

RECIPROCITY WITHOUT COOPERATION
Small producer networks and political identities in Bolivia

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CHAPTER ONE: INTRODUCTION

The concept of production market as a social structure, widely developed by the new economic sociology during the past twenty years, still remains an elusive term in social science. From the viewpoint of neoclassical economics, the “market” is understood as an abstract price-making mechanism that is interpreted as a logical result of efficiency demands. The same concept, from a sociological point of view, refers to concrete social structures and associated processes that are the result of historically specific strategic enactment. The only aspect in which both approaches agree is in conceiving the market as a type of coordinating mechanism that presupposes the transference of property rights. However, while the first understands this coordinating mechanism in singular, as the result of a universal type of behavior, the other sees markets in plural, as social structures that are formed by interactions in specific institutional contexts.¹

In the present research, I depart from the concept of market as formed by atomized actors who decide and act upon a solitary analysis of cost and benefit and, instead, join recent efforts to articulate the notion of tangible production markets as formed by organized combinations of activities structured through stable social relationships. This dissertation analyzes small production in a developing country – Bolivia – as a set of firms that, in taking one another into account in their actions, implement similar strategies to coordinate the flux of transactions within and between production units and to control the uncertainties in their environment. These strategies configure a market model characterized by self-sufficient firms that avoid inter-firm cooperation in core business transactions. This model has proved to be effective for its reproduction in time, but inefficient to conquer new market shares both at home and abroad.

I. THE DEBATE ON SMALL BUSINESSES

The informal economy and a macro capitalist dynamic

The study of small-scale production and self-employment in developing countries has been mainly advanced within three theoretical frameworks: informal economy, industrial district and social capital.² The first one has portrayed national economies of the southern hemisphere as being divided into two sectors: a formal one composed of modern capitalist enterprises and an informal one whose activities are directly

¹ Some works in the new economic sociology are White (1994, 2002), Burt (1992), Baker (1994), Abofalia (1996), Stark and Bruszt (1998) and Fligstein (2001).

² In chapter two I present a critical review of these three bodies of studies.

dependent on the first.³ A careful reading of the literature on informal economy, in the light of my empirical research, led me to reject this dualistic perspective as well as the narrative of modernization included in its theoretical framework, which pictures a macro capitalist dynamic with a center located in a modern sector that supposedly dictates the emergence, shape and size of a dependent sector.⁴ This critique turned my attention to the meso and micro levels of interactions between small units of production in an economic landscape not characterized by subcontracting relationships between big and small enterprises.

I also recognized that this literature took the social conditions that enable the creation of independent units of production and self-employment for granted; it also asserted the rural-urban migration and the excess of labor supply in the cities as “sufficient conditions” for their emergence. My empirical exploration of small-scale production revealed that these activities are highly organized and constitute important local and national markets. This aspect has not been given enough relevance in that literature. The social arrangements and cultural conventions of family, kinship, ethnicity, within broader legal and policy context, need to be brought into the analysis in order to understand how economic activities are regulated.

The industrial district analytical framework: the social organization of economies

The industrial district literature advanced the comprehension of the social structure of production markets populated by small and medium units of production in developed and developing countries.⁵ It assumes that economic advantages of small businesses are not related to an “unmediated selective logic of technological forces” and instead that economic dynamics and potentialities of small businesses are associated with their organizational routines, that emerge from the network of symbolic and social relationships which, in turn, reflect a broader context of political, economic and social institutions.

The literature on industrial districts helped me find a way to approach the social organization of production markets populated by small and medium units of production

³ ILO (1972), Sethuraman (1977), Mezerra (1988), Carbonetto (1985), De Soto (1989) (2000), Portes and Shauffler (1993), Portes, Castells and Benton (1989).

⁴ As I discuss in chapter two, the type of network of relationships that best “fits” this model is one that connects big and small enterprises in a vertically integrated system dominated by big enterprises. The empirical evidence on which this approach is based comes from a specific type of subcontracting aimed at lowering the costs of labor by the evasion of taxes and labor costs.

⁵ Some studies are Brusco (1982) (1990), Goodman, Bamford and Saynor (1989), Piori and Sabel (1984), Becattini (1990), Pyke (1993), Pyke and Sengenberger (1992), Rabelloti (1992) (2000), Nadvi and Schmitz (1994) and Humphrey (1995).

in developing countries. The main insight of this framework is the recognition that quite often the firms' commercial success or failure in the international scene is strongly conditioned by the fact that they belong to a certain geographically bounded collectivity of interacting firms. It led me to the idea that every production market is formed by some kind of combination of cooperation and competition, which enables and constrains economic growth and competitive advantages.

Moreover, this literature enforced the refutation of an important assumption in the debate on development: that unit size as such determines economic performance. This assumption is related to the widespread idea in social science that the more differentiated all social spheres are, the more modern the economy, since the market can function better and greater efficiency can be achieved.⁶ I argue that this idea may be misleading because it tends to naturalize a specific institutional context as if it were a necessary condition for economic development. As a consequence, all the economies that do not fit the model of "the market" are automatically labeled as backward, and a less systematic effort is dedicated to understanding and explaining how and why other institutional contexts may or may not supply an extensive and stable context of common understandings, rules and incentives adequate to market transactions.⁷ This is the problem with most of the literature on small businesses in developing countries: since these units are typically organized along kinship and family ties, the studies tend to interpret them as obstacles to modernization, legacies from the past that "must" disappear.

I join the industrial district approach in rejecting this concept of a deep logic of modernization for I assume that an adequate explanation for the competitive advantage of any economy must focus on the relationship between institutional environments and networks of inter-firms relations. My analysis emphasizes the interplay between an unfriendly institutional context, the limited role of associations and the deep-rooted concepts and ways of reasoning within direct social relationships in structuring a specific system of economic transactions. As we shall see, the competitive drawback of the markets under study is not associated with the size of the units but rather to their practices of competition.

⁶ Rooted in classical texts by Smith (1976) and Marx (1990), this assumption remained central in contemporary development studies such as Rostow (1960), Kuznets (1965), Furtado (1965), Brenner (1986), Barry (1989) and Zavaleta (1989). This discussion is developed in chapter two.

⁷ Biggart and Hamilton (1992).

