CHAPTER 9

Case Studies: Argentina, Brazil, Ecuador, and the United States

In this chapter, we apply the framework from Chapter 8 in an illustrative fashion to four critical transitions. All transitions are contextual with their own nuances. But transitions have common features: a shock, window of opportunity, leadership, change in beliefs, and a new dominant network followed by new institutions.

United States, 1783–1789: Transitioning from “States Rule” to the United States of America

The rebellious colonies fought a war for independence from Great Britain from 1776 to 1783. Prior to the French and Indian War, Britain allowed the colonies an amazing amount of autonomy. They could pass any law that was not repugnant to the crown (Hughes Social Control in Colonial America). Following the end of the French and Indian War in 1763, policies towards the North American colonies changed. The French and Indian War was costly, and Britain decided to increase the tax burden on the colonies, which previously had been negligible.

The initial rationale for the Revolutionary War for the colonies was that they felt that rule from afar was arbitrary and no longer tolerable. Taxation without representation was one of the issues, but not the sole complaint. Calls for action increased. Initially, the calls for actions by the colonists were not centrally organized within or across colonies. The overall climate changed following the British retaliatory actions against the colony of Massachusetts after the Boston Tea Party. The colonists termed Britain’s policies, the intolerable acts. Britain shut the Port of Boston, closed the Massachusetts legislature, mandated that British offences be tried in Britain –
not in the colonies – and stated that British troops could be quartered in homes. These actions fed a belief that Britain was taking away the liberties of the colonies (Rakove, Ruttan, and Weingast, 2004). The fear spread: if it could happen in Massachusetts, it could happen in Pennsylvania or Virginia. Increasingly, more elites felt that British rule was intolerable. Twelve of the thirteen colonies sent delegates. They met in Philadelphia in fall of 1774 to discuss a response to Parliament, and it became known as the First Continental Congress.

The colonists agreed that the Intolerable Acts warranted a response. The Conservatives carried the day and Congress agreed to petition the crown for a repeal of the Intolerable Acts. To put some teeth into their request, Congress called for a boycott of British goods beginning in December of 1774. The appeal to the Crown was not successful, and hostilities between the British and colonists broke out on April 19, 1775, in the “shot heard round the world.” The Second Continental Congress convened in May 1775 and managed the war effort. Congress appointed George Washington as general of the war. Despite a seemingly centralized, organized effort, early on the fighting was mostly local, entailing state militias as the combatants. The state of affairs reached a tipping point and Congress voted for independence from Britain on July 2, 1776.

The United States became united to defeat the British. In November 1777, Congress passed the Articles of Confederation with each state having one vote. But, importantly, it took until 1781 for all states to ratify, some fearing too much centralization. Large states and small states would be on equal footing, signifying the importance that the sovereign unit of governance was at the state level. States united to defeat the British, but the Articles of Confederation left them without the central power to tax to fund the war. Washington repeatedly asked for more funding from Congress, but there was the free-rider problem in that states not directly involved
in hostilities did not see much need to pay for the war. In part, because of a lack of funding, Washington fought a large part of the war by avoiding the better-funded British army.

Hostilities ended in 1781, but it took until 1783 to sign the Treaty of Paris, which was the official settlement of the war. Following the conclusion of the war, many states found that the loose cooperation under the Articles of Confederation suited their needs. All states realized that, if pressed, they needed some form of cooperation in the case of attack by a foreign nation. A stronger alliance was not deemed necessary by most states and the heterogeneity across states made cooperation difficult. The Continental Congress continued to meet and some early Federalists clearly saw the weaknesses of the Confederation and started talking and writing that the states needed a stronger union. Weaknesses included: the unanimity rule to change provisions in the Articles; a lack of consensus on how to pay the debt from the war; an inability to credibly engage in foreign affairs; and a fear that we could not defend our borders from threats in the future. George Washington and Alexander Hamilton were the earliest proponents of a stronger union, with Hamilton being the most outspoken.

The weaknesses of the Articles of Confederation provided the endogenous “shock” that set in motion the critical transition from a belief in a loose confederation of states to a federal nation. Increasingly so, beliefs that some reform was necessary became more apparent, especially among members of the Continental Congress. Within states, governors and their allies remained more pro states’ rights because they naturally saw sharing power as diminishing the power of states. The window of opportunity for change was latent but seized boldly by Alexander Hamilton. In January 1786, Congress agreed to hold a convention in Annapolis in September to discuss the rules regulating interstate trade. It was not meant to entail sweeping changes, but the hope of some was that it could limit tariffs across state lines. Madison, who
supported it, saw it as an incremental experiment, which if successful could lead to other reforms. The convention itself was a failure because only five states sent delegates, so no reform was possible. At the conclusion of the convention, Hamilton – displaying amazing imagination – rose and announced that there was unanimous agreement that states should send delegates to a Constitutional Convention in Philadelphia on the second Sunday in May 1787 to address all the weaknesses of the Confederation.

This was Hamilton’s out-front brand of leadership in its most flamboyant form. A convention called to address the modest matter of commercial reform had just failed to attract even a quorum, and now Hamilton was using this grim occasion to announce the date for another convention that would tackle all the problems affecting the confederation at once. It was as if a prizefighter, having just been knocked out by a journeyman boxer, declared his intention to challenge the heavyweight champion of the world. Given the overwhelming indifference that had suffocated all previous attempts at comprehensive reform of the Articles, no one with any semblance of sanity could possibly believe that Hamilton’s proposal enjoyed even the slightest chance of success. (Ellis, 2015: 100)

Surprisingly, Congress in late 1786 agreed that states should send delegates to Philadelphia to discuss reforms. Now the most pressing issue – as seen by Hamilton, Jay, Madison, and others – was to convince George Washington to attend.¹ Washington was comfortably retired at Mount Vernon and believed that things had to get even worse before they could get better. Washington was besieged that without his presence the Constitution would fail, but with his presence it stood a chance of succeeding. The rationale for the importance of Washington was his moral authority. Having suffered so greatly during the war, no one distrusted the motives of George Washington in wanting to make the nation strong. To the glee of the Federalists, Washington agreed to be a Virginia delegate.

