MAKING MARKETS

The institutional rise and decline of the Argentine Red de Trueque

A thesis submitted by

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Habemus thesis.

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Abbreviations

CCS	Complementary Currency System
CT	Club de Trueque (Barter or Exchange Club)
IZ	Comité Interzonal (Inter-Zone Committee)
PAR	Programa de Autosuficiencia Regional
RGT	Red Global de Trueque
RGTS	Red Global de Trueque Solidario
RT	Red de Trueque or Exchange Network
RTS	Red de Trueque Solidario
ZO	Red de Trueque Zona Oeste (West Zone Barter Network)
IE	Institutional Economics
NIE	New Institutional Economics
OIE	Old Institutional Economics
SME	Small and Medium Enterprises

Abstract

The story of the Red de Trueque in Argentina exposes the problems of creating a market system complementary to the regular economy. The scheme was launched in 1995 by a group of environmentalists whose economic situation was deteriorating sharply with economic restructuring. They thought it would be mutually helpful to exchange with their neighbours goods and services each one had produced at home. They traded on the basis of mutual credit, which worked well for a while, but proved unsuitable when the group grew. They then printed fiat money to facilitate exchange. In the first seven years, with the Argentine economy melting down, the scheme was rapidly replicated and reached a peak of at least 2.5 million participants in 4.700 market centres across the country. It became the largest experiment worldwide with a complementary or local currency. Although the initial goal of the RT was to provide an environmentally-friendly income generation scheme for the disenfranchised middle class, it gradually incorporated the structural poor. Due to its impressive growth, the organisers had to decide on the institutions to regulate it, i.e. who was allowed to join, what was acceptable and what was not. The intervention of the state was minimal. In spite of the efforts of the organisers to create rules of behaviour and bodies to enforce them, they were unable to deal 2.5 million users. In a matter of months it collapsed to about 10% of its size and since 2003 it has stabilised at about 5% of its peak scale.

The RT was an extreme case of market building organised from below, in which the set of created institutions included several dozen local currencies integrated in a common monetary system. In the long run, the RT supported the multiplication of new small businesses, helped the unemployed to bridge into regular jobs, alleviated poverty among the marginal population, supported the training of un-skilled workers and provided change value to previously unpaid work (mostly women's).

Drawing on the Old Institutional Economics (Commons, Veblen and others), this thesis explains the evolution of the Red de Trueque in Argentina as a benchmark among complementary or local currency systems. It analyses why the RT grew, what its effects were and what rules of governance and sustainability it developed. It identifies lessons learnt and proposes guidelines in view of future experimentation with local currency systems around the world.

In theoretical terms, the RT provided an opportunity to research the process of institutional emergence. The thesis advances institutional theory by elaborating on the effects of structural reforms in disrupting institutions, which translates into segments of unstable and uncertain economic action within the social structure. The term 'institutional gap' was coined to address situations in which the guidance of existent institutions on actions no longer serves to achieve acceptable solutions. Second, the concept 'club market' is developed to describe a market organised by participants on the basis of the voluntary acceptance of its internal rules. These serve to exclude the general public from taking part in them and differentiate them from 'public markets', open to all. The poor may alleviate their condition by exchanging goods in club markets in more favourable conditions than the regular economy. Thirdly, the thesis identifies rules of governance and sustainability for institutional settings in which compliance is voluntary (e.g. when state regulation is minimal). Finally, it conceptualises the economy of the poor as an economic area driven by the need to survive, thus structured by specific institutions different to those guiding the economic action of the non-poor.

1 *Red de Trueque* as institutional construction

1.1 Economic life as an institutional process

In '*The Lottery in Babylon*', the Argentine writer Jorge Luis Borges describes a world in which nobody has a fixed position in the social structure.[1]

> Like all men in Babylon, I have been proconsul; like all, a slave. I have also known omnipotence, opprobrium, imprisonment. I owe this almost atrocious variety to an institution which other republics do not know or which operates in them in an imperfect and secret manner: the Lottery. I have not looked into its history. I come from a dizzy land where the lottery is the basis of reality.

In the story, while the Lottery started out like any typical lottery, it evolved into one which not only gives prizes to the winners, but also inflicts consequences on the losers. Further evolution increased its complexity; the Lottery Company has total power and everyone can participate. If fortune smiles on the player, he or she can win promotion into the councils of authority. On the other hand, if the player makes a bad choice, different kinds of infamy follow. The Lottery Company dictates all aspects of everyone's life. There are various conjectures on how it started:

> Some said the Company had not existed for centuries and that the sacred disorder of our lives is purely hereditary, traditional. Another judges it eternal and teaches that it will last until the last night. Babylon is nothing else than an infinite game of chance.

For most readers of 'The Lottery in Babylon', such an uncertain social life seems atrocious. While there is a structure and an order in that society, they are quite unbearable for the majority of people in the world. An increasing number of people perceive themselves as living in a situation similar to that portrayed by Borges. Apparently random rotation of social roles is the key institution by which they are ruled. Like all institutions, it affects everyone's life and is accepted to the point where nobody really knows how it started, who was behind it, or whether it has finite limits.

In the 1990s life in Argentina was a microcosm of that in Borges' Babylon. Reforms inspired by the neoliberal policies of the government established the 'capitalist market' as the basis of reality. The state retreated, giving comprehensive powers to 'the market', in the belief that it would create a powerful and efficient economy. The government had enough support at that point to impose the reforms. The goal was to unleash 'market forces', but no one questioned how the market started, who was behind it, and what its limits should be, even though it affected everyone's lives. By the turn of the millennium, an economic meltdown thrust more than half of the population under the poverty line in a country where extreme poverty had been virtually unknown 25 years earlier. Even the owners of firms became homeless after their businesses went bankrupt. Doctors turned taxi drivers after hospitals closed down or had to 'downsize' by slashing the number of their personnel. Retired teachers turned street vendors after they could no longer survive on their public pensions.

A difference is that Borges does not describe how individuals react and use their ingenuity to lift themselves out of disaster in Babylon. In the real world, however, Argentine civil society gradually built institutions to reconstruct social life. As Polanyi (1957) observes, the economy is an institutional process. Agents copy the institutions that are gone, make innovations to the copies and create new institutions.

This study analyses one of the systems that emerged in Argentina out of the attempts to partially restructure social life as it used to be. The *Red de Trueque*, or Barter Network, became a countrywide market where the bankrupt entrepreneur, unemployed doctor and disenfranchised teacher met to exchange self-produced goods and services on a very small scale, using means of payment they had themselves created, and hence turned their backs on the regular economy and its currency. The *Red de Trueque* comprised several organisations. It was an area of the economy, a cluster of economic activities.

1.2 Frameworks for analysing *Red de Trueque*

When the *Red de Trueque* (*RT*) started in 1995 with 25 participants of the disenfranchised middle class, it was meant as a bottom-up initiative of a group of environmentalists. By the beginning of 2002, with the regular economy melting down, it reached a peak of at least 2.5 million participants in 4,700 centres across the country (Ovalles, 2002). It turned out to be the largest experiment with a complementary, community or local currency system in the world in current times. On that scale, its institutional weaknesses became evident at exactly the same time as the regular economy started a period of vigorous recovery, and within a year, by 2003, the *RT* slumped to about a fifth of its previous size.

The *RT*'s remarkable rise and decline hides its qualitative impact as an economic system: it enabled millions of households to survive the crisis financially and psychologically. In the long run, the use of local or complementary currencies promoted multiplication of new small businesses, helped the unemployed to survive the period of penury and obtain regular jobs when the economy improved, alleviated poverty among the marginalised population, supported training of unskilled workers and imparted exchange value to previously unpaid work (mostly women's activities).

How is the evolution of the *Red de Trueque* to be explained? Why was the ancient barter system recreated in a country with relatively modern institutions like Argentina? Why did the *RT* grow to such proportions and collapse very soon after? How can the Argentine experience guide future experimentation with a complementary, community or local currency system? In exploring these issues, this study turned to the creation and evolution of institutions. The theoretical questions that come to the fore are: Why do institutions that regulate economic activity emerge independently of the state? What guides their design, their evolution, their governance and sustainability? This research focuses on economic organisation, and specifically on how civil society actors in Argentina institutionalised an economic system once the regular economy failed to coordinate their economic life.

There are two theoretical frameworks in which the *Red de Trueque* has been analysed by previous studies. The first is linked to the literature on local, community or complementary currency systems within what is termed a social economy. This framework mainly applies to small-scale local initiatives supported by reciprocity and self-help networks. The Argentine *RT* reached a scale estimated by some sources at seven million users, though a more conservative figure is 2.5 million. In any case, it was far from a small group governed by trust and reciprocity. The conditions prevalent in small groups of participants typical of social economy initiatives were not really dominant. Instead, over the years the *Red de Trueque* created a wide network of impersonal exchange institutions across the country, clearly imperfect but operating for a while. As a result, the picture of the *RT* as part of the social economy is useful but barely applicable.

The second analysis views the *Red de Trueque* as an anti-cyclical mechanism that grew amidst economic demise and inevitably disappeared when the economy rebounded. There is, indeed, considerable evidence in economic history to support the idea that widespread use of surrogate money tends to flourish during very severe economic downturns and gradually dies out as people re-enter the regular economy. The Great Depression and the two world wars serve as examples. However, the Argentine complementary currency system endured for 12 years, and during almost half of that time the country's GDP was expanding at rates above 5 per cent. Argentina was among the countries with the highest economic growth in the three years between 2003 and 2005 and the *Red de Trueque* is still active, new groups are being formed and new participants are joining. To sum up, while the social economy and anti-cyclical mechanism perspectives both cast some light on the *Red de Trueque* and will be explored in detail below, this study will argue that another framework is needed to explain it.

1.3 Perspectives on Complementary Currency Systems

The *Red de Trueque* in Argentina is one of the many cases of resurgence of non-state monetary systems globally in the last two decades. Such systems are known as community or complementary currency systems (CCS), *moneda sociale*, local exchange and trading systems and *monnaies parallèles*. However, the *Red de Trueque* was created without previous contact with those experiences around the world. This section reviews the literature on community, complementary or local currency systems.

A CCS is created bottom-up by communities and it combines income and identity generation (Seyfang, 2001b and c). Other authors (for example, Blanc, 2002, 2006) emphasise that they are an essentially local phenomenon and affect the local economy, in contrast to official money circulating in a whole country and abroad. The purpose is normally not to disconnect from the national monetary system, but to complement it, adjust it or adapt it. Although they have different names, such systems all share the characteristic of using an interest-free means of payment created by a non-state, civil society actor.

According to the broadly accepted definition of Ekins (1986) they are a self-regulating economic network in which members issue and manage their own money in relation to the needs of a bounded community. Lee (1996: 1377) refines the concept to a local system of production, multilateral exchange and consumption articulated through a local currency (single-purpose money) independent of, but often related to, the prevailing national currency. The CCS is part of the informal or complementary economy, fully not-for-profit and operates at the community or inter-household level (Wheelock, 1992). In practical terms, it functions as a local association whose members offer and request goods and services priced in a local unit of exchange and then trade those with other participants.

Historical experience offers a broad variety of periods in which local or secondary currencies were used, normally in situations of economic collapse or financial scarcity (Schuldt, 1997). In January 2002 there were about 5,200 communities using complementary currency systems in 58 countries, 3,000 of them in Argentina[2] and the remaining 2,200 in the rest of the world: 425 in the United Kingdom, 405 in France, 322 in Italy, 297 in Germany and the rest in countries with less than 200 CCS each (see Appendix A, Table A.1).

Non-central-state money was issued as early as the Napoleonic wars in the British islands of Guernsey and Jersey. Also at the local government level, in 1932 the Austrian town of Worgl decided to issue money in response to serious tax arrears and high unemployment in the area (Offe and Heinze, 1992) and the action helped to alleviate those problems. When another 200 Austrian towns expressed their intention to replicate the scheme, the Austrian Central Bank launched legal proceedings against Worgl and stopped it from issuing any more currency. During the Great Depression, several localities used their own scrip[3] in the USA (Colacelli, 2005; Fischer, 1934), the UK and Germany (Offe and Heintze, 1992; Thrift and Leyshon, 1996).

More recently, the first local exchange and trading system (LETS, as named by its founder Michael Linton) was established on Vancouver island, Canada, in 1984. The economy of the small town of Courtenay (pop. 50,000 inhabitants) depended on two major employers, a US Air Force base and a timber mill providing raw material for the paper industry. When the base was transferred and the mill closed, the town's population had no alternative employment possibilities. As unemployment rose dramatically, the amount of money in circulation within the local economy plummeted. Michael Linton, a practitioner of curing and remedial exercises then started accepting other means of payment for his services. Over the years, his initiative became widespread, the number of participants growing to 1,000, and the system has helped to offset some of the effects of the economic crisis (Offe and Heinze, 1992).

The idea soon spread to other countries. According to Thorne (1996), it arrived in the UK a year later, first in the city of Norwich in 1985. It did not gain momentum until the 1990s, and by 1995 there were more than 300 registered LETS across the country. Also in the 1990s, the Ithaca hours scheme in New York city provided one of the most successful examples of community local currencies, being accepted by over 240 businesses and later being reproduced in another 20 cities (Pacione, 1999).

As they spread across the world, community currencies adapt to local differences and legal frameworks in a variety of ways. Some communities issue notes or cheques to cancel payments, which are accepted by another member. Others fix a unit of value, expressed in hours of work notwithstanding the type of work offered. The British LETS functions mainly on the basis of an accountancy system: people who provide a good or service receive a 'credit' in their accounts, which they later use to buy from other community members; everything is managed by a central administrator and a computer. In Argentina, the *RT* began with a credit accountancy system and later used generally circulated vouchers or scrip as means of payment.

CCS as poverty alleviation scheme

The CCS is a grassroots initiative now attracting academic interest for various reasons. In the first place, it represents an opportunity to link an anti-poverty or income-generation initiative with a community's social development. Complementary currency systems help in a situation where the process of trading money for products is frustrated by a shortage of means of exchange and sections of the population are 'time-rich but money-poor' (Williams, 1996: 1396). That is, where some households have economic needs to cover but are unable to do so through the regular market and lack the skills to fulfil their needs themselves, while others living nearby have the skills, time and will to satisfy them but cannot find a job at a reasonable wage (Williams, 1996).

The idea behind the CCS is to ease barriers that prevent the poor and unemployed from participating in the economy as consumers and producers during a crisis (Pacione, 1997a). Seyfang (2001a: 989) argues that ‘they can be a vehicle for mitigating the problems resulting from unemployment and under-employment such as social exclusion, poverty, and an inability to participate in work.’ LETS give the poor and unemployed the opportunity to transform their labour power and working time into purchasing power, without the necessity of being employed by a firm, or of having capital, which is a sine qua non for earning a living by self-employment (Offe and Heinze, 1992).

CCS as local employment regeneration scheme

Advocates of CCS (Pacione, 1999; Thrift and Leyshon, 1999; Williams, 1996) argue that the systems are more than simply a reaction to recession or a functional device for enhancing income. In principle, everybody with time or skills can participate, underwriting the exclusionary order of the formal economy (Powell, 2002). They offer low-risk and fluent opportunities to develop skills or start micro- and small-scale enterprises to produce and trade in the community.

In this sense, Williams et al. (1999, 2001) say that the strength of LETS lies in improving employability: they provide a useful springboard into employment and self-employment for a small but significant proportion of members. At first sight, the development of local entrepreneurial capabilities seems more likely than the bridge to formal employment, since one of the main advantages of LETS is to mobilise resources that, if community currencies did not exist, would remain idle. In Argentina, this was certainly the case.

CCS as socially re-embedded economy

Community currencies re-embed money in specific locales and social networks. Following Polanyi (1957), Granovetter (1985) argues that markets are embedded in social relations but the question is what *kind* of social relations. Thorne (1996: 1366) elaborates on LETS as a socially re-embedded economy and finds that participants are indeed moved by their desire for social integration through trading.

Dodd (1994) coins the concept of *monetary social networks* to explain why different monies are worth anything. It is an expression of trust, enabling establishment of a private monetary network without central state backing. Although Dodd makes no specific reference to CCS, the point is taken up by Thrift and Leyshon (1999: 173) who conclude that monetary social or community networks 'demonstrate that alternative moral stances are possible which can colour the practices of money'. CCS thus open a new set of possibilities to underwrite the exclusionary order of the formal economy, instead of reproducing the imbalances, for example in terms of gender and race. In a disembedded economy, 'work' is defined by what is paid for and this results in reduced status for women who do unpaid work (Beneria, 1992b; Kabeer, 1995; Redclift and Mingione, 1985).

Seyfang (2001c) argues that introduction of community currencies deconstructs the traditional concept of payment and reconstructs gender values and concludes that CCS can 'value and reward work, time and skills which are often neglected, redressing gender imbalances in terms of wages, skills valued and divisions of labour'. Research to verify this is still needed, since Lee (1996: 1393), for example, makes the counter-claim that 'LETS take on some of the class and gender characteristics of the wider economy.' The Argentine *Red de Trueque* offers evidence in both directions: some groups reproduced the class and gender imbalances of the regular economy and others tried to offset them.

CCS as resistance to globalisation

In relation to locality, LETS propose a new geography of money in response to the socio-spatial insensitivity of global financial systems. Globalisation has had two important consequences in its use of space: it has led to uneven development of different societies and it has left an important part of the population excluded from the market system. The effects of the outflow of capital to areas of higher profit can be traumatic to local economies (Amin, 1995b).

Within this debate, CCS represent a possibility to re-localise social and economic relations and facilitate a certain degree of autonomy. They partially delink the local economy from the global system (Lang, 1984). North (2006) emphasises that CCS are social movements with a particular outlook of resistance. From an economic point of view, complementary currencies cannot leave the network where they are accepted as means of payment, creating some kind of insulation for the local market from the swings of globalisation (Blanc, 2000, 2002). This creates a Keynesian 'multiplier effect': increased circulation of the local unit of exchange leads to increased economic growth. These effects will be explored when analysing the *Red de Trueque*.

CCS as transformation of monetary system

The re-emergence of local currencies reopened the question of a single national currency under the supervision of a central bank. Monopoly power over a single national currency is a relative novelty in economic history (Gilbert and Helleiner, 1999). In most states in the 19th century, currencies were divided by region and social class: 'the poor predominantly used low denomination tokens, often privately issued and not easily convertible into the official monies of the wealthy' (ibid.: 3). They were tied to territory, a feudal estate or city, and were mostly worthless in other territories unless they were first converted into metallic means of exchange such as silver or gold. Later, once improved communications such as the post and railways enabled the central state to reach out to all the regions, national monetary systems were established by rule of law, coercion and force, as a response to the expansion of industrial economic scale.

Since then money has become an important instrument of the state to demonstrate its sovereignty. Now, local currencies contest this central power of the state, as they empower communities to decide what money they want to use and how much should be created (Blanc, 2002). For this reason, governments do not always tolerate complementary currencies, as shown in Thailand (Powell, 2000b) and the post-First World War experiment in Worgl (Greco, 1994).

The liberal economist Friedrich Hayek recommended giving people the right to use their preferred currency and letting the laws of supply and demand determine its fate (Hayek, 1976). By 'denationalising money', as the Austrian School author called it, competition with other currencies would be created and it would spur the currency issuer to maintain its value, translating into a more efficient type of monetary system (Selgin, 1988, 1996; White, 1984). In fact, the value of modern currency is not intrinsic; what gives money its worth is people's *trust* that their needs can be satisfied with it.

Since centralised monetary systems disregard regional disparities, a CCS is a mechanism to fine-tune local liquidity needs (Lietaer, 2001: 219). Jayaraman (2001) develops a theoretical model showing that local currencies contribute to local economic efficiency by providing better signals about supply and demand than national currencies do. Local currencies thus insulate communities from an economic downturn to some extent.

CCS: a good idea in principle

Complementary, community or local currency systems offer a wide range of benefits. They build an economy for and by the poor in such a way that the users are able to utilise their resources and satisfy their needs. At the same time, as a grassroots initiative, they can regenerate communities after structural reforms and re-embed their economies in more positive social relations. They are also a local response against the global, where localities claim back part of their control over their resources and independence.

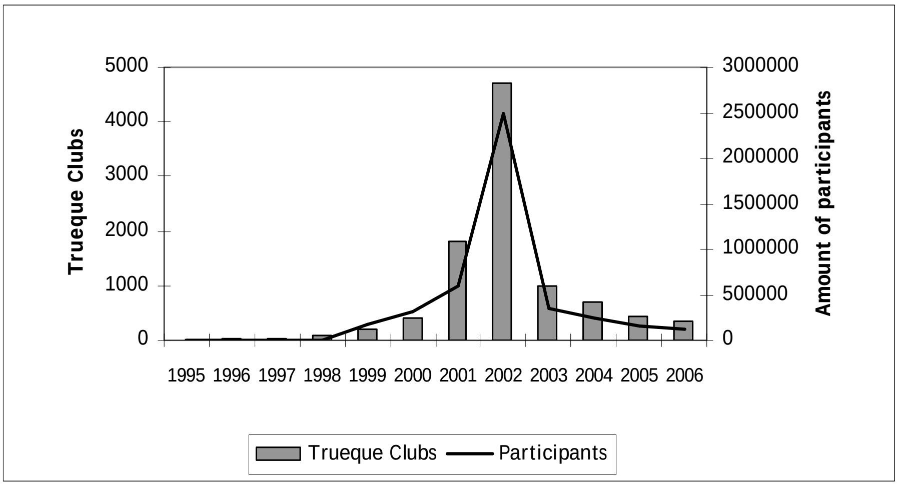
It can also be argued that CCS represent a return to the historical period when there was different money for the poor and for the wealthy, since community currencies are used by the poor and are difficult to convert into the national money used by the better-off. This is possibly the most serious risk of the system, although the lack of contact between the poor and the wealthy is not explained solely by the use of different types of money (Coraggio, 1998; Williams, 2001c).

Unfortunately, there is as yet insufficient empirical evidence to support these postulates. Several authors (Lee, 1996; Pacione, 1999; Thrift and Leyshon, 1996; Williams, 1996) point out that the potential benefits of CCS are difficult to assess as long as they are on too small a scale to make them significantly testable. The CCS offer an insufficient range of goods and services, limited turnover, and small numbers of participants. Alderidge (2002) goes further and concludes that, at their present scale, the systems are far from offering an alternative to the poor or unemployed. Thus, the Argentine *RT* appears to offer a unique opportunity to analyse complementary, community or local currency systems, given that it did not suffer from the usual restrictions in terms of size, scope and government intolerance.

1.4 *Red de Trueque* as a distinct case

At risk of over-generalising, the membership of most CCS comprises only a tiny fraction of the total population and so has marginal economic impact nationally. However, the *Red de Trueque* in Argentina represented a sea change in scale and impact, with more than 2.5 million users in 2002. It engaged 20 per cent of the economically active population in 22 of Argentina's 23 provinces, as compared with a total of 20,000 LETS members all across the UK. No research so far has explained why the *RT* grew to a point where it really competed with state-issued currency without provoking a severe reaction from the state.

Figure 1.1
Size of RT in terms of participants and Trueque Clubs



Sources: Ovalles (2002) for 1995-2002; La Nación for 2003; author’s estimation for 2004-2006 based on RT groups visited and information given by participants.
Note: Estimation method is explained under data collection in subsection 1.8.2.

The absence of state intervention even when the *RT* was at its peak is one of two aspects that make the Argentine experience unique. The *RT* appeared as a grassroots response that kept social peace in a context of institutional collapse (Primavera, 1999b). Thus, it was in the state’s interest to support it, unlike in most other countries where CCS are suppressed or barely tolerated (Offe and Heinze, 1992). The Argentine government promoted the *RT* actively to reduce social conflict as well as reintegrate people into the formal economy. Some local governments even accepted the use of its currency to pay municipal taxes. This expanded the realm and legitimate recognition of the *RT*.

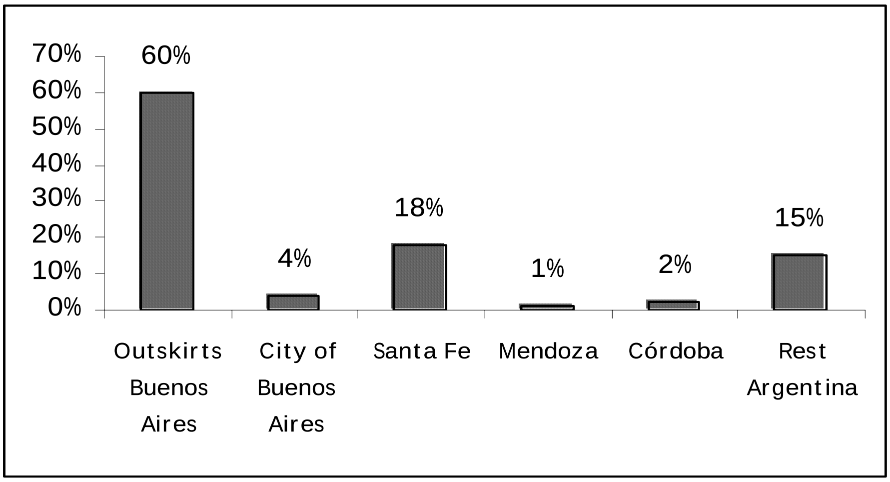
Perhaps more important was the second aspect: its s*cale and impact*. Besides being larger, it was the only structure in any country in which various CCS were linked together indistinctly in a network using dozens of different currencies. Strictly speaking, most of them were not local but complementary currencies. Similar initiatives have been attempted less successfully on a regional level in places such as Manchester, UK, where it led to loss of local identity (North, 2006; Powell and Salverda, 1998: 12). However, nowhere has an attempt been made to create a national, private, yet not-for-profit monetary system as was the *RT*. In 2002 Argentina had 3,000 CCS, while the rest of the world combined had 2,200 (see Endnote 2). Annual turnover was estimated at its peak in 2002 at AR$ 1,000 million.[4] Organisers claimed that individual members' consumption increased by US$ 600 a month, while the minimum wage was half that amount (Primavera, 1999b).

Figure 1.1 shows the growth of the *RT*. By 1996, just one year after it sprang up, there were already 1,000 participants involved in 17 clubs operating in the metropolitan area of Buenos Aires. The numbers kept multiplying, particularly after 1999 when it jumped to 320,000 members in 2000, over half a million in 2001 and 2.5 million in 2002. After that the *RT* contracted abruptly and since then it has been stagnant.

The data on membership require a note of caution. They are unofficial figures based on consultancy research (Ovalles, 2002) and rough estimations by *RT* leaders who normally did not keep accurate records. They include duplication when participants are associated with more than one CCS or drop out. Also, they only indicate registered individuals: for example, a one-time assistant counts as a daily participant of several years. There is no distinction between 'member' and 'household'; a single member may support several persons in a household while, instead, there may be several other participants from the same household. In short, the 'real' membership of the *Trueque* is quite unknowable and these data are just an acceptable indication of the dimensions of the phenomenon.

The Argentine *Red de Trueque* offers a clear opportunity to research the effects and potential of CCS as a tool for social and economic development because it had no limitations of scale and scope. At the same time, the literature on community, complementary or local currencies is of limited use for explaining it. Most research on CCS has been conducted in developed countries with a reasonable state welfare system and/or on small local CCS ruled by reciprocity and local identity. The scale and scope reached by the Argentine *RT* makes other theories necessary. This study analyses the phenomenon from an Institutional Economics perspective.

Figure 1.2
Geographical distribution of CT in 2001



Source: Ovalles (2002)
Note: Ovalles (2002) calculated the percentages on a basis of 5.000 CT.

Review of research on *RT*

There has been substantial analysis of the *Red de Trueque* by Argentine researchers. There are also many unpublished theses by undergraduate and MA students around the world, which are not cited in this study because of the difficulty in accessing them. Most of the research was conducted around 2002, at the peak of the *RT*, when the Universidad Nacional de General Sarmiento hosted a workshop organised with UNDP support. The main leaders of the sub-networks, practitioners, government representatives and academic experts took part in the workshop and the proceedings were compiled in Hintze (2003).

Most previous research recounts the following history. The first CCS in Argentina was created in 1995 under the name *Club de Trueque* (henceforth *CT*). The idea then was to make use of idle resources such as the time available to the unemployed, unproductive plots of land in the neighbourhood, and a variety of skills for which there was no demand in the regular market. The scheme was almost too obvious: a small group of people met once a week to exchange goods they produced themselves, such as garden vegetables, handicrafts, home-made toiletries and foods, knitwear, and so forth (Primavera, 1999a and c; de Sanzo et al., 1998). By reconnecting production and consumption, participants became prosumers, a term coined by Toffler (1980). The initiative proved helpful for the impoverished middle class in the area of Bernal, a suburb in southern Buenos Aires. News of it spread by word of mouth and the number of participants multiplied quickly. The *CT* was replicated across the country at a pace that accelerated as the national crisis worsened and the scheme gained popularity. Most *CT*s were linked to each other and accepted each others' local currencies. Gradually the network became known as *Red de Trueque* and it created an umbrella organisation to control issuance of currency. Figure 1.2 portrays the geographical distribution of *RT* groups in Argentina in 2001.

The profile of *RT* participants was the first aspect that drew the attention of scholars. Following fieldwork in 2000, González Bombal (2002a) emphasised the predominance of the disenfranchised middle class among the participants, unlike in other self-help income-generation schemes, where the structural poor are often in the majority. González Bombal found that the educational level of the participants was relatively high: 53 per cent had completed secondary school (12 years of schooling) and 28 per cent had received some tertiary or university education, while only 19 per cent had primary school education alone (seven years of schooling). Unable to maintain their consumption patterns, they were the right population segment for the early take-off period. In addition, the majority of members (56 per cent) were between 40 and 60 years old, 44 per cent were unemployed and 24 per cent had vulnerable employment. González Bombal presented the *Red de Trueque* as a new form of sociability, reflecting the social capital of the middle class. The income-generation effects were beyond the scope of her work.

These findings were later confirmed by other authors (Lecaro and Altschuler, 2002; Parysow and Bogani, 2002). The socioeconomic background of the majority of participants – impoverished middle class – was a crucial determinant in the type of scheme that eventually resulted. The enthusiasm with which the disenfranchised middle class adopted the *RT* was crucial for its take-off because the system requires conditions not frequently found among the traditional poor (for example, initial capital, skills, tools and equipment, entrepreneurial capabilities). The relatively lower participation of the low-income groups may be explained by the fact that they had developed other ways of dealing with poverty, which was already their everyday condition. In contrast to the middle class, the structural poor share an engrained habit of engaging in non-market forms of exchange, which is driven by the need they have for each other's support and their lack of material resources and entitlements (Barreto, 2002; Murmis, 1993). Moreover, other survival strategies such as sifting through garbage for scraps and saleable items, street vending and employment as domestic servants, were widespread among the structural poor and rather unthinkable for those with a middle-class background.

A second point that stood out was the role of the R*ed de Trueque* in providing complementary employment. Already in the early days of the *RT*, when the network was not too extended across the country, Morisio (1998) found that the participants could cover a significant proportion of their needs through it without using public resources, in a context where 70 per cent of them earned less in the regular economy than half the value of an average household basket of products.[5] The *RT* was a system in which the participants exchanged products (such as food and crafts linked to their class lifestyle) that they made on a small scale with equipment at home, using a different currency from the national one and different rules of trade. However, the traditional poor neither owned home equipment to make products for exchange nor had secure access to official money to pay for inputs and other goods not available in complementary currency, so the system was not sustainable for them (ibid.). Morisio's view was confirmed by Ford et al. (2002), who found that every respondent they interviewed had faced various types of employment vulnerability in the previous two years, and González Bombal (2002a) who explained that this type of diversification of expenses was possible because 86 per cent of the participants were owners of their own homes (and had home equipment).

It was often the main breadwinner in the household who was unemployed and another household member who participated in the *Red de Trueque* to earn a second income. This was typically a woman with no employment experience, attracted by the discovery that what she had until then regarded as a hobby could be transformed into an income-earning activity (Parysow et al., 2002). González Bombal (2002a) and Powell (2002) also found that up to two-thirds of the participants were women whose husbands were unemployed or did odd jobs.[6]

The role of gender is also emphasised in most research so far. Women were not only the majority of the participants but also the main drivers of the *RT*, the inaugurators and organisers of *CT*s, which gave them the chance to build skills as managers and community leaders. Their prevalence is sometimes analysed in relation to class and Parysow et al. (2002) argue that the *Red de Trueque* reflected the traditional household work and hobbies of middle-class women well. The goods and services offered were typical of the consumption patterns of this stratum. Many of the middle-class women had never worked for money and their contacts in the public sphere were driven by gendered hobbies (for example, cooking, knitting and wood-painting) or through a social network of friends, fitness clubs, and so on, that they could no longer afford (Parysow et al, 2002; Primavera, 2003; Primavera and Wautiez, 2002). Leoni (2003) stresses that the *RT* enabled women to gain recognition because they were able to contribute to the household income. Activities that used to be unpaid (taking care of children and the elderly, cooking and knitting) gained exchange value. The gender division of labour in the household reflected the type of money each breadwinner earned (pesos for men, complementary currency for women), but both were crucial for sustaining the household's consumption. Women would search for food and clothing in the *RT* while the pesos earned by men were used to pay for public services and meet other expenses such as taxes and rent that could not be paid in local money. In this sense, the *RT* was an instrument that made the unpaid work of women visible and valuable in the lifestyle of their household (Pearson, 2003).

A fourth issue that attracted researchers' attention was why the *Red de Trueque* had grown so much and so quickly in Argentina, in comparison with other similar schemes elsewhere in the world. As noted earlier, 5,200 CCS exist in 58 countries, but none has achieved the durability, scale and scope of the Argentine one. Powell (2002) and North (2006) attribute this to the unusual availability of idle resources following the crises of 1995 and 1998. Both Ford (2002) and Gonzalez Bombal (2002a and b) combine this argument with the sociability aspects of the *RT*. They contend that the *RT* supported the building of new social networks, which helped the participants breach the isolation caused by their diminished income and status. While the existence of a large middle class could explain why complementary currency systems started in Argentina, it is an incomplete explanation for why they achieved a scale that dwarfs that of other CCS around the world. Powell (2002) adds another explanation: Argentines had unusually low barriers to the adoption of new forms of money since the state's capacity to regulate and influence behaviour had been eroded.

The construction of a common identity in the *Red de Trueque* led some researchers to approach it as a social economy initiative (Abramovich et al., 2003; Hintze, 2003, 2005). However, Coraggio (1998) questions whether the *RT* was an alternative economic space. For example, the difference between trade in the *RT* and in the informal economy became marginal to many participants, as found by later studies (Barreiro, 2003; Gonzalez Bombal, 2002b; Leoni, 2003). Participants slowly lost the awareness that they were part of a project that not only sought to improve household income but also created social cohesion and community bonds. They started seeing the *Red de Trueque* as 'any job' or 'any other business' (Ford et al., 2002; Gonzalez Bombal, 2002a). The only visible difference was the currency used (Powell, 2002). Deviation to the morality of an alternative development path became more evident in the end (Primavera, 2003). The *RT* reproduced the pathologies of the global financial system and finally faced a catastrophic loss of confidence (North, 2005: 230). Pearson (2003) and Leoni (2003) contend that participants were mainly driven to the *CT* out of need, while the project of a social or alternative economic space mainly represented the aspiration of the leaders.

Still, the *RT* was not regarded as completely the same as the informal economy. The *RT* provided a replacement for lost jobs, both in terms of income and use of time and resources, expressed as 'feeling useful again' and 'there is still something you can do as a human being' (Ford, 2002: 224; Gonzalez Bombal, 2002a: 113). Some participants said they preferred the *CT* to the 'degradation in the labour market' that followed the new hiring modalities and the informalisation of employment in Argentina (González Bombal, 2002a: 106). They had the capacities, resources and often equipment to produce goods and services and, in the words of a participant interviewed, found in the *CT* a 'friendlier atmosphere than outside. Outside, you're on your own' (Parysow, 2002: 222).

This study will show that the Argentine *Red de Trueque* is unique. Like other CCS in both developed and developing countries, it uses a non-state type of money, but some of its characteristics make it substantially different. Most obviously, it is the largest CCS of modern times. It can only be compared with similar schemes in the USA during the Great Depression or in Europe after the two world wars, but the *RT* is situated against the background of a globalising world economy and so faces a different set of obstacles. While the main problems of most CCS around the world centre on limitations of scale and scope, the main problems of the *RT* centred on governance and sustainability. These led to an institutionalisation process with distinct choices in terms of organisation.

As complementary currency systems increase in scale, they change internally and in relation to the rest of the economy. They are not just *bigger* versions of a standard CCS but develop characteristics of their own, pushing it away from the assumptions of the social economy and closer to 'an economy within the economy', as the organisers put it.[7] That is, the *RT* was a CCS regulated by institutions that structured the activities of large numbers of individuals and groups, with their interests and conflicts, in different ways from those in the regular economy. It was a market regulated by institutions like any other market, but organised from the grassroots with minimum or no intervention by the state.

Previous research on the *Red de Trueque* has overlooked this process of institutional construction and design. The main reason for this is that most studies take one or a few local exchange centres as the unit of analysis and focus on the participants, their motivations and the impact on their households. In contrast, this thesis situates the level of analysis at the intermediate or meso level, that of the organisation of the *RT*.

Anti-cyclical view of *Red de Trueque*

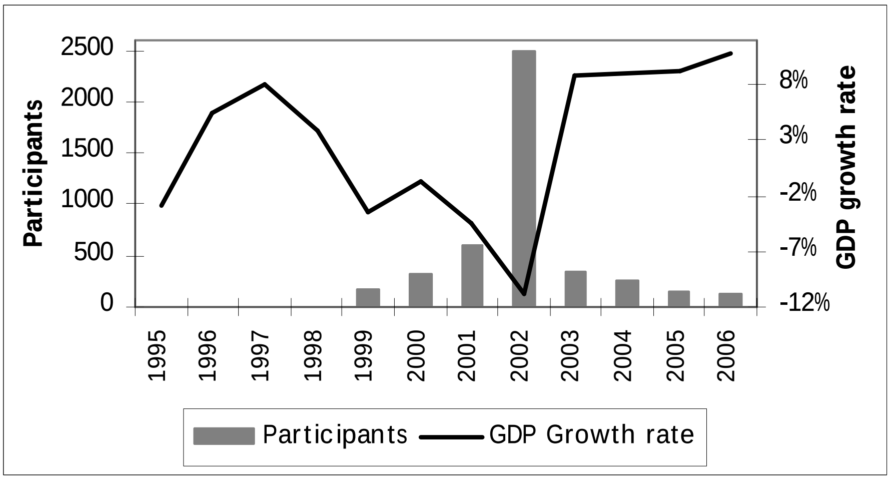
Some researchers have analysed the *RT* as a parallel economic system that bloomed with the collapse of the regular economy and disappeared when the national economy recovered. This would position the *RT* as an anti-cyclical mechanism to which individuals resorted while the crisis lasted. For example, Jorge Oviedo asserted in 2003 that the *RT* was an economy like any other, ruled by supply and demand, and that it would exist until the participants and resources were reabsorbed in the regular economy.[8] Krause (2003) argued that the *RT* was a weak economy, given the limited accumulation capacities of the actors. However, Horacio Covas, one of the organisers of the system, disagrees. He thinks that the growth of the *RT* has no relation with the evolution of the regular economy but follows its own dynamics.[9]

Colacelli et al. (2005) explore the possibility of an anti-cyclical relation, employing an econometric model that compares the use of 'secondary currencies' during the Great Depression in the USA and in the *RT* in Argentina. They find that the acceptability of secondary currencies increases when the supply of national currency is low, the relative seigniorage of the secondary currency is low and individual trading technologies are less effective. They reason that the *RT* currency supplements regular money when it is in short supply, in order to re-establish a certain balance between goods and means of payment. On the basis of fieldwork in 2002 and 2003, Colacelli et al. find that the *RT* had effects on the real economy, with the income of participants increasing by an average of U$S 35 a month (15 per cent of the national monthly average income), which in aggregate terms represented 0.6 per cent of the GDP in 2002. However, they conclude that once the relation between the amount of regular means of payment and goods is re-established, secondary means of payment disappear. Their analysis is valid, though their final conclusion is tinted by the period when they did their fieldwork. The *RT* was then expected to disappear in a matter of months, but this did not happen and it was still operating in 2006. The statistical significance of the anti-cyclical hypothesis decreases if the period of analysis is extended to 2006.

The hypothesis of an anti-cyclical dynamism in the *RT* is studied here in relation to macroeconomic variables: total GDP, its growth rate, unemployment, and poverty. The number of *CT*s and participants provides an indication of the *RT*'s scale, but variables move closely together –they are covariant – so which one is used does not modify the analysis.

Interdependency between the number of participants and selected variables is analysed in total amounts, rates of variation, natural logarithms,[10] and a combination of absolute amounts for the *RT* and rates of variation for the macroeconomic variables (see Appendix A). The method used is squared correlation indexes R^2, which show the proportion of variance in common between two variables.[11] This regression analysis requires a note of caution: no statistically significant interdependency can be shown from data for only 11 observations (the number of years the *RT* had been in existence in 2006). The analysis is done here only to provide some indication (however limited) of whether there is an anti-cyclical dynamism between the *RT* and the regular economy.

Figure 1.3
Relation between scale of RT and GDP growth rate, 1995-2006



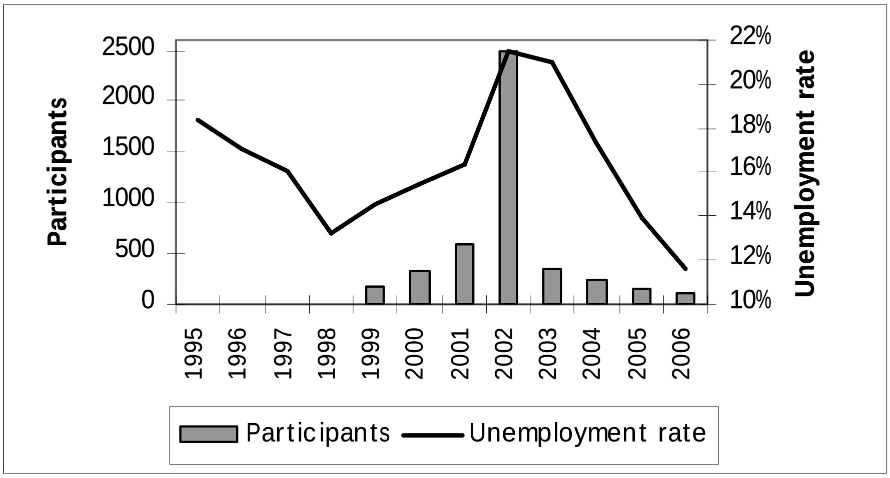
Sources: For the RT, as in Figure 1.1 but here expressed in thousands. GDP growth rates from <*www.indec.gov.ar*>.

Of all these, the closest relationship between the scale of the *RT* and the regular economy is observed in the GDP growth rate (Figure 1.3). The squared correlation index is 43 per cent. Between 1995 and 1998, the *RT* is pro-cyclical, meaning that both grew together. The R^2 between the number of participants and total GDP is lower, at 21 per cent. Introducing a one-year lag (that is, assuming that the number of participants in the *RT* changes only one year after the regular economy shrinks or grows) does not show a closer co-relation with an R^2 of 17 per cent.

It would seem that when the economy collapsed, the *RT* grew, but when the regular economy rebounded, the *RT* did not fall apart as would be expected in an inverse relationship.[12] This suggests that participants sheltered themselves in the *RT* after the collapse of the regular economy but did not leave it once the GDP recovered. Other factors came into play once they were in the network; that is, the *Red de Trueque* developed a life of its own.

The *RT* included a large proportion of unemployed, so there is interdependency between the unemployment rate and the number of participants. The R^2 for these variables provides some evidence of the interdependency, at 36 per cent. Again, the relationship between them is clearer during the economic collapse than during the recovery. This supports the finding that individuals enter the *RT* when the household is exposed to a difficult labour market but do not immediately or necessarily leave it once it improves.

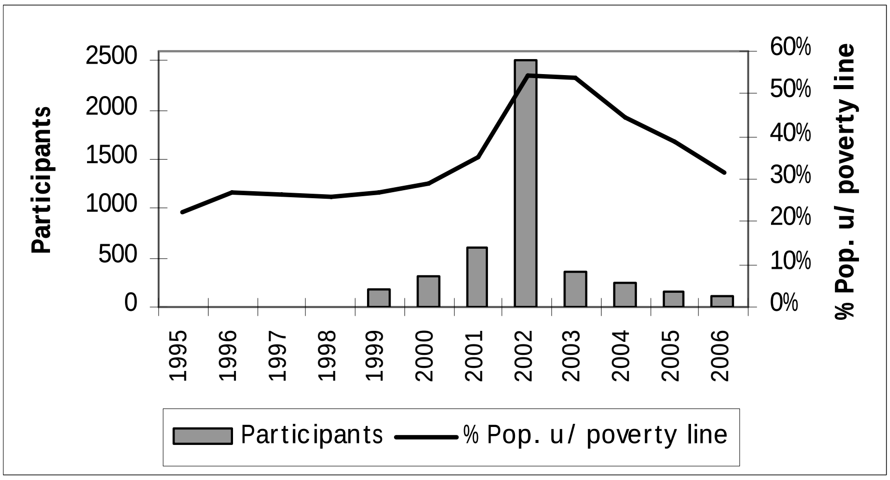
Figure 1.4
Relation between scale of RT and unemployment, 1995-2006



Note: Unemployment rates are for the second quarter (May) and include job-seekers receiving welfare subsidies.
Sources: For the RT, as in Figure 1.1 but expressed in thousands. Unemployment rates from <www.indec.gov.ar>.

A third issue to explore is the percentage of households under the poverty line. The R^2 in this case is 44 per cent, showing that the interdependency of the *RT* with poverty is stronger than with unemployment.[13] There are a variety of reasons for this. First, unemployment does not automatically mean poverty (not all the unemployed are poor). It could be a matter of time before the unemployed sink into poverty (they can resort to savings, temporary employment, help from kin, and so on, and join the *RT* only after these other strategies are exhausted). Figure 1.5 portrays the relation between the scale of the *RT* and poverty rate. The disguised unemployed are presumably under the poverty line and tend to join the *RT* first. A high share of the participants comprised women who had never been employed and thus were not registered in the unemployment rate. Therefore, this gender impact of the *RT* is not captured by the unemployment measurement.

Figure 1.5
Relation between scale of RT and poverty, 1995-2006



Note: Poverty rates correspond to total urban population (individuals) under the poverty line in the third quarter.
Sources: For the RT, as in Figure 1.1 but expressed in thousands. Poverty rates from <www.indec.gov.ar>.

In conclusion, the strongest interdependency of the number of participants in the *RT* is with the population under the poverty line, followed by GDP growth. This finding is consistent with the description of the *Red de Trueque* as an income-generation option for the poor more than a generalised alternative to employment. Therefore, there is evidence to support the hypothesis that the *RT* had an anti-cyclical relation with the regular economy, but it is rather weak as an explanation for why the *RT* emerged and grew to the dimensions it reached in 2002. The anti-cyclical hypothesis needs to be complemented with other factors to explain, for example, why people do not immediately or necessarily leave the *RT* once the regular economy recovers.

Finally, and once again as an exercise to provide guidance rather than for its statistical significance, a regression was run between the selected macroeconomic variables and the number of participants in the *RT* in the 1995-2006 period. The unemployment and poverty rates are strongly collinear, so unemployment was dropped. The regression was run at a logarithmic scale to soften the peaks (especially for 2002). The use of logarithms does not alter the relationship between variables but it should be read in terms of variations. For example, a 1 per cent rise in GDP growth leads to a 1 per cent increase in the number of participants. The first observation (1995) was ignored because the *RT* had just been launched. The second observation (1996) is cancelled by the use of a logarithmic scale. With 10 observations, the regression yields a fit with an R^2 of 80 per cent (see Appendix A for details).

1.5 CCS as an institutional concept

The two main viewpoints on the *RT* therefore fall short when it comes to explaining its complexity. Its scale and scope went far beyond that of CCS studied in the social economy approach. That perspective is useful for researching most CCS worldwide, or for a case study of a single *CT* in Argentina at the micro level, but it is inadequate for studying the articulated network of thousands of *CT*s across the country and understanding the overall picture. The anti-cyclical hypothesis, for its part, does offer a more general view but is perhaps too macro to disclose the motivations and weaknesses of the system on the ground, which go beyond providing a mechanism that compensates for downturns in the cycles of the regular economy.

The present study proposes an intermediate or meso analytical approach. The *Red de Trueque* represented a socioeconomic area in which there were institutions to rule behaviour, negotiations between groups with diverse interests and common goals, a stratification of actors (leaders, coordinators and participants) and internal organisations that distributed power and made decisions. Hence, it was a complementary or parallel economy with distinctive structures; in other words, an institutional construction that took time for agents to build. It had barely any state regulation or enforcement, so it roughly corresponded to the concept of a 'spontaneous private ordering' (McKinnon, 1992; Williamson, 2002). From a New Political Economy perspective giving the state a significant role, Streeck and Schmitter (1985) re-elaborate it as 'private interest governance' and Sabel (1998) terms it a 'constitutional order', concepts which will be elaborated later in this study. From a game theory perspective, Dixit (2004) coins the label 'Lawlessness in Economics' to refer to economies that are not driven by the rule of law or the state, but exist among private parties or civil society actors.

The view that the *RT* was a bottom-up institutional construction is not an assumption at the beginning of this study, but rather a claim that will be substantiated as the argument progresses. Given the multiplicity of levels of analysis and the complexity of the *RT*, this study does not follow a single theoretical framework but a combination of theories from various schools of thought. Each chapter will present its corresponding theoretical and analytical framework drawn from Institutional Economics, post-Keynesian Economic theory and the Austrian School. However, at this point it is necessary to define a few analytical categories in order to explain the emergence and construction of institutions within the *RT*. This section presents a brief conceptualisation of institutions and elaborates three categories that will guide the analysis.

What are institutions?

The central claim of Institutional Economics is that the action of economic agents is ruled and coordinated by institutions, a point on which there is relatively little disagreement in the social sciences. Examples of institutions are markets, prices, money, labour standards, laws, rules regulating exchange, and organisations to enforce them.

Institutions are a broad concept and there is no shortage of definitions. They are defined as 'structured processes of interaction among individuals, relatively enduring and recognised as such' (Lawson, 2003: 182). Similarly, Hall (1986: 19) defines them as 'formal organisations and informal rules, compliance procedures and standard operating practices that structure the relationship between individuals in various units of the polity and the economy'. Institutions present possible paths of action for economic agents to decide about employment, production, exchange and the options between abiding by rules and shirking. They point out 'what has meaning and what actions are possible' in economic life (Di Maggio, 1991: 9).

In spite of some variation in the focus of the definition, it is clear that institutions are socioeconomic structures. They form an element in the social structure (Wells, 1970), a broader concept that gives stability and meaning to human action. Hodgson (2006: 2) discusses institutions as 'the kind of structures that matter most in the social realm: they make up the stuff of social life'. However, institutions and social structures are not, strictly speaking, synonyms; institutions are a special type of social structure. They are social structures with the potential to change agents, including their purposes or preferences, which involve potentially codifiable and normative rules of interpretation and behaviour. 'Potentially codifiable' means knowledge of them can be either tacit or explicit, but they are still the subject of discourse to facilitate their social and cultural transmission. 'Normative rules of behaviour and interpretation' implies that a breach can be sanctioned. The key term is 'rule', which is a 'normative injunction or immanently normative disposition that in circumstances X do Y' (Hodgson, 2006: 3). This means that rules, including laws, norms of behaviour and social conventions, are 'considered, acknowledged, or followed without much thought' (ibid, 2006).

The fact that knowledge of rules can be tacit makes it problematic to determine whether behavioural regularities are due to instinct or genuine rule-following. The Old Institutional Economics, or Evolutionary Economics, distinguishes between instinct and habit, in the tradition of John Commons, Thorsten Veblen and Clarence Ayres, among others. Instinct is genetically inherited and habit is acquired culturally. Instinct explains just a small part of the variety of human actions and interactions. Habits, on the other hand, are ubiquitous and make institutions work because 'the rules involved are embedded in shared habits of thought and behaviour' (Hodgson, 2006: 6). Habits are dispositions to engage in previously adopted or acquired behaviour, triggered by specific stimuli or contexts (Hodgson, 2003a: 556). Still, habit is a disposition, a propensity, while behaviour is an actual effect (ibid.: 556). In circumstances X, one is disposed to do or think Y.

Individual action is thus seen as being affected by institutions and networks. This study rejects the assumption that individuals are rational, understood as all-knowing, always calculating what actions to take in the name of self-interest. They do have some information and they are normally aware of their intentions and interests. However, whether they would chose to act in self-interest or not depends on their preferences, formed by learning in relation to other individuals. Agents are guided by 'rational learning', meaning that they are engaged in a rational process, but the very act of learning means that the learner does not have all information. Since learning is ultimately an individual process, agents cannot be assumed to be uniform, equal or 'given' (Hodgson, 1998).

Categories of institutions

The conceptualisation of institutions as elements of the social structure relates to their being located between the extremes of agency and structure. Hodgson considers this a false dichotomy (2004) because agents' thoughts and behaviour create habit, which embeds the rules involved in institutions, which are in turn the constitutive elements of the social structure. In this way, actor and structure are connected in a circle of mutual interaction and interdependence (Hodgson, 2003b: 164). This conceptualisation is analogous to the 'theory of structuration' elaborated within sociology by Giddens (1984).

Repetitive action thus creates habit, which is how institutions emerge. This is the core of the evolutionary nature of institutions (Hodgson, 1998, 2004). Habits (individual) and routines (social) are the most common type of institution guiding individual action (Hodgson, 1997, 2003a). They evolve out of repetition, practice, and regularity of action. They do not grow out of infallible design and can therefore be the outcome of mistake, speculation or coincidence, but once in place they acquire stability and resilience (Thelen, 1991). Habits and routines are durable, their resilience deriving from their creation of an immanent or unreasoned disposition to act in a certain way. They are the first type of institution in this study's categorisation.

At any given point in time, institutions are guiding behaviour before regularity of action generates new habits. Max Weber pointed out in 1907 that 'some rules are followed without any subjective formulation in thought of the rule' (Weber, 1907/1978: 105). These basic institutions constitute a platform on which others are based. For example, languages structure communication and the concept of individual property organises property rights. Hodgson (2007a: 3) refers to them as 'prior institutions', though, rigorously speaking, they have also evolved at some point in time further in the past (for example, languages may have emerged 50,000 years ago). Discussing game theory, Field (1984: 709) calls them the 'arena' in which the players define the rules of the game. With reference to the prisoner's dilemma, for example, Field questions 'why escape or insurrection' are not even under consideration. It is because the 'arena' rules preclude them. In circumstances X there is only Y. These primary, prior or arena institutions constitute the second type of institutions guiding socioeconomic action. They are extremely resilient and, up to a certain point, 'self-sustaining' (Steinmo et al., 1992).

Habits and prior institutions (or evolved institutions, in the terminology of this research) give stability to socioeconomic life by reducing uncertainty and complexity, but situations are rarely completely invariable and identical. Sometimes they are completely or partially new, which may happen when changes in the environment make habits useless for achieving particular objectives. When there are no pre-reflexive tendencies indicating what path of action to follow, a response needs to be formulated. These situations pose higher complexity and risk of failure and are subsumed to intention and interest. Agents are pushed into reflection to assess the situation and later generate rules of action or institutions (Hodgson, 1998: 173). These have the following form: in circumstances X, do Y to obtain Z. Designed institutions are the third category affecting an individual's behaviour.

These designed institutions are built collectively or individually, which translates to their being externally or internally imposed. This is where diverse intentions and interests come in play. Hayek (1973: 11) argues that 'man is as much a rule-following animal as purpose-seeking'. Other authors refer to 'intentionality' of action as guiding conscious deliberation and self-reflexive reasoning (Lawson, 1997). Joas (1996a: 158) defines intentionality as 'self-reflective control which we exercise over our current behaviour'. Intentionality defines what course of action Y is acceptable for obtaining Z and will be repeated in circumstances X. Intentions and interests therefore guide the construction of designed institutions.

Externally imposed designed institutions are normally related to necessary negotiations between parties with diverse interests. Groups of agents continue to explore possible courses of action until they reach an agreement which is acceptable in view of the intentions and interests. Alternatively, one of the parties imposes a rule of action on the others, even against their intentions and interests, but then they would have to be able to enforce the rule by the threat of punishment. To simplify the argument, this study conceives both voluntarily agreed and effectively imposed institutions to be in line with intentions: agents follow a designed rule of action because they agree or because they have to avoid punishment.[14]

In conclusion, three categories of institutions have been conceptualised: arena or prior institutions, evolved institutions (habits and routines) and elaborated or designed institutions. Hayek (1979: 159) formulates a similar distinction of 'layers of rules' in human society, placing at the top those that require conscious design and elaboration and at the bottom those that are mainly instinctive. Evolved institutions feed into the other two categories, acting as a hinge. Upstream, if habits and routines persist for a long time, they become arena institutions and sustain new evolved institutions. Downstream, habits and routines inform what experimentation and innovation is possible in order to design new institutions.

An additional concept useful in this study is social networks. According to Granovetter (1992: 4), a network refers to a regular set of contacts or similar social connections among groups or individuals. So agents are neither atomised actors nor incapable of taking courses of action other than those indicated by their environment. This point resonates with the social capital literature, which will not be referred to in this study specifically. Social capital is a contested and broad concept with multiple meanings, perhaps too broad and contested to be useful in this study (Bhuiyan, 2005; Knorringa and Van Staveren, 2007; Portes, 1998; Woolcock, 1998). Still, the idea that networks of belonging embed the interests and intentions of agents and contribute to their formation is related to the process of experimentation, learning and eventual institutionalisation which will be studied here. Also relevant is the concept of trust that keeps networks together.

The two main concepts of institutions and networks become relevant when new situations emerge and reasoning becomes necessary. That is, either X is unknown or has changed in such a way that Y is done but Z fails to happen. Agents are then forced into reflection and the networks of belonging shape experimentation for new solutions (Lane et al., 1996). Networks are critical because they are sources of information and examples to imitate. They also shape intentions and interests, which affect the reasoning to search for new solutions. So while habit provides the cognitive means by which information is interpreted, the networks of belonging define what experimentation is possible and later imitate the chosen path, institutionalising it as a rule of action (ibid.).

Another avenue of analysis is the social class in which individuals are located in the social hierarchy. Class is conceptualised as much in relation to culture as to economic factors, so it includes consumption categories or lifestyles as well as cultural practices like dress, speech, outlook and other factors that contribute to being considered part of a certain class (Turner, 1988). It is a difficult group to define because it includes a broad variety of occupational groups, from low-level service employees to new service professionals (Crompton et al., 2000). Some authors (for example, Savage, 1992) solve the problem of definition, highlighting cultural rather than social position, lifestyle rather than life chances, consumption rather than relation to production, and class values rather than class interests. The middle class is of particular relevance to this study and is also conceptualised along lifestyle and class values.

1.6 Characteristics of this study

The possibility of researching how economies are organised bottom-up is quite uncommon in current times and the *Red de Trueque* represents one such opportunity. It began with a small group of friends and neighbours who created a market to trade their goods and services on a small scale, with the idea of helping each other recover their middle-class lifestyle. What followed was the monetisation of exchange with self-made means of payment and framing of standard, relatively simple methods of replication. The determination of the leaders to multiply the experience soon transformed a rising number of centres into an articulated network in which various groups formed their own local markets. As the scale grew, so did the demand for organisations, institutions and rules to regulate internal behaviour. It is this scaling up into impersonal exchange that was unique to the *Red de Trueque* in Argentina. Exchange no longer took place between a small group of neighbours, as was typical in social economy schemes, but became a socioeconomic activity involving thousands of people. Along with this came bureaucracies, coalitions and divergent interests. Eventually, the factions built different governance systems with varying degrees of sustainability. Each proposed distinct institutions for making decisions, distributing power and coordinating the socioeconomic activities of hundreds of centres and members. All in all, the *RT* was an innovation when the habits and routines of the regular economy failed to provide livelihoods to Argentines.

To summarise, the story of the *RT* is one of institutional construction in which the various actors structured a socioeconomic system and then somewhat destroyed it. The *RT*, therefore, represents a cleear opportunity to analyse the evolutionary nature of institutional construction and reflect on the rules of governance and sustainability of institutional systems. This study focuses mostly on the third category of institutions, those designed by agents.

Research questions

The questions that guide this study are of two types. From the theoretical point of view, it seeks to determine how and why institutions are designed by agents. The sub-questions in this regard are:

- What are the contextual conditions for new institutions to emerge?
- How and why do new designed institutions emerge?
- What factors guide the organisation of institutions across society?
- What are the rules of sustainability of governance systems?
- What is the impact of institutions on local economic development?

With regard to the *Red de Trueque*, the sub-questions in this research are:

- How and why did the background conditions of the Argentine economy promote the emergence of the *Red de Trueque*?
- How and why did the first *Club de Trueque* emerge?
- Why was the *Trueque* organised as a network and what was its impact?
- Why did the *Red de Trueque* form various governance systems and why did each of them withstand its contraction differently?
- To what extent did the *Trueque* promote local economic development?

The findings of this study will improve understanding of the evolutionary nature of institutions, focusing especially on low-income groups. In practical terms, it will identify the rules of governance and sustainability of CCS as a tool for development promotion and poverty alleviation.

Methodology and structure

As argued, the multiplicity of levels of analysis does not allow for a single theoretical framework to be used through the entire thesis. Separate theoretical and analytical frameworks are created for each chapter, which roughly corresponds to each sub-question posed above. This means that each chapter, theoretical framework and sub-question focuses on a particular level of analysis and dimension or angle of institutional construction. They could be read separately and refer to a specific phase of the institutional evolution of the *RT*.

The study comprises eight chapters, including this introduction. Chapter 2 presents the context of institutional gaps in which the *Red de Trueque* was created. Chapter 3 analyses the launching of the first *Club de Trueque* and the emergence of new institutions by design. Chapter 4 focuses on the expansion of the first *Club de Trueque* into a national network, scrutinising the intentions and interests in institutional design. Chapter 5 studies the rules of governance and sustainability of governance systems with minimal state regulation, like those that integrated the *RT*. Chapter 6 brings the analysis to the level of the participants and weighs the significance of the *RT* for the local institutional endowment and for local economic development. Chapter 7 summarises the analysis and proposes policy recommendations for CCS worldwide and Chapter 8 outlines the main theoretical reflections of the thesis

The institutional approach to the *Red de Trueque* is new and demands more extensive coverage than in studies so far. In order to research the evolution of the institutions of the *Red de Trueque*, two periods of fieldwork were carried out. The first was from May to December 2004 and the second in November and December 2006.

