The IMF, the World Bank, and U.S. Foreign Policy in Ecuador, 1956-1966

by
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Ecuador is rich in natural resources, but since its independence it has remained one of the poorest countries in the Western Hemisphere. Historically dominated by a few wealthy landowning families, Ecuador's Indian peasants and mestizo workers were excluded from mainstream political, military, economic, and social institutions. Class divisions were paralleled by the regional schism between the agriculturally dependent indigenous people of the temperate highlands and the coastal population, whose livelihood emanated from plantation crops, light manufacturing, commerce, finance, and service industries (Hurtado, 1977: 191; Schodt, 1987: 1-15; Blanksten, 1964: 28-31; Public Record Office, Foreign Office Archives [hereafter F.O.] 371148002, AS 2182/1, 18 February 1960). With almost 80 percent ownership of land, the oligarchy, which had investments in light industry, finance, and commerce and made up a tiny percentage of the 4.2 million people in 1960, dominated politics and determined the country's economic destiny. Because the state pursued policies that perpetuated the upper classes' privileged economic status, which is reflected in the grossly unequal income distribution of the second half of the twentieth century, workers have not experienced upward socioeconomic mobility comparable to that in Europe, Canada, or the United States. Foreign development and stabilization loans that the United States and the multilateral banks granted to Ecuador during the cold war perpetuated the uneven income distribution and dependency on foreign capital (Cardoso and Helwege, 1992; Pyne, 1973: 17).

During the export-oriented growth period of 1948-1960 while the banana boom lasted, Ecuador enjoyed relative political and monetary stability. In the mid-1950s, however, the prices of raw-material exports declined relative to prices of manufactured imports, forcing Ecuador to rely on foreign loans to

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finance imports and development programs. In response to declining export revenue in the second half of the 1950s, the state began moving slowly toward import substitution, which meant even greater reliance on foreign loans and direct foreign investment. As was the case in the rest of Latin America, import substitution did not result in greater self-sufficiency, especially since bananas, coffee, and cacao accounted for 80 percent of exports even in the early 1970s just before the oil boom. Monocultural dependence and declining terms of trade favoring the industrialized countries crippled Ecuador's economy, leaving the civilian and military regimes to rely on foreign credits and thus perpetuating a pattern of financial dependence that Washington and the multilateral banks used as policy leverage. Because Ecuador did not have a diversified, labor-intensive economy with substantial reserves to withstand sharp drops in the volume and price of primary exports and the government was unwilling to undertake structural administrative, economic, and fiscal reforms, foreign borrowing was a method of keeping the finances afloat. And as long as governments in Quito followed policies that Washington and the multilateral lending agencies prescribed, foreign loans continued to finance chronic budgetary and balance-of-payments deficits (World Bank Archives [hereafter WBA], General Negotiations, Box No. 7, File 8, EC/0/66-30/1, Economic Committee, March 7, 1966; F.O. 371/162231, AE 1102/4, No. 1122/4, December 17 1962; Ayala Mora, 1984: 701-705; Conaghan, 1988: 37-43; Martz, 1986: 68-69; Fitch, 1977: 39-46; Acosta, 1990: 244-245; Cueva, 1974: 55-56; Velasco Abad, 1983: 187-230).

Unlike other Latin American countries that encountered debt crises from independence to the Great Depression, Ecuador had an external public debt amounting to US$42 million from 1820 to 1950. By the end of the 1950s the foreign debt was US$94 million, and it increased to US$241 million by 1970 and US$6.1 billion on the eve of the Latin American debt crisis in 1982.[1] Furthermore, while US$241 million in 1970 was not inordinate even for Ecuador's small economy, the raw amount of debt as a percentage of gross domestic product (GDP) was 14.7, and the burden fell inordinately on salary and wage earners. Moreover, the pattern of financial dependence in the 1950s and the 1960s and the reliance on foreign loans continued in far greater volume after the oil boom, making Ecuador the sixth-largest debtor in Latin America in terms of percentage of GDP by the early 1980s. As this study demonstrates, distribution of burden and relative indebtedness are as important as the aggregate amount of public debt (Hurtado, 1977: 288; *New York Times*, January 4, 1957; Weis, 1997: 9-33; Fernandez and Ortiz, 1989: 312; State Department, National Archives, [hereafter SDNA], 822.10/11-262, No. A-292; SDNA, 822.05111/6-2860, No. 570; Fernandez and Ortíz, 1989: 312).

In contrast to Bolivia and Chile, which experienced high inflation and virtual economic stagnation, with a growth rate of just 1 percent annually during the 1950s, Ecuador enjoyed relative monetary stability during the export-oriented growth years. Yet, despite currency stability and impressive GDP increases in the 1950s, a 1961 World Bank report concluded that "Ecuador is one of the poorest countries in Latin America, falling in the same category as Bolivia, Haiti, Honduras, and Paraguay when ranked by such indices as per capita income, miles of road and railroad per 10,000 hectares of arable land, and installed power capacity" (WBA, General Negotiations, Box No. 7, File 6, SLC/0/61-15/1, "Staff Loan Committee," June 12, 1961). Export growth and currency stability notwithstanding, public debt interest and capital payments grew at a rapid pace, contributing to serious financial and economic problems that were decisive for social unrest and the breakdown of the civilian political system during the 1960s. From 1952 to 1961, 40 percent of foreign loans were used to pay off previous foreign loans, a cyclical process that accelerated after the U.S.-backed military dictatorship took over in 1963. The dictatorship proved unable to deal with complex political, economic, financial, and social problems after three years in power and pursued the same growth-by-debt policies as previous regimes (SDNA, 822.10/11-262, No. A-292; F.O. 371/156025, AE 1111/2, No. 35 E, April 20, 1961).

This article analyzes U.S. foreign economic policy toward Ecuador and the roles of the International Monetary Fund (IMF) and the World Bank in influencing the country's political economy. After resuming external debt payments that had been suspended until 1954, Ecuador used foreign loans primarily for infrastructural development, budgetary support, and strengthening the export sector and certain industries. Focusing on the public foreign debt during the period of moderate borrowing in the 1950s and 1960s, the article argues that the fiscal, monetary, and foreign investment policy advice of the IMF, the World Bank, and Washington fostered a pattern of public borrowing that perpetuated financial dependence on private bank loans that carried much higher interest rates and high risk after the oil boom of the 1970s and eventually led to the debt crisis of the 1980s. Both the United States and the multilateral lending agencies used loans as leverage to integrate Ecuador into the capitalist world economy and to help it conform to the Bretton Woods principles of free trade and free flow of capital. Ecuador followed the same path as Bolivia, Peru, Argentina, Colombia, and the other republics striving to achieve external equilibrium, to attract both domestic and foreign capital investment, and to compete for markets. In the absence of domestic structural reforms, trade diversification, and improved terms of trade, domains over which Washington exercised considerable influence, civilian and military regimes in Quito relied on foreign loans for political reasons and to stimulate growth and temporarily avoid external disequilibrium. Despite U.S. and IMF promises of economic growth and financial stability that would in turn foster social and political stability, Ecuador's fragile democratic system collapsed amid financial difficulties, just as did the civilian regimes of Bolivia, Peru, and Argentina, all heavily dependent on U.S. and multilateral stabilization and development loans during the cold war.[2]

AUSTERITY AND FOREIGN BORROWING UNDER PONCE, 1956-1960

Camilo Ponce Enriquez, a Conservative, head of the Movimiento Social Cristiano (Social Christian Movement), and former minister of government in the Velasco administration, won the 1956 presidential election, defeating the center-left coalition Frente Democrático National (National Democratic Front). By forging a coalition of the old parties that included some followers of former president José María Velasco Ibarra (1952-1956), Ponce appealed to both coastal and regional elites. Relying on the banana export industry to continue economic growth, his economic policies included greater reliance on foreign loans and foreign capital investment, more thorough exploitation of Ecuador's natural resources, and import-substituting industrialization (Ponce Enriquez, 1959, vol. 1: 13-19, 99-118; Cevallos García, 1987: 641-642; Ayala Mora, 1993: 39-40; Arizaga Vega, 1988: 46-55; *New York Times*, June 5, 1956; August 5, 1956).

Though Ponce came to office on the eve of economic contraction in Latin America, his administration's fiscal conservatism and determination to maintain a stable currency as the IMF and Washington advised and some financial and agro-export interests urged, placed even greater strains on the economy, and produced social unrest among workers and students. Ecuador's exports had been declining since 1954, and by 1956 cacao and coffee prices had dropped by 50 percent. Hence, foreign reserves declined from US$35.4 million in November 1954 to US$16 million in July 1956.[3] Besides the balance-of-payments deficit, the government was facing a modest (US$5.3 million) budget deficit. Because gold and foreign exchange had dropped sharply, in January 1956 Ecuador requested a US$5 million stabilization credit from the IMF and US$5 million from the U.S. Treasury. Rejecting the idea of a stabilization loan, the United States offered US$4.1 million in agricultural surplus under the PL 480 foreign aid program. In accordance with IMF austerity recommendations to maintain currency stability and low inflation, the Ponce administration tightened credit and sharply reduced public spending. Though the austerity program impacted the working class, manufacturing and import businesses criticized the administration for not increasing the money supply, which was growing at 2.8 percent annually between 1956 and 1958, about the same rate as the population. To silence its critics, the government suppressed strikes and attempted to stimulate the economy by seeking loans from the United States and the multilateral lending agencies. Although a liberal monetary policy would have entailed high inflation as in Bolivia and Chile, the government had the option of a policy mix that would combine raising taxes and improving collection methods and land reform with more judicious use of internal resources designed to meet the domestic labor and market needs. However, neither the president nor the Conservative-dominated congress espoused such measures (SDNA, 822.10/9-556, No. 128; SDNA, 822.10/9-2156, No. 164; SDNA, 822.10/9-2156, No. 165; Arizaga Vega, 1988: 56-58).

