National Committee of SAPRI in Ecuador
(Structural Adjustment Participatory Review Initiative)

Civil Society Network (SAPRIN)
Government of Ecuador
World Bank

THE SOCIAL AND ECONOMIC IMPACTS OF STRUCTURAL ADJUSTMENT POLICIES IN ECUADOR 1982-1999

Executive Summary

Center for Latin American Studies (CELA)
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A NOTE ON METHODOLOGY

Often socioeconomic studies make constructions of reality that are implicitly presented as the one and only possible understanding of what is actually going on. In pursuing the unreachable goal of objectivity, such studies tend to forget that what is posed as the "real" encompasses the technicians and experts' theories and own visions. Furthermore, they leave aside the social actors' views, explanations, and perceptions, which are grounded in the everyday experience of what is being analyzed. In assessing the impact of structural adjustment policies, however, the voice of the affected must be taken into account.

The research conducted by CELA was focused on participatory workshops carried out with different social actors, all of which were selected based upon the kind of policies under study, and the productive characteristics of each geographical area. The causality linkages coming from participatory workshops, which display the explanations given by social actors to their experience of structural adjustment, were tested, contrasted, and complemented with the views that stem from the work of economists and representatives of the productive sectors.

Thanks to this procedure, our research team was capable of identifying sound interrelations among those variables and indicators that, besides being in fact involved with structural adjustment processes, are meaningful from a theoretical perspective as well as coherent with real social experiences. The whole research process was permanently driven and informed by the social actors' perceptions of socioeconomic trends, which generally coincide with the available statistical evidences.

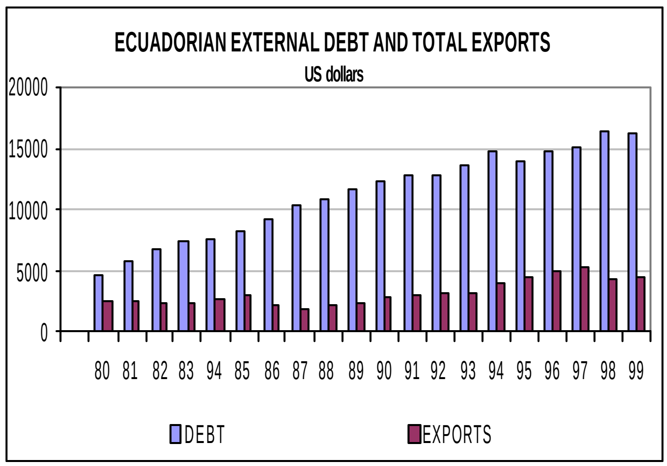
I. THE IMPACTS OF STRUCTURAL ADJUSTMENT POLICIES ON THE NATIONAL PRODUCTION SYSTEM.

TURNING THE MODEL OF GROWTH TOWARDS A NEW DIRECTION THROUGH TRADE LIBERALIZATION

Trade liberalization policies were introduced for the first time in Ecuador at the beginning of the 1980s. Basically acting in response to global economic processes, as well as to the domestic crisis, the government began to implement several measures that were aimed at changing the style of development through fostering export-oriented activities. For that purpose the government proceeded to devaluate exchange rates on several occasions, all of which attempted to put in place a new source of surplus in favor of export-related enterprises. In addition to monetary policies, the government began to lower tariffs in order to eliminate the protection of some domestic economic activities.

As the participants in our workshops said, trade liberalization policies might have had some positive impacts on a few, very specific export-related activities. However, when assessed from a broader perspective, such policies brought about serious problems to enterprises oriented towards domestic-markets, i.e., small and medium-scale firms. The latter cannot easily sell their goods on foreign markets or remain competitive with respect to imported goods. Our main findings regarding trade liberalization in Ecuador are summarized as follows.

(1) While trade liberalization policies were supposedly aimed at expanding the growth rates of exports, Ecuadorian exports did not grow as expected during the 1980s. The total value of exports was US$ 2.4 billion at the end of the 1980s, a figure which was below the value reached in 1980 (US$ 2.5 billion).



Nevertheless, total exports rose from 21.5% of GDP in 1980 to 25.8% of GDP in 1990. This increase can be accounted for more by an absolute fall of GDP rather than by a better performance of the exporting sector. It is important to note that exports of agricultural commodities (i.e. banana, cacao, etc.) grew at an annual average rate of 2.7%, increasing from US$ 1.8 billion in 1980 to US$ 2.3 million in 1990. Exports of manufactured goods, however, declined from US$ 626 million in 1980 to US$ 367 million in 1990. As can be inferred from this data, the fall of exports of manufactured goods, which have plunged more than 40% between 1980 and 1990, is undoubtedly one of the biggest impacts stemming from structural adjustment policies.