The data collection was organised as follows. First, the initiators of the *RT* were interviewed extensively and repeatedly. These included the three founders of the initiative (Horacio Covas, Carlos de Sanzo and Ruben Ravera) and academic collaborators who joined the leadership of the *RT* later (Heloisa Primavera and Charli del Valle). In addition, extensive and repeated interviews were conducted with leaders at the regional and local sub-networks. These were located in the city of Buenos Aires, the metropolitan area of Buenos Aires (western and southern suburbs), Mar del Plata and its outskirts (Buenos Aires province), La Plata (Buenos Aires province), Jujuy and Palpalá (Jujuy province), Venado Tuerto (Santa Fe province), Rosario (Santa Fe province), Capitán Bermúdez (Santa Fe province) and Bariloche (Rio Negro province).

The leaders provided lists establishing that a total of 1,000 groups were operating in the second quarter of 2004. Their lists were the basis for sampling, but attempts to contact the *CT*s listed showed that about half had in fact closed down. In addition, the author found during the fieldwork that some *Red de Trueque* participants were also members of *CT*s that were missing from the 2004 lists. The number of *CT*s operating in 2004 was thus estimated to be 700.

A total of 44 operating *CT*s were then visited and their coordinators interviewed. To ensure representation, two criteria were followed. Firstly, they were located in a variety of geographical areas across the country, in large and small cities, in wealthy and poor locations. Secondly, they represented the different political factions within the *RT*. Semi-structured interviews were conducted with the coordinators of the selected *CT*s. Another 15 coordinators whose *CT*s had closed were interviewed at their homes.

Between August and December 2004 a survey was conducted among the participants in 18 of the 44 *CT*s visited, with a semi-structured questionnaire. These were chosen according to the same criteria as above, but also with a view to selecting representative numbers of small and large groups. The 18 *CT*s were located in the metropolitan area of Buenos Aires, Rosario, and Mar del Plata. Respondents for the survey were chosen at random while they queued to enter the markets or next to their stall while they were waiting for buyers. Of those surveyed, 15 per cent were participants in markets with fewer than 50 individuals and 8-10 per cent in those with more than 50. The survey obtained 386 effective responses. Two research assistants helped with the survey in Buenos Aires, one in Rosario and one in Mar del Plata. They were instructed to follow the closed questionnaire but to encourage respondents to justify or clarify their answers whenever they felt it necessary to do so. This tactic resulted in short interviews of 20 minutes each on average.

Focus groups of four to six participants were organised to discuss the contraction of the *RT* and its sustainability. These were in the following *CT*s: Obelisco (Capital Federal), Las Dahlias (Mar del Plata), El Comedero (Bernal, Buenos Aires), Cuartel IX (Lomas de Zamora, Buenos Aires), Palpala (Jujuy) and ex San Cayetano (Rosario).

The fieldwork ended with a small canvass of official street markets functioning in the last months of 2004. Individuals selling goods (handicrafts, second-hand goods, antiques, prepared foods) were asked if they had participated in the *RT* between 1995 and 2004. Most had or were still going to the surviving *CT*s. In semi-structured interviews, they were asked standard profile questions as well as their opinions on the main differences between the different *RT* systems and in what ways the learning experience in the *RT* was connected to their activities in the regular market at that time.

In addition, extensive interviews were conducted with experts and academic researchers, most of them from the Instituto del Conurbano of the Universidad Nacional de General Sarmiento, which is a leading centre on social economy research.

The first limitation of data collection had to do with the temporal span. The fieldwork was carried out after the strongest period of contraction of the *RT*. Whether this limited universe of members had different opinions from those who had left, and/or whether that has biased the findings of this research, is not known. However, judging by the canvassing referred to above as the seventh method of data collection, this seems unlikely. Secondly, people were interviewed in 2004 on events that had occurred during the previous decade. The answers are naturally tinted by their memories of the events, the changes over time in their points of view, and their own standing as participants or witnesses to the events. The problem of research on an extended period in time at a static moment is unavoidable. As many participants and witnesses as possible were interviewed in order to collect as many pieces of the puzzle as possible.

In addition, the accounts of conflicting witnesses made it difficult to assign responsibility for the contraction of the *RT*. The thesis assigns opinions to those expressing them and includes as many diverse views as possible. The author made every effort to interpolate accounts, but assigning responsibility was not considered to be within the scope of this research.

Notes

1. J. L. Borges (1941) 'The Lottery in Babylon', in D. Yates and J. Irby (eds), *Labyrinths. Selected Stories and Other Writings by Jorge Luis Borges* (1964). New York: New Directions Publishing Corporation.

2. Data for July 2002 from www.cyberclass.net/turmel/urlsnat.htm

3. Scrip is defined as a certificate (a security or other legal document) whose value is recognized by the payer and payee; scrip is not currency but may be convertible into currency. See www.wordreference.com

4. Until the devaluation of January 2003 this was equal to US$ 1,000 million, and after it US$ 300 million.

5. This value is defined by the Instituto Nacional de Estadisticas y Censos (National Statistics and Census Institute) on the basis of household surveys.

6. The word used for such work in Argentina is *changas*, denoting informal irregular work.

7. Interviews with de Sanzo, 30 August 2004, and Sampayo, 30 November 2004.

8. *La Nación*, 17 August 2003, available at <http://www.lanacion.com.ar/519950>.

9. Interview with Horacio Covas, 4 November 2006.

10. The analysis using logarithms softens the peaks, but the results should be read in terms of variation rates.

11. The further this value is from zero, the stronger is the interrelatedness; that is, the clearer is the interdependence of the variables.

12. The *RT* continued to thrive even as the economy boomed, and it took some time before the membership decreased. Even after that contraction, some of the remaining nodes have been recovering and are now increasing their membership again.

13. The unemployment rate statistics are those for the second quarter, while the population under the poverty line statistics are for the third quarter. This choice introduces a three-month-lag between unemployment and the change in the poverty rate.

14 Hodgson (2007a) argues that agents' disposition to abide by the rules derives from both, the habit of doing so as well as the threat of punishment if they do not do so.

2 Reforms and institutional gaps in Argentina

2.1 Making and unmaking institutions

When institutions guiding economic agents' behaviour are perceived by policymakers as counter-productive to the ways in which they would like the economy to function, they become the target of structural reform or adjustment programmes (SAPs). A wave of SAPs were implemented throughout the developing world during the 1990s, inspired by the neo-liberal view of how the economy should work. The objective was to improve the overall efficiency of the economy by changing the institutions that ruled production and market exchange. The focus was on correcting the distortions caused by 'excessive' regulation, mainly the state's but also as a result of social practice. Policies aimed at eliminating, reconfiguring or replacing the old institutions, seen as inefficient, by new ones. It was assumed agents would adapt their behaviour accordingly.

However, the institutions subject to reform were part of the social structure, in the sense outlined in Chapter 1, and the adaptation of agents' actions was not as direct as initially believed. This chapter will argue that structural reform programmes create institutional gaps. That is, until economic agents adapt their behaviour to the reformed or new institutions, they can no longer operate in the economy as they used to. Old habits, patterns of behaviour and expectations no longer match the reality of a modified economic structure. While agents struggle to understand the new institutions, their resources are redundant or underutilised. Although this is often regarded as a short-term problem, it can actually persist for some time and even become permanent.

The depth and speed of the reforms are critical dimensions affecting agents' adaptation to the reformed structure, as well as their agreement with or resistance to the policies. All in all, institutional change resembles a 'bricolage process' (Stark, 2000), the mixing of this and that, of the old and the new. It represents a meso-level look at the effects of macroeconomic reform, which in turn feeds back on the macro level. A situation in which institutions are missing constitutes the starting point for agents to pursue new solutions and formulate new patterns of behaviour, termed 'designed institutions' in this study.

The case of Argentina is an example of how structural reform policies create institutional gaps. The country had a relatively dense institutional structure constructed through most of the twentieth century. Its per capita GDP placed it at a middle-income level in the world and its substantial middle class was a rarity among the developing countries. However, in the 1980s the state-promoted industrialisation was running out of steam and inflation soared. The diagnosis that stabilisation of the economy required reforming the economic and social structure gained consensus. In 1990, Argentina adopted a wide-ranging structural reform programme that was expected to tackle inflation and make the country more competitive in the world market. The programme followed the same course of action as the one that was eventually termed the Washington Consensus (Williamson, 1990): fiscal discipline, opening up of the economy, monetary restraint, privatisation and deregulation. The structural reforms were initially successful and economic growth accelerated. However, agents unable to adapt to the reformed institutional structure gradually became disengaged from the regular economy. In other words, institutional gaps developed. They thus had to seek solutions through reflection, individually or collectively, to reformulate their regular economic activities. Among other initiatives, they refurbished the idea of a closed market in which they could trade home-produced goods made on a small scale and with low productivity. They thus regenerated lost segments of economic activity, later issuing their own currency for transactions. This was the *Red de Trueque*.

This chapter analyses the emergence of institutional gaps as a consequence of the structural reform programme implemented by the Argentine government in the 1990s. The analysis is on three levels: a critique of the structural reform programmes from an Institutional Economics perspective; elaboration of the concept of institutional gaps that allow agents to try new solutions; and how the developments in Argentina affected large parts of society, creating a necessary condition for the emergence of the *RT* at that time and in that place. The chapter focuses on four areas that were the target of structural reforms: industry, labour, the welfare state and the monetary system.

2.2 Structural reforms as imposition

Structural reforms were first inspired by the Monetarist School and later included supply-side policies to correct imperfect markets (Stiglitz, 1998). They represent a specific conception of the economy, which claims that less state intervention leaves more ground for market coordination to take over (Gwynne and Kay, 1999). The main aim, then, is to transform institutions in order to restructure the ways in which individuals relate to each other in the economy. The intention is to create designed institutions by policy.

Eggertsson (1997) argues that this represents a new conception of economic policy. The old view was primarily quantitative and worked by manipulating the fixed economic relationships of an economic system with a given structure. The new one is primarily qualitative or structural. The interrelationships between variables are not taken for granted; they are the policy targets. They need to be turned into institutions conducive to economic efficiency. The approach behind these programmes assumes that the market is the most efficient or desirable mode of coordination (Gwynne and Kay, 1999). Institutions guiding economic activity should therefore be rearranged in line with the Neoliberal conception of free market mechanisms. Other forms of coordination –state regulation, private sector alliances, and civil society networks– would push the economy into a suboptimal position, so they should be avoided (Gibson, 1997; Vacs, 1994).

This view has been criticised by Institutional Economics scholars as a misunderstanding of the nature of institutions. They argue that, however deregulated markets are intended to be, they are still organised by institutions whose manipulation may cause more problems than they solve. According to Bowles and Gintis (1993) markets cannot last without implicit rules of the game and explicit laws enforced by an authority or association. Public and private conventions discipline agents, strengthen contracts, reduce uncertainty and minimise risks in order to provide greater certainty and narrow the room for conflicts. Chandler (1977) suggests that, to the invisible hand of the market must be added the visible hand of institutions.

As experience in implementing neoliberal reform programmes grew, it was observed that the elimination or restructuring of these institutions left markets deregulated and eventually hardly functioning at all. In the terminology of this study, the effectiveness of the 'arena' institutions, which define 'what has meaning and what actions are possible' (Di Maggio, 1991: 9), was diminished or lost. The awareness of this problem sometimes led to the creation of autonomous regulatory agencies by states.

A second critique of structural reform policies is based on the evolutionary development of institutions. Structural reform programmes follow a normative blueprint based on a specific understanding of how economic action should be organised. As conceptualised in the previous chapter, Institutional Economics claims that institutions either evolve historically out of regularity in behaviour or are designed in line with agents' intentions and interests (Lane, 1995). Policymakers proposing to create institutions top-down would need to generate compliance by promoting agents' participation, which has rarely been the experience (Smith et al., 1994). Alternatively, policymakers should be able to enforce reforms through threats of punishment for non-compliance, but that would require extremely costly control infrastructure. It would be quite impossible to regulate every aspect of socioeconomic life and any attempt to do so could generate resistance. In developing countries, policymakers rarely have such overwhelming state capacities at hand (Dixit, 2004), so compliance with their top-down rules becomes erratic and raises the overall uncertainty of the economy.

A third point of criticism relates to the dynamics of change. Institutional Economics argues that the various categories of institutions change when they become salient or superfluous, as a consequence of shifts in the balance of power or failures to resolve antagonisms, or when external or internal forces modify the strategies and interests in play (Steinmo and Thelen, 1992: 16). Institutional change is thus a process of ongoing negotiation, resistance and adaptation in the political arena. It is not a once-and-for-all transformation in line with a clear design as the policymakers favouring structural reform programmes assume.

The practice of institutional change is therefore very complex, as Institutional Economics stresses. First, institutions are essential for guiding action even in the most deregulated market economies. Second, institutions evolve by regularity of action or as points of compromise between various intentions and interests. Third, reformulation of institutions is a lengthy process and adaptation in the propensity to act according to them differs from policymakers' expectation of quick change.

2.3 Structural reforms as bricolage process

The criticism of structural reforms from an Institutional Economics perspective centres on the fact that structural reform policies are architectural designs that are implemented not on tabula rasa but on already functioning economies, however inefficient or undesirable they may be considered from a neoliberal point of view (Torre, 1997). In other words, they do not take place in a void but on the institutional legacies of protected economies, colonialism, populist welfare states, and so on. They seek to introduce new elements to an existing structure, adapting, rearranging, permuting and reconfiguring the old ones, a process which Stark (1992: 22) refers to as 'bricolage' logic in the context of Eastern Europe. Torre (1997) applies the term to similar processes in Latin America. The concept of 'bricolage' logic is elaborated further in this section to analyse the background against which the *RT* was created in Argentina.

Structural reform programmes create discrepancies and inconsistencies by introducing new elements into a working structure and transforming the old ones to match the new. The old elements –the existent institutions– are path-dependent, which is a property of dynamic processes in which the outcomes are limited and contingent on their previous stages and successively non-reversible (Davis, 2000; Pierson, 2000).[1] Bricolage logic has two consequences. One is that the mixing of new and old elements affects the operation of the new ones, causing confusion and deficiency in their operation. The second consequence is that the old elements are adapted, discarded, or ignored. This creates waste and increases the costs or negative impact of the reforms.

Policymakers expect structural reforms to go smoothly, with an institution being replaced by another and its resources (including human ones) being automatically absorbed by the transformed ones. However, bricolage reforms leave unstructured segments of social action, at least until agents adapt to the new structures. In the meantime, their resources and capacities become redundant because they no longer fit.

Emergence of institutional gaps

In this study, the term 'institutional gap' refers to an unstructured segment of action that used to be structured before the reforms. It is a gap in the sense that agents do not know how to act, react or decide in situations for which they used to have previously designed responses, habits or prior institutions. Before the reforms, in circumstances X, agents did Y and obtained Z. Policymakers favouring structural reform programmes implement policies generating X' and expecting agents to do Y' because Y' is what they consider more efficient. However, they rarely specify Y' in explicit rules because it is obviously too complex and probably impossible to restructure all the aspects of the social and economic structure. So, in the bricolage logic of the reforms, the new circumstances X' combine with the old X, but they do not harmonise. The discrepancies cause new uncertainties, new situations in which agents are unclear about how to respond. Agents have no clear disposition to do Y' in circumstances X' and, because of the inertia of institutionalised life, they continue to do Y. They fail to obtain Z because of the changes in the circumstances X to X'. In other words, from a world in which economic life was structured and uncertainty was relatively under control, the reform programmes have pushed them into a world in which there are new situations for which there are no institutions guiding their behaviour (or neoliberal institutions which only serve the interests of those with sufficient resources).

Agents are pushed into reflection to reformulate what to do in circumstances X' to obtain Z, but until they can design a tested routine, they will stick to what they know. Arguably, institutional gaps that arise from bricolage reforms will be resolved in the long run and agents will do Y' if policymakers are successful and Y'' if they are not. The point is that it may take a long time to harmonise the organisation of the economy again and it may not happen at all.

As observed earlier, institutional gaps appear when institutions and organisations that belonged to the old structure do not fit into the new one. Some examples follow to make the dialectic clearer. State renunciation of certain instruments of economic policy, such as wage regulation, weakens the organisations that supported them (in this case, trade unions). Workers' representation thereby becomes unstructured and the actions that lead to wage increases and improvements in work conditions need to be redesigned. Another example is the dismantling of the welfare state, which reduces the ability to alleviate market failures through the supply of public goods such as health care, education, and social security. Private sector organisations appear to provide these services, sustained by beneficiaries who can afford their charges, but they do not replace the dismantled state organisations. Consequently, lower-income groups lose access to such services (Diaz, 1997). This is perceived as an institutional gap, in the sense that the actions that are needed to gain access to these services are unclear and unequal. All in all, structural reforms tend to leave a chaotic picture of half-reformed (state) institutions, new markets that work imperfectly because of lack of adequate (new) institutional support and blanks that destabilise economic activity (Roxborough, 1997).

The emergence of institutional gaps is relevant in terms of the assets, resources and capabilities they make idle (for example, buildings, workers and skills). They may be re-employed at a later stage, but at least for a while they remain unemployed. The concept explains why in certain circumstances agents can take innovative actions that were not conceivable in the old structure. That is, it explains why they are motivated to seek alternatives to regain the lost functions, reuse the idle resources and reorganise the old institutions in such a way that they can restructure their actions again into new routines and practices.

Diaz (1997) describes the restructuring process as having two effects. On the one hand, it has a destructive face reflected in processes of social disarticulation, erosion of traditional forms of identity, anomie, and a declining capacity for collective action by the affected groups. On the other hand, there is a less-visible process of re-articulation, new collective actors emerge, organisations are formed and institutions are reformulated. The question is: What makes destruction and construction balance each other, destructuring and restructuring institutional life?

2.4 Structural reforms by sector

The structural reforms in Latin America during the 1990s posed such a challenge that Smith and Korzeniewics (1997) compare their outcomes to the Great Transformation at the end of the nineteenth century analysed by Karl Polanyi (1957). The matrix of political dynamics and modes of organisation were redefined. On the destructuring side, some of the most influential forces until then, like the trade unions and the military, experienced rapid erosion of their power (Drake, 1996). On the restructuring side, new actors emerged, new social movements and non-governmental organisations entered the arenas of national politics and the economy, representing the interests of segments of society that had until then been excluded and marginalised (Escobar et al., 1992). In Argentina, there were new social movements uprising.

Table 2.1
Argentina's GDP per capita as percentage of selected other countries´ GDP per capita

	1890	1913	1929	1943	1963	1975	2001
UK	49	65	73	53	57	67	39
USA	58	64	57	34	42	48	29
France	85	96	83	141	61	59	36
Italy	125	132	128	133	73	72	42
Germany	79	91	89	64	55	59	34
Spain		148	132	158	117	86	51
Canada	90	80	79	56	55	55	34
Australia	45	69	84	60	64	70	52
Brazil	260	393	343	292	207	184	147
Chile		126	117	115	111	172	80
Peru		331	250	221	153	187	218
Avg Southern Europe		139	130	145	90	79	46
Avg South America	159	222	194	180	147	181	126

Source: Selected countries and years from Llach (2004).
Notes: Figures are calculated in 1990 real U$S, taking three-year averages of GDP per capita for all countries. Argentina equals 100.

Unlike most of the developing world, Argentina already had a relatively modern institutional structure at the beginning of the twentieth century (Barbero, 2007). It was one of the 10 most affluent nations in the world. The per capita income was higher than in other Latin American countries and several Western European countries like Spain and Italy (Diaz Alejandro, 1982). This success owed much to the abundance of natural resources, export staples (meat and grain, which were also supplied to the domestic market), slow demographic growth, fast urbanisation, large-scale migration from Europe, and the 'British connection' in trade and infrastructure investment (Ciria, 1992). The country promulgated a constitution as early as 1856, assimilated millions of migrants, had a stable society and integrated the international division of labour.

The bonanza lasted until approximately 1930, when first the Great Depression and then the Second World War marked a turning point in Argentine history (see Figure 2.1). Growth then became more erratic, with alternating periods of progress and stagnation (Sawers, 1996). After 1950, Argentina changed its development strategy to a state-directed economy, protecting key sectors and implementing other usual ingredients of the import substitution industrialisation model prevalent around the developing world at that time.

Figure 2.1
Three-year average of Argentine GDP as percentage of the average GDP of developed countries, 1885- 2002

Source: Llach (2004)
Notes: GDP three-year averages for Argentina and mean for OECD countries, at constant 1990 prices.

In the political arena, democratic governments alternated with military dictatorships, and between 1929 and 1989 no civilian president was able to complete the six-year-mandate period. One of the military governments, under the leadership of Juan Domingo Peron, consolidated political power while also granting workers' rights and thus changed the face of Argentine politics (Cortes Conde, 2005). Peron later started the *Partido Justicialista*,[2] better known as the Peronist movement. Difficult to define in political terms like most Latin American nationalist populisms, it was a mix of authoritarianism with a corporatist type of governance and a pyramidal bureaucratic structure in which labour and trade unions provided the electoral base (Botana, 2002).

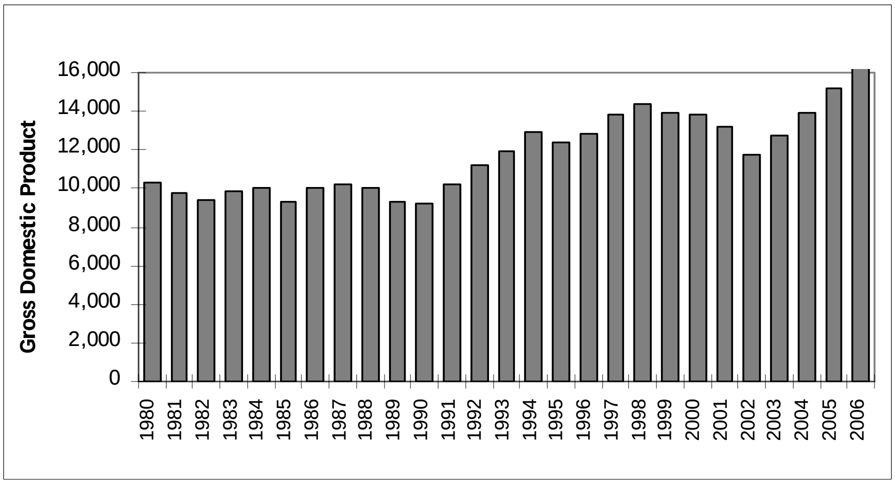
Import-substitution industrialisation started running out of steam and was already creating permanently high inflation by the early 1970s. In 1978 there was an early attempt to implement a monetarist structural adjustment programme under military rule. It sought to control inflation through a tight monetary policy, deregulation of the financial system and a high exchange rate to favour imports. It failed totally to curb inflation but ended the developmental policies based on import-substitution industrialisation. It pushed many firms, especially small ones, into bankruptcy and inaugurated unemployment rates above 5 per cent with an expanding black economy (Kosacoff, 1993).

In the early 1980s the government returned to democratically elected hands. President Raul Alfonsin was chosen, but no consistent development strategy emerged. In economic terms, the decade looked lost. The national product shrank and GDP per capita fell by 21 per cent between 1980 and 1990 (Tenti Fanfani, 1993). Inflation averaged 300 per cent a year between 1975 and 1990, with several years being marked by 1,000 per cent. The decade ended with hyperinflation. A country that was among the wealthiest in the world at the beginning of the twentieth century witnessed looting of supermarkets by the rioting poor at its end (Botana, 2002).

A second democratic president, Carlos Menem, took over in 1989, but there were still two periods of hyperinflation before a macroeconomic policy was defined. This was a programme of structural reforms in conformity with the prescriptions of the Washington Consensus. Additionally, to end inflation the peso was pegged to the dollar at parity in 1991. This was the Convertibility Plan, which also transformed the Central Bank into a currency board and imposed fiscal discipline. One of the most ambitious and swift privatisation programmes in Latin America was launched, involving almost all state-owned enterprises, public utilities, the pension system, much of the health care and the banking sector. This launched the third development model in Argentine history: an open economy and deregulated markets (Kosacoff, 1993).

As Figure 2.2 shows, the structural reforms of 1990 triggered a significant growth rate of 8 per cent a year from 1990 to 1994. All in all, GDP increased by 27 per cent between 1991 and 1994. Later, the crisis of 2001 pushed it down again. There is an important heterogeneity as well. While the industrial GDP hardly grew between 1991 and 1994, the service sector bloomed, and with it part of the middle class. (Kosacoff and Heyman, 2000)

Figure 2.2
Argentina's real GDP, 1980-2006



Source: <*www.indec.gov.ar*>.
Note: GDP in thousands of 1986 real pesos.

In 1995 a major economic crisis hit the 'modernised' Argentine socio-economic structure, causing major disruptions in the balance of payments. The peg to the dollar almost collapsed, but was saved at the cost of a recession that skimmed 5 per cent off the national product in 1995. The unemployment rate, which had stayed around 5 per cent in the 1980s, soared to 18.4 per cent in 1995. It was then that the public realised that the crises were not caused only by the previous economic model. The social costs of the structural reforms were beginning to be reported by the media, which revealed huge pools of poverty that had never been seen before. Afraid to change the government in that situation, Argentines re-elected the president for a second term. The *Red de Trueque* was launched in this context.

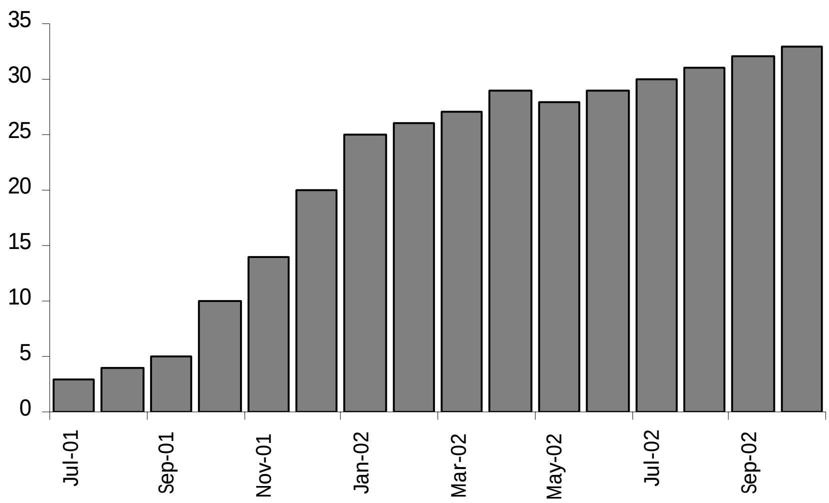
With the deepening of the worldwide financial crisis in the second half of 1998 came the real moment of truth for Argentina's third development model. In 1999 Argentina suffered a moderate recession (-3.4 per cent) explained by external shocks and devaluation of the Brazilian currency. The economic policy response imitated what had succeeded in overcoming the 1995 crisis: more deregulation and institutional reforms. A new government, formed by the opposition party, took office in December 1999, its entire campaign based on reassuring the public that it would maintain the peso's peg to the dollar and continue implementing the Convertibility Plan. Unfortunately, it was able do little to spur economic growth and one of its first measures was to raise taxes to correct the fiscal deficit. It was an unpopular measure at home though blessed by the IMF abroad. Tax increases delivered the Argentine economy directly into a recessionary trap, with higher budget deficits and further cuts in government spending (Harman, 2002). In September 2001 unemployment reached 20 per cent and 40 per cent of the population were below the poverty line.[3]

The monetary system was doing no better than the real economy. Banks were running out of cash and the Central Bank out of reserves. In March 2001 the Argentine financial system suffered its most intense outflow of deposits in the decade. The currency board was crumbling, so the government limited bank withdrawals to a certain level, a policy known as *corralito* (fencing-off). This measure had a devastating effect on those who had moderate amounts of money in the bank and had to cover their needs with it, that is, the middle class, firm owners and shopkeepers. Those with larger savings had already sent them abroad.

The fiscal cuts applied to the provinces, too, some of which historically had high public employment, and a wave of protests started there (Pastor, 1999). Instead of reducing costs and spending, several provinces decided to issue their own currency to pay wages. These were referred to as '*cuasi*-currencies' or surrogate money. In September 2001, the provincial currencies represented 5 per cent of the national monetary base. Decreasing tax revenues pushed them up to 25 per cent in January 2002 and 33 per cent in October 2002, as shown in Figure 2.3 (Chelala, 2003; Harman, 2002).

The seemingly positive GDP growth and controlled inflation during the 1990s tells only one side of the story. The entire economic structure changed: there was less state intervention in the economy, a more competitive private sector, lower inflation rates and an open market in which foreign goods, technologies and credit were available. However, the ups and downs in the real economy did not subside as the government had promised. In addition, at the meso economic level where institutions operate, the reforms disrupted and destabilised the economic action of a substantial segment of the population. The rest of this chapter analyses the institutional impact of the reforms, particularly the emergence of institutional gaps. It analyses fours areas: the industrial sector, labour market, welfare system and monetary system.

Figure 2.3
Provincial currencies as percentage of monetary base. July 2001-Oct. 2002



Source: Chelala (2003)
Note: Total amount of provincial monies issued as percentage of the national monetary base

Changes in industrial Sector

The Argentine industrial sector dates back more than a hundred years, and for half of that time it was ruled by the institutions of import-substitution industrialisation with strong state intervention (Barbero, 2007). This policy orientation guided routines and expectations that organised the industrial sector around certain patterns.

What emerged was a sector in which the firms as collective agents were polarised into two categories. The first was a large number of small firms in the hands of local entrepreneurs and with relatively low technological needs, linked to European immigrants who had arrived with craft skills. The second group were the large public and foreign companies engaging in activities that required higher investment and technological complexity.

The state was central to the process, imposing rules, choosing winners and losers, providing subsidies and tax exemptions. On the downside, the industrial sector offered fertile ground for rent-seeking activities. On the upside, there was a significant accumulation of human and physical resources. The learning process centred on adapting imported technologies and integrating links within the manufacturing process in order to reduce supply uncertainty (Kosacoff and Gomez, 2000). High duties and protection allowed broad diversification of production to compensate for the small size of the market (exports were rare). Capacity to increase competitiveness was secondary (Kosacoff, 1993).

By the beginning of the 1990s, this type of industry was seen as the mother of all evils. Argentine industry was not competitive internationally. The value of exports was low, while industry depended on imported inputs and technology. The state then tried to correct this problem though an institutional reorganisation: opening up markets and liberalising trade. The assumption was that, faced with competition from cheaper imports, local industry would have to make the necessary investments and adjustments to improve its competitiveness. So average tariffs were reduced and industrial imports went up from 12.4 per cent of all imports in 1990 to 34.5 per cent in 1996.

Protection of the industrial sector had generated a series of institutions that disappeared with the structural reform programme, leaving an institutional gap. There were enough tested routines showing how to run a small firm in a protected economy with inflation, foreign currency shortages, periodical downturns and inadequate access to technology. These were the Y referred to earlier. However, competing in an open economy was a 'capricious novelty' (Bunge, 2003) suddenly confronting owners of firms. It was an unknown X' for which there were no developed routines.

Some firms left the market and others adapted to varying degrees. The 1994 industrial census registered 6,000 firms fewer than five years earlier. In the segment of firms with 11 to 50 workers, 21 per cent had to exit the market (FIEL, 1996). They mostly used labour-intensive production methods, so the impact on employment was high (Yoguel, 2000). Some stayed open in spite of not being viable any more because their owners were attached to them (Gatto, 2000). Another 20 per cent were sold to foreigners when their owners were unable to manage them (Kosacoff, 2000). By 1995 the industrial sector produced approximately the same value added as two decades earlier, but with significant qualitative differences.

Kosacoff (1993, 2000) found that, of the firms that remained, about 20 per cent were quite competitive and could make the most of the market opening. That is, they did Y' under circumstances X'. They incorporated new technology, reorganised the productive process, rationalised employees, subcontracted all non-core business functions, changed to foreign suppliers, and started exporting to niche markets, especially within Mercosur.[4] The other 80 per cent designed 'defensive' responses barely allowing them to stay in the market, hoping for a policy change. They incorporated minimum technology to reconvert as service firms, increased the assembly or straight sale of foreign inputs, and downsized their workforce. Excluding micro-enterprises with fewer than 10 workers, the 25,000 factories comprising the 'defensive' group were responsible for 60 per cent of the country's total industrial product.

State-owned enterprises were closed or privatised. State-owned industries required substantial investment in technology and were often not profitable in the small Argentine market. They were, therefore, transferred to mostly local conglomerates with a transnational partner. The new owners dismissed workers, outsourced non-core functions, disintegrated vertically, incorporated state-of-the-art technology, closed non-crucial sections (research and development facilities were a regular target) and aligned prices to international levels (Kosacoff, 2000). All in all, privatised companies were able to do Y'.

Industrial firms that did not adapt perceived the novelty of having to be competitive as an institutional gap. In the framework of this study, it meant that they continued to do Y while the circumstances of the market had changed to X'. This means that managers, entrepreneurs and workers alike did not know what to do, how to react to the changes around them resulting from the structural reform policies. Their skills and resources were no longer useful and they could not acquire those needed in the new situation. They did not know what to expect from competitors or the government and could not find guidance from their known Y responses. Policymakers expected a Y' of dynamic investment and innovation, strategic alliances, and exports. For this, they generated an open market economy X', but a large group of firms was unable to react according to the state's expectations and continued to do Y.

The mismatch between the old and new structures resulted in deindustrialisation and unemployment. Skilled and unskilled workers of failed companies, with technical and managerial skills accumulated over decades, were no longer needed. The main accumulated technical capacities were related to manufacturing an article of decent quality for an acceptable price to serve a small protected market, which implied reducing the scale of expensive imported technology and charging for the labour in the final price. These skills had no place in the new economic structure. Many factory buildings, machinery, tools and other physical infrastructure were left idle, although some did get reabsorbed for other production.

Authors like Hodgson (2001, 2003) and Hollingsworth et al. (1994) emphasise the double role of institutions as enablers as well as constrainers of behaviour. For Argentine firms, both roles played an equally significant part. On the enabling side, the firms had better access to imports, basic inputs and technology. There was a macroeconomic environment from which inflation and scarcity of foreign currency, among other uncertainties, had been eradicated. Stability made the usual survival toolkit of indexation and financial management redundant. On the constraining side, quality and price were no longer under the control of the firm. Trade liberalisation acted in practice as a comprehensive list of maximum prices and minimum quality standards.

In the bricolage of structural reform, agents found their economic action suddenly becoming unstructured. They had to resort to new ways of participating in the economy. Institutional gaps appeared in the industrial sector as a result of policies imposed top-down without consultation with the agents affected. They thus had no opportunity to design institutions to guide their economic action in the new circumstances.

Changes in labour market

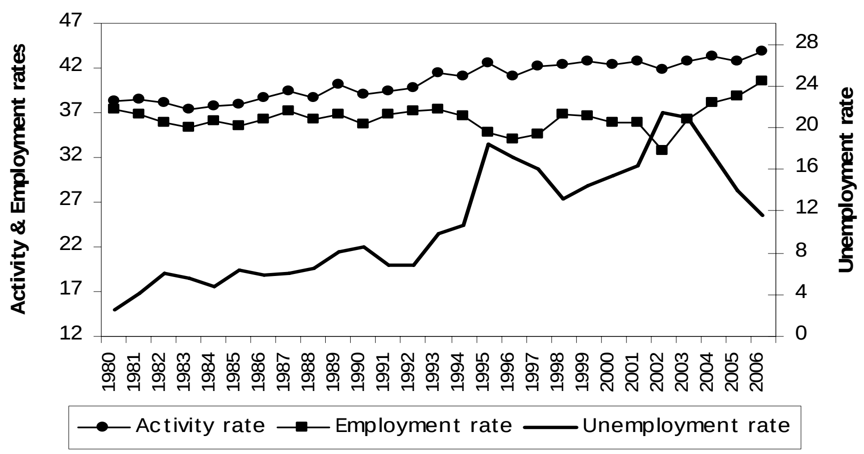
Argentina had near-full employment from the 1940s, mainly thanks to labour-intensive industrialisation which used little machinery and absorbed manpower from rural activities; low population growth; and the domination of the Peronist movement. Unemployment was mainly related to the stop-and-go business cycle and to specific agricultural regions that reduced the use of labour after a bad harvest. A tight labour market sustained high wages in the formal sector and the informal sector was small. The labour force was mainly urban and male; the percentage of the total available labour actually engaged in activity was under 40 per cent, helped by high wages and social benefits that enabled a family to live on one (male) breadwinner's income. Between 1940 and 1980, the urban middle class grew from 40.7 per cent to 47.8 per cent of the population, thanks to the upward movement of skilled workers in the manufacturing sector and blue-collar employees (Beccaria, 1996; Murmis, 1993). Argentine workers, both those employed and self-employed, enjoyed the highest incomes in Latin America (Lvovich, 2000). The Argentine labour market had been highly unionised since the Second World War and 40 per cent of all wage-earners were union members in 1950. Palomino and Schvarzer (1996) point out that the main source of power of the trade union movement was the tightness of the labour market rather than its organisational capacities. After the 1950s, governments made regular efforts to contain wage increases, since they triggered an inflationary spiral that spread all over the economy.

According to Palomino and Schvarzer (*op. cit.*) full employment and high wages defined some practices in terms of labour. Women's participation rate was traditionally low and stable: from 1960 to 1980 it increased by 4 per cent, from 23 per cent to 27 per cent. Younger generations could study longer than the preceding generations. At the other end of the scale, a pension system of universal coverage permitted retirement of workers at the age of 65 (in 1980 only 10 per cent of the active labour force was older than 65).

In addition, informal workers in Argentina were far from poor, marginal and dispossessed (Tokman, 1997). Many workers were unregistered but had considerable capital assets, an income similar to or higher than that of formal workers, stable business activity and social integration. Small entrepreneurs and freelance workers were called 'autonomous', rather than informal workers. They were considered part of the middle class, both for their income as their social behaviour. In 1980 they represented 16 per cent of the urban labour market and were present across industrial and service branches. 'Autonomous' work was a particular mode of integration into the labour market rather than a subordinate sector. It was the result of individual choice. Nonetheless, a minority of short-term, unstable, poor and socially disintegrated informal workers also existed (Beccaria, 1996; Palomino and Schvarzer, 1995).

With the decline of the import substitution model in the 1980s, the labour market and routines of workers started changing. Finding and keeping a well-paid job became more difficult. Pensioners and women gradually adapted to the situation and entered the labour market, pushing the active labour force to above 40 per cent. Autonomous work also increased, absorbing most of those who did not find suitable formal employment, so unemployment was not perceived as a threat yet (Palomino and Schvarzer, 1996).

Figure 2.4
Activity, employment and unemployment rates (1980-2006)



Source: <www.indec.gov.ar>

From 1960 to 1990, unemployment fluctuated between 4 per cent and 6 percent.[5] However, this changed in the 1990s, when structural reforms introduced many Argentines to the traumatic novelty of not having a job. In 1995 Argentina recorded an unemployment rate of 18.8 per cent. In the industrial sector, factories shed 37 per cent of their workers in the first half of the 1990s, because of bankruptcies as well as improvements in productivity (Frenkel and Gonzalez Rozada, 1999). There was no reabsorption of these workers in the service sector because relative prices favoured the use of imported capital-intensive technologies rather than labour (Damill et al., 2002).

The term 'hyper-unemployment' was coined in 1995 to describe a novelty affecting more workers than ever before (Kessler, 1997). Hyper-inflation had been turned around by then. Real wages in 1995 were 68 per cent of their 1986 level and 62 per cent of their 1975 level. The old situation of one wage per household being enough to guarantee a satisfactory standard of living was no longer realistic (statistics are only available for the Buenos Aires conglomeration; however that area covers 55 per cent of the total sample for the household and employment survey). Households first responded by sending a second and then third family member into the labour market; in the Buenos Aires conglomeration, this expanded the active labour force from 40.9 per cent in 1990 to 45 per cent in 1995 (Beccaria, 1996, 2002 Households first responded by sending a second and then third family member into the labour market; in the Buenos Aires conglomeration, this expanded the active labour force from 40.9 per cent in 1990 to 45 per cent in 1995 (Beccaria, 1996, 2002).[6] Among women, the percentage rose from 28.3 per cent to 35.1 per cent, while for men it went from 54.4 per cent to 57.8 per cent. As the economic situation kept deteriorating, autonomous work also decreased and stopped offering an alternative (Beccaria, 1996; Frenkel and Ros, 2004).

The fact that workers tried 'autonomous' employment first before becoming unemployed responded to the institutionalised expectation that it was the viable option Y during recessionary circumstances X (Palomino and Schvarzer, 1996). The fact that it did not work shows there was an institutional gap in the labour market, a new type of unemployment and unstructured market behaviour. Agents did not have the routines to respond to the new situation. Another traditional institutionalised action was public employment, which went up during recessions. However, the structural adjustment programme also closed off that option and the state was reducing its workforce in various ways, including privatisation and transfer of state-owned firms and dismissal of workers.[7] The perception of education as a safety net also changed as unemployment doubled among those with a university degree. With data available for Buenos Aires only,[8] Beccaria (2002) observes that in the 1990s unemployment started taking its toll of more skilled workers, who had known unemployment before but not to such a severe extent. In short, a number of institutions that used to guide the behaviour of individuals in recessionary labour markets were no longer effective after the reforms.

The trade unions, which had been very strong in Peronist times, also became a casualty, yet another example of institutions that were no longer effective in structuring behaviour in the labour market. They failed on two levels: unemployment undermined the main basis of their power (tightness of the labour market) and they were unable to launch effective resistance during the neoliberal reforms. The ruling party was Peronist and, in theory, supposed to be an ally of the unions. But labour leaders had supported the government, so their capacity to frame a credible resistance strategy was limited. They were not consulted about most of the deregulation measures. This lack of consultation and opposition undermined their credibility among workers. (Novick, 1996, 2000)

The modifications of the formal regulations governing the labour market also contributed to the institutional gap in this area. Changes in the labour laws and rules started in 1991. They modified the mechanism of wage negotiation, right to strike, and coverage of collective bargaining agreements. A series of new part-time and short-term hiring modalities became legal. For example, employers used to be allowed to hire an employee on a short-term contract only once, after which the only contract possible was a permanent one; in 1990 that was changed and employers were allowed to hire an employee up to four times on short-term contracts. Other statutory rights such as compensation for workplace accidents and paid leave for sickness were changed. However, many of these changes were made by decree and were declared unconstitutional when contested in court. The final result was that they were applied for a while and later declared illegal, but those already at work under the new modalities did not have their contracts changed to reflect the judicial verdicts. New regulations were issued and struck down by the courts, so the labour market became an under- and over-regulated area at the same time, with different legal frameworks being applied to equal jobs. This contributed further to the institutional gap in labour relations (Cortes and Marshall, 1999).

Changes in welfare state and social policy

In other countries that implemented structural reforms and had similar social problems –like Bolivia, Chile and Mexico– governments devised short-term safety nets to soften the pain of adjustment and win political support for their policies (Graham, 1994). The Argentine government did not prepare anything of the sort, for several reasons. The buoyant growth rates between 1991 and 1994 and the initially strong social support for the reforms after the hyper-inflation experience made a safety net unnecessary, while the fiscal stringency imposed by the Convertibility Plan and the ultra-liberal approach of the government made it unfeasible (Pastor, 1999). In any case, Argentina had a relatively well-developed welfare state that had supported its citizens for decades, so the need for additional social policies was not perceived at that time. The situation was paradoxical: support for the reforms relied on the existence of a safety net provided by the welfare state, but the welfare state itself topped the list of targets for dismantling as part of the reforms. Social action was in fact determined by assuming a set of institutions that was being demolished by the bricolage reforms.

The welfare state in Argentina was structured around 'protecting the worker and his family', in compatibility with an inward-looking development strategy and the incorporation of new consumers to expand markets and production (Cortes and Marshall, 1999). It provided free universal coverage for health and education, subsidised public housing, pensions and labour protection, among other benefits. The Argentine welfare state emulated most welfare states in Western Europe after the Second World War because the country could afford it at that time and there was relative social consensus over the proposal.

The debt crisis of the 1980s changed the situation for good, with the public sector going bankrupt and unable to maintain the welfare state, which then came to be seen as the epitome of corruption and other evils. The universal coverage principle was perceived as being inefficient, so the new designed institutions concentrated only on the poorest and agencies were decentralised. Wage earners were expected to pay for access to similar services in a parallel private system. Growing poverty and unemployment reinforced the view that resources were so scarce that it was best to use them only for the neediest (Gerchunoff and Torre, 1996).

Several social and welfare services, such as education, health and aid to needy families, were decentralised, but decentralisation led to a chaotic situation. For example, schools and hospitals were transferred to the provinces, which in turn often transferred them to the municipal level. There was a lag in the transfer of funds, so it was unclear what level of government should pay for what or how. To make things worse, the minimum standards of service provision were regulated at the central level in the respective ministries, but these did not specify what institutions or capacities were going to implement or finance them. For example, the Ministry of Education dictated what had to be taught to improve the quality of education, but it did not specify where the materials and teachers would come from, and it left the provinces to pay for them.[9] In the case of hospitals, the regulations stated that each had to be managed as an autonomous unit and free health service was to be limited to the poorest patients; all others had to contribute and trade union health insurance schemes were to be asked to pay the patients' costs.[10] However, with unemployment and poverty on the rise, most hospitals found that the number of patients who were able to pay was decreasing. In the end, each province did what it could to keep as many hospitals and schools running as its budget would allow. Wealthier households preferred to pay for private schools and health insurance, while public services were de facto reserved for those unable to pay (Campione, 2000; Cortes and Marshall, 1999).

There were no universal standards for service provision across the country. Some provinces followed the old (cheaper) standards while others followed the new ones and a few decided to improve service quality to the extent that they could with their own resources. This was another institutional gap. Sometimes it was the province and at other times the municipality, the hospital director or school principal who had to decide what Y to do in circumstances X.

The distribution of funds remained a source of tension between the lean central government and provincial authorities that resisted change. The provinces needed more funds as they struggled to provide the decentralised social services and to increase public service recruitment to cut unemployment. Bargaining over funds became an element in political horse-trading when the central government needed support to have controversial laws approved by the Senate. Provincial governors would instruct senators from their province to support a particular bill in exchange for a certain amount of funding from the central government. Transfers to the provinces increased when bills were brought before the Senate and in the run-up to elections. However, the provincial deficits were paid for at the cost of increasing foreign debt and the strategy was unsustainable in the long run; governors could not be bribed forever and the country could not keep increasing its foreign debt endlessly (Pastor, 1999; Saiegh, 2004).

The provincial burden of decentralisation provoked protests from the governors, so in 1993 the provinces were granted the right to increase taxes up to a certain limit (which they did) and to borrow from domestic and foreign private banks and capital markets. As collateral, the provinces could use the transfers from the central government, either from the federal tax system or from the exploitation of natural resources.[11] Loans did not need authorisation by the central government, which meant that the capital market would determine the creditworthiness of each province. The majority of the provinces ran deficits, created by the extra expenses of decentralisation as well as their refusal to reduce employment. The deficits were financed by borrowing from their own provincial banks until the crisis of 1995, when provincial banks went bankrupt, showing how deeply their solvency had been affected by the arrangement (Cetrangolo, 1998).

The pension system was the single most expensive item in the welfare state by 1990, in spite of the meagreness of the payments. It was privatised in 1994, turning it into a mixed public-private system. Workers were entitled to choose whether they wanted to contribute to the fully private individual capitalisation system or to the old public redistributive system. Those already retired would stay in the public pension system. As a result, a substantial share of the contributions of active workers went to the private pension funds while pensioners were still being paid through public funds. With the inflow of pension contributions drying up, this created a drain on the public treasury. Though it was not perceived as a threat initially, the situation became unsustainable soon afterwards.

In the absence of any significant opposition, it was only in 1993 that some effort was made by the central government to implement a timid social policy to support the poor and unemployed. The focus was on decreasing unemployment through training, temporary public employment and subsidies for private sector job creation. Only with the economic crisis of 1995 was a poverty alleviation plan implemented, with funds from the World Bank, and it was strictly targeted at the poorest children, handicapped and elderly. The resources allocated to these programmes increased to 0.11 per cent of GDP by 1996. However, local politicians quickly captured the decentralised social assistance for their clientelistic networks (Pastor, 1999). Peronism thus changed its power base from organised labour to clientelistic networks on the periphery (Gibson and Calvo, 1997).

Argentina had been used to pockets of poverty for decades, but what was striking in the 1990s was that the poverty extended to a larger segment of the population and so was much more visible. An early study of the social consequences of the structural reforms coined the term 'new poor' to describe households that had recently fallen under the poverty line in a country where about 70 per cent of the population declared itself to be middle class (Minujin, 1997). The middle class comprised shopkeepers, public servants, skilled workers, graduates, blue-collar workers, bank clerks, teachers and small-firm owners. Many of the sectors in which the middle class worked were targets of the reform policies and were thus overwhelmed by the recession.

The new poor are a social group difficult to characterise. Some studies (Lvovich, 2000; Minujin, 1997; Murmis, 1993, 1995) view the new poor as a very heterogeneous group whose situation depends on their previous status, educational attainment, availability of savings and assets such as their own house, personal capabilities and social network. Unlike the old or structural poor, the new poor in Argentina had covered their structural basic needs, but, due to the drastic reduction in their income, could no longer afford their lifestyle. They no longer felt comfortable in the areas where they had lived all their lives, so they normally spent most of their time indoors. Their network of contacts was crucial in delaying the decline in their status, and they counted on friends and relatives to help them stay in the middle class for longer, to find a job and to access public services, but they no longer felt a sense of belonging with them. They understood the world differently from the structural poor, reflecting much on social reality, and they were demanding of society and the state. They were the poor with a voice. In contrast, the old poor did not have specific skills or had not had a job for an extended period of time. They enjoyed sporadic periods of formal and informal employment, normally at low wages. They lived in shantytowns or as squatters, surrounded by equally poor neighbours. Only a minority of them had secured basic structural needs such as a legally owned home. They relied minimally on the public services and normally it was political brokers who created access for them. They helped each other regularly and perceived each other as their first source of support.

In conclusion, most areas of the welfare state went through partial restructuring, decentralisation and deregulation. The slow deterioration of public services polarised society between those that could afford private alternatives and those that depended on the state for health, education and other social services. The security offered by the welfare state had been part of a basic social agreement for decades[12] and had been proudly viewed as differentiating Argentina from other countries in the region. It had created long-stnading Y for circumstances X. The bricolage reform process was slapdash in restructuring the welfare state. Service provision was decentralised but the funds necessary to finance it were not, so the quality of the public services deteriorated. The old state institutions were restructured by top-down architectural design and left with incomplete or overlapping regulatory frameworks and various institutional gaps. The action of agents was unstructured and uncertain, and eventually depended on their own discretion. The new X' failed to generate harmonising Y' and agents' behaviour became unstructured.

The long-held certainty that the sick, the elderly and the vulnerable would receive aid from the state crashed against the retreat of the state from such entitlements and the incapacity of many provinces to provide support with their limited resources. Social services were unstructured, and agents, affected by emerging institutional gaps, took action in relation to their resources and intentions. Thus, inequality was aggravated across households, with the number of those who could not pay user fees in the private sector and relied on public sector services rising while the supply of such services declined.

In the long run, after the economic crisis of 1995, when the public became aware of the social costs of the reforms, the institutional gap left by the reform policies in the social area triggered the action of other economic agents and the formation of new collective actors. Some sectors of civil society started a series of social protest movements, not orchestrated by trade unions but by grassroots organisations, often tinted by the past middle-class identity of its members. New civil society actors proposed productive initiatives aimed at generating an income and regenerating lost welfare. Among them was the *Red de Trueque* in 1995. About a year later, protesters in Patagonia blocked roads and demanded social aid through cooperatives and solidarity initiatives (Auyero, 2003; Dinerstein, 2001).

Changes in monetary system

Unlike the other three areas of the economy analysed above, the monetary system provides an example of how institutions eventually evolve to fill an institutional gap, but over a long time. In this case, the reform legislation merely formalised a habit that had evolved in practice.

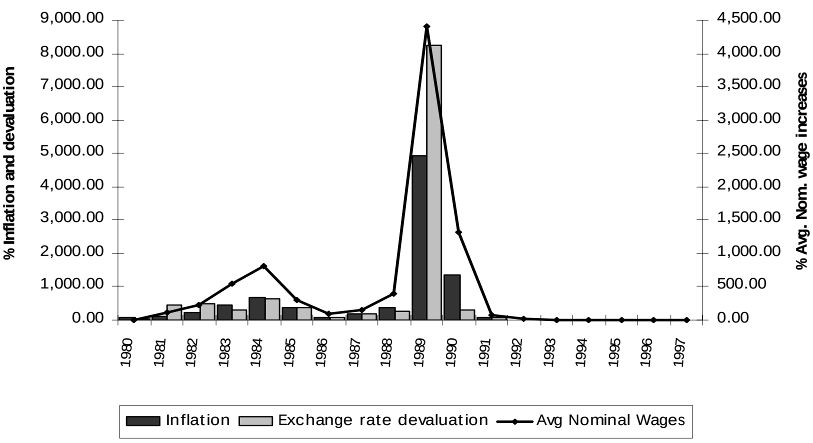
Money is one of the main economic institutions for the working of a market economy and for public finance, but Argentines had had a troublesome relationship with money and inflation since the end of the Second World War (Caletti, 1972). In five decades, there was hardly any anti-inflationary policy that had not been tried and yet two-digit inflation rates were normal.

Given the regular fall in the value of money, it is no wonder that Argentines –including the government– have a peculiar and flexible understanding of money as printed paper of variable and sometimes arbitrary value.[13] In the winter of 1962, the government paid civil servants their wages in bonds instead of official money because its accounts were seriously distressed (Cortes Conde, 2005). These bonds were accepted by most shops and firms and public servants spent them on anything that could help them get rid of them as soon as possible.[14] Later, in the 1980s, this measure of last resort was repeated by two small provinces that could not pay their employees' wages and issued small amounts of provincial bonds.[15] The bonds were accepted reluctantly as they circulated in the provinces, and once again the holders spent them as quickly as possible (Schvarzer and Finkelstein, 2003). Shopkeepers referred to them as 'hot bread', a reference to people's desire to get rid of them as quickly as possible.

Argentina experienced three hyperinflationary periods between May 1989 and the end of 1990, a period of less than two years. In July 1989, the monthly price index increase topped 200 per cent; the price index for the year as a whole increased by almost 5,000 per cent. The monetary aggregate M_3 (which includes banknotes in circulation, and current and savings account deposits in pesos and in dollars) fell to 6.8 per cent of GDP in 1990, from around 20 per cent a decade earlier (Streb, 1998). To control the monetary chaos, the government introduced radical measures that forcibly transformed 30-day banking deposits into 10-year maturity bonds in dollars.[16]

However institutionalised the actions to survive inflation were, hyperinflation was a dramatic experience for Argentines. It became obvious that the crisis was not part of a business cycle any more, but of failures in the structural organisation of the economy, especially the public sector (Gerchunoff and Llach, 1998). It created a strong social demand for stability at any cost: the public was ready for a full-fledged redesign of the institutions of the economy (Fanelli and Frenkel, 1994). The top policy priority in 1990 was to reconstruct the institutions of money, the monetary system and monetary-defined property rights (Cavallo, 1999).

Figure 2.5
Variations in main monetary variables, 1980-1997, in %



Source: Cepal Buenos Aires published in Heymann (2000: 162).
Note: Monetary variables after 1997 stabilised. Inflation, devaluation and wage variations stayed nearly zero until the crisis of 2002.

At the institutional level, hyper-inflation led agents to adopt the dollar as a de facto second currency. Initially it was chosen as reserve of value but then dollar-denominated prices became common to stabilise the value of goods such as houses and cars and in written contracts. Heymann (2000) explains the beginning of this practice as a failure of indexation to adjust quantities properly: price indexes tell a story of past price increases, while the exchange rate reflects the increases currently going on. The use of dollars became institutionalised also as unit of account and means of payment. During the hyper-inflation, any transaction was eventually paid in pesos calculated at the exchange rate of the advertised value in dollars. The substitution of a bad currency (peso) for a good currency (dollar), as in Argentina, was termed 'reverse Gresham's Law' by Guidotti and Rodríguez (1992: 526). The authors contend that uncertainty over the future purchasing values in pesos prevented agents from seeing the peso as the 'natural' unit of account. The 'natural' unit of account then became the currency that could effectively guarantee purchasing power in the future (dollar). It became a practice, whenever inflation started rising, for agents to flee to 'good' currencies such as the dollar to protect the value of their payments, goods for sale and savings.

The lack of trust in the national currency constrained policy options for the subsequent reform programme. Dollarisation at the macro level was discussed, but the idea did not gain ground (Fanelli and Heymann, 2002).[17] Instead, the government opted for the Convertibility Plan. In March 1991 the Congress approved a law transforming the Central Bank into a currency board, pegging the peso to the US dollar at a rate of 1 to 1 and allowing all transactions to be performed in any currency of choice. The law forbade indexation in contracts but protected the option of denominating prices in dollars. This also applied to bank deposits over any term. It gave the Central Bank autonomy and specified the level of foreign currency reserves it would have to maintain.[18] In practice, this ensured that money would be issued in alignment with inflows of foreign currency (Kiguel, 1999). It was a short cut for the recovery of the institution of money, and the combined M_3 increased to 20 per cent of GDP by 1994 (Fanelli and Heymann, 2002).

Behind the steering wheel of the economy at that time was Domingo Cavallo as Economy Minister. He contested the monetarist view that the source of inflation was the quantity of money created in an economy and instead posited that it was the quality of money that determined agents' monetary preferences. He described the monetarist theory of inflation as incomplete because it did not pay attention to the institutional aspects of money.[19]

Convertibility allowed agents to choose at any point in their economic activity what currency they wanted to use for what. Thus, it formalised in the legal system what agents had institutionalised by common practice. While other structural reforms had destroyed institutions and generated gaps, the Convertibility Plan constitutes a counter-example of how governments can elaborate designed institutions based on those evolved as habits, hence regenerating the economic structure. First, successive waves of inflation and anti-inflationary plans generated a uniquely flexible understanding of what constitutes money. Other measures taken by various governments strengthened this perception. The institution of money as a credible reserve of value, means of payment and unit of account was not a reality, leaving an institutional gap around one of the main institutions of an economy, its currency. Through social interaction and habit, agents filled the gap created by inflation. They introduced bimonetarism in their daily activities, thus using a patch to satisfy the need for a stable means of payment, unit of account and reserve of value. Instead of fighting this trend with bricolage logic, the Convertibility Plan built upon it and achieved what no other stabilisation plan had done in the past: inflation disappeared. Moreover, the policy restored the peso's credibility.

2.5 Conclusions

Argentina is exceptional among the economies of the world. From one of the richest countries in the world in 1900, it collapsed into a developing country a century later. The legacy of this unravelling of development is a relatively sophisticated institutional structure with dysfunctional areas. By the turn of 1990, three hyper-inflationary periods clearly signalled that the model had to be reviewed.

A structural reform programme was then launched to reorganise the economy in line with the Washington Consensus. However, the policy overlooked or misunderstood the institutional framework that gave stability to the economy. The one exception that respected previous institutions and built upon them was the monetary policy. The Convertibility Plan formalised in legalisation the already engrained practice of bimonetarism. Ironically, it was the most effective solution tried in Argentina in five decades to curb inflation and it was implemented against the recommendation of the IMF. Its executor, the Economy Minister at that time, explains that its success was based on understanding money as one of the main institutions in the economy, one that cannot be simply structured by political decision and architectural design.

In contrast to what happened in the monetary system, in other areas of the economy there was top-down imposition of new institutions upon the old ones with a bricolage logic. There was barely any understanding that the structural reforms were not being applied on a tabula rasa but on an institutional legacy that allowed agents to make decisions and take actions in the economy. The top-down mixing of structures that did not belong together generated discrepancies and inconsistencies in the institutional framework of the economy. Institutional gaps emerged; economic action became uncertain and unstructured, preventing agents from participating in the newly reformed economy. This was the case in three of the four sectors analysed in this chapter.

The industrial sector comprised thousands of small and medium-sized enterprises that had accumulated technical skills, physical capital and human resources. However, they did not achieve competitiveness in the export market and that was a source of imbalances and inflation. The habits and routines for running a firm included adapting imported technology for a smaller market, securing the value of sales and stocks against inflation, stabilising the flow of inputs and sales and occasionally introducing improvements in the product quality or price. In the open and competitive economy promoted by the reforms, these evolved rules were no longer helpful. Some managers and entrepreneurs made the most of the new opportunities and restructured their firms successfully, most often in the service sector. Many others could not formulate new routines over those acquired during their long learning processes. The institutional gaps translated into uncertainties which they could not make sense of. They faced the decline of their factories and eventually had to sell or close. Segments of production were gradually destroyed and not enough new ones replaced them.

The labour market had a parallel evolution. It was traditionally tight, with workers winning concessions through strong trade unions. Household incomes were generally enough to allow children to extend their schooling, women to concentrate on domestic work, and the elderly to collect pensions from the contributions of active workers. A well-paid and stable 'autonomous' employment variant complemented waged labour both as an acceptable individual choice and as anti-cyclical employment in recessions. The rules and practices governing the behaviour of workers reflected the high degree of certainty they had about unemployment and income. This changed radically in the 1990s, first with the economic downturn and then with the new rules of the reform programme. The labour market was devastated by unemployment and chaotic deregulation. Households reacted as they used to, by offering additional workers for employment. However, the new, modernised labour market was shedding workers even from public employment, demanding temporary workers at low wages, and leaving no space for well-paid autonomous employment as it used to be. There was little the trade unions could do. In short, institutional gaps also emerged in the labour market, with routines structuring work through an economic downturn being hardly helpful and the new ones being unclear.