Guillermo Pérez Chiriboga, the Central Bank's general manager, insisted that he would maintain currency stability regardless of the sacrifices it required of wage earners (Kofas, 1996a: 76-80). According to Pérez, stability was necessary to attract foreign capital investment and to entice wealthy Ecuadorians to invest in the domestic economy instead of overseas. Blaming inefficient tax collection (historically a major problem in Latin America) for the budgetary deficit, Pérez favored a US$10 million IMF stabilization loan and U.S. aid to maintain a stable currency. As a prerequisite to foreign aid, the Ponce government invited a U.S. mission to examine Ecuador's finances and make policy recommendations. Its approach to the budget and balance-of-payments deficits was no different from Bolivia's, Chile's, and those of other republics facing the same problems and pursuing the same policies in the 1950s (SDNA, 822.10/2-1556, No. 316; WBA, "Indebtedness" Box No. 2, Mervyn Weiner to Stewart Mason, February 2, 1956; WBA, "Indebtedness" Box 2, George Condicas to Stewart Mason, March 4, 1956; SDNA, 822.10/7-959, No. 14; F.O. 371/139225, AE 1114/1, July 10, 1959; SDNA, 822.10/9-2156, No. 164).

In September 1956, an Ecuadorian mission visited Washington seeking new emergency loans and PL 480 assistance (SDNA, 822.10/9-1256, No. 198; SDNA, 822.10/9-1556). The loan package included US$2 million for improvements of the Guayaquil airport and US$2 million for Puerto Bolívar, an important port for the banana region south of Guayaquil. While the Ecuadorian mission was in Washington, minister of the economy J. Federico Intriago informed the United States that unless Ecuador secured a US$10 million foreign loan the Ponce government would be unable to continue essential public works and to pay government workers. If workers were not paid, there would be labor unrest, and if there were no foreign loans to fulfill creditor obligations, the government would have to inflate the currency by engaging in deficit financing. In return for the emergency loan, Intriago promised to reduce government spending, improve tax collection and raise new taxes, and strengthen the private sector as the U.S. Operations Mission (USOM) advised. Concurring with Intriago, the U.S. embassy in Quito noted that unless Washington agreed to a long-term development loan for Ecuador, the military would overthrow the Ponce regime, costing Washington more foreign aid (WBA, General Negotiations, Box 6, File 5, Letter No. 5, George Condicas to Roger Chaufournier, September 14 1956; WBA, General Negotiations, Box 6, File 5, Letter No. 19, September 14, 1956; SDNA, 82210/9-1956, No. 203; SDNA, 822. 10/9-2156, No. 164; SDNA, 822.10/9-2856, No. 179).

Implementing IMF austerity measures, Ponce had already reduced the deficit by half, but because it was 300 million sucres, or US$20 million, the government planned to borrow 150 million sucres from the Central Bank and the rest from the United States to fill the gap. While the loan would be used to fund highway and irrigation projects benefiting export and commercial interests, the Ponce administration stressed that U.S. businesses would benefit from the contracts and Washington would be contributing to the stability of a conservative pro-United States regime (Foreign Relations of the United States [hereafter FRUS], 1955-57: VII, 969-975). Although Ecuador was not receiving U.S. aid comparable to that of Bolivia (Kofas, 1995: 217-219), which had the worst inflation in the hemisphere, the State Department did not rule out Eximbank or International Bank for Reconstruction and Development (IBRD) loans for the proposed projects. The IBRD was studying a US$10 million loan for a new port in Guayaquil, US$5 million for a Quito electrical plant, US$5 million for road development, and US$5 million to the Banco de Fomento (Development Bank) for agricultural development. This was in addition to US$21 million that Ecuador had requested in foreign loans. A World Bank precondition for qualifying for the new loans was reducing the size of government and reorganizing the railroad network. Since the new loans would raise the debt service from 5.7 percent of exports to 11.9 percent, in the absence of revenue from domestic sources Ecuador would borrow even more in the future because of deteriorating terms of trade (WBA, General Negotiations, Box 6, Edificio sud america to Jorge del Canto, March 11, 1957; WBA, General Negotiations, Box 6, Mervyn L. Weiner to Orvis Schmidt, July 3, 1958; WBA, General Negotiations, Box 6, Illif to Mason, July 22, 1957).

Pursuing a liberal trade policy with a US$15 million balance-of-payments surplus in 1957, the Ponce administration finally secured a US$15 million IBRD loan to finance roads along the coast of Guayas and US$6.5 million for other infrastructural improvements (SDNA, 822.10/7-257, No. 3; WBA, General Negotiations, Box 6, G. R. Chevrier to Files, July 12, 1957; WBA, General Negotiations, Box 6, Illif to Mason, July 22, 1957). Ecuador's currency had remained stable at 15 sucres to the dollar since 1946, while the free-market rate was reduced from 18 sucres to the dollar in 1956 to 16 sucres in 1957. Given its financial stability and small trade surplus, Quito tried to attract more foreign loans and direct foreign investment. By 1957, foreign debt payments were rising rapidly, and the new loans would exacerbate the budgetary deficit, making it necessary to rely on more loans.[4] After Ponce reduced public works programs to qualify for new loans, trade unions staged numerous strikes to protest the loss of jobs due to project cuts (SDNA, 10/7-2657; FRUS, 1955-1957, vol. 7: 992; F.O. 371/132057, AE 1015/5, No. 57, August 22, 1958; Ponce Enriquez, 1959, vol. 6: 329; WBA, General Negotiations, Box 6, Orvis Schmidt to Files, June 7, 1957; WBA, General Negotiations, Box 6, Ministry of the Economy to Federico Consolo, No. 81, December 5, 1957; WBA, General Negotiations, Box 6, Orvis Schmidt to Files, January 10, 1957; SDNA, 822.10/4-1157, No. 566; SDNA, 822.062/4-3057, No. 602).

Amid these working-class protests, Ambassador José Ricardo Chiriboga announced that Ecuador's economic development rested with the United States, contending that World Bank loans would attract new direct foreign investment and send the right political and psychological signals to domestic investors. Congress authorized the government to borrow US$25 million in addition to the US$37.7 million borrowed in 1957. New loan authorizations included US$13 million for port construction in Guayaquil, US$10 million for a hydroelectric plant near Quito, and US$14.5 million for highway construction (SDNA, 822.10/11-2557; SDNA, 822.10/12-1357; SDNA, 822.10/1-2058, No. 103; WBA, General Negotiations, File 6, Leonard B. Rist to Eugene Black, March 19, 1958; F.O. 371/126326, AE 1113/1, No. 104 E, November 13, 1957; F.O. 371/132057, AE 1015/5, No. 57, August 22, 1958).

Despite the government's heavy reliance on foreign credits, large export businesses along the coast disagreed with Ponce's policy of perpetual borrowing as a vehicle for rapid development. Concerned about the central government's intrusive role in the economy and advocating more laissez-faire policies, exporters feared a depletion of foreign exchange reserves and higher taxes because of escalating debt service. At the same time, the Guayaquil Chamber of Commerce, representing manufacturing interests, criticized the restrictive credit and import policy. The State Department, the IMF, and the World Bank sided with the monetarists, admonishing the Ponce regime for seeking large loans from various European and Latin American countries.

But since the political price for an economic slowdown was too high for Ponce, foreign loans remained the expedient way of avoiding economic contraction. To qualify for more loans, Ponce accepted the IMF's advice to maintain tight credit, and to expedite the approval of new development loans he accommodated the Anglo-Ecuadorian Oil Company's long-standing request for higher gasoline prices, despite vigorous trade-union opposition. Because Ponce granted petroleum leases and an iron ore concession to U.S. companies, Washington could justify more financial aid for Ecuador (Ponce Enriquez, 1959, vol. 6: 127, 321-322, 329-345; Wisconsin Historical Society, United Nations, Economic Commission for Latin America, "Economic Survey of Latin America, 1958," April 15, 1959; *New York Times*, January 14, 1959; WBA, G. S. Mason to Files, December 4, 1958; F.O. 371/132068, AE 1532/1, February 19, 1958; F.O. 371/132068 AE 1532/2, No. 1531/2/18, March 6, 1958). Like other multinationals, Anglo-Ecuadorian Oil lobbied the World Bank, Washington, and London to use loans as leverage to exact concessions from Quito.[5]

Despite relative stability in exchange reserves, a 17 percent decrease in coffee prices and a 20 percent decrease in cacao production contributed to a recession triggered by sluggish economic growth in the United States as well as deteriorating terms of trade and European and U.S. protectionism.[6] The recession sparked renewed opposition to Ponce not only from organized labor but from manufacturing companies with large inventories such as textiles. Because of the tight money supply, the government temporarily allowed commercial banks to lower the reserve requirement in order to expand credit as a means of stimulating business activity and lowering unemployment. Because of a US$24 million budgetary deficit in 1958 in addition to an increasing balance-of-payments deficit, the IMF ignored Ecuador's labor protests and business difficulties and advised Quito to tighten credit and pursue fiscal austerity (SDNA, 822.10/1-2959, No. 336; SDNA, 822.10/2-2759, No. 387; F.O. 371/132057, AE 1015/3, June 4, 1958).

By the end of 1958, reserves had risen 10 percent but at considerable cost to workers and the manufacturing sector. While agreeing with the IMF about the need for credit restrictions and budget cuts, Ponce worried that the economy was contracting and was concerned about the social effects of further tightening imports to meet dollar expenses and external debt service. Nevertheless, he sided with the IMF and certain domestic exporters and financial interests opposed to easy credit. Slashing defense, which absorbed 237 million sucres in 1957, was politically perilous because the military was an important player in Ecuadorian politics and could be a destabilizing factor if the administration did not solicit its input on the defense budget and on nondefense policies (F.O. 371/126326, AE 1113/1, No. 104 E, November 13, 1957; F.O. 371/132057, AE 1015/5, No. 57, August 22 1958; F.O. 371/139216, AE 1011/1, No. 8, March 4, 1959; F.O. 371/139226, AE 1121/1, January 26, 1959; Fitch, 1977: 45; Ponce Enriquez, 1959, vol. 4: 323, 329-331).