The market model of industrial district and the role of dense networks of relationships

The concept of industrial district and the idea of economic advantages associated with the concentration of specialized small businesses in particular localities can be traced back to Marshall's (1986) analysis of industrial districts in Britain. He noted that these concentrations of specialized small businesses can create efficiency and competitive advantage through what he named "external economies," that is the benefits produced by the general development of the industry. He not only stressed the advantage of the division of tasks in an industry among many producers, but also referred to the benefits of an "industrial atmosphere" where there is an "easy exchange of ideas, information, and goods; the accumulation of skills and innovative capability; and the development of a cultural homogeneity allowing cooperation, trust, and consensus among employers, among workers and between both groups." (Marshall quoted in Grabher, 1993, p.21)

During the seventies a new route for studies on small business was opened with the discovery of clusters of small and medium-scale firms competing successfully in Europe. Since then many researchers have been analyzing this market model and its variants, which were named industrial districts, clusters and agglomerations.⁸ The common characteristic underlying them is that production is organized in networks of inter-firm linkages of specialization and subcontracting, with reciprocal patterns of communication and exchange of goods, information and workers, and the support of public and private local institutions.

Even though the production markets I studied do not fit this type of market organization since they do not display the strategy of inter-firm cooperation, the emphasis given to the critical role of social organization, cooperation, local and regional networks and the institutional context provided a strong guideline for my work.

The explanation for the industrial district model and its variants points to the role of producer associations and the state in building collective capabilities to improve overall economic performance. The combined actions between the state and small business associations are central in helping firms to collectively adopt new production models that include quality control methods, processes and product standards. The social context of these markets was also brought into those analyses as an important facilitator of cooperation among economic actors. Dense networks of social relationships, physical proximity and membership in grass roots organizations encourage face-to-face interactions and create opportunities for contact. As the argument goes, these social relationships increase the individuals' propensity to make new transactions and try risky

⁸ See footnote 4.

moves. The general result is the sustained technological improvements and faster collective learning on the basis of inter-firm cooperation.⁹

II. THE RESEARCH PROBLEM: UNEVEN LEVELS OF COOPERATION

My empirical study in Bolivia found that small production was embedded in a socio-cultural milieu similar to the ones described in the industrial districts and clusters. However, the subsequent connections leading to inter-firm cooperation that the industrial district would predict were missing. The starting point was the same: the ties among firms were not only economic. Ethnic, kin and neighborhood relationships connected small producers in local markets, they shared membership in business associations and participated in a rich associational life in dense network of relationships. Moreover, producers recognized themselves as part of a group with the same class and ethnic positions. But, instead of extending general trust and reciprocity identified as important social conditions for systematic inter-firm cooperation, reciprocity and solidarity sustained specific types of cooperation and collective action while, in the production flow, arm's-length transactions between firms predominated.

Another important component of the Bolivian case was the type of institutional environment for small businesses. In contrast to the industrial districts, small production operates within a general policy environment biased toward large-scale firms and limited channels of coordination between small business associations and the state. Thus, the case I was looking at displayed two important elements: an unsupportive institutional environment and dense networks of relationships enclosing a production market not grounded on inter-firm cooperation.

I was puzzled by the fact that a rich associational life with widespread cooperation and collective action has not promoted the risk sharing between firms in core business activities. The question I kept asking was how these dense networks of relationships could have generated boundaries between cooperation and non-cooperation within the same group of people. It urged me to investigate the connections between social and cultural ties, solidarity and reciprocity, and the outcome of cooperation and joint action within an unfriendly institutional environment. The next step I took was to scrutinize

⁹ This discussion has recently evolved into a debate on models of economic development in which policy-makers, businessmen and researchers must be all involved in understanding and fostering cooperation as the key factor of today's competitiveness. See Blair and Reese (1999) and Bair and Gereffi (2001).

the analytical leads of this causal chain set in the concepts of social-cultural milieu and social capital.

Socio-cultural milieu

The relevance of the socio-cultural milieu for the organization of economic activities was one of the main issues in the debate on industrial districts during the eighties and nineties in Europe. Becatinni (1990) proposed that industrial district should be defined as “a socio-territorial community of people and a population of firms in one naturally and historically bounded area. (1990, p. 38). Dei Ottati (1994) defined the “social environment of the ideal-type industrial district in terms of a common culture, frequent face to face relations, and norms of reciprocity accompanied by relevant social sanctions” (1994, p. 530). The discussion grew around the idea that economic relations between firms are embedded in social relations.

Underneath the differences in this debate, the common ground was that regulatory mechanisms for inter-firm relations emerge from a community and socio-cultural identities formed around social networks based on family, caste, ethnic, racial, religious, educational, political or corporate backgrounds. The local social milieu facilitates the emergence of a code of behavior, incorporating values, rules and sanctions, which constrains the socially accepted economic behavior within and between firms. This milieu also produces and reproduces a “tacit knowledge” regarding technology, skills, products and process, and this in turn leads to innovation and technological changes. In this model, cooperation is almost a “second nature” that arises from spontaneous solidarity. But it does not account for the specific processes that generate cooperation. Here the concept of social capital comes into play.

Social capital

Community, cultural norms and social structure were rather abstract ideas difficult to employ for the analysis of industrial organization. It did not take long for ‘local cultures of cooperation’ to evolve into the concept of social capital. It proved serviceable to pack intangible attributes of social structure into a handy tool that simplified these features into two basic elements: relationship and functionality. The concept of social capital became the synonym of social ties between people through which ideas, perceptions and values are forged along with the flow of resources such as information, opportunities, referrals, advice and money, leading to overall improvement of efficiency in society.

We can credit the study “Making Democracy Work” (1993) with introducing the concept of social capital into the discussion on economic development.¹⁰ Putnam was interested in explaining the differences in institutional performance in Italy. He argued that social networks of interpersonal communication and exchange form every society, but some of these social networks are horizontal, concentrating actors with equivalent social status and power; while in others, the actors are linked to each other in asymmetric relationships of dependence and hierarchy. The social networks of civic commitment that include neighborhood associations, cooperatives, clubs, political parties, among other groups and organizations, are part of the first type of horizontal interaction. They constitute social capital, understood, in the author’s terms, as social relationships with high levels of trust, norms of reciprocity, attitudes and values that help people to transcend conflictive and competitive relationships to form cooperative linkages and seek mutual help.

This concept rapidly became central in development studies and the highest point in this process was its adoption by the World Bank. Social capital was assumed to be the key social factor of economic growth in developing countries.¹¹ Where markets are underdeveloped, they are inefficient and thus social capital can substitute the conditions for economic transactions. Since social capital is synonymous with relationships that generate trust, facilitate cooperation and the sharing of risks, it is the “ingredient” for economic growth.