The third area analysed was the restructuring of the welfare state, in which institutional gaps were also evident. Traditionally, trade unions' insurance schemes and public hospitals provided free health care. Children went to free public schools and universities. Old-age pensions were paid by the public system. The public sector was always a default employment option. Against this background, 70 per cent felt they were middle class, differentiating themselves from the poor and the wealthy. After the structural reform programme, various public goods and services were no longer provided by the central state. The assumption that decentralisation and privatisation would replace them proved incorrect, partly because of the unclear institutional frameworks relating to who had to do what. The impoverished middle class then found that the evolved habit of resorting to the state at times of economic distress was no longer meaningful.

All in all, these three areas show the emergence of institutional gaps. Circumstances X had been replaced by X' and yet Y' was unclear and uncertain by virtue of the bricolage logic of the reforms. Therefore, many agents continued to follow the rule of doing Y in circumstances X', with the unsatisfying result that they did not obtain Z. Resources then fell idle because many agents did not know how to put them to use profitably in the new reformed economic structure. Specifically, the effect was that many industrial firms were not run successfully and went bankrupt, workers became unemployed or underpaid, and the needy did not receive the education, health care and pensions they had grown to expect.

As a result, a new class appeared: the new poor. These were agents socialised in a middle-class identity, with the consumption patterns of a middle-class lifestyle and accumulated middle-class assets they could no longer afford. For the new poor the world had become unstructured and incomprehensible. They felt abandoned by the welfare state, which had made them poorer in terms of lost entitlements (Minujin, 2004). With their economic decline, the economy had also lost an important segment of consumers of goods and services that went beyond basic necessities. The myth of the large, dynamic and well-off Argentine middle class vanished along with them, as well as the belief in upward social mobility that went with a lifetime job.

Emigration would have been a solution, but it goes against the grain in Argentina. It has been a recipient country for as long as records have been kept, initially of European migrants and later from other South American countries. For Argentines, migrating abroad meant escaping political persecution, not pursuing economic opportunities (Cura, 2004). Besides, the construction of networks to facilitate migration takes a long time and requires resources from those already abroad to help relatives at home to pay for an overseas flight.

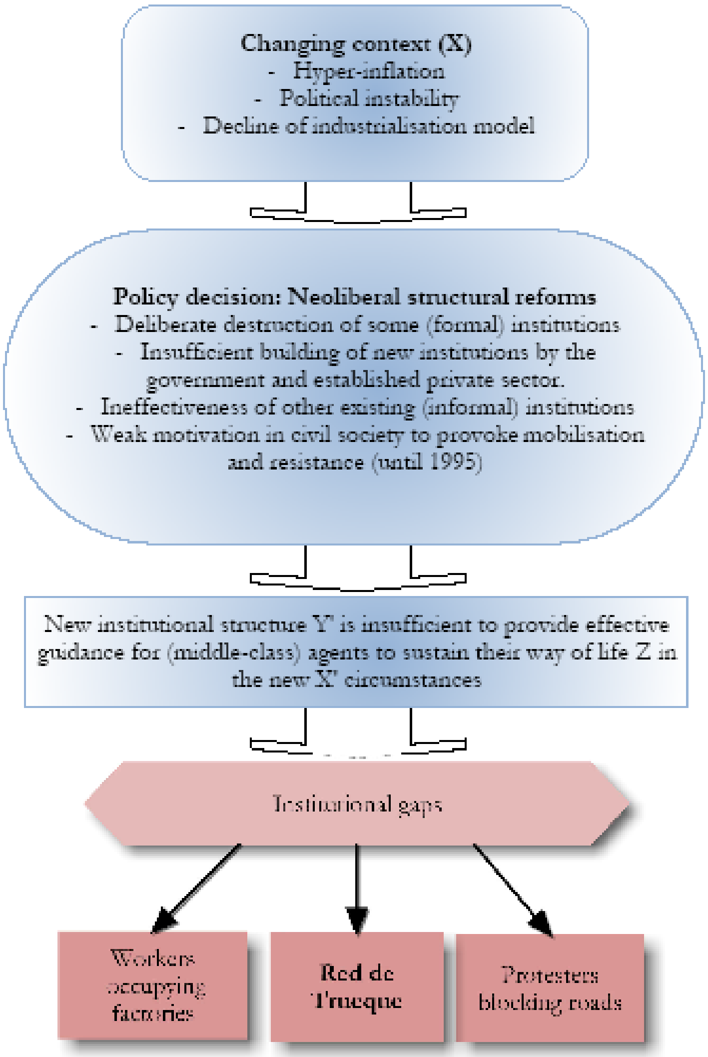
Another reaction would have been to organise protests demanding more social protection. Although this did happen to a certain extent, it did not spread and it happened too late. There were several reasons for this. Firstly, the traditional organisations representing the voices of discontent were trade unions, which had been coopted into the government. They thus left an institutional gap in terms of representation, and new organisations had not yet been formed to fill the gap. Secondly, the negative effects of the reforms were not evident until the economic crisis of 1995, so the motivation to organise resistance was not high enough. Thirdly, the middle class fell into poverty without being able to understand what was happening to them. Only after 1995 were there clear attempts to organise productive initiatives such as the *Red de Trueque*. The *RT* was not the only reaction; after 1997 there were also people blocking roads, demanding jobs, neighbourhood associations and, later, workers in occupied factories (Giarraca, 2001).

So what factors led to the creation and progress of the *Red de Trueque*? Why in Argentina? Why in 1995? Attempting to resolve their economic life, agents responded with attempts to patch the institutional gaps in ways that would not have been possible earlier. They formulated new institutions to earn a livelihood and restructure their actions. For this, they related to their habits and experiences, to the institutions that had guided their behaviour until then. The *Red de Trueque* was created in 1995 as a market to exchange goods and services, in an attempt to recreate segments of the market that had been destroyed by the structural reform policies. The idea of printing a community currency seemed a natural step in a country where central and provincial governments had done so in contexts of economic distress. In Argentina, money was far from an untouchable institution. Certainly, other countries have undergone reforms with similar bricolage logic and economic life there has been unstructured in institutional gaps as happened in Argentina. However, there were various important differences. The structural reforms in Argentina were implemented in a big bang, affecting all the important institutions severely and simultaneously. When reforms were implemented in developed countries, as in the United Kingdom in the 1980s, the welfare state was not dismantled to the point of leaving its citizens disenfranchised as happened in Argentina.

Complementary currency networks were also started there, but since there were other alternative sources of income to fall back on, they did not take off as quickly as in Argentina. In developing countries that underwent similar reform programmes, there was no comparable experience with creating alternative money so easily. Few had a comparable middle class, part of which was pushed into poverty. The new poor, or poor with a voice, were a segment of the society large enough to create own solutions to their impoverishment. The nature of the institutional gaps and the resources left redundant were also quite unique to Argentina and were necessary conditions for a phenomenon like the RT.

There were several characteristics of the situation that were specific to Argentina. Firstly, the labour market had left a large number of unemployed workers, or forced them to work at low wages, and they had technical skills and a small amount of capital from savings or a redundancy payment. They had never experienced unemployment and had perhaps tried self-employment with little success. The *RT* is based on the idea of participants being self-employed and using their skills. Secondly, the industrial sector had released owners and managers who had technical and entrepreneurial experience relevant to a small protected market. They could produce goods and services, but not competitively enough in the open regular economy. In the *RT*, competitiveness is secondary, as it is a market protected by membership restrictions and voluntary acceptance of the complementary currency. Thirdly, unemployment in combination with the retreat of the welfare state contributed to creating the category of the new poor, the poor with a voice, who were searching for institutions to give meaning again to their lost middle-class identity as well ways of returning to the consumption patterns typical of their lost middle-class lifestyle. The *RT* represents a closed market in which participants consume the goods produced by others with a similar background. Everyone can produce a good somebody else may need. Finally, the peso was a very weak institution in Argentina. This combination of institutional gaps and idle good-quality resources explains why the *RT* occurred in Argentina and why in 1995.

Figure 2.6
Relationships between policies, effects and institutions



Notes

[1] Antecedent conditions, according to Ruth and David Collier (1991), are termed 'critical junctures', which are moments in which actors make contingent choices that set a trajectory of institutional development difficult to reverse.

[2] The name Partido Justicialista derives from the Spanish words for justice (*justicia*) and socialist (*socialista*). For contemporary analysis of Peronsim, see Levitsky (2003) or Munck (1987). Classic texts in Argentina are Murmis and Portantiero (1972) and Germani and Yujnovsky (1973).

[3] The National Institute for Statistics (INDEC) uses two poverty lines. The first is set by an extreme poverty basket (only food) and the second by a poverty basket including other basic needs such as housing and clothing. The latter is the poverty line referred to here.

[4] Mercosur is the regional market, comprising Argentina, Brazil, Paraguay and Uruguay. Bolivia and Chile are associate members.

[5] Labour statistics have been collected since 1960 in Argentina.

[6] Statistics are only available for the Buenos Aires conglomeration; however that area covers 55 per cent of the total sample for the household and employment survey.

[7] The state released 200,000 workers in 1989-94 (Palomino and Schvarzer, 1996).

[8] The Buenos Aires metropolitan area covers 55 per cent of the total sample for the household and employment survey.

[9] The City of Buenos Aires drew up its own teaching programmes in line with the Ministry requirements and paid the costs. Several jurisdictions followed that example, so a child moving from one province to another often found that the teaching programmes were different and sometimes incompatible.

[10] Hospitals were entitled to charge user fees and the decision was left to the hospital boards. In practice, however, no hospital charges compulsory user fees, but some do ask for a voluntary contribution.

[11] In case of default, payments to creditors would be deducted from future federal transfers.

[12] For example, the right of every citizen to universal primary education is part of the provincial rights and obligations included in Art. 5 of the Constitution.

[13] Zeros were written off the currency four times. In 1969 two zeros were written off banknotes for the first time and the action was repeated to different degrees in 1980, 1986 and 1992. Altogether, 11 zeros were written off between 1969 and 1991.

[14] The payment of wages with bonds was seen as a desperate measure following a coup d'état and the virtual bankruptcy of the public sector. The bonds were called Bonos 9 de Julio, a reference to Argentina's Independence Day. The then Economy Minister of, Alvaro Alzogaray, described it as a 'patriotic sacrifice by public employees' to accept the bonds instead of money.

[15] The provinces were Jujuy and Tucumán, both small in terms of economy and level of development. Their bonds were perceived as a sign of their backwardness.

[16] This was intended to reduce the Central Bank's deficit of interest payments on the liquidity requirements of private banks (a quasi-fiscal deficit)

[17] It was discussed in the media and other public opinion forums, but widely dismissed as a far-fetched academic idea. It would later surface again in the crisis of 2002.

[18] The Central Bank would no longer act as lender of last resort to the banking system. No other institution was designated for this function and banks were allowed to fail.

[19] According to Cavallo (1999: 3), the monetarist theory is 'based on the premise that every economy has a currency and a Central Bank that issues and manages it. Most of the attention is focused on the Central Bank's management of the national monetary policy, the quantity of money, the interest rate level and the exchange rate policy. Yet, the departing point is not exactly correct. It will be precisely in the chapter on currency as an institution, and not in the one on monetary policy, that answers will be found to most of the economic instability problems that currently beset the world.'

3 Creation of the *Club de Trueque* market

3.1 Patching an institutional gap

While there is growing evidence that markets are social constructions, the driving forces and mechanisms that guide their construction are much less clear. All over the world markets are being organised to trade an endless variety of commodities, from new financial instruments in New York to maize and potatoes in the Andes to unwanted Christmas presents through Internet auction sites. These are commodities in search of an institutional infrastructure where they can change hands, and in some circumstances when the infrastructure does not exist, agents construct markets. Those fit in the category of designed or elaborated institutions. This chapter analyses how markets are created, under what conditions and why.

The construction of the *Club de Trueque* (*CT*) in Argentina is studied here as example of a market created ad hoc by a strategic group of agents. It was started in 1995 to institutionalise the exchange of own-production in a suburb in Buenos Aires. The market organisers were local leaders combining environmental concerns with left-wing political (socialist and communitarian) ideas. The initial traders were a small network of individuals from a middle-class background and some previous involvement in association projects. The *CT* represents an extreme case in which a set of market institutions, including its own currency and monetary system, were built ad hoc.

Markets are defined here as a mode of coordination under scarcity mediated by prices over which buyers and sellers compete and reach agreements to perform transactions (Slater and Tonkiss, 2001). Hayek (1946) argued that markets are self-organising because they are the 'most efficient' way of allocating resources and coordinating economic life, but that claim of the superiority of markets is widely contested. Markets coexist in daily life with various other forms of allocation; that is, they are just one of the institutional possibilities for coordinating economic life.

The coordination of exchange is guided by a complex range of institutions that were constructed at some point in time. There are various kinds of markets, combining price and competition with regulation, reciprocity, trust and other mechanisms that affect transactions. The Argentine *CT* was a market constructed to patch up an institutional gap that affected a certain segment of the society. Its impoverished participants needed a setting where they could engage in small-scale exchange of home-made products that would enable them to make use of their idle skills and scarce resources. They therefore constructed a 'club' type of market whose membership was controlled and which was regulated by the insiders. This concept will be elaborated further in this chapter. While Chapter 2 focused on the macroeconomy and its structures, this one centres on individual agents and their social constructions. An Old Institutional Economics perspective is followed to explain how institutions in general, and club markets in particular, are created by the economic action of agents. This group of theories offers a link between the economic action of agents and institutional creation at the structural level.

Hyper-inflation and structural reforms in Argentina created institutional gaps affecting various groups of agents, in particular the middle class. As defined earlier, institutional gaps are unstructured segments of social life in which behaviour becomes unpredictable and uncertain; resources then become idle, as agents are prevented from performing their usual economic activity. The existence of institutional gaps was perceived in Chapter 2 as a necessary condition for individuals to act and create other institutions to restructure their socioeconomic life. Club markets are among these structures, of which the *CT* is an example. The present chapter continues the analysis from there, with the contention that affected agents designed the *CT* as a new structure to guide their actions on the basis of their past experience. The *CT* thus represents an innovation on a previously known institutional form. The next section discusses the organisation of exchange in society and the emergence of markets. It configures an institutionalist theoretical model of economic action by which agents create markets and institutions in general. Section 4 then uses this theoretical model to explain why the first *Club de Trueque* was created in Argentina as a market.

3.2 Social Organisation of Exchange

Modern societies are characterised as market societies, with monetarised exchange of goods and services dominating circulation and organising the social order. Markets are a mode of coordination, in the sense that they present relatively stable relationships of otherwise disparate activities or events (Thompson, 1991). Coordination means that tasks and efforts are made compatible, while bottlenecks and other disjunctures are eliminated. Agencies are ordered, balanced, brought to equilibrium.

The primacy of market exchange has increasingly marginalised and restructured other modes of exchange, though the real extent of this domination is disputable (Boyer and Hollingsworth, 1997b: 50). The 'market idea' (Carrier, 1997) represents a central principle of social order, of integration and coordination that is both specific to modern societies and part of its most profound values. The social representation ('meanings') of the market has had a central role in organising the West's conceptual and normative universe. This mainly economic institution permeates patterns of political, social and cultural organisation (Slater and Tonkiss, 2001).

The notion of a market society marks the transition from an older order, an *ancien régime*, regulated by traditional rights and obligations rooted in ascribed status and cosmological order, to one in which social order emerges from the independent actions of autonomous individuals. Until the beginning of the Industrial Revolution, the majority of resources (basically agricultural) which were produced and consumed were related to a system of self-production and self-consumption (a non-monetarised system) with little exchange. The Industrial Revolution accelerated the process of specialisation and exchange, either implicitly (non-monetised) or explicitly (monetised) with reference to the value of money (Giarini, 1995).

Adam Smith wrote enthusiastically about the origins of this market society, the birth of many manufacturing activities and the flourishing of commerce in a nation that was still predominantly based on traditional agricultural activities (Smith, 19776/1995). Later, Polanyi (1957) was less enthusiastic when analysing 'the great transformation' of the late nineteenth century, pinpointing the negative effects of the market capitalist society regulated by 'market prices and nothing but market prices'. The individuals' sphere of action was circumscribed solely by their material means and the rationality with which they could deploy their market power. Such a transition could be understood as liberation of reason, freedom and progress from the irrational constraints of tradition, as Smith saw it, or as the erosion of communal life and decline of any social values that might stand above the merely economic measure of price, as Polanyi saw it.

However, the dominance of the market society is partial, and up to a point it is a matter of choice to exchange through markets. While from some perspectives non-market relations are seen as the last remnants of traditional forms of economic exchange, others see them as dominant in other areas of economic activity. Different forms of exchange are appropriate for different social relationships: to lend money to a friend is different from a bank's logic when giving a loan. Modes of exchange are reflections of particular social settings, and on a more global level they reflect a certain social order, according to Slater and Tonkiss (2001). A simple overview of normal everyday allocations of all sorts of goods and services would be enough to illustrate the enormous diversity of the repertoire of exchanges a society has to offer (Davis, 1992). By the end of the day agents have given food to their children, snatched a pen from the office, bought food in a supermarket, paid the electricity by direct debit, lent money to a friend, donated a few coins at church, exchanged fidelity card points for a gift, bought a lottery ticket (and won nothing), paid a toll for the use of a public highway, walked in a park maintained with tax money, sold a few second-hand books on eBay, and finally invited friends for dinner who had invited them the week before. The list of ways in which goods and services are passed along between social actors can be extended indefinitely, reflecting the complexity of overlapping social relations and networks, values and meanings, ethics and cultures that a society can display.

Additionally, the understanding of these modes of exchange has changed over time. Hirschman (1977) argues that in medieval times the disposition to truck, barter and trade in markets was seen as a most unnatural and destructive passion, but Rousseau described commerce as a civilising agent of considerable power and range a few centuries later. Montesquieu went even further in placing commerce where 'manners are gentle'. Market trade was not only contrary to what these philosophers considered natural and untamed, but it even had the effect of 'polishing and softening the barbaric ways' of everyday life (Hirschman, 1986:92).

Neoclassical economists see markets emerging in human societies because they are the most efficient form of allocating goods under scarcity conditions (Schotter, 1985). In the Austrian School tradition, authors like

Hayek (1946, 1988) and von Mises (1962) claim that this superiority of markets derives from their unique capability to process the huge amount of disparate information that is necessary to coordinate the plans of individual economic agents making decisions for achieving the maximum utility possible. The argument goes that, as long as individuals act in their own interest and make calculating decisions, the final result in social terms cannot be other than the optimum (Bowles, 2005).

However, there is also evidence that in some circumstances markets are not the most efficient form of allocation. These are, for example, in the Prisoner's Dilemma situation and where there are distortions caused by asymmetric information, excessive market power, bounded rationality, externalities, restriction on demand revelation, and public goods (Boyer and Hollingsworth, 1997b; Schotter, 1985). In the case of natural monopolies, it has long been shown that public provision is more efficient than markets. The literature refers to this as market failure, defined as a situation in which the social optimum is not reached. A market failure occurs when at least one of its components (signalling, responding, mobility or competition) does not function well; such markets are called imperfect, incomplete, fragmented, missing or externality-creating (Shafaeddin, 2004; Simonis, 1999). Hierarchies, networks and state regulations are then imposed to correct the imperfections (Boyer, 1997b). There are also market arrangements by which price-mediated exchanges are affected by social considerations such as gender, ethnicity, proximity, and so on. Exchanges are embedded in a social setting and overlap with a variety of relations of trust, law and shared values (Beckert, 2002).

Types of markets

Markets can also be distinguished by the level at which they operate. Boyer (1997b: 63) distinguishes three varieties, each ruled by a different set of institutions. The first is the face-to-face marketplace, closely associated with a precise location and time schedule. The second type is more abstract and hosts the exchange transactions of a commodity across a whole country or geographical area, extending itself across time and space and in principle converging to a unique price for the entire area. Thirdly, when exchange of goods across time is possible, the exchanges take the form of a monetarised market. Money enables a person to sell a product one day and 'store' the value in the form of currency till a purchase on another day, unlike with barter where one product is exchanged for another simultaneously. Together these three types form an interrelated market system for exchange across time and space.[1]

Markets 'made to order'

Since exchange in markets matches a social setting, there are no markets 'in the beginning', as Williamson (1975) poses, but 'after' economic agents decide to bring them into existence. Historically, in the beginning there were agents with needs and wants to cover and the work capacity to satisfy them. Later there was enough production to leave some goods for sharing or trading after the needs of households had been met, but there were also asymmetries of power and authority that affected the destiny of those surplus goods. Production for the sole purpose of trade in the market came much later, with the multiplication of goods for the market (Harris, 1982). Then, many different markets were organised for the goods to change hands. A few examples illustrate the variety of markets made by agents.

In medieval Europe, chartered cities had the right to establish a market to support the population centre or build a new town around it with attached houses, workshops and shops (Braudel, 1981, 1982). Merchants were associated in guilds, which negotiated agreements with local rulers, either political or ecclesiastic, to create markets with guarantees of punishment for contract violations and later also monopoly rights (Greif et al., 1994). This corresponds to the category of the local marketplace in Boyer (1997b).

More recently, when physical commodities such as agricultural products lack a marketplace, one is constructed by agents. For example, Garcia (1986) describes the case of a market for fresh strawberries in the south of France, established by sellers and the local government to fight power asymmetries that were biased against producers and make power relations more equal. The new ad hoc marketplace improved the transparency of the transactions and increased the volumes effectively traded. A similar reaction is seen in the Netherlands and other European countries, where horticulture producers create their own auction markets in an attempt to counter the market power of large buyers playing sellers off against each other (Hay, 2007). In Boyer's categorisation, these are local marketplaces.

Auction markets on the Internet, linking buyers and sellers among private individuals, have become a multimillion business in the last two decades. These have been constructed mostly by private corporations. Before they existed, sellers had minimal chance of getting any cash from the sale of second-hand and surplus products. A top concern in Internet markets is to generate trust between strangers (Kollock, 1994). This corresponds to the second, rather permanent type of market referred to by Boyer.

Financial instruments are traded in stock markets around the world, increasingly shifting to electronic market mechanisms to facilitate the meeting of sellers and buyers and the achievement of a clearing price. Insurance markets are in this category. Given the complicated mechanisms of exchange, transactions can normally be effected only by licence-holders, the stockbrokers. In Boyer's typology, this is the third type of market, capable of hosting transactions across time.

In 1998 the British government passed a law that sought to introduce market forces into the education sector. Until then, children had attended the school nearest their address, but after the new law went into effect, parents could choose where to send their children. The idea was to improve the quality of education and budget efficiency by building a quasi–market in which schools would compete for students and receive funds per student. Le Grand (1993) defines quasi-markets as different from competitive markets because the purchasing power of buyers comes from sources other than themselves (in this case, from the government). The principle of introducing competition and market forces in an allocation previously decided by the state has been applied around the world. Boyer argues that these are not markets but situations of competing interests.

The first *Club de Trueque* (*CT*) was created in a Buenos Aires suburb in 1995 after a local association began promoting recycling and vegetable-growing projects. The network grew and incorporated other activists, who saw the trading of surplus goods between participants as a mechanism to help the disenfranchised middle class. Members did achieve a significant rise in their income, which enabled them to increase their consumption and replace some of their previous consumption in pesos with consumption in vouchers, thus saving pesos for other needs.[2] At that point, the *CT* was a local market in Boyer's typology, and it was oriented towards the new poor.

What do these examples of markets, in appearance so diverse, have in common? Above all, they are markets that have been constructed by reflexive action following intentions and interests, either individual or collective. Hence, they belong to the category of designed or elaborated institutions, those that developed from precise reasoning. Markets are social constructions, so they can be built and regulated to match the expectations and wishes of those who build them.

Markets constructed from below

The emergence and regulation of markets are thus embedded in a specific social setting. This subsection analyses the elements of the market-building process. The examples given above highlight the activity of a class of agents rarely considered in the literature: the 'market-makers', who are strategic agents responsible for organising market institutions.[3] They design the 'playing field' for trade to take place, defining rules of entry, participation and exit, and ways to enforce them. Sbragia (2000) uses the term 'market-builders' to refer to the agencies within the state that frame and regulate a market, discussing the Central Bank as the main example of this. However, agents creating markets are not limited to the public sector; they are often found in the private sector, too (for example, industry associations) or in civil society (NGOs).

Authors from different disciplines and ideological viewpoints, such as Heilbroner (2002), Braudel (1981), Hirschmann (1986) and Platteau (1994) stress the role of strategic actors in fostering institutions, among them market institutions. Their motivation ranges from making profit as a business company (like the Internet auctions, financial stock markets and medieval merchants) to altruistic behaviour (like the *CT*) or a redistribution of power (like the strawberry market in southern France and the quasi-market in the UK education sector). They perceive an institutional gap (lack of a market where goods can change hands) and start the reflexive action to fill it.[4] They have entrepreneurial and organisational skills as well as the initial contacts and connections (social capital) to initiate the process of building a market where there is none.

The role of primary institutions is fundamental in the market-building process, which can only occur if there is already an institutional structure at work. Newly created institutions depend critically on the primary institutions. For example, new markets can only be constructed where there is a sense of private property and freedom, because if a central authority coercively appropriated surpluses there would be nothing to trade. Or if actors did not have minimal civil liberties to transport and exchange their produce they would not be able to engage in commerce. Boyer (1997b: 69) identifies the following primary institutions for building markets: private contracts, commercial laws, a monetary regime, and enforcing mechanisms or external referees. The *CT* shows, however, that a monetary regime can be created ad hoc.

The networks of belonging also play a key role. They are formed by the agents that initially engage in trade as producers, sellers, buyers, or referees. They are assumed to have had exchange experience in markets elsewhere, to have acquired the habits and routines of market exchange, which is indeed the case for anybody living in a market society. In addition, engaging in trade means that the agents own or manage production surpluses to sell, and have skills, machinery, working time, capital or inputs. Heilbroner (2002) and Chayanov (1986) consider production of surpluses to be one of the conditions that was needed for the generalisation of trade and end of feudal autarchy in Europe. The participation of agents who use redundant resources in exchange for other goods and services is driven, in principle, by the wish to increase income. It is also implicit that they have needs to satisfy through the work of others. Those in the initial network have enough trust in the market-makers to accept their leadership.

Finally, agents engaged in market-making have no pretence of creating an over-arching market. Braudel (1977) distinguishes between 'public' and 'private' markets. In public markets, participation is open to all and in private ones it is restricted to a closed network. For Braudel, public markets are a gate through which local actors, actions and objects circulate in economic life, away from the non-market self-sufficiency of traditional domestic production. Private markets are specific networks of trade, finance and information, wholesaling and vertical integration up and down lines of supply. These networks are exclusive to quite a different type of participant and operate above, behind and between the public markets. They are restricted to meetings and activities of those included in a particular network and function under the rules defined by the market-makers. Braudel (1982) applies the concept of a private market mainly to medieval long-distance trade linking supply chains at a global level and with capacity to lobby rulers and governments. Braudel blames the decline of public fairs on private networks, accusing them of crushing the public markets. He calls them 'anti-markets' (1982: 136). More recently, Slater and Tonkiss (2001) make a distinction on the basis of public markets being subject to intensive (state) regulation while private markets emerge in attempts to escape regulation.

Club markets as created markets

Access to markets constructed by the strategic action of market-makers is normally restricted. Their membership comprises a limited number of participants who know each other and/or define the rules of access. Braudel (1977) observes that in such markets, participation is possible only through invitation or belonging to a certain group. However, his concept of a 'private market' excluding non-members has a negative tinge, which this study wishes to avoid. Therefore, this type of ad hoc exclusive market will be termed here a 'club market'. Such markets are the outcome of the values and intentionality of their members and the rules of access are defined by the market-makers and initial members. In this sense, club markets are 'private orderings' (Williamson, 2002) or a 'private interest governance' (Streeck and Schmitter, 1985). These are markets that can be built by strategic (collective) action.

Cornes and Sandler (1996) define clubs as associations that provide goods consumed jointly without rivalry but where exclusion of non-members is possible (1996: 9). By non-rivalry they mean that a good can be consumed by one individual without reducing the consumption opportunities of others; of course, this is true only within a certain range. By excludability they mean the costless possibility of withholding access from others. When benefits are excludable but non-rival, the definition of club applies. In the case of markets, what is excludable and non-rival is access to buying and selling directly. Members choose not to allow non-members to buy and sell, but if the latter do become members they do not reduce the access of prior members, within limits, of course.

Club markets provide an institutional setting where transactions can take place; excludability is the core difference between public and club markets. Cornes and Sandler (1996: 347) elaborate on the following characteristics of clubs.

Firstly, privately owned and operated clubs are voluntary, which means members choose to belong because they anticipate a benefit from membership and are willing to contribute a membership fee to support the club. In club markets, this means traders choose to exchange their goods in that setting because it offers them a benefit over trading in a public market, assuming that the latter exists. Members are willing to contribute to the club market's organisation or finances.

Secondly, Cornes and Sandler (1996) observe that clubs involve sharing, which leads to partial rivalry in consumption beyond a certain scale of crowding or congestion. As membership expands, there are benefits from sharing costs among more individuals but also losses in terms of deterred access, quantity or quality. The members may then decide to freeze membership at its current level. In the case of club markets, this would mean, for example, that beyond a certain scale trading would entail higher transaction costs. Therefore, the scale of the club market is finite because of its very nature, unlike that of public markets where size limitations may be caused by factors such as infrastructure (for example, by the physical size of the market).

Thirdly, Cornes and Sandler (1996) emphasise that when they face exclusion, non-members may decide to join or form another club. When exclusion is defined by geography, as in Tiebout's model of local clubs (1956), non-members may build their own club in their jurisdiction. In the case of club markets, non-members can trade in a club market ruled by their own institutions, in competition with the original one or in another jurisdiction.

The examples of markets provided in subsection 3.2.1 are club markets, as they are excludable and non-rival, at least for a finite scale. Participation in Internet auction markets is for registered members only and they can be expelled if they break the membership rules. Membership is free but sellers are charged a fee, and they are partitioned by country. The system is similar in the markets for physical commodities and financial instruments. In the early days of the *CT* in Argentina, only individuals referred by members could join and they were required to sign a document specifying their agreement with the principles of the organisation. They contributed a fee and later replicated the scheme in their localities. In the case of medieval merchants, the guilds made their own commercial rules and had courts to enforce them; non-compliant members could be banned from trade in the cities where the guild had a presence.

In short, strategic agents can create markets when they perceive that an appropriate setting for trade is missing. Thus, markets do not emerge out of acts of nature, but out of the purposeful action of agents who perceive an institutional gap. This means they understand that they cannot employ their skills and resources to exchange in a predictable manner within the existent structures (public markets), so they begin ad hoc ones. Markets constructed by strategic action are regulated by internal institutions and organisation, including rules of excludability. It is in this sense that this study terms them club markets. The market-building process needs three fundamental elements: market-makers as a strategic group that bears the organisational costs; an initial network of participants with market experience, available surpluses to trade and willingness to participate in a club market; and working institutions that guarantee minimum stability to the functioning of markets.

Now that a typology of markets has been clarified in relation to excludability and rivalry, and the reasons for building club markets as well as the conditions for creating them have been discussed, the question arises as to how the process works for these elements to form a club market and link it to the existent institutions. This calls for an examination of theories put forward to explain economic action.

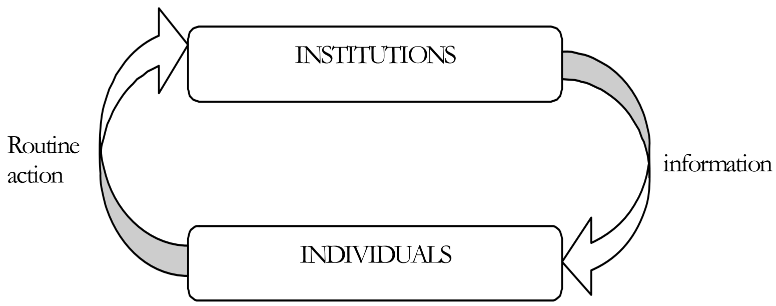
3.3 From social action to a club market

As the introductory chapter of this study noted, most routine or typical problems can be solved by the pre-reflexive tendencies and rules of appropriateness developed from experience (Beckert, 2003). These are either habits or primary institutions. However, there are new situations for which individuals have no pre-reflexive responses, so they require reasoning and intentionality. The institutions developed in these situations were termed designed or elaborated institutions. This section picks up from there to frame a model of social action by which the three categories of institutions interrelate.

Hodgson (1998) depicts the relationship between institutions and individual behaviour as an action-information loop going from one to the other (Figure 1.1). As long as the routine or habit leads to the expected results, agents do not need to change them (Joas, 1996b; Veblen, 1991). In circumstances X, agents have a disposition to do Y and obtain Z. This regularity is precisely the strength of institutions. However, when a new situation appears or the results are not in line with the learnt expectations, this loop can no longer explain action because there are no pre-reflexive tendencies to guide it. What the agents have are intentions and interests to elaborate rules of action.

Beckert (2003) discusses action in economic contexts of complexity. According to him, uncertainty makes it impossible not only to identify the best solution but also to link the causal relationship between means (strategies) and outcomes accurately. Every situation has several readings judged as adequate responses by the actors. They resolve the crisis by experimentation, in which possible future states are considered along with the strategies to achieve them. Experimentation represents a creative achievement on the part of the actors that demands imagination and judgement, taking a reflexive distance from routine courses of action. Consequences are evaluated and tested until an acceptable solution is reached. The 'acceptable solution' need not be the 'optimal' one, but it resolves the problem.

Figure 3.1
The institutional action-information loop



Source: Hodgson, 1998:176

Experimentation brings together institutions and networks. Decisions generally depend on interpreting situations with the networks of belonging. This is where inter-subjectivity plays a role, because orientation, perception, values and beliefs are formed by the expectations that social networks have of agents who are embedded in them (Granovetter, 1992; Uzzi, 1996). If actors succeed in framing a new rule of action and repeat it in similar situations, then 'something new enters the world' (Joas, 1996: 128) A new institution is designed, a new way of reducing complexity, termed 'novelty' by Bunge (2003: 11).

Economic action is then perceived as an experimental process guided by pragmatism (Beckert, 2003) instead of externally defined goals. It is a social process in which networks define what experimentation is possible and what learning is achieved. Learning is conceived as more than just acquiring information; it is the development of new means and modes of cognition, calculation and assessment. Agents build up new representations of the environment in which they operate. Learning and experimentation are transformative and reconstructive processes, involving the creation of institutions, new preferences, propensities and conceptual frameworks. The methods and criteria of optimisation are themselves learnt (Beckert, 2003).

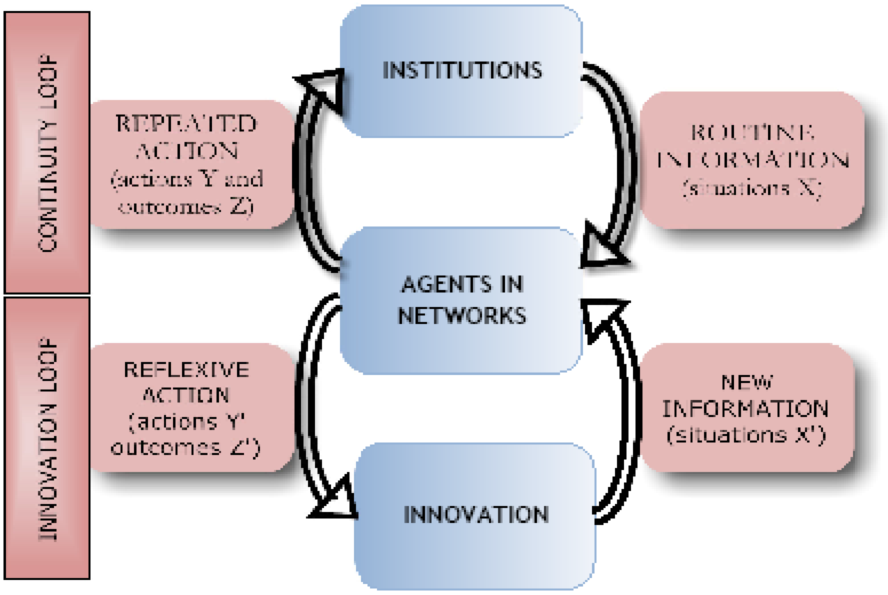
How does a successful experiment become a rule of action? Experimentation is informed or inspired by evolved and primary institutions. Once an experimental action proves successful in reducing complexity and asserting intentions and interests, networks spread the new paths of action. The novelty is locked in, becoming institutionalised by pre-reflexive responses as the rule of action Y for circumstances X. That is the origin of designed institutions, from elaboration to repetition of action. Eventually, as the action is repeated over time, designed institutions may become habits or routines. This is how the third category of institutions defined in this study (designed or elaborated ones) relates to the second category (evolved institutions).

Agency restructures itself in what Hodgson (2002a) terms 'reconstitutive upward causation'. The author describes with this term the process by which elements of a lower ontological level affect those at a higher level. This section has been discussing such processes: 'skilful actors (Fligstein, 2001) design new paths of action by learning with their networks and then repeat them until they are institutionalised. The process is compatible with Giddens's 'structuration theory' within sociology, which links structure and agency. The inverse process is termed 'reconstitutive downward causation' (Hodgson 2002a): primary institutions inform and contribute to the formation of habits defining 'what has meaning and what actions are possible' (Powell et al., 1991: 9).

The theoretical approach to human action presented so far is depicted in Figure 2. The information–action loop is now reconfigured into two loops. In the upper loop, agents in a standard situation X are inclined to do action Y, as in the Hodgson (1998) model presented earlier. It is an unreflected tendency; the action has already been tested by experience to obtain result Z. Routine action is thus informed and enabled by the working institutions. For example, in a market society market forms of exchange are repeated by routine or pre-reflexively. This will be termed a continuity loop.

But the model now has a lower loop, in which agents face new, uncertain, complex situations. There is insufficient information in the continuity loop to find a response, no set course of action. Rational learning agents perceive this as an institutional gap in the form of a 'what is to be done next' question. The primary and evolved institutions try to determine what experimentation is possible, as they still have a role as enablers and persuaders to action, but reflection is necessary to resolve the problem. This will be termed the innovation loop.

Figure 3.2
Institutional action-information double loop



Reflexive action takes over routine and the 'skilful actors' begin their innovation and learning. Experimental actions are embedded in networks that influence both the interpretation of the situation and the decision-making. If a punctual response is perceived to achieve acceptable results in terms of intentions and interests, the action is repeated for that situation and eventually develops into a rule of action for that situation. Actions are imitated by others in the network and become designed institutions in the continuity loop.

This is the process that gives birth to new designed institutions, although in rigorous terms they are only partially new, as they are based and depend on pre-existent institutions. They do present an innovation in the sense that they are a new rule of action to face complexity. In circumstances X' do Y'. Complexity and uncertainty are reduced for the new state of the world with a new rule that patches the institutional gap. Let us now consider how club markets are created. In a market society, individual agents have a pre-reflexive tendency to market exchange. In other words, buying and selling represent well-known routines (evolved institutions) in normal circumstances. Agents with surplus goods and capacities, in addition to unsatisfied needs and wants, would be able to engage in market exchange within the continuity loop without any problem. However, when the necessary institutional setting for this is not acceptable or not present at all, as in the examples given in subsection 3.2.1, goods cannot change hands. Public markets do not offer a solution; resources stay idle (or, at best, are underused) and needs remain unsatisfied. The lack of markets as a setting for exchange is perceived as an institutional gap that requires a response, a source of complexity for frustrated agents who can neither transfer their goods nor satisfy their needs. So, given that club markets can be constructed by collective action, as shown above, the solution to the lack of an appropriate market setting is to construct the institution. This is especially relevant to the poor, who are confined to poverty by the existent public market structures. They could decrease their poverty if there were (club) markets in which they could exchange their own products.

The market-makers –from the state, private sector or civil society– may be motivated by self-interest, the prospect of a profit, ideology, or a shared goal to transform the public market structures that work against them (for example, by excluding them). In a process of trial and error, the market-makers experiment with different institutional structures: tightly or loosely regulated markets, with or without the involvement of state or civil society organisations, and so on. The club market arrangement that is eventually consolidated then relies on the network involved to fine-tune an acceptable solution, a process which is affected by categories such as class, gender, income level and values in common. This is another characteristic of club markets: they do not emerge in a tabula rasa, but to patch an institutional gap in a social structure where certain basic institutions do work –the institutional arena– and are a necessary condition. Examples of prior institutions fundamental to the construction of club markets are, among others, recognition of personal property rights, functioning of courts or informal mediators for conflict resolution, and engrained routines of market exchange.

3.4 Launching the *Club de Trueque*

The creation of the *Club de Trueque* (henceforth *CT*) in Argentina is discussed in this section in relation to the concept of club markets and in the light of the model of economic action developed above. As discussed in Chapter 2, the *CT* was created in a macro context characterised by institutional gaps affecting the disenfranchised middle class. These were agents with some resources, whose behaviour had become unstructured as a result of the economic collapse and structural reforms. Most had never experienced the uncertainty of unemployment before, so for them it was a new situation requiring a reflexive response. Their old routines and understanding of economic life were no longer applicable. In addition, the national currency, the peso, was a weak institution due to the hyper-inflation periods around 1990 which precipitated the creation of other socially accepted means of payment (national and provincial bonds).

Learning from failure

In the *Club de Trueque*, the initiative to construct a market came from the market-makers themselves. It was the brainchild of two grassroots groups which were never formally registered as NGOs: *Programa de Autosuficiencia Regional*[5] and *Red Profesional*.[6] It was their first successful project after several failures. As with many other social processes, it is hard to determine the exact date of the *CT*'s creation, but the market-makers give the official foundation date as 1 May 1995. The choice of this date reflects the founders' wish to honour their personal history of defending workers' rights and socialist militancy. However, the process of creating the *CT* began much earlier and it framed the evolutionary path of what would become one of the main social phenomena in Argentine economic and social history of the 1990s.

The *Programa de Autosuficiencia Regional* (*PAR*), founded in 1989 in the Bernal Quarter of Quilmes municipality, a southern suburb in the metropolitan area of Buenos Aires, was a publisher of environmentalist newsletters. It was led by psychologist and environmentalist, Carlos de Sanzo, and museum expert, Ruben Ravera. It was created to tackle both economic and ecological problems at the same time, restoring value to resources that had been labelled 'valueless waste' by others. It spread environmentalist practices through a newsletter called 'Hacemos Ecología Práctica' (We Practise Practical Ecology).

After the hyper-inflation and economic collapse of 1989, *PAR* launched an urban small-scale agricultural project using appropriate technology in Tecnohuerta, but it soon discovered that urban agriculture initiatives were not sustainable after the crisis. The benefits were too low in relation to the effort required to produce them. Moreover, hunger was not perceived as a serious social problem. Nonetheless, while the project had little success it did help to build a motivated network in the course of many workshops and discussions. A habit also evolved among participants to give away or barter surplus vegetables, a routine that reinforced the feeling of belonging to the network. By the beginning of 1994 *PAR* was unable to summon enough participants to keep the project running (De Sanzo, 1998).

In terms of the theoretical perspective proposed in this research, *PAR* leaders reflected on the environmental problem and designed a reasoned course of action. That is, they passed into the innovation loop and experimented with a solution intended to revive the routine of grandparents' gardens as a response to the new problem of ecological degradation and economic vulnerability. However, the network of individuals around *PAR* did not view urban agriculture as fitting in with their intentions and interests; they did not see urban agriculture as a solution to their income uncertainty; nor did they perceive an institutional gap, the need to design new responses to their situation, perhaps because they thought the fall in their income was merely temporary as it had been in the past. Therefore, the Tecnohuertas initiative had limited success. Its most significant development was the creation of a small network of committed participants who trusted the leaders. A new practice evolved within the network, with surplus production being given away or bartered internally. These surplus goods were not sold because market exchange was not how the participants wanted their goods to change hands.

In terms of learning, the leaders realised during the Tecnohuertas project that people did not just need initial technical assistance that could be found in technical texts, but group interaction to provide support during the implementation phase of micro-enterprises. Once again they reflected and came up in 1993 with a new scheme in the innovation loop, the *Emprendedores Anónimos* (Anonymous Entrepreneurs). This was a self-help group to help risk-averse individuals make the economic decisions of a home micro-enterprise. As De Sanzo explained, 'As a psychologist, I tried to apply group therapy methodology to the problems of micro-enterprise creation. I had the idea that the method could help some people overcome their risk aversion.[7]

The group targeted individuals affected by labour vulnerability and low income, with the capacity to start a micro-enterprise but experiencing general difficulty in dealing with the uncertainty of self-employment (De Sanzo, 1998: 14). This programme was implemented for most of 1993 and did provide some social interaction between participants, but it did not trigger any realistic productive initiatives and failed to develop into repeated action. Agents enjoyed the social interaction but did not feel it had any connection with their day-to-day lives, intentions and interests. Perhaps the project did not become institutionalised because it presented too much innovation and too little repetition of previous experiences.

By the beginning of 1994 *PAR* was once again unable to secure enough participants to justify any of its ongoing projects. It then came up with yet another innovation; the core members had been experimenting at their homes with breeding red Californian worms to transform rubbish into organic compost, for which there was effective international demand, and *PAR* decided to concentrate its energies on promoting that activity beyond the core members. During 1994 *PAR* distributed thousands of free boxes of red worms at different sites (40,000 in total). Everything was funded through the personal income of the leaders, but again the project did not catch on. By the end of the year, the organisation was going bankrupt, unable to find sponsors to fund its initiatives or find a financially sustainable project. On the learning side, this third failure taught *PAR* that the formal market economy was not ripe for projects with a strong environmental goal.

A second group, completely independent of *PAR*, was involved in the creation of the *CT*. The *Red Profesional* (*RP*) was founded in 1992 by chemist Horacio Covas and a few friends, scientists, engineers and technicians related to the chemical, pharmaceutical and cosmetics industry. It facilitated information flows on labour opportunities and informal cooperation among members to provide assistance to small firms in developing cosmetic and pharmaceutical products. The members were self-employed consultants who obtained contracts from middle-scale enterprises and were paid fees for their services, as in the rest of the economy. By the end of 1993 many of their clients were badly affected by the opening up of the economy and several members of the *RP* then started accepting payment in kind as an alternative to not being paid at all. Some accepted waste such as paper, wood, aluminium and PET (hard plastic) bottles, thinking they could resell or recycle them to earn money. Covas recalls that he accumulated several thousand of dollars' worth of cosmetics and beauty products that he could hardly sell direct to consumers, not having the relevant marketing expertise.[8] Covas sought advice from his old friend De Sanzo at *PAR*, whom he had first met at the age of 17 when they were militants in the Socialist Party. They started exploring recycling as a possible source of income in a cooperative project.

By the end of 1994 the two groups, with integrated networks, were jointly planning a new project that combined the various stages of the economic cycle. They wanted production, trade and consumption to take place within a network where all the participants would contribute and benefit from each other's capabilities and resources. Once again, they stayed within the primary institutions and thought of recreating the experience of a closed and protected market. This was a club market, with only those who supplied products being allowed to buy from each other. They targeted individuals with labour vulnerability and low income, with the competencies and resources to start an economic activity but without the experience, attitude, marketing contacts, or minimum scale to be viable as a micro-enterprise in the regular economy. In this sense, a club market offered benefits that the public markets did not. The new project was driven by a practical need: to improve the falling incomes of those who had been part of the Argentine middle class and were by then sinking into poverty.

Club de Trueque as innovation

The informal exchange of goods within a closed network of impoverished middle-class members was initially carried out in Carlos de Sanzo's garage. Participants offered and accepted home-made foods, handmade toiletries, organically grown vegetables, and handicrafts. The previous informal practice of exchanging surplus vegetables was extended to an array of environmentally friendly cosmetics, toiletries and cleaning and beauty products. In the beginning, members used nicknames to protect their identities, since all of them had friends and family who had suffered persecution during the military dictatorship and they were afraid of the scheme being interpreted as subversion. As socialist militants, they disliked the idea of recreating a capitalist market, but as Covas put it:

> Not all markets are capitalist (driven by profit). The market is a much older institution; it is a social activity of giving and taking, of being creative, belonging to a network. What we recreated was this reciprocity system based on sharing own-work.

By around March 1995, after six months of experimentation by about 25 participants meeting every Saturday, the group developed an exchange system they found to be effective and practical. Participants came into the 'shop' and placed their products on a table. The value, calculated at the formal market prices, was recorded on individual cards carried by the participants and on a computer worksheet. When the value of everyone's products had been recorded, all the participants went out and then returned as consumers to choose their 'purchases'. The value of these was deducted from the amount on their cards. Thus, the higher the value of the products brought, the more that producer could get of other people's products. Any producer who did not agree with the price given to a product was free to withdraw it, but that hardly ever happened. When people thought the price was low, they viewed it as a partial gift to others, which they would recover some other time when they obtained something below the regular price. When they left, their 'purchase' was entered as a debit on both the card and the computer worksheet. In this way, the balance roughly returned to zero every week.

The system thus emulated a board game based on production and exchange that Carlos de Sanzo and Ruben Ravera had used in the past for other projects. It also contained elements elaborated from their own ideologies, combining environmentalism and Trotskyist socialism. Above all, it was based on habit and primary institutions. In the continuity loop, goods changed hands through a mechanism that resembled the well-engrained practice of market exchange. It was multireciprocal, so two individuals did not need to barter with each other directly. From an innovation perspective, it designed a payment system in which transactions were recorded as credits and debits computerised in an accountancy system designed by Horacio Covas. It was an ingenious complement to standard market exchange, a club market with its own rules. De Sanzo recalls:

> It was something everybody could follow. If you came in as a new member, it didn't take you more than a few minutes to understand how it worked and how much it could help you. It was self-evident. Anyone could understand it and this was one of the main strengths of the scheme. In a way, everybody had done it before, but this was a new way of doing it![9]

In the early days of the *Trueque*, two goals were pursued: to create a socioeconomic system that would promote self-help among crisis-hit neighbours and to recover the values and institutions that used to be the sociability model among the middle class (Covas, 2001). In other words, the *Trueque* was expected to support the participants not only economically but also socially. De Sanzo explains:

> We had little knowledge of the discourse of the social economy in which we got involved later. But we did know that we wanted the *Clubs de Trueque* to be a space where people could meet again. In our eyes, the Argentine middle class had a lot of spaces to meet, to interact. The economic crisis first did away with a big segment of the middle class and then with these spaces, so whatever was left of the middle class had little interaction. We wanted the *CT* also to help people be together again, to heal the social fabric. We had nothing against capitalism per se, but against what the crisis had done to us.

When newcomers asked about the origins of the *CT*, the three founders used the story of one of the participants, Ana, to capture the experience vividly. Ana was an early participant in the first *Club de Trueque*. Founder Carlos de Sanzo was harvesting too many pumpkins from his home garden and had a surplus that he termed 'idle pumpkins'. Ana, a pensioner, was going through an economic crisis, so De Sanzo gave her some of his pumpkins. Ana joined the *CT*, making pumpkin jams and sweets and over a year she 'earned' the equivalent of three times her pension. This true story was widely used for marketing later on.

The reality of the *CT*'s development, however, was less romantic and included mistakes and frustration. De Sanzo remembers that 'it was a social experiment under the sky, painful trial and error'. For Covas, 'It was an ideological turn. The armed struggle proposed by Trotskyism when we were younger got us nowhere. Now we were fighting in a different field, recreating a market that was not capitalist, not for profit. A market of neighbours.'

The recreation of some old market elements in a new club market format is reflected in the name. The scheme needed a label to be introduced to the public, something easy to understand that would appeal to everyone. 'Multi-reciprocal exchange' was accurate, but long-winded and complicated jargon that would be understood by very few of the target group. Also, there was more of an element of innovation in it than the leaders wanted. Other alternatives such as 'Gift club' and 'Gift market' were considered, but they gave the impression of charity rather than reward for work. Finally, '*Club de Trueque*' was suggested and approved. The characteristic of being a closed group to which there was no automatic right of access was captured by the word 'club' and the aspect of exchange was expressed by '*trueque*' (barter or exchange). Of course, it was not barter, since trade was mediated by prices expressed in the official unit of account, but exchange fitted.

Fine-tuning by trial and error

In the first six months of its formal existence, the learning process in the *CT* continued as new problems appeared and situations changed. Bookkeeping on the basis of individual cards and the computer records became increasingly problematic. As the membership reached 60, De Sanzo and Covas felt that entering Saturday's transactions into the file the following day was too burdensome. Besides, Covas did not like the centralisation inherent in the system:

> It was dangerous. I entered the data, so I knew who traded what and with whom. I was at the centre and we didn't like the idea of centres. As ecologists, we believed in autonomous self-regulation, like the environmental system is. The system of cards was blocking the potential of the scheme.

From another perspective, updating records to allocate what belonged to each participant reflected the unquestioned belief in private property within the *CT*. As engraved in the name of the scheme, nothing was given, nothing was lost. People obtained benefits in relation to the work they put in. So the founders started thinking of an alternative without the use of expensive technology that would prevent the *CT* from expanding to poorer locations.

The first *CT* had a strong gender bias, and that continued later. At least 70 per cent of the participants were women. As observed by other researchers (Gonzalez Bombal 2002a and b; Parysow, 2002) middle-class women were the most affected by the slide into poverty, as it deprived them of access to the public spaces they were used to visiting. Covas links the stronger inclination of women to participate with the institutional gaps discussed in Chapter 2:

> Women were crucial for the development of the *Trueque*. During troubled times people seek solutions where they are used to finding them. Men went to the labour market, women tried things at home and in the margins of the labour market. Women often told us they felt comfortable here because

> their daily unpaid work suddenly had a value. They cooked food for the household and received affection. They cooked the same dish for the *CT*, naturally involving a little more effort, and received *créditos* with which they could buy food, clothes, or little luxuries for the children.

Used to unpaid work, women were the first to understand that the *CT* offered satisfaction of needs without the use of regular money. The *CT* links directly to the reproduction of life: it fills the fridge, paints the home, gets a plumber to fix the pipes. During this early stage, men laughed at women for 'wasting their time' in the *CT*.

The replication of the *CT* in other locations became an ambition of the market-makers as soon as they saw the system was working. According to De Sanzo, the initial success and potential of the scheme to alleviate the economic problems of the disenfranchised middle-class neighbours made them 'want to spread it everywhere'. Covas claims ideological reasons for its success:

> It was a modern or adapted version of what we struggled for. The nineties were no time for revolutions. But a grassroots economic initiative that turned its back on the capitalist market, on waged labour and on exploitation had a much better chance of success.

The three leaders saw that the *CT* had tremendous potential because many people in the country had surplus goods, skills and production capacity. However, they felt the full impact of the *CT* could not be achieved due to the small size of the group and because it was still new and uncertain. In the hope of finding partner groups, they re-established contacts with socialist and environmentalist militants, offering workshops on the scheme in Buenos Aires city.[10] The goal was to 'infect others with our enthusiasm', says Covas. That goal was achieved at the beginning of 1996, when a second group was formed in the city and a third in a northern suburb.

But the successful propagation of two more *CT*s made the limitations of the individual card accountancy system more evident. It was time once again for reflexive action and innovation. Founder Ravera proposed printing vouchers for fixed amounts to be used in the *CT*s. The others liked the idea of using fiat money because of its practicality and because it removed *PAR* from the centre. So the surrogate currencies were instituted, one for each *CT*. The participants felt safe with this familiar system of transferable currency.

Time and again, small variations of old institutions won the preference of the *CT*s. At first sight, it seems a major innovation for a civil society group to print its own money, but in Argentina it was not. It was an innovation combined with habit and long-engrained perceptions of money. As explained in Chapter 2, there was already a second main currency circulating in the country as means of payment (the US dollar), plus smaller instruments of exchange such as provincial currencies for brief periods. Additionally, the vouchers created by *PAR* were not called money but vouchers or *créditos*; simple pieces of paper that circulated among the members of a closed network to facilitate exchange. They initially experimented with a means of payment that could only be used once, called 'unidirectional money'. Those who paid with that money as well as those who received it had to sign each note and at the end of the day all the vouchers were submitted for a sort of clearing-house operation. This was another experiment that did not work because it was too complicated and time-consuming. The participants were not as open to innovation as the *PAR* leaders wanted; they felt 'safer' with familiar means of payment like transferable currency.

In comparison with the card system, physical vouchers were easier to handle. 'Simple, it had to be simple or else we wouldn't be able to replicate it across the city. It had to be cheap and very convenient for users,' observes Covas. Once again, the founders were able to recreate existing institutions, attract people's support and let them develop into disposition to action. Everyone understood how money worked but nobody saw the vouchers as a substitute for official money. The currency of the *Club de Trueque* was conceived as means of payment within a club market and not as regular money. Anyone in the network would accept it, but it was not convertible to pesos outside the club. The vouchers were simple photocopies cut by hand, with a red stamp and the signatures of the initiators. They were printed in denominations following those of the formal economy. They were generically known as 'exchange coupons' and depicted a tree as a reminder of the ecological orientation of the initiative. For pricing purposes, each unit was equal to one peso, or one US dollar under the exchange rate parity. The unit of account was called a *crédito* (credit) because 'we all give each other some credit'.

It was assumed that anyone who could produce for a certain value would have the right to print their own vouchers for that amount. This would have meant a complex system of as many different vouchers as there were producers that wanted to print them. Of course, such a system relied on reciprocal trust that the vouchers would be accepted by all users as payment for products. In reality, people only used the vouchers issued by the *CT* market-makers. Apparently, the leaders were the ones who were trusted most. This was an indication that the network did not have perfectly symmetrical horizontal relations and the participants gave some authority over the functioning of the *CT* to the market-markers.

The printing of vouchers to circulate as fiat currency among the participants of the various clubs unleashed the potential of the initiative. It transformed the *CT* from a curious experiment into an income option. In line with the club market characteristics described above, accepting *créditos* in exchange for goods was voluntary and committed members to sharing the costs and risks. The *CT*s' currency facilitated exchange and represented the main way in which the club market excluded non-members. Only those who sold goods for the vouchers were members and therefore able to buy other producers' goods.

Participation had clear benefits, but trading goods for a colourful piece of paper entailed clear risks. What led people to believe in the system was that, at least initially, there was no real awareness that the *créditos* were a kind of money. Covas says:

> Each member accepted vouchers, trusting that they would obtain something in exchange. It was a social contract people believed in. People were really convinced that the *crédito* was a piece of paper they could use to give and take things from each other. It was credit among participants. Nobody saw it as a reserve of value or at the same level as regular money.

Back to habit: not so new anymore

So what was the *CT* when it began? In the most abstract definition, it was a mode of coordination to exchange goods and services within a closed network. *PAR* had proof enough of the availability of idle resources (labour, land and technology) and the commitment of individuals to start organic agricultural micro-enterprises, but the infrastructure to trade –the *market institutions*– was not there. It had to be developed, which the market-makers did within their network. The *CT* was a creative arrangement to provide a small-scale market for a network of neighbours to use their idle resources. It was a club market as defined above, in which excludability was ensured by the voluntary acceptance of a non-official type of money.

Recreating a market as a club was a strength of the system in comparison with other alternative economic activities because it implied integration of the three phases of the economic cycle: production, exchange and consumption. By supplying the club market, participants demanded from it in an equal amount to that they contributed, so consumption followed trade, which in turn followed production.[11] De Sanzo argues:

> The strength of the *Club de Trueque* lay precisely in this integration of all the phases of the economic cycle for a certain group. In projects that don't integrate them, you cannot really be sure of the final result. That's what happened to us in previous projects, there were stages missing.

De Sanzo views the *CT* as representing a closed flow from production to trade and consumption within a network, so that production is always sold to others who consume and produce. The leaks into other spheres of the economy are minimal. However, this does not imply that the *CT* was autonomous; households 'imported' basic inputs from the regular economy to produce what they sold in the *CT*. These links are discussed in Chapter 4.

The failure of the market-makers to develop another project as successful as the *CT* can be explained by an asymmetry in what they and their network considered an 'acceptable' combination between innovation and continuity, following the model of action presented above. The leaders proposed several strongly environmental projects with an income-generation component, but their networks consistently failed to share their enthusiasm. The market-makers had jobs and secure sources of income that allowed them to pay both their living expenses as well as the costs of their projects, while the networks were composed of unemployed and impoverished agents who would naturally be more averse to participating – investing their time and money– in projects of uncertain outcome. Additionally, the *CT* proposed a completely different balance between innovation and continuity of action than previous *PAR* projects. While the previous schemes proposed markedly new income-generation activities, with the high complexity and uncertainty that entailed, the *CT* only required a small move away from the old, well-known and understood market exchange principles. So the network of participants not only accepted it but also contributed to perfecting it, taking part in the innovation loop. This explanation relates to the generally higher risk aversion of the poor, which is reflected as adversity to innovation. They would compromise resources and participate in projects that were consistent with the repetition of habits and routines, well-known and understood. More innovative schemes – more complex and riskier– were consistently rejected. In the medium term, as the Saturday meetings repeated the same practices over and over, innovation faded and was seen as a designed rule of action within the continuity loop.

A crucial factor that helped the *Club de Trueque* to take off was the social stratum to which most of the participants belonged. The fall of the middle class was a dramatic process for Argentina, as described in the previous chapter (Lvovich, 2000). It was not a normal situation to which people could adapt, because adaptation implies that individuals are capable of making sense of their social environment and this was not so with the disenfranchised middle class (Kessler, 1997). On the other hand, the new poor participating in the *CT* could make sense of the market it emulated. It had innovative elements but was still based on familiar elements such as fixed prices, purchases equal to sales (which could be increased if they raised production), benefits based on own-work, payment in currency. It thus implied a partial recreation of their known world. And it added the social interaction of a network of equally disenfranchised middle-class members also trying to avoid the final fall into poverty. The new poor were gradually becoming excluded from the public market as they were affected by institutional gaps. They were learning that a wage was no longer sufficient for the entire household, that the welfare state was not going to help them and that they had to compete with cheaper imports if they wanted to maintain a small firm. They satisfied a double condition: while facing labour vulnerability, low income or unemployment, they also had idle resources and capabilities to use. It was assumed in the club market that the participants had idle or discarded resources that could be used, reused or recycled, in the form of skills, machinery, tools, leftover inputs, or perhaps a small amount of financial capital. And, of course, free time to put to work.