Although Ecuador's international monetary reserves had risen from US$23.4 million in 1955 to US$32 million in June 1959, the economy and finances remained volatile. To avert currency devaluation while trying to stimulate the economy, Ecuador applied for a US$10 million Eximbank loan. In large measure, the loan request was in response to criticism from labor and some business groups about the restrictive monetary and fiscal policies, which had not produced economic growth as Ponce had been promising. The approach of the 1960 presidential election contributed to the administration's decision to increase public spending. Foreign loans would supplement local financing for electrical, irrigation, and housing projects. Although the State Department and the multilateral lending agencies insisted that Ecuador's economy did not need further stimulation with public works programs, Ambassador Chiriboga acknowledged that despite stable currency and low inflation, there was widespread misery and unemployment (F.O. 371/13925, AE 1114/1, July 10, 1959; SDNA, 822.10/2-2759; SDNA, 822.10/3-359; SDNA, 722.00/12-1660, No. 305).

The radicalization of the youth and labor due to official corruption, the lack of social progress and economic modernization, and the wretched conditions among the urban poor was largely responsible for an outbreak of students' and workers' protests in June 1959, prompting an indiscriminate attack on protesters by government troops. It was estimated that from a few dozen to several hundred people were killed and wounded. Riots broke out again in October, and the government used troops to maintain order during the November municipal elections (Ayala Mora, 1984: 706; Fitch, 1977: 45-46; *New York Times*, June 7, 11, 1959; November 2, 1959; F.O. 371/139225, AE 1114/1, July 10, 1959). Besides widespread social unrest, there was a rise in anti-Americanism among nationalist and leftist middle- and working-class groups, who viewed U.S. policies as strengthening the large domestic and foreign businesses backed by the military and right-wing elites. The banana boom had given rise to rapid urban growth, especially in Guayaquil, creating a new industrial working class and an expanded middle class. With the waning of the banana boom, political stability ended, and there was a political realignment on the eve of the 1960 presidential election amid radicalization of urban and rural workers and middle-class students (F.O. 371/147997, AE 1011/1, No. 1, January 1960).

Because of the IMF-inspired fiscal and monetary policies, Ecuador's real per capita terms declined from 12 percent in the first half of the 1950s to 2 percent in the second half, in large measure reflecting the drop in the value and volume of exports. The export slump and escalating social unrest, combined with pressures from the Conservative party and the Catholic Church, forced Ponce once again to adopt the politically expedient solution of using foreign loans to stimulate the economy (F.O. 371/148002, AE 10110/1, No. 103, December 4, 1960; Acosta, 1990: 251-252; Velasco Abad, 1983: 203; Sunkel, 1969: 6; Fernandez and Ortiz, 1989: 314-315; Fitch, 1977: 151). Having failed to secure Eximbank credits, Quito proposed free currency convertibility and foreign exchange unification if the IMF would provide a US$27 million stand-by credit supplemented by a US$7 million U.S. Treasury loan. Ponce contended that it was in the interest of the United States to strengthen the government in Quito, especially since Ecuador was one of the few countries with a sound parliamentary system and financial stability. The Central Bank objected to the new loan requests, arguing that the government was using exchange unification as a pretext to secure foreign credits for public works. Ponce threatened that if he could not secure foreign credits, the Central Bank would have to extend the funds to the government, a measure that the bank insisted would prove inflationary (F.O. 371/139216, AE 1011/1, No. 8, March 4, 1959; F.O. 371/148008, AE 1112/1, No. 71 E, December 23, 1959; SDNA, 822.10/5-2759, No. 525; SDNA, 822.10/6-559, No. 541; SDNA 822.107/959, No. 14; SDNA, 822.10/9-159, No. 94).

Defending its orthodox monetarist policy, the Central Bank claimed responsibility for the increased international reserves in 1959, and in contrast to Bolivia, Chile, Peru, and Colombia, Ecuador avoided drastic IMF austerity measures (WBA, General Negotiations, Box 3, Cyril H. Davis to Files, March 8, 1960; Kofas, 1995: 225; 1996b: 66). While it did not suffer financial difficulties to the same degree as other Latin American countries, during the 1950s its internal debt increased 500 percent, from 126.5 million to 804.4 million sucres, and the external debt rose from US$24.3 million to US$69.3 million. Debt service increased from 1.4 percent of exports in 1950 to 7 percent in 1959, or from US$1.1 million to US$10.1 million. This was typical across Latin America, as the republics' public foreign debt rose from US$2.6 billion in 1955 to US$11 billion in 1961, while the ABC republics' debt service absorbed 20 percent of the exchange receipts, which was comparable to the 1931 level (F.O. 371/14002, AE 10110/1, No. 103, December 14, 1960; F.O. 371/156014, AE 1015/1, No. 107 S, December 28, 1960; F.O. 371/156026, AE 1111/2, No. 35 E, April 20, 1961; *New York Times*, January 11, 1961).

THE MULTILATERAL BANKS AND U.S. FOREIGN POLICY DURING THE VELASCO REGIME

In June 1960, José María Velasco Ibarra[7] won the presidential election, capturing the largest plurality in the country's history. The populist caudillo attracted diverse elements held together by a patronage network and the cult of personality, ranging from wealthy conservatives disillusioned with the Ponce regime to Indian peasants hoping for land reform. Promising to improve living standards for workers and peasants, Velasco employed nationalistic rhetoric, but he was apparently satisfied that his election alone represented a victory for the masses (SDNA, 722.00/6-760, No. D-89; SDNA, 722.00/6-2760, No. 567; *New York Times*, June 6, 7, 1960; Stornaiolo, 1988: 214-215; Arizaga Vega, 1988: 59-62; Cevallos García, 1987: 643). He aspired to developmental reformism modeled after Argentina's policies under President Arturo Frondizi's regime (1958-1962) but was unable to forge a coalition to support his plans against strong U.S. opposition. While the peasants, workers, and middle-class segments expected substantial social and economic reforms, agro-exporters and financial and industrial groups were divided. With the exception of Manuel Araújo Hidalgo, minister of the interior, the new cabinet was made up of pro-United States businessmen and bankers opposed to the social and agrarian reform that Velasco had promised. José Ricardo Chiriboga Villagomes, the pro-United States foreign minister, led the right wing that dominated the cabinet, and he was instrumental in ousting Araújo within a few weeks after Velasco took office. But since there were some staunch reformers in Congress and the export boom of the 1940s and 1950s benefited primarily the large agrarian and commercial interests, Velasco was caught between mounting popular pressures for structural changes and the resistance of the large landowners and some foreign enterprises. To stimulate growth, Velasco replaced Ponce's monetarist policies with an expansionist economic program predicated on social improvement. But since he did not propose new taxes to fund the programs, Congress opposed social reforms. Velasco was trying to placate workers and peasants as well as the middle classes while following the path already taken by other Third World countries, relying on foreign aid and deficit financing after five years of very sluggish growth. At the same time, he assured Christian Ravndal, U.S. ambassador to Ecuador, that the new regime favored the U.S. military missions and would cooperate with Washington on all fronts (SDNA, 722.00/6-2460, No. 92; WBA, General Negotiations, File 6, December 29, 1960; WBA, General Negotiations, File 6, June 12, 1961).

In the aftermath of Velasco's election, the State Department and the World Bank speculated that Ecuador would remain dependent on banana exports, but the 1960s would not see financial stability and economic growth comparable to that of the 1950s. Taking power amid intense social pressures for systemic reforms and poor prospects for economic growth, Velasco inherited a US$110 million external public debt, which accounted for 9 percent of exports in 1961 (SDNA, 822.10/7-2560; Acosta, 1990: 253). In a meeting with the U.S. ambassador, Velasco asserted that he would keep his promise of creating better living conditions for the laboring classes in order to neutralize the communists, Castroists, and other leftists. Requesting U.S. assistance to carry out land reform and housing development, the populist president quickly discovered that Washington was primarily interested in financing road and irrigation projects that benefited the oligarchy and foreign enterprises and less disposed to assist Quito with the kind of developmental reformism that Frondizi was pursuing (SDNA, 722.00/6-2860).

Despite an increase in the volume of exports that made up for price decreases in 1960, Ecuador needed foreign loans to close the budgetary deficit and to meet foreign exchange requirements. For the first time since 1955 there was an unfavorable balance of payments amounting to US$3.5 million because of heavy foreign exchange losses. Since Velasco's election to office, the free-market exchange rate had risen steadily against the sucre, in part because wealthy Ecuadorians invested overseas. To prevent the sucre's free-market rate from causing further monetary inflation, the Central Bank was selling dollars to importers, but the rate increased because of lack of confidence in Velasco amid economic contraction. As foreign exchange reserves fell 20 percent in 1960, the budget deficit stood at 355 million sucres while the cost-of-living index rose sharply. And whereas public debt service had absorbed 135 million sucres in 1958, that amount rose to 228 million in 1960. Because Ecuador contracted so many loans in 1959 and 1960, debt service jumped from US$12 million in 1961 to US$24 million in 1962 (F.O. 371/156024, AE 1101/1, No. 27 E, February 22, 1961; F.O. 371/156025, AE 1111/2, No. 35 E, April 20, 1961; F.O. 371/162230, AE 1101/2, No. 17 E, April 18, 1962; Acosta, 1990: 259). Therefore, the government was seeking to contract additional foreign loans to pay off existing ones and to inspire confidence in the economy.[8]

In November 1960, strikes against the Anglo-Ecuadorian Oil Company caused the government considerable anxiety, prompting the British embassy to comment that Velasco's salvation rested in a large guaranteed foreign loan to finance immediate development needs (F.O. 371/148023, AE 1521/8, November 29, 1960). The country's political instability and social unrest influenced the financial crisis as the sucre continued falling in the free market from 17 to the dollar to 25. An ephemeral attempt to halt the sucre's decline failed and resulted in a 66 percent drop of the foreign exchange reserves.

Since the free-market rate had dropped 40 percent, in July 1961 Velasco devalued the official rate by 20 percent. At the same time, the government introduced import restrictions to rectify the serious balance-of-payments deficit. These measures were part of an agreement with the IMF which authorized a US$10 million stand-by credit for Ecuador. Approved in July after Velasco acquiesced to the IMF's conditions and with British help, the stand-by arrangement was hardly adequate to halt the social, political, and financial avalanche that the administration was facing. Inflation was rising and revenue falling, in large measure because of capital flight, an antiquated tax system, uncontrolled smuggling from Colombia, and deteriorating terms of trade. Matters were made worse as Velasco left financial affairs to corrupt and ineffective ministers who used government for personal gain to an even greater degree than previous administrations (F.O. 371156014, AE 1015/1, No. 107 S, December 28, 1960; F.O. 371/156014, AE 1015/18, No. 209, August 7, 1961; F.O. 371/162230, AE 1101/2, No. 17 E, April 18, 1962).