¹ Henry Knox, a confidante of Washington, at first counseled Washington not to attend but changed his mind when Madison convinced Knox that all states would send delegates. Knox subsequently lobbied Washington by arguing that success in Philadelphia would assure Washington the epithet of “Father of our Country” (Ellis, 2015: 112).
The next step for the Quartet was to set the agenda at the convention. Normally, debate ensues over the status quo. Madison strategized with others to change the agenda. Madison, along with others, conceived of the Virginia Plan, which was a major departure from the Articles of Confederation and called for three branches of government and equal representation by population in the House and the Senate. The details are not important, but that it became the focal point around which debate ensued was crucial. Madison not only convinced his fellow Virginians to support the Virginia Plan, but he convinced other key players, notably Gouverneur Morris of Pennsylvania. On May 30, a majority of the delegates approved a proposal by Morris calling for a national government along the lines of the Virginia Plan. A new focal point was set, thanks to the coordinative skills of chiefly Madison, who did his homework prior to the convention, unlike most of the delegates. The new focal point of the Virginia Plan was endorsed prior to most of the New England delegates arriving, though several were strong Federalists. The second order of business for the Federalists was to install Washington as the chair of the convention. The vote was unanimous. Though Washington said little at the convention, his presence and silent endorsement of the views of the Federalists had a huge impact on the delegates and the overall tone of the convention.

Though there was much tinkering on the margin with the Virginia Plan, especially that each state received two senators, the essence of a tripartite system with strong checks and balances emerged from the convention. With the Constitution having been drafted in Philadelphia, it now needed to be ratified by two-thirds of the states, that is, nine states. Almost immediately, Hamilton, Jay, and Madison went to work to sway public opinion.

Of most concern to the proponents was the fate of New York, which seemed reluctant to sign on. For this reason, Hamilton, Jay, and Madison published 85 essays in New York
newspapers. A majority of the Federalist Papers discussed issues of national defense. Having just fought a war that the United States barely won, the issue of collective defense resonated in the minds of a large segment of the population. The essays also sought to justify the proper alignment of shared power with the majority of decision making residing in states and only those transcending boundaries should be the province of the national government, for example, the ability to tax to maintain a standing army or the right to negotiate international treaties and the right to regulate interstate commerce. ² The vote by states was a simple yes or no, though many states suggested amendments to the Constitution. The numerous suggested amendments to the Constitution largely concerned issues of personal freedoms, which the leaders already presumed citizens had through their state constitutions. Nonetheless, to assuage states and solidify a belief in nationhood, Jay convinced Madison of the need for a Bill of Rights. Madison once again exhibited leadership through agenda control by writing a draft of the Bill of Rights as amendments to the Constitution and submitting it to Congress. Though not accepted in its entirety, it set the focal point for bargaining.

With the passage of the Constitution and Bill of Rights, was there a wholesale transition to a belief in nationhood? No, there will always be a tension between states’ rights and central power. Belief deepening requires institutional deepening, and there were clearly some short-run institutional changes that deepened beliefs. The Constitution was seen as a commitment mechanism for ensuring credibility as a nation and demonstrating the ability to raise money for national defense. Between 1790 and 1794, largely under the leadership of Hamilton with staunch support from Washington, the United States: funded the National Debt, an issue of contestation.
under the Articles of Confederation; established a National Bank; and put down the Whiskey Rebellion, demonstrating the power of the federal government over taxation. Equally important, the federal government did not interfere in the designated rights of states.

Over time, there was more institutional deepening, further solidifying the belief in the United States as the sovereign entity over the states in various domains. On the judicial side, the John Marshall Court in *Madison v. Marbury* established judicial review of the legislation of states as being under the umbrella of the Supreme Court, though this took time to solidify. The United States expanded its territory tremendously under the Louisiana Purchase in 1803, but bringing to the fore the issue of defense. This was followed by the War of 1812 with Britain, which demonstrated the role for National Defense. Though slavery remained an area of disagreement across the states, the states agreed to take slavery off the legislative agenda through balance rule, whereby free and slaves states were admitted to the union in pairs (Weingast, 1998). As long as the total number of slave and free states were equal, the Senate could veto any move to restricting slavery. As a result, the tariff was the most contentious issue in the antebellum years. The balance rule held for quite awhile until slavery split the nation apart. But even here, Lincoln asserted that it was a matter of nationhood, not slavery per se, that drove his actions.

If there be those who would not save the Union, unless they could at the same time save slavery, I do not agree with them. If there be those who would not save the Union unless they could at the same time destroy slavery, I do not agree with them. My paramount object in this struggle is to save the Union, and is not either to save or to destroy slavery. If I could save the Union without freeing any slave I would do it, and if I could save it by freeing all the slaves I would do it; and if I could save it by freeing some and leaving others alone I would also do that. What I do about slavery, and the colored race, I do because I believe it helps to save the Union; and what I forbear, I forbear because I do not believe it would help to save the Union. (Letter to Horace Greeley, August 22, 1862; emphasis in original)
Argentina, 1912–1955: Budding Belief in Checks and Balances to Populism

From the late nineteenth until the mid-twentieth century, Argentina was generally in the top richest GDP/P countries in the world. In 2015, Argentina ranked 53rd. In the narrative that follows, we propose that its fall from an upper-income country to a middle-income country was due to a shift from a budding belief in checks and balances to populism. In 1912, Argentina passed the Sáenz Peña law. Named after the conservative president who spearheaded the initiative, the law established the secret ballot as well as stricter monitoring for fraud, the naturalization of immigrants, and citizenship to the children of immigrants. It is somewhat ironic that a completely conservative-run government would pass such a law. Its motivation is unclear, though in part it was no doubt spurred by labor and citizen unrest over the lack of voice of many people in politics. We speculate that it was also motivated by Argentina’s desire to demonstrate to the other rich countries that Argentina had advanced sufficiently to establish a more open electoral system. In many ways, Argentina considered itself far ahead of the rest of South America, culturally, socially, and economically. It was now time to catch up politically.