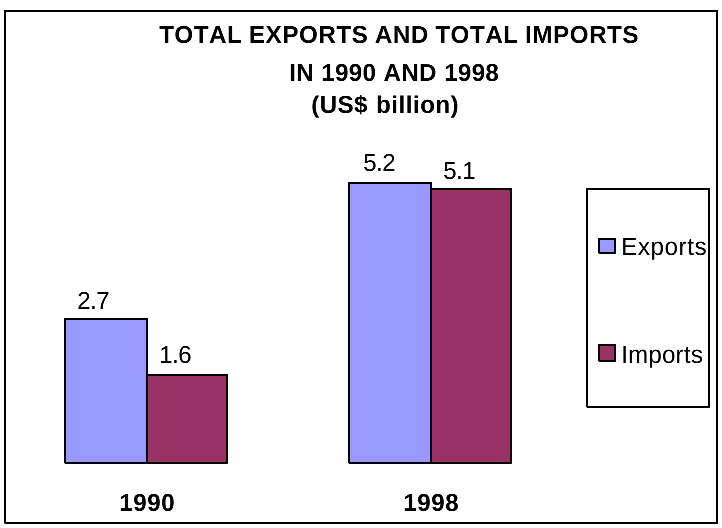
This impressive drop of Ecuadorian manufactured export goods occurred within a period in which the world trade of manufactured goods was growing at twice the pace of the world production of manufactured goods. Such a drop occurred also while Latin American exports of manufactured goods were increasing notoriously. Instead of relieving the burden of the Ecuadorian external debt, these patterns of trade had the opposite effect. Thus, the external debt ratio to total exports rose from 183% in 1980 to 490% in 1990.

(2) By taking into account the external trade indices, it is possible to draw a relation between the indices of export- and import-unit values. The resulting figures are quite discouraging. By using

1980 as a base year for the calculations, it is possible to see that terms of trade were falling steadily during most of the 1980s, shifting from 100 in 1980 to 15.7 in 1998. Afterwards, the terms of trade index improved slightly, for it increased from 16.9 in 1989 to 17.8 in 1990. As a consequence of the deterioration of the terms of trade, Ecuador was compelled in 1990 to export five times the value of 1980 exports so as to obtain just as much as the total volume of 1980 imports.

The prior analysis, which is based on data provided by the Central Bank of Ecuador, points to an uncontestable conclusion: any macroeconomic policy that is focused almost exclusively on promoting exports is an unsustainable one. Such is particularly the case when the promotion of exports depends on traditional comparative advantages, i.e. those stemming basically from both low salaries and intensive exploitation of natural resources.

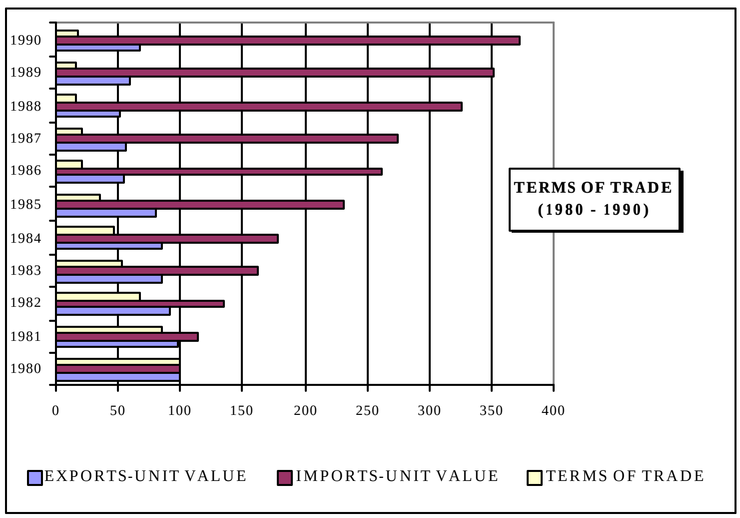
(3) Ecuadorian total exports performed better in the 1990s. The value of total exports increased from US$ 2.7 billion in 1990 to US$ 5.2 billion in 1997. This was partially due to the fact that exports coming from legally registered firms increased from US$ 811 million in 1990 to US$ 3 billion in 1998. In addition to this, exports as a share of total sales shifted from 11.2% in 1990 to 15% in 1995, dropping afterwards to 14.2% in 1998. It is also worth mentioning that while the value of exports coming from legally registered firms tripled from 1990 to 1995, the value of domestic sales only doubled in the same period. These trends depict a clear turn in the strategies adopted by businesses, a turn which was made possible at the expense of domestic markets.



(4) The manufacturing sector performed even better: its exports increased from US$ 227 million in 1990 to US$ 1 billion in 1998. Stated differently, exports of manufactured goods in 1998 were almost five times bigger than they had been in 1990. In contrast to this, domestic sales of manufactured goods hardly doubled in the same period. This demonstrates that the growth of the external sector relies on a simultaneous movement towards the contraction of internal markets, which are less attractive due to Ecuador's low-income levels and high poverty levels.

(5) Simultaneously, imports grew impressively from US$ 1.6 billion in 1990 to US$ 5.1 billion in 1998. Stated differently, imports grew at an annual average rate of 15%, which was far superior than the annual average rate of exports (5.6%). Regarding the composition of imports, it is worth highlighting that imports of consumer goods shifted from US$ 229 million in 1990 to 1.3 billion in 1998, i.e. they multiplied by 6. The imports of non-durable goods increased from US$ 97 million in 1990 to US$ 660 million in 1998. These trends in the import sector are completely opposed to what the trade liberalization program, which was designed at the beginning of the 1980s, was meant to bring about, namely, an improvement in the trade balance.

It is worth mentioning that the data provided by the Superintendency of Companies show that firms increased their imports of final goods – excluding raw materials. Thus, the total value of these goods reached US$ 2 billion in 1998. This figure is shocking in so far as a large share of total imports of final products includes consumer goods, which could easily have been produced locally - if there were adequate conditions for doing so. For example, the total expenditure on imported consumer goods increased from US$ 160 million in 1990 to US$ 738 million in 1995. In other words, while the growth of exports hardly doubled between 1990 and 1995, imports of imported consumer goods increased five times. The growth of imports has been far greater than the growth of exports.