The argument I shall develop points out three important shortcomings in the concepts of ‘social capital’ and ‘local culture of cooperation’. 1) A generalized definition of cooperation that extends through out all activities within a group of people. This does not explain the presence of cooperation and non-cooperation in the same network of relationships. 2) The supposition that the source of cooperation resides in one characteristic of the social structure. In Putnam’s work (1993) it is horizontal ties that bring together agents of similar power and status. In Zucker’s study (1986) trust may be generated by one of three alternatives: recurrent transactions, social similarity or formal institutions. The examples could continue but what matters is the common supposition that there are some essential features in the social structure that generate the dispositions to cooperate. My research shows that a more complex view of social structure, with symmetrical and assymetrical relationships and different principles of interactions, is needed in order to advance our understanding of the coexistence between cooperation and non-cooperation. 3) Finally, the concept of social capital brings together social ties, norms of reciprocity and trust into one single dimension. It fails to make categorical distinctions between social relationships and the results they can or cannot generate in terms of cooperation.

¹⁰ The contemporary analyses that revitalized the concept of social capital in mainstream social science were Bourdieu (1986) and Coleman (1990).

¹¹ World Bank (1993) and Stiglitz (1996).

III. THE ANALYTICAL FRAMEWORK FOR STUDYING UNEVEN LEVELS OF COOPERATION

In order to develop an alternative analytical framework, I will further address the three issues introduced by the industrial district literature and condensed in the social capital concept. The first issue refers to whether cooperation should be defined as a general outcome for any type of activities or a qualified result of specific activities. Second is the concept of social structure which either limits itself to direct ties or encompasses both direct and indirect relationships. The third issue is related to the effects of social relationships on cooperation. Studies may search for essential characteristics of the social network or rather look at the cognitive and social connections involved in socializing risks.

Cooperation as a result of specific activities

The object of the present study is the coexistence of cooperation and non-cooperation in the same network of relationships. The market configuration in Bolivia is based on the avoidance of inter-firm cooperation in core business activities. It incorporates other levels of inter-firm cooperation mainly to approach the state, to access marketplaces and to create a safety net to handle personal misfortune. Moreover, producers share a rich associational life within dense networks of social relationships. To answer the question of how the same networks of relationships have generated boundaries between cooperation and non-cooperation, I define cooperation as an outcome restricted to specific activities. In the following paragraphs, I develop this idea.

The concept of social structure and the analytical focus on the positions of actors in symmetrical and asymmetrical relationships

The effects of social structure on the ordering of cooperation and, therefore, on the configuration of market transactions cannot be explained if the focus of analysis is restricted to direct social relationships. Instead, the explanation must be based on a more complex definition of social structure in which actors are involved in symmetrical and asymmetrical relationships. These two types of relationships are crisscrossed by power struggles and conflicts that are not concealed by principles of reciprocity and solidarity. This broader point of view turns the attention to the intersection between the state, business associations and cultural and social arrangements in dense and long run direct interactions. The relationship between the state and business associations is understood as part of the social structure in which small producers occupy a lower position in impersonal relations and a more equal one in bounded networks.

A broader definition of social structure was already suggested by Granovetter (1990) with the differentiation of two levels of embeddedness. For this author, relational embeddedness refers to direct and personal relationships that include normative expectations, the search for mutual approval and reciprocal exchange. This is largely determined by the structural embeddedness, which is the history of those interactions that consolidate common understandings, feelings and mutual expectations, and of their insertion in larger social aggregates. However, these two dimensions must be developed further in order to build analytical frames broad enough to explain particular social formations, especially those that do not share some of the assumptions valid for developed countries. For the present research, besides the direct social connections, an important dimension of the structural embeddedness is brought into the analytical frame: the social and political position of groups of actors in hierarchical relationships that constitute national societies.

Small producers in local markets of manufactured goods in two cities of Bolivia – La Paz and El Alto - find themselves occupying a disadvantageous position in relation to other economic groups; a position that conditions their collective identities and the format of associations oriented to improve the low legitimacy of their economic activities for the development of the country. This structural embeddedness includes power relationships that are consolidated in laws, policies, practices and perceptions. These not only regulate the individuals' transit along different networks, groups and organizations, but also shape the material and non-material resources for the work of organization.

The producers' identification of their social position within unequal chains is based on experiences as first and second generation-migrants from the countryside that arrived in the cities of La Paz and El Alto in the last four decades. Their life trajectory is marked by a passage through poorly equipped schools that provide low-quality education, inadequate health services, as well as the lack of access to basic services such as water, electricity and drainage during their childhood and far into their adult life. Alongside these limitations, exclusion is also experienced through the geographical separation between peripheral and rich neighborhoods and the insufficiency of information and other resources in their social networks of relationships.

This disadvantageous position in the national society is mainly experienced through their exclusion from the social networks and business associations with whom the state coordinates the policy decision-making process. The social distance between the producer and the entrepreneur associations does not result from differences of economic interests or capital ownership, and instead from distances built into cultural categories associated with social and ethnic ascendancy. The classification of small producers as rural migrants, inscribed in bounded ethnic groups positioned in a low rank of the Bolivian society, creates distances that are not easily overcome. This inferior position defines the type of relationship small producers have with the state. It is characterized by the lack of recognition of the importance of their economic activities to the

development of the country, the absence of institutionalized channels of coordination, and the low level of support which the arrangement of policy and regulations offers to their markets.

Parallel to this excluded and marginalized position, these small producers live another reality, where membership and social prestige are linked to social groups that share a common life style, consumer habits and market niches. This creates a sense of inclusion in an empowering community. The arrival in the city and their early urban labor trajectory are channeled through reciprocal kinship relationships that link the families from the countryside with those in the city. The first job in the city is usually with a relative, with whom an established reciprocal labor arrangement is put into practice. The learning process that leads to entrepreneurship and, later on, the interactions as risk-taking actors are channeled by these direct social ties.

The actors' collective identity is expressed through categories of self-identification such as "aymara", "artisan", "producer" and "worker", as opposed to "k'aras"¹², "entrepreneur", "politician" and bureaucrat". These categories express the power struggles and the social dynamics inscribed in the history of their horizontal and vertical relationships. The identification of a we-ness on the basis of class and ethnic backgrounds interweaves with principles of interaction that govern the regularities of interdependence. Reciprocity and solidarity do not work alone and their effects on cooperation are not straightforward. The quest for sociability crisscrosses the search for prestige, accumulation and legitimacy (the recognition of their activities as important to the development of the country). These principles involve heterogenous others, some included in their direct and more symmetrical network of relationships, while some have higher positions in the national society. The producers' social positions and, specially, the distant relationship with the state not only creates a very uncertain and risky institutional environment, but also shapes the producers' direct interactions, their sense of common and private interests and the institutions that sustain joint efforts.