The *CT* was not meant to reduce poverty in Argentina but to alleviate the effects of the decline into poverty of a particular sector of the population. It did not work as a desperate survival strategy, but as a patch on an institutional gap for people who had known better days. It was based on trading products and services, not on gifts or charity, not on promoting a short-term survival strategy, and it was not a social movement demanding a welfare policy from the government, all of which were more common characteristics of the structural poor. The *CT* promoted the creation of micro-enterprises and autonomous employment, which were traditionally seen in Argentina as middle-class activities. If the initiative had been embedded among the structural poor, its organisation would probably have been different.

In many ways, the *CT* also represented a return to a closed, protected economy, where technical capacity to produce on a small scale was more important than competitiveness. As a club market, it excluded products made by non-members, so it insulated prospective micro-entrepreneurs who could not face the uncertainty and complexity of the regular economy. They faced lower start-up risks and had more time to learn. Older technology and productivity were acceptable. As a club, the *CT* also had the advantage of locality and being in the vicinity of the participants. The small scale kept interactions personal, though it was large enough to provide demand and justify being called a market.

The functioning of the *CT* depended on several working institutions of the regular economy. Whether transactions were effected through a system of cards or complementary currency, the principles of market exchange were still present. Initially, regular market prices were translated into *créditos*, incorporating the relations of power implied in them. Private property and the right of the prosumers to trade goods freely were undisputed. Additionally, the *CT* was also linked to the Argentines' routine of bimonetarism by adding a third option –the *créditos*– to the list of possible means of payment. The creation of a currency parallel to the official one would have been illegal or bluntly rejected in other countries, but in the Argentine case it was within the acceptable responses. People were used to living with two currencies, so why not three?

However, the card accountancy system used in the beginning was different from the use of a currency. Monetary creation would follow exactly at all times the rhythm of transactions and was not limited to an amount fixed a priori. In this sense it was an endogenous monetary system as described in the post-Keynesian literature (Dow, 1989; Ingham, 1998; Wray, 1998). It regulated itself autonomously to the amounts traded, so monetary inflation was not possible.[12] Later, the system with surrogate currency enabled saving for the next meeting, so production was equal to consumption only in the medium term. It was still an endogenous monetary system, but it regulated itself to the number of users of the currency, not the amounts traded.

3.5 Conclusion

Institutionalism asserts that markets are social constructions, settings where exchanges take place under the coordination of prices, the regulation of institutions and the support of the state. Markets can therefore be constructed if they are missing, and in fact this happens in many situations. From insurance and stock exchanges to Internet auctions, from local fruit and vegetable markets to the *Club de Trueque*, agents around the world take it upon themselves to design market institutions. Such markets are an expression of the intentions and interests of their members, who need a favourable institutional framework for trade.

This type of constructed market was termed a club market in this chapter, in analogy to the concept of club goods. The label emphasises that it has the power to exclude and offer benefits to members that are not enjoyed by non-members. On the basis of the definition of clubs provided by Cornes and Sandler (1996) the term also suggests that such markets have voluntary membership (which entails willingness to contribute to the market's organisation and maintenance) and are non-rival up to a finite scale of membership (rules to limit access are decided internally). Non-members may replicate the scheme in other localities in a jurisdictional partition.

Three conditions were shown in this chapter to be necessary to construct a club market. First is the presence of 'market-makers', the entrepreneurs who build networks, launch the scheme and bear its initial organisational costs. They are brokers of social contacts, not necessarily more motivated than other initial members but with more organisational skills, knowledge and resources than the rest of the networks. Their connections constitute a basic starting point for economic development (Evans, 2007; Woolcock, 1998). They are the initiators of the reflexive action necessary to design institutions. The second condition is the presence of enough agents interested in participating in the scheme, with their own available surpluses to trade or with idle production capacity. Their representation of the world, as observed by Beckert (2003) is embedded in a market society. This means that their economic actions are informed by the pre-reflexive tendencies, habits and routines evolved in markets, but they do not launch new institutions. The third condition is the existence of primary institutions that guarantee minimum stability for the construction of a market, such as recognition of personal property or basic security.

Building upon Hodgson (1998) and other institutional scholars (Joas, 1996a; Lawson, 1997), this study analyses market construction as a response to institutional gaps: segments of unstructured social life, uncertain behaviour and increased complexity. Markets are known modes of coordination, and therefore create pre-reflexive dispositions to act consistently with them. In the search for an acceptable solution to the institutional gap affecting them, networks experiment with different options in a trial-and-error learning process. Their experimentation is embedded in a market society, so they tend to adapt its institutions and innovate to improve them. The process starts with the primary and habitually used market institutions and is followed by reflexive experimentation and learning. Once tested and found acceptable in relation to interests and intentions, a designed institution emerges that reduces complexity and uncertainty.

Back to development practice and poverty alleviation, the construction of club markets comes to the fore as a relevant instrument to alleviate poverty and the effects of unemployment. In developing countries, the absence of markets that work for the poor and unemployed curtails their income-generation efforts. It may prevent them from earning a livelihood because they cannot sell their products or have to do so in disadvantageous conditions. This adds to other researched problems of access affecting the poor, like barriers to obtaining working capital, lack of information on how to locate demand, and aversion to taking the risk of not selling. Some of these barriers could be overcome in a market society by helping the poor to build a club market in line with their needs.

However, a club market has its limitations as a poverty-alleviation tool. The most obvious one is that it can only include those who have goods or services to offer or the capacity to produce goods or provide services (resources, skills, initial assets such as tools or working capital). This means it is not suitable for the poorest segments of the population. There is nothing intrinsically in a club market or in a complementary currency system that prevents exploitation of power asymmetries between the poor and the less-poor. Rules in that regard need to be defined ad hoc, as noted by Coraggio (1998) when analysing the *CT*.

This chapter investigated the Argentine *Club de Trueque*, which represents one of the ways in which club markets can be framed. The *CT* was built as a response to the institutional gaps created by a structural reform programme. The idea was to create a club market to trade goods from small-scale home production among a network of neighbours. The *CT* was described as an extreme case of market building, in which the set of innovative institutions included its own money (which initially was not perceived as such). By printing a complementary currency, the *CT* enclosed both buyers and sellers within its boundaries, so participants provided both supply and demand to each other. The 'market-makers' were the leaders of *PAR*, who had an initial network of followers composed of disenfranchised middle-class members when they launched the club market scheme by reflective action. The network contributed to perfecting the club market, and after some experimentation the result was the *CT*. The innovation was an acceptable solution and the *CT* became a designed institution that was still consistent with the primary and evolved institutions that preceded it.

Specific institutions were created for the *CT* after there was enough trust in the network. In other words, social relations sustaining trust and reciprocity preceded the market and its institutions. Exchange transactions in a context of trust took place before their monetisation. In general, rules, routines and other institutions built bottom-up to structure the action in a group can only emerge against a background of trusted social relations. Otherwise, there is no learning experience to justify the belief that rules will be complied with and actions will be stable.

The relationship between designed and evolved institutions is also important in development projects for low-income groups. These are more likely to catch on when they involve a relatively low degree of innovation, building upon prior institutions and making use of established routines and habits. Therefore, creating a club market makes sense only in a market society. Additionally, the institutions driving the actions of the poor are different from those of the wealthy. In similar circumstances, the rules of action for the poor prioritise survival over efficiency or stability of a livelihood over seeking a larger profit. So development projects for low-income groups need to avoid radical changes in the evolved institutions affecting their action.

The case of the *CT* raises another issue concerning the evolutionary theory of institutions. While *PAR*'s previous income-generation projects did not prosper into established institutions, they did leave 'footprints' or traces that were useful later for the creation of the *CT*. The practice of exchanging vegetables, the formation of a self-help network and the receipt of payment in kind were all elements derived from the earlier failures. Therefore, institutional evolution is based on both, the routines that graduate as institutions and the learning from failed experimental courses of action. Hence, there is no such thing as total failure, because every experience contributes to accumulating knowledge that may be useful for future institutional design.

Notes

1. Boyer explains that, in addition, the Chicago School of Economics uses the term 'quasi-market' to refer to any situation in which social actors compete with each other to obtain scarce resources and agree on transactions, thus extending the concept of markets to marriages, donations or political programmes (Becker, 1964, 1981). However, the term 'market' used in this sense becomes too loose.

2. At that time the three leaders were self-employed, with middle-class incomes, in the formal economy.

3. The concept of the market-makers is not analogous to the auctioneer in Walrasian market theories, since the market-makers fix neither prices nor quantities; they are only responsible for organising markets for exchanging goods.

4. A similar concept, of the 'market-builders', is presented by Sbragia (2000). However, he focuses on regulators of markets to facilitate arm's-length exchanges, normally state agencies. The term 'market-makers' used in this study has a different focus; it refers to organisers of a market where there is none, facilitating the exchange of goods and services that were previously blocked or idle.

5. Translated as Regional Self-sufficiency Programme.

6. Translated as Graduate Network.

7. Interview with Claudia Gatti, 11 November 2004.

8 All information from Covas is from interviews with the author, unless otherwise specified.

9 All information from De Sanzo is from interviews with the author, unless otherwise specified.

8. The metropolitan area of Grand Buenos Aires has a population of 13 million, living in a radius of approximately 60 km. It is organised in the capital district, formally called Autonomous City of Buenos Aires, and 22 municipalities in the suburbs (Province of Buenos Aires).

9. If participants maintained a perfect balance between production and consumption at all times, no one would experience a change in currency holdings and all products would change hands. If this was not the case, some goods would remain unsold and some participants would experience changes in their currency holdings.

10. The fact that means of payment are non-inflationary only means that there is no causal link between issuance and level of prices. It does not preclude other types or sources of inflation (for example, demand outstripping supply) that may be present.

4 From personal to impersonal exchange: expanding the network

4.1 Growth versus uncertainty

Economies grow as a result of specialisation, division of labour and incorporation of new products. This has been known to economists for a long time; for example, in 1776 Adam Smith dedicated a significant portion of *The Wealth of Nations* to elaboration of this. Increase in scale and scope implies a transition from personal transactions to impersonal exchange (North, 1989, 1990). Commerce becomes more complex, giving birth to uncertainty and rising costs of trade generically known as transaction costs (Williamson, 1985). The growth from personal to impersonal exchange demands more sophisticated institutions to reduce uncertainty and complexity.

The analysis in this chapter starts from a self-regulated small market, as the *Club de Trueque* was in the beginning when transactions were embedded in a network where all traders knew and trusted each other. However, scale and scope were growing, and with them specialisation and division of labour. There was no significant state intervention and acceptance of the rules was voluntary. In theory, such a market would be unfit to scale up to impersonal exchange; it would be expected to fall apart under the burden of transaction costs, opportunism and uncertainties unless it managed to build effective institutions of impersonal exchange.

That was what the *Club de Trueque* did. Local club markets were replicated across the country and interconnected in an articulated network. The leaders structured solutions to the trade-off between promoting growth in scale on the one hand, and keeping transaction costs in check on the other. The organisational design of the *Red de Trueque*'s national network was as unique as its dimensions when compared with other experiences with complementary currencies around the world.

How did this process take place? What drives the emergence of institutions of impersonal exchange? In what conditions do proposed solutions of one group or network become designed institutions that guide action across groups? Transaction cost theories explain that the search for improved efficiency defines the emergence of institutions that enable economies to scale up to impersonal exchange. Efficiency is generally defined as minimisation of waste (Bowles et al., 2005); uncertainties in exchange cause waste, so reduction in transaction costs through institutional construction boosts efficiency. Critics of this approach contend that it oversimplifies reality and that aim for increased efficiency is far from enough to explain why institutions emerge. In the case of the *CT*, there is no doubt that the emergence of institutions is barely explained by efficiency-seeking.

This chapter focuses on the evolution of the *Red de Trueque* between 1996 and 2001, when club markets multiplied across Argentina into an articulated network of thousands of *CT*s, with over a million participants. It was a period of fast growth in the *Red de Trueque*, while the regular economy was heading towards the worst recession in five decades. The word '*Trueque*' is used here in this study to denote an area of economic activity, whereas RT addresses an organisation.

This chapter comprises three sections. The first presents the trade-off between scaling up to impersonal exchange –thus achieving gains from division of labour– and maintaining the low uncertainty of personal exchange, continuing to remain a small-scale marginal source of income. The second section proposes power and social relations as additional explanations of why institutions emerge and reduce transaction costs. The third uses the proposed framework to analyse the expansion and institutional construction of the *Red de Trueque* network. The conclusions shed light on the trade-off presented in the first section and incorporate power and social relations as explanatory factors in addition to the aim for efficiency.

4.2 Big and strong but riskier

Specialisation and division of labour have made possible improved productivity arising from technological change, better resource allocation and specialised production, the key underlying features of modern market economies. The evolution of impersonal market forces is critical in this process because it allows economic agents to interact across time and distance, fostering rapid productivity growth (Grabowski, 1999). However, there is a relatively recent awareness that expansion of the scale of trade is not costless. Neoclassical economists assume that trade is costless or barely costly, so it does not affect the economy. This view is widely contested.

Other economic perspectives claim that the costs of exchange are important and exert a large impact on economic performance. Viewing trade from the New Institutional Economics perspective, Oliver North (1989, 1990, 2005) explains disparities between developed and developing countries by the way they resolve transaction uncertainties. He sees a direct link between economies of scale and specialisation on the one hand, and transaction costs on the other. Development is a consequence of successfully achieving the transition from personal exchange to impersonal exchange.

Individuals in small groups can transfer goods between each other with 'simple personal exchanges'; that is, they engage in repeated dealings with each other or have a great deal of personal knowledge about each other's attributes, characteristics and features as well as of each other's products. Norms of behaviour are seldom written down because trust is the crucial element in facilitating transactions. Formal contracting does not exist and formal specific rules are rare. Therefore, transaction costs are minimal where there are dense social networks. However, production costs in such societies are high because specialisation and division of labour are limited to the extent and needs of the small group and its market. At the other extreme in North's analysis is a world of impersonal exchange, in which the wellbeing of individuals depends on a complex structure of specialisation and interdependent ties extended in time and space. Transaction costs are higher among strangers because there are potential gains in cheating, shirking and opportunism. Measuring the attributes of what is being traded and enforcing terms of exchange becomes problematic and, even if viable, costly. (North, 1989, 1990)

The definition of exchange costs and their relevance to economic performance are the departure point of the transaction cost literature (Williamson, 1975). The basic unit of analysis is the transaction rather than the commodity. What is assessed is the capacity of institutions and governance structures to minimise transaction costs. This view of the transaction as the basic unit of economic analysis was already advanced in 1934 by John Commons, a founding father of Old Institutional Economics, as credited by Williamson (1981: 551). Commons advanced that governance structures mediate the exchange of goods and services between technologically separable entities. In Commons' analysis of different types of transactions, the capacity of different structures to harmonise relations between agents is central and leads to a process of institution building.

Picking up on Coase (1937), Williamson (1975) elaborates the process as a comparative institutional undertaking. Alternative governance structures receive explicit attention. Williamson argues that with a well-working interface in the market, transfers occur smoothly. Otherwise, there are frictions between the parties, misunderstandings, conflicts, delays, breakdowns and other malfunctions or 'market failures' that add to uncertainty and increase the total cost of exchange. Provisions need to be made to reduce transaction costs, but this is also costly (Williamson, 1981). Transaction costs are defined at the micro level as costs other than price incurred in trading goods and services (Swedberg, 1990), or, from a more macro view, as the costs of running the economic system (Arrow, 1969).

The two behavioural assumptions on which transaction cost analysis relies, and which distinguish it from neoclassical economics, are the recognition that human agents are subject to bounded rationality and the assumption that at least some agents are given to opportunism.[1] Bounded rationality is the generic term for limited competences of economic agents to process information (receiving, transmitting, storing and retrieving it) when formulating and solving complex problems (Simon, 1979). Opportunism is described as seeking self-interest with guile, disguising attributes or preferences, distorting data and confusing transactions in different ways (Williamson, 1985). Bounded rationality and opportunism burden transactions between unknown partners, which North refers to as 'impersonal exchange'. By definition, when exchange is personal, transactions are embedded in a social setting of trust and common values that simplifies and reduces these two problems.

Between enlarging the market and boosting efficiency

There is a contradictory aspect to economic growth. In small economies, uncertainty and transaction costs are marginal, but they do not achieve the benefits of efficiency attributed to increased division of labour. To achieve specialisation and efficiency in the realm of production, it is necessary to increase the market scale. However, more division of labour entails more trade between specialised units and these exchanges become more expensive and uncertain as the market expands. The problem, therefore, is how to maximise the benefits of specialisation while at the same time minimising transaction costs.

According to New Institutional Economics, the trade-off is resolved by agents' efforts to improve efficiency, which lead to setting up of impersonal exchange institutions. Coase, and later Williamson, focus on writing contracts to protect transactions and building hierarchies as a complement or alternative to market exchange (Williamson, 1981). The more specific the assets involved in the transactions, the higher the likelihood of a hierarchy to protect them.[2]

From a macro perspective, North (1990) argues that institutional devices are built to reduce scope for post-contractual opportunistic behaviour. During their historical growth process, he elaborates, Western societies devised complex institutional structures to constrain agents' actions, reduce uncertainty of social interactions and prevent transaction costs from rising too high. They have defined and effectively enforced property rights, formal contracts and guarantees, corporate hierarchies, bankruptcy laws, and so on, to enable gains from larger-scale production and improved technology to be realised (Bardhan, 1989). The presence of strong third parties –mainly the state– helps to resolve conflicts and enforce contracts. Informal institutions such as codes of conduct and beliefs are seen as efficiency-enhancing, too, but of a lower relevance given that they are only effective as long as the benefits of opportunism are not greater than the costs of compliance.

Developed countries seem to have succeeded overall in building a battery of more or less formal and government institutions to provide an environment to deal with conflicts, regulating and stabilising economic action on the basis of the exercise of authority. In developing countries, however, imperfect markets predominate and government failure prevails. States have constrained capacities and resources to set the rules of the system. Incomplete information results in incomplete markets and eventually in costly legal provisions (Eggertsson, 1998; Greenwald and Stiglitz, 1986). Market prices fail to communicate all the information the parties need to make transactions under impersonal exchange rules, to the point where transactions are avoided (Bradach, 1991). The 'costs of running the system' under this uncertainty are significant, caused by both market and government failure (Shafaeddin, 2004).

Transaction costs in developing countries are sometimes alleviated by a polarised economic structure. At one end there are actors engaged in the official economy that comply –to varying degrees– with formal governmental regulations. At the other end there is a diffuse cluster of economic activities not covered by state regulations, often referred to as the informal or unregulated economy. Agents then need to resort to their own resources to compensate for formal institutional weaknesses (Berner, work in progress). Leitmann (1998) postulates that in the absence of credible formal rules there are pressures to create informal ones and these also regulate behaviour. De Soto (1987) coins the term 'system of extralegal norms' to address the complex regulations allowing economic activity in the informal economy; these are based on trust and reputation on the one hand, and social sanctions and even violence, if necessary, on the other. Other authors (De Bruin, 1999; Leitmann, 1998; Wang, 1999) also claim that informal arrangements contribute to reducing the costs of running the system because they allocate rights and fees, transmit information beyond prices, control quality, resolve conflicts and generally ensure some degree of governance.

There is a growing body of literature that describes how informal institutions complement formal ones, but it is impossible to surmount all the incentive problems of impersonal exchange through self-enforcing mechanisms. Informal institutions do not replace state regulation and have major restrictions, as De Soto himself warns. Building them is costly in terms of resources and collective action. They are spatially and socially restricted. They may become involutionary if they breed emerging factions of political opinion that eventually exhaust resources (Uzzell, 1994). And they rely on the morality of a network in which a 'trust failure' may appear if morality is partial or captured by elites (Platteau, 1994). A 'generalised morality is not a commodity which can be easily called for as need arises', namely when aiming to improve efficiency (Platteau, 1994: 802).

To sum up, the increase in transaction costs as economies grow and diversify is relatively undisputed, as are the benefits of specialisation. The challenge is to minimise transaction costs while maximising growth and division of labour. Developed countries have been relatively successful in achieving this through state institutions, while developing countries show mixed and more disappointing results.

Efficiency of power or power of efficiency?

The central explanation of New Institutional Economics is that agents aiming to improve efficiency and cut transaction costs design institutions and this allows the economy to scale up to impersonal exchange. But this view of agents with a single intentionality is criticised as functionalist, simplistic and narrowly focused on efficiency (Bardhan, 1989; Granovetter, 1992; Groenewegen, 1995a; Platteau, 2000). A central question of the critique is, what came first, transaction costs or institutions? The transaction cost analysis normally examines situations where different sources of uncertainty exist and then predicts whether or not one will observe a certain social relation (Fligstein, 2001). A causal connection is then advanced between uncertainty and social structure as confirmation that existing institutions exist to enhance efficiency. The reality of organisational forms and institutions that minimise transaction costs is taken as proof that the institutions resulted from efforts to eliminate or at least reduce transaction costs and uncertainty (Granovetter, 1992), a relationship contested by authors like Groenewegen (1995b) and Sjöstrand (1995).

The possibility that institutions and organisations could have emerged from evolutionary processes with barely any relation to transaction costs but due to political processes and asymmetries of power is frequently overlooked, perhaps due to the little attention that New Institutional Economics pays to history and power (Bardhan, 1989). Perrow (1986) points out that many organisations took their final shape because some actors had power over others, not because a specific design was the most efficient. Bowles and Gintis (1993) contend that economic organisations are mainly the result of exercise of power. The success of institutions then depends on their effectiveness in enforcing claims, not on their allocative efficiency. Additionally, while institutions may be efficient in reducing uncertainty for some groups, they may raise it for others. Only by coincidence would institutional evolution be allocationally efficient to all. Williamson (1993) argues that the power hypothesis is 'typically vague' and reduced to an ex-post rationalisation. Indeed, the role of power in institutional design is perhaps difficult to grasp, but that hardly constitutes a justification to neglect it (Young, 1995).

Old Institutional Economics, influenced by the nineteenth-century German Historical School, focuses on another criticism of efficiency explanations. Hodgson (2001a) emphasises historically specific circumstances such as political processes and struggles. Explaining institutions as the end-product of the actions of individuals seeking to minimise transaction costs implies that individuals start acting in an institution-free environment. This is hardly the case; agents build institutions starting from already existing structures, values, identity, and culture, as was argued in Chapter 2 of this study. So they are both constructed in relation to one another along a historical and learning process. This means that the institutional design that eventually comes out of this interaction process is at most the best achievable result within those constraints but not necessarily the most efficient in terms of transaction cost minimisation.

Path dependency produces a similar problematic situation as it becomes a deterrent to efficiency. Institutions that at some point may have represented an efficient solution to uncertainty are locked in and may persist well after they have ceased to be efficient (Buckley, 1997). For example, stable trading partners and trust among them may persist for a long time after they have clearly become dysfunctional. Akerloff (1984) shows how economically unprofitable or socially unpleasant customs may persist as a result of a mutually sustaining network of social sanctions. Institutional path dependency thus clashes with the notion that existing arrangements are the most efficient in terms of transaction cost minimisation. This does not necessarily imply that agents have wrong perceptions, rather that institutions are resilient structures. So while they may be perfectly capable of understanding institutional inefficiencies, they cannot do much about them because of the 'enormity of the collective action' to change them (Bardhan, 1989). In relation to the issue of power discussed above, path dependency implies that institutions that resulted from the more powerful position of a group may survive in spite of blatant inefficiency because other groups are unable to change them.

Similarly, Meyer and Rowan (1977) argue that the formal structure of organisations reflects the 'myths and ceremonies' of their institutional environments –the structure within which they emerge– instead of the demands for efficiency that affect them. So organisations performing similar functions tend to be designed very similarly, which DiMaggio and Powell (1983) call 'isomorphism': institutional design is constrained by what others do in the present, along with what was done in the past. Organisations and institutions are perceived as efficient by the law of large numbers, the fact that they are similar everywhere. Additionally, smaller and weaker organisations are often driven to imitate the practices of stronger and more powerful ones.

From the perspective of Economic Sociology, some authors emphasise the relevance of networks as an intermediate point between the hierarchies versus markets dichotomy (Granovetter and Swedberg, 1992; Powell, 1990). Networks are glued together by the entangling strings of reputation, friendship, interdependence and altruism. They improve economic performance and save on transaction costs by making opportunism costly and behaviour more predictable (Bardhan, 1989). The entangling strings that glue networks together are sometimes studied under the label of 'social capital' (Bhuiyan and Evers, 2005). There is a growing body of literature studying how networks improve economic performance, create opportunities for trade and define conditions for access to these opportunities (Aoki, 2001; Gambetta, 1988; Uzzi, 1996). That is a long way from claiming that agents reflexively build trust in order to minimise transaction costs, a causality that cannot be predicted ex-ante at all. Trust often evolves long before the perceptions of transaction costs reach agents, rather than being a goal of action (Maher, 1997).

To sum up, the efficiency aim is not enough to explain what drives the evolution and design of institutions to scale up from personal to impersonal exchange. Several considerations are ignored in this explanation. Agents do not start in an institution-free environment in which they decide to reduce transaction costs. There are primary and evolved institutions. Even if the agents did decide at some point to change the institutions to improve economic efficiency, they might not be able or willing to absorb the collective action costs. Institutions therefore represent an achievable fit between an existing structure and economic action, but not necessarily the most efficient one. Power asymmetries, for example, account for less-efficient institutions. Imitation of frequent organisational forms is another cause. If designed institutions are the most efficient solution, it is a fortunate coincidence.

The answer to what drives institutional design to scale up from personal to impersonal exchange lies elsewhere in institutional theory. It cannot focus on efficiency alone. The alternative arguments (power asymmetries, imitation, path dependency and social relations) need to be incorporated. This is the starting point of a different framework.

4.3 Beyond efficiency: power and social relations

In general, three main approaches explain the process of institutional construction and change, although they are not elaborated in relation to the problem of scaling up from personal to impersonal exchange. Boyer and Hollingsworth (1997b: 449-52) discuss 'three major interpretations' as three different 'views of the world' that contribute to the explanation. Each gives prevalence to one type of intention over the others and has its own strengths and weaknesses. These are approaches of New Institutional Economics, Economic Sociology and New Political Economy. The New Institutional Economics approach has already been discussed.

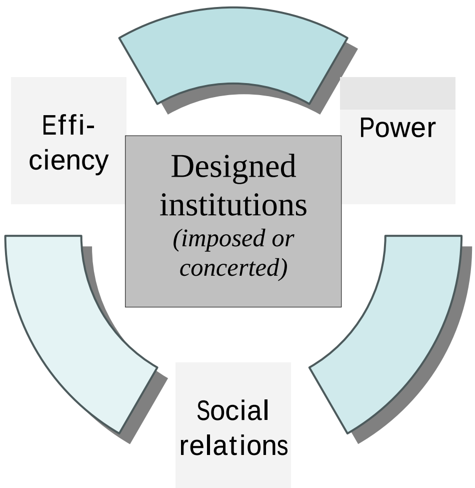
The Economic Sociology approach follows in the footsteps of Polanyi and has moral embeddedness of relations as its main concept. It argues that economic relations are socially embedded, constraining self-interest, allowing actors to circumvent the limits of pure rationality, and modifying the interactions typical of anonymous markets. Markets are supported by trust among actors, which lets them believe in the fulfilment of transactions (Etzioni, 1988; Zelizer, 1988). Trust based on personal knowledge develops gradually after a learning process of trial and error. Luhmann (1996) defines trust as a set of expectations about others' actions that could result in a negative response if not fulfilled. It thus affects decisions to act in a certain manner, reducing exchange risk and uncertainty and diminishing the likelihood of having to enforce contracts.[3] Among the benefits of trust are that agents exchange fine-grained information, solve problems together and can generally arrange the coordination of their economic actions in a more effective way than on the basis of the simple information contained in prices (Helper, 1990; Larson, 1992). Economic activity is embedded in social relations of family, religion, ethnicity and so forth that underlie the operation of organisations (Hamilton, 1991; Whitley, 1992;). These are often termed bonds and bridges (Granovetter, 1985). Uzzi (1996) elaborates on these, observing that trust is often supported by third-party referral and previous personal relations. In a word-of-mouth system, expectation based on trust is transferred to newly introduced actors and immediately equips the new economic exchange with resources from pre-existing embedded ties. In this way, transactions are less uncertain, not as a result of what the newcomers have done but because of the institutions existing before they joined the network. Naturally, the agency of the new actors lies in making their own decisions rather than just fulfilling the expectations of others. The building of embedded ties and trust minimise the centrality of self-interest-seeking behaviour. The main weakness of this approach is the vagueness of the explanation: how is trust developed and why do some individuals prefer to cooperate instead of behaving opportunistically? Dore (1986) suggests that the traditions so useful today for developing and sustaining economic activity are the outcome of past (collective) actions. Perhaps also missing is the notion that negative social relations such as hatred, distrust and rivalry also play a part (Boyer and Hollingsworth, 1997b: 450).

The third approach corresponds to the New Political Economy perspective and centres on the concept of power as the main force driving the building of institutions. Individuals interact as economic agents through market competition, but at the same time they fight for political power, for example, to gain control over the rules of the game and to build asymmetries within the economy (Marglin, 1991). These asymmetries of power and conflicting situations often require corrections based on collective interventions (Stiglitz, 1987) or coercive state action (Campbell, 1990; Streeck, 1992) to defend societal values. Economic institutions are thus political as much as social constructions. Political action pursuing divergent interests enhances institutional formation. 'If the process of trial and error with the use of state power is sufficiently careful, a coherent regulation mode may emerge and deliver a superior configuration of institutions for almost any or all actors,' argue Boyer and Hollingsworth (Hollingsworth and Boyer, 1997b: 452). Institutions are either points of compromise between actors with divergent interests or frozen points of power asymmetries in which powerful groups are able to cement their strength. Ideological and political positions are considered within this set of intentions and interests.

These three approaches were elaborated as general theories to explain what drives institutional building and design, and not specifically to explain what enables scaling up from personal to impersonal exchange. However, they share the critique on the centrality of the efficiency aim as the driving force behind institutional structuring, focused on its underestimation of the role of power, imitation and isomorphism, and preexistent social relations. Each of the three approaches suggests different interests and intentions guiding institutional design: to improve efficiency, achieve power and attend social relations. And these are not mutually exclusive. They act jointly, though one or another prevails at different points or with different actors.

So we return to the initial question of how and why institutions are designed to scale up from personal to impersonal exchange. According to the first approach, the answer is that in their quest to increase efficiency agents interact to reduce uncertainty, while power and personal bonds remain as contextual forces. In the second approach, agents are moved by the need to promote or protect mutual trust –their bonds and bridges– and the traditional morality that embeds their interaction, while power and the efficiency aim are secondary motivations. And in the third approach, agents' main intentionality is to increase or resist power asymmetries in a political struggle, keeping the efficiency aim and social relations on a second plane.

Figure 4.1
Factors driving designed of institutions



This research proposes a theoretical framework combining power, the aim for efficiency and attending social relations as driving forces in the design of institutions of impersonal exchange. Unlike in the initial theories of North and Williamson, the improvement of efficiency is not the only intention when scaling up to impersonal exchange. As agents perceive the increasing costs of running the system, they engage in institutional construction, juggling the need to increase efficiency, struggle for power and attend social relations. With this framework, the next section analyses the RT.

4.4 Institutional design of *RT*

The group of agents that launched the *CT* as a club market shared some rules of action; they designed the institutions while experimenting to achieve an acceptable solution to the slide into poverty of the middle class. They also generated trust and had intentions and interests in common. They were a small number of participants who had known each other for some time, so their activities were regulated by the rules of personal exchange. However, as new and unknown participants joined, transaction costs and uncertainties became a problem. The costs of running the system rose substantially along with demand for institutions to manage them. The state was hardly involved in conflict resolution or regulation.[4] The replication of the scheme was given high priority among the intentions of the *PAR* leaders, as asserted by the two interviewed for this study. As New Institutional Economics claims, they needed to build impersonal exchange market institutions to prevent the clubs from collapsing. However, the institutional design put in place was far from driven by an efficiency goal.

Strong intention to expand

The growth process of the *Trueque* was initially gradual and then it gained momentum. Immediately after the first *Club de Trueque* became a working reality, participants started spreading the news about the scheme to relatives, friends and neighbours. That is, the initial growth in the number of members relied entirely on word of mouth and thus was still embedded in personal exchange.

As membership grew, people travelled considerable distances to participate in the *CT* in Bernal. The market-makers, who were still the main decision-makers, decided distant participants would be better off if they had a *CT* nearer their homes to replicate the conditions of personal exchange in their localities. Additionally, they perceived the growth of one

CT alone as being contrary to the ideals of the scheme. The leaders were concerned about efficiency in terms of transport and time taken for people to travel long distances to the *CT*. De Sanzo explained to the author:

> It made a lot more sense to motivate them to organise a *CT* in their locality than to let them travel two hours to come here. All they needed was a group of willing neighbours and a bit of know-how, which we could provide. Their organisational effort was a lot less than crossing Buenos Aires.[5]

The leaders perceived the advantages of growth and specialisation with considerably more clarity than they did the increase in uncertainty and transaction costs that would accompany a larger scale of operation. They could have restricted the scale of the *CT* to the limits of personal exchange regulation, but, said Covas, they thought that 'the impact of the scheme on households would increase by incorporating more members and extending it to other locations'. They reasoned that the scheme had to go beyond the local level to expand its potential and broaden the supply, attracting resources and skills:

> More club markets meant the scheme as a whole got stronger and more accepted, nearer participants, more manageable, with more products and services. In a nutshell, it improved all the *CT*s' chances of survival. In October of 1995 the nephew of a participant published an article on us in the Sunday magazine of the newspaper *La Nación*.[6] We didn't look for it, but the days in which the expansion was done by word of mouth were over.

Encroaching the limits of personal exchange

Searching for partner groups elsewhere, the *PAR* leaders renewed old contacts with socialist and environmental militants across Buenos Aires. According to Covas, their goal was to 'infect others with our enthusiasm. We saw it was a very good system, so it was important to transmit the experience. This opened a new phase in our development' .[7] The choice of socialist and environmental militants reflected the existent bonds and bridges of the leaders and may not have been the 'most efficient' choice for expanding the scheme to include the unemployed. Perhaps an NGO focusing on the poor would have been a more obvious choice, but the network was tested and reliable, so it served as platform for the initial expansion.

Around the turn of 1996 a second local network of participants was formed in the Capital district and a third in the northern outskirts. The three groups decided to stay interconnected in order to allow participants of one jurisdiction to trade in another. Covas explained: 'It happened almost by inertia that participants moved to visit each other. But everybody got to the *CT* through somebody, so everybody was trusted. People were expected to behave responsibly.' Of course, this entailed each group accepting each others' scrip.

It was still within the scope of personal exchange regulation because all the groups shared a common past of political militancy. Several individuals in each group –usually the new *CT* market-makers– had known and trusted the *PAR* leaders for several years and their trust was transferred to the other members. Barreiro and Leite (2003) report that the members' trust was mostly in the leaders and then in the *Trueque* as a system. The transfer of trust from old members of a network to newcomers is elaborated by Greif et al. (1994) and Uzzi (1996). Covas described that trust:

> We saw the vouchers as only a means to facilitate trade, a means and not an end in itself. Why did people agree to hand over their products for just pieces of paper printed by strangers? At that point nobody asked. We said the *CT* worked in this way, using vouchers to pay and collect payments. I don't think anybody thought of them as money.

A number of labels came into being. The club markets were termed nodes, from computer science, highlighting the autonomy of units in a network. 'We were a human Internet,' is how Covas puts it. The word coordinator denominated the individual that had contact with the leaders and organised the *CT*, the local market-maker. It was chosen over words like 'leader' to emphasise that there was no hierarchy. Coordinators were also in charge of managing the issuance of the scrip, called *créditos*. Participants were referred to as prosumers, linking their roles as producers and consumers in their club market (Toffler, 1983). The word *red* (network) denoted the group of *Clubes de Trueque*, articulated but in principle, autonomous. Covas explained:

> We believed in horizontality, which in our case meant that we were different nodes using a single operative system, the scheme invented in the first *CT*. It also meant that if any of the units was lost or the links were broken, the others could go on growing anyway. It was an idea coming from holographic forms of organisation and perhaps a spin-off from my education as a chemist and informatics specialist.

The double role of 'prosuming' fitted especially well with the traditional work of women in the household and gave the scheme a gender inclination from the outset. The *CT* required similar work as that in the household; that is, producing goods to satisfy basic needs (food, garden vegetables) and gendered hobbies (knitwear, handicrafts). The difference was that in the *CT* they would be consumed by other households, giving participants a sense that they were sharing and not just exchanging. As stressed by Leoni (2003) and Parysow (2002), the *CT* was paid housework outside the household, though paid in unofficial currency. A participant recalled in an interview with the author:

> Women are in daily contact with the real needs of the household. They are used to thinking what to cook in the evening and what ingredients they will need. Or how much wool you need for a knit, and so on. It was the same in the *CT*. The big difference, which we loved so much, was that in the *CT* we got paid. It made us feel good to be given scrip with which we could go to somebody else and get something in exchange. The attitude of men was totally different. In the best case scenario, when men saw the activity was helping the household, they carried bags to help their wives but stayed at the door [of the *CT*]. Others came inside but did not participate. They just looked at us with their arms crossed, as if they needed to make it clear that they were not part of the *Trueque*. Sure, they were unemployed.

With the addition of another two *CT*s later, to make a total of five, the problems of impersonal exchange started to emerge. It became clear that some transparency was needed to guarantee the value of the *créditos* and price stability of across the network. A rule of issuance was then decided, the organisers of the five *CT*s agreeing that scrip would be issued at a rate of 20 *créditos* per new participant. The rule of issuance became the first designed institution of impersonal exchange. Its aim was to maintain trust in the vouchers as means of payment. Besides keeping a stable relation between products and money, it worked in practice as microcredit for new entrants to start producing and trading. Members had to return the 20 *créditos* if they left the *CT*, so the means of payment would adjust again.

From word of mouth to media exposure

The media gave the *Trueque* a boost in August 1996, when the *PAR* leaders appeared in the show *Hora Clave*, a political programme with the highest audience in public TV. It introduced the *Clubes de Trueque* to a large audience across the country and was followed in November by an article in the Sunday magazine of the *La Nación* newspaper.[8] The publicity resulted in a flood of inquiries about how to participate in the scheme and how to start a new *CT*. Several groups around the Buenos Aires metropolitan area appeared interested in replicating the scheme. Four new clubs were launched in the western suburbs of Buenos Aires, which later became the area with the largest number of members and clubs.[9] The network was introduced to the public as *Red Global de Trueque* (Global Exchange Network).

As a result of the media exposure, the scheme grew to the limits of personal exchange regulation. A trust relationship with the new coordinators had to be built during the initial meetings, which meant a further step towards impersonal exchange. The *PAR* then started offering training courses to prospective coordinators, introducing them to the principles of the scheme and its environmentalist-communitarian ideology, and basically getting to know them. Subsequent meetings were dedicated to more practical matters like choosing the voucher to be used and organising the *CT*.

The know-how on 'how to create a *CT* in your locality' was becoming increasingly standardised: mobilising a minimum of 20 participants, printing vouchers (which had to be paid for in pesos), electing a coordinator and finding a venue for the market. The standardisation of the *Club de Trueque* resonates with isomorphism, as discussed by DiMaggio and Powell (1983). Maintaining the model designed by the *PAR* for all subsequent *CT*s was faster, cheaper and more practical than framing a local variant. Maintaining a standard format was, if anything, an efficient choice.

Also as a result of the exposure in the media, another NGO, the *Red de Intercambio de Saberes y Cibernética Social*,[10] got in touch with *PAR* and added its efforts to the organisation of the *Trueque*. It was led by Heloisa Primavera and Carlos del Valle, experienced activists in socioeconomic projects. They had tried several social and local development projects and Primavera thought the *Trueque* was a scheme with potential. They gave the *Trueque* an academic footing, since Primavera was a lecturer at the University of Buenos Aires. They put the Argentine network in touch for the first time with other community or complementary currency systems in the world. They also gave the *Trueque* a slight turn of direction, pushing it into becoming 'spaces of permanent social and economic training on a new economy based on solidarity and reciprocity', as by Primavera and Del Valle put it. The network was renamed *Red Global de Trueque Solidario* (Global Network of Solidarity Exchange).

A final benefit from the media exposure was a new venue. Eduardo Valot, owner of a paper and toiletries company, liked the scheme and offered the abandoned building of what had once been *La Bernalesa*, a textile factory with 15,000 workers. He allowed *PAR* to use the building in exchange for its renovation, cleaning and maintenance. *PAR* inaugurated the venue for its *La Fábrica* (the factory) node, just metres from the cradle of the scheme. At this point, the total number of participants in the *Trueque* was 3,000 in 17 *CTs* spread across several areas of Buenos Aires, Córdoba, San Pedro, La Plata and Mar del Plata.

The scheme was taking on a life of its own and transaction costs grew with scale, as predicted by the theory. Most traders did not know each other and the monetary system was not clear enough. Newcomers were required to attend a couple of training sessions in which the system was explained to them. In the course of a few weeks of trading they became acquainted with the system and other participants. The *PAR* leaders assumed that all newcomers shared the values of the *Trueque* or would come to accept them as they traded their goods. Newcomers were asked to sign a letter of agreement with the main principles of the *Trueque*, which was little more than an informative sheet outlining the values the organisation stood for. 'They signed the letter when they joined. This is a system of trust. Once in, we could assume they shared the values of the *Trueque*,' said Covas. The problem was that as more participants joined in, the 'common principles' were increasingly perceived as the principles of the *PAR* leaders.

Origin of conflict: too many generals

By 1997 transparent management of the *créditos* was becoming a pressing issue. Not all participants and nodes accepted the vouchers of all the others and it was broadly left to individual discretion. The *PAR* leaders then decided it would be better to reduce the variety of currencies to reduce confusion, make it more practical to move around the club markets and increase the impact on the household economy. To quote De Sanzo:

> We promoted localisation as a principle, but it is a fact that people tend to travel to trade. We saw a significant dissatisfaction with new vouchers be-

> cause people could not go everywhere with them. So new groups gradually preferred to use the *PAR créditos* instead of one printed by themselves.' [11]

The decision by some new *CT*s to use the *PAR* vouchers depicting a tree instead of printing their own did not go down well with coordinators and emerging new leaders, who regarded the practice as an attempt by *PAR* to accumulate power and keep the *Trueque* under their control. The issue came to a head when the network experienced its first politically induced forgery of scrip in the city of San Pedro.[12] Participants accepted the forged currency in good faith and then found they could not buy anything with it. Clearly, using a non-state currency beyond the realm of personal exchange was going to require regulation of impersonal exchange institutions. To resolve the problem as quickly as possible, *PAR* offered to replace the fake vouchers with their own. In the words of Horacio Covas:

> We were the only ones to propose this because the others perhaps did not have the means to do it. We set a precedent that the vouchers of one region could be used in another region with no additional risk. We showed this could be good for more transparent trading.

PAR underestimated or preferred to ignore the developing power struggle over the wider use of its currency. The problem was that while emerging leaders were not ready to accept the centralisation of the currency in *PAR* hands, there were no institutional mechanisms in place that could regulate the *Trueque*. The scheme had reached a scale that required regulation of impersonal exchange institutions. The expectation that that there would be no shirking by participants was, to say the least, idealistic.

The government of Buenos Aires city then came into the picture, supporting the First Workshop of Multi-reciprocal Exchange. The event was attended by 1,300 and formally introduced the *Trueque* to Argentine society. It was also the first gathering of all *CT*s, many of which did not know the others existed. The workshop participants recognised the advantages of functioning as an integrated network in terms of synergies, division of labour, and so forth, but many also resented that *PAR* was more powerful than the others and was trying to impose its rules (Primavera, 1999). 'I saw *PAR* and an anti-*PAR* front, which didn't really propose anything different,' recalls Heloisa Primavera. Others agree that the conflict was about leadership: 'There can't be more than one general in an army,' observed an emerging leader.

The event represented a new step towards building institutions of impersonal exchange. It inaugurated the practice of meeting regularly, though in the beginning informally and without a structure. More importantly, the currency system of *créditos* was organised to improve transparency. Metropolitan Buenos Aires was divided into four areas (North, South, West and Capital), each with a regional committee to manage the *créditos* common to the region. These were breakthrough decisions apparently intended to improve efficiency and reduce the transaction costs of having so many different currencies. They also indirectly solved the asymmetry of power between the *PAR* leaders and their opponents, with the *PAR* voucher being effectively confined to the South region and being managed by the South committee.

Despite what New Institutional Economics claims, the aim to improve efficiency was not the main intention of the agents designing the institutions of impersonal exchange. Although the reduction in number of currencies by establishing a common scrip per region seems to have been an efficient institutional elaboration, a different intention underlay the decision. The struggle to limit the power of *PAR* explains the rule of one *crédito* per region as much as the search for efficiency improvements.

Power struggles contained

Meetings became more regular and formal, as well as more conflictive, over the course of 1998. At a second official workshop, the *Jornada de la Economía del No Dinero* (Workshop on the Non-money Economy) the organisational structure of the network was defined.[13]

It established committees to discuss specific issues (meaning of solidarity, identity as an alternative economic space, practical strategies such as access to basic inputs, relations with other institutions and organisations). In addition, the formal rules and regulations for the *Clubes de Trueque* were defined. The institutions of impersonal exchange were finally formulated. Every *CT* was to hold regular general meetings to choose the coordinator, among other tasks. Nodes were integrated into regions, with a single voucher and common rules of issuance and control. Coordinators were representatives to regional committees, which were responsible for controlling the issuance and distribution of *créditos*.

Each area committee would send two representatives to the national Inter-zone Coordinators' Committee (IZ). The IZ met once a month with representatives from across the country and was the highest body in the network. It had a variety of functions (discussing problems, proposing strategies and projects, sharing experiences, and preparing training materials for new coordinators and prosumers). The crucial function was to control the *créditos* issued and distributed in each region, so all vouchers would be acceptable across the country. Each zone would present accounts on vouchers printed and distributed to nodes and prosumers. The Second National Workshop on Multi-reciprocal Exchange, in August 1998, confirmed this design.

Table 4.1
Organisation of Red de Trueque

Types of agent	**Organisations where they participate**	**Level of operation**	**Type of relation**
Regional representatives	Inter-zone committees	National	Impersonal ties
Coordinators	Regional committees	Regional	Weak personal ties
Prosumers	*Club de Trueque*	Local	Strong personal ties

Primavera, who was a participant as well as a coordinator and anti-PAR referent, points out:

> This bottom-up organisation was the most remarkable achievement of the *Red de Trueque*: Not the markets, not the revolution of the fairs, but this political institutional construction. I admit it was somewhat confusing that the nodes jealously guarded their autonomy while at the same time imposing rules on one another. It was an extremely interesting social phenomenon.

Far from being enthusiastic about the organisational design that came out of these meetings, the three *PAR* leaders regarded it as the politicisation of the *Trueque*.[14] The IZ was for them an unnecessarily bureaucratic body that would delay expansion of the *RT* and block implementation of decisions in the network. They viewed the alleged democratisation of the *Trueque* as a false pretence to pursue a project burdened by committees, detached from the real needs of prosumers, and very different from the original model.

The *PAR* leaders conceived 'a self-help initiative', with club markets and generation of micro-enterprises placed in women's hands. According to Primavera, the IZ promoted 'constructing an alternative economic system in which the rules of competition and self-interested behaviour typical of neoliberal markets would be curtailed'. It promoted a 'redesign of the rules of the market', to incorporate equality, solidarity and a dose of collective decision-making and sharing of each other's resources (Primavera, 1999c). Nodes would no longer be just local markets where prosumers met as equals in trade –theoretically– but the income-generating tier of an alternative economic system where empowerment and democratisation from below would start (Primavera, 2002b). Thus, the *Trueque*'s new mission was to decouple itself from the rest of the economy. The emerging leaders proposed that it should have neither 'waged labour nor exploitation', but self-reliance and collective autarchy.[15]

Coordinators were allocated the task of training participants 'permanently to re-socialise them in a different ideology to that of the capitalist economy' (Primavera, 1998c, 2002). Embedded in ideological convictions, peer sanctions would keep opportunism and free-riding in check. The *RT* presented itself as a 'state within the state' in a political sense, and not just 'a market within the market' as the *PAR* conceived it. The *Trueque* was no longer seen as a purely economic system, but as a project of social and political transformation, 'taking off the clothes of capitalist socialisation', in the words of an anti-*PAR* coordinator. Many dreamt that, in the long run, it would compete with the established model of 'clientelistic democracy of old-guard politicians' and frame a 'legitimate bottom-up representative republic', explained an anti-*PAR* leader.

Heterogeneity among nodes then became a prominent feature. For instance, some leaders believed prices should follow those in the regular economy while others promoted a different price system based on the needs of consumers, as is more frequent in personal exchange regulation. So there were in fact two systems of price-setting. Participants generally preferred to use a mark-up method: production costs plus a profit to reward the labour incorporated. When this calculation was impossible or too complicated, foodstuffs were equivalents, meaning people converted their products into kilos of sugar or flour.[16] In practice there was no unique stable relation between the peso and the *crédito* across the *Trueque*; it varied by product, locality, and trading partner. Gradually, double price-setting leads to differentiated monetary networks (Dobb, 1999), with trade between regular customers overlapping trade between strangers. In practice this translated into various monetary networks of different exchange rates between pesos and *créditos,* within and across *CTs*.

The institutional design of the *RT* was also oriented to reducing transaction costs, ensuring transparency and making the network sustainable. As long as all the zones printed the same amount in vouchers per member, the purchasing power of the *crédito* would be stable and more or less equal all over the country. The design also focused on limiting the power of the *PAR*. Some coordinators refer to personality conflicts. Over three years, the *PAR* leaders had made enemies among the coordinators, who supported any structure that would reduce their power.[17] Even coordinators that defined the IZ as 'a distraction from the needs of participants' said it was 'a very effective way of limiting these three men in Bernal'.[18] The main challenge of the IZ was, then, to maintain in one body two very different visions of the *Trueque*: the original one, an economic self-help project, and the reformulated one, a political alternative to capitalism.

To sum up, while the institutional design of the *Trueque* responded at times to the intention of improving efficiency and scaling up from personal to impersonal exchange, this was not a constant over time or for all agents. It never ceased to be a factor driving institutional design, but power struggles and social relations between leaders were embedded in the organisational process and eventually explain much of the final outcome. In fact, efficiency was often invoked as an excuse rather than a real justification for decisions. The more agents interacted with each other, the more power struggles and antipathies were aggravated.

Competing to capture the *Trueque*

The organisation of the *Trueque* around the IZ worked for a while. Both the *PAR* leaders and the anti-*PAR* front had reached a point of equilibrium. The nodes informed the regional committees how many vouchers they had distributed that month (the agreement was 50 *créditos* per new entrant) and the IZ scrutinised the accounts of the regions once a month.[19] The meetings also gave birth to a variety of ideas on empowerment and political participation. However, the equilibrium was an unstable one.

The *PAR* leaders decided to reorganise the *Trueque* in line with their original project. In October 1999 they announced a new method of distribution of vouchers and replication of *CT*, which they called 'social franchise'.[20] It was a practical starters' kit that made it easy to launch a new node. Prospective coordinators received a set of brochures, notices to hang in public places, a document containing the principles of the *Trueque* and instructions on how to get the new *CT* listed.[21] Prospective members were given the principles of the *Trueque* and 50 *créditos*. Each kit cost $2 and the money was used to support the *Trueque* and print vouchers. Launching a node was simplified to the point where it could be done by a determined coordinator in a few hours. The kits could be bought by mail, which saved time, effort and the cost of going to Bernal.

The social franchise had a few important implications. Firstly, it was no longer necessary to have lengthy discussions and meetings to mobilise prospective members for collective action and participation. The politicisation in the *CT* would thus give way to self-help schemes, a return to the early days of the *Trueque*. Secondly, the *PAR* vouchers were available to anyone who bought the membership kit, anywhere in the country, in an existing or future *CT*. The zoning system of a voucher per region promoted by the IZ could be done away with. The *PAR* vouchers would be everywhere and its management was centralised in the hands of the *PAR* leaders. Thirdly, the IZ had no real function anymore because the transaction costs of using hundreds of local vouchers would disappear. There would no longer be regional accounts to check. Fourthly, the process to launch a *CT* was completely standardised; it was the reign of isomorphism. This did not imply that the *PAR* node model was the most efficient, but it was the one used everywhere. Participants who were satisfied with the income-generation aspect of the *Trueque* found this model far more acceptable than the alternative development path of empowerment promoted by the anti-*PAR* front.

For the anti-*PAR* front, the announcement of the social franchise was the final straw.[22] They said the *PAR* leaders were contravening the decisions of the majority as expressed in the IZ and that they had created an anti-participation monster. Even worse, the *PAR* leaders would collect official money for the kits ($2 for 50 *créditos*), which provoked criticism in a group that radically opposed the use of national money in the *Trueque*.[23] The anti-*PAR* front saw this payment as promoting corruption among coordinators, who had been until then strictly unpaid volunteers. Primavera explained:[24]

> A group in the IZ insisted on banning national money from the *Trueque* entirely. A fundamentalist position, perhaps; they wanted to do away with all relations with the state, including its currency. If we were reinventing the economy, they said, why not reinvent it on our own terms? And then came the social franchise, selling 50 vouchers for $2 and replicating a *CT* in every corner of the city. It was outrageous.

The *PAR* leaders found these criticisms absurd, as they explained in their official mailings and during the fieldwork interviews for this study.[25] They said the social franchise was a 'practical and replicable model to preserve the essence of the initial project'. It proposed 'common tools to achieve strategic coordination, economic integration and sharing of resources'. A single national voucher was more effective for income generation, though contrary to the 'bureaucracy of so many committees'. It was a 'social' franchise, reflecting that 'there is neither a purpose to make profits nor to let a few become rich. We pursue the satisfaction of human needs for all society.' With the advantage of hindsight, in 2007 *PAR* leader Covas continues to defend the franchise as a necessary strategic decision:

> We needed to get a contribution to finance the expansion. And we wanted to defend our original vision, which was being changed more and more. For example, coordinators were supposed to be social entrepreneurs and trade facilitators, but the design of the IZ made them political representatives. Of what constituency? What was their legitimacy? Their mandate was to travel once a month, paid by their nodes, that much I understood!

PAR started to print the vouchers on special paper, even though its leaders did not regard forgery as a serious risk. They regarded the *créditos* as 'papers to facilitate exchange with no real effect on the activity in the nodes'.

Once again, the social franchise gave the appearance of being an efficiency-enhancing institution that would minimise the transaction costs of using dozens of local currencies. However, efficiency was only part of the intentionality of the *PAR* leaders. There was a struggle for power to resolve, a struggle to control the *Trueque*. With no function left for the IZ, the anti-*PAR* front would lose its base. The design of institutions in the *Trueque* was driven by the search to accumulate power and was embedded in the antagonistic relationships between its leaders.[26]

The participants were divided over the issue. Some thought it a great idea to have a single voucher across the network.[27] They felt comfortable with improving the efficiency of exchange and cutting the risks of unknown vouchers. Improper behaviour of participants, if any, could be dealt with through peer pressure and the coordinators' surveillance at the level of the *CT*. They understood the need to make a contribution to maintain the nodes, as long as they received something in return for their money. Primavera did not see the convertibility of the *PAR* voucher as in itself leading to increased travel between nodes:

> *PAR* established this idea that the tree voucher was used everywhere, accepted across the country, convertible against all others. The 'dollar' of the *Trueque*, they said. But this was only half true because when I visited many of the *PAR* nodes I hardly found anything worth buying.

The *PAR* leaders thus pursued the social franchise and decided not to attend the subsequent IZ meetings to 'avoid useless arguments'.[28] The anti-*PAR* groups condemned the social franchise but could do nothing about it. Opposing the franchise, Primavera added:

> I would say that until 2000 the *PAR* scrip was just a regional voucher like any other, perhaps with some privileges because they invented the system. With the social franchise their nodes started growing faster than the rest, attracting members by the hundreds. It was clear to several of us that it wouldn't end well, but we couldn't foresee the loss of control that followed!

To the dismay of the anti-*PAR* front, the social franchise worked remarkably well in accelerating the replication of *CT*s. Until its inauguration, the number of nodes using the *PAR* voucher was no more than those using others, but within a year more nodes were using the *PAR* voucher than all the others combined. Eventually, the *PAR* centres were the only ones the general public knew, increasing from 400 nodes in 2000 to 1,800 in 2001 and 3,500 in 2002.[29] Participants enjoyed the liberty of going to different nodes seven days a week, even travelling long distances to La Bernalesa, open 20 hours a day, where they could find most goods imaginable. A single voucher proved crucial in terms of expanding the scale of exchange and facilitated trade among participants, turning the power struggle decisively in favour of *PAR*. It was customary practice –away from the lengthy arguments in the meeting rooms– which eventually made *PAR*'s project accepted.

Breaking up the network

To meet the soaring national demand for the tree vouchers, the *PAR* leaders issued an unspecified amount of *créditos*. Rumours spread that it was way above the agreed 50 *créditos* per member. Refurbishment of La Bernalesa was paid for in vouchers printed and spent without strict relation to the value added in the nodes.[30] Additionally, the *PAR* leaders established regional offices across the country to manage the social franchise, creating their own hierarchical structure. They commissioned a group of assistants to promote the scheme across Argentina, explaining how to open a franchised node. The assistants received a small commission per new member that bought the social franchise kit, in principle to 'cover their expenses' (travel, food, and so on). In practice, the assistants made a profit.

The anti-*PAR* front found this hierarchy a further abuse and debated throughout 2000 how to react. The conflicts between *PAR* and its opponents escalated, though *PAR* rarely attended IZ meetings. The main argument was accountability for the issuance of vouchers, which, according to the anti-*PAR* front, was way out of control. Witnesses on both sides recall that at a meeting in September 2000, *PAR* presented a statement declaring it had printed 4.5 million *créditos*, 3 million of which had been printed under the social franchise. Roughly half were already in the hands of participants, but *PAR* did not specify to whom or where they had been distributed.

There are different accounts as to what happened next, depending on who is telling the story.[31] *PAR* promised to show its accounts on issuance of vouchers but never did so. According to *PAR* leader Covas, 'given the conflicts with the IZ, it wouldn't have made a difference. The aggressive anti-*PAR* group would have rejected them anyway.' According to an anti-*PAR* leader, 'They couldn't come back to tell the truth, that they had printed vouchers non-stop.' A more neutral leader thinks that 'the IZ wouldn't have believed any accounts, but in my opinion the *PAR* didn't have any. They had lost track, they didn't know anymore how much they had printed.'

At the beginning of 2001, the *PAR* leaders changed the name of their nodes back to *Red Global de Trueque* and formally left the IZ. The very powerful West region decided to follow them and formed the *Red de Trueque Zona Oeste* (*ZO*). Led by Fernando Sampayo, it was second to *PAR* as a target of criticism because it also believed in a large-scale

Trueque and found the social franchise an extremely practical method for achieving that.[32] Sampayo explained why his regional network left the IZ:

> The *Trueque* should be a catalyser of micro-enterprises like those that stimulated Italy's reconstruction after the [Second World] War. The IZ accused me of using official money –the famous $2 for the *créditos*– and they wanted to know what I was doing with them. Getting the unemployed back to work, I said! In the IZ we were 600 people and there were 600 different ideas. I proposed we choose five and submit them to a vote, but then I got a list of arguments as to why we shouldn't vote. So I got fed up. There was so much to do to get people back to work, so many things we could accomplish… Many in the IZ had wonderful ideas, but they didn't seem to implement any of them.

The *ZO* shared some of *PAR*'s ideas. Both believed in large-scale networks with crowded nodes, 'as many members as there are people willing to come'. They considered the use of official money necessary to support the nodes. And they preferred less variety in vouchers, so they agreed to accept each other's *créditos*, creating two vouchers for 4,500 nodes.

However, there were also some important differences between the *ZO* and *PAR*, especially in terms of leadership. The *ZO* had a stronger sense of managerial effectiveness, using technology and accountancy systems, and had much less trust in the goodwill of all participants. It was also worried that the *PAR* leaders were issuing too many vouchers. 'I didn't think fighting the *PAR* was helpful. The anti-*PAR* front should have agreed to expand and outgrow the *PAR*, but it did not do so. It was a small tribe in which everybody wanted to be the big chief,' said Sampayo. He, too, did not hesitate to make top-down decisions nor was he inclined to form representative bodies.

At this point, the efficiency goal of sustaining impersonal exchange seemed to be no longer part of the institutional design. According to Primavera, the *ZO* could have led the anti-*PAR* front to win the struggle against *PAR*:

> Sampayo was the one person who could have achieved that. He was an entrepreneur. The others were militants. He kept saying we needed to improve the logistics to support our nodes and make a collective fund in pesos. Instead, when *PAR* left the IZ with their ridiculous accounts, the

hardliners took over and became inflexible on fundamental rules. Sampayo had no place there any more.

Power struggles, however underplayed in the transaction cost literature and however 'inefficient' they could be considered to be in terms of reducing the cost of running the system, became the main driver of institutional design. Officially, the IZ broke up in April 2001, though *PAR* had not participated in its meetings since October 2000. The *Red de Trueque*, understood as one national network linking regional and interdependent *CT*s, ceased to exist. There were too many opinions or visions about what the *Trueque* should be: a complement, an alternative or an improved capitalist economy; a new kind of informal economy, a desperate survival strategy, an economy of reciprocity and solidarity; a means to learn participation and democracy or a market by and for the poor abandoned by the state to fend for themselves; an environmentally friendly local initiative; a women-dominated economy.

4.5 Conclusions

The challenge posed in this chapter was the design of institutions to resolve the trade-off between growth and the uncertainties of exchange transactions between strangers. The trade-off was synthesised according to North's categorisation of personal exchange, which is typical of small-scale trade, and impersonal exchange, which is prevalent in larger economies. Personal exchange takes place in an environment of relatively transparent information flows and trust among traders but offers limited possibilities of diversification and gain from specialisation. Impersonal exchange allows division of labour and growth but at the same time increases uncertainty and the costs of exchange. In theory, impersonal exchange is made viable by formal and informal institutions constructed to enhance efficiency. The extent to which the trade-off is resolved successfully has a significant impact on economic development.