It is worth highlighting that the greater the growth of such imports as food, clothing, and shoes, the harder it is for local firms producing similar goods to cope with external competition. This can be seen clearly by the high levels of bankruptcy of small and medium-scale firms, a phenomenon that has in turn increased unemployment and poverty levels.

THE RESTRUCTURING OF THE NATIONAL PRODUCTION SYSTEM

(1) Between 1985 and 1998, the number of legally registered firms increased from 11,737 to 23,761. Rather than being an indicator of economic progress, such an increment reflects a non-balanced, heterogeneous growth, which is associated with a significant restructuring of the production system as well as the differentiated impacts of the structural adjustment policies being implemented during the past 20 years.

The restructuring of the Ecuadorian national production system has benefited firms related to such activities as international and domestic trade, transport and communications, and services. As a result of this phenomenon, the number of industrial and construction companies has diminished notably, and the number of agricultural businesses has remained steady.

With respect to the total amount of companies, the share of industrial firms decreased from 20.4% in 1985 to 11.6% in 1998. In the same period, the share of construction companies decreased from 6.8% to 5%. On the other hand, the share of commercial, transport and communications, and service companies increased from 61.6% to 73.3%. This indicates that the service sector is in the process of replacing the production of goods.

(2) It could be said that the reduction of the share of industrial firms in the total number of companies does not imply *per se* a proportional drop in the overall industrial production. However, if one looks at the share of the industrial sector in total national assets and sales, one can see a decline in the industrial sector's importance. While the industrial sector owned 40% of the total assets in 1985, it controlled only 24% of the total assets in 1998. Industrial sales as a part of total sales declined from 40.4% to 31.4% in 1998, thus showing that overall industrial production has in fact dropped.

PROFITABILITY DIFFERENTIALS BETWEEN FIRMS.

(1) Given that structural adjustment policies affect economic activities unequally, there is currently a deepening of profitability differentials between firms. This process is coupled with higher levels of economic concentration in favor of the largest corporations. In 1996, the 1000 largest companies declared net profits of only 35.4 billion sucres, a figure that indicates a low average of profits. According to a ranking made by Gestión, an Ecuadorian economic journal, the 36 largest

CONCENTRATION LEVELS OF THE 1000 LARGEST COMPANIES

	INCOME		ASSETS	
	1992	**1996**	**1992**	**1996**
The 50 largest	31	32	29	35
The 100 largest	44	47	44	51
The 200 largest	59	64	62	66
The 300 largest	71	74	71	75
The 400 largest	78	80	79	81
The 500 largest	84	86	84	86
The 1000 largest	100	100	100	100

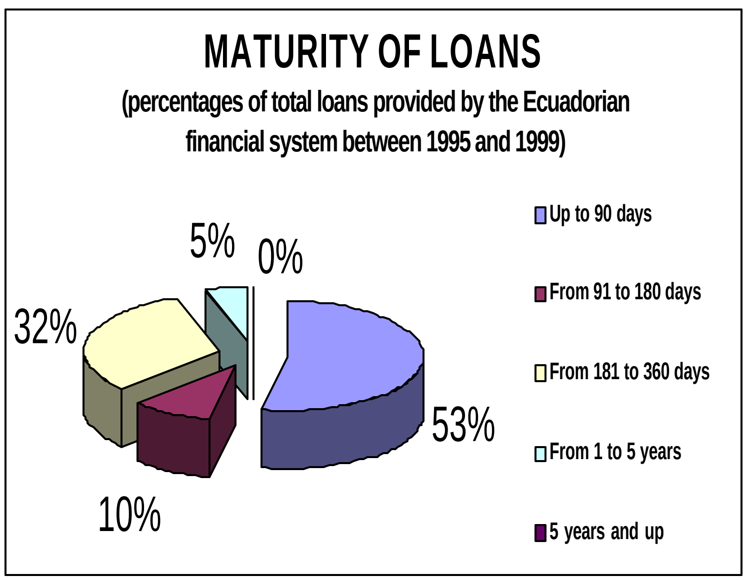
Source: Superintendency of Companies

companies' net profits were greater than 541,000 million sucres, and their sales were over 9.7 billion sucres. Among the 1,000 largest companies, these 36 firms owned more than 13% of the total assets and their sales accounted for 23.5% of the total sales.

(2) The above-mentioned trends are confirmed through data provided by the Superintendency of Companies. If one looks at the levels of assets and income concentration of the 1,000 largest companies between 1992 and 1996, one can see that the concentration of assets and income of the 100 largest companies increased sharply. As a result, the latter companies' assets and incomes came to represent 50% of the total assets and incomes. With respect to the 17,352 legally registered firms in 1996, the 1,000 largest companies controlled 75% of the total assets and sales. On the other hand, the 100 largest companies, which represented only 0.6% of the total number of firms, controlled 37.5% of the total assets and sales.

