Four businesses

APPENDIX B

TABLE 26

MAJOR INTERLOCKING GROUP OF THE SIERRA*

Name and Business	Type of Business & Size
Borja	
<u>LIFE</u>	manufact. -large
Leon L.	
Salvador S.	
Di Capua	
Muggia	
Ricuarte E.	
Ormaza	
Donoso A.	
<u>Banco de Pichincha</u>	largest sierra bank
Acosta Soberón and family	
Mena Caamaño	
Lopez Valdivieso	
<u>Molina Royal</u>	large textile mill
Segre	
Escobar Pallares	
<u>Domogas</u>	distributes gas appliances, medium
Rivera	
Finanzanti	
Giansanti	
Coloma	
Carlos Mantilla Ortega	
<u>El Comercio</u>	largest newspaper
Vallejo	
Mosquera	
Burbano de Lara	

*The data for the business chains were taken from the card file on businessmen discussed in Appendix A.

A semi-systematic sample of the Ecuadorean business listings reveals that, on the average, there are 1.3 owners listed for each business in the sierra as compared to 2.5 on the coast.

TABLE 26--Continued

Name and Business	Type of Business & Size
<u>Cia. Aerea Ecuatoriana de Aviación</u>	largest airline
Oswaldo Gonzalez Cabrera	
Vásconez H.	
<u>S. A. San Pedro</u>	largest textile mill
Perez Andrade	
Chiriboga	
Perez Perez	
<u>La Inca</u>	manufact. -medium
<u>Financiera Nacional</u>	financial-medium
Lopez	
Miranda Lalama	
<u>Fábrica de Gas Carbónico</u>	manufact. -medium
Zevallos Menendez	
Febrez Cordero	
Arteaga	
Tobar Donoso	
Illingworth	
Gonzalez S.	
Ramirez S.	
Molestina R.	
Tomayo B.	
<u>Baterias Ecuatorianas</u>	manufact. -medium
Juan Stadler	
<u>ASTAP</u>	commer. -medium
<u>Ecuadorean Tours</u>	tourist agency - medium

TABLE 27

MINOR BUSINESS CHAINS OF THE SIERRA

Name and Business	Type of Business & Size
A. Ginsberg	
<u>Omegia Ltda.</u>	manufact. -large
Gumpel	
<u>Tuboplast S. A.</u>	manufact. -medium
<u>CAMASA</u>	small service
Zehngut	
<u>Oso Llantera Nacional</u>	commer. -medium
Lenk	
Muller	
<u>La Quimica</u>	medium service
B. Kakabadse	
<u>Hoescht-Eteco</u>	commer. -large
Zeller	
Nueff	
<u>Hermigón Centrifugado S. A.</u>	manufact. -medium
C. Ottolenghi	
<u>Incom S. A.</u>	commerc. -medium
<u>Comin S. A.</u>	commer. -medium
Weiser	
<u>El Leon S. A.</u>	manufact. -medium
<u>Tricote c</u>	manufact. -medium
<u>Volcano S. A.</u>	manufact. -medium
D. Plaza Lasso	
<u>STECA</u>	commer. -large
Hunss	
Mancheno	
Ribadeniera	
<u>El Auto Americano</u>	commer. -large
<u>Morisaenz</u>	commer. -large
<u>Contacalculo</u>	commer. -large
<u>Mecanos S. A. C. (Guayaquil)</u>	commer. -medium
<u>Carrocería Thomas</u>	manufact. -medium

Several other empires have been built in the sierra by individual businessmen. The major one is headed by Sr. Pinto Dávila and includes eight spinning, weaving, and clothing mills. However, none of these businesses are "large" and no outside businessman with other resources has apparently been involved in the Pinto Dávila chain.

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- Chavez Gonzalez, Atahualpha; former President of the Cámara de Comercio de Guayaquil, on October 30, 1968.
- Córdova, Andres F.; former president of Ecuador and leading Quito lawyer, on November 29, 1968.
- Cordova, Gonzalo; former member of the Comisión Nacional de Trigo and director of the Cámara de Agricultura de la Primera Zona, on November 25, 1968.
- Del Campo, Luis; member of the board of the Cámara de la Agricultura de la Primera Zona and owner of Metalandes S. A. in Quito, on November 15, 1968.
- Dillon Valdéz, Rafael; president of the Banco de Guayaquil and Cia. Azucarera Valdez, on October 29, 30, 1968.
- Fitch, George; Chief of the Industrial Section of USAID, on May 17, 1968.
- Francisco, Alice, field archaeologist from University of California, at Berkeley, irregular conversations.
- Gelardin, Albert; financial and market consultant, on May 23, 1968.
- Geschweind, Bill; regional director for the Peace Corps, on October 28, 1968.
- Gleason, David; president of Radio Nucleon in Quito, on May 23, 1968.
- Griswold, Wilfred; spray pilot for Luis A. Noboa, on October 28, 1968.