In a meeting with IMF and World Bank officials, Velasco's ministers discussed new loans for agricultural and industrial development, irrigation works, and electrical plant and road construction (WBA, General Negotiations, File 6, Cyril Davies to Orvis Schmidt, October 30, 1960). Running on a platform of land reform, Velasco proposed expanding commercial agriculture into the Sierra, a policy similar to Peru's and Brazil's internal colonization programs, financed in part by foreign loans. The government hoped to borrow US$150 million from abroad while increasing domestic public spending. To meet its economic growth targets, the net increase in money supply would be 30 percent in 1961, and commercial banks were required to invest a portion of their reserves in government funds (WBA, General Negotiations, File 6, Cyril Davies to Orvis Schmidt, Letter No. 4, November 12, 1960; WBA, General Negotiations, File 6, November 28, 1960). To facilitate a liberal monetary policy, Congress passed a law making it difficult for the Central Bank, which had backed IMF policies in the 1950s, to exert influence on financial affairs. The World Bank was concerned about Ecuador's dramatic new financial policy and its consequences for inflation and the balance of payments. Protesting the end of monetarist orthodoxy, Guillermo Pérez Chiriboga resigned as Central Bank president (WBA, General Negotiations, File 6, December 29, 1960).

Ecuador requested new loans from the Development Loan Fund (DLF) to finance electrification, national road projects, and light industrial programs. Velasco had argued strenuously before and after his election that social and economic reforms were the most efficacious instrument for combating communism. The British embassy maintained (F.O. 371/156014, AE 1016/1, No. 107, November 28, 1960) that if the United States offered Ecuador a large development loan, it would help deradicalize the masses. However, Velasco's rhetoric on the Ecuador-Peru border dispute and a violent student demonstration in front of the U.S. embassy compelled the State Department to come to Peru's defense (*New York Times*, December 10, 14, and 15, 1960). The government proposed establishing diplomatic ties with Moscow and welcomed Castro's support on the border dispute while protesting the high prices of the U.S. imports it needed for development. It also informed the DLF that instead of U.S. firms it would use local engineering contractors for the proposed development projects. Concerned that Velasco would turn to the Soviet bloc for aid if U.S. diplomatic pressure became too conspicuous, the State Department reserved the right to withdraw assistance in case Quito's policies were antithetical to U.S. ideological, geopolitical, and foreign policy interests. Like other Latin American republics, Ecuador was interested in expanding commercial relations with the Eastern Bloc, especially since earnings for bananas, cacao, and coffee were very poor in Western markets (SDNA, 822.10/5-1761; SDNA, 822.10/3-261, No. 480; SDNA, 822.10/12-1360, No. 293; Velasco Abad, 1983: 202). The British embassy maintained (F.O. 371156018, AE 1021, No. 22 ES, February 22, 1961) that the West had to offer Ecuador markets for primary products to influence its political climate, while the U.S. embassy contended that approving loans with political conditions would have more impact on policy, especially since Congress had authorized a long-term development plan requiring US$100 million in foreign credits.

In an attempt to secure foreign credits, Velasco ousted Araújo Hidalgo, his pro-Cuba minister of the interior, and delivered anticommunist speeches portraying himself as a devout Catholic and a staunch supporter of the United States. Along with various right-wing elements and the Catholic Church, the United States was urging him to crush the communists who were agitating among trade unions and peasants (SDNA, 722.00/3-2061; *New York Times*, December 18, 1960; March 23, 1961; Gerassi, 1973: 144). Despite these attempts to increase foreign trade by seeking wider markets, an IMF mission characterized Ecuador's finances as incoherent, pointing to a sharp rise in consumer prices in 1961 despite one of the lowest inflation rates in Latin America (SDNA, 722.00W/6-2161, No. 770; Cueva, 1974: 63; Stornaiolo, 1988: 215-216; SDNA, 822.10/5-1761, No. 692). Corroborating an earlier World Bank report (WBA, General Negotiations, File 6, Orvis Schmidt to Jaime Nebot Velasco, July 17, 1961), the IMF maintained that there was an opportunity to improve Ecuador's finances because, in contrast to its neighbors, the country did not suffer severe balance-of-payments deficits. Recommending rigid austerity measures to prevent the loss of US$40 million-$50 million in foreign exchange in 1961, the IMF mission recommended US$25 million in foreign stabilization loans, half to come from the IMF and the other half from the U.S. Treasury (F.O. 371/162222, AE 1011/1, No. 7, February 1962).

Despite the political risks involved in the IMF's recommendations, Velasco curbed imports and raised Central Bank reserves, and the World Bank, the DLF, and the Inter-American Development Bank (IDB) agreed to consider Ecuador's loan applications for large-scale development projects. Velasco further agreed to drop import quotas, a policy that would only fuel inflation and undermine the country's external equilibrium. Having initially rewarded the Velasco regime with a US$10 million credit, at the end of September the IMF suspended the credit and the United States refused to support Ecuador's stabilization with matching funds (WBA, General Negotiations, File 6, SLC/0/61-15/1, June 12, 1961; WBA, General Negotiations, File 6, IBRD Office Memorandum, Mervyn Weiner to Orvis Schmidt, June 21, 1961). The IMF stabilization program caused considerable social unrest throughout the country, especially since it was implemented amid a very sluggish economy and an increase in capital flight from US$7 million in 1960 to US$12 million in 1961. Otto Arosemena Gómez, president of the Monetary Board, resigned, blaming the capital flight on Velasco's failure to crush the Communist party and the Fidelistas. To placate the right wing and the United States after the defense minister Patricio Lasso Carrión resigned over policy disagreements with the administration, Velasco adopted a much harsher policy toward the Unión Revolucionaria de Juventudes Ecuatorianas (Revolutionary Union of Young Ecuadorians—URJE), the Confederación de Trabajadores del Ecuador (Labor Confederation of Ecuador—CTE), and other leftist organizations while increasingly criticizing Cuba. These measures were not sufficient for the Monetary Board—an entity created, on the advice of the United States and the IMF, to implement monetary policy after the reforms of the monetary law of 1960 and immediately weakened by Velasco after taking office. To restore confidence in the economy and keep inflation low, it recommended a tight credit policy and lower government spending. Moreover, the Monetary Board agreed with the IMF's recommendation to adopt a free rate of exchange as a means of discouraging capital flight, disregarding the detrimental effects of such a policy on price inflation and wages. Since reserves had dropped by US$20 million or 60 percent between September 1960 and June 1961, Velasco requested US$20 million in U.S. loans for budget support and US$170 million in long-term development financing. He insisted that the sharp fall of export commodity prices was the root cause of Ecuador's problems (SDNA, 822.10/5-2361, No. 629; SDNA, 822.10/6-661, No. 711; F.O. 371/162230, AE 1101/2, No. 17 E, April 18, 1962; SDNA, 822.10/4-4461, No. 480; SDNA, 822.10/4-1961, No. 583;

F.O. 371/156014, AE 1015/4, No. 41, June 13, 1961; F.O. 371/156025, AE 1111/1, April 24, 1961; SDNA, 822.10/6-161, No. G-235; SDNA, 822.10/6-162, No. A-331; *New York Times*, April 6, June 20, and July 14, 1961).

Pursuant to U.S. and IMF austerity recommendations, on July 14 Velasco issued a presidential decree devaluing the sucre from 15 to 18 per dollar, a measure intended to curb capital flight and contraband trade along the Colombian border and stimulate the export trade. Coastal businessmen and large Sierra farmers argued that the IMF's recommendations would increase the cost of living by 25 percent because of the higher import costs and lower import restrictions. The sucre's devaluation coincided with increased indirect taxes designed to support higher military salaries. The mass consumer suffered the burden of higher taxes, which affected the prices of commodities and medicines immediately (Burgos, 1980: 14; F.O. 371/156014, AE 1011/23/61, July 23, 1961). In a meeting with World Bank, DLF, State Department, and IDB officials, the IMF insisted that Washington was obligated to provide Ecuador with a US$10 million loan for budget assistance, especially since Velasco had agreed to virtually every recommendation of the multilateral agencies (SDNA, 822.10/7-1561, No. A-20; SDNA, 822.10/7-2561, No. A-24). Arguing that the loan should be earmarked for specific projects, the State Department and the World Bank maintained that tax reform under Velasco was problematic. In September, the World Bank informed the State Department that it favored a road project loan to Ecuador but ruled out any loans to the Development Bank and that new loans would be contingent on strengthening the private banking system (WBA, General Negotiations, File 6, Bernard A. de Vries to Files, August 30, 1961; WBA, General Negotiations, File 6, L. V. Perez to Files, September 13, 1961; F.O. 371/162230, AE 1101/3, No. 46 E, October 18, 1962). The United States and the multilateral agencies suspected that Velasco was moving toward quasi-statist policies instead of strengthening free enterprise. The mixed political signals he was sending precluded favorable consideration of foreign aid.

The United States estimated Ecuador's 1961 budget deficit at 158 million sucres, but it was actually 580 million sucres. Meanwhile, the sucre continued falling, international reserves dropped to a record low, and the balance-of-payments deficit was US$11.7 million in 1961 compared with US$3.5 million in 1960 because of an 8 percent drop of the exports' dollar value. In the second half of 1961, the balance of payments improved, primarily because of a large increase in banana exports, but the budgetary deficit set a record while debt service reached 292 million sucres. The deficit increased both because of the slow economy and because Congress raised public employees' salaries without appropriating the necessary funds, leaving the president with the choice of raising taxes and/or borrowing from abroad.

Ruling out any direct budgetary assistance, the United States proposed credits for highway, port, and school construction. Washington would consider stabilization aid if the Velasco administration raised direct taxes on the upper income groups, collected unpaid taxes, offered tax incentives to stimulate agricultural and industrial development, and reduced public spending. To secure U.S. aid, the Velasco regime cooperated with the USOM in carrying out administrative and credit reforms, but Congress refused to approve the proposed land reform legislation (SDNA, 82210/9-2661, No. 162; F.O. 371/162230, AE 1101/2 No. 17 E, April 18, 1962; F.O. 371/162230, AE 1101/3, No. 46 E, October 18, 1962; Gerassi, 1973: 145; Pyne, 1973: 14; Schodt, 1987: 80; Fitch, 1977: 48).