THE ROLE PLAYED BY FINANCIAL LIBERALIZATION

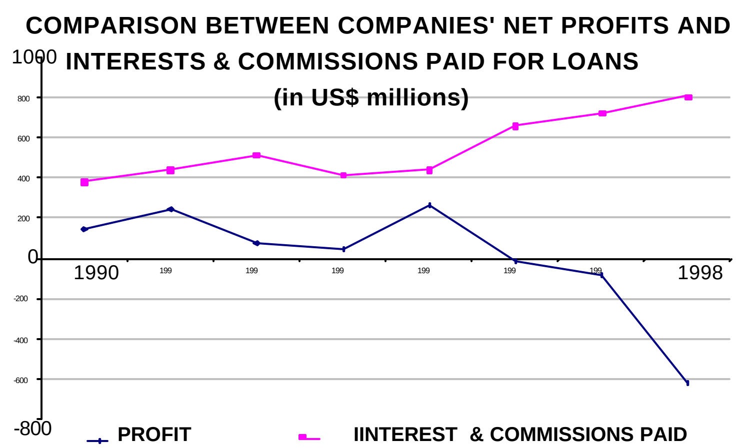
From 1990 to 1995 the Ecuadorian government was devoted to implementing financial liberalization policies through a package of economic, legal and institutional reforms, all of which were aimed at either weakening or dismantling prior public regulations and controls. According to the orthodox economic wisdom, the main goal was to allow market forces to both manage and allocate efficiently the country's scarce resources. In order to do so, the Ecuadorian government authorized interest rate liberalization and limited the traditional capabilities of the Office of the Superintendent of Banks to oversee financial institutions. In addition to this, they proceeded to gradually expand capital account liberalization, a measure that was supposedly aimed at fostering both capital inflows and helping national businessmen obtain higher profits from their offshore investments.



According to the participants in our workshops such financial sector liberalization led to several problems. First, most of the credit provided by financial intermediaries to firms became increasingly more concentrated among few, powerful economic agents, which made it even more difficult for small and medium-scale businessmen to obtain loans. Furthermore, the continual increases in interest rates became a regular means of diverting resources away from productive sectors. Since the private financial system became more interested in short-run operations, most productive agents had virtually no permanent, formal sources for obtaining support for their activities. In short, speculative behavior by the private financial system severely damaged most Ecuadorian producers.

Both the government's financial reform policies and the financial intermediaries' behavior enhanced the structural crisis that had been experienced by productive sectors for a long time. Artisans, peasants, and small-scale producers either had no chance to obtain any kind of loans or were forced to pay such high interest rates that their profits were wiped out. As a consequence, the number of enterprises that went bankrupt increased sharply, which led to an increase in the unemployment rate and in poverty levels. The information from participants coincides with our findings, which can be summarized as follows.

(1) Beginning in 1990, deposits in the financial system were increasingly short term and made in dollars. Both trends became strong beginning in 1993. Between 1993 and 1994, bank deposits increased by 28%, a figure which set the second highest rate of change since 1970. By the time this extraordinary growth of short-term deposits ended in 1996, there had been a severe process of disinvestment in productive activities. Ecuadorian society's scarce capital was diverted from productive sectors, such as agriculture and industry, in search of higher rates of return achievable through interest rates.



(2) The lending policies of financial intermediaries were also characterized by short-term preferences. Between 1995 and 1999, 95% of loans had a maturity of less than one year. Only 5% of the total loans provided by the financial system had maturities ranging from one to five years. This pattern of financing was seriously damaging to those productive enterprises that required more than one year to recover their investments.

(3) Financial-sector liberalization made a major contribution to the growth of non-productive activities. Between 1987 and 1999, nearly 34% of the loans were extended to the trade and service sectors as well as to non-productive activities. Furthermore, 28% of total loans were destined for consumption.

(4) Financial resources were concentrated on a few, influential clients. Since 1995, 63% of loans have been monopolized by only 1% of the financial system's clients. This concentration of resources also had a regional dimension: the loans' final destiny was closely related to those geographic regions where the most wealthy and powerful elite reside. About 90% of loans were made in the provinces of Guayas and Pichincha. This indicates that small and medium-scale firms located outside such provinces had nearly no real opportunity of accessing loans. This is another clear demonstration that structural adjustment policies bring about differentiated impacts, as they create regional winners and losers.

(5) During the administration of Sixto Durán Ballen (1992-1996), the interest rate and trade liberalization policies went hand in hand with a massive amount of bankruptcies of small and medium-scale firms. From 1993 to 1995, 2,849 enterprises went out of business, 1,675 of which were dissolved just in one year (1995). Structural adjustment thus encouraged a new record in the Ecuadorian economy: from 1990 to 1996, almost 4,600 firms went out of business. The massive resource transfers from productive sectors to financial intermediaries explain this massive bankruptcy.

(6) According to the records of the Office of the Superintendent of Businesses, there were 20,423 legally registered firms in 1995, 4,622 of which declared losses of US$ 418 million (1,221,448 million sucres). In spite of this, these very companies transferred resources to the financial system of more than 718,200 million sucres, which were paid in interest and commissions for previous loans. But the whole picture is even more dramatic: these 20,423 legally registered companies transferred almost US$ 556 million (1,700,000 million sucres) to financial intermediaries in 1995.

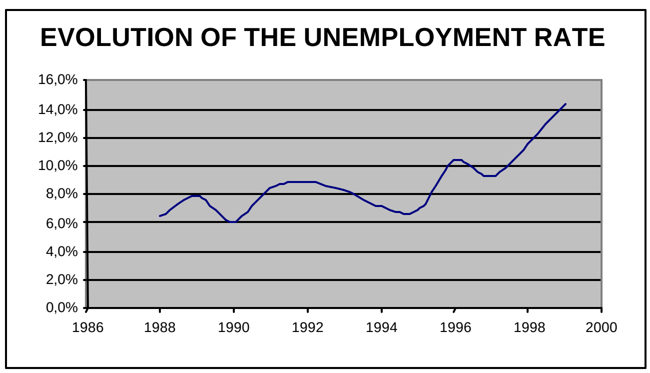
(7) While domestic interest rates fell slightly in 1996, the story repeated itself over and over again. The 17,352 legally registered companies declared losses of 269,629 million sucres. Nevertheless, these companies transferred nearly US$ 722 million (2.3 billion sucres) to the financial system. This amount was equivalent to five times the income tax revenue that the Ecuadorian State received from all the registered companies. Such an amount was far beyond the total sum paid by those companies as salaries to their working force. The same pattern developed again in 1998: the legally registered firms paid US$ 800 million in interest and

commissions for loans. From 1990 to 1998 -- but not including 1997-- the private financial system collected US$ 4.3 billion from productive sectors.