The first year that the Sáenz Peña law affected a national presidential election was 1916. Hipolito Yrigoyen from the Radical Party won the presidency, and the Radicals also won a majority in the Deputies chamber. The Conservatives held onto the Senate. Divided governance remained in force over the next 16 years. The dominant network widened to include not just the Conservative landowners from the Pampas and their elite urban allies, but now many rural and urban workers. The dominant network established institutions under the umbrella of a budding belief in checks and balances, including a role for the judiciary. The legislative agenda moved to be more competitive, and the Chamber of Deputies proposed laws to control rural rents as well.

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3 This section draws heavily from Alston and Gallo (2010) and Alston et al. (2016).
as other pro-labor legislation. Not all the legislation passed, but the number of votes that went for a roll call over a voice vote increased considerably. The system appeared to be working for most parties. The lower classes received not just more political voice, but the economy was robust for all classes of workers. GDP/P over the period exceeded 4 percent, one of the highest in the world. The political and economic systems were still somewhat closed and some fraud at the ballot boxes still remained, but it does represent a relatively sharp break from the past. A critical transition was in its infancy.

Unfortunately, before the system could mature, the Great Depression rocked the world economy. Argentina relied on its exports of agricultural commodities, and the prices of commodities tanked in 1930. From December 1929 to December 1930, the prices of wheat fell in half and the prices of beef almost as much (US Department of Agriculture, 1936: 21, 216). Congress acted from both sides of the aisle with legislation to “do something,” but the legislation never received the approval of the aging President Yriogen. At the behest of the Conservatives and with the countenance of the Radicals, the military acted to remove Yrigoyen. It was a bloodless coup, though not done according to the rules. Argentina could have initiated impeachment proceedings, though they felt that they could not wait. The decline in prices was too great and misery was mounting along with unemployment.

The Supreme Court should have protested the abandonment of the rule of law but most called it a “triumphant revolution,” though one justice resigned in protest (Alston and Gallo, 2010: 182). The military sided with the Conservatives and put them in power de facto. The plan of the military was to transition quickly back to elections and the former system of checks and

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4 We could not find any definitive account of the reasons behind the inaction of Yriogen. Most accounts simply cite his age and decline in cognitive functioning.
balances. The military presumed that the public would recognize that policies to combat the Great Depression needed the Conservatives in power. They misread public opinion. In the first free election in April 1931 in the province of Buenos Aires, the Radicals won the election. Shocked, the military annulled the results.

The Conservatives learned their lesson. In the National Election of 1932, the military forbade any Radical politicians who had been in office during Yrigoyen’s last term. This represents a further departure from a belief in checks and balances. In protest, no Radical Party members ran for office. Naturally, the Conservatives came back to power. The dominant network now consisted of the Conservatives, the military, agricultural producers – particularly in the Pampas – and other exporters. The dominant network justified their actions by arguing that the Great Depression required emergency measures and that the economy could not be in the hands of the Radicals. Ironically, economic historians have given Argentina high grades for managing the economy during the Great Depression (Della Paolera and Taylor, 1998, 1999, 2001). The Conservatives resorted to fraud throughout the 1930s to stay in control and proudly labelled it “Patriotic Fraud” (Alston and Gallo, 2010).

The rural and urban citizens lost faith that checks and balances could ever return. Ten years is a long departure from a political voice. We will never know the counterfactual, but Argentina may have managed the economy well but at huge social cost.

The conservative regimes of the 1930s, in spite of their flirtations with fascist reformism, brought to a halt the modest momentum for political and social reform started by the Radical governments. Their failure to buttress the relative healthy economic structure with social and political arrangements allowing for growing security and political participation for rural and urban masses contributed to the creation of revolutionary possibilities (Diaz Alejandro, 1970: 107–108).

In short, the Conservatives appeared to have won the battle by fraud but lost the war by abandoning the rule of law.
Finally, in 1940, the electorate saw a ray of hope. President Ortiz promised a return to fair elections in 1942. Regrettably, we will never know if he had been able to implement an honest election. Ortiz died in office on June 27, 1942. His successor, President Castillo, did not live up to the promise of Ortiz. Fraud again riddled the elections of 1942. Fraud was reaching a tipping point, which at this point even a nationalistic faction of the military resented. They staged a coup in 1943, vowing to return to elections shortly. The power went to their heads and they waited until 1946 to announce an election with Juan Perón as their candidate. Perón campaigned on a populist platform, especially reaching out to labor. The election was clean and Perón won with 52 percent of the vote. Perón appealed to those who lost their political voice in the 1930s.5

The election of Perón represented a window of opportunity for Perón to coordinate a move to a belief in populism. Perón did this skillfully. He created a dominant network through subsidies to labor, both rural and urban, and reached out to outlying provinces with transfers. He accomplished this through extracting rents from the agricultural landowners in the Pampas. In order to extract rents, Perón relied on price controls on wheat, which may have been ruled unconstitutional. Perón saw the court as an obstacle to populist policies and believed that he had the answer: impeach the court on the grounds of their countenance of fraud in the 1930s.