The search for cognitive and social connections generating cooperation

The social process of identifying common interests and of organizing joint efforts cannot be taken for granted; it is not inscribed in the principles of solidarity and reciprocity. Cooperation depends on cognitive and social connections that articulate communities of interests and the organization of joint efforts. In other words, the differentiation between common and private interests, the coordination of collective activities, and mechanisms of mediation of economic transactions occur through the interpretation of their positions within more symmetrical networks of relationships and

¹² This is an Aymará word that refers to individuals who are descendents of the Spanish conquerors.

more hierarchical ones, as well as, the deployment of social, cognitive and material resources that these positions open to them.

The identification of common interests and the organization of cooperative efforts are not abstract processes, instead they are shaped by specific activities. Neither do they eliminate power struggles within the group nor do they erase conflict in other spheres of activities. Since the recognition of mutual dependence is a prerequisite for the identification of collective interests and therefore cooperation, the same group of people may acknowledge certain areas of mutual dependence in relation to which they practice cooperation and create institutions that sustain it and, at the same time, maintain other areas as spaces of independence and the domain of individual interests.

Moreover, principles of interactions such as reciprocity and solidarity carry specific meanings and practices that spread concrete devices to sustain the work of organization in specific activities. These social resources that sustain joint efforts in some lines of activities may not be directly adequate to others with different expectations, different “authoritative references” of fairness and punishment, and different criteria of worth to distribute the costs and benefits of joint actions. In other words, the process of finding common interests cannot directly benefit from the presence of practices of cooperation in neighboring areas without a transformation that would include the building of a new community of interests, the forging of new standards of equity and concrete mechanisms of mutual accountability. It can also be the case that the preexistence of cooperative practices within a social network may create more barriers to such translation than their forging from scratch.¹³ Since practical reasoning rests on the principle of analogy¹⁴, actors assume that cognitive connections among phenomena and social relationships, which have proved valid in some situations should be so in others. And this semi-reflexive behavior that projects future situations based on past and present experiences may create problems for a new set of activities. Coordination arrangements that separate individual and collective interests may get so well established that they become very resilient to change.

The three definitions I proposed so far – the position of actors in symmetrical and asymmetrical relationships, cooperation as outcomes attached to specific activities and the focus on cognitive and social connections generating cooperation– involve a broader discussion built around the concepts of strategic action and interdependence.

¹³ Grabher (1993).

¹⁴ Knight (1971).

Strategic action, interdependence and cooperation

Most of the explanations for cooperation draw on one of the two contrasting frameworks within social theory: 1) the rational choice approach that portrays under-socialized individuals who decide to cooperate only if there is expectation to continue the game and 2) the cultural approach which portrays over-socialized actors who do not hesitate to cooperate because their behavior is determined by tradition and culture. The perspective of cooperation developed here differs from both these positions, however, its distinctive features are best understood in relation to them.

The first perspective is found in sociological, political and economic studies that ground their discussions on individual decision-making processes. They have elaborated on the idea that each person may take into account the decisions that others are likely to make because final results depend as much on what others do as on what one does. The models in game theory formalized the concept of interdependency, showing how groups of individuals may be kept in different equilibrium solutions that range between collective gains and losses in cooperative games.¹⁵ In this perspective, coordination is derived from the rationale of individuals, each attempting to maximize his or her utility by exchanging scarce and, usually, material resources. Cooperation is explained only as an alignment of actors' self-interest. The image captured by this approach is that immutable actors who exchange promises and monitor their mutual performance, without a process of redefinition of identities and the meaning of life. The problem of cooperation is framed as a question of individual decisions – to cooperate or to defect –, as a problem of motivation – selfish or altruistic –, and as a question of orientation – towards profit or social expression–, aspects that are considered mutually exclusive and pre-established.¹⁶

The second view centers its explanations of social behavior on the system of norms and values through which actors are socialized. Social class, occupational sector, ethnic or cultural belonging are assumed to shape individual actions in such a determining way that the specific ongoing process of direct social relationships is lost in their analyses.¹⁷ The adoption of this conceptual framework in research on cooperative behavior in rural populations in Bolivia¹⁸ has pointed to the system of value orientations inscribed in the communitarian ethic of the Aymara culture as the source of a social propensity for cooperation. These studies do not elaborate on aspects such as the pursuit of material interests, as for instance, profit, economic competition for accumulation, prestige and

¹⁵ Elster (1989) and Axelrod (1984).

¹⁶ Franks (1994).

¹⁷ Scott (1975) and Worf (1966).

¹⁸ Carter and Albo (1988), Iriarte (1979) Platt (1976) and Maine (1972).

power, nor do they show the social mechanisms through which specific types of cooperation are engendered, while others are inhibited.

My explanation for the uneven levels of cooperation between and within firms is build on a third alternative proposed by the new economic sociology, where there are neither individuals with prior, fixed and known preferences that guide their decisions grounded on a solitary analysis of costs and benefits nor is there spontaneous solidarity on the basis of shared values. The concept of strategic behavior is understood not as a general category to be applied at any place and time, but as a category that must be seen as constituted by and constitutive of specific structures of social interaction. Identities and mutual expectations are created in an ongoing process that includes a cognitive frame, associative models, feelings and social control within webs of social and categorical networks. As Harrison White (1995) states: “Actors of all scopes come into existence in the very social processes which they help to shape” (p. 67). Identity is the concept that captures the context-dependent and context-creating nature of the actor. Lindenberg (1995) summarizes White’s approach as follows:

“The characteristic features of the actor arise in the interaction with the context and, in that sense, the actor is made, just as he helps to make the other actors in the network. The theory states the conditions under which participants in a production market will behave in such a way as to reproduce their characteristic features and thereby the entire structure. Identities (the reproduction of actors) thus cannot be taken for granted. If the conditions are not met, identities will not be sustained.” (p.81).

Interdependence, common stories and strategic action

This third alternative builds on the sociological tradition that conceives interdependence as a premise in the sense that individuals only exist in relation to others.¹⁹ Interactions in webs of group affiliation are the source of practical theories about their surroundings, what is worth doing and how to go about doing it. Interdependency is, therefore, constitutive of the very actors, contexts and aggregate results. From this perspective, cooperation is understood as semi-reflexive practices that deepen interdependency between actors already connected to each other. Moreover, people engage in ‘models of association’ that are available in their daily life, recreating and adapting them depending on concrete problems they face.