In late September, the State Department and the IMF falsely accused Ecuador's Central Bank of releasing foreign exchange into the free market to stimulate the anemic economy. Despite the U.S. embassy's confirmation that the Central Bank had cooperated fully with the IMF regarding monetary policy in general and reserves in particular, the IMF suspended the US$10 million stand-by credit, seriously undermining the Velasco regime (SDNA, 822.10/10-1761; SDNA, 822.10-3161; SDNA, 822.10/9-2861, No. 161). The government requested a US$21 million Eximbank emergency loan for balance-of-payments and budget support. In a memo to the U.S. Agency for International Development (USAID), Assistant Secretary of State Robert F. Woodward emphasized that the IMF conditions for the stabilization loan had led to popular discontent and clashes in which several people had been killed and injured. When the Eximbank rejected Quito's emergency loan request, Woodward recommended that USAID approve an US$8 million loan to stabilize the Velasco government and avoid further financial dislocation. If the United States refused to assist constitutional governments, he argued, compliance with the Alliance for Progress would be impossible. Since the Central Intelligence Agency (CIA) was working to destabilize the Velasco regime (Arizaga Vega, 1988: 64-65; Agee, 1975: 197-206; Burgos, 1980: 18) in collaboration with the Catholic Church and right-wing elements at the time, Woodward's lobbying was ignored. Although Washington had no intention of helping Velasco, the State Department continued to reassure Quito that pending a report on its compliance with IMF recommendations, new loans were forthcoming. Given the sharp fall of coffee and banana sales, export receipts were off by 600 million sucres in 1961 in comparison to 1955, and that translated into a drop both in per capita income and in wages (SDNA, 822.10/11-2861, No. 296; SDNA, 822.10/10-2961, No. 200; Martz, 1986: 69).

When it became apparent that Velasco would not revoke the new taxes, on October 4 the CTE called a 24-hour general strike and riots broke out in

Cuenca and Guayaquil, setting the stage for his overthrow. While he blamed the communists for agitating the strikes and student demonstrations, Velasco also acknowledged that the greed of the wealthy families and foreign companies had contributed to working-class radicalization. Clashes between student and worker demonstrators and the police increased in major cities during October and early November. The army finally intervened when Velasco ordered Arosemena arrested on the night of November 6 (F.O. 371/162222, AE 1011/1, No. 7, February 12, 1962; SDNA, 722.00W/11-961, No. 225; Cueva, 1974: 64; Martz, 1986: 70; Gerassi, 1973: 145-146; Arizaga Vega, 1988: 65-66; Villamizar Herrera, 1990: 31-34; Burgos, 1980: 15; Fitch, 1977: 49-50; *New York Times*, November 4, 7, and 8, 1961). Given that Congress, all of the political parties, the trade unions, and the civil servants opposed Velasco, the military easily ousted the four-term president, ending a 12-year period of parliamentary government.[9] Velasco had come to office with a heterogeneous constituency whose diverse agendas he could never satisfy. Though he quickly sided with the traditional elites as he had in his previous presidential terms, living up to his reputation as the oligarchy's caudillo, by autumn 1962 he had little support and as much opposition from the right as from the left in a politically polarized country.

THE ALLIANCE FOR PROGRESS AND THE PARALYSIS OF PARLIAMENTARISM

Otto Arosemena Gómez never had a sound political foundation; he had no party base, the army did not want him to succeed Velasco, and it was only at the insistence of Congress that he became president. One of the wealthiest men in Ecuador and representing a small group of millionaires in Guayaquil, Arosemena advocated systemic reforms and insisted that Ecuador conduct commercial relations with any country that served its interests. However, he chose a fairly conservative cabinet to retain the armed forces' support and attract U.S. economic aid. Washington was initially satisfied that he made no tangible concessions to the Communist party, the left-wing Socialists, the URJE, or the CTE, all of which had opposed Velasco (F.O. 371/162222, AE No. 7, February 12, 1962; SDNA, 722.00W/11-2261, No. 241; Fitch, 1977: 52-53; Cueva, 1974: 64; *New York Times*, November 15, 1961; SDNA, 822.10/11-2861, No. 296). That he summoned former president Galo Plaza (1948-1952), a pro-United States conservative, to negotiate loans from Washington and the multilateral agencies was an indication that he would continue close ties with the United States. His administration assured the State Department that it would comply with the conditions of the Alliance for

Progress and the IMF for a stand-by agreement, and besides approving the US$8 million emergency USAID loan for budgetary support Washington promised that more assistance would be forthcoming. However, the State Department warned that if pro-Castro or pro-leftist public statements did not cease, capital flight would continue and foreign investment would not flow into Ecuador. As the sucre's free-market rate declined in value, continued investors' nervousness prompted the Central Bank to demand that Arosemena help stabilize the currency by denouncing Cuba (SDNA, 611.224/12-1461, No. 308; F.O. 371/162230, AE 1101/2, No. 17 E, April 18, 1962; SDNA, 722.00W/ 1-1162, No. 336; F.O. 371/162223, AE 1015/3, No. 10226/62, February 3, 1962; *New York Times*, December 30, 1961).

Arosemena had inherited a very weak economy and finances and a polarized political arena, but because of the Cuban Revolution and fear of the leftists the military, the hacendados, and their representatives in Congress and the administration, the United States, and the multilateral lending agencies made it even more difficult for him by pulling him in the opposite direction from the middle- and working-class groups clamoring for reform. The public foreign debt was US$94.8 million, which amounted to 11.4 percent of government revenues and 8.7 percent of gross export receipts. The decline in prices of export commodities and the lower income from bananas resulted in a 15 percent drop in revenue during 1961. Monetary reserves were merely US$18 million and dropping, while the sucre's free-market rate was falling, with a 25 percent difference between the official and free-market rates (F.O. 371/162231, AE 1102/1, No. 37, February 12, 1962; F.O. 371/162223, No. 13, April 4, 1962; F.O. 371/156025, AE 1111/9-, No. 3, December 8, 1961; SDNA, 822.10/11-262, No. A-292). After 15 years of rhetoric regarding reforms and promises of economic diversification, in 1962 bananas accounted for 61 percent of exports whereas in 1955 they had been 41 percent. And since tax reform was politically impossible because it would force the high-income groups and foreign corporations to pay more and to obey the law, the Arosemena government sought loans from abroad to cover operating costs and debt service. To qualify for these loans, Arosemena would have to embrace the right wing, crush CTE-affiliated trade unions and the URJE, and remove leftists from secondary and tertiary positions at all levels of the government bureaucracy. Besides adopting a strong anti-Castro and anticommunist foreign policy, Arosemena accepted the IMF's policy recommendations, worked closely with the USOM on fiscal and administrative reform, and fostered a docile pro-United States labor movement (WBA, General Negotiations, File 6, L. V. Perez to Files, March 8, 1962; *New York Times*, January 2, 1962; Cueva, 1974: 61; Morner, 1985: 229).

In the second half of 1962, revenues reached only 60 percent of expenses, and an IMF mission estimated the budgetary deficit at 277 million sucres while the government placed it at over 377 million. The Arosemena administration, with the U.S. embassy's support, proposed cutting the budget by 15 percent, increasing taxes, and borrowing US$10 million from USAID to make up the deficit (Stornaiolo, 1988: 216; Cueva, 1974: 65; Fitch, 1977: 56-58; SDNA, 722.00W/4-662, No. 498; F.O. 371/162223, AE 1015/1, No. 5, January 16, 1962; F.O. 371/162223, AE 1015/3, No. 10226/62, February 3, 1962; F.O. 371/168017, AE 1011/1, No. 2, January 3, 1963; *New York Times*, May 20, 1962; SDNA, 822.10/6-2762, No. 654; F.O. 371/168026, AE 1101/1, No. 13 E, March 17, 1962). Although Ecuador had signed Alliance for Progress agreements in April 1962, in contrast to Colombia, Chile, Brazil, and other republics it had not developed a coherent long-term development plan and was not receiving aid under that program.

To control capital flight and inflation, Arosemena maintained the IMF mechanisms that Velasco had adopted, but the State Department insisted that the problem persisted because of the regime's instability and a foreign policy that was insufficiently anti-Castro (SDNA, 822.10/6-162, No. A-331). It did not consider the oligarchy's fears of social and economic reforms and the export slump significant factors in capital flight. Ecuadorian businessmen, in contrast, attributed capital flight to the U.S. quarantine on Cuba, which they strongly supported. After the IMF approved US$5 million in stand-by credit, the IDB contended that the Arosemena administration had not used the US$18 million in IDB loans for housing, sanitation, and agricultural development (SDNA, 822.00/11-162, No. A-285; SDNA, 822.10/6-662, No. 613). To project an image of compliance with reform guidelines under the Alliance for Progress, Arosemena announced that the National Economic Council had drafted an agrarian reform package and he had agreed to implement it by decree. Though some large landowners immediately opposed the measure, the Sierra Chamber of Commerce described it as superficial and incomplete. Anticipating forced land sales at government-established prices, some hacendados sold segments of their farms, but small farmers and landless peasants had no capital to invest in land. The U.S. embassy concluded that because of the enormous opposition to land reform, it would be some time before meaningful reform legislation was introduced (SDNA, 822.10/6-2662, No. 646; SDNA, 822.10/7-1762, No. A-42).