In short, since 1990, the financial system has been diverting resources from productive sectors (such as agriculture and industry) through high interest rates that value speculative capital. These resources could have been used by Ecuadorian society for enhancing national production and, thereby, for generating more and better employment. Due to the financial liberalization policies implemented during the 1990s, domestic savings were increasingly diverted towards non-productive activities, with the greatest negative impacts felt by small and medium-scale enterprises. These policies also created concrete ways of transferring the society's savings to those national and international economic actors involved in speculative activities. This structural pattern has led to the current crisis of the Ecuadorian productive system and the resulting increase in poverty and unemployment.

II. THE IMPACTS OF LABOR FLEXIBILIZATION ON EMPLOYMENT

The deregulation polices applied to labor markets are based upon the idea that labor relations are, first and foremost, agreements made just between the employer and employee. Accordingly, they ought to be ruled only through market forces, for public intervention should limit itself to the preservation of the overall market conditions.

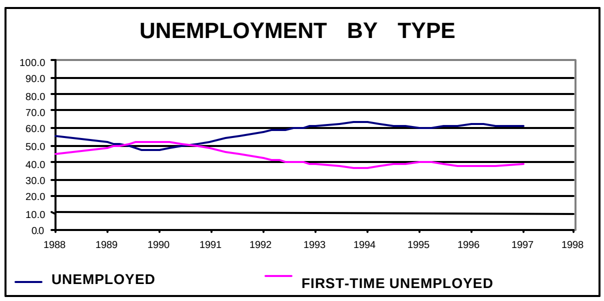


Labor flexibilization policies have fostered reforms within the legal framework, which are intended to end public regulations of employee-employer relations. One of such reforms refers to the creation of new ways of hiring, which are focused on both hourly wages and temporary work. These kinds of reforms have modified the workers' stability, access to social security and collective organization.

The social actors who were involved in our workshops pointed out that the impacts of labor flexibilization are evident in several aspects. First, labor flexibilization policies have increased unemployment rates, especially among those workers who were previously employed. Second, these policies have deteriorated the labor conditions through the adoption of new hiring practices. Third, legal framework reforms have made it even easier for the firms to decrease real salaries and to increase the intensity and duration of work hours. Finally, labor flexibilization policies have weakened the workers' ability to organize, for "everybody fears to loose his/her job". The main findings from our research are the following.

(1) Broadly speaking, labor flexibilization has not helped to improve employment conditions in Ecuador. The urban unemployment rate was 6% in 1990, 9% in 1992, 10% in 1996, and 14.4% in 1999. The highest increases in unemployment rates took place in the lower income population groups. At the bottom quintile, which comprises the poorest population, unemployment rates shifted from 10% in 1989 to 15% in 1992, and from 17.7% in 1996 to 24% in 1999. At the higher end of the income-distribution scale, which comprises the top quintile, the average unemployment rate remained below 5% during the 1990s. In addition to this, with respect to the total number of unemployed people, the share of those who permanently lost their job is higher than the share of those who are unemployed for the first time. This pattern was particularly notable from 1991 on, which marked the beginning of labor flexibilization policies.

(2) Reforms to labor laws and regulations have increased the extent of precarious employment in Ecuador, which is a situation where there are fewer employment guaranties and benefits, lack of social security, delays in payments, and an increasing number of informal activities. According to our survey, in the last two years, practices such as temporary hiring or hourly wages were used by 72% of medium and large-scale firms, and by only 16% of small-scale firms. This means that an important share of the workers hired by those firms do not have social security, union rights, or job stability.

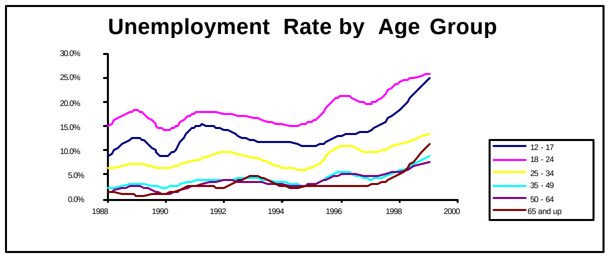


When asked if they have fired workers as a way to cope with the economic crisis of the past five years, 37.8% of the firms admitted to having done so. The reduction of benefits and the hiring of temporary workers have become practices used by firms so as to deal either with their own internal administrative deficiencies or with the national economic crisis. In both cases, the firms' main survival strategy is to transfer the costs associated with the crisis or their deficiencies onto the workers.

(3) Labor reforms have brought about conditions for increasing the over-exploitation of the workforce. From 1980 to 1999, household real incomes deteriorated, except between 1993 and 1996. From 1998 on, the number of workers per household increased as a response to

the decrease of real incomes. With the exception of the top decile, all the income groups were forced to increase their average number of working hours per week between March 1998 and July 2000. While the poorest households' working hours per week increased from 51 to 59 at the bottom decile, the richest households' working hours per week decreased from 114 to 100. Hourly wages have fallen dramatically since 1998. While such a fall affects all income groups, it is worth noticing a severe reduction within the lower deciles. The average total salary paid is only US$ 0.12 per hour for the bottom decile and US$ 0.34 per hour for the sixth decile. This means that there is a severe constraint on social reproduction possibilities.