In my opinion, I put the spirit of justice above the Judicial Power, as this is the principal requirement for the future of the Nation. But I understand that justice, besides from being independent has to be effective, and it cannot be effective if its ideas and concepts are not with the public sentiment. Many praise the conservative sentiment of the Justices, believing that they defend traditional beliefs. I consider that a dangerous mistake, because it can put justice in opposition with the popular feeling, and because in the long run it produces a rusted organism. Justice, in its doctrines, has to be dynamic instead of static. Otherwise respectable popular yearnings are frustrated and the social development is

5 In a counterfactual, Alston and Gallo (2010) found that if fraud had not occurred, that Perón would not have won the election. Perón’s vote was greatest in those areas where fraud prevailed. The experience in the province of Cordoba also supports this view. Cordoba did not engage in fraud in the 1930s and the Radicals stayed in power. In the election of 1946, only a minority voted for Perón.
delayed, producing severe damage to the working classes when these classes, which are naturally the less conservative, in the usual sense of the word, see the justice procedures closed they have no other choice than to put their faith in violence. (Diario de Sesiones del Honorable Senado de la Nacion Constitutido en tribunal, T. VI, December 5, 1946: 89; quoted in Alston and Gallo, 2010: 192)

Perón’s allies in Congress moved swiftly and impeached all but one of the Supreme Court justices. With the court out of the way, Perón moved to solidify the belief in populism. He nationalized several public utilities and kept prices low for their services (water, telephone, and railroads). He also reached out to rural workers by controlling rents. He accomplished this by taxing the landowners in the Pampas through his monopoly purchasing power at below-market prices. When revenues started to fall below expenditures, Perón leaned on the Central Bank to monetize debts. They did, but at the cost of starting inflation. Both the fiscal and monetary situation began to worsen, but Perón was popular with the masses who never abandoned populism. But, the military realized that the trajectory of Argentina was unsustainable, especially in the face of declining foreign and domestic investment as well as a loss of international credit. The military, with the political backing of the landowners in the Pampas and the Catholic Church, staged a coup in 1955. The military attempted to reverse some of the populist policies of Perón, but populism continued. Indeed, it remains in 2016 a belief held by a significant number of organizations. Currently, it is held at bay by the election in November 2015 of Macri, who vowed to return to orthodoxy in the hopes of reigniting growth in Argentina. Whether he can deepen beliefs in orthodox yet inclusive growth through reinforcing institutions remains to be seen.


Social inclusion was the belief that overshadowed institutional design by the dominant network from 1985 to 1993. It emerged as a reaction to the belief in “developmentalism” during the
military administration from 1964 to 1985. Developmentalism was top-down state planning and, as a military government, limited political rights. Social inclusion was a belief that societal welfare could best be enhanced through being more inclusive politically, and for economics, all interests get something. On the political front, many political parties emerged and illiterates received the right to vote. Land reform was on the agenda. The Constitution passed in 1988 explicitly granted many rights, including the right to vote for illiterates. For economic organizations, all interest groups received benefits from policies. Businesses received subsidies. High tariff walls remained. Unions received rights to strike. In a sense, it was democracy without real checks and balances. As a result, hyperinflation became the norm, with yearly inflation rates from 1988 until 1994 in the hundreds to thousands of percent. Brazil initiated five major stabilization plans between 1986 and 1993. At the time of the impeachment proceedings of President Fernando Collor de Melo, inflation raged at more than 3,000 percent per year. Clearly, this was an incredible shock to the economic and political system. Naturally, it hurt the lower- and middle-income classes the most because they could not hedge their savings.

Amid the macroeconomic chaos, President Collor was under impeachment proceedings on allegations of corruption. Collor resigned on December 30, 1992, and Vice President Itamar Franco took over as president of Brazil. The first order of business was to stabilize the economy. President Franco appointed Cardoso as foreign minister and then in May 1993 appointed Cardoso as finance minister. At first blush, Cardoso was an unlikely candidate for finance minister, having been a former professor of sociology at the University of São Paulo and known for his work on dependency theory. But, by 1993, Cardoso had changed his political and economic views, moving from the left to the center. Cardoso seized hyperinflation as a window
of opportunity and demonstrated leadership skills, coordinating the dominant network of political and economic organizations.

Cardoso recruited an economic team mostly from PUC-Rio (Pontifical Catholic University of Rio de Janeiro). The team crafted the *Real Plan*. Most of the team received their PhDs in economics from prestigious schools in the United States. Gustavo Franco, one of the architects, wrote his PhD dissertation at Harvard on hyperinflation and its solution in Germany. Despite expectations of the market and the IMF, the *Real Plan* tamed inflation, though not with a big bang. In part, it was the design and in part it was the messenger, Cardoso. Unlike some earlier plans, the new currency was not forced on anyone and, indeed at first, was not a medium of exchange but simply a unit of account floating against the Cruzeiro Real, which floated against the dollar. Cardoso was a great spokesman, stressing the transparency of the plan as well as encouraging organizations to start using the Real as a unit of account. Cardoso, a former senator, also interacted skillfully with Congress as well as with President Franco. Naturally, the political interests hoped for success. The economic team insisted on independence from Congress, and Cardoso guaranteed his economic team protection from interference.