As Chapter 3 showed, in its early days the *Red de Trueque* was regulated by personal exchange and comprised a handful of market-makers (*PAR* leaders, later joined by a few *CT* coordinators) and a small number of participants of more or less similar social background. This chapter analysed the period after that, during which the number of market-makers grew to several dozens and the number of participants to thousands. The expansion multiplied the uncertainties and risks of the system. Transaction costs soared, because exchange was between strangers and there was no state regulation. In addition, no leaders had a monopoly over means of force or the capacity to impose their will on the other market-makers or participants. The challenge was to design institutions for a large-scale network typical of impersonal exchange, while at the same time sustaining the expansion that the leaders believed would guarantee a significant economic impact. How was the challenge of growth solved?

New Institutional Economics claims that agents with the interests or intentions to find efficient solutions to uncertainty and transaction costs engage in reflexive action to design organisations and institutions. Once these are in place, they are subsequently assumed to be efficient; otherwise agents would change them. However, this perspective has come under criticism because it postulates that institutions and organisations often come out of evolutionary processes with hardly any link to the goals of improving efficiency or cutting on transaction costs. Consequently, it does not explain how the described challenge is resolved.

The chapter also considered two other approaches to institutional change. Economic Sociology centres on the embeddedness or social setting in which economic relations and exchange take place and which defines their very nature. Trust, common values, shared understandings and traditions affect institutions and may reduce transaction costs as a side-effect. New Political Economy emphasises power struggles as the main motivation for institutional construction and design. Groups with common interests stand up against others with conflicting interests. In the process of resisting or achieving power asymmetries, they build institutions with a possible side-effect on transaction costs. The three factors (struggle for power, social embeddedness of interactions and efforts to enhance efficiency) together guide institutional design.

The *Red de Trueque* displays some dynamics of the process of designing institutions of impersonal exchange. At the beginning of the *RT*, when the number of market-makers was small, efficiency was not really an issue. That developed later, when the leaders could define rules for voucher issuance and for incorporating new members and standardise the regulation of a node. However, with the expansion of the *Trueque*, as more participants came in and more coordinators became leaders and joined the group of market-makers, diversity grew and with it personal rivalries, power struggles, and divergent interests and intentions. The group of market-makers then split into pro-*PAR* and anti-*PAR* factions.

Attention was no longer centred on designing efficient institutions to regulate impersonal exchange; instead the focus was on how to deal with diversity, who was behind a proposal, what project it fit into, and which choices weakened rivals.

Efficiency-seeking is not enough as a motivation to design institutions of impersonal exchange. The three-factor analytical framework in this chapter assists in the analysis of the *RT*. Each factor prevails over the other two at different points in time and has diverse degrees of priority for different actors. While increasing efficiency was the main interest of a group of actors for a while (when the *RT* was growing), those still had to negotiate with actors that gave priority to other interests. For example, the efficiency aim justified the option of an articulated network to gain synergy and for structuring the IZ as a system to control each region's issuance of vouchers.

The other two factors –power struggle and the embeddedness of social relations– were prioritised in other decisions. While the *PAR* leaders promoted an organisation that improved efficiency and indirectly concentrated power in their hands, the anti-*PAR* leaders formed an umbrella organisation that could resist *PAR* as a united front. Power asymmetries and personal rivalries were central as intentions in the institutional design of the network at different times, relegating efficiency-seeking. Otherwise, the IZ would not have broken up into sub-networks competing for members and resources. Additionally, institutional design may be efficient even when efficiency-seeking does not explain the decisions behind its design. The 'social franchise' was the most efficient method of replication of nodes: simple to establish, fast, and with a single currency generally acceptable across the country. However, it was implemented mainly to win a power struggle and regain control over the *Trueque*.

There seems to be a weak relationship between the intention to improve efficiency and the outcome of institutional design. It is not strong enough as an interest. It may be the priority for some actors, but not for all. When improving efficiency is the priority, it is not stable and actors shift to other factors at different points in time. In the end, designed institutions may be efficient anyway, even if efficiency improvements were sought. Efficiency is an outcome; it cannot be evaluated or taken as main motivation a priori. The cause-effect relationship between the aim of improving efficiency through designed institutions and the outcome is weak, if it exists at all.

Claiming that efficiency improvements are an outcome but not an intention implies that it hardly constitutes an argument to motivate agents to accept the solutions found by a group as a designed institution for all (that is, to adapt their behaviour in line with it). The weakness of the goal to improve efficiency as intention relates to structural reform programmes and the institutional gaps they create. Even if policymakers are capable of designing the most efficient solution for an economic problem, that does not in itself constitute a basis on which to persuade agents to adapt their behaviour accordingly and institutionalise it by repetitive behaviour – unless, of course, it is accompanied by a battery of enforcement means.

For a proposed solution to become a designed institution, it is not enough to show that it intends an increase in efficiency. Two sets of conditions need to be met. The first is that the solutions of a group or network need to accommodate the intentions and interests of those making decisions on institutional design across groups or networks, those motivated enough to bear the costs of defining new rules for all. In the case of the *RT*, these were the market-makers gathered in the IZ to negotiate, divided into pro-*PAR* and anti-*PAR* groups. The second condition is that agents in general must accept and repeat it, internalising it as a disposition to act in the same way in similar circumstances. In the case of the *RT*, this is how the majority of the participants reacted to the social franchise model of the *PAR*. With one currency and one standard type of node across the country, it became far more popular than the participatory model of the anti-*PAR* front and turned the struggle in favour of *PAR*. When a proposed rule of action is perceived as a better solution, it is accepted and eventually institutionalised. The social franchise consolidated itself as a designed institution because it was closest to pre-existent practice, in line with the evolutionary argument elaborated in Chapter 3.

Naturally the definition of efficiency for different actors is also contested. In the *RT*, different groups responded differently to exactly the same conditions of uncertainty and transaction costs. While *PAR* regarded the social franchise as the most efficient method to make the *RT* grow rapidly, keep the currency under control and protect the original project, the anti-*PAR* front preferred a horizontal network based on participation and an alternative economic system of solidarity. The fact that there were at least two possible roads for achieving the 'most efficient' institutional arrangement suggests that there are different perceptions of efficiency. The ambiguity of what is the 'most' efficient solution further reduces the explanatory power of the theoretical view that efficiency-seeking drives institutional design.

These reflections have implications for development projects. A project has to satisfy, at least minimally, the intentions and interests of the institution designers, generically called stakeholders. Showing them the ex-ante 'efficiency' of a project, rule or solution is insufficient to gain their support. Designed institutions need to fit into power struggles and attend social relations as well. The failure to recognise this leads to much frustration on the part of donors and policymakers, who launch 'efficient' development plans and still get nowhere near the expected results. The stakeholders or local institution designers resist or boycott the 'efficient' design because it goes against their interests and intentions. In turn, participants refuse to consider it as a guide to their behaviour.

However critical for development, designed institutions to scale up to impersonal exchange are in fact contingent points of compromise satisfying the market-makers' intentions to increase power, improve efficiency and attend social relations. Their acceptability –perhaps their efficiency as well– is evaluated ex-post by agents who assess their fit with primary and evolved institutions (arena and evolved institutions). If they are found acceptable, agents tend to adapt to the new designed institutions, at least in general terms.

Notes

[1] Neoclassical economics refers to a world of perfect competition in which agents are all-knowing all the time. Agents seek their self-interest but there is no specific mention of guile in doing so. Under the welfare theorem, trade always results in win-win situations.

[2] When assets are non-specific, markets offer advantages in production costs and governance. Besides, markets avoid the organisation costs of a hierarchy and can increase demand by realising risk-pooling benefits. When assets are specific, the aggregation benefits of markets decline and the costs of securing a transaction escalate. Hierarchy then supplants buying from the market.

[3] This does not mean that expectations are always fulfilled, and here lie the risks of trust. Agents assume future actions of others on the basis of trust, but they can well be wrong. When expectations fail or responses are different from those anticipated, trust disappears. Normally under such circumstances, actions would normally be corrected in future interactions. However, trust is normally not a

conscious choice but the result of generalisation of experience that goes beyond the information actors have when they make decisions. Therefore, trust may not always lead to the most rational action in the neoclassical sense.

[4] There were several attempts to regulate the activity but none was successful. Around the year 2000, representatives in both chambers of Congress expressed concern over the unregulated nature of the *Trueque* See Hintze (2003).

[5] The metropolitan area of Buenos Aires has a radius of approximately 60 km and a population of 13 million. It comprises the capital district, formally called Autonomous Government of the City of Buenos Aires, with federal powers similar to those of other provinces, and the suburbs, organised in 22 municipalities under the government of the province of Buenos Aires. For research purposes, the official statistics agency has divided the outskirts into the first, second, and third rings according to their proximity to the boundary of Buenos Aires city.

[6] *La Nación* is one of the five best-selling newspapers in Argentina. It is also one of the most traditional newspapers in the country.

[7] Interview with Claudia Gatti, 11 November 2004.

[8] *La Nación*,, 10 November 1996.

[9] The municipalities in the western part of Buenos Aires are the most densely populated, including La Matanza with a population of over 2 million.

[10] Translated as Network of Knowledge Exchange and Social Cybernetics.

[11] There was some regional travel but none over longer distances. So the question arises as to whether people travelled per se or because a national voucher encouraged them to do so.

[12] San Pedro is located 160 km north of the city of Buenos Aires and has a population of 50,000. It is noted for its small and medium-scale enterprises, mainly in food processing. The suspicion that the forgery was politically induced was voiced by *PAR* leaders.

[13] Minutes available at <http://ar.groups.yahoo.com/group/rgt/message/671>. The organisational structure described here is based on interviews.

[14] This view was expressed in interviews and is also recorded at <http://ar.groups.yahoo.com/group/rgt>.

[15] Interviews in November 2004.

[16] If one kilo of flour cost $3 in official money, it would cost 1.5 *créditos* in the *Trueque*. When participants chose flour as the equivalent, they determined that their product should be exchanged, for example, for 2 kilos of flour. Therefore, the price of their product would be 2 * 1.5 = 3 *créditos*.

[17] Recalled by Charli del Valle, an anti-*PAR* emerging leader.

[18] Quotation from the coordinator of the largest *CT* in Buenos Aires.

[19] With some exceptions, there were no consolidated lists of members. Therefore, it was not possible to check whether new entrants received their 50 *créditos* only once; that is, that they did not register as members in two nodes.

[20] The *PAR* announcement can be accessed at <http://ar.groups.yahoo.com/group/ rgt/message/691>.

[21] The publications included the principles of the *Trueque*, organisational stages of a *CT*, instructions to train assistants and negotiate the cooperation of social partners (for example, municipalities and firms), and the fundamentals of social money. Franchised nodes were committed to accepting these rules and undertaking a weekend's training. They had to keep in touch with the *PAR* at least once a week to provide information on the members' list and details about their distribution of *créditos*.

[22] An anti-*PAR* leader said, 'There was no return from this move. The *PAR* actually privatised the *Trueque* and declared they were the owners.'

[23] Some nodes asked for a voluntary contribution from members, but the collection of a fee in formal money was never allowed.

[24] All quotations from Primavera, unless specified otherwise, are from interviews with the author.

[25] Officially posted on <http://ar.groups.yahoo.com/group/rgt/message/691>.

[26] *PAR* justified the social franchise, denouncing 'the formation of internal interest groups that conspire against common understandings and the self-help purpose' of the scheme'. <http://ar.groups.yahoo.com/group/rgt/ message/691>.

[27] Partly in messages 705 and 712 on <http://ar.groups.yahoo.com/group/ rgt>.

[28] Message 701 on < http://ar.groups.yahoo.com/group/rgt>.

[29] These figures were provided by the *PAR* leaders.

[30] Partially reflected in message 814 on <http://ar.groups.yahoo.com/group/ rgt>.

[31] These accounts are partially given in messages 813 and 815 on <http://ar.groups.yahoo.com/group/ rgt>.

[32] Sampayo was the owner and manager of one of the 500 largest firms in Argentina before going bankrupt during the structural reforms of the 1990s. A man of action, he is more experienced in implementing and commanding than in militancy and discussion of ideas in meetings.

5 Governance and sustainability of *Trueque* networks

5.1 Defining economic governance

In the prologue to *states and Markets*, Susan Strange (1988) tells the story of a shipwreck and what happens to three groups of lucky people that survive in lifeboats. The first of the three boats has an officer aboard who keeps a cool head and guides his group to safety on a deserted island. He then organises the building of a shelter, collection of food and water, and a rough signal system to attract the attention of any passing ships. Gradually, the survivors get used to following his instructions and they do pretty well.

A second boat reaches another island, with a bunch of young students on board. They do not know what to do and talk endlessly about their predicament. They agree that it would be great to organise a commune, to each according to need and from each according to ability, but a few days later problems begin to appear. There are long arguments about who is to clean the latrines, a job nobody wants. Some of the castaways are apt to wander from their allotted jobs to enjoy the sunshine. Eventually, the food is not enough for everyone and the latrines begin to stink, but they all still think a commune is a good idea and so they keep trying.

The third boat lands on another island. It contains a diverse group including children and elderly. In this group, no one takes charge and everyone cracks open their own coconuts and catches their own fish. The elderly go hungry and mothers do not have time to build shelters and look after the children. They discuss their situation and somebody suggests trading, using nails found in the boat as means of payment, so each person can specialise in a task and they can exchange goods with each other. They divide the nails equally and decide to give a nail each week to a hefty person who will take care of security and sanitation and a nail to an elderly couple, who organise a sort of school for the children. The market starts well but then some problems arise. Growing crops is a good idea, but how is the growing period to be financed? If someone falls sick, who will take care of that person? Who should be entitled to use the boat for fishing, and for how long? In spite of the constant conflicts, most people in this market society are fed and sheltered and more or less manage.

Susan Strange tells this story in the context of international political economy, with her interest being in investigating what happens when the groups meet each other. The focus of this current study is different: in these systems, in which the rules have to be set and acceptance needs to be constructed, how is governance achieved and what makes it sustainable until rescue comes? Sustainability in the context of the shipwreck has a very literal meaning: whether each group and its socioeconomic organisation survive until rescue comes. In real-life situations, sustainability refers to the durability or resilience of governance systems in which the rules and their compliance cannot be assumed a priori because none of the actors has the means to enforce them. Compliance has to be obtained through voluntary decision, agreement and negotiation.

Economic regulation without the state

There are three types of economic 'real-life situations' referred to above, in which there is no appreciable state regulation. In the first, much business activity is carried out where regulation by the state is not possible or desirable because those controls are neither cost effective nor legitimate; private organisations at the national and global level then create alternative governance mechanisms (Keohane and Nye, 1971; Ronit and Schneider, 1999; Rosenau and Czempiel, 1992). They sometimes form systems of 'private interest governance' (Schmitter and Streeck, 1985) or 'spontaneous private ordering' (Hayek, 1946; McKinnon, 1992; Williamson, 2002). In the second situation, a considerable amount of economic activity is not regulated or even registered by the state, which is the defining principle of the informal economy (Bromley, 1978; De Soto; 1987; Thomas, 1992). Regulation, to the extent that it exists, is based on agreements or self-obtained authority. And in the third situation, a new economic circuit called the social economy has sprung to the fore, as has happened in the last decades. The term 'social economy' has been used formally in the European Union since 1989; it includes non-profit activities of civil society organisations (for example, NGOs, mutual associations, cooperatives and foundations) that focus on satisfying needs in hard-pressed communities, creating jobs and enterprises, empowering the socially excluded and regenerating the local social fabric (Amin, 2002; Westlund, 2003). Their regulation by the state varies across countries; it is extensive in the developed world but fragmentary in the developing world, with some schemes lacking any legal framework. In Latin America, authors like Coraggio (1995, 1998b), Nuñez Soto (1995) and Razeto (1997, 1998) subsume the informal economy into the social economy. They identify individual income-generating survival activities carried out by the poor without interaction with the state apparatus, calling it a 'grass-roots economy'.[1] They argue that these activities are sometimes brought together organically by collective action and constitute the social economy, with or without interaction with the state.

In any of the three types of economic activities identified above, state regulation is partial or absent, so actors dictate some or all of their rules. With none of the actors having the means to enforce the rules (that is, from a Weberian perspective, having monopoly over means of violence as the state does) the challenge is to define mechanisms of acceptance and compliance. In the social economy, rules of governance and sustainability are often assumed to be based on solidarity, transfer of non-specific norms or a set of common values and ideology that emerge spontaneously in the organisational process. Beyond these assumptions of self-regulation, there is a need for theorisation on the governance fundamentals and sustainability of this area of economic activity. That is the focus of this chapter, which answers the following questions: What is the basis of governance in areas of economic activity in which state regulation is minimal or non-existent? And what factors make them sustainable or durable?

These areas of economic activity, like others, are regulated by institutions. The institutions and organisations that coordinate economic action relate to each other, forming what Hollingsworth et al. (1994) term the economy's system of governance. A governance system is 'the totality of institutional arrangements –including rules and rule-making agents– that regulate transactions inside and across the boundaries of an economic system' (Hollingsworth et al., 1994: 5). It is a cluster of mechanisms for co-ordination of economic activities. Related concepts are 'socioeconomic regime' and 'mode of regulation', coined by the French Regulation School, and 'models of social order', used by Streeck and Schmitter (1985). A stimulating research agenda has developed around the study of economic governance systems and the viability –not so much efficiency– of these complex constitutional principles, institutions, incentive schemes and organisations (Campbell et al, 1991; Hollingsworth and Boyer, 1997b; North, 1990; Schmitter, 1990).

The *Red de Trueque* gives the opportunity to carry out further research in this area of the economy that is without significant state regulation. The collapse of the Argentine economy, and later of the *Trueque*, reached proportions that would make it comparable to Strange's tale about the shipwreck. The *RT* split in 2000 into various groups that configured different systems of governance for their *CT*s and participants. One group preferred a market-like organisation, another shaped a hierarchy, a third tried an associational model and others isolated themselves in their locality or community. When the *Red de Trueque* fell apart, some proved more durable than others. Before that, all faced the same background conditions (the Argentine economy), the same challenges (the collapse of the *Trueque*) and were offspring of the same institutional process of organisation without state regulation (the *RT*). Then why were some governance systems more sustainable than others? This study argues that there were differences in the viability or sustainability of the governance systems that emerged in each group after the *RT* broke up.

The chapter first introduces different approaches to governance. It then presents the theoretical debate around the formation and sustainability of systems of governance. An analytical framework is constructed and finally used to analyse the sustainability of the governance systems that followed the break-up of the *Trueque* and explain why some survived the collapse better than others.

5.2 What is governance?

The study of governance was incorporated into economics relatively recently, perhaps because it had been assumed until then that economic coordination is achieved spontaneously or through states and markets. Following the curtailed capacities of the state to regulate economic activity and the emergence of other actors that do so, governance has been a main focus of attention during the last decade. It relates to a particular kind of governing: 'sustaining co-ordination and coherence among a wide variety of actors with different purposes and objectives such as political actors and institutions, corporate interests, civil society, and transnational governments' (Pierre, 2000: 3).

However, there is considerable variation in the definition of governance across disciplines. Hirst (2000) distinguishes five versions of the concept and Van Kersbergen and Van Waarden (2004) add another four based on Rhodes (2000) and Pierre and Peters (2000). The World Bank often qualifies it as 'good governance', in relation to second-generation reforms that promote markets and reduce public spending (Doornbos, 2001; Janning, 1997). In political science it refers to governing without government, either in the context of global international relations where there are no explicit hierarchies or obligations on the part of states to cooperate (Lieshaut, 1995; Rosenau et al., 1992) or in small local communities that organise themselves in a bottom-up process beyond the market and state intervention (Ostrom, 1990). Another perspective, of fundamental interest in this research, refers to economic systems and maintains that markets are regulated by institutional arrangements more or less affected by state intervention (Crouch and Streeck, 1997; Hall, 1999; Hollingsworth and Boyer, 1997). In the corporate world, governance is the system of direction and control of business corporations (Blair, 1999; Hirst, 2000; OECD 1999). New Public Management literature takes the concept further by applying management theories used in the private business sector to public organisations (Hirst, 2000; Lane, 2000). It also addresses governance in networks of public and private organisations in which the latter attempt to 'resist government steering, develop their policies and mould their environments' (Rhodes, 2000: 61). The European Union uses a multi-level governance perspective to integrate policy networks of national, subnational and international actors (Marks, 1996). In the private sector, governance is used with reference to stable cooperative relations between firms, suppliers, customers, and so forth, locally or across national boundaries in global value chains (Dicken, 1998; Humphrey, 1995).

Governance is thus used in different contexts and disciplines with some divergence, but it always implies the state stepping aside, giving up its top-down approach to actors in either the economy or the polity. This research focuses on economic systems organised, ruled and sustained for the poor and unemployed by non-state actors. In such systems there is no absolute hierarchical centre that can govern by command because no single non-state actor has monopoly over means of violence to enforce rules. Actors are relatively autonomous but interdependent around various nuclei, so a pluricentric type of rule emerges. Governing is conceived as a process combining negotiation, accommodation, cooperation and alliance formation rather than coercion, command and control (Van Kersbergen and Van Waarden, 2004). Relations between the actors pose uncertainties and risks that ad hoc institutions help to reduce or resolve.

Defining governance systems

In this way, the study of governance systems in economics takes distance from the assumptions in neoclassical economics, which claims that economic coordination occurs through prices and no further governance mechanisms are needed. It also differs from the view that the state should be responsible for most regulation, as the public sector becomes just another actor or has no intervention role at all (Hollingsworth et al., 1994). In areas not regulated specifically by the state, the institutions that guide economic action need to be negotiated and sustained by consensus. The legitimacy of rules –or, in the Weberian tradition, willingness to accept and abide by them– needs to be constructed, so that individual economic action may become predictable and stable (Underhill, 2003). This implies a double connection: from individuals to organisations and institutions (a micro-meso link), and the bringing together of institutions and organisations into governance systems (a meso–macro link).

Governance systems are sets of ‘formal and informal institutional devices through which political and economic actors organise, coordinate and manage interdependencies’ (Eden, 1997: 362). They constrain the definition of needs, preferences and choices, frame negotiation processes, perform allocation functions, reduce conflict, set standards, monitor compliance, and resolve disputes (Campbell et al., 1991). They manage and stabilise internal and external relations between firms, the state and civil society at the national and international level, both vertically and horizontally. The state, if a part at all, is not the central actor. Governance systems and regulation regimes[2] are partner concepts that link Old Institutional Economics and New Political Economy research programmes[3] (Crouch and Streeck, 1997; Hollingsworth and Boyer, 1997; Schmitter and Streeck, 1985; Van Waarden, 1995).

How are institutions and organisations brought together in a governance system? Evolutionist economists claim that their configuration is achieved through a process of trial and error that reflects at a higher level what is feasible at each point in time (Hodgson, 1998, 2004; Maynard-Smith, 1982). The process is not continuous but happens in phases related to the economic cycle, adds Jessop (1997). In periods of crisis and/or transition, actors seek to define new modes of regulation or governance systems through trial-and-error search processes that contain a considerable element of struggle and chaos. In periods of stability, the structural coherence of complex institutional forms prevails and confines economic action to the reproduction of the economic system. Hence, structure prevails over struggle.

All in all, the evolution of institutions is pushed by factors such as political struggle, changes in social values and search for improved efficiency, while stability is achieved when changes become consolidated in new institutions. They stabilise and provide actors with logics to pursue their goals, defining what is valued and shaping the norms and rules by which to abide (Friedland and Alford, 1991). They are organised hierarchically so it is possible to identify what fits, what is in conflict, where the gaps are and what can be dovetailed. Governance systems thus represent a link to integrate the micro-meso-macro levels, in which institutions play the mediating role.

Categorising governance systems

An early attempt to elaborate how governance systems come together in situations where the state is not the central actor was made by Streeck and Schmitter (1985), using the concept of social orders in their path-breaking book *Private Interest Government*. They argued that governance systems are built around a 'central institution which embodies (and enforces) their respective and distinctive guiding principle' of coordination and conflict areas.

Streeck and Schmitter (1985: 11-15) identify four social orders: community, market, bureaucracy and associations. They suggest (p. 11) that 'it might be more accurate to label them according to the principles that coordinate each: spontaneous solidarity, dispersed competition, hierarchical control and organisational concordance.

In a community, actors are interdependent, their preferences and choices are based on shared norms and jointly produce satisfaction. Chiefs, notables, leaders, and so on desire the esteem of their followers, while the followers seek a sense of belonging and participation in the group. Sustainability is thus tied to the satisfaction of mutual needs and keeping a collective identity. Conflict often arises as a result of the relations between native members and non-members.

In an ideal market, actors are competitors and in principle independent. Entrepreneurs seek to maximise their profits, and by virtue of dispersed competition they share with consumers the material benefits of technical progress. There is a basic conflict of interest between sellers and buyers (supply and demand) which is reflected in prices. Sustainability is tied to the capacity of markets to clear in spite of the uncertainty and risks inherent in compliance and incomplete information.

In a bureaucracy, actors are dependent upon hierarchical coordination and their choices are asymmetrically predictable according to the structure of legitimate authority. Allocation decisions are made by hierarchical centres and carried out by agents rewarded by career advancement and stability. Conflicts centre on disputes over privileges arrogated by rulers to impose obligations on the ruled. Sustainability is tied to the effective capacity to control action via hierarchy.

In an associational order, actors are contingently interdependent: the actions organised collectively can have a predictable effect on the satisfaction of others, which induces them to search for stable pacts. Collective actors are defined by a common purpose to defend and promote functionally-defined interests and mutually recognise the status of competitor organisations. Sustainability is tied to preventing fragmentation into rival communities, competing for resources and securing compliance from members.

This four-type taxonomy was a rich starting point but limits the study of the viability of governance systems because ideal types are rarely present in reality. For example, a market regulated by a public or private regulator is still a market but it has elements of hierarchical control, so it is not driven by dispersed competition alone. A theoretical framework to study the viability of governance regimes needs to allow for combinations of core and non-core institutions guiding social coordination.

A more flexible taxonomy of governance systems

Hollingsworth and Boyer (1997b: 9-11) advance a categorisation of governance systems according to their coordination mode and motive for action. Coordination modes range from horizontal coordination, where many equal agents interact, to vertical coordination, in which power relations are arranged in a hierarchy. The former is a ‘non discrete organisational structure’ and the latter a ‘bureaucratic administrative control structure’. The authors argue that coordination in both markets and communities is by spontaneous self-organisation; prices are the main coordinating mechanism in competitive markets while in communities mutual obligations grow spontaneously out of traditions and trust. Along the vertical axis, the authors place the motives for economic action. These range from (the perception of) pure self-interest at one extreme to obligational action at the other, in which individuals are constrained and informed by social rules demanding compliance. Thus, the framework categorises governance systems while at the same time identifying two criteria to distinguish them: the action motive (what disposes individuals to behave in a certain way) and the coordination mode (how their economic actions are made compatible with each other).

Still, there are a few other points to consider. Firstly, governance systems are part of a macroeconomic structure, so events in the background impact on all governance systems equally. For example, a natural disaster or general economic crisis may force the restructuring of governance systems or destroy them. Secondly, institutions within a governance system encapsulate a disposition to action, but, ultimately, it is individuals who decide their behaviour (Hodgson, 2006). For instance, whatever the expectation of compliance in a community, it is always possible that actors choose to cheat and accept the consequences. Thirdly, the present list of action motives and coordination modes represents a reduction and hence is quite arbitrary, like all categorisations. For example, the household is a governance system in which care and sharing are action motives (Etzioni, 1988; Van Staveren, 2001a). These could be deployed in another version of the framework, but such an analysis is beyond the scope of this chapter. Fourthly, there is no value assumption about the distribution of power within a coordination mode. For example, while members of a community are expected to comply with traditions, these institutions may be unfair, unequal or unsatisfactory for some.

Though not explicitly elaborated by the authors, a creative reading of this framework has a series of advantages when analysing the sustainability of governance systems. For example, it allows identification of several subtypes of market systems according to their mix of horizontal and vertical institutions: competitive, cartelised, state-regulated and cooperative markets embedded in long-term relations as in the Italian district model. The market as a multilateral setting for exchange is still the core of these governance systems, but non-core institutions matter, too. Self-interested behaviour is more or less typical of all markets, but coordination at a social level is also achieved through other organisations and state coercion. Hence, the strong dichotomy of hierarchies versus markets loses appeal, as markets are ensembles of institutions. So the initial four ideal-type governance systems of Streeck and Schmitter (1985) can be placed more flexibly along continuums regarding the action motive guiding behaviour and mode of coordination between agents.

5.3 What makes governance systems sustainable?

The framework of Hollingsworth and Boyer (1997) constitutes a basis to tackle the question of what factors make governance systems sustainable when rules have to be created and enforced by actors who cannot rely on monopoly over means of violence. This problem has been given generally little attention in the literature, perhaps under the assumption that commonality of interests and intentions drives the institutions and organisations in a governance system to a durable arrangement.

The discussion on sustainability is thus rather vague. Referring to regulation regimes, Jessop (1997: 291) claims that their life expectancy (sustainability) is given by the compatibility (coherence) of their mediation mechanisms (institutions). Boyer and Hollingsworth (1997b: 50) follow a similar path and assert that they are 'viable' as long as the set of institutions that form it are coherent or compatible with each other. However, how is this coherence constructed and how can it be observed in research? The theorisation is elaborated further here to set operational criteria.

Criteria for sustainability

A few issues, which are directly or indirectly related to non-state actors' setting of rules, stand out as critical to the durability of governance systems without significant state regulation. The first dimension is the acceptance or legitimacy of rules as basic institutions regulating the governance systems (Van Kersbergen and Van Waarden, 2004: 156). Thomassen and Schmitt (1999: 255) distinguish between input and output legitimacy, as elaborated also by Scharpf (1997) in relation to governance systems in which state regulation is not possible. By input legitimacy, the authors mean the process by which rules have come about and the setting of provisions to modify them in the future. It represents an ex-ante analysis; input legitimacy is created along the process of rule definition. It may involve shared values and idealism. On the other hand, output legitimacy represents an ex-post generation of legitimacy based on the 'success' of the governance systems: the capacity to deliver results, solve problems and resolve conflicts.

The benefits delivered by governance systems are evaluated in relation to the costs for the actors involved. The capacity to deliver results, solve problems and resolve conflicts within the economy means achieving 'resource synergy' (Jessop, 1998: 36): building the ability to coordinate material interdependencies among internal and external agents, which is especially critical when resources are scarce (Cashore, 2002). On the other side of the ledger, there are the costs of running the system, generally referred to in Chapter 4 as transaction costs. In a system where the state is not available as a low-cost rule-maker, these are mainly of two types. First, the costs associated with uncertainties, risks and information asymmetries, normally defined as transaction costs (Williamson, 1975). Second, there are the costs of sustaining collective action, setting rules, making decisions, and redefining objectives when necessary; these are organisational costs.

Finally, policing functions are problematic because the ex-ante acceptance of rules does not mean ex-post compliance (Ronit, 1999). The latter is an actual event, the real behaviour of agents, while the former is a disposition to act. Actual compliance is achieved by monitoring and enforcing rules even against resistance from agents (Ronit, 1999: 258).

So, in principle there are four factors that make governance systems without significant state regulation sustainable. For clarity, these are rearranged and rephrased in relation to the *Red de Trueque*:

1) Input legitimacy: to what extent does the process of rule definition help to win acceptance? The focus is on the process of rule-setting for non-state currency systems and the replication of nodes, besides factors like idealism and common values.

2) Enforcement: to what extent do institutional mechanisms of monitoring and enforcement operate? The focus is on ways to obtain effective compliance of rules, even against some resistance.

3) Benefits (in relation to output legitimacy): to what extent is resource synergy achieved to deliver results, solve problems and resolve conflicts? The focus is on management of scarce resources and activities in common to support the income-generation efforts of households.

4) Transaction and organisational costs (in relation to output legitimacy): to what extent are risks and uncertainties minimised? The focus is on the uncertainty of trading with means of payment accepted voluntarily –the *créditos*– with the risk of loss of value. To what extent are the costs of sustaining self-organisation minimised? The attention is on the costs of decision-making in each governance system.

All these questions are framed in such a way that they could be graded along a high-low table or in numbers to explain the sustainability of empirical governance systems. The next section describes the governance problems of the *Red de Trueque* during the 2001-06 period.

5.4 Challenges arising from growth

The *Trueque* achieved a spectacular rate of growth in 2000 and 2001. The economic meltdown in Argentina reached a turning point on 20 December 2001 when the president was forced to resign amidst riots. The following year was written down in Argentine history as an *annus horribilis*, with 56 per cent of the population under the poverty line. According to official figures, out of an economically active population of 12.5 million, 2.7 million were unemployed and another 2.9 million involuntarily under-employed. Around 5.5 million of those employed were in the informal sector.[4]

Like the regular economy, the *Red de Trueque* faced challenges. At first its leaders focused on perfecting the scheme, building institutions and expanding the system across the country. These goals were accomplished by 2000 and the basic rules of the nodes were tested and stable. However, at the level of the network, the *RT* was in trouble. The main institution that articulated the *RT* as a single network, the IZ, had de facto fallen apart in October 2000. The resulting factions not only had different opinions on how to run the scheme but held a strongly adversarial position towards each other. Only the independent nodes stayed out of the conflict.

October 2000 was the last time the articulated, all-encompassing *Red de Trueque* met. The two largest sub-networks (*Red Global de Trueque*, which was the *PAR* network, and *Red de Trueque Zona Oeste*) stopped attending meetings, and some independent nodes followed suit. In April 2001 the break-up became official, the *Red Global de Trueque* and *Red de Trueque Zona Oeste* were formally declared outside the IZ and the remaining groups formed the umbrella organisation *Red de Trueque Solidario*

(Solidarity *Trueque* Network, or *RTS*). The name underlined their principles: solidarity and social transformation through the *Trueque*. They would keep holding monthly IZ meetings, with non-*RTS* nodes also being invited to attend.

The entrance of the government as a new actor rekindled the conflict. The Secretary for Small and Medium Enterprises in the Ministry of the Economy, Enrique Martinez, decided the *Trueque* had had a positive effect on the generation of micro-enterprises and provided aid and funds through a six-month cooperation agreement with the *PAR* leaders.[5] They became paid advisors to the government on how to expand the *Trueque*. The government provided assistance for the *PAR* website, infrastructure to facilitate its expansion, and supplies of food production inputs to sustain production.[6] The anti-*PAR* front were furious at being left out of the agreement. Primavera complained: 'The agreement granted *PAR* a false pretence of legitimacy. They called their voucher the dollar of the *Trueque* and those were the ones issued without accountability!' Primavera campaigned against the *PAR* and the agreement was not renewed.

Paradoxically, as the different factions of the *Trueque* were tearing each other apart, its scale, scope and public recognition were on the rise. The years 2001 and 2002 were marked by the stupendous growth of the *Trueque*. The turnover in its major markets was similar to that of a small city and the average income generated by full-time participants was well above the minimum statutory wage. It had become so extended, so popular and so rich –in contrast to the deep impoverishment of Argentina– that *créditos* were just as appreciated in households as official money. Norman (2002) quotes the *PAR* leaders as stating that trade in the network in 2001 was equivalent to AR$ 600 million, with membership of a million members, who earned between 500 and 800 *créditos* or the value of a new small television.[7]

Public opinion no longer treated the *Trueque* as an exotic creature of the crisis. Scale and scope, as well as the media, had much to do with this change. The coverage of the *Trueque* in the main newspapers, compiled in a database by the Universidad Nacional de General Sarmiento, provides a rough overview.[8] Between 1 May 2001 and the end of that year (245 days) the newspapers published 40 articles on the *Trueque*. Between 1 January 2002 and 30 June 2002 (181 days) the number of articles rose to 168. The headlines always reflected the same point: the national economy in agony contrasted against the *RT* booming, giving answers to people, turning disaster into creativity. Men and women were then participating in almost equal numbers, unlike during the initial years of the *Trueque* when it was dominated by women.

Government intervention also became more common and was sometimes welcomed. Local governments supported the *Trueque* because it spared them the financial burden of social policy and supported the local economy. Dozens of municipalities declared it 'of municipal interest', which did not mean much in practice but gave the nodes freedom. A handful of municipalities actively helped the scheme by providing buildings or vehicles to transport goods. The relation with the central government was different, more of tolerance than of acceptance. The *Trueque* did not exist in any law, so it was difficult to deal with. The Congress started working on laws to regulate it but that came to nothing.[9]

Anarchy and class conflict in nodes

From the outside, the *RT* looked like a panacea for the unemployed and poor. It is impossible to know exactly how many people participated during its peak around the beginning of 2002. Its scale can be roughly estimated from the few data available. The *Red Global de Trueque* alone processed around 1.2 million applications[10] and the *Red de Trueque Zona Oeste* had a consolidated database of 486,267 members. The *Red de Trueque Solidario* did not maintain a unified database, but the sum of its main regions amounted to about 350,000 members. On the basis of the membership of these main sub-networks, the figure of 2.5 million estimated by Ovalles (2002) for 2002 seems conservative. A national survey conducted by Gallup in May 2002 showed that 60 per cent of Argentines expected to make at least one transaction in the *RT* in the three months following the survey.[11]

There were practical problems indicating that the *Trueque* had reached its limits, and in many of the thousands of nodes across Argentina the situation looked like sheer anarchy. With some variations across regions and sub-networks, it was increasingly difficult to find suitable venues for the markets to meet. They used to be in community, cultural and sports centres, schools, union halls, churches, parking lots, abandoned factories, warehouses, even garages of large houses, if necessary. However, as participants satisfied more of their needs in the *Trueque* instead of just complementing their income, they started attending more than one market a week in different locations. The largest ones needed bigger venues, being visited by thousands.[12] For example, the La Estación node met in a train station and opened daily from 8 a.m. to 8 p.m.[13] The coordinator said:

> First we opened a second floor and for a second day a week. In the end we used four floors six days a week, the top one only for fruits and vegetables. We received a total of 4,000 participants on Saturday, our main day, who covered 80 per cent of their consumption needs in the *CT*. Participants queued for hours before the opening to be able to come in.

In addition, visitors paid an admission fee in *créditos* that gave them the right simply to wander around or put up a stall and offer their products. This financed the rent or maintenance of the venue. Owners of the spaces normally charged nominal rent, but when the attendance rose to thousands they expected to make a profit and saw it as a business, so rents went up. Coordinators sometimes also regarded the entrance fee as their wage and raised it.

With the increasing scale of the nodes, diversity of supply expanded until there were few goods that could not be obtained in *créditos*. Members became incredibly creative in widening the scope of products offered: from vegetables and fruits to clothing and shoes, books and CDs, home-made toiletries, furniture, and electronics. Some services, such as haircuts, manicures, wedding parties and Tarot fortune-telling, were offered on the market premises. Others, such as legal counselling, car insurance, taxi and courier transport, holiday packages, and education and training, were advertised on bulletin boards. Even plots of land in the countryside and livestock were offered for sale in *créditos*.[14]

As thousands kept entering the nodes, the balance between goods supplied and demand for them was collapsing. An underlying class conflict appeared in the *Trueque* with its growth. The scheme had become extremely popular among the disenfranchised middle class, while the structural poor joined only later. For the impoverished middle class, the *Trueque* was a good way of getting some value for goods made as hobbies (paintings, knits, hand-made dolls) or accumulated in better times (fur coats, toys, jewels). Many had a small amount of working capital to buy inputs in pesos, which they either resold or processed into products for sale in the nodes. The resale of goods bought in supermarkets violated the principle of self-reliance and prosumption but was tolerated because there was dire need of basic food production inputs in the nodes. So the *Trueque* had a comparatively positive impact on the lifestyle of the disenfranchised middle class, enabling them to recover their lost consumption capacity. In contrast, the structural poor had no accumulated assets, no income in pesos and no working capital. What they could sell in the nodes was their own labour and second-hand goods such as clothes, shoes and toys that mostly came from charities and donations. When they could get the ingredients in the *Trueque*, they were also able to produce food like bread, for example. Such ingredients were mainly provided by disenfranchised middle class participants. So a critical balance had to be kept between the disenfranchised middle class and structural poor in order to enable both groups to benefit.

Squeezed by the economic crisis in 2001-02, the structural poor kept pouring into the nodes with barely anything to offer and desperate basic needs. The *Trueque* was not a solution to poverty, as Leoni (2003) found. If the majority of the participants in the node were structural poor, it became a battleground. The supply of basic food production inputs was insufficient for all who wanted them. Leoni studied nodes dominated by the structural poor, which she described as the 'dictatorship of homogeneity'. The services most frequently offered were cleaning and gardening, for which there was no demand. Services such as electrical and plumbing work were in demand, but those skills were also of little help because none of the parties had pesos to buy wiring and spare parts.

The excess demand for food sometimes brought the node to the verge of anarchy. It became normal for nodes to be flooded with *créditos* and second-hand articles, but to run out of food and produced goods, pushing up the prices of the latter. People moved across nodes and subnetworks and municipalities, seeking a wider variety of goods or to sell high and buy cheap.[15] Repacking products into smaller bags to resell became a general practice. It gave rise to many abuses, among them by the coordinators who were supposed to organise the *CT* (North, 2007). For example, coordinators charged a 'customs' duty, their self-attributed 'entitlement' to buy scarce goods before the other participants. Excess demand for basic food production inputs gave rise to inflation in *créditos*.

When prices were too high, coordinators advised members to refrain from buying. However, people needed the products desperately and the nodes became fertile ground for speculation and exploitation of those who had no pesos by those who did. That often meant exploiting the structural poor, who had less choice. Due to inflation in the prices of basic food production inputs, at the beginning of 2001 the *crédito* lost the one-to-one relation with the official money and its relative prices. For example, one hour of childcare was equivalent to two litres of cooking oil in the formal economy but 0.75 litres of cooking oil in the *CT*. Inequality centred on having or not having pesos.[16]

Excessive issuance of *PAR* vouchers was also a source of inflation. They were used to pay for all sorts of expenses: wages to employees, gifts to friends and local politicians, self-awarded wages of coordinators, cleaning and maintenance of node market locations, and refurbishment of buildings. Ironically, the initiating group, which had been so innovative in finding solutions to the problems of participants, was unable to respond to its acute crisis. How much the *PAR* leaders knew of the abuses in the network is a question that arouses much passion.

The final blow was large-scale forgery of the *Red Global de Trueque créditos* in the second quarter of 2002. The risk of forgery had existed to some extent almost from the beginning of the *RT*. As the network expanded and many goods and services could be obtained with those little green vouchers, it became highly profitable to print forged vouchers. It will perhaps never be known who was responsible for the forgery and the suspects range from normal criminal gangs to political brokers. Members recall people near the entrances of the main nodes selling packs of vouchers; they were even available in nearby kiosks. The *PAR* leaders emphasise that the forgery was on a large scale and meticulously organised, and that the police did nothing about it. The *Trueque*, they say, was no longer tolerable for Peronist leaders, who were unhappy that the clientele of their networks had an alternative source of income with elections coming up (North, 2005). Groups connected to the Peronist party also opened nodes specifically for their political clientele (North, 2007).

The anti-*PAR* front viewed the forgery and excessive supply of means of payment as a result of mistakes and corruption in the *PAR* network. Whatever the origin, members soon found out that it was easier to buy a pack of forged *créditos* than to produce goods to obtain them. Eventually, forgery became the main source of inflation and was clearly lethal for the *Trueque*. In October 2002, the *PAR* leaders estimated that 90 per cent of circulating coupons were counterfeit.[17] Coordinators across nodes were mostly unable to stop the inflows of forged vouchers, so they spread from one *CT* to another and then from one region to another. The sharp inflation that resulted can be seen in the price of a litre of cooking oil in a PAR network node, which rose from one *crédito* in December 2001 to 3,500 *créditos* in December 2002.

Collapse of the *Trueque*

In order to stop the spread of the forged vouchers, *PAR* structured a response that ended in disaster. They collected all the *créditos* in circulation to weed out the fake ones. The real ones were partially replaced with a new voucher, on the basis of a progressive discount rate. The maximum given to any member, whatever amount they had before, was 60,000 *créditos*. The strategy caused heavy losses to participants who had accumulated vouchers –against strong advice that vouchers were not a reserve of value– and was too burdensome for coordinators, who frequently split from the network or closed their *CT*s. It seriously damaged the credibility of the system as a whole and was the death sentence of the *PAR*-led *Red Global de Trueque*.

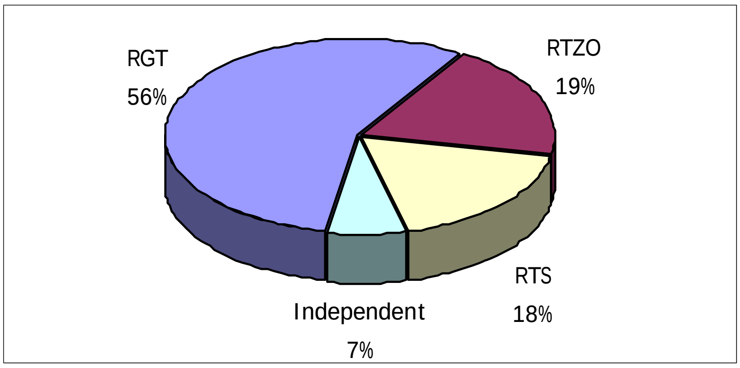
Two additional factors contributed to the collapse. First, in May 2002 the government decided to implement a welfare policy giving the equivalent of $150 in the state's unofficial money to each unemployed head of household with children at school.[18] Thus, for the first time in a decade, a welfare system offered an option, and precisely when the *Trueque* had lost its appeal. The government grant did not immediately cause a steep fall in the number of members but reduced membership over the medium term. Some beneficiaries, though, used the welfare money to buy food production inputs to resell in the *CT* or buy packs of forged *créditos*. The second factor was the vigorous growth of the regular economy after 2003. For five years (2003-07) GDP growth averaged 8 per cent and many of the *Trueque* members gradually returned to regular employment.

Many coordinators got fed up and closed their nodes. Membership fell and the closure of *Red Global de Trueque* clubs accelerated towards the end of 2002. The *Trueque* in general became a corrupt and miserable ugly duckling nobody wanted to be involved with.[19] Some coordinators would have liked to stay open, but the scandals left them without enough participants or without venues. Churches, schools and civic centres were denied to them. As de Sanzo put it, a tidal wave came in 2002 and by the end of the year it had swept away most of the *CT*s. Of the 5,000 *Red Global de Trueque* nodes in April 2002, half were closed by December[20] and only 1,000 were still open by July 2003; around 300, barely ten per cent of the number in its heyday, were operating in December 2005.[21] Of these, fewer than 100 maintained contact with *PAR* and the rest operated independently.[22]

An uneven fall

Although the PAR-led *Red Global de Trueque* was the main one to be affected by the counterfeit *créditos* and the first to fall apart, there was a knock-on effect on other networks, too, because the majority of participants were unclear about the differences between sub-networks. However, not all collapsed in the same way. At the time of the fieldwork for this study in late 2004, a total of 700 nodes were estimated to be operating. Follow-up fieldwork at the end of 2006 found about half of them still surviving.

Figure 5.1
Number of participants by sub-network, end of 2001



Note: Estimation by the author based on interviews with the leaders of the various Trueque groups. Percentages are calculated on 2.5 Million participants

What was left of the IZ after 2002 was affected by further divisions and still unable to reach agreement on basic issues. The level of conflict reached a climax in September 2003, when the last IZ meeting was held. An assistant recalled: 'Unfortunately the groups left began to hate each other. The *Trueque* was in demise anyway, so the original raison d'être of the IZ had already vanished. It was the end of a fantastic cycle.'[23]

Some regional segments of the anti-*PAR* front's *Red de Trueque Solidario* fared well on their own and kept operating at a regional level. An example is Mar y Sierras, in the city of Mar del Plata and surroundings.

'Being smaller, we were always able to restrain opportunistic behaviour better, even if by expelling members,' recalled its leader Carlos Perez Llora. So while the *Red de Trueque Solidario* ceased to exist, its member sub-networks kept operating as regional associative systems of governance. Much intellectual work on the idea of social money came out of that group, especially from Heloisa Primavera.

In 2003 the *PAR* leaders started again their *RGT* with their faithful coordinators in the southern suburbs, in spite of the loss of credibility both personally and of the scheme. They printed a safer voucher and once again opted for a regulated market governance system.[24] They formalised the coordinator position as a paid job financed from the entrance fee of $2 per person. The new voucher included demurrage (a negative interest rate) to discourage accumulation, at a rate of 12 per cent a year.[25] Once a year, each voucher of 20 *créditos* was replaced with 18 *créditos*, the remaining two getting 'lost'. Agreements on maximum prices were reached and abandoned due to lack of compliance; again, those with access to food production inputs in pesos raised prices. A list of rules was agreed on, but there was no supervision to check compliance.

The *Red de Trueque Zona Oeste* made some adjustments in its governance system to adapt to its new smaller scale, as will be discussed in Chapter 6. Fernando Sampayo still controls basic institutions like the distribution of vouchers, but the enforcement of rules lies almost entirely in the hands of the coordinators. *CT*s are thus much more autonomous.

An undetermined number of *CT*s became independent from the networks and were operating in isolation at the time of the fieldwork. They still believe that the *Trueque* is useful. In La Estación, for example, the largest node operating in the Capital of Buenos Aires in 2004, they see it as a meeting point of friends and an opportunity for women to generate an income. Very small nodes (with a few dozen members) continue because of the non-economic dimensions of the scheme. The members see them as social contact that enables them to earn an income, enjoy themselves, and feel useful. Women have become the majority (comprising 70-80 per cent of the members). The nodes are now dominated by the structural poor and the sections of the disenfranchised middle class that are unable to bounce back out of poverty. There are also *CT*s that have become private businesses funded through entrance fees.

Emerging governance systems of *Trueque*

To some extent, the collapse of the *Trueque* could have been foreseen and needs little explanation. The differences in the fates of the networks are considerably less obvious. They were all affected by similar problems, but did not suffer the shrinkage to the same extent. Some sub-networks disappeared or declined sharply. Others, like the *Red de Trueque Zona Oeste* and some regional and local groups, reached their nadir in 2004 and recovered in 2005-6. What is the reason for these differences? This study argues that the explanation lies in their governance systems, the ways in which they run their 'islands'.

The *Red Global de Trueque* was the network of the *PAR* leaders. In the first quarter of 2001 the social franchise seemed to guarantee endless growth, more than anticipated by its leaders. It became by far the largest sub-network in Argentina, with the southern area of Buenos Aires as its stronghold. It also received the most media and public exposure. In the categorisation above, it was a regulated market centred with spontaneous coordination. Central institutions such as printing of *créditos* and dealing with third parties were in *PAR*'s hands, but the nodes retained other decision-making powers. Coordination at the level of *CT*s and across nodes was spontaneous and mainly through price mechanisms. There was no discrete control structure across the network, only basic ground rules.

The *ZO* was a regional sub-network with its stronghold in the western suburbs of Greater Buenos Aires. Initially, it accepted vouchers issued by *PAR*, which in turn accepted those of the *ZO*. Its membership was almost a fifth of that of the *Trueque* and there was a collective fund in pesos to finance its costs and the development of enterprises organised as a supply chain. The *ZO* fits in the hierarchy type in which there was one centre for decision-making, rule-setting and enforcement: its leader, Fernando Sampayo. Power relations were arranged vertically with bureaucratic administrative structures. Members were guided by self-interest.

The anti-*PAR* front in the IZ decided to stay together and in April 2001 formed the *Red de Trueque Solidario*. It was organised regionally, each region having its own voucher but all being identified with a logo. Its strongholds were the Capital of Buenos Aires and its northern suburbs, which were the wealthiest areas. Altogether the *RTS* membership represented almost a fifth of that of the *Red de Trueque*. It was arranged as an associational model, with multiple centres converging into a negotiation and decision-making body. Self-interest was constrained, at least in principle, by bonds of reciprocity that emerged in time and peer control was exercised. Coordination stayed within the limits of mutual negotiation.

In addition to the sub-networks, there were an indeterminate number of isolated *CT*s that traded using their own vouchers and had no contact with others. They typically operated in closed groups such as schools, churches or small villages and comprised less than 10 per cent of the *RT*;[26] it is difficult to estimate their number since they have been researched very little so far. A few *CT*s are described here as examples. They correspond to the model of communities or clubs in the framework above. The action motive was obligation to abide by the rules arising from the identity of the locality or community that gave birth to the *CT*. There was no discrete organisational structure for coordination.

1) *Comunidades Solidarias*, in Caseros, Buenos Aires, was started by a group of parents in a community school for mentally handicapped children. Close to the Catholic Church, the coordinator had spent some years in a seminary. Markets are held twice a week, being preceded by prayers. The groups use their own vouchers and participation is open to anyone who shares their values.

2) *Grupo Poriahju*, in Capitán Bermúdez (Santa Fe). The coordinators are teachers who, inspired by Paulo Freire, started a self-help group in a slum in the 1980s. They run a community library, various workshops and income-generating alternatives for the poor. They started a node linked to the *RTS* but later decided to become independent. This resulted in better group control over prices, quality and diversity of products. Decisions are taken by a committee of elected members. They use their own vouchers and membership is closed; new members are approved after a trial period.

3) *Barrio Belgrano* in the city of Rosario (Province of Santa Fe). The *CT* started as part of Rosario's *RTS*. It was located between public-housing blocks and a slum that suffers flooding during heavy rain. Markets were held in the open air, on a grassy plot belonging to the Catholic Church. The coordinator resigned years ago and officially closed the node, but members kept meeting spontaneously; 200 to 300 people participate in a market every day, trading with left-over vouchers, which are currently in bad shape. The products on sale include food production inputs given by the government and not consumed by the recipients, overproduction or scrap weeded out of

rubbish, food from charities, fresh fruits and vegetables from the local government community garden programme, and prepared foods from those who have access to pesos. There are no designated leaders; decisions such as the schedule are made by consensus by those who are present at the time. A participant explained: 'There are no real decisions to be made. Whoever wants to come can come and sell. If she sells at too high a price, nobody will buy. She will change or leave.'

These were the four groups that emerged out of the break up of the *RT* network around the turn of 2001. Each one of them organised their 'islands' with different governance systems, analysed in the next section.

5.5 Analysis of sustainability of governance systems

The regulated market of the RGT, the hierarchy of the ZO, the associational governance system of the RTS and the community-based model of the independent nodes all suffered the similar problems discussed above: excess demand for food inputs, opportunistic behaviour, forgery of the *créditos*, etc. The main question to be answered then is not why they fell apart but why the collapse affected them differently. This is done using the four criteria of sustainability defined above.

Input legitimacy

The first factor that makes governance systems sustainable is input legitimacy (willingness of actors to abide by the rules). The main institutions for which this factor was crucial were the currency system, mechanisms to replicate *CT*s, handling of pesos, and negotiation with outside actors such as local governments. The *RGT* and *ZO* concentrated these in a centre in Buenos Aires and the *RTS* and local nodes decentralised it to each region and locality.

The *RGT* was a regulated market and its rules were mainly set by the *PAR* leaders. The willingness of members to comply with them was assumed by virtue of their membership, but was hardly asked explicitly. In fact, during the fieldwork the author established that most participants had not read the rules or did not know they existed. Nodes were replicated through the 'social franchise' at a rate of two pesos per member. To save on travel costs, this was often done by mail, so the coordinators did not know the *PAR* leaders personally. Coordinators were asked to stay in touch and to submit themselves for re-election by their nodes once a year, but during the fieldwork it was impossible to find any group within the *RGT* that had actually held such a re-election and very few coordinators stayed in touch. They only contacted the *PAR* leaders to buy kits of 50 *créditos* for their new members, also at $2 each. With hundreds of new members a day, no up-to-date records were kept. The *RGT* relied on 'franchisers', intermediaries given the responsibility of extending the *Trueque* across the country. The rules were set by *PAR* with minimal, if any, involvement of the coordinators. The rules were poorly communicated and there was no provision to change them in ways that would generate legitimacy later. Acceptance of the rules was therefore very weak.

The *ZO* used a similar system to the social franchise but implemented it differently. Its leader, Fernando Sampayo, defined the rules for the *ZO* and exercised strong leadership, which others accepted because of his skills. 'He knows how to do it,' summed up the coordinators' attitude towards him. From its early days the *ZO* invested in computerised databases and hired as many workers for data entry as were needed to keep up-to-date membership records. No new member received 50 new *créditos* before being registered. This bureaucratic structure was financed through the $2 membership fee. Interested groups had to contact the *ZO* and the coordinators were required to take a four-week-course before being approved, so they met Sampayo at least once. Their autonomy was limited; they could only decide practical matters in the nodes, such as venues and schedules, and they were accountable to the *ZO*. Sampayo personally negotiated with other organisations or local governments on matters affecting the *CT*s. Only Sampayo could print and distribute *créditos*. 'I printed 50 million *créditos* and we numbered them when needed. I hid them in my office. You could say I'm the central Bank of the *ZO*,' he told the author. In short, the rule-maker and centre of the *ZO* hierarchy was its leader. The process of rule-setting included only close collaborators, a practice which apparently went unquestioned. Input legitimacy was far from participative but fair thanks to the leader's skilfulness.

The acceptance of central institutions in the *RTS* resulted from the participatory process of rule definition. Rules resulted from lengthy discussions to build consensus in the IZ, after which they were transmitted downwards to the regions and nodes. Replication of *CT*s was left to collective action by the grassroots. Nodes were kept as autonomous and local as possible. Exchange with others was seen as necessary to increase scale and scope. Each *CT* could use its own or its region's vouchers, but all *RTS* vouchers were accepted across the network. Issuance was checked once a month in the IZ. Primavera described them: 'The meetings of the IZ were something fantastic. Of course, you may wonder how much of what was decided was actually implemented in the *CT*. But a big gap between practice and theory is inevitable.' A rule under discussion for a long time was the use of, or ban on, pesos across the entire *RTS*; the prevalent opinion was in favour of their complete ban, but small amounts of formal money were needed to run the *CT*s. The radical wing insisted that everything could be done without official money; coordinators just had to be creative. Negotiations with local governments were left to the regional sub-networks and nodes. The *RTS* not only included the wealthiest, but also the most ideologically minded and best-educated participants. As a result of the process of rule definition itself, the input legitimacy was high.

In the local or independent nodes, which were small closed communities, joining the *CT* amounted to agreement with the rules. Even so, they were often defined as being participatory, too, with opinions and interests of smaller groups in principle being accommodated. Of course, whether the interests of the majority eventually prevailed should be assessed case by case. All in all, acceptance of common rules was high and linked to the process through which they were formulated.

Thus, acceptance of rules in the *RGT* was very weak; it happened neither through the process of rule definition nor by explicit certification. In the *ZO* it was fair and elaborated through the training of the coordinators, among others. In the *RTS*, input legitimacy was strong and was obtained through concordance at the top. In the local nodes it was also strong and based on their small size or pre-existent relations.

Rule enforcement

The second factor that supports sustainability of governance systems is the institutional mechanism of rule compliance and enforcement, even against resistance by some actors.

The PAR leaders assumed rule compliance would occur spontaneously by virtue of membership. If it became necessary, the coordinators would supervise and enforce rules. However, given the massive scale of the nodes, this was impossible. Some coordinators and franchisers instead took advantage of the situation. To speed up replication, the franchisers carried suitcases with *créditos* and returned with the fees paid in pesos. It became common practice to charge members more than the $2 officially required and sometimes the suitcases of pesos would vanish. Of course, not all franchisers and coordinators took advantage, but that had nothing to do with the *PAR* leaders controlling them. Unable to handle 5,000 daily applications, *PAR*'s infrastructure and control mechanisms were overwhelmed. According to *PAR* leader De Sanzo, the franchisers were affected by 'common human weaknesses'. Critics blame the system itself; in the words of an anti-*PAR* leader: 'It was not only a way of stealing from the poor, giving them coloured paper for their money, but of teaching the poor how to steal from the even poorer.' *PAR* leader Covas assured the author he and his colleagues had tried different ways to improve control and enforcement of rules, but they had been ineffective or had engendered other abuses, so they left the monitoring to members. These did not have the capacity to carry out monitoring, either. In short, rule compliance was not monitored in the *RGT* and there were no institutional means of enforcement. It was not a franchise at all in the traditional sense.

Supervision and enforcement in the *ZO* was kept more or less under control in spite of the large scale of the nodes. Its leader Sampayo could not control over 400 coordinators, so he would show up unannounced in the *CT*s and start trading incognito. That is, monitoring was random. If he found the rules of the franchise being violated, coordinators were asked to explain the lapse. Prosumers were also allowed to file complaints, though during the fieldwork it was impossible to find cases where that had happened. The *ZO* advised coordinators to have a team of assistants to police the nodes and enforce the rules, expelling trespassers if necessary. A few cases were found in which this had occurred. All in all, enforcement of rules in the *ZO* was fair and in line with the hierarchical rules of a franchise.

In the *RTS*, the autonomy of the clubs was jealously guarded and seen as a guarantee of rule enforcement. This was done through peer control or by the coordinators, who complained that rule enforcement relied excessively on them. Coordinators were seen as the guardians of the rules defined by the IZ and had the right to reject applicants if they doubted their commitment. The fieldwork identified a few cases where this had happened, though with limited success. A regional leader assured the author: 'The *Trueque* belongs to the people. That is how it works: local, democratic, and transparent'. There were discussions in the IZ on the importance of preserving solidarity and enhancing participation, transmitting the idea that the *Trueque* was a working alternative to capitalism (Primavera, 2002b). Unfortunately, this was more in the discourse than in reality. Enforcement of rules in the *RTS* nodes was variable but only fair; in some nodes, peer pressure worked well and enforcement was higher.

In the independent *CT*s, rules were easier to enforce because of their smaller scale and pre-existent ties. Coordinators and members alike were part of a community beyond the node, to which they still belonged. So the rules of personal exchange applied and peer pressure kept members in check. Rule compliance was variable among groups but generally high. This was especially clear in the Barrio Belgrano node, which worked even without a coordinator and specific rules on prices or quality. Poverty and exclusion in common kept participants in line. A young man selling home-made detergents explained:

> I once burnt myself badly and could not work for months. My neighbours came to my hut with a meal every day. I survived thanks to them. Sure, we all need to make the most of the *Trueque*, but when it closes we go home together. And anyway, we are all poor, what can we squeeze out of each other?

Rule supervision and enforcement was weak in the *RGT*. In the *ZO* it was fair and checked at random. In the RTS it was variable but only fair, and was left to the coordinators or peer pressure. In local nodes, rule enforcement was high thanks to their small scale.