(4) The expansion of precarious work has been one of the most noticeable socioeconomic phenomena during the past years. The informal sector has grown 5% between 1998 and 2000. In addition to this, such an expansion has also occurred within the formal sector. According to the data of the total employed labor force, which were gathered through the Urban Labor Markets Project, the percentage of workers having social security and fixed-time contracts falls from 52% to 42%. The percentage of workers lacking social security and hired by occasional contracts increases from 16% to 21%.

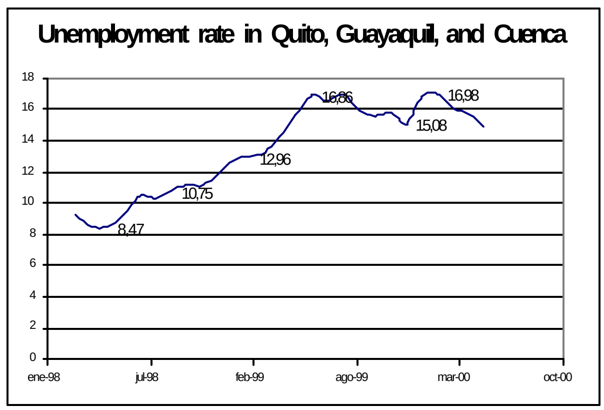


(5) Deteriorating working conditions have been a crucial factor in changing workers' behaviors and attitudes towards labor performance inside their workplaces. It has also contributed to modifications in their personal expectations and political behaviors. Participants in our workshops pointed out that they are permanently afraid of losing their jobs. Besides being influenced by the natural growth of population, increases in the labor supply in Ecuador are currently triggered by unemployment that resulted from the adoption of structural adjustment policies. Accordingly, workers share a widespread sense of uncertainty about what is actually going to happen at the workplace. As the labor markets become enhanced by the unemployed, workers increasingly see themselves as "disposable" beings, for anyone could be fired at any moment. The workers' sense of job insecurity leads them to accept worse working conditions and fewer labor rights.

All the above-mentioned processes occurred within a context in which flexibilization policies have created new constraints on the right to unionize and hold strikes. In this respect it is worth highlighting that the number of labor-related conflicts has been decreasing dramatically since

1989, the year in which the first labor reform was implemented. This reduction of conflicts cannot be interpreted as an indicator of higher welfare levels among workers, for no significant improvement of real wages has occurred since 1989. The loss of labor stability works also acts as a disciplinary device which, by keeping alive fears of unemployment, shapes behaviors and attitudes so as to allow different forms of overexploitation.

(6) According to data provided by the Superintendency of Companies, the total number of workers employed by the legally registered firms increased from 227,303 in 1988 to 420,202 in 1998. The number of jobs provided by the industrial sector increased only from 93,361 to 105,491 in the same period, which means that an industrial firm employs an average number of 36 workers. Seen from a broader perspective, the growth of total industrial jobs, which increased only by 10%, was lower than the creation of jobs in the export-oriented manufacturing sector, which multiplied by five during the 1990s. It follows fom this that most export-oriented manufacturing firms seek higher levels of competitiveness not only by paying low wages but also by using capital-intensive technologies. As a consequence, employment generated by the industrial sector is not able to keep up with the pace of labor supply.



(7) While the 1,000 largest companies contributed to almost 70% of the GDP in 1998, they employed only 147,147 workers, a figure that was equivalent to 35% of the total number of people employed by all legally registered companies. This figure was also equivalent to only 3.5% of the working-age population. In 1992, however, those very companies employed 150,000 people.

(8) The formal sector firms' low capacity for generating jobs is not the only factor affecting the Ecuadorian working-age population. In order to achieve higher levels of competitiveness and meet the technological conditions required for modern production systems, higher amounts of investments are needed for generating a new job position within firms. By comparing the value of assets and the number of workers employed by all companies, the average capital investment required per worker was US$ 24,336 in 1990 and US$ 53,129 in 1995. With respect to the 1,000 largest companies, the ratio of asset investment to worker rose from US$ 58,916 in 1993 to US$ 86,686 in 1996.

Table 1

HOULSEHOLDS LIVING AT CONDITION OF UNSATISFYIED BASIC NEEDS

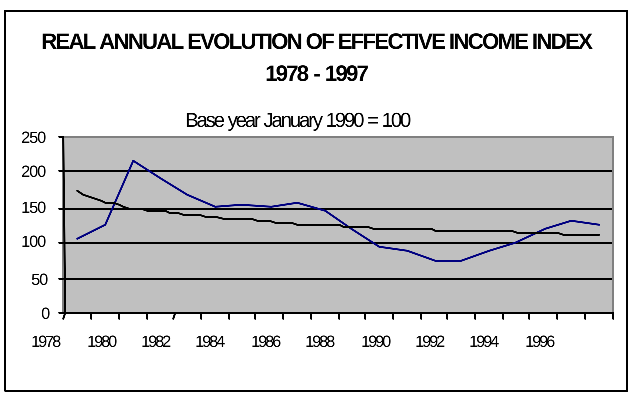
(Percent of Total Households)

		censo 82	*Censo 90*	*ecv95*	*ecv98*	*ecv99*
Region	*Zone*	*%*	*%*	*%*	*%*	*%*
Costa	Rural	82,2	69,2	56,4	60,1	54,3
	Urban	40,2	29,2	29,6	29,3	28,0
Sierra	Rural	91,7	85,2	81,5	84,2	85,7
	Urban	21,5	24,4	14,5	13,3	14,3
Amazon	Rural	91,2	81,6	68,9	63,5	Nd
	Urban	48,5	32,3	15,6	11,5	Nd
National	Rural	88,0	78,9	69,4	72,5	72,6
	Urban	31,8	26,9	23,1	22,9	21,9