These problems are framed here as uncertainties present in their immediate context that must be explained by creating common sense stories about how they function and the best way to diminish the risks they may pose for their businesses. The analytical

¹⁹ Simmel (1977) and Weber (1978).

association between uncertainty and cooperation as practices of competition was given impulse through Knight's proposition that states:

"The facts of life in this regard are in a superficial sense obtrusively obvious and a matter of common observation. It is a world of change in which we live, and a world of uncertainty. We live only by knowing something about the future; while the problems of life, or of conduct at least, arise from the fact that we know so little. This is true of business as of other spheres of activity. The essence of the situation is action according to opinion, of greater or less foundation and value, neither entire ignorance nor complete and perfect information, but partial knowledge." (Knight, 1921, 1971, p. 199)

Economic practices are forged through opinion as common sense of a reality that a group of individuals in interaction reach to communicate, "agreeing" or "disagreeing" along a shared language and references. In this process, analogies with past and present experiences and with available images are recurrent devices that allow the interchangeability of points of view about the unknown outcomes of their risk-taking activities. Hence, economic strategies are efforts to reduce to a minimum the risks involved in decision-making that exposes capital and work to uncertain outcomes. As Knight develops:

"At the bottom of the uncertainty problem in economics is the forward-looking character of the economic process itself. Goods are produced to satisfy wants; the production of goods requires time, and two elements of uncertainty are introduced, corresponding to two different kinds of foresight which must be exercised. First, the end of productive operations must be estimated from the beginning. It is notoriously impossible to tell accurately when entering upon productive activity what will be its results in physical terms, what (a) quantities and (b) qualities of goods will result from the expenditure of given resources. Second, the wants which the goods are to satisfy are also, of course, in the future to the same extent and their prediction involves uncertainty in the same way. The producer, then, must estimate (1) the future demand which he is striving to satisfy and (2) the future results of his operation in attempting to satisfy that demand." (Idem, p.237 and p.238).

Risk-taking activities and a broader context of unknown outcomes

The risks of entrepreneurship, which are associated with the unknown future of the commodities, are not the only ones producers must take into account in the decision-making process. They must also evaluate the risks that the institutional and economic contexts pose to them. They perceive three levels of possible outcomes: 1) changes in market conditions provoked by decisions taken in national and international political arenas, 2) problems coming from the microeconomic environment and the assets of business coordination, and 3) personal and family ill fortune.

On the first level, uncertainties come from changes in legislation that governs the markets, political and economic turmoil, government interference in business activities, inadequate public and private support, and efforts of powerful actors to control markets. On the second level, uncertainties are related to possible mismanagement and lack of expertise, technological failure, cut in cash flow from diminished sales, lack or poor supply of raw material and other inputs, and changes introduced by competitors such as new designs and low cost products. And on the third level, producers face the possible occurrence of sickness, death of a family member, natural disasters such as flood or landslides, which are very common in La Paz, or social mobilizations that interrupt production and may cause the destruction of roads and other public goods important for the flow of economic transactions. Since they do not have access to social and health insurance, they must rely on other mechanisms to overcome these possible occurrences. They confront the risks posed by these uncertainties through meanings and practices consolidated in their social relationships.

Producers share the view that the first and third types of uncertainties create common problems that must be confronted through inter-firm cooperation while the second type of uncertainties is perceived as individual problems that are best dealt with by minimizing interdependency and by internalizing cooperation within firms. Even though this division between intra-firm and inter-firm cooperation controls the level of interdependence in different lines of activities, it does not eliminate the need to exchange tangible and intangible resources between the units of production. The exchange of resources such as capital, raw material, technology, information and labor is regulated by different coordination mechanisms besides formal association such as social ties within firms and between firms, arm's-length and dyadic relationships between firms. The transference of resources between firms is perceived as acceptable and even important in so far as it does not increase the level of long-run interdependence in the production flow. In this understanding, inter-firm cooperation in core production activities is occasional and not a central component of competitive advantage. This analysis led me to define production markets as configurations of interdependent actors who, in taking one another into account in their actions, define strategies to coordinate the flux of activities and to control the uncertainties in their environment. These strategies incorporate overlapping types of cooperation through the combination of different coordination mechanisms for economic transactions.

IV. THE ARGUMENT: COMMUNITY AS CONFRONTATION and COOPERATION AS DEFENSIVE JOINT EFFORTS

Symmetrical and asymmetrical relationships

My account for the social conditions that block the transference of widespread collective action to inter-firm systematic cooperation in the production flow turns the attention to the formation of small producers' collective identity. This is explained as a social process through which they find themselves occupying two parallel social positions: one of exclusion from the social circuits and formal associations that are defined as the legitimate counterparts of the state in the economic development of the country, and another of inclusion in categorically circumscribed groups with whom they are physically proximate, share a common life style and membership in formal associations. These simultaneous positions are the result of a historical process of social stratification that built barriers and distances between groups on the basis of ethnic and social categories and closed circles of interactions.

Small producers' exclusion from the entrepreneurs' associations as the legitimate counterparts of the state and their formation of separate associations of producers considered unimportant by the state have not facilitated the opening of stable and institutionalized channels of coordination between small producers and the state. This social distance restrains not only the flow of material resources in the networks of social and economic relationships but also the social and cognitive resources available for collective action and the coordination of business transactions. These social distances have a **direct** and **indirect** impact on the organization of production markets.

Uncertain and non-supportive arrangement of policies and regulations

The **direct** impact is related to the structure of economic opportunities constrained by an unfriendly arrangement of policies and regulations that creates more uncertainties and risks than advantages for the local markets of small units. The absence of economic policies supporting small production directly diminishes the opportunities for transactions and limits the availability of material resources such as capital, raw material, technology and information and, therefore, deepens the risks and creates incentives for the perpetuation of the known competitive strategy of isolated firms. Moreover, the low level of confidence in the judicial system, due to its inefficiency and the doubt that the authorities would actually work for the benefit of the deceived, along with the financial costs involved, does not permit the system to be a reliable alternative for business contract enforcement. In the absence of law enforcement and of social

institutions that may control business agreements, interdependency may bring more losses than benefits, increasing risks in an already very unstable environment. Producers comprehend the risks spreading from the institutional and economic context as much more easily dealt with individually than through the coordination with other units of production, thereby, diminishing the opportunity to benefit from deepening inter-dependency.