Resource synergies

The third factor supporting sustainability of governance systems is the benefits for agents based on achieving resource synergy, which in turn, raises output legitimacy. In the period analysed, basic food production inputs were the crucial scarce resource across all sub-networks through which to achieve synergy and secure the sustainability of the *Trueque* (Hintze, 2005).

In the *RGT*, the decision on how to obtain more basic food production inputs was mainly left to the nodes. At the central level, *PAR* used funds left over from the social franchise to buy food production inputs and sell them to those making food for sale in the nodes. Some nodes established an entrance fee in kind or in pesos, using the pesos for pool-purchasing of basic inputs. These responses met a small fraction of the needs of the participants. The *PAR* leaders pointed out to the author that the *Trueque* had never been intended to support over a million participants. To quote De Sanzo:

> We are not the state. The government asked us to let [people] in because there was no other solution for them. We did, we gave some a solution when the state had withdrawn. It was imperfect, we couldn't manage it, but there was nothing better in sight. Apparently, we made a mistake.

PAR tried to manage resources and gain synergies for the network, but achieved little success. The coordination of resources delivered minimal results to participants.

The hierarchical style of the *ZO* proved quite effective in achieving resource synergies, and in this respect the *ZO* is different from all the other networks. It structured a supply system of basic food production inputs by negotiating deals with firms in exchange for services such as transportation, cleaning or a share of the final production. The *ZO* also established collective factories and vegetable gardens with participants' labour. It managed a flour commodity chain: a mill would pay municipal tax arrears in flour, which the municipality would exchange with the *ZO* for maintenance of public spaces or bread for schools, which would be baked by *ZO* participants in collective *ZO* bakeries. For transportation, a team of *ZO* mechanics cannibalised several broken-down municipal trucks and assembled two trucks out of the parts. These were used to transport goods from one *CT* to another. The local government also received 10 hours of transportation a week as payment. With similar agreements, *ZO* leader Sampayo obtained wood for furniture, land to plant fruits and vegetables, and warehouses to store goods. The resource synergies in the *ZO* proved to be the highest in the *Trueque*.

The importance of enhancing resource synergies was much discussed at the IZ but no decision was made to build supply chains. The official position was that coordinators should arrange for supplies with members. Some *CT*s asked for a contribution in pesos so they could buy from wholesalers, later giving purchasing priority to those that made foods for the *Trueque*, but again the results varied. Where coordinators took up the task of pooling purchases, it worked fairly well. In other cases, it came to nothing. Some also tried to trade basic food production inputs with local governments or connect to their rural hinterlands. The achievement of resource synergies in the *RTS* was quite low, depending on specific coordinators and their strategies.

Local *CT*s sometimes obtained donations from local governments. Pooling purchases was also tried, as were raffles. In *Comunidades Solidarias*, for example, members ran a grocery shop in the school and opened every afternoon to sell goods for pesos and *créditos*. But these were all minimal benefits. Due to their small scale, local nodes had scarce resources for achievement of synergies. The relatively low economic benefits to participants, except where local governments support them, are the Achilles heel of local nodes.

The *RGT* achieved little resource synergy, and the *RTS* and the local *CT* did not do much better. The main success was that of the *ZO*, which organised supply chains with private sector and state actors.

Transaction and organisational costs

The fourth and fifth factors supporting sustainability of governance systems have to do with the costs of running the system, which translate into output legitimacy. The two costs distinguished here are transaction and organisational costs.

Transaction costs derive from trading with a non-state currency. The use of a single currency across a network of over a million participants reduced the risk of not finding goods to buy with *créditos*. The author found during the fieldwork that participants viewed their vouchers as a money parallel to that of the state, somewhat losing track of the risks it entailed. Some even stored the vouchers as a reserve of value. However, the large scale of the *RGT* made forgery attractive. So, while the system reduced transaction costs in the short term, it increased them in the long run. A similar description applies to organisational costs. In the short term, the effort in time and resources of setting up a *CT* was minimal. Making decisions was fast and easy, as the *PAR* leaders were the only ones in charge of regulation. However, in the long run this was impractical, since the three leaders by themselves lacked the capacity and the support infrastructure to make decisions over a network of thousands of nodes across the country or to respond quickly enough to forgery, conflicts and other threats. So in the end, organisational costs were high.

In the *ZO* the result was somewhat different. As it used a single currency across the network, uncertainty around the value of the *crédito* was low. The *ZO* voucher was also forged, but Sampayo's quick reaction replaced the counterfeit ones relatively soon after they had become a threat and that enabled the *ZO* to withstand the crisis better. However, while decision-making in the *ZO* was fast and costless, maintaining the system was not. The costs of the control infrastructure were paid through a collective fund financed through individual, very small, contributions. Moreover, reliance on only one person for strategic thinking raises the problem of his replacement in the future. The costs of making decisions were fair.

In the *RTS*, transaction costs around the variety of currencies used were the original basis for check-and-balance mechanisms in which all nodes inspected the currencies of the others. This required monthly meetings that made the means of payment reliable and their printing transparent. Thus, transaction costs were low. However, cross-checks entailed organisational costs that eventually proved burdensome in terms of time and money. The decision-making process became lengthy and rather inflexible. Therefore, the organisational costs in the *RTS* were high in the longer run.

In the local nodes, transaction costs of using non-state means of payment were not really a problem. The use of vouchers was mostly seen as an easier way to trade than just bartering or reciprocity networks, so the transaction costs were generally low. Making decisions was relatively easy and costless, given the reduced scale of the groups and the fact that most members had known each other from before the node's formation.

Transaction and organisational costs in the *RGT* were low in the short run but high in the long run. The concept of sustainability implies a long term, so the latter mattered most. In the *RTS*, transaction costs were low but organisational costs were the highest. The *ZO* had low transaction costs and fair organisation costs, while the local nodes were less costly to manage.

Overall assessment of sustainability

The sustainability of the governance systems of the *Trueque* after 2001 is summarised in Table 5.1. In the first three rows, the higher the rating, the more sustainable the system. In the last two rows, the low ratings indicate higher sustainability. The table shows that none of the subnetworks was able to frame a highly sustainable governance system. The weak viability of the *RGT*'s regulated market was particularly problematic, as it was the largest group and the one by whose performance the general public judged the *Trueque*. Its social franchise system was in fact a strange aberration: franchises are based on hierarchical control capacities, which the *RGT* did not have. Although it defined rules top-down, it was unable to enforce them. The assumption of legitimacy was a formula for disaster.

The strongest in ideological terms was the *RTS*, with its associational model. It fared better, but was particularly weak in its heavy reliance on the goodwill and commitment of coordinators to enforce rules and achieve resource synergies. Primavera emphasised that the coordinators were the critical link, a point the *RTS* failed to realise in time.

In contrast, local *CT*s and the *ZO* appear to be the most viable systems, but this needs to be placed in context. The *ZO*, with its hierarchical governance system, appears a viable option at a larger scale, but at the expense of relying heavily on a central leader, his managerial skills and infrastructure financed by a collective fund. Although effective, this is rather inconsistent with a scheme promoting self-reliance.

Table 5.1
Sustainability of governance systems in the Trueque after 2001

	RGT	ZO	RTS	LOCAL
Input legitimacy	Low	Fair	High	High
Rule enforcement	Low	Fair	Fair	High
Resource synergies	Low	High	Low	Low
Transaction costs	High	Low	Low	Low
Organisational costs	High	Fair	High	Low

Notes: RGT = Red Global de Trueque; ZO = Red de Trueque Zona Oeste; RTS = Red de Trueque Solidario.

The local *CT*s are better suited in terms of viability, but they are limited by the scarce resources in their localities or communities. This keeps them small and the gains of resource synergies are also small, though perhaps significant in terms of poverty alleviation.

However, this can be corrected. In 2006 *PAR* got what they see as a second chance. The government of Venezuela, under President Hugo Chavez, tendered internationally for projects to start a *Trueque* among the poor. *PAR* won the contract and started with a clean sheet and lessons learnt in terms of sustainability of governance systems. The nodes they launched in Venezuela are independent, based on local communities and targeted first at women. They function as closed markets in which all participants know each other. Coordinators have minimum functions and focus on distributing *créditos* (the same Argentine vouchers). Rules are agreed and accepted before starting. Enforcement and conflict resolution are left to the rules of personal exchange prevalent in the community. The novelty, though, is that the local government takes part, providing venues for the markets and sometimes inputs, lending basic equipment and tools, and giving micro-credits to start production. This combination could be the most sustainable governance system, but the Venezuelan community currency system has only run for a few months. It is still too early to assess the experience, but the fact that after the rise and decline of the *Red de Trueque* its founders are trying the local model is significant for future experiences with community currency systems worldwide.

5.6 Conclusion

The problems of governance in the *Trueque* became evident as soon as the volume of trade, number of *CT*s and number of participants demanded a system of governance that was comparable to a functional equivalent of the state; that is, an apparatus of rules and institutions to regulate and coordinate economic action among thousands of participants. As discussed in Chapter 4, the rules and institutions of personal exchange could no longer regulate such a large network (except in small isolated *CT*s). In the *RT,* there were too many divergent opinions on how to organise and manage a system of 2.5 million members without state regulation. As a result, the *RT* split and then each group was free to pursue the governance system it thought best.

Governance addresses a particular type of governing, sustaining a coherent coordination of actors with different purposes. The focus here is on the governance of economic systems, defined as a coherent group of institutional arrangements that organise, coordinate and manage the interdependencies of actors inside and across the boundaries of an economic system. In order to understand the development of the governance systems in the *Trueque*, these are first classified on the basis of Hollingsworth and Boyer (1997) and Streeck and Schmitter (1985). The typology comprises two criteria: the action motive (principle for individual action fostered by the institutions in a governance system) and the coordination mode (how power relations are organised).

Following this typology, four types of governance systems emerged in the *Trueque*: a regulated market (the *PAR*-led *RGT*), a private hierarchy (the *ZO*), an associational network (the *RTS*, which emerged out of the IZ) and a variety of local independent clubs. In the regulated market system of the *RGT*, institutions promoted self-interest and coordination was achieved by a central regulator (the *PAR* leaders) that decided some basic rules and left others to be defined by each node. In the hierarchy of the *ZO*, participants were also guided by self-interest but coordination relied on an administrative bureaucratic structure managed by a strong leader. In the associational network of the *RTS*, institutions enhanced compromise, first between the coordinators and then between participants, based on shared ideological convictions and recognition of mutual interdependency of interests. The local independent *CT*s structured a community or club type of governance system, in which coordination was spontaneous and participants were guided by reciprocal obligation.

However, the timing of the break-up –end of 2001 and 2002, when the economic crisis in Argentina reached the proportions of a meltdown– was unfortunate. The collapse of the regular economy strained the networks, with 5,000 new members joining every day. Supply was insufficiently developed to satisfy needs on such a scale, creating scarcity and soon afterwards inflation. The *RGT*, benchmark of the *Trueque*, was incapable of controlling its vouchers, which were later counterfeited, destroying the value of the currency. This was the ultimate blow for the *RGT*, whose demise infected the other sub-networks, which were unable to face the challenges anyway, and the *Trueque* fell apart in a matter of months. However, the various networks collapsed differently and the main question this chapter discussed was the reasons for the variation.

Each governance system is composed of diverse institutions and these define how sustainable the governance systems proved to be in the end. An analytical framework with four criteria relevant to the sustainability of governance systems was elaborated: input legitimacy of the rules and institutions, existence of mechanisms of enforcement, achievement of resource synergies that benefit participants, and transaction and organisational costs of the system. When the four governance systems in the *Trueque* were analysed with this framework, none scored high in terms of sustainability, though some fared better than others.

The viability of the *PAR*-led *RGT* regulated markets was minimal, with weak acceptance of rules, weak enforcement and weak resource synergies. The social franchise produced low transaction and organisational costs in the short run, which is why people who were mainly interested in trading supported it. The *RGT* offered a governance system in which people had to make little effort themselves; just find a venue, get the *créditos* and start trading. Other collective action efforts were centralised by *PAR*, whose *RGT* nodes kept multiplying rapidly. The *PAR* leaders assumed that coordinators and prosumers would act 'responsibly' under peer pressure. This ran against common practice in any franchise, an arrangement based on the capacity to monitor and enforce every rule, with withdrawal of the franchise being the ultimate sanction. Of course, such a course was impracticable with hundreds of nodes across the country, some of which had thousands of participants. The only similarity between the 'social franchise' of the *RGT* and any private franchise was the name. In the long run, the transaction and organisational costs proved too high and, unsurprisingly, the governance system of the *RGT* fell apart.

The second governance system studied was the associational model of the *RTS*. It was more sustainable than the *RGT* because it had high input legitimacy based on a participatory rule-setting process, fair enforcement and low transaction costs. However, it had minimal mechanisms to achieve resource synergies, and high organisational costs. It relied too heavily on coordinators and the training of prosumers to create solidarity, two features that made the governance system rather voluntaristic and impractical. The weak spots became clear when inflation controls were needed. Much was discussed, but the associational network was distracted by political intrigues that blocked decisions. Inflation ran rampant. Discussion and consensus-building are, by definition, time consuming and the demise of the *Trueque* gave them no slack, but the political aspects of the *RTS* also prevented some solutions from even being considered. While ideological affinity acted as the glue that kept it together during its construction, it blocked the capacity to respond quickly to its change in fortunes. As theorised by North (2005) the limits of 'alternative' economies are set by the moral perceptions of those involved. The network eventually died, mired in negotiation and discussion, as the external circumstances of the demise of the *Trueque* affected it.

The hierarchical *ZO* appeared to be more sustainable than the first two governance systems and it survived the collapse of the *Trueque* better. It had a fair legitimacy of institutions based on following a leader, fair enforcement of rules, excellent resource synergies, low transaction costs and fair organisational costs. It structured a hierarchy centred on the leadership of Sampayo, whose reputation and skill were well known. He regulated the currency, set the rules, and trained and controlled the coordinators as his subordinates. He built supply chains of basic food production inputs that the others envied, sometimes involving local governments and other civil society actors. This created strong output legitimacy. The *ZO* relied on bureaucratic structures to manage information and control the network, which were sustainable only on a large scale, for example on the regional level.

The fourth governance system was the local and independent node model. It was more sustainable than the other three and is how community currency systems around the world are typically organised. It scored high in rule legitimacy, high in enforcement and low in transaction and organisational costs. This was attributed to its reduced scale, at which the rules of personal exchange regulate a system. Its Achilles heel lay in the lack of resources with which to achieve synergies and create a significant income. Some local nodes were able to ease shortages by involving local governments and donors to support the scheme, as will be discussed in Chapter 6. In the near future, the experiences in Venezuela may provide further evidence of the sustainability of this governance system.

Was the scale of the *Trueque* the mother of its many evils? What does the experience of the Argentine *Trueque* indicate about scale and governance in community currency systems? Scale certainly matters, but bad institutional design is not corrected by scale. The *PAR* leaders insist that the scheme was never meant to be the primary source of people's livelihood, but to be a complement. Indeed, when nodes were small, direct contact prevented opportunistic behaviour. Control was lost when they grew. Ironically, the *PAR* leaders, who had shown extraordinary creativity and ingenuity in launching the *Trueque*, organising it as a network and designing a device to replicate it as fast as demand required, eventually failed to keep pace with the changes in their masterwork. The nodes were out of control long before the leaders realised something had to be done. The question still remains as to whether remedial steps could have been taken.

The associational model of the *RTS* could solve some deficiencies but was also overwhelmed by the hordes entering the nodes. In the relatively quiet period of growth, its coordinators carefully enforced the rules, promoted commitment and enhanced participation, and responded to members' needs. During its best period, the *RTS* created perhaps the most democratic governance system in the *Trueque*, although some considered it too politicised at times. However, in the turbulent period that followed, the associational model was ineffective in structuring a response and incapable of sticking to dialogue. The *RTS* eventually fell apart, but its associational model survived in the regional networks that comprised it. At that intermediate level, associational governance gets the best of both, growth in scale and scope and the legitimacy of participatory rule-setting.

The *ZO* proved to be better equipped to resist the challenges posed by the multiplication of membership and expanded its bureaucratic structures accordingly. Moreover, it made the most of its scale by developing supply chains. In this way it could ease scarcity and enter the sphere of enterprise production, achieving resource synergies that had been unheard of before in the world of community currency systems. The conclusion that hierarchies are effective and sustainable at large scales is not new (Meyer, 1990; Mitchel, 1991). Sartori (1990: 156) claims that hierarchies can integrate the activities of very large groups of people as long as planning and communication are effective. These two conditions were met in the *ZO* through the skills and hierarchical style of its leader. All in all, a hierarchy seems the most sustainable governance system for large-scale operations such as the *ZO* had in Argentina. But it still has two limitations. First, leaders like Sampayo are relatively uncommon; a less-able one could have driven the *ZO* to disaster. And second, it creates the problem of succession if the community currency system is to survive its first generation of prosumers.

Finally, local independent nodes show great heterogeneity but relatively little is known about them. The participants were typically members of closed communities (schools, churches, neighbourhoods and slums) and the node was appended onto these, like most community currency systems worldwide. Their main problem was the lack of a pool of resources with which to create synergies. Independent *CT*s that could resolve this problem through support of local governments and donors survived the demise of the *Trueque* remarkably well. In the extreme case of Barrio Belgrano, there is now even no need for a coordinator; the members are all poor, excluded from the regular economy, and need each other. They individually get minimal support from the city government and the Church. Barrio Belgrano represents an ideal case of a self-organised market, what Hayek (1946) called a ‘spontaneous private ordering’, although a slum populated by structural poor participants is probably not where Hayek would have expected to find it. The fundamental condition that allows this market to work without the regulation of any authority is an undisputed mutual recognition of poverty. All in all, when assisted by local governments or donors, local nodes present the most sustainable model of the four studied here.

To wrap up, governance systems need to respect a certain match between organisation and scale. On a national, large scale, this seems quite impossible. After all, that is what the state is, not just the actor that has monopoly over means of violence but also the bureaucracy that spreads all over a territory. The analysis showed that a hierarchy worked best at the level of a region, but it needed a skilful leader at the top capable of building infrastructure. On an intermediate scale, an associational governance system was sustainable as long as the number of actors involved was limited and the commonalities were clear enough to avoid tearing the network apart through internal politics. On a small scale, independent local groups appeared to be a sustainable option but they need to increase their resource base from other sources.

Notes

[1] In Spanish, ‘*economía popular*’; these authors claim that ‘informal economy’ is misguiding and discourage the use of the term.

[2] A regulation regime is ‘a complex of norms, rules, conventions, institutions, organisational forms, social networks, and patterns of conduct that stabilise an accumulation regime’ (Jessop, 1997: 291). It includes practices, labour-processes, consumer habits, geographical and geopolitical configurations and powers of the state-.

[3] Jessop (1997: 287) locates the Regulation School as part of the ‘revival of institutional and evolutionary economics’. For a discussion, see Jessop (1992, 1995).

[4] The statistics are from <www.indec.gov.ar>.

[5] He declared: ‘We believe the *Red de Trueque* so far has had a great development but very low profile. Now we want to enhance its organisation at the national

level as a tool for development. We are lucky it exists. Otherwise, all those people would be protesting out in the streets.'

[6] Details of the assistance provided by the government are posted on <www.geocities.com/music*Trueque*/acuerdo/acuerdo2.htm> and www.appropriate-economics-org/ latin/argentina/agreementRGT.html>.

[7] According to an interview in *La Nación*, 18 June 2002.

[8] The Social Economy section of the Instituto del Conurbano in the Universidad Nacional de General Sarmiento compiled a database of articles that had appeared in the main newspapers.

[9] Hintze (2003) compiled several proposed laws.

[10] Many applications were received but never processed, so they do not count in the 1.2 million. There was no check for duplications either (by applying twice, members could get another 50 *créditos* for $2). So the exact membership is unknown.

[11] 'Te Cambio', *La Nación*, 5 May 2002.

[12] The main *CT*, La Bernalesa, had 3,000 visitors a day. The second-largest, *Club* Los Andes, held its Sunday markets in a football field with 1,500 people participating.

[13] The node in Chacarita was one of the largest, located in an old four-storey-railway building.

[14] Training in hygienic handling of food was then required of participants. The courses were given by local governments or qualified participants. Other rules, like compulsory product labelling, followed.

[15] Respondents in the villages of Pergamino, Cañuelas and Campana told the author they went to La Bernalesa to sell at higher prices and enjoy the wider variety of goods. They returned the same day, travelling a maximum of 239 km twice. Trips were paid for in a mix of pesos and *créditos*.

[16] Inequality did not have a clear gender component: an hour of cleaning by a woman was rewarded at the same rate as an hour of cleaning by a man. This was tested during fieldwork, using a kilo of regular flour as the equivalent ($1 in the formal economy). Rates vary across *CT*s, so prices were compared within a single *CT* on the same day. An hour of childcare was offered for the equivalent of 2 kg of flour ($2). An hour of cleaning by either a man or a woman was offered for 1.5 k of flour ($1.50). A woman altering clothes charged 4 kg of flour an hour, the same as a plumber ($4), both using comparable machinery and skills. In the formal economy, an hour of childcare costs $7, an hour of cleaning $5, an hour of sewing $15 and an hour of plumbing $25.

[17] *Clarín*, 17 October 2002.

[18] After provinces started issuing their own means of payment valid within their own territories, the central government realised that it was losing control over the monetary situation. It then issued a currency in addition to the peso, called the lecop (acronym for *letras de coparticipacion*) to replace the provincial ones. The lecop was a nationally circulated paper bond without reserve backup from the Central Bank.

[19] A leader in Mar y Sierras recalled: 'The sequence was as follows. In the beginning, you met your neighbour in the street and she asked you where you were going. "To the node", you'd answer. And "what is that?" she'd ask. Later she'd ask which one you attended. In the end she'd ask whether "that" still existed.'

[20] *La Nación*, 16 December 2002 and interview with Horacio Covas, 4 November 2006.

[21] *La Nación*, 26 July 2003.

[22] Although participants had made a commitment to return the 50 *créditos* they had been given as starting capital, most never did so.

[23] Unless specified otherwise, all the quotations are from interviews conducted by the author in the second quarter of 2004.

[24] By December 2004, the limit was set at 100 *créditos* per participant per market day on Saturdays and 300 *créditos* per participant per market day on Sundays.

[25] Demurrage is a reverse interest rate, stimulating spending instead of saving.

[26] Estimation by Pablo Perez, owner of the *Trueque*'s newspaper.

6 Re-placing money to promote local economic development

6.1 Resurgence of local monetary networks

Local monetary networks are one of the ways in which communities and regions around the world reclaim control over their economies. In the last two decades, a few hundred regions, localities and communities in both the developed and the developing world have created their own means of payment in an attempt to increase their control over their resources (Lee, 1997; Pacione, 1999; Seyfang, 2001a and b). Monetary systems are, after all, one of the many sets of institutions regulating and supporting economic life, and as such, a social construction (Ingham, 1996; Leyshon and Thrift, 1996). Monetary networks and currency systems are used as synonyms in this chapter.

The goals and modalities of implementation of complementary or community currency systems (CCS) vary, but the search for ways to develop the local economy is normally a priority. In general, CCS are defined as the organisation of exchange transactions within a specific space by adapting the existent monetary system or constructing an ad hoc monetary system (Blanc, 2002). The purpose of local monetary networks is not to disconnect from the national economy or monetary system, but to complement, adjust or adapt to it. While the formal national currency is issued by central banks to make payments anywhere in a country or abroad, local money only circulates in a specific area among those who choose to accept it. Participants increase their exchange of goods and services, enhancing local economic activity and stabilising demand during a crisis. In other words, CCS are an institution that localises economic activity.

This chapter discusses the postulation that local monetary networks constitute a tool to protect and promote the development of the local economy. There are three hypotheses to test. The first is that complementary currency systems protect the local economy during a crisis. The second is that they support income diversification of households. The third is that CCS promote local economic development. After determining whether each of these hypotheses holds, the chapter will assess the extent to which it is true in the case of the *Trueque*. The reasons why CCS have these local economic development effects will also be explained.

These hypotheses will be tested by delving into the micro-world of the *Trueque* at the level of the participants. The data on which this analysis will be based were collected during a survey in the second quarter of 2004, as described in Chapter 1. The survey received 386 effective responses from participants in 18 nodes in the metropolitan area of Buenos Aires, Mar del Plata and Rosario. Two case studies are also reported here because of their exceptional concern for promoting the regional economy. In no way do they constitute average cases, but they are examples of ways in which CCS can have an active role in promoting the local economy.

6.2 Rediscovering local economic development

The 'rediscovery' of regions and the relevance of place and space to economic development have been partially based on studies of the success of highly dynamic regional economies, which draw extensively on local assets for their competitiveness (Amin, 1994; Barnes, 1999; Cooke, 1997; Scott, 1995). In regions where there are strong institutions, proximity is a crucial factor in improving economic performance (Amin, 1999; MacLeod, 2000). This is the central argument of the Institutional Regionalism perspective (Amin, 2004; MacLeod, 1999) according to which economic performance depends not only on positive macroeconomic conditions but also on local institutions that channel and promote selective cooperation between agglomerated actors (Gibbs, 2001; Raco, 1999).

Institutional Regionalism proposes a policy approach to local development centred on facilitating the creation of untraded dependencies and increasing dynamism of local networks. Regional promotion policies seek a balance between encouraging cooperation and stimulating competition (Cooke, 1998a). To quote MacLeod (1999: 704), 'the capacity to territorially *embed* global processes in place is now conditional upon a plethora of social, cultural and institutional forms and supports' (original emphasis).

Local institutions lock in economic activity

Several perspectives link institutions and economic performance to territory and proximity (Amin and Thrift, 1994; Barnes, 1999; Storper, 1997). New Economic Geography claims that ties of proximity enhance cooperation and learning, integration of local public goods and other assets that have a direct impact on a region's competitive potential. On the basis of endogenous economic growth theories, Porter (1994) and Krugman (1995) stress economic externalities and increasing returns to scale associated with clustering, specialisation and agglomerations.

The economic success of regions is related to 'relational assets' or 'untraded interdependencies' among local actors (Storper, 1995: 192). These include rules, practices, networks and institutions that 'generate region-specific material and non-material assets in production'. By banding together, agents develop social networks and common identities that enable future cooperation (Hirst, 1994). Voluntary associations are a prelude to local networks of producers that create synergies (Raco, 1999).

With this institutional perspective on territory, Amin and Thrift (1994, 1995) develop the concept of 'institutional thickness' to explain why some regions are successful in embedding or locking in economic activity. The interaction of firms, labour and organisations structures a common way of perceiving economic problems and guides the search for solutions (Tödtling, 1995). Strong local relations support small-producer, learning-based, innovation-oriented economic activity.

Four factors are critical to strengthening institutional thickness in a locality (MacLeod, 2001; Raco, 1999). The first is the presence of institutions that provide a basis for social, economic and political practices; they are the building blocks of the local economy. The second factor is *networks* among actors, including the local government, firms, financial institutions, training organisations, unions and other civil society associations. The third is the structures of power that give voice to divergent collective interests, socialise costs and control rogue behaviour. In this study, these were addressed as governance systems. The fourth is the mutual awareness of the actors involved that they share a common enterprise, loosely defined as an 'agenda'; that is, the social identification with cultural traditions, region, ethnicity, and so on.

There is some scepticism about the usefulness of this concept of institutional thickness because it focuses on the number of institutions instead of their quality (Gibbs, 2001). There are cases of strong institutions locked in laggard economic sectors that prevent development instead of promoting it (Hudson, 1999) as well as weak local economies with well-developed institutional capacities and strong economies without them (Jonas, 1996). Therefore, the concept needs to be refined.

The concept of institutional thickness is re-elaborated in this section to make it more operational. The proposal is to link the concept to particular agents or groups of actors. Institutions are not equally relevant to all actors; they are part of the social structure and affect the process of differentiation among agents. As a result, they guide the behaviour of particular segments or groups of agents differently. On the other hand, development is unequal by groups of actors. Local economic development does not include everyone in the same manner. The economic success of regions should not be judged by the wealth produced in one area of the private sector alone. So the relevance of institutional thickness to local economic development should be centred on specific agents. Any discussion on institutional thickness needs to be referred to the specific agents affected by the thickness of institutions.

This analysis focuses on the excluded (mainly poor and unemployed) who participated in the *Trueque*. The Argentine CCS represented an addition to the local institutional endowment that affected the livelihoods of the excluded. In this context, the four factors that need to be looked at from an exclusion-focused institutional thickness perspective need rephrasing. Thus, the first factor becomes the presence of institutions in the area guiding the action of the poor and unemployed and affecting their inclusion in the social, economic and political processes of the locality. The second factor is the networks where the excluded are included, where they may be able to interact with the local government, firms, financial and training organisations, and civil society organisations. The third factor is the possibility of the excluded forming coalitions or structures of power to voice their claims on income diversification options. And the final factor is awareness among some of the excluded of their situation, leading to elaboration of an agenda to improve their condition. In this way, institutional thickness is not just a static endowment of prior and evolved institutions but a dynamic process of designing institutions that affect the excluded (Gibbs, 2001; Martin 2001b).

Localising development through institutional building

The present generation of regional development policies promotes a bottom-up endogenous development in which the centre moves to network forms of governance (Ansell, 2000; Thompson, 2003). In response to the restrictions and opportunities posed by globalisation, new regional policies include new agents and institutions and seek to extend coordination to sectors of the economy and levels of government previously neglected. Helmsing (2001, 2003) characterises them as multi-actor, multi-sector and multi-level local economic development policies.

The local economic development (LED) approach is defined as 'a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources, to create jobs and stimulate the economy of a well-defined territory' (Helmsing, 2002: 81).

There are three categories of LED policies, as elaborated by Helmsing (2002; 2003). The first is business development, consisting of initiatives that target enterprises or clusters of firms, such as deepening specialisation and improving access to markets. The second category is locality development, defined as management of economic and physical resources, especially infrastructure-building and service provision. The third is community economic development, focused on facilitating diversification of the economic activities of the poor by intervening at the meso-level. Examples of this are support for home micro-enterprises and other survival strategies in the informal sector. CCS are mainly involved in this category, as they present an additional income option for households experiencing unemployment, poverty or vulnerability. However, the Argentine *Trueque* also had an impact on the first category (business development) because it promoted creation of enterprises active in the local market.

6.3 Localising money in a global economy

National monetary systems with a single currency regulated by a central bank became normal only in the 1900s, and so are younger than many other economic institutions (Gilbert and Helleiner, 1999; Van Dun, 1998). Yet, after two centuries of monetary sovereignty, at a time when global financial flows are blurring national boundaries and countries are regrouping around single currencies, localities and communities are again trying to establish their own currencies (Jones and Macleod, 1999). CCS seem an illogical curiosity, seeking to root exchange transactions in a specific area by means of a local transformation of the monetary system.

There are many types of community currency systems. On the basis of whether they are tied to geographical boundaries or not, Blanc (2002) distinguishes two types: territorial and community. A territorial CCS is created for exchange transactions in a certain space, respecting no other restrictions than the boundaries of the area or authority of the issuing institution. It can be guided by an official authority with some sovereignty over a sub-national territory like a province or municipality. Though normally articulated with a monetary authority of higher rank and a hierarchical banking structure, it nevertheless represents a break from national monetary systems (Gilbert and Helleiner, 1999; Van Dun, 1998). Some examples of a territorial CCS are Estonia establishing its own currency out of the rouble area in 1992, the province of Buenos Aires in Argentina issuing the *patacón* in 2001 to pay off debts, and the French chambers of commerce printing 'currencies of need' (*monnaies de nécessité*) between 1914 and 1923 (Blanc, 2006).

Community monetary networks have different boundaries. They restrict the use of monetary instruments exclusively to voluntary participants of a community, so the space of application is not necessarily bounded geographically but restricted to individuals who wish to take part. They include most local monetary networks that have emerged in the last two decades, like the *moneda sociale* in Italy, local exchange and trading systems (LETS) in Anglophone countries, *monnaies parallèles* in France, and *Red de Trueque* in Argentina and other Latin American countries (DeMeulenaere, 1997; North, 2003, 2007)[1]. In most of the *Trueque*, currencies circulated in more than one *CT* and even in a national network, so they are technically community or complementary currency systems, rather than local.

Rationales for local monetary networks

A recent elaboration on local monetary networks distinguishes four main rationales for them, which often combine with each other (Blanc, 2002, 2006). The first relates to income collection through seigniorage, as advanced by Fischer (1982). Seigniorage is the revenue earned by organisations that issue money, calculated as the net difference between the total nominal value of scrip and the costs of printing it. For community monetary networks, the seigniorage argument is of little relevance. Many local monetary systems are accountancy systems with no physical scrip; even when bills are printed, they are given free to participants. In this sense, the 2 pesos collected through the social franchise system in some *RT* networks constitutes yet another exception in the world of CCS.

The second rationale is a qualitative transformation of exchange. That is a change in the nature or conception of exchange transactions and their context. This idea draws on Polanyi's (1957, 1992) description of exchange transactions as atomistic and disembedded, meaning that social contact begins and ends with each transaction, independently of the social relations that nest it (Thorne, 1996). In contrast, the creation of a local currency entails a bond of trust between buyer and seller initiating a mutual credit, a 'bond of customers' (Blanc, 2000). Participants in CCS are prosumers, a concept elaborated by Alvin Toffler (1980) and referring to individuals producing and consuming at the same time. It was typical of primitive societies, but recently it has been seen as recomposing the economic and social local fabric, bringing mutual buyers and sellers closer. In the Argentine *Red de Trueque*, transforming the qualitative nature of exchange transactions was a goal of some groups (Hintze, 2003). González Bombal (2002a and b) argues that the *Trueque* represented a new type of sociability that brought the impoverished middle class together to reconstruct the social fabric.

The third rationale for CCS identified by Blanc is protection of the local economic space against external monetary disruptions; that is, when means of payment are scarce (a recession) or excessive (inflation). Since local currencies are not compensated for outflows by inflows that would preserve the local monetary balance, CCS reduce the amount of cash flowing out of the region. When the national or global economy collapses, currency shortages constrain the circulation of goods in the locality, generating unsatisfied needs. These could be covered without central money by producers in the area. The mismatch between supply and demand could be solved by local means of payment, with the additional advantage that they would continue to circulate there (Pacione, 1997a). It is noteworthy that CCS emerge during deep recessions (Schuldt, 1997).

The fourth rationale is increase in local economic development. Improved dynamism of the local economy results from either locally locking in activities previously carried out elsewhere (repatriation of exchange transactions) or accelerating regional transactions. The regional economy is a 'very small open economy with limited tools to control the entrance and exit of physical resources, human and financial' (Dow and Dow, 1997). Several authors (Danson, 1999; Pacione, 1997a; Schuldt, 1997; Seyfang 2001a) argue that CCS enhance the local economy's independence in line with Agenda 21 of the 1992 Rio Summit (UNCED, 1992). Like any currency, local money coordinates a productive system, tying together producers and consumers. It helps create new jobs, put local resources to economic use, and improve the general standard of living in the area. Developing the local economy thus represents a more ambitious goal than simply protecting it. In this sense, CCS could foster local economic development because income generated in local money is geographically restricted to being spent there.[2]

An additional rationale for localising money

There is a fifth rationale in addition to those given by Blanc (2002, 2006): diversification of income sources. The poverty alleviation effects of CCS have received less attention because most research on them has been conducted in the developed countries, where aiding the poor is not really a priority for CCS, which are more related to an alternative lifestyle (North, 2006; Seyfang, 2001a). Poverty is a pressing problem in less-developed countries like Argentina and other Latin American countries where CCS exist (Schuldt, 1997).

The livelihood approach, or asset vulnerability framework, challenges the early concept of poverty as low-income status (Carney, 1998; Moser, 1998). It presents a multi-dimensional understanding of poverty, not reduced to monetary income (Longhurst, 1994). The livelihood approach focuses on what the poor have rather than on what they do not have (Moser, 1998). Households' economic activity relates to five kinds of assets: human (skills, health), physical (infrastructure, equipment), social (networks, connections), natural (land, water) and financial (money, credit), according to DFID (1999). Securing a livelihood depends on accessing and managing these five assets, which in turn depends on the households' vulnerability context (climate shocks, seasonality) and on the structures, processes and institutions in a specific society. Therefore, local institutions affect the poor and may reproduce poverty.

The idea that poverty is affected and reproduced by local institutions was taken up by Helmsing (2002, 2005) who contends that, while the livelihood framework focuses on the micro level of households, institutions are present at the meso-level of localities. Local economic development involves designing institutions that facilitate diversification of income sources; that is, improving access of the poor and unemployed to, and their inclusion in, networks and organisations that can strengthen their capacity to influence economic structures and processes. Setting up a local monetary system, for example, represents an institutional construction to promote community economic development, since it offers a possibility of income diversification. The configuration of a club market for small-scale exchange transactions, referred to in Chapter 3, presents another institutional design for the poor and unemployed.

6.4 *Trueque*'s effects on local economy

Earlier in this chapter, institutional thickness was presented as a crucial dimension in localising economic activity in a region. The concept was refined to make it more operational for the purposes of this study. It was centred on the excluded, most likely to participate in a developing-country CCS like the *Trueque*. From an exclusion-focused institutional thickness perspective, CCS are part of the local institutional endowment. They can control some supply and demand in an area, which is particularly important for mitigating the local impact of central monetary disruptions in a crisis. The launching of a CCS in a locality affects the income diversification of households and supports the livelihood of the excluded, mainly the poor and unemployed. Thus, a CCS represents an instrument of community economic development, a category of local economic development. These assertions will be tested in the world of the *Trueque*.

Profile of survey respondents

Of the 386 respondents to the survey, 86 per cent were women, and 46 per cent were between 46 and 60 years old and had a relatively low level of education (only half of them had complete secondary school education). The respondents cannot be regarded as being typical of the structural poor: 67 per cent of their households owned a home (half through public housing plans), 63 per cent had been on holiday at least once in their lives (two-thirds through unions or with the help of the welfare state) and 60 per cent had a family member who used the Internet regularly.[3] Half the respondents were heads of households (main breadwinners).

Regarding their participation in the *Trueque*, half of the respondents (52 per cent) started participating in the years when it reached massive proportions (2000-02), a third were already members before that and the rest joined after the *Trueque* fell apart (2003-04). More than half (55 per cent) did not stop participating after the *Trueque*'s collapse; they just found other nodes that were still open. The respondents were mostly regular visitors to the nodes: 45 per cent went twice a week, 31 per cent more often, 15 per cent once a week and only 10 per cent had no fixed routine or were new.

Protection of local economic activity

The first question to explore is the role of the *Trueque* in protecting the local economy. The original project was to provide economic help to a segment of the population that in 1995 was suffering the effects of the structural reforms and unemployment. With the economic collapse, it became a full fledged survival activity.

Participants were asked how their economic situation had changed after they joined the *Trueque*. Their responses provide clear evidence that the *Trueque* protected their lifestyle: all but two of the 386 respondents said their households' economic situation had improved (42.5 per cent) or stayed the same (57 per cent). Typically, participation the *Trueque* was the equivalent to employment of own account on small scale and at low productivity. Households where the main breadwinner lost the job in the regular economy or earned too little to make a living resorted to the *CT* to offer goods and services. For them, it was like setting up a micro-enterprise for which the cost of entry was very low, measured against the minimal opportunity cost of staying at home without the income. They served a complementary market with local products and local consumption and they generated an income in surrogate money until they could re-enter employment.

As postulated in the literature, the participants thus established a variety of links to the regular economy that protected local economic activity. They were asked about the origin of their products on sale (see Figure 6.1). A quarter of the supply comprised second-hand articles that people had at home and could spare. The sale of these had no macro-economic impact beyond providing some income to the households.

Another 9.5 per cent of the products originated from the government's social welfare schemes or charities. To keep figures conservative, it is assumed that these were bought directly elsewhere and had no impact on the local economy.

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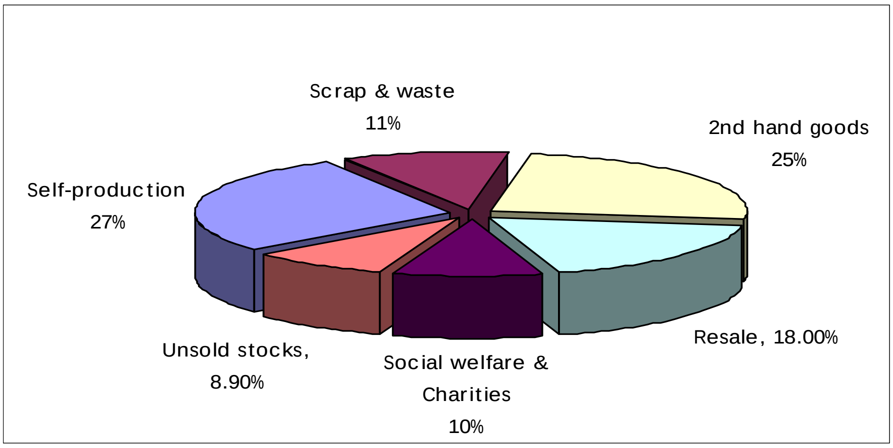
Figure 6.1
Origin of products sold by respondents in the Trueque (n=386)



The remaining 65.4 per cent of the goods sold by the respondents had an impact on the local economy. Participants themselves produced 28 per cent of the products on offer; this was normally done at home and therefore represents extra local production.[4] Another 18 per cent of the goods were bought in nearby shops and resold in the *CT* without processing. This added local demand, which might not have existed otherwise, to the regular economy. Goods discarded by third parties comprised 10.5 per cent of the supply, which did not stimulate production in itself but reduced the amount of waste requiring disposal. Finally, shops and local businesses participated in the *CT*, selling idle stocks and overproduction; this constituted around 9 per cent of the goods on offer. The breakdown of the supply thus shows that the *Trueque* protected economic activity in the region in several ways: by increasing production, adding demand when the regular market collapsed, reducing waste for disposal (a positive environmental effect) and providing local businesses with a secondary or outlet market. In general, the *Trueque* satisfied more needs with the same income, restoring some value to second-hand goods, reusing waste, and exchanging unwanted goods received as gifts for those needed by the participants.

Local factories and shops participating in the *CT* compensated for part of the sales lost in the regular economy by directing overproduction or excess stocks to the *Trueque*. Out of the 44 *CT* visited during the fieldwork, sales in pesos and complementary money were observed in 29; this has also been reported by other researchers (Hintze, 2003; Vazquez Abramovich, 2003). Shops typically go on with business in both the regular market and the *CT*. A woman trader said:

> I've had a shop for 25 years but things have not been going well for some time. So I come to the *CT* twice a week with my stuff. It sells a lot easier than in the shop because people want to take goods home instead of these little pieces of paper. Of course I prefer pesos, but I fill the fridge with vegetables and other home-made foods from here. It helps me, that is why I do it.

In two of the 11 *CT*s where no shop owners were found, they were banned for ideological reasons; another three were located in slum areas inaccessible to shop owners and six were too small to attract shops. The percentage of shop owners among participants was invariably small (7.8-10.3 per cent), with more presence in *CT* in relatively more affluent areas. When asked to estimate the relevance of their sales in complementary currency, 62 per cent considered them 'crucial' or 'very important' for enabling them stay in business. A third had closed, but even so, all but one of owners of the closed shops indicated they had liquidated their machines, tools and stocks in the *CT* and that had enabled them to satisfy basic household needs for some time. The *Trueque* did not necessarily save shops and businesses, but it supported them in the crisis.

The participation of local businesses was considerably more marked during the peak of the crisis (2001/02) than when the fieldwork was carried out. Once the regular economy rebounded, the shop owners left the *Trueque* to continue business as usual. The owner of a bakery said: 'Clearly we all prefer pesos because we must pay our suppliers in pesos and not in pieces of coloured paper. But when there are no pesos you need to stay afloat. All things considered, this is a good alternative.'

The *Trueque* thus represented a useful 'emergency market' for shops and small producers affected by the collapse of the regular economy. But if this were all, there would be a paradox. The rebound of the regular economy would then become a threat to the sustainability of the *Trueque*. As soon as the market in pesos recovered, the need to sell goods in *créditos* would disappear and participants would drop out of the *CT*. Why, then, does the *Trueque* still exist after 50 months of uninterrupted economic recovery? The nodes still functioning in 2007 had obviously achieved higher levels of institutionalisation. Clearly, the *Trueque* is more than just a survival mechanism.

According to *ZO* leader Fernando Sampayo, the *Trueque* continued to exist even when the regular economy was booming because people had adopted it as one of their habits. In addition, a factory can nearly always compensate for insufficient sales in pesos with sales in *créditos* at any time in the business cycle in order to improve efficiency and stock rotation. Sampayo explained:

> The *Trueque* stabilises the scale of production and sales because the retailers and small local manufacturers can sell their overproduction, what the market in pesos does not buy from them. Unit costs go down when the scale of production is increased. If there is a crisis, that prevents it from worsening. It gives companies a greater chance to recover after a bad period or gain competitiveness if they are in a good period. It always helps.

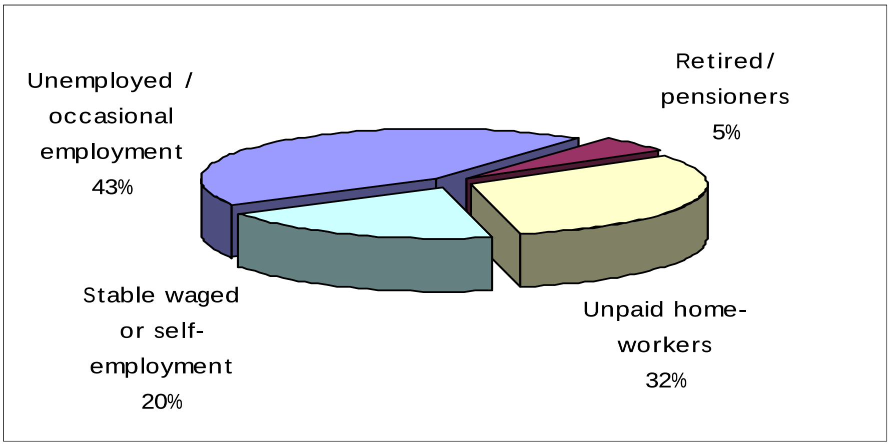
In short, the protection of economic activity in the locality occurred as described in the literature; some small firms and shops badly hit by the economic downturn used the *Trueque* as an alternative channel to sell the products that the market in official money was not able to buy from them. They dealt with the overproduction in several ways: discarding the products, giving them to employees, using them for part-payment of wages, or selling them in the *CT*s as a complement to their sales.

Diversification of household income

Complementary currency systems support households in diversifying their sources of income. They present an addition to the institutional endowment of localities with a specific focus on the excluded: the poor, the unemployed, the low-waged workers and the individuals engaged in unpaid work (typically women). At least in developing countries, this role should be regarded as a fifth rationale for CCS.

The orientation of the *Trueque* towards households stricken by poverty, unemployment and vulnerability in general is presented in Figure 6.2 and Table 6.1. In relation to the labour market, the largest group of participants were the unemployed. The second-largest group were unpaid home-workers who had never had an income. Waged employees and retired participants explained that they had joined because their wages or pensions in the regular economy were too low to maintain their livelihood. Therefore, they needed a secondary source of income and the *Trueque* was at hand.

Figure 6.2
Labour status of respondents (n=386)



Notes: The category 'Self-employed' implies a regular occupation requiring specific skills and equipment but no wage relation. Workers alternating irregular informal work and unemployment are considered unemployed. Unpaid home-workers are typically women not participating in the labour market.

The large majority of the participants (360 out of 386 respondents) indicated that their household had an income in pesos and 154 declared two other sources of income in pesos. These were normally insufficient to cover the expenses of the household. Official currency typically came from another member of the household in regular employment (37.5 per cent) or in temporary/irregular employment (34.2 per cent). The rest of the participants (about a third) received a pension, a welfare subsidy from the government or financial aid from relatives and friends. In addition, about 40 per cent of the households had a third source of income, typically in irregular and own-account employment.

TABLE 6.1
Percentage of respondents with household sources of income in addition to the Trueque (n=386)

Other income sources	Respondents with one other income (360 cases)	Respondents with two or more other incomes (154 cases)
Regular employment	37.5	0.6
Irregular, own-account employment	34.2	58.4
Pension	15.3	9.7
Welfare system	7.8	16.2
Help from family, relatives, friends	5.3	14.9
Total	100.0	100.0

The typical situation in such cases was to use the two currencies (pesos and *créditos*) for different expenses. Pesos were insufficient to cover all the needs of the household. Some needs (mainly food, clothes, shoes and toiletries) could be satisfied in the node. Expenses like medicine, transport, rent and utilities required pesos. These were kept to the strictly necessary, or, where possible, were only incurred when pesos were available.[5] Participants then got from the *Trueque* as much as they could of their needs. In short, the earmarking of currencies for different expenses corroborates the perception that the *Trueque* does not resolve poverty. It is complementary to some employment in pesos, a point that will be discussed below for its gender aspect.

The *Trueque* was an option in the menu to diversify income and cover the basic needs of the household. Respondents overwhelmingly indicated that their households would not get by without the *Trueque*. Most were unable to detail what share of their expenses was paid in each currency, but 303 respondents did roughly assess the share of their basic needs that was met through the *CT*.[6] The *Trueque* appeared to be a critical source of income for some; a small group of 7 per cent had no other income at all and another 18 per cent covered 75 per cent of their basic needs through the *Trueque*. They said some members of their household did not eat on the days the *CT* was closed.

TABLE 6.2
Share of household expenses covered through CT in 2004 (n=363)

Less than a quarter	33
About half	42
Up to three-quarters	18
All (no other income)	7
Total	100

This extremely poor group, like all the others, could participate in the *Trueque* only if they were first able to get something to sell. The variety of what they obtained from various sources was quite broad, including food donations given but not consumed for health or taste reasons;[7] scrap and leftovers from factories and shops (pieces of fabric, defective items, slightly deteriorated food in damaged cans and boxes, and produce such as fruits, vegetables, bread or dairy products coming to the end of their shelf life); second-hand goods (clothes, shoes and toys) received from charities; scrap weeded out of rubbish in wealthier areas; donations from churches and NGOs; and goods from their kin. The also used state welfare payments and donations to buy goods they could sell in the *CT*s. As long as they obtained something to sell, the structural poor could benefit from the *Trueque* accessing goods recycled by those less poor than themselves.

The situation was easier for less-poor participants among the respondents. About 42 per cent covered half their basic needs in the *Trueque* and 33 per cent about a quarter. These two segments of participants represented 75 per cent of the respondents and they had assets accumulated in the past by themselves or kin, or an income in pesos with which they bought goods for the node. Some sold them directly, while others preferred to process food production inputs because they could then charge a mark-up for their value added, but this depended on the extent to which they were able to find inputs in the node.[8] Many respondents emphasised that the *Trueque* works best when a few pesos are available to buy supplies and process food production inputs.

Some participants said that in the past it had been possible to live entirely on the *Trueque*. In 2000-02 its scale and scope were much larger, as was also the need of participants to survive the crisis. When the fieldwork was carried out, however, the impact of the *Trueque* had diminished and poverty in the country had fallen markedly. When asked to assess the share of household expenses covered through the *Trueque* during the economic collapse of 2000-02, only 248 respondents were able to answer (the rest were not participants then or could not remember). From those who did answer, it became clear that the *CT* was crucial: 63 per cent covered 75 per cent of their basic needs or more and 25 per cent met half their basic needs in the *Trueque*. It was the basis of their survival during the crisis. These responses are naturally tinted by the positive memories of a past that is gone and which some participants refer to as the 'magic' of the *RT*. 'I was able to buy so much at that time that the bus driver didn't want to let me in to go home,' a participant added to her answer. In reality, the impact of the *CT* was probably less than they remember, but that still does not invalidate its importance.

In spite of the considerable reduction in its size, the *Trueque* was not too small to stop being useful after its decline. By 2004 the nodes became much smaller but 96 per cent of the respondents said they were satisfied with the scale and scope of the goods on offer. Most said it just required a different buying style (40 per cent bought what they found that day that could be useful). They added that coordinators had been able to regain control of the situation, so the return of regulation somehow compensated for lost scale.

What reinforces the satisfaction of participants is perhaps the realisation that the alternatives are not better. Participants were asked where they had received help. Out of 305 respondents, 35 per cent received assistance from friends and family, 17 per cent from the state, 15 per cent from neighbours, 12 per cent from churches and 4 per cent from politicians outside the official channels. However, participants often added that they did not seek help from anyone other than friends and family.

The *Trueque* thus appears to be a critical option in the income diversification menu of households, consistent with being a tool for community economic development. A CCS is an institution designed for the excluded. It improves access to a market network and management of the assets of the vulnerable. However, the diversification of income by the participants of the *Trueque* shows that it does not constitute an instrument to raise people out of poverty. Only a minority of the poorest, those who were able to obtain something to sell, participated in the *Trueque* and comprised no more than 30 per cent of the *CT* participants. It offered them the opportunity to eat and clothe themselves. Less-poor participants neatly incorporated the *Trueque* as a source of household income, earmarking currencies for different expenses, finding ways to obtain food production inputs, calculating mark-ups, alternating production and resale as was convenient. The disenfranchised middle class and the not-so-poor have some access to pesos, skills, tools, or contacts to access such resources. For them, the *Trueque* seems to be ideal. Thus, the nodes mixed participants from different social backgrounds: the disenfranchised middle class, the not-so-poor and a minority of the extremely poor. The *CT*s were meeting places for the excluded in general: the unemployed, the disenfranchised middle class, the structural poor, the low-paid and the unpaid workers. In this way, the structural poor became exposed to networks to which they normally have no access.

Trueque's role in micro-enterprise development

Besides protecting the local economy during the crisis and supporting diversification of income, the *Trueque* enhanced the creation of micro- and small enterprises. Participants formed home-enterprises to sell in *créditos* but later many managed to 'graduate' into the regular economy, launching a business operating in pesos. This was especially relevant for groups normally unlikely to show such entrepreneurial behaviour, like the structural poor and women doing unpaid work. The *Trueque* was an entrepreneurial learning experience; it operated as a space where members built a network of potential buyers and learnt through practice how to develop a marketable product. It was a way in which nodes supported the thickening of institutions and promoted economic activity in the locality.

The effect was felt across the entire *RT*, but the explicit commitment of the *Zona Oeste* network to enterprise development made the results more obvious there. For that reason, this section reports only on the 140 responses gathered in the four nodes of the *ZO*.

The graduation process into the regular economy normally started when participants dared to test whether their activity in the *Trueque* was viable in regular money. According to respondents, a successful graduation depended on two factors: the marketability of the product developed in the *CT* and the network of buyers to whom the product could be offered. Buyers were mainly ex-participants who still wanted to consume the goods and services of the node but paid in pesos. These ex-participants were the disenfranchised middle class who bounced back with the recovery of the regular economy, pushing others upwards too.

In terms of products, the favourites were handicrafts and a variety of home-produced foods that could be sold at weekend street markets. Those products were already in high demand in the *Trueque*. Exactly how many individuals have made the transition from the *Trueque* to the regular economy is not known; however, during the fieldwork it was possible to research the transition dynamics by identifying participants in the *CT* who were selling the same good or service in regular money.

Considering that most participants had none or minimal experience in commercial activities and had received no support, it is remarkable that 83 out of the 140 respondents (59 per cent) had dared to test their product or service in the regular economy, typically in weekend street markets. The motivation for trying to sell in the regular economy that was mentioned most frequently was that they just needed pesos to live on or to buy inputs for processing or resale in the node (40 out of 83 respondents). This answer was closely followed by one that indicates that the *Trueque* developed entrepreneurial attitudes: 35 out of 83 respondents said they wanted to try something they had never done before, they believed their product to be marketable, and/or they had received encouragement from other participants in that direction.

The motivation of the participants indicated a 'learning by doing' process that promoted economic development in the locality. Respondents often said they had never thought their hobby or daily work at home (for example, cooking or knitting) could become a source of income for themselves and their families. It was a ‘discovery’ when they started selling their goods in the *Trueque*. In fact, 64 per cent said they would never have tried to sell their products if it had not been for the *Trueque*, 21 per cent said the experience in the nodes had been valuable and 16 per cent did not see it as relevant. Most learning took place at the *CT*. Though learning was mostly by doing, 18 per cent of those who sold in pesos had received their training in the node, too. The tools and equipment for their activity were sometimes bought there (18 per cent) as were inputs (62 per cent).

The *Trueque* operated as a practical school where individuals could experiment with running their own business. A good product was not enough, they found; they also had to ‘learn by doing’ to calculate costs, control stocks, manage inputs and outputs, and so on. Then, either pushed by necessity or self-confidence, they ventured into the regular economy. Seyfang (2001c) found a similar process occurring in the UK, where the scheme was successful in creating new informal employment opportunities for socially excluded groups.

The *Trueque* functioned in practice as an incubator to the extent that 42 of the 83 participants who tried selling in pesos are still active after one year. It offers a relatively high survival rate for micro-enterprises born in its realm. Local currency systems thus help the poor and unemployed to establish a micro-enterprise and generate extra income for their households, at least for some time. This enhances the institutional thickness of the local economy, as it offers an option to make a living. Whether these new businesses grow to the point of offering a secure and reasonable income to households could not be determined. In principle, once the business in pesos takes off, the entrepreneurs should abandon the node; however, this was not the case in Argentina.

Gender aspects of micro-enterprise creation

The achievement in creating micro-enterprises needs to be put in perspective. In macroeconomic terms, the contribution of these micro-enterprises to the regional economy is probably small, but it provides an economic opportunity to a segment of the population that normally lacks options. In this sense, the gender impact makes it most valuable: 36 of the 83 micro-entrepreneurs were women who had never engaged in paid work before and another 24 were women with employment experience but who had lost their jobs. Therefore, for 36 women, the *Trueque* was their first and only experience in paid work and was the platform from which they launched a micro-enterprise.

The respondents also felt that their position in the household had changed since they started contributing to the family income; that their husbands had started taking their activity seriously after seeing that food and other basic necessities came out of the *CT*; and that they were now equals in terms of economic decision-making in the household. The *Trueque* clearly pulled women out of the private domain and created confidence, which enabled them to set up an economically profitable activity. Some of the respondents indicated that the main value of the node was that they could leave their homes for a while 'as if they had a job'. Others saw it more as a pleasurable activity or 'a therapy'.

However, this is still a long way from empowerment. Although women participants feel more confident, more independent and more respected in and out of their households, the *Trueque* did not affect the perception that the main breadwinner should be the husband. The men are paid in pesos, generally accepted money, while the women earn *créditos*, a local currency that can buy only some goods. Even when women provide the basic necessities of the household and did so when there was no other income, they continue to view their work as complementary to that of men. 'I can now help my husband at home' was a frequent response, placing the participant's work in a subordinate position to her husband's. The *Trueque* thus imparted value to a part of women's work which had been unpaid until then, but paid for that work in a secondary currency and so did not change the perception of women's labour as being secondary to that of men.

The 41 participants who had tried a business in the regular economy and abandoned it were asked the reasons for their failure. (It was an open question.) Three reasons given most often were: sales in weekend street markets are lower than in the node (39 per cent), entry costs there are too high (16 per cent) and conditions are inconvenient (13 per cent mentioned they had to stay in the market all day long, could not be accompanied by their children, and had to be outdoors when it was cold or raining). Official weekend street markets require payment of a fee in official money, which is rent for the stand and payment for security and cleaning. Participants indicated that their sales hardly covered those costs, so they stayed in the node where they received relatively higher revenue in kind, did not have to pay a fee, and could be accompanied by their children.

The difficulty of selling enough in pesos to make the effort worthwhile was confirmed by the answers given by the 83 participants who sell in pesos as well as créditos. Asked why they did not leave the Trueque completely, they typically replied that they needed both incomes to cover different expenses, while agreeing that the revenue in créditos (valued in goods) was higher than in the regular economy. A participant explained:

> When I sell my handicrafts in a street market, I see people passing and looking. They all say my knitwear is nice but they don't buy because they don't have the money. When you have *créditos*, you want to spend them right away. If you find soap, you buy soap. It's better than pieces of paper!

That participants combine sales in both markets suggests that their businesses are incapable of generating enough income to make a living, so they still require the *Trueque* for a complementary income. This needs to be tested in future research. However, the decision to keep a foot in each market also casts doubt on whether graduation into the regular economy really indicates success or failure of the *Trueque*. The goal of community economic development is to manage resources, create income and stimulate the local economy. The idea behind it is to improve households' standards of living and reduce their vulnerability. The *Trueque* seems to be doing that, even if not in official money.

6.5 Promoting local development: two case studies

The last hypothesis to be tested in this chapter is that CCS promote local economic development. This has been presented as one of the rationales for CCS around the world. In the UK, O'Doherty (1999) found that local monetary networks reinforced civil society in a locality and enhanced the benefits of a web of personal networks deriving from the social and economic areas.

In the case of the *Trueque*, promoting the local economy was not an explicit priority and there is in fact little evidence to suggest that it happened. Only a small number of *RT* groups, two of which are discussed in this section, took it up as their goal. They organised local networks and built local institutions in which the excluded were included. Both of them enhanced the institutional thickness of their localities in the expectation that that would support the excluded and would also strengthen the local economy in the longer run.

The two cases studied are quite exceptional examples of pursuing the bottom-up promotion of local economic development through a CCS. However, they are in no way representative of the whole *Red de Trueque*. One is an independent node, *Gente Linda* in Venado Tuerto (Santa Fe province) and the other is a regional network, the *Red de Trueque Zona Oeste* (*ZO*) in the western suburbs of Buenos Aires.

Enabling development: case of Venado Tuerto

Gente Linda in the small city of Venado Tuerto provided an enabling environment (Burgess, 1994; Helmsing, 2004) for the participants of the *Trueque*. The *CT* assisted members to articulate their own projects or integrate new networks, linking them with actors normally out of reach of the poor and unemployed. Launched in 1999, when the collapse of the regular economy was only beginning, it operated in isolation from the rest of the *Trueque* and used its own local currency called '*puntos*' (points).

Gente Linda was the initiative of an agricultural engineer, Daniel Ilari, and his group of friends, who were sensitive to the deterioration of the social situation. Ilari comes from a traditional local family and is considered a 'notable' in the area. He envisioned three aims for *Gente Linda*: to introduce a self-help alternative for the poor and unemployed, to foster solidarity among neighbours and to establish a relatively autonomous local economic system. The first two are more or less in line with the goals of most Argentine *CT*s; the third aim was a novelty. Ilari explained:[9]

> Those who have money spend a lot of it in the bigger cities. We need it to stay here, where our unemployed live, so they can stop being unemployed. A *CT* is a great way to help them, but also to help our local economy in general.