On the success of the *Real Plan*, Cardoso ran for president in 1994 and won. He brought with him to administration several of the members of his economic team as finance minister. Pedro Malan became the minister of finance for both of Cardoso’s terms, and Gustavo Franco became head of the Central Bank. Taming inflation was a necessary but not sufficient condition to change beliefs from social inclusion to fiscally sound social inclusion. Brazil needed institutional deepening which, if yielding the right outcomes, would strengthen beliefs. After inflation, Cardoso had to act on the fiscal side. He did so with budget stabilization. This entailed reining in spending by state governments and necessitated reforming state banks so that the debts
held by state governments would not be monetized by the Central Bank, the extant practice. The national budget also needed to be stabilized. On this front, Cardoso reformed pension laws requiring several constitutional amendments. The hallmark of the success for Cardoso was the Fiscal Responsibility Law in 2000, which made states more fiscally sound and transferred power to the central government.

To succeed, Cardoso needed support among powerful organizations in the dominant network. His supporters increased over time across private businesses as well as in the political coalition. His success is testimony to his leadership skills in coordination and adaptability. Despite the success of Cardoso’s two terms, there were critics on the left in the PT party. Lula ran for presidency in 2002 and won. Prior to taking office, the Real depreciated, suggesting that the public and outside investors believed that the belief in fiscally sound social inclusion was not firmly embedded. Lula fooled the markets. In part thanks to high commodity prices, Lula expanded social programs while maintaining a budget surplus. Lula proudly announced to the world that Brazil was immune to the financial crisis that shook the world’s richest countries in 2008. Lula’s approval ratings went through the roof during his two terms. On his coattails, Dilma Rousseff, Lula’s anointed successor, ran for the presidency in 2010 and won. In her acceptance speech, she reaffirmed a commitment to fiscally sound social inclusion: “the Brazilian people do not accept that governments spend more than is sustainable.” Her actions did not match her words. She increased state intervention in public companies and commodity prices declined. As a result, her revenues declined. Despite the decline in revenues, she managed to run budget surpluses during her first term. Rousseff was reelected in 2014 in a runoff indicating that her popularity had declined over her first term. Public opinion started to turn against Rousseff because of the declining economy and the Petrobrás scandal, the largest corruption scandal in
history. In 2015, the General Accounting Office of Brazil unanimously voted that Rousseff overstated the budget surplus figures in the 2014 election year. Based on the ruling by the accounting office, Congress began impeachment proceedings against Rousseff in the spring of 2016. In August 2016, the Senate voted to impeach Rousseff.

An impeachment may signal a window of opportunity and abandonment of the belief in fiscally sound social inclusion. Yet, there is evidence that institutions supporting fiscally sound social inclusion may be robust. The corruption scandal is showing that no longer is the elite in Brazil immune from the law. Wealthy businessmen and prominent politicians are in prison after being sentenced for crimes associated with the Petrobrás scandal. More importantly, interim President Temer has been steering Brazil back to institutions consistent with fiscally sound social inclusion. The outside investors agree; the Real appreciated more than any currency year-to-date as of October 2016. But the jury is still out whether the current belief will hold. President Temer is not a popular president, and the corruption scandal continues to erode public confidence in government. Only time will tell whether the current belief will hold or be replaced by a new belief most likely ushered in by new leadership, not currently visible in the wings.

**Ecuador, 1998–2016: From a Neoliberal Belief to a Belief in Inclusive Politics**

Ecuador’s experience in the past two decades provides an example of a critical transition that changed the political development trajectory, without at first significantly altering the economic growth trajectory of the nation. The enactment of a new Constitution in 2008, and its initial phases of implementation, required a significant adjustment to the balance of powers, a transition facilitated by the leadership of President Rafael Correa, and his party, Alianza País. The shock

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6 Petrobrás is Brazil’s publicly owned oil company.

7 Until the administration of Correa, economic growth did not materialize.
the nation experienced was that of an endogenous tipping point, based in the failure of prior administrations and the prior constitution to restrain corruption and distribute rents from natural resource wealth. The window of opportunity was brought about by widespread, latent popular demand for a fundamental change to the existing elite coalition, demanding greater recognition of progressive and environmentalist demands. More than eight years after the enactment of the 2008 Constitution, the program of the government displays a marked change in public service provision, as well as an increased recognition of indigenous and environmental concerns.

In many nations, the emergence of a new constitution occurs because of the perceived failures of the preceding one. In Ecuador, the 1998 Constitution was borne from a political crisis and resulted in neoliberal policy reforms while simultaneously facilitating the rise of new indigenous and citizens’ movements. Although driven by a desire for more inclusive democracy, the Constitution of 1998 did not accomplish enough to avoid the political turnover that ultimately led to the rise of Correa, and subsequently, the 2008 Constitution (Ortiz Crespo, 2008: 14). Although the decentralized governance contemplated by the 1998 Constitution led to more inclusive democratic outcomes on the subnational level, it did not create the opportunity for reform at the national level. The dominant network that benefited from the status quo at the national level remained unaffected by indigenous rights movements at the provincial and local level, movements nonetheless empowered by the 1998 Constitution.

Ecuador was governed by seven different administrations between 1996 and 2006, each emphasizing market liberalization and reduction of the state. Each administration fell under distinct circumstances, but each administration turnover was linked to corruption (Paz and Cepeda, 2009: 74). Inequality rose considerably during this period, along with high unemployment and subemployment. This led to mass emigration, predominantly to Spain, but
also elsewhere. What is apparent about this period is that the dominant network did not respond quickly enough to the change in its own structure: the decentralization created the opportunity for movements previously excluded from the political process to experience newfound political success. This inflexibility on the part of the dominant network is argued to have led directly to the “post-neoliberal” arrival of Alianza País, the party that largely drove the development of the 2008 Constitution and has since enjoyed a near unbroken hegemony in the legislative and executive branches. These origins led to a popular view of the constitutional process as embodying the right to political participation, correcting rights abuses within the country, and creating altogether new rights that better represented the fundamental beliefs of the newly enfranchised groups (Ortiz Crespo, 2008). Estefanía Salvador Tamayo (2014: 44) highlights the period following the 1998 Constitution as a window of opportunity that the initial administrations failed to realize.