Coordination of interdependency through uneven levels of cooperation

The positions of producers in this structure of relationships have an **indirect** effect on the organization of economic transactions through their sense of community of interests and the organization of joint efforts. The unfriendly institutional environment, without stable channels of coordination with the state, and the past and present experience of associations within bounded social networks produced specific cognitive frames relating to common interests, decision-making and problem solving, as well as to a narrow circumscribed associational format. It reinforces the making of business within strict boundaries between individual and collective interests.

What builds the sense of commonality beyond the marital bond is the practical understanding that only by associating, producers are able to defend themselves from personal misfortune, resist interferences from state actions and access the commercialization channels. Simultaneously, they maintain the shared perception that the key factor to sustain themselves in the market is independency practiced through hiding machines, the sources of acquisition, the catalogues from where designs and ideas are copied, as well as, different aspects related to accessing raw materials and transforming them into marketable goods. This practice of secrecy is complemented by the practice of imitating designs and models offered by physically proximate producers that have been accepted by buyers. These uneven levels of cooperation sustain the model of defensive production.

Community of interests as confrontation

The producers' sense of community of interests is grounded in their weak legitimacy as economic actors and their vulnerability in relation to a distant and hostile state. The defense against state actions and the demand for benefits from it are the core of their common interests, and therefore, the accepted basis for joint efforts. Collective activities promoted by the producer associations are encapsulated in a defensive and paternalistic relationship with the state. The associations are involved in initiatives to solve everyday problems such as the control of public harassment from low ranking bureaucrats, the payment of taxes and the compliance with legal requirements to ensure

the functioning of their economic units. Besides these, they demand direct monetary help, cheap infrastructure and lower or no taxes.

Even though producer associations foster direct personal contact that helps to create a sense of community, and not only protects them from a hostile institutional environment but also recognizes their social worthiness, they are not understood as organizations capable of supporting business transactions and operations. Activities towards the business community are practically restricted to the access of marketplaces. For instance, the associations do not play any significant role in promoting business deals and implementing control mechanisms to back them up. They do not contemplate activities to help firms to achieve certain levels of formality so as to facilitate transparency necessary to socialize risks between firms or procedures that would create incentives to comply with business agreements, nor are they focused on enhancing the contacts within the business community in order to improve the access to, and quality of, raw material, technology and capital.

The image of the state as an organization that controls material resources and distributes them to groups with whom policy makers have personal connections activates the shared understanding that the open route for those who are not included in this direct social network is by confrontation politics. It is related to the perception that access to public resources and decisions may occur through “getting bigger”, for instance by demonstrating numerical importance in public spaces. It is not their “quality” as legitimate economic actors who produce wealth and contribute to the development of the country that makes them heard and seen, but their “quantity” that expresses a threat to the peaceful continuation of economic and social everyday life.

The confrontation politics react to policies which are mostly known ex-post by small producers due to the lack of institutionalized channels of coordination with the center of economic policy decision-making. Confrontation politics have been effective to a certain extent for their acknowledgment of membership in a polity (citizens) and for getting some benefits, but have shown poor results in winning recognition as legitimate private counterparts of the state.

The organization of joint efforts to defend common interests

The ‘method of association’ sustaining this limited scope of common interests contains governing principles for highly formal joint efforts. The associations’ hierarchical structure has a staff responsible for systematizing duties and obligations and enforcing decisions. The boundaries of membership are defined clearly and there is no ambiguity as to who is in charge, who the members are, what they are obliged to do and the penalties in case of disobedience. These rigidities and coded frame of collective action in the economic sphere come from the social and cognitive resources present in the

widespread experiences of associations within the social circuits of small scale producers in the two Bolivian cities studied: La Paz and El Alto. They share a strong tradition of popular organization through membership in different associations of neighbors, parents, women, and youths with a very similar format. This format includes mechanisms of conflict resolution that allow people to identify and place common benefits above individual ones and set in motion a movement to defend them.

One of the social resources that underpins all these associations and has been incorporated in the building of business associations is the authoritative upholding of fairness and sanction. The criteria of worth to distribute the costs and benefits of joint action comes from a deeply ingrained institution of reciprocity based on a visible and concrete contribution of time and effort of every single member to achieve a well defined public or private good. The social control mechanism that sustains this standard of equity is set in motion by elected leaders who impose pecuniary and, in extreme cases, physical penalties. The type of activities and the objectives of collective effort that are suitable to this standard of accountability must comply with some of the following criteria: be concrete, simple, performed in a short time or simultaneously by members physically proximate.

The standard of equity that defines what one gives and what one can expect to receive has proved efficacious to propel participation and to control opportunism in defensive collective activities in the economic sphere. The confrontation politics implemented through specific tactics, such as strikes and public demonstrations, comply with the criteria of concreteness, simplicity, simultaneity and physical proximity. In the production process, the building of a marketplace and its regulation, through mechanisms such as entry barriers, blocking of government intervention and the solution of disputes over space, respond to the criteria of simplicity, physical proximity and concreteness. Collective activities to help a member in a situation of personal misfortune, such as illness, death or natural disaster, are also easily activated within these networks due to their adequacy to the shared principle of reciprocity. The same is valid for the joining of efforts oriented to a variety of social activities that are very important in consolidating prestige and social recognition. However, these organizational resources, which work so well for defensive collective activities, are not directly translatable to systematic inter-firm collaboration in the production process that would demand continuous coordination to solve problems and to calculate the values given and received. The possibility of reducing the incongruence of economic goals that involve more complex processes of collaboration would need a more flexible standard of equity and a broader definition of common and individual interests.

Defensive production markets

The interplay between an unsupportive institutional environment and the described format of collective action reinforces old practices of economic transactions which entail common sense theories that justify the way of dealing with everyday situations and confronting uncertainties and risks. Competition is performed by practices of secrecy and imitation structured around low quality products and price. It establishes a dynamic where the returns are not exponential and producers find themselves in a vicious competition. This dynamic functions as a self-fulfilling prophecy because the very concept of market shared by small producers is of a zero-sum game in which opportunities are understood as static and what one producer gains is in direct proportion to what other loses. Market incidence is understood as territorializing marketplaces through membership in associations and not as the capture of new market shares by changes in business strategies, including new practices of marketing, manufacturing and purchasing. Competition is identified as the arrival of other producers or sellers of the same or similar products at their marketplaces. The first order competitors are the producers who are physically proximate and with whom one shares membership in formal associations. This practical theory defines the horizon of possible actions that does not include the alternative of sustained and joined economic growth for all producers in a local market. Cooperation in these markets is oriented to the defense of assets and not to promoting of collective economic gains.