Although Ilari insisted there are no leaders in *Gente Linda*, he is undoubtedly the leader of the group. He manages the monetary system, makes changes to resolve problems and is responsible for maintaining relations with the municipality, the church, the shops and other businesses. To pursue a local economic development vision, his strategy was to incorporate more and more actors in the locality with a wide range of offers so that the system would strengthen and sustain itself. From the outset, he sought creative ways to spread the *puntos* across the city and did not hesitate to start with his own personal network of contacts.

The *CT* recruited 100 participants in 1999, and when it reached its peak in 2001 it had almost 2.000 members, including middle-class residents experiencing unemployment. In 2004 it had 562 registered members, in line with the general sharp decrease of *Trueque* membership across the country after the regular economy rebounded and the middle class mostly regained their jobs and lifestyle. The poor stayed in the node.

Although *Gente Linda* followed the model of *CT*s elsewhere, it is different in several ways. Illari's commitment and strong leadership already marks a difference. Besides, the node has always operated autonomously from the *RT* across Argentina, in consistency with the goal of creating an independent local economic system. Another peculiarity of *Gente Linda* is in its monetary regulation –inspired by radical economist Sylvio Gesell– which includes a demurrage (similar to a negative interest rate) of 5 per cent a year. The goal is to discourage hoarding and speed up circulation. It is implemented by having vouchers that expire every four months. The amount left in participants' pockets is then exchanged for the same amount minus 5 per cent in new vouchers. The revenue from this negative interest rate is used to pay the *CT* assistants. If total liquidity is perceived as being too low to permit regular exchange transactions, members can vote in an assembly to inject currency (for example, by charging a fee for training or attending social gatherings).

New members fill in a form specifying the products or services they will offer and attend a few meetings to be introduced to the principles of the group. They pay $1 for their badge and as a contribution towards printing the vouchers. They are then listed in a public directory of participants, classified by branch of goods offered. This is atypical within the *Trueque* in Argentina. For this exercise, *Gente Linda* relies on a support infrastructure that, once again, is Ilari's contribution.[10] He maintains the computer database, which improves the overall efficiency of the group, and manages the collective fund to pay for expenses.

Another difference between *Gente Linda* and the rest of the *Trueque* is the integration into the regular economy beyond weekly markets. It is a direct way of increasing institutional thickness and linking the poor and unemployed to consumption they would not be able to afford otherwise. Ilari persuaded neighbours and friends who own regular businesses to accept *puntos* in part-payment. There are eight of these businesses, mostly in the city centre (a bakery, a butcher, a pasta shop, a greengrocer, a place for renting films, a cleaning products shop, a furniture shop and a computer shop). A veterinarian also accepts *puntos*. The baker, who accepts *puntos* for 30 per cent of the sales amount, explains that they started accepting *puntos* mainly out of solidarity with the poor as well as because 'we are friends of Daniel'.[11] They have used *puntos* to pay a painter and a mason and for English lessons for their son. The butcher accepts *puntos* for 20 per cent of sales and uses them to pay municipal taxes and buy detergents. He is happy with the arrangement, observing that the participants are 'extremely loyal customers. My business has certainly improved.' Customers who pay partly in *puntos* in these shops receive the same service as those paying fully in pesos; sales in *puntos* are seen as an additional demand that would not be there otherwise.

The local monetary network in Venado Tuerto has also been responsible for the promotion of new organisations in the city. It has fostered a new type of business taking advantage of the lower barriers to entry that go with a complementary currency: less-burdensome state regulations, no taxation, reduced risk in case of failure, an extended learning period and a loyal market of buyers. The idea of these businesses, the *proveedurías*, was presented as a way to expand trade beyond the weekly markets. *Proveedurías* are grocers that only trade in *puntos* and are open six hours a day, six days a week. They are set up by regular participants in locations that are well apart from one another to balance competition. The venues are rented in *puntos* or are spaces that are not being used by the owners (for example, a garage at the home of someone who does not own a car). People bring their goods there to sell. The *proveedurías* buy them in *puntos*, sell them on consignment, or exchange them for other groceries in the shop. Ilari explained:

> The *proveedurías* were not well-accepted in the beginning because others feared they would reduce trade in the weekly market. It didn't happen. People appreciate being able to buy in *puntos* near their homes six days a week. Nobody can survive buying food only once a week, right? The *proveedurías* make life easier.

What Ilari also understood early on in his local economic development strategy was that no local economic network would really stand much chance of success without the integration of the local government into *Gente Linda*. Therefore, the Venado Tuerto municipality is involved much more in *Gente Linda* than most other municipalities in the country are in *CT*s. One indication of this involvement is that in August 2002 the local council voted to accept up to 30 per cent of local taxes in *puntos*. Ilari used his reputation in the city to persuade the council to take this step, contending, 'We are not talking of great amounts of money here. A simple calculation shows that it is less than 5 per cent of the local revenues and still can help a great deal. It also legitimates the node.' In the first nine months of 2004, the local government received an average of 12,500 *puntos* a month from 450 of Ilari's neighbours listed as members of *Gente Linda*, which was negligible in comparison with the total revenue of the municipality but of great strategic significance. Ilari told the author of this study:

> The possibility of paying taxes in *puntos* is a major argument in getting shops and other middle-class participants involved. It integrates us with the local economy. People can help others without really losing anything.'

The acceptance of taxes in *puntos* was a novelty for a small city in Argentina. The municipality created a Social Welfare Area to distribute the *puntos*. Each of six boroughs in the Area is served by two to four social assistants, who allocate them to extremely poor households; 140 households receive 80 to 100 *puntos* a month to spend in the *proveedurías* and markets. The *puntos* keep most households from going hungry. *Gente Linda* has thus helped to add organisations to the region, which in turn have improved social inclusion and stimulated other sectors of the local economy.

Beneficiaries of the social welfare scheme are encouraged to use *Gente Linda*, motivating them to start offering goods and services as well. According to Ilari, 'less than half of them do, in fact, because they lack production resources: skills, tools, inputs, even the will.' It is one of the weaknesses of the scheme: as these households buy goods –especially food– without contributing to the supply in *Gente Linda*, they often create food shortages. In response to this situation, the households are offered a special contribution in *puntos* for investments that would transform them from welfare beneficiaries to producers. Ilari explained:

> About 50 people have started a business at home in this way. It is usually small equipment, such as a sewing machine or an oven. Some stop after some time and sell the machine, I know, but at least some are still selling in the node and a few also in the regular economy.

Finally, the *Gente Linda* network has integrated into itself small villages in the rural hinterland of Venado Tuerto that have never been part of any integrated local economic system. Small farmers and poor rural workers take their produce (mainly vegetables, fruits, eggs, and small animals like poultry and rabbits) to sell in the node. According to the owner of one of the *proveedurías*:

> We never thought about this before. We have always bought milk from the largest milk company in Argentina, which is now French. So we have people producing milk a few minutes away from here, they sell it to these companies that in turn bring it back to Venado Tuerto at 10 times the cost. Well, the node finally gave us the chance to buy milk produced here directly from the people that live here. We sell it cheaper than in the supermarket, but with an interesting mark-up on the local producer's cost.

Rural sellers are perennially short of clothes, toys, shoes and school supplies, but they have plenty of food, while cities have shortages of food and a surplus of non-food products. What was missing was institutional channels to connect supply and demand. Nobody had organised it before within the regular economy because it was unnoticed or unnecessary, or because of the efficiency differentials between large-scale production and small-scale production at the local level. The existence of local money as a central institution brought supply and demand together.

With regard to the hypothesis posed for this section, *Gente Linda* enhanced institutional thickness focused on the poor and unemployed. The *puntos* fostered self-employment and connections to better-endowed participants. It allowed them to diversify their income sources and included them in a network from which they would otherwise have been excluded, integrated by regular shops, middle-class participants, the local government and the rural poor. Their consumption added to local demand.

A crucial factor in the whole process was the favourable departure point; it started as the initiative of a strong leader with a wide network of social connections, who had the promotion of local economic development in mind.[12] A coalition of supporters and organisational infrastructure formed at an early stage, which was also a precondition for further development. The first addition to the institutional endowment of the city was a local monetary system, which led to the creation of a public database of members with idle goods, skills and resources. In order to improve the effectiveness of the scheme, *Gente Linda* articulated with the local economy by using *puntos* for part-payment in shops and payment of municipal taxes. This led to new institutions and organisations: a local social welfare policy, the *proveedurías* run by unemployed participants, and a small credit policy in *puntos* to buy tools and start micro-enterprises. The integration of the rural hinterland was an unexpected side-effect that improved the standard of life of the rural poor in the vicinity. All the initiatives are still operating.

Managing development: *Zona Oeste* in Buenos Aires

The second case displays a more interventionist or managerial approach on the part of the sub-network's leadership. It was one of the earliest organisations in the *Trueque*, the *Red de Trueque Zona Oeste* (*ZO*) or regional network of the western metropolitan suburbs of Buenos Aires.

A few *CT*s were already using their own currencies in 1996, and around the end of 1997 a group of them decided to print a single currency for the area.[13] According to Fernando Sampayo, who later became the main leader of the *ZO*:

> In 1997 several *CT*s in this area got together. Three were already using their own scrip and the others were using the vouchers of the *RGT*. We then decided to use one local *crédito* in the four nodes. It started circulating at the beginning of 1998.

Other *CT*s in the western suburbs joined later and by the end of 1999 there were 17 nodes. The *ZO* became dominant in an area with approximately 5.5 million inhabitants. It grew quickly, as the western metropolitan suburbs were fertile ground for a self-help scheme for the disenfranchised middle class left behind by the structural reforms.

In sharp contrast to the geographical isolation of Venado Tuerto, the western suburbs are part of the metropolitan area of Buenos Aires (population 13 million). Their economy is fully integrated with that of the city in terms of supply and demand. There is no obvious differentiation between articles produced there and in other municipalities. However, *ZO* members were required to have a current address in the western suburbs and the organisation did not involve businesses outside that area. In this sense, its activities are seen as locally rooted. In its most glorious period (at the beginning of 2002) the *ZO* had 1,350 *CT*s with a total of 400,000 participants. It was affected by the demise of the *Trueque* after the middle of 2002, but much less than the rest of the network. It started growing again, old members returned and five new *CT*s were opened in 2006. It is now the largest local monetary organisation in the country, with 40 centres and 30,000 participants.[14]

In 2000 the *ZO* achieved enough critical mass within the *Trueque* and Sampayo launched a series of more ambitions projects for local economic development. New participants then began contributing a $2 fee to join the *ZO*, in exchange for which they received a badge and a pack of 50 currency units to start trading.

The contribution financed administrative expenses, printing of vouchers and updating of the database. The plan was also to use it in the future to provide initial capital for the organisation of a local micro-enterprise-based production system around the *ZO*. With this in mind, members were asked to fill in a form giving information about their skills and previous labour experience, which was entered in a computer file. The idea was that they could be summoned when the need arose for their skills in the future. For Sampayo, the *Trueque* is a pillar to complement and improve the regular economy:[15]

> After the [Second] World War, there were no big industries left in Italy but each household became a small factory. Italy then progressed. The *Trueque* is similar; impoverished middle-class households can turn into micro-enterprises with their many idle skills and resources. They are workers earning a decent living with vouchers.

The *ZO* prepared itself for local economic development promotion with a collective fund and a database of the available resources and skills of the participants. Additionally, it prepared its basic support infrastructure to organise a local production system. The *ZO*'s infrastructure was a rarity in the *RT* due to its costs and risks. It derived from Sampayo's past as an entrepreneur and his insistence on transparency and control to optimise the scarce resources of the organisation. The central database of participants was one of the administrative tools that made the *ZO* atypical among local monetary networks in Argentina. From 2001 onwards it used six computers, with 12 people working in two shifts to update the data; they were paid wages in vouchers and transport costs in regular money. The *ZO* had another six computers for accountancy, organisation of agendas and meetings, logistics and training. It kept detailed accounts of all transactions and movements of money and resources. It had centralised logistics, publicity on local radio, and additional infrastructure such as a press to print its own publications.

The *ZO* was also of great importance in widening and deepening the network around its currency. It established institutional links with traditional organisations of the third sector like the Catholic Church, local government representatives and small industries. These were seen as potential partners in joint projects to promote local economic development, although the final strategy matured and was put into practice later. Sampayo strongly believes that the Trueque played an important part in enabling small industries to survive the economic crisis:

> The *Trueque* stabilises the scale of production and sales because retailers and small manufacturers can sell their overproduction, what the market in pesos does not buy from them due to the crisis. By maintaining large-scale production, a company has a greater chance of recovering or becoming more competitive than those that simply hope for the end of the crisis.

The crucial aspect that differentiated the *ZO* from other networks was the long-term strategy implemented in 2000 to promote local economic development. It organised several collective enterprises in the area to produce articles that were in high demand in the *CT*s as well as strategic inputs. These included products like pizza bases, breads and other bakery products; spaghetti and other dry pastas; and cakes. The *Trueque* in general lacked a supply chain to secure access to basic food production inputs such as flour, cooking oil and sugar (Hirota, 2002) and so they had high value. Members who could still obtain them in the formal economy could make a handsome profit by selling them for *créditos*. In many ways, these few were feeding the many that only had their labour to offer, which appealed to some members' solidarity and to others' speculative spirit.

The circuit combined local and official currencies. After a while, two plots of land totalling 20 hectares were bought for participants to grow fruits and vegetables. A 2,000m^2 warehouse of was rented for storage. A carpentry workshop provided tables for a mega-fair and later for the *CT*s. At its peak, the daily output of the network's enterprises amounted to 300 kilos of dry pastas, 1,300 pizza bases, 50 tables and 20 benches, and 150 baskets of fresh vegetables, in addition to breads, biscuits, pies and pastries. With the funds from its fairs, it bought a light truck to transport the goods from the collective enterprises to the *CT*s or to the warehouse.

Participants paid for everything in vouchers. The *ZO* retained part of the funds to finance other productive projects and the rest were distributed among the workers. All transactions were registered and the records were publicly available. However, pesos were needed for some purposes. An assistant to Sampayo explained:[16]

> The *ZO* contributed a travel allowance in pesos from the collective fund because people need to travel to go to work and the cost could not be paid in vouchers. Pesos came from the membership fee and from the revenues of special events like the fairs. But pesos were always scarce and placed a limit on everything we wanted to do.

A partner organisation then suggested that they sell part of the production of the enterprises in the regular market in order to get more pesos. This suggestion was rejected because the *ZO* feared that sales in pesos would reduce the supply of products in the *CT*s. The collective enterprises were the main organisations formed by the *ZO*, adding a production volume equivalent to US$ 140,000 to the local economy every month. They generated 70 jobs paid in a mix of *créditos* and pesos, plus jobs for an undetermined number of apprentices. In the context of the institutional thickness of the western suburbs, the *ZO* became the dynamic centre of a network of collective enterprises exchanging goods and knowledge with each other and with the *CT*s, increasing the connectedness of poor and unemployed participants and providing their households with a source of income.

In terms of integrating the *Trueque* with the local economy, the *ZO* also tried to get local businesses involved, but was mainly driven by the need to obtain critical basic inputs that could only be bought in pesos. It tried various schemes that typically involved direct barter with local firms, with different degrees of success. For example, it secured several months' supply of flour –the critical input of several collective enterprises– by providing manpower and pesos to small wheat producers in exchange for the crop, which was taken for grinding to a flour mill on the verge of bankruptcy. The mill received part of the flour as payment and the rest was supplied to the enterprises.

Like *Gente Linda*, the *ZO* sought to integrate local governments in its network, but it received a cold response. Its requests ranged from access to goods in disuse to payment of arrears in raw materials, venues to hold the markets and tax payments in vouchers. According to Sampayo:[17]

> The idea was to take our database of 100,000 members, a third of whom were owners of local homes. We proposed that those who had tax arrears be allowed to pay them off in vouchers. The municipality could then buy

> goods and services from our participants with those *créditos*. They said the accountancy was too complicated and there were legal restrictions. So then we asked them to give us access to whatever was idle, like trucks. They have hundreds of trucks out of order and we have a hundred unemployed mechanics ready to start working tomorrow. If we got 10 trucks going, we would keep two or three and they could have the rest. The idea was to provide services to the municipality: repairing, gardening, collection, maintenance. We had countless participants whose capital was just their hands and their will to work. To be candid, we only convinced a few.

The few municipalities that cooperated with the *ZO* network preferred payment in kind: arrears of third parties paid in food and raw materials were given to the *ZO* in exchange for finished products. The municipality of Moreno, for example, provided flour in exchange for 10,000 kilos of dry spaghetti, which it used to feed children of extremely poor families in its soup kitchens. In another scheme, it gave the *ZO* wood left over from a bankrupt sawmill that had tax arrears and the *ZO* made desks and benches that partly went to municipal schools. Most often, municipalities lent community centres, clubs, schools and other spaces to hold the markets in exchange for maintenance work. Thus, municipalities chose involvement with minimum risk. The building of awareness and a common agenda failed to appeal the local governments, which were afraid of being part of a scheme they had not launched and did not control. The network-building of the *ZO* was clearly less successful than that of *Gente Linda*, partly because of its location within a large metropolis and partly because Sampayo lacked the personal contacts and reputation that Ilari had in Venado Tuerto.

After the collapse of the *Trueque* across Argentina, these *ZO* schemes to promote local economic development crumbled. 'They lacked time, perhaps another six months were needed to formalise the cooperatives and make them sustainable. It worked great within the *Trueque* but they could not make it into the regular economy,' Sampayo laments, though he is thinking of trying again if CCS rebound. Still, the fact that the *ZO* shrank less than any other network perhaps reflects the degree of institutional thickness and interconnectedness it achieved. The core of the vision was to regenerate economic activity of the actors in the region, by creating collective and individual enterprises, while Ilari in Venado Tuerto had a stronger commitment to the locality.

The failure of the collective enterprises to achieve the transition to the regular economy makes it hard to evaluate the long-term local economic development effects of the *ZO*. However, the *ZO* also used the *CT*s to increase confidence among participants that the local monetary system provided them with a sheltered market and a relatively loyal demand to test their own productive projects. Although Sampayo believes that collective enterprises have greater chance of success than individual ones – the former achieve a larger scale and are stronger– he accepts the creation of individual micro-enterprises as a second-best solution. The *ZO*'s success in generating micro-enterprises is evaluated in the next section.

6.7 Conclusions

Research on CCS so far highlights four rationales for CCS: to generate revenues of seigniorage, to change the qualitative nature of exchange, to protect some level of economic activity, and to promote local economic development. The third and fourth were discussed.

The third rationale –maintaining economic activity during a crisis– was perhaps the main reason why the Argentine *Trueque* expanded to 5,000 centres across the country. It added to local production with local inputs, raised local demand, reduced waste and offered a market for businesses to sell overproduction and stay afloat. This effect occurred as predicted by CCS theory. However, the impact on the local economy dissipated when the regular economy rebounded. This was a paradox faced by the *Trueque*: no matter how effective CCS are in insulating the local economy during a crisis, the enthusiasm for them is bound to cool as the economy recovers.

An extra rationale for CCS was added in this chapter: it enhances the poverty-focused institutional thickness of localities. It therefore supports the diversification of income at the meso-level (institutional level), enabling the poor and unemployed to interact with other social actors, and participate in or form networks that were previously unavailable to them. This is the essence of community economic development. However, it was clear that the *Trueque* participants did not seek/receive help from sources available in other countries, such as state welfare agencies, charities, and so on.

Banding together around the use of local money as a central institution created synergies between groups of the population frequently excluded from networks with sufficient access to assets and resources. The nodes supported the launching of micro-enterprises and training of unskilled workers, transforming previously unpaid work (mostly women's activities) into paid work. The *Trueque* paved the way to paid economic activity for groups of agents who normally do not show high entrepreneurial skills, like women with no previous employment experience. A CCS is thus inclusive of a multiplicity of agents, acts at multiple levels and moves resources across multiple sectors. These are the core characteristics of the new generation of local economic development promotion policies.

Multiplicity of agents refers to the various social backgrounds from which participants came. The disenfranchised middle class gained from the *Trueque* the most, in both economic and social terms. They had accumulated assets, resources, skills and small amounts of working capital, which could be mobilised for the economic activity in the nodes. On the social level, the *Trueque* enabled them to fashion a new social fabric to replace the one lost when they fell into poverty (Gonzalez Bombal, 2003a; Lvovich, 2002). As far as the structural poor are concerned, the *Trueque* integrated them into networks that are better endowed with resources than those formed by the structural poor alone. However, they benefited from the *Trueque* only when they could meet two conditions: first, if they managed to find goods to sell, from the state, charities, kin, or by weeding through waste; second, when they were a minority in the node, estimated at around 30 per cent of the participants. Leoni (2003) found that in nodes dominated by a majority of structural poor, the *Trueque* represented 'an illusion'.

In the local development literature, the formation of a CCS is hardly considered a viable or significant policy tool. Most CCS worldwide did not achieve enough scale to reach that status. The *Trueque* allows to investigate this new link, whether CCS are a local economic development instrument. The *Trueque* was generally not conceived as a tool for local economic development, but a small number of networks were ambitious enough to go along that path. Two of them were studied here as examples of the process for a CCS pursuing this goal.

A series of conditions were highlighted as necessary to pursue a local economic development strategy. First, *Gente Linda* in Venado Tuerto and *Zona Oeste* in Buenos Aires formed a collective fund in regular money to enable them to launch more complex projects in their locality. Second, they used part of those funds to create a computerised database. Both invested labour, time and resources to generate information on workers, skills, assets, and so on. Third, they both revolved around strong leaders who contributed time, personal contacts, organisational skills and physical infrastructure. In the case of Ilari, personal reputation was crucial, while Sampayo contributed his managerial experience. Finally, in both cases they designed new institutions to pursue a bottom-up local economic development strategy.

The contrasts between the two cases were as marked as the similarities. An obvious difference was due to geography. Venado Tuerto lies in the countryside, three hours from any large modern city, while the *ZO* is part of a metropolis of 13.5 million inhabitants. So *Gente Linda* was clearly better positioned to gain autonomy and set clear boundaries on local economic development projects. In addition, while both worked on the institutional thickness of their regions, they reflected divergent visions of how to develop a local economic system. While local monetary networks in Venado Tuerto were conceived as creating synergies and strengthening participants' autonomy, the *ZO* viewed itself as the central organiser of idle resources in the area. *Gente Linda* thus worked on widening and deepening the network, enhancing interrelationships and alliances, integrating the hinterland, obtaining the participation of the local government and eventually pushing for a welfare and micro-credit policy for the poor. The *ZO*, in contrast, constructed a logistics system that made it the brain of a growing and dynamic organisation that included collective enterprises, funds in pesos and vouchers, a system for distribution of goods and capital, and a wide range of weak agreements with small industries, local civil society groups, and local governments.

In view of these differences, this chapter considered *Gente Linda* to be a case of enabling development, while the *ZO* was seen as a case of managerial development. *Gente Linda* supports the activities of others and increases the tools and mechanisms by which participants can benefit from *CT*s. The *ZO* made itself the management centre of all the activities, deploying resources and participants to gain synergy. Eventually, the local economic development results of *Gente Linda* were sustainable and that network's growth now comes from attracting new users. The *ZO* did not reach such a level of sustainability because its activities were on a minimum scale and crumbled with the collapse of the *Trueque*, although, admittedly, the web of relations and practices it built did protect it from shrinking to the extent that the rest of the *Trueque* did.

Typology of community currency systems

All in all, the diversity between the typical groups of the *Trueque* and the two local economic development cases presented in this chapter suggests that the classification of CCS is yet incomplete.

The scope of strategy needs to be considered. While some networks start and end with the defence of economic activity, others propose a long-term plan of action to integrate a local economic system. While they appear to take the same action of providing a setting to regenerate lost exchange transactions, the way they do it is fundamentally different. Defence of economic activity represents a bridge to a post-crisis economy, while integration of a local economic system seeks to build a bridge to a reformed economy. It stimulates both economic and non-economic factors alike to diversify the local institutional endowment and raise the general level of development. In both cases, the idea is to strengthen the local economy so that it can survive future crises better. Their long-term vision thus represents a larger scope of action, including the offer of business support services like micro-credits in local money, the search for partnerships with other actors –principally local governments and small industries– and the organisation of a governance system. As the chapter observed, groups with a general local economic development vision were rare in the *Trueque*.

Another criterion for classification is related to openness. One option is to allow anyone to participate freely, combining sales in local vouchers and in official money and moving resources in and out of the local monetary system from and into the regular economy. The two cases described here fall in this category. Another possibility is to restrict CCS to the poor and unemployed (no businesses or shops), ban the use of all other currencies except the local one, and impose sanctions for transition in and out of the CCS. In the *Trueque*, the fear that openness between the regular economy and the local monetary system would undermine the *CT*s was widespread. After all, micro-enterprises graduating into the regular economy implied the loss of participants and resources for the *CT*s. And the sale in the *CT*s of products from mechanised industries would create unequal competition for goods produced by hand at home. In other words, while open local monetary networks reflect a complementary position in the economy, closed *CT*s pose an alternative, a sharp qualitative change in the nature of the exchange. Both *Zona Oeste* and *Gente Linda*, like much of the *Trueque*, were cases of open local CCS, while a few other groups preferred the closed version. The effects of openness to and disconnection from the regular economy are yet to be researched.

A third possibility concerns the active and passive roles of organisers of CCS. Active organisations place a well-informed and well-intentioned social entrepreneur at the centre, coordinating resources, workers and skills. The role of broker of alliances was exemplified by Sampayo in the *ZO* and Ilari in *Gente Linda*. Active organisations can increase awareness among participants of the options of own-account employment, offer a stable sheltered market to 'learn by doing', and provide tools to evaluate the risks and advantages of making a transition to the regular economy. Evidence was presented to support the view that active organisations such as the *ZO* achieve a high rate of survival of micro-enterprises, at least as a secondary source of income in households and especially empowering women. In contrast, the organisations of the *Trueque* typically played passive roles and expected participants to define individually how far they wanted to go with the *CT*s. The disappearance of most of the RT suggests that the participants did not want to go too far.

A final reflection relates to institutionalism and the Institutional Regionalism perspective. Critics of the concept of institutional thickness point out that there is more emphasis on quantity of institutions than on their quality. This study suggests an avenue to elaborate the concept further by identifying the actors whom institutions involve or whose behaviour is affected by institutions. The cases analysed here indicate that not all local institutions are of the same relevance to everybody. Indeed, any level of the economy presents institutions of diverse quality and relevance to different actors. Money is clearly a fundamental institution in any market economy, supporting and regulating transactions, enabling accumulation and stimulating activity in general. Local money is more relevant to the poor and unemployed, though in certain cases it becomes fundamental to developing a local or regional economic system.

It is not the existence of a CCS per se that provided protection to local economic activity or promoted its development. The process by which the CCS was organised was perhaps more relevant in achieving these results; that is, the ways in which the aims of the *Trueque* organisations were defined, the leadership they pushed forward, the networks they brought together, the connections they maintained among actors. In the successful cases of local economic development, a local monetary system seems to have acted as a means more than as an end. Perhaps the same could be said of institutional thickness in general, that it is a means to foster development rather than an end in itself.

Notes

[1] The local monetary networks in Venezuela, Uruguay, Paraguay and Brazil that are offshoots of the Red de Trueque in Argentina maintained the name of Trueque. In Mexico, Ecuador and Honduras, the networks have local names.

[2] Local currencies are interest-free because they are mainly means of payment and unit of account, but not a reserve of value. In the original proposal for an 'honest currency' by radical economist Silvio Gesell (1958), a demurrage or negative interest rate was included to provide motivation for accelerated spending.

[3] Holidays were defined as a period spent out of the city of residence for recreational purposes other than visiting relatives.

[4] The figure includes goods bought from nearby sources as inputs, adding secondary demand.

[5] For example, if the household had no pesos they walked instead of taking a bus.

[6] What respondents considered to be 'basic needs' of their household was left up to them to define. Their perception was also interesting to capture.

[7] For example, the state gave the poor above the age of 70 a box of foods with a high carbohydrate and fat content, which many could not eat for health reasons. Similarly, an Italian donor distributed kilos maize flour suitable for polenta, a food not popular in Argentina.

[8] This sometimes operated almost as a barter circle. For example, participants who made bread asked their regular clients with an income in pesos to buy flour, yeast, and so on in the supermarkets, which they then traded for bread.

[9] Interview with the author, 22 October 2004.

[10] While Ilari is away in the countryside doing his work as an agrarian engineer, his personnel have little to do, so their time is used to update the information on participants, implement the change in vouchers, prepare the balance sheets of *puntos* earned by each participant, and so on.

[11] The bakery is a small family enterprise and receives an average of 420 *puntos* a month, in comparison with 13,400 pesos.

[12] An individual's network of social connections is referred to as social capital in the livelihood approach and there is considerable literature about it. The concept is strongly contested and its refinement is beyond the scope of this research. Therefore, this study prefers to use social connections or networks.

[13] Trade in the area had increased quickly, and by 1997 the organisers were travelling two hours to obtain vouchers. *PAR* was also facing unexpectedly fast growth at that time and was unable to keep up with the demand for vouchers. The *ZO* thus always received fewer vouchers than it wanted, until it printed its own.

[14] After the collapse of the *RT*, the *ZO* decided to re-register its members and change the vouchers to adapt to the new number of participants. Data on membership corresponds to this ongoing registration.

[15] Interview with the author, 12 December 2004.

[16] Interview with the author, 12 December 2004.

[17] Interview with the author, 30 August 2004.

7 Summary and lessons for policy

7.1 *RT* as institutional construction

The *Red de Trueque* in Argentina was a particular kind of market, a club market, which started in 1995. A small group of agents needed a setting for their trade and discovered the benefits of printing currency to facilitate payments. They could, and had to, decide on the institutions to guide behaviour in their market, setting rules for who was allowed to join, what was acceptable and what was not. The initial goal was to provide an environmentally friendly income-generation scheme for the disenfranchised middle class and the unemployed. The structural poor were included later, making the market an economic scheme for all low-income groups, though it benefited the new poor more.

In its first seven years, with the regular economy melting down, the *Trueque* grew until it reached a peak of at least 2.5 million participants in 4,600 centres across the country. It thus became the largest experiment with a complementary, community or local currency system (CCS) in the world in current times. At that scale, its internal institutional weaknesses became evident, precisely when the regular economy started a period of vigorous recovery. The *RT* was simply incapable of dealing with the supply and demand for 2.5 million users and collapsed to about a tenth of its size in a few months.

The remarkable rise and decline of the *Trueque* hides its qualitative impact as an economic system. It enabled millions of households to survive the crisis. In the long run, the use of complementary currencies promoted the multiplication of new small businesses, helped the unemployed to make the transition to regular jobs, alleviated poverty among the marginal population, supported the training of unskilled workers and imparted exchange value to previously unpaid work (mostly women's activities).

An institutional approach like the one applied in this study is new to the literature on the *Red de Trueque*. The first goal of the study was to explain the evolution of the *Red de Trueque* in Argentina, why it grew to such a scale, what its effects were and what its rules of governance and sustainability were. The findings confirm the Argentine *RT* as a benchmark among complementary currency systems, a unique case of a CCS in which the scale, scope, and impact on household income were not marginal. It also shows that CCS can be used as an effective tool to promote community economic development. The second goal was to theorise on the organisation of institutions without state involvement, which will be done in detail in Chapter 8.

The perception of the *Trueque* as an anti-cyclical mechanism relates to the critical macroeconomic conditions in Argentina. It is consistent with history and empirical work indicating that the extensive use of complementary currencies coincides with periods of deep economic crisis (Colacelli and Blackburn, 2005; Schuldt, 1997). Statistical analysis shows a partial inverse relationship between the growth of the *RT* and macroeconomic variables like GDP growth, poverty and unemployment rates in Argentina. The *Trueque* achieved its peak in terms of scale when the Argentine economy reached its nadir. However, the data are not conclusive for the entire 12-year period since the *Trueque*'s inception; for three years (1996, 1997 and 1998) both the *Trueque* and the national economy grew simultaneously. And the *Trueque* still existed at the beginning of 2007, after 50 months of uninterrupted and vigorous economic recovery. Complementary currency schemes cannot be explained by economic downturns alone; if that were so, such schemes would be larger and healthier than they are in other countries with similar economic crises.

Institutional reconstruction

Explanations for the evolution of the *Trueque* need to go beyond the anti-cyclical mechanism hypothesis and focus on the national context in which the *RT* constructed institutions regulating an area of the economy where low-income groups achieved a livelihood.

Argentina had relatively well-developed institutions and organisations to coordinate the economy in comparison with other developing countries. People's behaviour was highly structured around them. Their swift and rather reckless transformation during the 1990s resulted in institutional gaps, areas of uncertainty and unstructured behaviour that left individuals without guidance on how to proceed with their economic activities. New microeconomic uncertainties created by the reforms came to the fore, complementing old macroeconomic imbalances. The crisis around the end of the 1990s was not simply a downturn in the macroeconomy but a general loss of faith that the regular economy could, on a daily basis, resolve the problems besetting production, trade, and income generation.

The institutional gaps that resulted were not unique to the Argentine structural reform programme; other countries had experienced them, too. What was different was the context in which they sprang up and the reaction they evoked. The institutional gaps in Argentina resulted in the shedding of a vast pool of resources –material and intangible– that are not typical of the developing world in either quantity or quality. Yet the Argentine situation also cannot be equated with that in countries with a similar endowment of resources, because in those countries there are alternatives and safety nets (for example, the welfare state) while Argentines were left to their own devices to develop new livelihoods and devise new collective solutions that could restructure their economic activities. There were no alternatives at hand or in the near future, as observed by Powell (2002), Pearson (2003) and others. Self-help networks were insufficiently developed to support survival efforts or even emigration. At the risk of oversimplifying, Argentina was facing a Third World type of crisis with First World types of resources and institutions.

The quality of the resources left idle was more similar to those in developed countries: a substantial middle class, rich in skills, accumulated assets and social connections, but in many cases unable to put them to use in the restructured economy. For example, many had technical skills and a small amount of capital from savings, adequate to produce a technically correct product but not competitively in the new open economy. A large number of workers were experiencing unemployment and labour vulnerability for the first time in their lives, with wages well below the level needed to support their normal lifestyle. The crisis affected the structural poor, as always, but in the 1990s in Argentina it affected part of the middle class as well. They became the voiced poor, a group in a two-pronged search for institutions to give meaning again to their lost middle-class identity and the means to recover some of the consumption that was typical of it. What was also specific to Argentina was the instituted practice of using various means of payment, most obviously the dollar along with the peso but also various provincial currencies. Printing non-state scrip to enable transactions for a closed social network was almost an obvious step. Agents needing to resolve the problems in their daily socioeconomic life responded with attempts to patch the institutional gaps in ways that were unthinkable elsewhere. The confluence of these mutually reinforcing factors made a social phenomenon such as the *Red de Trueque* possible.

Argentines excluded from the modern economy were badly in need of institutional guidance to resume their economic life but were, at the same time, accustomed to the old institutions that had been done away with. Argentina had been a market society for a long time and the primary market institutions such as private property were uncontested. As Chapter 3 argued, rebuilding a market with agents excluded from the regular economy, regulated by the primary and evolved institutions of any market economy, represented an acceptable solution, combining continuity with innovation.

Institutional innovation

The establishment of a club market for small-scale trading of goods produced by the new poor and unemployed became a solution as soon as the market-makers capable of setting it up emerged. In the first *Club de Trueque*, participants used their own scrip to enable exchanges and generate income outside the regular economy. Testing turned the innovation into a new solution and eventually a new rule of action for the first participants. The *CT* was described as an extreme case of market-building, in which the set of new institutions designed included money (although initially it was not perceived as such). The state had hardly any bearing on their activities. Participation was voluntary and entailed acceptance of the club's currency.

Specific institutions were created for this club market after it had operated for a while. Trust preceded transactions; monetisation of exchange transactions came afterwards. In a club market, buyers and sellers know each other and give preference to trading with each other. The club market solution was spread and imitated by the pre-existent network, embedded by trust and social relations that justified the belief that the rules of the group would be complied with and that actions would be stable. This was a world regulated by personal exchange, for which the *CT* was a new designed institution.

The scheme proved effective for participants and quite simple to replicate in other locations where similar conditions existed. The market-makers set growth as one of their main objectives, aware like economists since the time of Adam Smith, of the gains from division of labour and the strength of larger numbers. The number of participants grew rapidly, and with the expansion came the uncertainties and transaction costs of impersonal exchange (North, 1990; Williamson, 1981, 1985). These had to be resolved with minimal or no state intervention. The designed institutions of the first *Club de Trueque* had to be adjusted to be applicable across social groups and localities.

Institutionalisation across groups

At this point, the Argentine *RT* experience became different from that of any other complementary currency system around the world. It was not only larger but also the only one articulated in a single network with rules in common (North, 2007: 159). It was formed by local groups under an umbrella organisation, which allowed participants to visit any node in the country using any of the various currencies, even if people hardly knew each other.

The *Trueque* needed an organisational design that would prevent its becoming too costly in terms of risks and uncertainty. The main risk was the coexistence of various currencies printed by nodes across the country. New Institutional Economics (for example, North, 1990, 1995; Williamson, 1975, 1985, 2002) argues that institutions regulating impersonal exchange emerge when there is a social demand to minimise transaction costs. According to it, efficiency-seeking constitutes the main motivation to shape the construction of such institutions and make exchange transactions affordable in terms of uncertainties and risks.

The organisers of the *Red de Trueque* initially sought the most efficient organisation to control the costs of exchange, accommodating different interests and intentions. They started by setting rules of replication, formalised in black and white the principles to guide participants' behaviour and eventually came up with a structure of representation in which the groups in the *RT* would control each other.

The strength of efficiency-seeking as the driving force of institutional construction was then subordinated to other factors. The organisers entangled themselves in coalitions with divergent interests and intentions, conflicts of power and personal tensions, as predicted by some theories

(Bowles and Gintis, 1993; Boyer and Hollingsworth, 1997; Hodgson, 1999, 2003b). While the initiating group of the *Trueque* promoted a vision that concentrated power and allowed them to control the rest of the network, opposing groups formed a front to resist their authority. If efficiency was initially the main driver of the institutional building of the *Trueque*, it soon gave way to power conflicts and social relations that raised transaction and organisational costs further.

The outcome of power struggles and social relations sometimes converged with the principle of efficiency-seeking, but at other times they clashed. For example, the implementation of the social franchise was a mechanism to replicate *CT*s quickly and simply but also a means to bring the control of the network back to the initiators' group. It promoted the use of their currency well into the regions of their opponents. Thus, it pushed the conflict to a climax that resulted in the definite break-up of the network. In view of the three main intentions, it was perhaps the best achievable, though not the most efficient one. The functioning of the *Trueque* then became a matter of governance.

With all its problems and conflicts, the *Red de Trueque* achieved a larger scale than any other complementary currency system around the world. This is due to the fact that it was able to reap the benefits of scale, specialisation and division of labour. It was the only CCS in the world organised into a network, as defined above. It was also the only one exposed to the problems of impersonal exchange, which it was able to resolve for a while by reducing the variety of currencies to a limited number of regions, protecting their acceptability and generally promoting common rules and regulations across the networks). It was then able to enhance growth and division of labour by allowing participants to move around, trade different goods across nodes and complement regional production. This was done, clearly, at the expense of relaxing the controls typical of the rules of personal exchange. Opportunism was quick to thrive, which is hardly a problem in other CCS around the world organised as personal exchange (O'Doherty et al., 1999).

Combinations of institutions for governance

The groups that emerged from the break-up of the *RT* as an integrated network formed various governance systems in combination with other institutions in the economy. They were free to organise regulation according to their own vision of what the *Trueque* should be like.

The problem of governance is typical of economic schemes in which there is no default organisation in charge of regulation, like a state, so compliance needs to be constructed. None of the actors in the *Trueque* had power to force others to comply. The categorisation used in this study follows the work of Hollingsworth and Boyer (1997), who draw on earlier theorisation by Streeck and Schmitter (1985). It is based on two criteria: the action motive that guides agents and the coordination modes or organisation of power relations.

The governance systems in the *Trueque* were a regulated market (the *RGT* of the *PAR* leaders), a hierarchy (*ZO*), an association of regional sub-networks (*RTS*), and the community or club model of local independent nodes. In the regulated market system of the initiators' *RGT*, institutions promoted self-interest and coordination was by a central regulator (the *PAR* leaders) who decided basic rules, leaving others to be determined by the coordinators, and assumed spontaneous compliance in the nodes. In the *ZO* hierarchy, participants were also guided by self-interest, but coordination relied on an administrative bureaucracy managed by a leader at the top. In the associational network of the *RTS*, institutions enhanced compromise, first among the coordinators and then among participants, based on shared ideological convictions and recognition of each other's interests and opinions. Coordination was achieved through bottom-up negotiation in the search for consensus, and once agreement had been reached at the *IZ* level, the rules were expected to be complied with at lower levels. The independent nodes structured a community or club type of governance system, in which participants were guided by the rules of personal exchange and reciprocal obligation to their neighbours. Coordination was achieved rather spontaneously.

After the *RT* as an integrated network of these groups broke up, the *Trueque* reached its maximum scale and soon afterwards collapsed. The fall was explained by exogenous factors such as large-scale forgery of *créditos*, interference by political clientelistic networks, implementation of a welfare policy and the rebound of the regular economy. However, the *Trueque* had already been crumbling. The endogenous factors responsible for its demise were opportunistic behaviour, lack of basic food production inputs, rampant speculation, price inflation, and mismanagement, mainly by the *PAR*.

The analytical framework for analysing the sustainability of governance systems considers four factors: input legitimacy or acceptance of basic institutions resulting from the process of their definition and intentions, mechanisms of enforcement, resource synergies that derive from benefits for participants, and transaction and organisational costs. On the basis of these four criteria, none of the governance systems of the *Trueque* showed a high degree of sustainability, though some fared better than others.

The sustainability of the regulated market of the initiators' *RGT* was minimal, with a weak acceptance of rules, weak enforcement and weak resource synergies. The *RGT* showed low transaction and organisational costs in the short run, which gained the support of the public; however, in the long run –the time frame by which sustainability is assessed– the costs were very high. It used a franchising system but respected none of the rules of a traditional franchise and was thus the first network to fall apart. It was also the largest, so it soon dragged the others down.

The second-least-sustainable governance system was the associational model of the *RTS*. It showed high input legitimacy based on a participatory rule-setting process and shared idealism, fair enforcement and low transaction costs, but weak means to achieve resource synergies and high organisational costs. It was unable to respond quickly enough to the crisis, as its organisers became entangled in ideological conflicts. The *RTS* died, but some of its regional components did better.

The hierarchical *ZO* had fair input legitimacy, fair enforcement, strong means to achieve resource synergy, low transaction costs and fair organisational costs. This model was sustainable on a larger scale and survived the collapse of the *Trueque* better than the others did, but it no longer has enough scale to sustain its administrative bureaucracy and collective enterprises. As a result, it has lately become a regulated market.

Finally, the local and independent nodes were the most sustainable of the models, with high rule legitimacy, high enforcement and low transaction and organisational costs. These characteristics were based on their reduced scale, at which the rules of personal exchange are enough to regulate the system. But its Achilles heel is lack of resources with which to gain synergies and offer material incentives to participate. If these groups can secure access to resources and a minimum threshold of participants, they appear to be the most sustainable governance system. They may then be able to interest donors or local governments to support them.

Nodes and local institutional thickness

The reality in the nodes was analysed in relation to the local economy. The study looked at both the *Trueque* in general and two particular cases selected for their promotion of local economic development. Nodes were seen as institutions that strengthen local institutional thickness and lock in economic activity. The concept of institutional thickness was re-elaborated with a focus on low-income groups.

Theory on local monetary networks identifies four rationales for the construction of CCS; this study discussed two and added a fifth. The maintenance of economic activity during a crisis was the typical impact on the local economy. The *Trueque* added to local production with local inputs, raised local demand, reduced waste and offered a secondary market for businesses to stay afloat. Even when businesses failed to remain open, it extended its revenues over time by absorbing stocks, tools, overproduction and equipment. The protection of the local economy is viewed by some authors as an effect that occurs by default, which fizzles out when the regular economy rebounds; but the *Trueque* was shown to be more than that.

The rationale for the organisation of CCS added in this thesis was the construction of meso-level institutions to diversify sources of income and enhance the livelihoods of low-income groups. This is the essential side of community economic development. The *Trueque* brought together the resources of the poor, unemployed and vulnerable, and integrated them in a network where they interacted with other actors. It was consistent with achieving resource synergies (Jessop, 1998). CCS are therefore inclusive markets of the low-income groups excluded from the regular economy.

Finally, two specific cases were analysed for their commitment to promoting local economic development. A series of conditions were highlighted as necessary for achieving this goal: a collective fund in regular money to finance projects, bureaucratic infrastructure such as a database of participants and resources, and strong leaders well-endowed with local contacts and managerial capacities. The two cases were classified as enabling and managerial. In the enabling case, *Gente Linda* in Venado Tuerto, the node supported the creation of synergies and strengthened participants' autonomy, widening the node's network, enhancing alliances, integrating the rural hinterland and involving the local government, which eventually implemented a welfare policy for the poor. In the managerial case, the *ZO* in Buenos Aires made itself the central organiser of idle resources in the area, built a comprehensive logistics network, organised collective enterprises and forged alliances with small industries, local civil society groups and local governments. In both cases, there was heavy dependence on a central organiser and on having a minimum scale –rather high in the case of the ZO– to sustain their activities.

The *Trueque*, as the largest experiment with complementary currencies in the world in current times, offered a broad scope of adaptations to localities and communities. It was thus possible to build a typology useful for future experimentation with CCS worldwide. The literature recognises the territorial versus community dimension of CCS (Blanc, 2002, 2005). A second aspect is the temporal scope, a short-term survival strategy or a long-term local development horizon in which social and identity aspects are also strengthened. A third facet is the degree of openness to or disconnection from the regular economy, related to the political ideal of posing a complementary or an alternative economic scheme. A fourth feature is the style of the organisers, whether they will adopt an active or a passive role. The former requires a skilful social entrepreneur, because the role entails brokering alliances with NGOs and local governments, organising collective schemes and promoting resource synergies.

7.2 *RT* as a benchmark for CCS

About 5,000 complementary currency systems existed across the world in January 2002. Historically, they emerge at times of serious economic distress, as in the Argentine case. Some authors have found them significant in terms of creating bonds in a community (Seyfang, 1997a, 2001a; Williams, 1996, 1997b). Others stress the local economic effects (Blanc, 2002, 2006) and still others view the scheme as part of the resistance to the globalisation of capitalism (North, 1999, 2006; Pacione, 1997a, 1997b). Whatever the motivation at the moment of their creation, different groups around the world have chosen to organise CCS differently. Some communities have issued notes or cheques as means of payment, as in the Ithaca Hours scheme in New York state and the *Red de Trueque* (Schuldt, 1997). Others have fixed a unit of value expressed in hours of work, notwithstanding the type of work offered, as in the Time Banks in the UK and Australia (Seyfang, 2002). The British LETS (Williams, 1997a) function mainly as an accountancy system in which a central operator uploads transactions to the individual accounts of the community members.

The *Red de Trueque* in Argentina had no contact with these CCS around the world and thus sought its own development path. The use of vouchers undeniably supported the expansion and replication of nodes; it was a simple, cheap and well-known system to facilitate transactions, though unfortunately insufficient attention was paid to the risk of forgery (North, 2007). The precedent, if any, on the basis of which the market-makers started printing their currency was the alternative means of payment issued by various provincial governments; the very flexible understanding of money by Argentines also made acceptance of the new currency easier. The result was a non-state currency system that achieved a scale and scope that represents a sea change in comparison with other CCS around the world. The network organisation was also unique, as was the support of the government at national and local levels.

Phases in the *RT*'s development

Several institutional phases are highlighted in the sequence of the *RT*'s construction. In the beginning, with only one *CT*, the rules of personal exchange typical of the social economy were clear enough to guide behaviour. Scrip was not necessary yet; an accountancy system mediated exchanges and trust among participants corrected the drawbacks of the system.

In the second phase, there were a handful of *CT*s articulated in a small urban network. The reputation of the initiators served as a complementary background to the rules of personal exchange and kept opportunism in check. The monetisation of exchanges then became necessary, though the scrip was not yet perceived as currency.

In the third phase, the *Trueque* developed to a stage of impersonal exchange, in which there was rising demand for impartial economic institutions. The number of participants and clubs was large. The rules of personal exchange were no longer enough because not all participants knew or trusted each other. The network then formalised rules, made its principles explicit, organised the vouchers (already seen as currency), partitioned the national network by region and built bodies of associative representation in which all members, in theory, could participate and supervise the others. The system worked well for a while to reduce uncertainties and the general costs of exchange, in addition to refining a political project in an alternative development path.

In the fourth phase, the scale of the *RT* kept growing and maturing until a single integrated network was difficult to sustain. The launch of the social franchise was the turning point that inaugurated this phase, with a centralised monetary system across the country. As the central regulators (the *PAR* leaders) failed to safeguard the transparency and security of the currency system, its scale made it unmanageable with their infrastructure. The *RT* squandered resources in dealing with practical and ideological conflicts and trying to control the situation, mostly unsuccessfully.

The fifth phase started with the break-up of the *RT* and the shaping of different governance systems, which this study has categorised into four types. Each emergent sub-network defined rules and controlled their enforcement in different ways and, judging by their survival, some were more successful than others.

In the sixth phase, which is ongoing, most decision-making powers have gone down to the level of the surviving clubs. Some have been again reduced to a scale sustainable by the rules of personal exchange and others rely on associative or hierarchical models to manage the uncertainties of impersonal exchange.

Why is the *Trueque* not dead?

At the beginning of 2007, after 50 months of uninterrupted growth in the regular economy, the *Red de Trueque* is starting to look like an inessential leftover of the economic collapse of 2002. Some observers (for example, Oviedo, 2003) argued that the *RT* was bound to disappear. Still, a few hundred nodes are alive, much against the anti-cyclical hypothesis, and a few new ones opened in 2006. There are several reasons for this.

To start with, as this study has emphasised, the background conditions for the emergence of the *RT* were not simply the meltdown of macroeconomic variables but the institutional gaps that resulted from reforming the economy. Agents whose lives had become unstructured and uncertain found that the *Trueque* restructured their socioeconomic activity in line with the institutions they had been used to. Agents were able to reintegrate into the regular economy when it rebounded, as happened after 2003. However, many could not return and the *Trueque* still contributes to their livelihoods. They can understand it and make meaning of it, at least more than of the modernised economy. The author found during the fieldwork that the participants are now more likely to be older than 50 years, less qualified, structural poor and with less entrepreneurial capacity than those who have left the *Trueque*.

The profile of individuals most likely to participate in the *Trueque* is consistent with the groups that labour market experts term 'unemployable'. According to official data, there is an apparent paradox in the regular economy, posed by the coexistence of high unemployment (11.6 per cent in October 2006) and labour shortages in several sectors.[1] Wages have increased across the economy, but the poverty rate is still 31.4 per cent. The data show that a large group of workers have very low employability and are likely to stay under the poverty line, in need of income-generation schemes other than regular employment. The *Trueque* is one such option, filling the existing institutional gaps, and it has already become part of the new socioeconomic structure of Argentina as a secondary or tertiary labour market.

Another reason why the *Trueque* is not dying in spite of the thriving regular economy is related to gender. At least three-quarters of the participants are women, normally middle-aged and doing unpaid work. The characteristics of their continuous participation differ according to whether they are new or structural poor. The disenfranchised middle-class women were most affected by the loss of access to the public space as a result of the decreased income of their households, as has also been found by other researchers (for example, Lecaro and Altschuler, 2002). Those women discovered in the *Trueque* a new space of sociability. Their contact with the public space had been in gendered hobbies (cooking, knitting and embroidery) or through social networks (friends, fitness clubs, and so on) which they could no longer afford (Gonzalez Bombal, 2002a; Parysow and Bogani, 2002). Their participation in a node was frequently based on those hobbies, which became the basis for producing valuable goods for sale. Alternatively, women that had employment experience but were no longer active in the regular economy were able to use their skills again in the space of the nodes. When the regular economy rebounded, many were able to reinsert themselves into it, sometimes remaking their *Trueque* activity into a micro-enterprise in the regular economy. Others dropped out of the nodes to retreat again to unpaid household work.

The *Trueque*'s effect on women among the structural poor was different. Leoni (2003) found that the *RT* enabled them to obtain recognition for their work because they were able to contribute to household expenses. The women's activities that used to be unpaid within the household (taking care of the children and elderly, cooking and knitting) became a source of income in the *Trueque*. For this reason, women often saw it as an extension of their daily housework and attended the node markets with their children and other family members. These women are today the majority in the nodes that survive and they express pride at being able to contribute to the daily needs of the household with their work at the *Trueque*, even if their husbands are again employed in the regular economy. The *Trueque* has also enabled them to learn skills or to enhance entrepreneurial capabilities they did not know they had.

Achievements of the *Trueque*

The role of women was crucial for the expansion of the *RT* in various ways. Women of the disenfranchised middle class were often the starters and coordinators of nodes, which gave them the chance to build skills as managers and leaders of the community.

The gender division of labour in the households was restructured by the kind of money each breadwinner earned, which was a pattern in common in both new and structural poor households (Gonzalez Bombal, 2002a; González Bombal et al., 2002b; Leoni, 2003). Women would search for food and clothing in the *Trueque* nodes while the regular money earned by men –often from odd jobs or in the informal economy– would be used for the rent, public services, taxes and other expenses that could not be paid in *créditos*.

The *Trueque* made the unpaid work of women visible and valuable in accessing services and goods that made a difference to the lifestyle of their households (Pearson, 2003). By 2007, many husbands found employment in the regular economy again, but many women do not want to retreat back into the home. They value the social contact and income, which may empower them to try other ventures in the future. The motivation is different for women-headed households; they must have a job earning regular money due to the constraints of the *crédito* as a secondary currency, and they participate in the *Trueque* more out of need than because of the social life it offers. For them, participation is critical to their survival. The valuable access of women to the public sphere can be regarded as proof of their empowerment and an achievement of the *Trueque* in the long run, though it needs to be explored specifically in future research.

What else was achieved? Most obviously, around 2001 and 2002 the *Trueque* increased the income of households by an average of $600, which at that time was equivalent to twice the minimum wage or barely below the poverty line for a family of four (Norman, 2002). So a *Trueque* participant visiting markets daily could roughly support a household (Primavera, 1999c, 2003). It should be noted, however, that the increase in household income is an average and needs to be analysed further. The structural poor did not achieve the same increase because they had fewer resources and less capital, tangible and intangible, to use in the *Trueque*. They barely covered their basic food and clothing needs, and with considerably less choice than if they had had regular money. The disenfranchised middle class, and especially those who could 'risk' a few pesos in an enterprise, made more. So the average income increase from node market activity hides class inequalities, which is a common feature of all markets.

As observed earlier, the *Trueque* also offered a new space of sociability to the new poor and unemployed during a difficult period in their lives. For the disenfranchised middle class, the *Trueque* was an opportunity to share a social life with other individuals suffering a similar experience of impoverishment and confusion. It was part of their search for a new identity and probably enabled them to maintain their self-confidence so that they were able to return later to the regular economy (Ford and Picasso, 2002; Gonzalez Bombal, 2002a; Primavera, 1999c, 2001). The structural poor could interact with the disenfranchised middle class in conditions of less inequality than in the regular economy.

Another result of the *Trueque*, which was barely discussed in this study and could be a subject for future research, is that it offered an alternative to clientelistic networks. The poor, most likely the structural poor, tend to fall prey to politicians at the local level, who trade food and favours for political support (De la Torre, 1992). This problem has been researched by authors like Auyero (1997, 2002a and b) and Lodola (2005) who explain how the structural poor were coopted after the neoliberal reform programme in exchange for access to a network of favours. During election periods, they were picked up in buses to swell political demonstrations in exchange for a box of food termed a *bolsón* (literally, big bag), but in more recent times, the *bolsón* has been replaced by the promise of a social welfare subsidy (allocated at the local level but financed by the central government). The disenfranchised middle class, as newcomers to poverty, were not part of this circuit and felt better contained in the nodes (North, 2003, 2005).

Another topic for future research is the environmental aspect of the *Trueque* (Daito, 2005). About one-third of the supply to the nodes came from recycling, recovering and reusing second-hand goods that were idle in the households of the new poor, had been discarded by others and given to participants as charity, or was waste from either other households or factories. The structural poor often sifted through rubbish in wealthy areas and factories and found clothes, toys, bags, or raw materials for handicrafts such as fabrics and wood. They also visited supermarkets, where food was discarded around the day of expiry or because it was not saleable (for example, crushed cans or a product missing a component). The recovery of goods that have lost exchange value seems to form an area of economic activity that generates an income for the poor and could contribute substantially to their livelihood (Baud et al., 2004). It needs to be researched for its aggregate impact on the environment and on the efficiency of the economy. Waste means different things to different agents; in the *Trueque* it means something different than in the regular market.

Finally, as discussed elsewhere (Gomez, 2006b), the *Trueque* locked in activity geographically and sometimes contributed to local economic development. When the national economy collapsed, it helped regions to maintain some level of economic activity to see them through the crisis. And it provided a longer-term option for diversification of income to the poor, especially the new poor, who made the most of the nodes as protected markets to start a micro-enterprise. The *Trueque* also integrated the rural hinterland and connected the poor and unemployed with networks from which they are normally excluded. CCS thus have potential as tools for promotion of local economic development. This is specially so when they are able to make investments in bureaucracy, raise a collective fund to finance projects and have managerial structures (Gomez, 2006a).

The *Trueque* proved to be a particularly effective tool for micro-enterprise creation and self-employment, judging by the survival rates. The nodes enabled participants to 'learn by doing' with lower risks and lower entry barriers. This is the positive side of a club market; it restricts buyers to the supply offered in the nodes and thus sustains a regular level of demand to spend the *créditos*. Micro-enterprises in the *Trueque* thus needed a low threshold of competitiveness to be viable businesses. The incubator effects were clear: more time to learn, leniency over mistakes, low risk of failure, and low barriers to entry or to making changes. Participants who had no experience at all in self-employment discovered that they were capable producers and traders. The possible role of club markets as an alternative in micro-enterprise creation programmes, not necessarily through non-state currencies, needs to be explored further.

7.3 Principles for CCS worldwide

A number of lessons can be drawn from the *Trueque*. When there were few nodes, the reputation of the initiators was enough to resolve governance. As the *Trueque* grew, the articulation of various groups in a single network was crucial to reaping the benefits of scale and scope, but it also created problems of governance. The assumption that this would happen spontaneously through the sharing of ideology and values was clearly wrong, as was the expectation that control would follow because of inertia. So the experience of the *RT* indicates that the scheme is easy to replicate but also to corrupt.

In organising a CCS, a question to be discussed explicitly is the scale desired, because this choice will later determine others. If the aim is to keep it small, international experience offers enough variety of cases from which to draw lessons. However, if the goal is to expand the network in order to benefit from economies of scale and scope, division of labour and specialisation, the point of reference is the *Red de Trueque*.

Balancing scale and impact

For CCS, growth presents a clear tension. As they grow, they become more autonomous economic systems inclusive of low-income groups, but they also attract participants who are less ideologically minded. The problem is how to balance both aspects. On the one hand, CCS need to preserve social cohesion, for which growth needs to be restricted to the scale made possible by sustainable collective action. On the other, they need to expand and diversify the supply of goods and services in order to offer an attractive income-generation option and meet the organisational costs. So they need to be 'large enough' to reap the benefits of a market (for example, through diversity of supply) while at the same time being 'small enough' to sustain social cohesion. The question is how to offer participants the maximum income-generation possibilities with the minimum damage to governance and the minimum organisational and transaction costs. This trade-off applies to club markets in general.

The problem of scale is common to social economy schemes or third-sector economies, which tend to remain too small and marginal to offer an attractive income to participants or become too big, depersonalised and too oriented to profit maximisation. There are a myriad of possibilities between the two extremes. CCS may achieve low economic impact but still be valuable to the structural poor. For example, in an independent node visited during the fieldwork, participation by the poor made only a small difference in terms of obtaining food but it enabled them to access the services of a local doctor who used the *créditos* to pay for house maintenance. It is also possible that CCS may fail to construct an alternative economic space but still help households to survive a collapse of the national economy.

The *RT* experience produced two intermediate solutions that worked reasonably well. One option was to restrict the scale to the limits at which ideological cohesion could be sustained, as the *RTS* regions did. There is enough experience showing that the social cohesion typical of personal exchange can be sustained when there is a strong ideological motivation (Reisman, 1990). This path is difficult because collective action is just as costly among those who share an ideology (North, 2005) and also because as groups get larger they breed factions of political opinion that endanger schemes (Platteau, 1994a and b). The second solution was to abandon idealism and to build bureaucratic control structures with a reliable leader at the top, like the *ZO* did. Motivated coordinators did a considerable amount of unpaid work to sustain their sub-network on the basis of their ideals; otherwise the costs would have been prohibitive.

In principle, it thus seems possible to increase the scale and impact of CCS without damaging their sustainability, provided certain rules of governance are respected. Local *CT*s, the *ZO* and the regional components of the *RTS* were sustainable and yet very different in their scales and their approach to CCS. A hierarchical model seems to be best suited for larger scales of operation. The advantage of size lies in the capacity to develop complex projects and management institutions (bureaucratic structures, value chain agreements, collective enterprises and alliances with local governments). The model does have disadvantages, though, one of which is that a rather large scale is the minimum threshold for the sustainability of projects and a leader to organise the network is critical. On a larger operational scale, a collective fund could be established to pay expenses, including remuneration to supervisors and enforcers of rules, and the leader would play a crucial role in organising the fund. A major drawback of the hierarchical model is that it could be seen as contradicting the principles of self-reliance pursued by CCS.