In short, much of the population increasingly began to question the legitimacy of the government prior to the rise of President Rafael Correa and his party, Alianza País. This fall in credibility on the part of the existing governance options led to the rise of workers’ and indigenous movements that crystallized into a broad citizen’s movement that supported Correa and his Alianza País party. The post-constitutional electoral results in 2009 highlight the extent of disillusionment with the traditional parties, with only 9 of 124 seats in the National Assembly retained by members of the dominant network prior to 2008 (Pachano, 2010: 308). Moreover, none of the prior parties fielded a presidential candidate in the 2009 elections (Bowen, 2010: 187). This stands as a clear indication of the extent to which the nation underwent a major transition regarding the dominant beliefs surrounding governance institutions.
The political turnover preceding Correa’s administration resulted in the unification of diverse indigenous movements. These newly unified movements were instrumental in protests against the corruption and inequality that characterized the seven administrations preceding that of Alianza País. By one estimate, 80 percent of the Ecuadorian population was excluded from the political process, and this was the base that Correa effectively tapped for his rise to power and reframing of the Ecuadorian social contract (Becker, 2011: 48). The constituent assembly was dominated by Correa’s party, “a very loose and diverse grouping of social-movement activists, academics, and nongovernmental organization leaders” (Becker, 2011: 49), as well as notable indigenous leaders. Many community and indigenous activists made the calculated bet that the best chance of seeing their interests represented lay with working within the new dominant coalition, as opposed to on the margins to which they had been relegated during the preceding administrations. This outcome also reflects the optimism that the change in the dominant network must have created for these formerly marginalized groups; these groups had effectively never been granted a meaningful opportunity to see their aims represented in the national government. Salvador Tamayo makes the important point that Correa first tapped into widespread and persistent popular disillusionment with the political elite writ large, and then subsequently orchestrated a referendum calling for a new constitutional document. This produced a focal point for coordination between the demands of citizens and the interests of the dominant network who were able to maintain their influence under the new administration.

By 2008, however, critics of the administration already identified tensions between the centralized authority needed to provide rights to health care and education, and the decentralized representative democracy that the new coalition of Alianza País has come to represent (Ortiz Crespo, 2008). Inclusion of previously marginalized groups in a new constitutional drafting
process necessarily results in compromises. As the number of different groups represented within a single coalition increases, the level of compromise from ideal points similarly increases. Drastically increasing the level of public services enjoyed across the nation, while simultaneously creating and enforcing new rights to environmental protection, is a social contract that can be quite difficult to satisfy in the short term. However, the maintenance of such a social contract does not require immediate adherence to every provision articulated in a given constitution; rather, it requires satisfying a sufficient base of constituents such that the continued implementation of the social contract is possible in subsequent electoral periods. This is the dynamic of institutional deepening, where sufficient progress towards new aims of governance creates the very faith needed to maintain progress in the medium term.

In this vein, Alianza País’s platform was a clear repudiation of the prior periods of instability, inequality, and corruption, depicting the previous periods as a “long neoliberal night” (Paz and Cepeda, 2009: 74) and promising to create a “new Latin-American left” (74), which included the need for a new constitution. The referendum as to whether a new constitution was needed clearly indicates the broad levels of support for such a fundamental change to the social contract; Alianza País’s position of yes received 82 percent of the vote, which firmly delivered them the mandate to elect a constituent assembly.

The debates within the constituent assembly as to whether Ecuador was a plurinational or intercultural state treated a central societal issue that led to the demise of the pre-Corruan administrations; many ethnic minorities were completely marginalized in the political process, and their political disenfranchisement had reached a critical level. Alianza País’s inclusionary rhetoric, and clear break with the existing political elites, provided an opportunity for these
concerns to become a major plank in the party platform during the drafting of the 2008 Constitution (Walsh, 2009).

The leaders of indigenous political coalitions who achieved representation in the constituent assembly themselves valued both the highly progressive environmental ideals of “Pachamama”\(^8\) and “sumak kawsay,”\(^9\) as well as the more traditional leftist development ideals of rights to health care, education, and social security. Another indigenous objective that became a contentious issue in the constituent assembly was the official recognition of indigenous languages as equal to Spanish. This move failed in the assembly, which led to a significant backlash against Correa and the assembly itself, including both being denounced as racist (Becker, 2011: 56). Perhaps in response to the public outcry, the languages of Kichwa and Shuar eventually received formal recognition, although this recognition did not grant official government status like that of Spanish.\(^10\) Certainly, in terms of actual cost, and the diverse objectives the collective indigenous movements sought from the 2008 Constitution, the nominal inclusion, as opposed to formal imposition, was the less costly of the two. Such a compromise highlights the tradeoffs between consensus and compromise that leadership during a critical transition entails.

On September 28, 2008, Ecuador’s new constitution was approved by a wide margin, receiving 64 percent of the vote (Gudynas, 2009: 38). The 2008 Constitution treats social rights

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\(^8\) This term can loosely be thought of as “Mother Earth,” with an emphasis on the nurturing role nature and a clean environment play on achieving sustainable public health outcomes.