By mid-year, Ecuador's finances were improving, exports were rising, and the sucre was approaching stability. When the Arosemena government requested a budgetary support loan, the State Department demanded austerity measures and administrative, customs, and tax reforms. USAID had been advising the government on budget and tax reform, the control of contraband trade, and professionalization, and the Arosemena administration had passed an inheritance and gift tax that added 1 percent to total revenues and involved higher taxes for the upper income groups (F.O. 371/162223, AE 1015/3, No. 10226/62, February 3, 1962; *New York Times*, June 5 and 7, 1962; F.O. 371/168017, AE 1011/1, No. 2, January 3, 1963; SDNA, 811.0022/7-1362, No. 36). Moreover, in early July 1962, a new customs schedule was introduced to reduce contraband, and the existing tax on rural landowners who derived benefits from public works began to be enforced. While these small and largely symbolic steps toward reform did very little to address the structural problems of vast income inequalities, they were adopted on the advice of the United States and the multilateral agencies, and Arosemena's demonstration of good faith in this regard caused the U.S. embassy to call for speedy consideration of the loan request. The U.S. embassy was further encouraged by the leftists' boycott of the June congressional elections, which allowed the Conservatives to take over Congress (F.O. 371/168028, AE 1111/3, No. 1122/63, July 5, 1962; SDNA, 822.10/7-1762, No. A-42).

In September, the United States announced that it would extend US$7 million to Ecuador for budgetary support, although the 1963 budget deficit, excluding the 1962 deficit, was US$17.5 million. The Arosemena regime now requested US$50 million for irrigation and electrification, US$35 million for a road project, and US$10 million for the Development Bank (F.O. 371/168026, AE 1102/3, No. 1123/62 e, September 4, 1962; F.O. 371/162230, AE 1101/3, No. 46 E, October 18, 1962), but because it had no long-range development plan, Washington responded on a very small scale, granting a $US6 million IDB loan for agricultural development and an Eximbank loan for US$500,000 for importation of U.S. beef and dairy products (F.O. 371/169017, AE 1011/1, No. 2, February 3, 1963; SDNA, 822.00/11-162, No. A-285; SDNA, 822.00/11-1662, No. A-319; F.O. 371/168026, AE 1101/1, No. 13 E, April 17, 1963).

Monitoring Ecuador's compliance with the stand-by agreement, the IMF confirmed that foreign reserves were at the highest level since 1960, rising from US$20.5 million in January 1961 to US$28.7 million in October 1962. Because of IMF restrictions, credit and import permits remained limited, and this was responsible for a stable currency and a trade surplus of US$19 million in 1962. Despite the large volume of smuggling, there was a balance-of-payments surplus of US$11.5 million in 1962, in comparison with a US$11.7 million deficit in 1961 (SDNA, 822.10/11-1462, No. A-303; SDNA, 822.05111/9-1162, No. A-170; SDNA, 822.05111/9-1462, No. A-20). Although some confidence in the country's finances had been restored,[10] consumer disposable income was limited, the temporary economic stimulation being due to banana exports and foreign credits. Other primary exports, especially sugar and rice, remained sluggish. Moreover, the government failed to carry out agrarian reform in accordance with the Alliance for Progress, the tax system remained archaic, and administrative reform had turned into a nightmare of infighting. The IMF mission criticized Quito's optimistic revenue estimates of 250 million sucres for 1963 and castigated the central government for supporting the demand of the Guayaquil city council that the American and Foreign Power Company pay its delinquent taxes and that the taxes on foreign-owned Cervecería Nacional and Pepsi-Cola be increased. Although the United States and the multilateral agencies had repeatedly argued that Ecuador needed to collect more taxes, the IMF and the U.S. embassy in Quito protested that taxes on U.S. companies would discourage new foreign investment. Despite his attempt to broker a compromise between the American and Foreign Power Company and the city of Guayaquil, Arosemena was criticized by both the IMF and the U.S. embassy for lacking leadership when he did not side with the companies. The United States and the World Bank favored higher indirect taxes but opposed higher taxes on U.S. companies and income taxes (SDNA, 822.015111/9-2162, No. A-26; SDNA, 822.2614/10-3162, No. A-36; F.O. 371/168026, AE 1101/1, No. 13 E, April 17, 1963).

In December 1962, the government finally announced a four-year development program that included US$120 million in foreign loans for infrastructural development and agriculture. As did other countries pursuing import-substitution industrialization, Ecuador promulgated an industrial promotion law, thus securing a US$5 million loan for industrial development, and agreed to join the Latin American Free Trade Association (LAFTA). The Organization of American States (OAS) Committee of Nine, a group charged with overseeing programs under the Alliance for Progress, praised Ecuador's planning efforts. The World Bank nevertheless limited it to US$80 million in loans and rejected a US$64 million loan application for highway construction (WBA, General Negotiations, Box 3, Gerald Alter to Richard Demuth, December 6, 1962; WBA, General Negotiations, Box 3, February 1, 1963; SDNA, 811.0022/12-462, No. A-363; SDNA, 822.10/1-2963, No. A-496). In a meeting with OAS and USAID officials, Ambassador Bernbaum noted that despite the development plans, President Arosemena, who had a serious drinking problem, was incapable of leading the country. With a weak central government, Ecuador was plagued by 700 semiautonomous public agencies that consumed 60 percent of the budget and prevented prudent utilization of Alliance for Progress aid. However, it was widely reported by local as well as U.S. and British diplomatic sources that most Ecuadorians viewed the Alliance for Progress as political propaganda. In view of chronic deteriorating terms of trade, wealthy and poor Ecuadorians alike blamed the United States and believed that it had an obligation to assist Ecuador (F.O. 371/168017, AE 1111/1, No. 2, January 3, 1963; F.O. 371/168026, AE 1101/1, No. 13 E, April 17, 1963).

Despite some improvement in the balance of payments during the second half of 1962, the fiscal situation remained a major concern. Because of price declines in coffee and cacao, Ecuador lost an estimated US$40.7 million in 1961 and US$28 million in 1962, amounts far greater than its foreign credits. Wage earners who had not been paid—public employees, railroad workers, and teachers—went on strike. After a CTE-led general strike in Guayas on April 23 and a public employees' strike in Esmeraldas, Arosemena ordered several leftist leaders arrested. As social unrest spread to other provinces,[11] there were frequent rumors that army officers were about to overthrow him. Amid the cataclysmic financial crisis that was at the heart of the social unrest, the United States was withholding US$4 million of the US$7 million in approved loans (Acosta, 1990: 255; SDNA, 822.10/1-2963, No. A-496; F.O. 371/168018, AE 1015/13, No. 1011/63, May 2, 1963; F.O. 371/168018, AE 1015/11, No. 1011/63, April 25, 1963; F.O. 371/173890, AE 1011/1, No. 1, January 20, 1964). While the government was awaiting approval of a World Bank loan and attributing its troubles to lack of prompt action on foreign aid, the British embassy (F.O. 371/168018, AE 1015/8, No. 1011/63, March 21, 1963) blamed the government and the elites:

> The rich cheat the income tax as usual and half the vitally important customs are lost through smuggling—but this is not new. Since Arosemena's elevation to the Presidency in November 1961, the balance of trade has improved and the sucre has grown somewhat stronger. But revenue has not been keeping pace with expenditure and the Treasury's reserves are very low for the time of year. Possibly this is a long-term after-effect of Velasco Ibarra's year and a half of misgoverning but, be this as it may, the Government has recently been in the position of a desperate debtor seeking to pay off one importunate creditor by borrowing from another.

But when the Arosemena government tried to reduce smuggling in Carchi along the Colombian frontier, there was almost universal opposition by the local population. In the absence of a profitable alternative to smuggling and considering that systemic corruption permeated every sector of society, the people would not readily give up what had become a way of life. To qualify for the remaining USAID funds, the Arosemena regime made further concessions,[12] and by early summer there were signs that exports were increasing once again. But Ecuador was facing an estimated 20-25 percent unemployment and underemployment, with Indian agricultural workers predictably in the worst condition (F.O. 371/168018, AE 1015/11, No. 1011/63, April 25, 1963; F.O. 371/168028, AE 1111/3, No. 1122/63, July 5, 1963; SDNA, 822.06/5-263, No. 549; F.O. 371/168018, AE 1015/16, No. 1011/63, May 28, 1963; F.O. 371/173890, AE 1011/1, No. 1, January 20, 1964). While the USAID was examining education, health facilities, housing, agrarian reform, etc., as part of the Alliance for Progress, Washington was much more concerned with winning the ideological war against Fidelismo and communism and containing Latin American radicalism than with addressing structural social and economic problems.

THE BANKRUPTCY OF DEVELOPMENTALISM: THE MILITARY JUNTA AND THE UNITED STATES, 1963-1966

At a dinner honoring the W. R. Grace Corporation, President Arosemena, who had been drinking heavily, made a few critical remarks about U.S. foreign policy. On the morning of July 11, the military overthrew him and formed a junta (F.O. 371/173890, AE 1011/1, No. 1, January 20, 1964). A few weeks before the coup, the defense minister, Francisco Acosta Yepez, had informed the British embassy (F.O. 371/168028, AE 1015/16, No. 1011/63 S, May 28, 1963) that nine out ten officers favored military rule primarily because they believed that Velasco and Ponce, the two major presidential candidates for the 1964 election, would create more chaos and misrule, inadvertently strengthening the left. Despite an increasingly anticommunist policy designed to placate the rightists and secure U.S. support, Arosemena lacked the backing to remain in office until 1964. The armed forces had lost faith in the parliamentary system, and they were aware that the United States favored Arosemena's overthrow. In light of the steady decline in the export market due to the crisis in the banana industry, the military was eager to assume power and somehow impose economic and social stability. Congress, historically an instrument of the privileged class and utterly corrupt, had lost its legitimacy and could not be counted as an effective instrument of political power (Arizaga Vega, 1988: 81-83; 89-90; Schodt, 1987: 82; Martz, 1986: 71; Fitch, 1977: 60-62; SDNA, POL 26, Ecuador, A-830, June 13, 1963).

Rear Admiral Ramón Castro Jijón, a U.S.-trained officer from the coast, headed the junta, Colonel Aurelio Naranjo became defense minister, and Naftali Ponce Miranda took over as foreign minister.[13] Despite promising administrative and agrarian reform, the junta never addressed structural social and economic problems, preferring the route of debt financing and import-substitution industrialization while continuing to support the agro-exporters (SDNA, POL 15, Ecuador, A-34, July 16, 1963). The USAID released US$2 million in budget support aid and US$2.7 million for road construction. Though the junta inherited at least a 400-million-sucre deficit, Washington hoped that it would be able to collect US$50 million in outstanding IDB and USAID loans as well as a US$40 million World Bank loan. Declaring that it would implement fundamental reforms, including agrarian and tax reforms, the junta received U.S. support for contracting new foreign loans. The World Bank and the United States advised the new regime to reduce expenditures, lower subsidies, raise gasoline taxes to finance highway construction, increase consumer taxes by 45 percent on electricity in Quito, and adhere to the terms of its loan agreements. The bank had made the same recommendations to Arosemena, but he had not implemented them because of the negative impact on the middle and lower classes (SDNA, POL 15, Ecuador, A-117, July 30, 1963; SDNA, POL 26, Ecuador, No. 87, July 26, 1963; Burgos, 1980: 18).