- Jouviñ Cisneros, Ernesto; president of Impronta e Litografia La Reforma, former president of the Cámara de Industriales de Guayaquil, and former minister of development, on October 31, 1968.
- Larrea Stacey, Eduardo; former general manager of the Banco Central, on November 20, 1968.
- Levy, Ricardo; president of Fábrica de Broches Sudamerica and chief development chemist for INEXA, irregular conversations.
- Loor, Oscar; president of Desarrollo Empresarial Cia. Ltda., and former executive director for CENDES, on November 21, 1968.
- Luna Yopez, Jorge; political leader of ARNE, on November 13, 1968.
- Maier, Georg; Associate Professor of Political Science at Southern Illinois University, on August 20, 1968.
- McPherson, Donald; Staff Agricultural Economist for USAID, on May 17, 1968.
- Mitchell, Peter; Regional Representative for the Confederation of British Industries, on October 16, 1968.
- Mosquera Arcos, Alfonso; Secretary for the Asociacion Nacional de Criaderos de Ovejas, on November 26, 1968.
- Naranjo Toro, Manuel; former minister of treasury and leader of the moderate wing of the Socialist Party, on October 17, 1968.
- Norris, Robert; Director of Center for Andean Studies of University of New Mexico, on October 24, 1968.
- Ortuño, José Vicente; leading Quito lawyer and former member of the Chamber of Deputies, on October 16, 1968.
- Pareja Diezcansco, Alfredo; leading Ecuadorean novelist, historian and intellectual and assistant manager of the Banco Popular in Quito, on November 21, 1968.
- Partmuss, Ingrid; liaison member for USAID, on May 17, 1968.
- Penninger, Charles; Commercial Attache for the United States Consulate in Guayaquil, on October 28, 1968.

Ponce Coloma, Jorge; Manager of the Banco de Descuento in Guayaquil, on October 29, 1968.

Rota, Carlos; president of Sociedad Radio Técnico in Quito, on October 15, 1968.

Sanchez, Diego; staff economist for Departamento de Investigaciones Economicas, of the Banco Central, irregular conversations.

Snyder, John; Labor Attaché for the United States Embassy in Quito, on October 15, 1968.

Teran Salazar, Antonio; Executive Director for Asociación Nacional de Empresarios, on November 14, 1968.

Torres, José; President of the Cámara de Agricultura de la Segunda Zona, on October 29, 1968.

Ulloa, Julio; Staff engineer for CENDES, on May 28, 1968.

Vega Toral, Alejandro; member of the Chamber of Deputies from Cuenca and regional leader of the Frente Nacional Velasquista, on October 18, 1968.

Vorbeck, Helge; president of Cervecería La Victoria, on July 29, 1968.

Wulf, Helen; assistant Comercial Attache for the United States Embassy in Quito, on April 26, 1968.

Yepez, Mauricio; Secretary General of the Cámara de Industriales de Pichincha, on November 26, 1968.

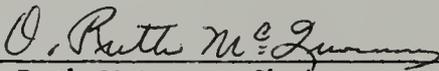
Zuvekis, Clarence; Staff economist for USAID, irregular conversations.

BIOGRAPHICAL SKETCH

David Parker Hanson was born on November 9, 1939 in Rheinbeck, New York. He attended high schools in Newark, Delaware and Santurce, Puerto Rico. He attended Haverford College where he received a Bachelor of Arts Degree in Political Science. After graduation, he served three years as an officer in the United States Navy. He was awarded the Master of Arts degree in Political Science by the University of Florida in 1966. He is currently an assistant professor of Political Science at Western Michigan University in Kalamazoo, Michigan.

David Hanson is married to the former Barbara Rullan of Santurce, Puerto Rico. They have two children, a boy aged five and a girl who is a year and a half old.

I certify that I have read this study and than in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy.



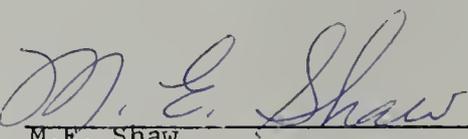
O. Ruth McQuown, Chairman
Associate Professor of Political Science

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy.



T.L. Page
Assistant Professor of Political Science

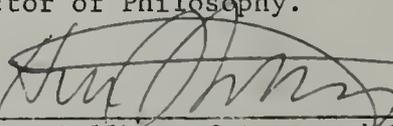
I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy.



M.E. Shaw
Professor of Psychology

This dissertation was submitted to the Dean of the College of Arts and Sciences and to the Graduate Council, and was accepted as partial fulfillment of the requirements for the degree of Doctor of Philosophy.

June , 1971



Dean, College of Arts and Sciences

Dean, Graduate School