\(^9\) This is an indigenous term whose equivalent in Spanish is “buen vivir,” which loosely translates to “good living,” which more broadly translates in a policy sense to the sustainable development outcomes, from the perspective of health, education, and economic well-being.

in detail, which range from health care (articulated as a broad concept of health, in addition to that contemplated in reference to “sumak kawsay”),\textsuperscript{11} to social security,\textsuperscript{12} to education,\textsuperscript{13} to specific care for the elderly\textsuperscript{14} and youth,\textsuperscript{15} to rights of the disabled to non-discrimination and adequate care,\textsuperscript{16} among others. These are the same rights that much of the population felt they had not received under prior administrations, and so it is unsurprising that these issues received so much attention from the Constituent Assembly. The 2008 Constitution also uses a particular indigenous Ecuadorian term, “Pachamama,” to refer to the environment, which formalizes the central role of the environment in providing well-being for all living organisms within the nation. This underlying theme was important in securing the support of the well-organized and politically active indigenous groups, although this close support has faltered from the high watermark enjoyed by Alianza País at the time of the passage of the constitution.\textsuperscript{17}

The preceding constitutional provisions have been characterized as resultant not only from community and indigenous movements but also from the preceding decades’ experiences with foreign extractive industries. The example of Texaco stands out in Ecuador’s history with foreign companies engaged in natural resource extraction. Texaco’s extraction of oil in portions of Ecuador resulted in significant environmental degradation to the point where the health of indigenous communities was greatly affected, explaining why the demand for environmental rights was so high (Kimerling, 2006). Relatedly, the very breadth of the social movement

\begin{footnotesize}
\begin{itemize}
    \item \textsuperscript{11} 2008 Constitution of the Republic of Ecuador, Art. 32.
    \item \textsuperscript{12} 2008 Constitution of the Republic of Ecuador, Art. 34.
    \item \textsuperscript{13} 2008 Constitution of the Republic of Ecuador, Art. 32.
    \item \textsuperscript{14} 2008 Constitution of the Republic of Ecuador, Arts. 36–38.
    \item \textsuperscript{15} 2008 Constitution of the Republic of Ecuador, Arts. 39, 44–46.
    \item \textsuperscript{16} 2008 Constitution of the Republic of Ecuador, Arts. 47–49.
    \item \textsuperscript{17} 2008 Constitution of the Republic of Ecuador, Arts. 47–49.
\end{itemize}
\end{footnotesize}
underlying the new constitution created other policy conflicts among the former dominant network. This arguably allowed the most stringent environmental protections found in the 2008 Constitution to experience less opposition than they might have otherwise generated (Gudynas, 2009: 41).

Although the term “sumak kawsay” is indigenous in origin, it has taken on a broader significance, to indicate a rejection of all that came prior in terms of chronic poverty and underemployment. However, as a term is adopted by a wider range of political groups, it is likely to experience changes in meaning as it is adjusted to fit the specific demands of each group. For example, the National Planning and Development Secretariat, SENPLADES, labeled the concept of sumak kawsay as a social pact (SENPLADES, 2010: 6). This is more than coincidental, and likely indicates how a social pact will typically require compromises from the groups that are party to it. There was widespread popular demand for the Ecuadorian government to secure the rights of individuals as well as groups, but this demand did not extend as cleanly to the rights of nature. This has led to the government focusing on economic development and positive rights provenance, especially in terms of health care and education. Such a tension in meaning directly results from the tradeoffs that the formalization of constitutional-level beliefs in society will require. Any constitutional document that accurately reflects the diversity of governance preferences within a given nation will face this type of tension.

This has led to a significant political divide within the country regarding how sumak kawsay should best be understood and translated into public policy. Supporters of Alianza País see “the good life” as composed of both increases in standards of living as well as reasonable amounts of environmental protection (Guardiola and Garcia-Quero, 2014: 177–78). In contrast, indigenous groups conceive of the concept as inextricably linked to the notion of every
individual being part of the larger natural environment in which they are situated; absent good environmental protections, sumak kawsay cannot be achieved (Guardiola and García-Quero, 2014: 177–78). This difference in meaning has increasingly placed indigenous groups in opposition to the government’s goals for economic development and social welfare provenance. Furthermore, revenues for implementation of government programs are not the only reason Alianza País has prioritized natural resource development. Resource extraction projects are often in the poorest and most remote parts of Ecuador. These are the areas that would most benefit from reductions in unemployment and infrastructural development. These benefits of natural resource extraction highlight a tension within the constitution itself, where strong environmental rights appear alongside a guarantee of benefits to citizens from the development of natural resources. The fact that both conceptions of sumak kawsay enjoy significant support within the country has recently been supported empirically (182).

In addition to these electoral shifts, constitutional implementation also entailed substantial structural changes to the economy, beginning with the government repudiating external debts. This repudiation was coupled with significant increases in government expenditure on infrastructure, health care, and education. Previously, privatized enterprises fell under state control as the nation weathered the global economic downturn. Ecuador also experienced a decline in investment domestically, likely due to the nationalization of major industries. This restructuring in the face of a global downturn resulted in several years of economic contraction. The repudiation of the debt reduced the national debt as a percentage of GDP from 23.2 percent and 18.3 percent in 2007 and 2008, to a level of 14.3 percent of GDP in 2009 (Pachano, 2010: 303). The repudiation was not due to fiscal insolvency so much as making a political statement that reflected popular sentiment towards powerful foreign nations (Becker,
This reflects the importance of reasserting national sovereignty as the salient topic surrounding the change in government that led to the 2008 Constitution; National Sovereignty received its own committee within the new constitutional government. Alianza País would have faced significant political recriminations if they had not done something of a significant magnitude to signal to the population that sovereignty was alive and well. Balancing these types of demands, while ensuring sufficient revenue to implement rights to education and health care, embodies the coordinative aspects of leadership during a critical transition.