The day after the coup, a World Bank mission (WBA, General Negotiations, Box 2, July 25, 1963) discussed Ecuador's pending loan application and financial policy with the junta. Cautioning it to limit public spending and to maintain financial stability by working closely with the Central Bank, the mission advised against offers of Belgian financing for the Quito-Durán railroad. The World Bank stood ready to approve the highway and Quito Power Company loans and a series of projects linked to a transportation survey provided that the junta introduced a new gasoline tax and electric power tariffs. In a meeting with U.S. officials, Foreign Minister Ponce Miranda reiterated the junta's commitment to a reform agenda and asked for rapid action on the combined World Bank, IDB, and USAID highway loan of US$54.6 million (SDNA, POL, Ecuador, XR AID 9, July 18, 1963; SDNA, POL 2, Ecuador, August 2, 1963). He promised that the government would raise gasoline taxes and assured the United States of close cooperation.

To qualify for new loans, including a US$50 million in Central Bank credit, the State Department recommended that Ecuador reduce the budget deficit. After considerable pressure from the World Bank (WBA, General Negotiations, Box 2, Robert de Vries to Files, October 18, 1963; WBA, General Negotiations, Box 2, Jose Cardenas to G. D. Woods, October 4, 1963), the junta raised gasoline taxes as it had agreed to do. The Quito Power Company raised electricity rates by 30 percent and dismissed 200 of its 900 workers, breaking a labor contract and crushing the union. The government also slashed jobs among railroad workers and other public enterprises, inviting criticism from pro-United States labor leaders representing the International Transport Workers' Federation. When anticommunist, pro-United States trade unions protested the deep cuts in jobs and the junta's antilabor measures, the U.S. government, which had been supporting the anticommunist labor movement since the 1940s, sided with the dictatorship. This was exactly the type of action that the large domestic and foreign companies, the multilateral agencies, and the United States were seeking from the junta (Pyne, 1973: 15; Sunkel, 1969: 19; F.O. 371/168027, No. 1122/63, December 20, 1963). As another means of realizing savings, the World Bank advised the junta to consolidate many of the government's 700 agencies. Congress had created a number of autonomous agencies as a source of employment, and it was the legislative branch that controlled public works projects financed by foreign loans. Since the executive branch had ensured control of such projects after the coup, and given the junta's cooperation with Washington, the IDB, the World Bank, and USAID all agreed to extend loans for road construction (WBA, EC/General Negotiations, 117, EC, L. V. Perez to Files, Letter No. 1, September 11, 1963; WBA, EC/General Negotiations, 117, EC, L. V. Perez to Files, October 3, 1963; WBA, EC/General Negotiations, 117, EC "Indebtedness" File III, Victor Wouters to S. R. Cope and D. J. Fontein, November 14, 1963; F.O. 371/168042, AE 2181, September 13, 1963; SDNA, POL 2-1, Ecuador, A-85, September 7, 1963; SDNA, POL 2-1, Ecuador, A-243, October 12, 1963).

Because of increasing banana exports, primarily to Europe and Japan, the gross national product (GNP) rose 6 percent in 1963, and the country enjoyed a US$13 million balance-of-payments surplus—the exact amount that Quito borrowed from the IMF in summer 1964. And while Argentina and Chile were experiencing hyperinflation and economic stagnation, Ecuador's steady growth was accompanied by moderate price stability, albeit in the context of a structurally weak economy. Though the junta cut public expenditures by 16 percent in 1963, the IMF noted that Ecuador's public finances remained weak (Cueva, 1974: 66; Schodt, 1987: 83; Ayala Mora, 1984: 709; Burgos, 1980: 19; Hurtado, 1977: 242-243; Morner, 1985: 231; WBA, EC/General Negotiations II, Box 1, E. K. Hawkins to Files, March 31, 1964; WBA, EC/General Negotiations, Box 2, "Indebtedness" File III, E. K. Hawkins to Gunter W. Weise, April 9, 1964; F.O. 371/168027, AE 1122/63, December 20, 1963; F.O. 371/179375, AE 1011/1, January 21, 1965). In fact, because of the tax breaks to foreign companies and to the agro-exporters, the budget deficit rose from 250 million sucres in 1963 to 630 million sucres in 1964. As the official rate of the sucre appreciated 13 percent amid steady growth, the monetarist and free-trade policies caused enormous hardships for workers enduring downward pressure on wages and rising unemployment and radicalized the peasants.[14]

As operating expenses rose in 1965, the budget deficit skyrocketed from 90 million sucres in 1964 to 1.2 billion sucres in 1965, half of it financed by internal and external borrowing. Because of the depression in the banana export trade, a high level of imports, and speculative import purchases, the balance-of-payments deficit rose as well. Following IMF and World Bank advice, the Central Bank tightened credit and urged the government to curtail spending. Pessimistic about Ecuador's immediate and long-term prospects, the World Bank noted that the initial growth under the junta was due to the banana exports and the heavy foreign borrowing (WBA, EC/General Negotiations, II, Box 6, File 6, L. V. Perez to Files, March 23, 1965). The external public debt rose from US$116 million at the end of 1963 to US$163 million in December 1964. While the per capita GDP had increased at an average annual rate of 5 percent in 1955-1960 and 1.3 percent in 1960-1964, it declined to 0.5 percent in 1965, in large measure because of the export slump in bananas, coffee, and cacao. Per capita gross domestic investment declined as well from an average of 0.8 percent in 1960-1964 to –0.5 percent in 1965. Gross domestic investment increased in 1960-1965 at an average annual rate of 2.1 percent, led by private fixed investment at 5.5 percent, while public fixed investment actually declined 2.4 percent, indicative of increasing control by foreign companies of commodities, manufacturing, utilities, transportation, and communications. Because of the economic recession, there was regional and sectoral pressure on the junta to abandon the IMF austerity measures and trade liberalization that were further weakening an already anemic economy. When the government failed to respond and announced that it would not hold elections in 1965, there was an outpouring of demonstrations, including a general strike in Quito and Guayaquil, with workers, students, and other political anti-junta elements demanding a return to civilian government (Schodt, 1987: 84; Morner, 1985: 230; F.O. 371/184762, AE 1011/2, January 28, 1966; F.O. 371/179378, AE 1015/47, November 19, 1965; F.O. 371/179378, AE 1015/49, November 24, 1965). When the junta exiled many political opponents, the military high command deposed it and asked the rightist and centrist political parties to choose an interim president until the elections.

In July 1966, Ecuador applied for a US$13 million IMF stand-by loan and US$40 million IBRD loans to finance livestock, forestry, hydroelectric, and bridge projects. The new loans were in addition to a US$10 million U.S. loan for budgetary support. To qualify for the new loans, Ecuador was expected to devalue its currency, balance the budget, and tighten public and private credit by October 1966. The World Bank disagreed with the IMF and recommended that Ecuador promote primary exports by rationalizing export taxes, reducing import surcharges, and adjusting the exchange rate (WBA, General Negotiations, Box 1, File IV, Trevor daCosta to Gerald Alter, July 5, 1966; WBA, General Negotiations, Box 7, File VIII, A. H. Shibusawa to Files, June 6, 1966; WBA, General Negotiations, Box 7, File VIII, A. H. Shibusawa to

Files, July 12, 1966). Though it was an election year, the government reluctantly agreed to adopt austerity measures by October, but it chose to raise export taxes rather than slash spending. The major problem was the archaic tax system, which relied inordinately on indirect taxes and lacked an efficient collection method. Of the 1.3 billion sucres in tax receipts, only 359 million emanated from direct taxes. Despite U.S. threats to discontinue loans unless tax reform was addressed, no such action was ever taken.

In the first half of 1966, there was a 9.4 percent increase in exports, but despite lower imports the trade deficit contributed to the balance-of-payments deficit.[15] Following IMF directives, the government pursued a restrictive monetary policy and reduced spending, but the fiscal situation remained weak. Since the treasury was nearly empty, public employees, including teachers, health care workers, and even soldiers, went unpaid. One of the reasons for the weak finances was that public debt service absorbed 17.6 percent of the budget, while social security accounted for merely 5.8 percent. While the IMF was cautiously optimistic about Ecuador's immediate future because of its potential oil revenues and its 3 percent annual growth rate, the average annual population increase was 3.4 percent and the country had one of the worst income distributions in Latin America. A World Bank study concluded that heavy dependence on bananas and failure to diversify agriculture accounted for inflationary pressures due to foodstuff imports. Food imports accounted for balance-of-payments deficits in a number of countries, including Bolivia, Chile, and Peru. Amid the financial problems, nationalism continued to increase, and the United States had serious reservations about the interim government and Ecuador's prospects for future development under a parliamentary regime (WBA, General Negotiations, Box 1, File IV, Trevor daCosta to Raymond Frost, September 27, 1966; WBA, General Negotiations, Box 1, File IV, Raymond Frost to Gerald Alter, October 14, 1966; WBA, General Negotiations, Box 3, "Ecuador IADR" File II, R. Frost to G. Alter, December 13, 1966; Fitch, 1977: 72-73; Griffin, 1969: 181-183). Under the U.S.-backed military dictatorship, foreign debt rose sharply, foreign capital was strengthened, and, contrary to its promises, economic and social problems were not addressed, as was reflected not only in student and labor demonstrations but also in anti-junta newspaper editorials. Failing to forge a constituency that would allow it to remain in power, the junta collapsed, but Ecuador's bourgeois parties were no better prepared to deal with structural reforms.