V. THE EMPIRICAL STUDY

To analyze the market configuration of small production in Bolivia, I gathered data on three levels of relationships: the long run interpersonal relations between producers, membership in business associations and the institutional environment set by the relations between economic actors, their formal associations and the state. This work was carried out over the course of two years and a half – July- December 1999, 2000 and 2001 and relied mainly on qualitative methods – ethnography, interviews and secondary information.

I began the fieldwork with an ethnographic study. After eight months of participating in different social activities, mostly promoted by several government offices and non-governmental organizations, I started doing in-depth interviews. During the year 2000, the Bolivian government, under the sponsorship and with the incentive of international

organizations such as the World Bank, carried out what was called “Diálogo Nacional” (National Dialogue) where all organized sectors were gathered to discuss key social and economic problems with the state. These meetings were supposed to help formulate public policies, thereby legitimating them, as well as to reflect the populations’ needs. Time has proved that these efforts achieved poor results in both directions, but this context provided a great opportunity to carry out my research. Besides attending the meetings, I also went to the marketplaces and producers’ expositions on a weekly basis, while I assisted many of the associations’ special events and private reunions.

This work was very time consuming. It was not easy to be invited to the meetings on important occasion. I had to wait for the right opportunity to contact people, introduce myself and offer my help in different activities and tasks. Gradually, I came to be known as a researcher associated with the university as well as a writer through various articles that were published in national newspapers. Then they began to acknowledge me as a potential ally and invited me to participate in their activities. This slow entry was very important to contact the interviewees and convince them to answer my questions. It also helped me design the semi-structured interviews and the best way to pose the questions I needed to ask. This direct participation was also important to probe meanings already announced in conversations and in the secondary information I had reviewed.

During that year, on more than one occasion, Bolivia experienced serious social conflicts, which produced dense and violent mass demonstrations and the virtual shut down of the cities of La Paz and El Alto, where the central government is located. The demonstrations were organized by the national labor union (COB) in Bolivia, which agglutinates the majority of the workers, producers and traders’ associations. I often found myself in the middle of a demonstration, with no way to get home, and I had to walk with them for miles and patiently wait until the demonstration was over. These were intense experiences that helped me understand the producers’ feelings, self-representation and strategies.

Meanwhile, I gathered and reviewed secondary information. The secondary sources came from different documents published by the national press, the governments, NGO’s and various institutions dedicated to qualitative and quantitative research on producers and entrepreneurs’ associations. These materials offered information about the broad structure of opportunities and constraints set by the policy and regulatory context.

In Bolivia there is not a single national or academic library that collects studies and books produced internally, not to mention international academic production. Existing studies and other materials are spread out in dozens of private and NGO libraries, most of which are poorly organized. After visiting many organizations and talking to several people who work with the small business sector, I was able to gather an interesting collection of secondary material. I also developed a routine of listening to local radios

and reading the newspaper every day. This turned out to be important because it gave me a good sense of the political struggle, the kind of tactics used by the actors to make claims on the State, how they relate to each other and the way others perceived them.

The ethnographic work and the secondary information helped me define groups of people to interview, small producers in the market of wood furniture, manufactured clothes in general and fabric and leather jackets in particular, members of producers' associations, leaders of entrepreneurs' associations, bureaucrats and experts involved in the small business development.

The objective of studying the first group of 57 small producers in the sectors selected was to identify the social networks in which they are embedded, that is, how concrete economic actors organize production and exchange activities. The focus was on the relational and symbolic fabrication of economic strategies and mechanisms of coordination. Their purpose was to control rivalry and the conflict over scarce resources and to provide opportunities during the process of accessing production inputs, adding value to them and commercializing the final products. I paid special attention to how producers are connected to each other and the boundaries they perceive and act upon in terms of what is possible, desirable and acceptable to do together and what should be pursued individually.

Members of small producers' associations composed the second group. I interviewed 51 individuals. The objective of the interviews was to become acquainted with the history of the organizations, the main motivations to participate in them, the concrete channels that led to their foundation or to joining in existing associations, the identification of allies, enemies, adversaries, the main achievements from their point of view, their relationship with the State, their strategies and daily activities, their understandings of their position in relation to other social groups and the problems they face as a group. Given that most of the business associations of small producers do not make clear distinctions between economic sectors, the study worked with associations of small business in an amply spectrum of manufactured goods. As a result, this analysis arrived at conclusions related to local markets of small producers in general. I complemented it with the search for other types of collective action such as neighborhoods, parent groups and political parties among other associations.

The third group was formed by 12 entrepreneurs, leaders of the most important Bolivian business associations, in La Paz. I applied a guide with similar questions I had designed to interview producer associations' members in order to be able to compare their discourses, strategies and how these two groups represent each other. Since economic and political elites do not distinguish between economic sectors of small production, this analysis is also oriented to the small business in general.

Finally, I interviewed government authorities and experts on small and medium enterprises (a total of 13 persons). I searched the economic and political elites' views on small businesses, the type of programs and activities that public and private

organizations offer to the sector, their perception of the sector' problems and the channels of communication that exist between private and public organizations and the small producers. For these interviewees I did not follow a guide. I asked them to describe the objectives of their organizations, the main problems facing the development of small businesses and how they see the contribution of these activities to the national and local economy.

In analyzing the data collected from these interviews and ethnographic work through a two entry matrix organized by the main issues narrated by the interviewees, I felt the need to search the past history of the relationship between producer associations and the state in order to explain the present producers positions in the Bolivian society which have cemented their collective identity and the arrangement of policy and regulations.

VI. THE ORGANIZATION OF THE DISSERTATION

This dissertation is organized in seven chapters. In the present chapter, I have introduced the research problem, the analytical framework and the argument of this dissertation. In chapter two, I review critically three bodies of studies on small businesses: the development theories, the informal economy and the industrial district literature. I pay special attention to the social factors pointed out to explain the economic organization of small units of production. In this review, I develop my own analytical approach to explain the social conditions that sustain a system of economic coordination with uneven levels of intra and inter-firm cooperation within an unfriendly institutional context.

In chapter three, I describe the life and occupational trajectories of small producers in the sector of wood furniture and leather and fabric jackets. Arrival in the city, apprenticeship and firm foundation are channeled through networks of social relationships that include kinship ties, membership in voluntary associations such as business and neighborhood organizations and a rich social life. These networks are bounded by ethnicity and class, situating the producers in a lower position within the hierarchical structure of the Bolivian society.