There is little doubt that high commodity prices were instrumental in financing the government’s development policies, especially given the contraction of the economy during the first years under the new constitution. Repudiating external debts led to a lack of international financing available to the country, and so Correa’s administration took a loan from China backed by future petroleum revenues (Pachano, 2010: 303). These initial years of adjustment stand in stark contrast, at least numerically, to the subsequent years where public spending greatly contributed to a growth rate of 8 percent in 2011, a significant boost to the 3.6 percent growth in the year before (Becker, 2013: 43). The electoral success of Alianza País in 2013 is likely due to this economic growth, which both increased employment and allowed the government to continue providing increases in the positive social rights enshrined in the 2008 Constitution.

When it comes to environmental and indigenous rights, reactions have been mixed, with some groups arguing that the inclusion of sumak kawsay in the development plans of every major ministry is a serious victory, while others that the inclusion is merely nominal, intended to pay lip service to constitutional requirements, without resulting in the major improvements in governance that sumak kawsay should imply (Radclifffe, 2012: 246). The priorities of the Alianza País government in recent years have been the alleviation of poverty, improving the quality of
education, the continued development of social security, and a broad conception of health. Importantly, these priorities closely coincide with the broader conception of sumak kawsay that has come to the fore in party rhetoric, although the tight relationship to a clean and healthy environment is absent from such implementation priorities. Ecuador’s new political order has brought greater turnover of political elites as well as better representation of indigenous groups (Pachano, 2010: 305–307). At a minimum, plurinationalism’s recognition in the 2008 Constitution provides a basis for indigenous communities to have significantly more input than in the years prior to Correa’s rise.

Current political leaders in Ecuador share the initially optimistic conclusions of many scholars as to the 2008 Constitution’s environmental and indigenous rights. Creating new rights, even given imperfect enforcement during initial phases of implementation, does not necessarily entail the destruction of more classical rights. Thus, the emergence of a new system of government within the shadow of the 2008 Constitution creates a process necessarily constrained by political realities. These political realities include Ecuador’s economic reliance on natural resource revenues to finance its development program, in particular, the rights to health care and education guaranteed in the constitution. Although tax revenues also support these social welfare programs, Ecuador’s relatively low levels of economic development before Correa’s rise indicate that no single tax policy could achieve the changes contemplated by the more than 100 rights found in the 2008 Constitution (Radcliffe, 2012: 242). Given existing constraints on capacity, immediate implementation of all the rights enshrined in the constitution would have been daunting for any nation, let alone with significant weaknesses in terms of governance and service provision like those seen in Ecuador in 2006.
Ecuador’s modern political development displays all the characteristics of our explanatory framework. After a decade of administrative turnover, corruption, and economic crisis, popular belief in the dominant governance institutions was non-existent, which stands as an example of an endogenous tipping point in beliefs. This created a window of opportunity for political leadership, which Correa seized to coordinate political leaders and popular demands into a new vision for the nation. This vision was enshrined in the 2008 Constitution, which displays the formalization of the belief changes within a constitutional moment into a fixed constitutional document. Subsequently, the nation has entered a nascent period of critical transition and institutional deepening, where political institutions better reflect the beliefs of society. Although this implementation period has not been without its hiccoughs, the endurance of the administration and the provenance of social rights stand as clear examples of the new political trajectory the nation has embarked upon under the leadership of Correa.

Conclusion

The examples in this chapter are illustrative uses of our framework to better understand the process of economic and political development. All our examples confront a society at a time when “something is not working.” Beliefs during such times become malleable, and there is a difference of opinion across organizations on the belief about how potential institutions will solve the problem. There were many failed attempts at a transition before leadership seized the latent window of opportunity. In the United States, Hamilton, Jay, Madison, and Washington understood the defects of the Articles of Confederation and orchestrated the movement to a new Constitution under a stronger federal system with the belief of the United States as the sovereign

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18 See Alston et al. (2016) for a book-length treatment of the transition in Brazil. We encourage readers to further pursue the examples here or, ideally, other countries with a fuller treatment.
unit. The Constitution was necessary but not sufficient, and considerable belief and institutional deepening ensued, which we document briefly.

Argentina had suffered a decade of electoral fraud that eroded the budding belief in the 1920s in a system of checks and balances. Conservative elites took control of the government and held on to power through fraud, which was brought to a close first with a military coup followed by the election of Juan Perón in 1945, who led Argentina to a new belief in populism that entailed a dominant network of rural and urban workers, along with provincial governments. The new belief waxed and waned over the remaining part of the twentieth and into the twenty-first century.

Following the opening up of the country after the twenty years of military rule, Brazil exploded with economic and political inclusion, but without a budget constraint. Hyperinflation ensued. After several failed stabilization plans, Fernando Henrique Cardoso in 1994 led Brazil to first tame inflation and then deepen a belief in fiscally sound social inclusion over two administrations. This entailed restricting spending at the state and local levels through the historic Fiscal Responsibility Law in 2000, along with only expanding social programs if Brazil could afford them. Somewhat surprisingly, Lula stayed the course, or so it seemed. Currently, Brazil is in the midst of a crisis with the belief in fiscally sound social inclusion at risk.

In Ecuador, the country had historically been ruled by an elite dominant network associated with the oil, banking, and fruit companies. This was an extractive society and not inclusive. In the late 1990s, attempts at neoliberal reforms failed, though there was increased political inclusion of indigenous groups on the subnational level. It took until the leadership of Rafael Correa under a new party to enfranchise more of the country under the belief of inclusion. Although Correa did not maintain approval ratings at the levels he enjoyed at the time of
constitutional enactment, he secured the levels of support needed politically through expenditure on social programs, a program which was largely financed by oil revenues derived from a commodities price boom. With the coming of a close in 2017 of the terms of Correa, it will remain to be seen whether the next administration will continue to deepen beliefs in the importance of political inclusion and strong concerns for the environment, education, and health.