Two and a half years of authoritarian rule failed to produce social harmony and economic growth based on foreign borrowing and direct capital investment. Popular opposition and strikes forced the junta to yield power to an interim coalition government headed by Clemente Yerovi, representing the Guayaquil oligarchy. The transition from the junta to a civilian regime came at a very difficult period, as foreign exchange reserves were declining, the cost of living was rising some 6-10 percent annually, and the population was growing steadily at more than 3 percent annually. Despite some industrial growth due to foreign investment that created 2,165 new jobs in 1966, unemployment and underemployment continued to rise (WBA, General Negotiations, Box 8, Trevor daCosta to Files, June 10, 1966; Burgos, 1980: 22; Ayala Mora, 1984: 710; Martz, 1986: 72; Cueva, 1974: 69; Schodt, 1987: 84; Stornaiolo, 1988: 217-218; Fitch, 1977: 70). Negotiations between Quito and Bogota for joint projects offered some hope of stimulating the regional economy, but this was hardly sufficient to overcome the deep-rooted financial and social problems of a monocultural economy.

CONCLUSION

In the 1950s Ecuador enjoyed financial stability with steady export-oriented growth under relatively stable civilian regimes, but during the Alliance for Progress decade the country suffered two military coups and changed presidents four times. Contrary to the rhetoric about economic and social progress, Ecuador experienced severe financial and economic problems, becoming increasingly dependent on foreign loans and U.S. corporations, especially in the petroleum and manufacturing sectors (Velasco Abad, 1983: 217-223). As a device of containment policy and a vehicle for further integrating Latin America into the U.S. economy, the Alliance for Progress accomplished its goals using foreign aid, despite the emergence of guerrilla groups and increased radicalization of workers and peasants.[16] Contrary to public promises by Quito and Washington that structural reforms would be carried out under the umbrella of the Alliance for Progress, social justice and economic progress remained distant goals.

The oligarchy-dominated U.S.-backed regimes in Quito failed to undertake structural reforms that would end the cycle of debt and financial dependence. An integral part of parliamentary and military regimes, ubiquitous corruption prevented modernization, undermined the integrity of public lending, and exacerbated cynicism among the people, especially the young. The British embassy commented (F.O. 371/168039, AE 1651/1, No. 27, August 8, 1963) that no one received a public contract without bribery and no segment of public life was left untouched by corruption. U.S. officials in Ecuador were drawn into the pervasive corruption, along with local and foreign businesses, while the lower classes suffered low wages due to escalating foreign debt and increasing dependence on the United States. The share of GNP represented by workers' income decreased from 53 percent in 1960 to 46 percent in 1973, while the top 7 percent of the wealthy received half of the national income in a period of massive foreign borrowing and direct foreign investment (WBA, General Negotiations, 1969, Box VII, File 1, Zinman to Files, May 27, 1969). After two decades of repeated promises of reform and economic growth based on foreign loans, the hacendados owned 80 percent of the cultivated land and foreign interests controlled half of all banking assets, 60 percent of the commercial firms, and 35 percent of manufacturing. Direct foreign investment, only US$7.4 million in 1960, had risen to US$350 million by 1972 because of the oil boom, but the foreign public debt skyrocketed, reaching US$5.5 billion, absorbing 25 percent of the budgetary receipts, in 1982 (Balassa et al., 1986: 47; Janvry et al., 1991: 22; Martz, 1986: 73). The conditions for high-risk borrowing in the 1970s were established during the era of public borrowing in the 1950s and 1960s under the advice of the multilateral agencies and the United States.

Ecuador's experience with stabilization programs in these years is not at all unique but representative of a wider phenomenon throughout Latin America. Bolivia, Peru, Colombia, Chile, and Argentina went through similar experiences under stabilization programs that added to the foreign debt and failed to address structural economic problems and terms of trade, and in all cases the fragile parliamentary systems fell under military rule. Moreover, these republics, whether under military or civilian rule, were less self-reliant and suffered escalating debt burdens and lower living standards because of the growth-by-debt policies pursued on the advice of the United States and the multilateral lending agencies. Indeed, Ecuador, along with most of its neighbors, had had a much higher per capita income than Korea and Taiwan in 1950 but lagged far behind three decades later. While public borrowing per se does not explain differential growth rates, the pattern of borrowing in Ecuador and Latin America was not part of an integrated development plan designed to raise living standards and achieve greater self-reliance. The long-standing pattern of expedient borrowing to finance past debts and budgetary and balance-of-payments deficits continued through the debt crisis of the 1980s and the rescheduling process, which was disadvantageous to Ecuador as a small debtor that did not receive the same terms as larger ones. As a new debt cycle commenced, urban salaried workers and wage earners were severely impacted as the burden fell inordinately on the lower middle and working classes.[17]

NOTES

1. According to Acosta, the debt in 1949 was US$26.1 million and in 1972 stood at US$260.8 million (Acosta, 1990: 254; Alexander Rodríguez, 1983).

2. For similar studies on these regimes, see Skidmore (1977: 149-183) and Kofas (1995: 213-235; 1996b: 136-150).

3. The Korean War stimulated primary exports from Latin America to the United States, while in the second half of the 1950s there was a decline in the volume and prices of primary products, especially coffee and cacao (see Velasco Abad, 1983: 193).

4. On October 23, the Senate approved three bills authorizing the government to borrow US$20 million from the IBRD and Eximbank, US$15 million from Venezuela, and US$8 million from Shawbank of London, all to finance infrastructural projects. Because the administration was seeking loans outside the United States, the World Bank cautioned it not to increase the public debt (see SDNA, 822.10/10-2557, No. 308; WBA, Box 3, "Indebtedness," October 1, 1957; ibid., O. Morelli to Iliff, November 21, 1957). Between 1945 and 1957, U.S. credits and grants to Ecuador amounted to US$48.5 million out of US$2.6 billion granted to all Latin America. World Bank loans to Ecuador totaled US$13.5 million out of US$658.5 million to Latin America. For analysis of U.S. aid to Latin America from 1945 to 1957, see Rippy (1959: 83-96).

5. Anglo-Ecuadorian announced plans to discontinue further expansion until Quito gave in to its price demands. Britain favored withholding IBRD loans to force Ecuador into a compromise (WBA, Mervyn L. Weiner to G. S. Mason, April 2, 1958; F.O. 371/132068, AE 1532/18, No. 1531/18/58, August 21, 1958; F.O. 371/132268, AE 1532/13, No. 1531/15/58, July 25, 1958). For more on how the United States and Britain used the World Bank to collect interwar loans, see Kofas (1996b: 128, 135).

6. Other agricultural products and minerals also experienced price declines. Between 1951 and 1959, the value of Latin American exports declined by US$1 billion (Eisenhower Library, Central Files, Box No. 326, Pan American Union, Annual Report by the Executive Secretary of the Inter-American Economic and Social Council, July 1960; *New York Times*, September 11, 1960; Sunkel, 1969: 6).

7. For more on Velasco, see Velasco Ibarra (1961) and Cuvi (1977).

8. Foreign Minister Chiriboga informed the State Department that Velasco favored Castro's Cuba but could be persuaded to adopt an anti-Cuba policy if Washington extended a US$45 million credit line to Ecuador (SDNA, 722.00/10-2560).

9. The British embassy asserted that Arosemena engineered Velasco's overthrow. Just before he was overthrown, Velasco tried to have Arosemena arrested, but the latter enjoyed the backing of the air force (F.O. 371/168018, AE 1015/16, No. 1011/63 S, May 28, 1963; *New York Times*, November 9, 1961). Velasco blamed the CTE and radical student organizations for the overthrow (*New York Times*, November 13, 1961). Pyne (1973: 31) argues that the political factions in Congress were chiefly responsible.

10. The flight of capital had slowed considerably by the end of 1962, and reserves had risen from 307 million sucres in December 1961 to 592 million sucres a year later, primarily because of the increase in banana exports and the deliberate reduction of imports (F.O. 371/168017, AE 1011/1, No. 2, January 3, 1963).

11. SDNA, 722.00/1-2563, No. A-74, Enclosures; SDNA, POL 26, Ecuador, A-830, June 13, 1963.

12. For details on the concessions that Arosemena made to the United States in the fishing controversy, see SDNA, POL 2-1, Ecuador, A-834, June 14, 1963.

13. The United States officially recognized the junta on July 31, 1963, but supported it from the outset (SDNA, POL 2-1, Ecuador, A-68, August 3, 1963; F.O. 371/173890, AE 1011/1, No. January 20, 1964; WBA, General Negotiations, Box 2, L. V. Perez to Files, July 19, 1963; ibid., Roger S. Nelson to Files, August 5, 1963; ibid., Robert de Vries to Orvis Schmidt, July 4, 1963; F.O. 371/173890, AE 1011/1, No. 1, January 20, 1964; SDNA, POL 15, Ecuador, No. A-34, July 16, 1963; Stornaiolo, 1988: 217; Schodt, 1987: 83; Velasco Abad, 1983: 204-205; Fitch, 1977: 65-6; SDNA, POL 2-1, Ecuador, A-85, August 10, 1963; SDNA, POL 2-1, Ecuador, A-288, November 2, 1963; SDNA, POL 2-1, Ecuador, A-266, October 29, 1963).

14. For analysis of peasant radicalization in the aftermath of the 1964 reforms, see Korovkin (1997: 25-49); Galarza Zavala (1966); (WBA, 91000/018, EC, General Negotiations, II, Box 6, File 6, L. V. Perez to Files, August 19, 1964; ibid., E. K. Hawkins to de Vries, July 15, 1964; F.O. 371/173890, AE 1011/1, No. 1, January 20, 1964; F.O. 371/179375, AE 1011/1, January 21, 1965; Sunkel, 1969: 14-15).

15. In 1966, exports amounted to US$139.7 million, the foreign debt was US$140.7 million, and service on the debt was US$16 million (Acosta, 1990: 259).

16. For a comparative analysis of the Alliance for Progress and USAID programs in Latin America, see Davidson (1976), Levinson and de Onis (1970).

17. For an analysis of the history of debt cycles in Latin America, see Lisboa and Rodriguez (1986: 11-59), Pastor (1987: 249-262), Kofas (1995: 213-235), Balassa et al. (1986: 16-58). For comparative view of Third World development, see Haggard (1990).

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