At an intermediate level, a regional sub-network with an associational model also proved sustainable and capable of correcting the problems of the national associational model. A region represents a larger scale than a locality and so the resources available are also richer in scale and scope. This enables complex projects of local economic development, integration of rural and urban areas, and financing of necessary administrative structures. Additionally, the divergence of interests and political conflicts of the associational model are more manageable at regional level than at national level. A basis of ideological motivation is more likely to endure at an intermediate level. The risks of this model are linked to the system of representation, that the CCS could be co-opted by elites or self-elected leaders with their own agendas.

Finally, community-based or local CCS appear to be a suitable option for combining economic and extra-economic impacts. These are ruled by the considerations of the social economy or personal exchange, so in terms of governance they do not present major weaknesses. The direct relationship between their limited scale and restricted resources can be worked out as part of the collective efforts of the group. Two possibilities emerge from the experience of the *Trueque* in Argentina in this respect: seeking participation of local governments or external donors, or expanding the network to local businesses and shops.

Principles of organisation

The clearest target group are middle-aged women doing unpaid work to meet needs or as a hobby, especially with little employment experience and unsatisfied needs; that is, with minimal opportunity cost to start but high potential benefits in the medium term. Ideally these should comprise two groups of women exchanging products with each other, one where the structural poor are in the majority and the other with a majority of middle-class women and/or new poor. In this way, the total pool of resources and needs in the network would be larger and more varied than by focusing on only one class. The mix would increase scale and scope. Disenfranchised middle class, or new poor, would benefit from consuming goods and services offered by the structural poor women at a discount in relation to market prices. Apart from these practical matters, both groups would value the social contact of participating in a club market, the opportunity to help others and the potential empowerment effects within the household.

The size of the group should be of at least 50 members to start with, and no more than 200. These are the numbers that come up over and again from *Trueque* leaders and coordinators. With larger numbers supervision becomes necessary to avoid the problems of impersonal exchange. With fewer members than the minimum threshold, the pool of resources is often too small. If the resources of the network are too scarce, there are two possibilities: finding a donor to obtain basic food production inputs or setting up a micro-credit programme in the complementary currency.

In order to keep motivation high and governance sustainable, physical market meetings offer better chances of success than distribution of a list of goods and services that members are willing to supply. Physical contact strengthens relations, brings interests and intentions closer and creates bonds of reciprocity to keep opportunism in check.

A practical and effective way to increase the pool of resources available to the nodes is to integrate the rural hinterlands of small cities into the nodes. CCS would thus be able to reach agents who normally do not find ways to participate in low-income urban schemes. In this way, rural households would gain access to goods that are scarcer in rural than urban locations (clothes, toys and household gadgets) while the urban poor would benefit by gaining fundamental access to products that are scarcer in urban than rural areas (for example, fresh vegetables, eggs and small animals). Overall, rural-urban integration improves the CCS supply chain.

There are a few drawbacks to complementary and local currency systems. First, there is the possibility of permanently isolating the poor and unemployed participants; if they settle down in the CCS, they may not be able or willing to go back to the regular economy. While this is possible in theory, it is unlikely in reality. The CCS is limited to what can be paid in the complementary currency, which excludes payment for goods and services such as taxes, rent, public services and transport. The CCS is also restricted to the resources accessed by participants, mainly their capacity to buy basic food production inputs like cooking oil and flour in regular money. The CCS is essentially a complementary area of the economy, an effective but limited source of income for the household. It is not self-reliant but integrated into the regular economy, so it can hardly sequester participants permanently.

Perhaps a more important risk to consider is that CCS can be costly in terms of organisational and collective efforts. To sustain these costs, commonalities among participants, such as ethnicity, religious beliefs, gender, disabilities, or a pre-existent shared space like a school, club or church, are helpful. The participation of an NGO or local government to cover the organisational costs would be an asset and would be possible within the social policy efforts of local governments.

The inclusion of local governments as actors in the CCS network brings a number of advantages. It can expand the scope of the initiative and have a series of positive side-effects. As discussed earlier, the *Trueque* did not start as a scheme for the poorest of the poor but for those who already had some resources to put to use. Local government involvement proved effective for extending the membership of the *Trueque* to other social strata. The appeal of a complementary currency is, by definition, related to what can be paid with it. By allowing local taxes to be paid partially or fully in complementary currency, local governments aroused the interest of a wider circle of the middle class, businesses and shops in the *Trueque*. Where local taxes could be paid in *créditos*, participation in the node offered taxpayers an implicit discount in relation to the regular payments. Businesses and shops then supplied the nodes with food production inputs and other necessities, which were crucial for the structural poor. In short, participation by the local government increases the social mix in the CCS, generally broadening its horizons.

In some districts, the legal framework forbids local governments from accepting means of payment other than those issued by higher levels of authority, that is, the central government. A way of getting around this in the *Trueque* was to accept payment in kind instead of community currency. Either way, the local government had to decide how to use the community currency or the payment in kind. In Argentina, a handful of local governments viewed the scheme as a welfare policy that demanded very few resources from them and kept the poor out of protest demonstrations. They gave the goods received as payment in kind to the structural poor and in that way supported the CCS. In the exceptional case of Venado Tuerto, the municipality accepted the community currency directly and framed a local social policy, including micro-credits, in complementary currency.

It is in the interest of local governments to support CCS, but in a new scheme the material benefits may not be obvious in the beginning. CCS have positive effects on the local economy, protecting the level of activity and promoting development. They support income diversification and community networks. However, local leaders in the *Trueque* had to work out creative ways of showing local governments the material benefits for them. For example, a CCS would take over tasks that local authorities normally carry out, like maintenance and cleaning of community centres, schools, sport halls or open spaces in exchange for the use of the venues to hold markets. Another service that can be obtained from local governments, as the experience of the *Trueque* showed, is the use of municipal vehicles to improve logistics or integrate remote rural areas. A more ambitious possibility is to engage the local government in more complex supply chains, as the *ZO* did, using idle municipal resources or persuading the local government to accept goods as payment for taxes in arrears.

A model of replication to consider is a social franchise with appropriate control mechanisms. This method was designed to achieve the highest impact while keeping nodes small and manageable. The idea seemed feasible but did not work out in reality. Some nodes grew beyond thousands of participants due to the national economic collapse and the popularity of the *Trueque*. And the larger they became, the more they emulated the regular economy without a state. The model of franchised local nodes with centralised management of the currency system relies heavily on management capacities at the central level and means to ensure that the franchisees abide by the rules. An effective alternative to solve the problems of managing the monetary system would be a computerised system of payments with cards, but this is also costly. For this, the number of franchisees needs to be kept within the bounds of the control infrastructure, which is also costly to finance. Another issue is the accountability of central managers (how and to whom they are accountable), which was barely discussed in Argentina. In short, a system based on social franchise offers the advantage of fast and easy replication but its effectiveness comes at a cost (that is, control infrastructure). Its implementation makes sense only on a large scale, when participants can contribute a fee. An incidental issue is that, to some degree, such control is contrary to the participation and democratic principles that most CCS stand for.

As mentioned above, at a large scale the *Trueque* emulated the regular economy without the state's control capacities. CCS thus seem effective in coordinating resources and supporting income generation, but they are considerably less effective in generating compliance. A possible avenue for solving this problem of enforcement is to go one step further in emulating the regular economy and bring the state back on the stage. Where partnerships with local governments are possible, these could have a role in providing supervisors to perform policing functions at markets or as a last resort in conflict resolution. The local governments could perform these functions with the same personnel that supervise the markets of the regular economy, but adapting the rules to those decided by the CCS members. This was not tried in Argentina but could be an inexpensive and effective solution to the problem of enforcement.

Who benefits from CCS?

CCS are not really designed for the poorest of the poor. In the beginning the *Trueque* was populated by the disenfranchised middle class. Participation was driven not only by survival needs but also by the desire to protect or recover a middle-class lifestyle. Therefore, there were fewer basic goods in the *Trueque* markets and services such as holidays, home decoration and birthday parties were on offer. In a way, CCS adapt the self-help schemes of the poor, tinting them with middle-class identity.

The participants relied on skills and assets accumulated during the better days of their household economies. Though they had sunk under the poverty line during the national crisis, their infrastructural needs were covered and perhaps allowed them to view their poverty as temporary. They did not start their economic activities in the *Trueque* from a situation of acute deprivation, as they had resources that had some exchange value in a market, though in non-state currencies. They had equipment, tools, often a small amount of working capital to begin with, plus a network of social connections to which they could resort. Some accumulated assets gained them access to traditional forms of loans, if not through banks at least through informal credit organisations.

Participation in CCS around the world is also tinged with middle-class values: environmentalism, an alternative lifestyle, the need to help others, the search for social contact outside the household and the wish to offer a good or service expressing their personal capabilities (for example, art and handicrafts). This description applies to the *Trueque* as well as CCS in developed countries like the UK, Germany or Belgium (Aldridge and Patterson, 2002; North, 2006; Offe and Heinze, 1992; Wanner, 2002).

While CCS are an important enhancement for the livelihood of the not-so-poor and the disenfranchised middle class, in the *Trueque* there were also some structural poor who managed to live on it and improve their situation. However, they first had to obtain goods to sell, from social security payments, donations, gifts or by sifting through waste. This highlights an important –rather paradoxical– condition for CCS being a solution for the structural poor: they first need to obtain assets that raise them above their extreme poverty. This need not be a contradiction. It can constitute a useful guideline for donors, charities and social policy decision-makers; even if the poor cannot themselves use the products given to them out of charity, by exchanging them in a club market they can obtain something else that they do need. A CCS thus concentrates the large pool of resources that the poor are able to tap into, and through exchange it redistributes them to satisfy needs. It combines the resource allocation efficiency of market exchange with the material and social benefits of the 'gift economy' (Komter, 1999).

There is a second condition that needs to be fulfilled for the structural and extremely poor to reap benefits from participating in a CCS, and that is maintenance of diversity in the supply of goods. As increasing numbers of the structural and extreme poor started participating in the *Trueque*, the markets became saturated with second-hand goods obtained from charities or by sifting through waste, as well as services such as cleaning for which there was limited demand. The survey carried out for this study gives a rough indication that extremely poor participants who can only offer these kinds of goods and services should not comprise more than 25-30 per cent of a node in order to obtain substantial benefits from it. When the proportion increases beyond this threshold, the nodes become anarchic battlegrounds of individuals struggling for food production inputs and other basic needs. This point also helps to answer the question of why the *Trueque* expanded so massively in Argentina: there was a large not-so-poor population comprising up to 70 per cent of the membership in thousands of *CT*s across the country.

7.4 Patching up monetary institutions

This study showed that the *Trueque* had a strong anti-cyclical component but other factors are necessary to explain its emergence and growth. In macroeconomic terms, there was no reason why the economic activity in the *Trueque* could not have taken place in the regular economy. In theory, there was no need for a special currency, since the resources (physical and intangible) were there and the *RT* was within the frontier of possibilities of production.

The *RT* and the regular economy could therefore be viewed as two parts of an economy, in which one is active and the other is idle due to the crisis. In theory both parts could merge again after the upturn of the business cycle. If so, why did the production of the *Trueque* not occur in the regular economy? The difference lay in the institutions that governed the idle and active parts of the economy. The *Trueque* coordinated actors and resources into production and exchange in ways that the regular economy could not. It filled the institutional gaps left by the missing mediating mechanisms in the regular economy. Therefore it was not lack of resources that kept the Argentine economy in a crisis and its agents unemployed, but the lack of institutions by which they could be coordinated. There was no impediment in the static conditions (that is, the resources available) but in the dynamic ones (coordination mechanisms). In short, lack of critical resources and downturns of the business cycle are not the only causes of an economic crisis. The lack of appropriate institutions to coordinate resources also needs to be examined.

Following this reasoning, the participation of the disenfranchised middle class emerges as critical to the take-off of the *Trueque*. Participation in the regular market was not available to the new poor, who had no jobs and no income. On the other hand, transferring goods and services as gifts or charity or within a reciprocity network, as often observed among the structural poor, was not an acceptable solution in a middle-class context. The *Trueque* took elements of both and adapted them in the club market: it mixed the institutions of the market with the social cohesion of a closed network. What would have been a gift became a commodity to exchange, though for community money, not regular money. Transfers were facilitated by the non-state money of those who accepted it by becoming traders in the club market.

A key element in this regeneration of economic coordination was the printing of a non-state currency to complement the regular monetary system, filling the gaps in that system. The *Trueque* did not start with bartering but with a notebook in which credits and debits were written down. When membership grew, the system evolved into scrip to be used as means to facilitate payments. The *créditos* were initially neither a new unit of account (the *CT* copied the prices and denominations of the regular monetary system) nor a reserve of value (they were only meant to facilitate transactions). Scrip was printed only after participants trusted each other enough to receive printed vouchers in return for their goods. The very name '*créditos*' reflects the principle claimed by one of its initiators, that 'in the *Club de Trueque* we give and receive credit. We believe in each other'. The creation of money that serves only as means of payment (not as reserve of value) constitutes an interesting policy option to explore during a crisis, as suggested already by some authors (Chelala, 2002; Greco, 1994; Kennedy, 1995). It regenerates the coordination of exchange transactions.

A monetary system implemented in the absence of an authority that decides the amount of money to circulate a priori has been theorised by the post-Keynesian monetary school (Dow and Dow, 1989; Ingham, 1999, 2001; Rochon and Rossi, 2003; Wray, 1998). Milton Keynes (1930/1976) conceived a 'credit theory of money'. Post-Keynesians argue that credit money develops an endogenous or autonomous monetary system in which promises to pay are created with each transaction. Means of payment develop along with exchange, in contrast to being a policy instrument of the state, which (among other factors) decides the amount of money in circulation. In the *RT*, the rule for adding currency was to inject a certain amount of *créditos* per person after they joined and increased the total value added. Unlike the official monetary system of the Central Bank, the *Trueque* had an endogenous monetary system in which means of payment were increased at the same rate as its scale and aggregated production. At least that was the idea until the vouchers were overprinted and forged. As a result, the amount of money grew with the goods and services to be exchanged. Prices stayed stable and there was no monetary scarcity (which would have caused a downturn).

This leads to a reflection on the nature of money. To be worth anything, money relies on social networks in which there is either a minimum trust that credits will be honoured or that the untrustworthy payer can be punished (Wray, 1998). Some authors conceive money as a medium of communicating anonymous promises to pay (Ganssman, 1988). Historically, depersonalised and transferable promises of payment were woven into deep and complex layers of debt in which the most trustworthy promises to pay were kept as base-money and the others were used to make daily payments. In a similar fashion, in Argentina regular money was used for general purposes or as reserve of value, while the *créditos* were spent the same day they were received, to buy the basic necessities for which households did not have enough official money.

Therefore, a monetary system works only when means of payment are attached to a monetary network that trusts the issuer (for example, the citizens of a region where the issuer can impose sovereignty) or are linked to a more reliable means of payment (for example, a currency board or monetary union). Though following a completely different theoretical approach, this finding is consistent with Cavallo's theorisation on the quality of money. If the quality of money is very low (for example, when inflation has undermined the monetary sovereignty and trustworthiness of the issuer), agents resort to the next accessible and more reliable currency (Cavallo, 1999). The currency that is no longer viable will not be acceptable, whatever the quantity in circulation set by the Central Bank. So policies that control the quantity of money to prevent inflation would gain from looking also at the quality of money.

Rather like the regular monetary system, the complementary or local currency of the *Trueque* eventually generated a qualitative transformation in the social relations of production. Historically, money became dematerialised and depersonalised, third-party debts were cancelled by other third-party debts and those were not tied to specific goods or services (Schumpeter, 1994). That is, in the medium run money became disembedded of the social setting that gave it its original value and became an abstract means of payment, store of value and unit of account. Subsequently, printing and managing money created two classes of social actors: those who created it, or the issuers, and those who used it, or traders (Ingham 1996; Leyshon and Thrift, 1996). The *Red de Trueque* followed a similar path: the *créditos* became disembedded as the number of users grew. Community or complementary currencies are thus conceptualised as depersonalised, dematerialised, abstract and transferable promises to pay that initially emerged from a social network with some degree of trust to give certainty to claims. The network gradually incorporated a large number of participants and hence became anonymous and disembedded and communicated the promises to pay of other anonymous users of the same currency.

Is community money also money?

Community, complementary and local currencies like the ones created by the *RT* are credit money: expressions of promises to pay made by third parties within a closed network. In the beginning, it takes a small core of motivated participants, who usually know each other beforehand, to start a new CCS. As other members join, the perception of a small trustworthy group is gradually lost and the means of payment becomes a currency –whether in the form of paper or as an accountancy system– in return for which participants agree to surrender their goods. This replaces the need for a valuable commodity to back it up or a central authority to impose its use.

However, there are a few substantial differences between regular money and that of a CCS. The latter is local and constrained to some goods and services. The CCS can protect the economic activities of its participants when they are kept to a locality or network because they cannot leave it. Repeated interaction at a small or medium scale creates a club identity of 'us and them' between those who participate and those who do not. The system relies on social relations. state regulation of the monetary system is also positive in the sense that it gives stability and predictability to money. The absence of state authorities to regulate the complementary monetary system –including the power to punish those who forge currency– makes it rather unstable when used on a national scale, as the experience of the *Trueque* illustrates.

While restricted to an effectively manageable scale and scope, complementary currency systems can still achieve a larger scale than other social economy schemes (for example, cooperatives, collective resource management or mutual funds). They are an emulation of the regular economic system in which some aspects are changed by the downscaling while others, namely the use of a depersonalised and abstract means of payment, stay the same. Social economy schemes are ruled by trust, reciprocity, and the usual institutions of personal exchange, at least in theory. A local exchange and trading system based purely on these rules would not really need any physical means of payment. Goods and services would change hands all the time between parties. The gifts would be reciprocated at some time in the future. In contrast, a CCS uses an abstract means of payment to embody transactions, so it is a depersonalised exchange system. For this reason, CCS would not make much headway in a context where agents are used to exchanging goods without using money.

However, a large and open exchange and trading system among thousands of participants can only develop with means of payment regulated by a trustworthy impersonal organisation (for example, a central bank). Goods and services then change hands between strangers only against receipt of an impersonal payment, which entails the belief that another good or service of the same value will be received in the future. This is what regular money is. Complementary or community money is different; it is a means of payment only for those willing to accept it in exchange for their goods, those who believe that somebody else will surrender other goods of the same value in the future. This belief relies on participants trusting each other.

In sum, a complementary or community currency is the central institution of a hybrid economic system which lies between personal and impersonal exchange. These two forms of exchange have in common with reciprocal exchange systems the social cohesion crucial to sustain them. And they obtain from impersonal markets the use of depersonalised means of exchange that add certainty to the system and enable it to grow beyond the very small scale of reciprocal exchange systems.

Notes

[1] These statistics are available at <www.indec.gov.ar>.

8 Reflections on the evolutionary nature of institutions

8.1 Phases in institutional construction

The evolution of the *Red de Trueque* in Argentina illustrates the problems of creating a market and eventually an economic system within the regular economy. Participants and organisers started from the institutional gaps created by an aggressive reorganisation programme in a relatively sophisticated socioeconomic structure. Then they innovated, creating new institutions, expanding them and structuring them into systems of governance. None of the organisers and groups of agents had the means to impose decisions on the others throughout the process, so governance had to be constructed. The existent evolved, primary and designed institutions either constrained or enabled the process. It is now time to take a step back and analyse in detail the stages of this process of institutionalisation performed by agents through a reconstitutive upward causation (Hodgson, 2002a, 2003b) and have a look as well at the possible deconstructive side of it. Each section in this chapter focuses on one stage of the process: the background of institutional gaps, the experimentation and innovation phase, the eventual institutionalisation as a designed institution, and finally governance systems.

8.2 Emergence of institutional gaps

The process of institutional construction is triggered by its background. Why do agents engage in designing new institutions? Institutional design and change is, essentially, a reaction to the state of the socioeconomic structure. This is composed of the primary institutions that sustain all others, the habits and routines that evolve out of regularity or practice and the designed institutions that resulted from previous reflective action. Agents react to institutional gaps; they perceive that the rules of action they follow are unintelligible, incomplete, or unsatisfactory in terms of the expected results. Each one of these situations is analysed below.

Rules of action are meaningless when the conditions in the environment have changed and the actions that used to apply in those conditions no longer result in the expected outcome. Following Hodgson (2006), a rule of the type 'in circumstances X do Y and expect a Z outcome' has become invalid because circumstances have become X'. Since there is no rule of action to follow in these other circumstances, agents continue to do Y and yet the outcome is not Z. The pre-reflexive disposition to take an action becomes reflexive by virtue of the failure of Z to happen. It may not be immediately obvious that the unexpected outcome is the result of responding with old actions to new circumstances, so this reflexive process may take a while to be set in motion. When it does, agents individually or collectively attempt to find a suitable Y' for the new X'.

The second type of institutional gap is when pre-reflexive tendencies are incomplete. This is the case when a new situation appears. Circumstances do not always repeat themselves and then new rules of action need to be developed. Agents are then pushed to seek the Y that will resolve the situation X.

The third type of institutional gap is when pre-reflexive tendencies of action are unsatisfactory to agents. Although the rule of action indicates doing Y in circumstances X, this does not mean full acceptance on a reflexive level. It means that Y has been imposed by a more powerful agent with the means to enforce the rule or by the practice of previous generations. Z is then perceived to be detrimental by an agent or group of agents. This is the conflict type of institutional gap, because in fact there is a rule of action but it is resisted by some. Finding a new Y' involves changing the socioeconomic structure, which is costly, difficult and normally involves significant collective action. Therefore, agents will engage replacing the institution only if they react strongly against it.

Implications for institutional reform

In this framework, structural reform programmes represent attempts of a certain group of agents (policymakers) to change the rules of action of an economy and obtain a different outcome; that is, a different economic organisation. Since policymakers can only operate on X, they create X' conditions in order to lead agents to do Y' and obtain Z'. Unfortunately, social life is more complex and uncertain than this set of assumptions. Agents may fail to perceive what the expected response is, may find other reactions more suitable, may find no acceptable response at all and exhibit inertia or may find the new outcome unacceptable and therefore resist implementing it. These are all examples of institutional gaps that may –and in reality do– result from policy-induced institutional reforms.

The theorisation on structural reform programmes needs to incorporate an evolutionary perspective on institutions. Neglecting this perspective creates a high probability of failure when policymakers are designing institutions (failure meaning that the expected organisation of the economy is not realised). That is, of course, unless the policymakers have sufficient means to enforce rules, which is rather difficult and costly.

Policymakers often attempt to change habits and routines, which are institutions evolved out of practice and regularity. By definition, these cannot be replaced by other habits built by virtue of policy, that is, they have to evolve pre-reflexively. Habits can only be changed by agents' reflexive action, an element of lower ontological level, as explained by Hodgson's principle of reconstitutive upward causation (Hodgson 2002a, 2003c) or Giddens' structuration (1984). Conscious elaboration results in 'designed institutions', that is, new structures. These can change habits and routines because they replace a pre-reflexive disposition to act by a reflexive disposition to act (Lawson, 1997). So, as long as agents understand and accept that in circumstances X' they are required to do Y' the result would probably be Z'. Again, that depends on whether Y' is resisted, agreed or imposed, and in the last case, whether there are effective means of enforcement.

Although agents can change habits and routines by replacing them with designed institutions, there are limits to what can be changed. Institutions act on agents' enabling and constraining behaviour (Granovetter and Swedberg, 1992; Hodgson 2003b). There is no tabula rasa; institutions designed by policymakers are bound to the primary and evolved institutions prevalent in the space of their implementation. The consequence is that designed institutions cannot be transferred from one context to another with the expectation of the same results.

There is a second implication concerning the relationship between designed institutions and what policymakers can effectively impose. Institutional design is related to intentions and interests, as elaborated by several authors (Beckert, 2003; Joas 1996a; Lawson, 1997). If the new rules of action elaborated by policymakers clash with the intentions and interests of the agents who are expected to behave accordingly, then policymakers will need a battery of means of enforcement. This is not always viable, especially in developing countries. The alternative is to generate consensus around the designed institutions. So a distinction is drawn among designed institutions, between those imposed top-down by policymakers and groups with power and those formulated bottom-up by agents, individually or collectively, through negotiation or agreement. Institutions designed and imposed top-down may generate resistance and require means of enforcement to elicit the required behaviour. Institutions built bottom-up would generate less resistance, but compliance with them is not assured either.

To sum up, elements of a lower ontological level (agents) can bring about changes in elements of higher ontological levels (institutions). Designed institutions can change evolved ones by repeatedly forcing reasoning at the moment of action. They become habits and routines, too, when repetition makes them pre-reflexive tendencies to act. Similarly, evolved institutions become primary ones when they are ingrained to the point that another course of action is unthinkable.

8.3 Institutional innovation

The second step in the process of institutional construction or reconstruction is experimentation to reach a solution. That is, defining an acceptable response that could later become a new rule of action. Chapter 3 proposed a theoretical model explaining how economic action flows between an innovation and a continuity loop. In the continuity loop, agents behave according to the existent rules of action (arena, habits, and designed institutions). When agents are exposed to institutional gaps, they are pushed to reflexive action, which was described as occurring in an innovation loop where responses are tested until new solutions are reached. Networks embed trial-and-error experimentation, inform what kind of testing is possible, support new paths of action and discuss outcomes until an acceptable solution is found. Inter-subjectivity, therefore, embeds experimentation (Fullbrook, 2002). Imitation, repetition and refining of the response may later establish it as a new designed institution across groups and networks. When it 'sticks', it turns to the continuity loop, reducing complexity and uncertainty for agents. A 'novelty' has entered the world (Bunge, 2003: 11): a new rule of action Y' for that network to do in circumstances X' and obtain Z'.

Three conditions were identified as necessary for the design of institutions, and were discussed in the context of constructing a club market. First, the presence of 'market-makers', who are generically the collective action entrepreneurs who build networks, launch a scheme and bear the initial organisational costs. They are agents with organisational skills and resources, often the initiators of experimentation towards the design of institutions. The second condition is the involvement in the initial phases of a network of agents with interests and intentions aligned to the search for a new rule of action. The third condition regards the presence in the continuity loop of pre-existent institutions that set the limits on what experimentation is possible and enable the search for new solutions. Where club markets are concerned, agents adapt and innovate within the continuity loop of a market society.

The implication is that no new institution is entirely new or a complete innovation but contains recreated elements of the pre-existing ones (David, 2000). The first *Club de Trueque* was described in this study as a kind of market (that is, a club market) in which exclusion is possible and rules are specific to its traders. Institutional construction thus needs to be seen as evolutionary, in the sense that the present options are restricted by choices made before and by structures prevalent at each moment. Every new solution is a priori path-dependent.

Institutional change as technical innovation?

The understanding of institutional construction as an evolutionary process highlights the role of failure as an important part of the innovation stage. This point is barely elaborated in institutional theory (Grabher and Stark, 1997). The creation of the first *Club de Trueque* was the successful result of a relatively long learning process in which there were several failures, defined as attempts to create institutions that were not adopted. *PAR*'s previous income-generation projects did not prosper into established institutions, but they did leave 'footprints' or traces that were vital later on to make the *CT* succeed. For example, the practice of small-scale vegetable cultivation, formation of a self-help network and intake of payments in kind were all elements derived from the failure side of the trial-and-error process, and they were crucial later.

Thus, institutions are designed not only out of responses that flourish, but also out of failed attempts to build them. Learning takes place both with success and with failure and accumulates with agents. This implies that the rule of action that succeeds may be the best one tested, not necessarily the optimum one in terms of efficiency or some other criterion.

The literature on technological innovation describes a similar pattern in technical change (Nelson, 1998; Rosenberg, 1976; Rosenberg and Kline, 1986). Institutional evolution shares with technical progress the essential characteristic of being an accumulative process in which error leaves traces, so part of the theorisation on technical progress could be applied to institutional evolution as well. This presents an interesting theoretical cross-fertilisation to be explored in future research. How do social innovations compare with technical innovation? What triggers them and how can they be enhanced through policy? Is there a life-cycle in the durability of institutions?

The implication of including failure in the process of institutional evolution adds to Hodgson's characterisation of institutional construction as a Darwinian process (Hodgson, 2003c, 2004). The current study does not analyse the effects of failed attempts to build rules of action, only of the successful ones that are then incorporated or made part of the mainstream in the continuity loop. Here it is argued that institutional evolution combines not only solutions that flourish into institutions but a portion of the learning from failed courses of action or that had no significant effect. In a trial-and-error process, the error side is not a complete loss because it contributes knowledge that may serve in future experimentation.

Individuals accumulate social memories that they or other agents can retrieve in subsequent learning processes at the same time as they add their own, creative elements. The evolutionary process of institutional construction is also different from that of biological evolutionary processes, where there is no memory. Richard Nelson (1995: 48) observed in a path-breaking article that biology is the main source of inspiration of economists and yet many of its categories and concepts needed to be adapted or reinvented before they could be used to explain the economy. This is one such necessary adaptation: institutions are evolutionary but they do not follow a unidirectional evolutionary path as in biology. There are partial and total errors, retrogressions, second attempts, and continuous adaptation. Besides, a good share of these are remembered, recorded and registered by individuals or groups or in written form. Institutional evolution is a cumulative learning process but it cannot be entirely compared to a biological evolutionary process.

Implications for development projects

The conceptualisation of new institutions as a combination of new and old structures has practical consequences in the field of development and poverty alleviation. The actions of the poor are shaped by their survival needs and constraints, which limit their inclination to innovate. Transiting to the innovation loop (that is, trying something new) can be expensive and a risk the poor cannot afford without endangering the livelihood of the household. The scope for innovation is thus restricted to the affordable solutions of the continuity loop, where risks can be assessed easily.

The implication is that the poor are conservative, in spite of being perhaps the group that has more to gain from change. In other words, the poor are most likely to stay within the continuity loop, while the innovation loop is most likely to be transited by those that can afford the risks and costs of failure. Hence, the poor often persist in using old solutions that have been tested and shown to work, at least partially. They may reject more beneficial options if those are untested and thus riskier.

Restricting their economic activities to the continuity loop represents a rational choice, if not the only one, for the poor. Along the same line of reasoning, it is no wonder that the *Trueque* originated among the new poor. The disenfranchised middle class could afford the risks and costs of failure of a new income-generation scheme, and they also had a richer institutional experience to resort to while designing a new institution. This explains why the *Trueque* emerged and achieved such a scale in Argentina rather than elsewhere: there was a disenfranchised middle class ready and with the capability to try a new rudimentary social technology made available to them.

Consequently, development policies for low-income groups and poverty alleviation schemes have higher chances of success when they involve a relatively low degree of innovation in relation to continuity. In other words, known solutions are most likely to be adopted when the targeted groups can relate them to their continuity loop. This suggests a high probability of failure if the target group of a complementary currency system does not have pre-reflexive routines of market exchange and a loose understanding of money as a social construction to which changes can be made without corrupting its functions.

This reflection goes beyond emphasising that context matters. It is not just context, but the institutional legacy that matters. The question is the 'distance' between the continuity loop and the innovation loop. An intuitive notion emerges of the 'distance' between the continuity loop and innovations proposed in development projects. This idea is not alien to evolutionary economic theory. Nelson and Winter (1982) suggested that diversity of agents was a condition for creating novelty. Later Nooteboom (2000) postulated that diversity in skills and knowledge also matter, calling it 'cognitive distance'. Evolutionary economic theory contends that 'people perceive, interpret, understand, and evaluate the world according to mental categories' that differ from those of others because they have developed them 'in interaction with their physical and social environment' (Wuyts et al., 2005: 278). The concept of 'cognitive distance' is applied to differences between mental categories, while this study focuses on differences between an innovation proposed in a development project and the continuity of rules of action. There are some differences, but both concepts suggest that if the distance is too large, the innovation will not flourish.

8.4 From experimentation to design

Experimentation processes finish when a solution is tested and found acceptable. Then the agent or network has designed a new rule of action. However, different networks and groups experiment simultaneously and arrive at diverse solutions. The one that eventually institutionalises across groups in society stills needs scrutiny in relation to their different intentions and interests. This is the third stage of the process of institutional construction that was investigated: the transfer of solutions across groups to construct common institutions. For the case analysed, it represented the transition from the first *Club de Trueque* to the network *Red de Trueque*, with numerous nodes, rules and visions.

New solutions are accepted within networks operating as sources of information, limiting what experimentation is possible, sharing the costs of testing and eventually deciding on rules of action. This represents an intermediate level of institutionalisation, in which the rule of action is valid only within a certain network. Jackson (2003: 732) appeals to Elias' (1978) concept of 'figuration' to describe how new solutions are first adopted by specific networks and only later become part of the social structure. Figurations are intermediate interaction orders between agents and institutions.

Transferring or sharing new solutions with other groups across society is not always automatic. It only becomes a routine or habit after it is done pre-reflexively by imitation or a designed institution when it is built reflexively by negotiation. In the case of the *Club de Trueque*, its replication and expansion to *Red de Trueque* entailed new uncertainties and risks, such as trading with strangers or accepting unknown currencies.

New Institutional Economics contends that institutional construction occurs as part of the struggle of agents to improve economic efficiency. This study has elaborated theoretically and then explained through the case of the *Trueque* that efficiency-seeking is neither the only nor the main intention when agents build institutions across groups in society. In fact, there is a weak cause-effect relation between efficiency-seeking and the efficiency of designed institutions.

It is conceivable that reduction of transaction costs is at some point the main goal behind institutional design. Maybe the final outcome is an efficient institutional solution to lower the 'costs of running the system', even if it was not the intention that guided it. But ex-ante there are other factors driving institutional design. Once agents start interacting with each other, efficiency-seeking goals get mingled with pre-existent bonds, asymmetries of power, interpersonal relations, divergent interests and intentions. These other factors constrain social interaction and compete with the aim of enhancing efficiency. The institutions and organisations that eventually emerge from the process nest the tensions between improving efficiency, considering social relations and resisting power asymmetries. Institutionalisation is thus embedded in the intentions and interests of the various groups that designed the institutions. The efficiency of the institutional design eventually achieved can only be evaluated ex-post and in line with the conception of efficiency of the agents involved (Hollingsworth and Boyer, 1997).

Redefinition of the rational agent

The displacement of efficiency-seeking as the main goal of institutional creation discloses the conceptualisation of agents involved in the process. Their rationality is bounded (Simon, 1957). This means, first, that they cannot be seen as perfectly rational calculators pursuing the reduction of uncertainties all the time. They can only make a limited number of calculations, as already shown by authors like Searle (1984) and Hodgson (1992, 2004) and related within sociology to Giddens' concept of intention in action (Giddens, 1984). Agents typically constrain their actions to their own habits and routines and reserve their efficiency-calculating capacities for a small number of situations. Institutional and organisational construction entails a complex process along which actions may or may not be rationally calculated.

Secondly, agents do not live in isolation but are bonded to social groups, so intentions and interests (that is, seeking efficiency, resisting or protecting power asymmetries, and maintaining social relations) are defined in relation to others. Etzioni (1988), Etzioni and Lawrence (1991) and Davis (2002) coined the 'I and We' paradigm to address the fact that agents have several wants, including their commitment to moral values and to the groups and communities in which they are embedded (Granovetter, 1985) or for whom they care (Van Staveren, 2001a; Wheelock and Mariussen, 1997). Institutional and organisational construction satisfies these intentions, of which efficiency-seeking is just one. The intentions of others in the network also matter.

Thirdly, preferences are not given but are learnt or elaborated as part of social life (Hodgson, 1998, 2004). It is unclear why agents would be born with a strong preference for efficiency above power or social relations. This is not to say that some may not give priority to efficiency, but a variety of preferences guide action and different individuals choose different goals in different settings or at various points in time.

All in all, agents who engage in institutional design negotiate or share their new rules of action in line with a rationality bounded by intentions and interests. So even if they can perceive the superior efficiency of one solution over others, they may relegate it to promote the solution developed by their network of belonging. In this sense, they are rationally bounded by other intentions, and institutionalisation across groups responds to these intentions.

The concept of efficiency has long been debated in economics. What is efficiency? Since it means different things to different people, it is difficult to assess how strongly it guides institutional construction. It is formally defined as the minimisation of waste, that is, the achievement of wellbeing with minimal use of resources (Bowles et al, 2005: 62). New Institutional Economics conceptualises it as minimising the uncertainty of exchange, or in other words, a situation where the system creates the minimum waste possible. The meaning of efficiency is ambiguous and varies with different situations. For example, the poor put in many hours of work for a barely marginal profit, so their use of time may be seen as inefficient from a New Institutional Economics perspective. However, the alternative for them is hunger, and without doubt avoiding that is more relevant than using time efficiently. This point was advanced by Chayanov as early as the 1930s (Chayanov, 1966). Efficiency is thus defined contingently, in the light of a limited menu of achievable choices, that is, again bounded rationality. For example, accepting some waste and inefficiency at a point in time may be seen as a small sacrifice to preserve social relations or resolve a power conflict. The construction of the organisations and institutions in the *Red de Trueque* offers plenty of examples of how agents juggled with these principles to keep a balance. Efficiency is therefore also bounded.

Implications for development

The claim that efficiency is an outcome and not a determinant intention driving institutional design implies that it cannot be relied on as an argument to persuade agents to accept a solution as a rule of action across groups and networks. Even if it were possible to design the 'most efficient' institutional solution for a certain situation, its efficiency would hardly be a basis for making it succeed at an institutional level –unless, of course, it were to be imposed and backed by a battery of means of enforcement.

In relation to development projects, it is not enough to show that a certain project formulates efficient solutions for a certain situation. The other two factors –power struggles and social relations– need to be taken into account to make the proposed project acceptable to decision-makers and agents in general. In the case of club markets, the decision-makers are the market-makers and the agents are the traders.

A development project needs to satisfy intentions and interests across groups, mainly the target population. Divergences in this area explain the frustration of donors, who sometimes feel local groups in developing counties fail to understand and adapt their behaviour to the designed institutions they propose, which are more efficient than those accepted locally. The alleged superiority of their designed institutions in terms of efficiency does not strike the right note. Donors promoting development projects need to contemplate the intentions and interests of the target populations, in addition to the institutional legacy that guides their behaviour.

8.5 Governance of institutions

The final stage in institutional construction is the coming together of institutions. Designed, evolved and primary institutions form clusters, which are termed here governance systems (Hollingsworth and Boyer, 1997; Hollingsworth et al., 1994; Streeck and Schmitter, 1985). Governance is a particular type of governing sustaining a coherent coordination of actors with different purposes. Governance systems are a coherent group of institutional arrangements that organise, coordinate and manage the interdependencies of actors inside and across the boundaries of an economic system. Hollingsworth and Boyer (1997: 11) elaborate a typology on governance systems that considers not only the main principle of regulation but also the secondary ones. In this way, a 'market' can be analysed in all its range of variations: atomised, regulated, cartelised markets, and so forth. This study has focused on the four types of governance systems that emerged in the *Trueque*: a regulated market, a private hierarchy, an associational network and a variety of local independent clubs or, in a simplified analysis, communities.

The literature on governance systems is rather vague in discussing their sustainability, perhaps assuming that it follows from their coming together. Jessop (1997) and Hollingsworth and Boyer (1997) identify the critical factor for the sustainability of a governance system as coherence or compatibility among the institutions that form it. Still, this does not answer the question of how to assess and research it.

Four main criteria for assessing the sustainability of governance systems were advanced in Chapter 5. The first is the input legitimacy of the rules and institutions, which focuses on the process by which they were designed. Participation and consultation during the experimentation phase, for example, increases input legitimacy. Subsequent negotiations to accommodate divergent interests and intentions, shared values and idealism are also included in this group. Bringing divergent interests together is costly in terms of time and resources but may pay off by minimising resistance to the governance system.

The second criterion is the construction of mechanisms to control enforcement of rules and eventually obtain obedience even against some resistance on the part of agents. It has already been mentioned that agents will adapt their behaviour to new designed institutions if they generally agree with them (input legitimacy) or if the new rules of action are accompanied by a battery of rules of enforcement. In situations where none of the agents has the means to impose rules on others, control can be achieved through peer pressure, by checking compliance at random, or by establishing an accepted policing body. Knowledge that compliance is minimally checked may be enough to discourage non-compliance.

The third criterion for assessing the sustainability of governance systems is achievement of resource synergies by which the material benefits of abiding by rules of action are shared. These are familiarly known as the 'carrots' of the system, the production of material benefits and their distribution to those who participate. They create output legitimacy for the rules that form the governance system by appealing to the rational calculation capacity of agents. In a system in which no agent has the means to enforce rules, material benefits for those who abide by them generates incentives to comply.

The final criterion relates to the transaction and organisational costs of the system. These are the counterpart of the previous criterion, the benefits from resource synergies. A distinction is made between the costs of running the system (associated with uncertainties, risks and information asymmetries) and the costs of decision-making (starting and sustaining collective action, making decisions, and redefining objectives).

Implications for development

The concept of governance systems is a useful tool for understanding regulation of economic action in situations where none of the agents has means to enforce compliance of rules by the others. Several such situations were described earlier in this study. An example is 'private interest governance' (Streeck and Schmitter, 1985) where regulation by the state is not possible or desirable. A strong state withdraws to give space to private regulation, which is perceived as being superior in those situations (Rosenau, 1992; Wagemann, 2004). This is more typical of the developed than developing world.

There are two other situations more typical of developing countries. One is what De Soto (1987) calls a system of extra-legal norms to generically address the self-regulation of the informal economy, which encompasses activities not regulated or registered by the state. The second is the social economy, which includes the self-organised and institutionalised activities of the poor under the logic of survival. Authors like Coraggio (1998b) and Razeto (1998) claim that there is considerable overlap between these two areas of the economy.

Governance systems constructed beyond state regulation are sustainable when agents consider the rules legitimate by virtue of how they were defined or because they represent a shared ideology or values; when their failure to comply will be socially exposed or penalised; when it is materially beneficial to abide by the rules; and when the shared costs of running the system are affordable. Clearly, some of these factors may be more relevant than others at different points in time. So there are a variety of reasons why these non-state governance systems are sustainable, why agents may support them and why the state, to the extent that it has a say, admits them.

There is considerable romanticism over the self-regulation of the informal and social economy, as transmitted by the label 'solidarity economy' which some authors apply to it (Coraggio, 2002b; Laville, 2001; Razeto, 1997). Others warn against proclaiming its positive values a priori (Berner, 2006b; Platteau, 1994). The analytical framework developed here suggests that shared values and trust can generate considerable legitimacy for the governance system, but there are still three other factors that need attention. However strongly agents may cling to their ideals, there are still the problems of enforcement, production and distribution of material benefits, and keeping transaction and organisational costs low. The assumption that idealism will automatically compensate for failures in these areas is false, at least in the long run. These challenges confront many cooperatives and collective enterprises in the social economy, which rely on participation, checking compliance of rules, delivering material benefits and the other critical aspects discussed above, with minimal cost in terms of resources. When they fail in one or more of these areas, they become unsustainable and collapse.

Similarly, development programmes sometimes build governance systems focused on generating resource synergies and distributing their material benefits but neglect to generate ideological support for the rules that agents are asked to comply with or placing enforcement structures to control them. The governance systems that emerge from such development projects become unsustainable as soon as the resource synergies diminish, unless a battery of enforcement mechanisms are in place, which is often costlier than the resource synergies achieved.

8.6 Rules of the survival economy

The previous sections made occasional reference to the economic actions of diverse groups of agents being guided by different institutions. Agents in different groups share varied interests and intentions, carry out experimentation separately and define their own solutions to problems. Some are indeed shared, imposed or negotiated later, but various groups or networks regularly apply different rules of action. The format of an institution is now more complex: if you are A, in circumstances X do Y to obtain Z.

The analysis applies as well when the grouping criteria are categories such as class, gender or ethnicity. So there are institutions that create a tendency to act in a certain way for one category and in another way for another category. That means, for example, that in circumstances X men have disposition to do Y_1 and women, to do Y_2. This study is specifically interested in the economic action of the excluded, for whom there are specific rules of action. All in all, these activities form an area of the economy that can be theorised as a 'survival economy'.

The label is not entirely new and derives from the fact that the main intentionality of the poor is to obtain the material means to survive. The theorisation of an economic area shaped by poverty is still incomplete (Mingione, 1991). It is not simply a down-scaled version of the activities of the well-off (Coraggio, 2000, 2001; Laville et al., 2001). It is regular and stable in time, not just temporary survival strategies, so it should be seen as a separate economic area (Mingione, 1983; Razeto, 1997). The economic action of the poor is affected by constraints in resources (material and intangible), scarcity of entitlements, and limited channels through which they can make their voice heard, among other characteristics. The rules of action of the poor, in turn, reproduce poverty at an institutional level.

The area of the economy in which economic action is informed by institutions of poverty is termed the 'grassroots economy' in the Latin American literature (Coraggio, 2001; Nuñez Soto, 1995) and corresponds to the label of 'survival economy' in developed countries (Hart, 2000, 2003). Joan Robinson elaborated a similar concept which she termed 'disguised unemployment' in 1937 during the Great Depression (Eatwell, 1995; Robinson, 1937). The Russian economist Alexander Chayanov theorised on the principles that guided the 'peasant economy', in which rural poor families strove to organise the livelihood of their growing households (Chayanov, 1966). The founders of the *Trueque* prefer the label 'interstices economy', which De Sanzo defines as 'a space in the market that is invisible to the formal economy because its production is not profitable or was not conceived for profit'. These labels hide some subtle differences; the term 'survival economy' will be used henceforth in this chapter.

The first characteristic of the 'survival economy' is that the household is the central unit of production and consumption, so it is also the main unit of analysis. Households are hence both micro-enterprises and joint-consumption units. This is consistent with Alvin Toffler's (1980) idea of prosuming taken up in the formal principles of the *Trueque*, though Toffler applied it to more leisurely do-it-yourself type of work than to survival efforts. Whatever the power asymmetries and considerations that explain the distribution of work and resources within the household, they extend as well to the world of production. The typical mode of production involves labour-intensive methods on a small scale, minimal use of –typically outdated– technology, traditional knowledge and local resources. It may also involve more than one member of the household.

The second characteristic is that production is ruled by the need to sustain and reproduce life, even if apparently by making inefficient use of labour (Mingione, 1991; Redclift and Mingione, 1985). This depends on household members being able to market their labour capacity to satisfy needs and wants, either selling their labour directly in the market or using it to produce goods for self-consumption. Again, whatever the conception of unequal value of work within the household, it translates to the rest of the economy. The first *CT* represented an intermediate option, selling own production within a club market of people that knew each other. The apparent inefficiency, reflected in the extremely low productivity of labour, is explained by the fact that at the survival level work is no longer valued in relation to other uses of time such as leisure. Robinson (1937: 83) argued that individuals simply need to 'employ time as usefully' as they can. The opportunity cost of time is zero or very low because this area of the economy is based on labour capacity that would otherwise remain unused, in which case the household would be at risk. It is obviously involuntary, as 'anyone who had other options' would take those up, Robinson observed (1937: 83). In economic terms, this conceptualisation of working time clearly differs from the neoclassical understanding of time allocation to work and leisure in a full-employment situation.

The rationale behind the allocation of working time in the survival economy is to maintain the value of the scarce resources of the household; for example, tools or a small amount of capital invested in food production inputs (Coraggio, 2001). For instance, street vendors working long hours for an extremely low income maximise the use of their working capital embodied in their stock. Baking bread at home is more time-consuming than buying it, but it maximises the use of household resources. The *Trueque* extended this practice by enabling participants to continue using their tools and skills in the club market. They would also buy food production inputs with a long shelf life in supermarkets whenever they had some regular money and would resell them in the *Trueque* later to cover other household necessities.

The logic is to protect the value of the resources instead of maximising profits by using them efficiently. This demonstrates that the poor and the well-off have at least two different conceptions of efficiency, in line with the conclusions above: resource efficiency versus profit efficiency. The former is a short-term principle imposed by the need to survive; the latter is a longer-term principle, since waiting time is something the well-off can afford.

Another point, related to the one above, is that the chances of accumulation in a survival economy are minimal or none. The minimal use of tools and technology reflects this nil capacity to invest in newer or more sophisticated equipment. What is earned in one day is used the same day. It is very difficult to invest time in training or education and the chances of a loan are also extremely low. This may differ among members of the household; for example, women tend to promote their children's education at the expense of not having the children generate an income. The survival economy reflects the need to diversify the sources of household income, not develop a business. 'Short of suicide, a man who is thrown out of his work must scratch a living somehow or other', to quote Joan Robinson (1937: 83).

This would create a dual economy, with a regular sector where employment is driven by demand and a survival economy in which employment follows the supply of labour (Eatwell, 1995). In the survival economy, workers need to generate an income for themselves and therefore create an occupation in which they can employ their labour gainfully, even if at very low or nil levels of productivity. Covick (1998) relates self-employment to the debate on disguised unemployment, suggesting that the former very often disguises the latter. Krause (2003) identifies low accumulation capacity and minimal productivity as one of the main weaknesses of the *Trueque* as an economic system.

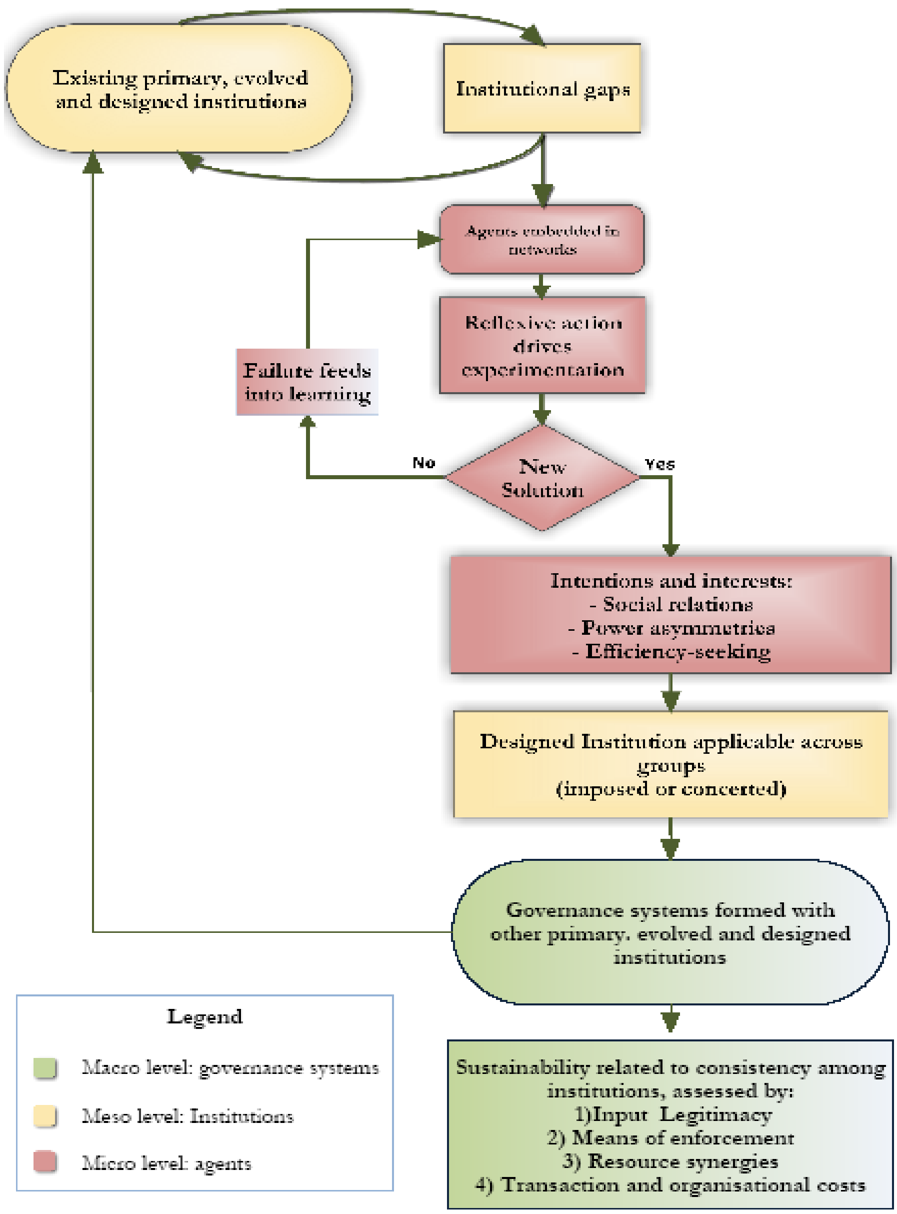
Finally, the survival economy relies for regulation on a combination of institutions working in the regular economy and supported by the state, as well as on a set of self-constructed or self-organised institutions. Certainly, these are adapted to the routines and designed institutions of the group and the locality. Some depend on the social cohesion among agents while others may rely on self-appointed leaders, perhaps to the detriment of others.

Crucially, the rules of action that guide the behaviour of the poor are directed by their survival efforts. The implication is that other intentions, such as values and ideals, will most likely have a secondary priority. The poor cannot be expected to behave according to the rules of action typical of the non-poor if that threatens their survival. Consequently, behaviour that would be unacceptable according to middle-class ethics may be common practice among the poor. With reference to the *Trueque*, the structural poor could not have been expected to follow middle-class rules of action, in line with the ideals of solidarity and environmentalism, when what they desperately needed was food. The prevalence of distinctive institutions for different (target) groups should guide the choice of development projects and the assumptions behind that choice.

8.7 Conclusions

Having analysed the different stages of institution-building in detail, it is now possible to put the whole process together. Figure 8.1 shows different categories of institutions and their relationships with agents and events in the environment. This kind of layering follows the work of Hayek (1979), Hodgson (2004), Beckert (2003) and others. The analysis can help to make policymakers aware of the decisions they can effectively implement to reorganise the socioeconomic structure of society, both through reform programmes and development projects.

Figure 8.1
The process of institutional construction



Three categories of institutions (rules of action) are distinguished. The highest by ontological level and resilience are primary institutions, which constitute the arena in which socioeconomic action takes place (Field, 1984). The second type is habits and routines, which evolve pre-reflexively out of practice or regularity (Hodgson, 1997, 1998). The third is designed institutions, formulated in response to institutional gaps.

The 'black box' of institutional design was opened to disclose the process by which new rules of action are elaborated and old ones are changed. This happens through the reflexive action of agents in response to institutional gaps: new situations for which there are no rules of action leading to acceptable results. The types of institutional gaps are: new situations, changed conditions in the environment, and unsatisfactory results that trigger a reaction to change structures.

Agents then engage in reflexive action, experimenting with different solutions. This search for a response is carried out inter-subjectively, embedded in networks with intentions and interests (Beckert, 2003; Fullbrook, 2002; Lawson, 1997). Existing institutions enable and constrain experimentation, defining what is possible and what has meaning. As a result, new solutions and the designed institutions that follow are only partially new; they refer to already operating institutions. This second phase of institutional design concentrates on a learning process of trial-and-error in which errors leave 'traces' on the memory of agents. The process continues until an acceptable solution is found. This will be repeated for that situation by the individual or network. 'Acceptable' is defined in view of the intentionality of the individual and the network (common values, interests, ideology, and so on). The study thus distinguished between the innovation side of the process (experimentation) and a continuity loop (repetition).

Once a social network or group has found an acceptable solution, it still needs to be scrutinised by other groups before it becomes a designed rule of action across groups in society. This stage may not happen at all; the economic action of the poor, for example, is guided by different institutions than those applicable to the wealthier sections of the population. Therefore the rules of action of the poor have no bearing on the economic life of others less pressed by the need to survive. The *Trueque* was to some extent an exception, in which the institutions of the poor were adapted to the existent institutions and intentions of the middle class.

Solutions that reduce complexity and uncertainty across groups are analysed in the light of divergent intentions and interests. Power asymmetries, efficiency-seeking and social relations across groups need to be reconciled. In the end, new designed institutions can be concerted or imposed, the latter being possible only if one group has the means to enforce others' compliance. New designed institutions also depend on previous and current choices (path dependency and imitation). Whether they are efficient in reducing uncertainty can only be evaluated ex-post, since efficiency is not decisive enough as an argument to persuade others to accept a solution above their own intentions and interests. Part of the reason for this is that different agents have divergent understandings of what is efficient. For instance, for the poor, preserving resources is more efficient than obtaining maximum profits out of their use.

The final stage of designing institutions is their coming together with other institutions in a governance system at the macro level. The consistency among institutions makes it sustainable. Four criteria were defined to assess their sustainability: input legitimacy, means of enforcement, resource synergy and transaction and organisational costs. Each of these factors weighs differently in various governance systems. In social economy schemes in which the poor dominate, input legitimacy –especially in relation to ideology and solidarity– is sometimes considered central. It was argued in this study that the other three are also critical to keep institutions going. This conclusion is also valid for development projects.

The process that leads to building a new institution, termed reconstitutive upward causation by Hodgson (2002a, 2003c) is now complete. It describes the path from economic action to new institutions, which stick and continue operating once the designers are gone and the circumstances that originated them are forgotten. That is, at least, until the process starts again, triggered by a new change in the institutional structure, another wave of structural reform policies or a new crisis.

Appendix A. Statistical data

Table A.1
List of CCS worldwide (Updated 2002)

Country	Amount of CCS
Albania	2
Argentina	3000+
Australia	113
Austria	6
Belgium	22
Brazil	2
Bulgaria	1
Canada	53
Chile	1
Columbia	1
Czech Republic	4
Denmark	3
East Timor	1
Ecuador	100+
El Salvador	2
Finland	7
France	405
Germany	297
Ghana	1
Greece	21
Honduras	1
Hungary	3
India	3

Indonesia	1
Ireland	19
Israel	4
Italy	322
Ivory coast	1
Japan	39
Korea	6
Luxembourg	2
Mali	1
Mauritania	1
Mexico	1
Netherlands	95
New Zealand	13
Nigeria	1
Norway	18
Papua New Guinea	1
Peru	1
Poland	1
Senegal	2
Slovakia	5
Slovenia	1
South Africa	2
Spain	3
Sweden	34
Switzerland	8
Thailand	6
United kingdom	425
- England	354
- Scotland	56
- Wales	20
USA	131
Uruguay	2

Source: <http://www.cyberclass.net/turmel/urlsnat.htm>. The author, John Turmel, has compiled this list himself, using methodology described on the webpage. This is not a scientifically collected list and therefore the numbers mentioned should be regarded as only a rough estimation.

Table A.2
Scale of Red de Trueque, 1995-2005

	Trueque Clubs	Number of partici-pants	Average scale of Trueque Clubs	Growth in Clubs (%)	Growth in participants (%)
1995	1	60	60	n.s.	n.s.
1996	17	1,000	59	n.s.	n.s.
1997	40	2,300	58	135.3	130.0
1998	83	5,000	60	107.5	117.4
1999	200	180,000	900	141.0	3500.0
2000	400	320,000	800	100.0	77.8
2001	1800	600,000	333	350.0	87.5
2002	4700	2,500,000	532	161.1	316.7
2003	1000	350,000	350	-78.7	-86.0
2004	700	250,000	357	-30	-28.6
2005	450	160,000	356	-35.7	36.0
2006	350	120,000	343	-22.2	-25.0

Sources: Ovalles (2002) for 1995-2002; La Nación for 2003, own estimation for 2004-06, based on fieldwork.

Note: Data are for end of year. n.s. = data not significant (the Red de Trueque had started only the previous year).

Table A.3
Macroeconomic data for Argentina (1995-2006)

Year	GDP, constant US$ of 1993	GDP growth (%)	Unemployment rate (%)	Poverty rate (%)
1995	243,186	-2.8	18.40	22.20
1996	256,626	5.5	17.10	26.70
1997	277,441	8.1	16.10	26.30
1998	288,123	3.9	13.20	25.90
1999	278,369	-3.4	14.50	26.70
2000	276,173	-0.8	15.40	28.90
2001	263,997	-4.4	16.40	35.40

2002	235,236	-10.9	21.50	54.30
2003	256,023	8.8	21.00	54.00
2004	279,141	9.0	17.40	44.30
2005	304,764	9.2	13.90	38.90
2006	337,492	10.74	11.60	26.90

Source: <www.indec.gov.ar>.

Notes: Unemployment rates are for the second quarter (May or June). After 2002 the unemployment rates include job-seekers who were receiving welfare subsidies (launched that year). The percentage of the population under the poverty line is for the third quarter. This choice introduces a three-month-lag between unemployment and sinking-into-poverty rate.

Appendix B: Principles and regulations in the RT

Principles of the RGT

1. Our fulfillment as human beings need not be conditioned by money, and people ought not to want for their needs to be met.
2. We aim not to promote products or services, but our mutual help in accomplishing a better way of life, through work, solidarity and fair trade.
3. We believe in the possibility of replacing competition, profit and speculation by reciprocity among people.
4. We assume that our actions, products and services respond to ethical and ecological standards more than to the will of the market, consumerism and short term profit.
5. The only conditions to be a member of the *RGT* are: assisting and participating at the weekly group meetings for trade; being trained permanently; being *'prosumers'* of goods, services and knowledge; and to accept the opinions of the Quality and Price Control circles which aim to improve the network.
6. As we are an association of individuals, each member is responsible for her/his actions, as well as goods or services offered in the Network.
7. We believe that belonging to a group means no relationship of dependence, since individual participation is free and common to every member of the Network.
8. Groups need not be formally organized or permanent, since the network model implies constant change of roles and functions.

9. We believe it is possible to combine the autonomy of groups (*CT*), in the management of internal affairs with all the principles of the Network.
10. We recommend not to support, as members of the Network, morally or materially any activity that might keep us apart from the main goals of our Network.
11. We believe our best example is our behaviour in and out of the Network. We keep confidentiality about our private lives and prudence in the public treatment of those matters that might alter the growth of the Network.
12. We deeply believe in an idea of progress founded upon the sustainable mutual support of the great majority of people of all societies.
13. (RTS only):

In the economy of solidarity, nothing is lost, nothing is given away; everything is recycled, everything is valued, everything is distributed equally.

Source: Translated by Powell (2002)

Regulations in a typical node

1. Show excellent quality and presentation in products.
2. Be well mannered in attention to consumers.
3. Place exchange values (prices) on all products.
4. Prepared foods must display the date of preparation and the name and telephone number of the producer.
5. Used goods should be in perfect condition.
6. Exchange values should maintain parity 1 crédito = 1 peso. This implies that the exchange values should be equal to those in the formal market, respecting the maximum prices of the products of the family basket fixed by the franchise.

7. Failure to comply with these guidelines or the abuse of prices will result in observation of the *prosumer*.
8. The Red Global de Trueque is a private club which reserves the right to deny admission.

Source: Translated by Powell (2002)

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