It should be also taken into account that there are differences in the ratio of asset investment to worker among economic activities. For example, while the average capital investment in the service sector needed per worker was about US$ 36,876 in 1996, the investment in the mining sector was over the US$ 880,620. Oil refining enterprises required an investment superior to US$ 1.1 billion. The investment required in such activities as the production of baked goods, shoes, furniture, and jewelry (and more generally speaking in labor-intensive activities) was lower than US$ 27,500.

As can be inferred from the above-mentioned data, while unemployment stems from the historical deficiencies within the national production system, the current growth model has fostered exporting activities and the constitution of large enterprises, most of which do not generate an important amount of jobs, as the small and medium-scale firms do.

POVERTY AND SOCIAL INEQUALITY



(1) According to studies conducted by the Center for Latin American Studies (CELA), which are based on the unsatisfied basic needs method, Ecuadorian households' living standards improved between 1982 and 1990. The population's living standards, however, have remained practically unchanged since the beginning of the 1990s. In the second half of the 1990s living standards worsened even in rural areas, which were previously less affected by national economic downturns.

These patterns can be explained by taking into account two situations. First, the improvement in living standards during the 1980s can be seen as a delayed effect stemming from social investment that took place during the 1970s. However, the set of crises affecting Ecuador since 1980 brought about enduring, accumulating consequences, which can account for the stagnation in living standards during the 1990s.

(2) The households' employment incomes worsened in the same period. In real terms, household average income declined from US$ 200 in 1980 to US$ 80 in 1993. Afterwards, while household income increased up to US$ 130 in 1996, earnings continued to fall even more dramatically from 1997. According to the Ecuadorian Labor Market Surveys, wages paid per hour in 2000 are just one third of those paid in 1998, a trend which affects particularly to the lowest income decile. Thus, the bottom decile's hourly wage dropped from US$ 0.31 in 1998 to US$ 0.12 in 2000. In the case of the fifth decile, the hourly wage shifted from US$ 0.82 to US$ 0.34 during the same period.

AVERAGE WAGE PAID PER HOUR

(In US Dollars & Income Decils)

decile	Mar-98	Sep-98	Mar-99	Sep-99	Mar-00	Jul-00
1	0.31	0.34	0.25	0.20	0.10	0.12
2	0.61	0.52	0.41	0.31	0.17	0.21
3	0.78	0.68	0.44	0.36	0.21	0.25
4	0.75	0.69	0.52	0.41	0.22	0.29
5	0.82	0.74	0.53	0.42	0.24	0.34
6	0.88	0.82	0.62	0.51	0.25	0.34
7	1.07	0.95	0.71	0.55	0.30	0.42
8	1.35	1.16	0.82	0.67	0.34	0.49
9	1.71	1.49	1.03	0.88	0.44	0.63
10	3.70	3.75	2.47	1.95	1.21	1.86

Source: BCE-PUCE's Project on Urban Labor Market.

In July 2000, within the lower eight income deciles hourly wages ranged from US$ 0.12 to US$ 0.49. This implies that households located at the bottom decile must work 160 hours a month in order to get US$ 20. If the same amount of working hours is used for the calculations, households located at the eighth decile can earn a monthly income of US$ 78. In both cases households' incomes are far below the cost of an average basket of goods and services.

(3) Due to the deterioration of employment incomes that took place between 1998 and 2000, households were forced to extend their working hours per week in order to either compensate the decline in real earnings or reach slightly higher levels of income. This applies to all the income deciles, except the top one. Thus, for example, the bottom decile's working hours per week increased from 51 in March 1998 to 59 in July 2000. In the top decile, however, the amount of hours worked declined from 114 to 100 in the same period.

(4) National poverty levels have increased dramatically since 1995. Data from the Social Indicators Program (SIISE) shows that national poverty increased by 13% from 1995 to

1999. It also shows that urban poverty increased by 17%. Regarding rural poverty, it is envisaged that 9 out of 10 inhabitants are currently poor. While poverty affects both rural and urban inhabitants, urban poverty levels have grown faster than rural ones. This phenomenon is partially explained by peasant migration flows to cities as well as by the economic recession that affects productive firms settled in cities.

(5) According to neural network models used in our research, in explaining unemployment rates the most important variable is related to the formal sector's performance, as its cyclical fluctuations are often associated to employment growth.

What follows from this is that unemployment is closely related to the development model that has been implemented in Ecuador. The reduction of trade barriers, financial liberalization and labor flexibilization, all of which form the core components of structural adjustment, are tied to the formal sector's restructuring, an ongoing process which is also fostered by requirements to increase national competitiveness within a global economy. This restructuring process is coupled with social exclusion, which expresses itself as a sustained growth of the informal sector.

(6) Our research models focused on poverty show that employment is the most important variable (30,22%) accounting for poverty. The precarious employment created by labor markets also contributes to poverty levels as far as 14%.

At our participatory workshops social actors put forward unemployment as the primordial source of poverty. A person's access to goods and services capable of providing worthy living standards is dependent upon real chances of being employed. In this sense, the contraction of labor markets is at the basis of the ongoing poverty problems affecting Ecuadorians.

AVERAGE HOURS WORKED PER WEEK PER HOUSEHOLD

(Income Decils)

decile	Mar-98	Sep-98	Mar-99	Sep-99	Mar-00	Jul-00
1	51.4	47.9	45.3	53.2	52.3	58.8
2	55.7	58.2	57.3	60.5	59.3	62.6
3	56.4	57.7	66.4	67.3	64.3	72.5
4	71.5	73.1	68.0	76.5	78.2	79.6
5	81.2	87.3	85.5	91.1	83.9	83.1
6	97.1	96.9	89.8	90.4	93.5	102.3
7	99.5	101.0	95.3	105.7	95.2	101.5
8	102.6	108.7	107.6	109.6	103.9	110.1
9	105.6	118.2	119.7	111.2	110.8	116.5
10	114.1	114.2	120.4	109.7	101.4	100.3

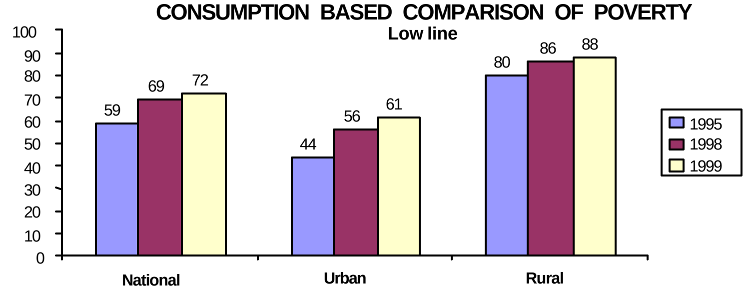
Source: BCE-PUCE's Project on Urban Labor Market.

In conclusion, one of the consequences of structural adjustment policies is the increase of structural heterogeneity within Latin American societies. The current growth model enhances productivity differentials between the largest firms that are leading the modernization process related to global markets, on the one hand, and the rest of low-productivity firms, which generate the vast bulk of jobs. In connection with the enhancement of productivity differentials, there is a widely spread process of exclusion affecting not only Ecuadorian people but also low-productivity firms which are not oriented towards international markets. Domestic markets have continued to shrink significantly, thus creating serious obstacles to the sustainability of the economic model. All of these processes must be taken into account if, as it is usually said, the majority of the population is expected to enjoy the benefits of economic development.

Figure 3

CONSUMPTION BASED COMPARISON OF POVERTY

Low line



Source: SIISE, based on the Encuesta Condiciones de Vida, 1995, 1996 and 1999

During the period analyzed, the growth of unemployment, self-employment and precarious employment is mostly due to the contraction of production that stems from the implementation of structural adjustment policies. The growth of poverty and the worsening of living conditions have increased sharply as a consequence of the current growth model, which fosters a stronger concentration of wealth and cannot generate enough new jobs. Although unemployment and poverty do stem from long-term historical processes, our research shows clearly that the growth model associated with structural adjustment policies has only deepened them, demonstrating its unfeasibility.

III. CHANGES IN ECUADORIANS' WAYS OF LIFE WITHIN THE CONTEXT OF STRUCTURAL ADJUSTMENT AND MODERNIZATION

By modifying the overall conditions of economic reproduction, the modernization of society achieved through structural adjustment has resulted in deep changes in the way of life of families and population groups. These transformations have to do with material survival strategies as well as symbolic and value structures.

In order to analyze changes in Ecuadorians' way of life, we conducted case studies within six different communities, which were selected due to their ethnic characteristics and geographical location. We used such qualitative research techniques as oral histories, in-depth interviews and participatory workshops. Our main findings are summarized as follows.

(1) The changes brought about through structural adjustment policies can be traced in two different dimensions. First, patterns of both economic reproduction and living conditions have changed. Second, individual symbolic behavior and identities have changed, as have those of collective institutions -- such as traditions, values and festivals. In this regard, it is worth emphasizing that economic and social exclusion has sharply increased in recent years. The increasing exclusion works as an overall conditioning factor that lies behind other changes described below.

(2) With regard to changes in patterns of material reproduction, traditional communities that were focused on self-reliance and relations of reciprocity are increasingly transforming themselves into local economies that depend upon market-oriented activities. Some years ago such communities as Pampanal, Cubinche, and El Anegado sustained themselves through a household economy, which was mainly based upon a barter system rather the use of money as a means of exchange. Within this type of communities, trade relationships and economic activities occurred mostly through such social institutions such as “la minga”, “el ayudamanos”, "compadrazgo" [collective work efforts] and other sorts of kin relationships. As the household economies were reproduced endogenously, reciprocity cycles gave constant birth to those communal institutions.

(3) Precarious employment is widespread in marginal, urban communities such as Bastion Popular and Itchimbia. Many inhabitants who previously enjoyed stable jobs in the formal sector are currently facing either self-employment or unemployment. As a result, households have modified their survival strategies. In order to increase the household’s overall income, for example, more adult members, as well as more children, are forced into the labor force.

(4) Regarding the symbolic reproduction of communal life, solidarity networks and collective organizational forms are being dismantled. In most cases, there is a notorious process of individualization leading towards a crisis of traditional institutions. However, Saraguro and Itchimbia inhabitants showed a rather different process: they have been able to cope with problems derived from economic crises, as they have strengthened their collective organizational forms.

(5) Urban, marginal populations, as well as the youth, are experiencing an increasingly pervasive sense of hopeless. Such a feeling often results in either violent behavior or criminal activities. It also leads to migration.