In chapter four, I turn to the history of the structural relationships that have cemented the social distances between producers, entrepreneurs and the state. The analysis is oriented to the long-lasting power struggles and social interactions that have led to the differentiation between producer and entrepreneur collective identities and separate formal associations, where entrepreneurs became the private counterpart of the state while the majority of the country's small-scale producers aligned with wage-workers in the channeling of their common interests. The history of the relationship between small producer associations, entrepreneur associations and the state moves along with the

consolidation of the development model of export of primary resources and the import of consumer goods, the establishment of weak channels of coordination between small producers and the state, and the limited public initiatives directed to their markets.

Further on, in chapter five, I discuss the main characteristics of the present arrangement of policies and regulations that conditions, on one side, the structure of opportunities and constraints for economic transactions in these markets and, on the other, the defensive format of producer associations. The analysis shows that the scope of collective action and the method of association resonate with the institutional context, constraining their sense of community of interests and forging social resources adequate for some lines of cooperation.

In chapter six, I focus on the concrete mechanisms that regulate the production flow in the market of fabric and leather jackets which, in connection with the collective action in formal associations, discussed in the last chapters, build a model of market coordination adapted to the risks and incentives spreading from the broader institutional and economic environment. Through a description of the multiple ways of engaging in transactions through stable relationships within firms, membership in business associations, arm's-length relationships and dyadic exchange between firms, I disclose the enabling and constraining effects of the social structure and the institutional context that lock actors in practices of competition that allowed the building and continuity of local markets, but constrained their possibility to expand and conquer new market shares at home and abroad.

In Chapter seven, I synthesize the discussion about why dense networks of relationships, membership in associations, daily interactions, the flow of occasional cooperation, kinship and vicinity ties, the identification of group boundaries on the basis of class and ethnicity backgrounds do not necessarily translate into systematic inter-firm cooperation. The discussion is centered on the principles of interaction that sustain the work of association. These principles establish concrete codes, rules and equity standards that not only channel the recognition of those areas in which they are mutually dependent or independent, but also enable the overcoming of coordination problems for the development of some lines of collective efforts, while restricting others.

CHAPTER TWO: A CRITICAL REVIEW OF THE LITERATURE ON SMALL BUSINESSES

In the past three decades social scientists developed the concepts of “traditional economy”, “informal economy” and “industrial district” to explain the persistence of a wide range of organizational forms, including small-scale production, and to account for the heterogeneity of economic performance among them. Typically, these theorists have oscillated between seeing small businesses and self-employment as outdated modes of production, fated to disappear with the arrival of the inevitably all-embracing sweep of large-scale production, and interpreting this variety of organizational forms as functional to and dependent on the dynamics of modern capitalist accumulation. More recently, a new interpretation has emerged, highlighting the institutional features and organizational practices through which small-scale production may forge viable economic strategies and display different capacities to compete and expand its economic circuits of production and exchange.

In this chapter, I review the debate about the social factors that determine the emergence and persistence of small-scale production. First, I discuss two opposed theories of social change and economic development in terms of the growth possibilities that they assign to markets formed by small-scale units of production. Then, I analyze how their narratives of development – as a coherent general phenomenon and as a result of political and power configurations – have important methodological and analytical consequences on two approaches: informal economy and industrial district. In all the variations of the framework on informal economies, the mechanisms that explain the emergence and continuation of small businesses are external and are found, either in a macro capitalist dynamic with a center located in the “modern sector” or in the formal rules imposed by the state, both dictating the emergence, shape and size of a “dependent sector.” The industrial district studies focused on micro and meso processes through which individuals and families define and control their assets, mobilize resources to create and expand their economic activities. The main insight of these studies is that a firms’ economic success depends on the bounded collectivity of interacting firms and the institutional and economic context.

I. DEVELOPMENT THEORIES: A DEEP LOGIC OF MODERNIZATION OR CONTINUOUS PROCESSES OF RECONFIGURATIONS?

One of the most long-lived and strongest assumptions in the social science is the definition of social change and development formulated by Adam Smith more than two centuries ago. Improvements in productivity (output per unit input) depend on the increase in the division of labor, as workers performing specific manual tasks are able to augment their dexterity and save time by not passing from one task to another. When workers are focused on specialized activities, the probabilities of the appearance of new machines that facilitate the production process are higher. As the argument goes, the division of labor is in turn dependent on the scope of the market: only when demand for the products is extended, the self-sustaining dynamic of increasing efficiency through the division of labor can be activated, which in turn leads to an automatic expansion of the market. The greater the market, the greater is the division of labor and the greater the efficiency of industry and, therefore, the greater “The Wealth of Nations.”

Karl Marx (1867, 1990) pushed the argument further: the endless development of human needs and the capacity to satisfy them is the engine that drives the long-run tendency of technological development. The labor division into a set of separate tasks is the principle of technological development, because it drives the process of continuous competition to increase efficiency and profitability. The specialization of manual work and the concentration of capital characterize production in a capitalist society which displaces all other forms of production and determines the momentum and qualitative direction of the productive forces.

The idea of inevitable progress through specialization was one of the great themes of the classical writers. While Smith argued about an innate human propensity to truck and barter for advantage, Marx spoke of human emancipation and the full realization of human potentialities through the development of mastery over the forces of nature. For both, it was clear that the “motor of history” was the struggle to increase productive efficiency through a rigorous logic of labor subdivision. Although both approaches agreed on the convergence of economic structures with the progress of industrialization, they disagreed on the type of social organization it was leading to. While for Smith modern society tended to be progressively integrated, for Marx modern capitalism drove the class struggle to its ultimate resolution, the abolition of the division of labor.

Typically, in the theoretical constructions of Smith and Marx, mass production – the combination of single-purpose machines and unskilled labor in the production of standard goods – is the most efficient mode of production in capitalist society; the economic optimum in terms of industrial efficiency. Any other form of economic organization of exchange and production that deviates from this model of the market,

defined as the system of private ownership of the means of large-scale production, is fated to be crushed by those that do not. Small-scale production cannot create the dynamic of specialization and, therefore, cannot increase productivity or accumulation.

This frame has remained the central matrix for the interpretation of industrialization. By the middle of the twentieth century, mainstream development economists arrived at a consensus²⁰ that the path to industrialization was narrow and that rapid modernization and a “take-off” into self-sustained growth necessarily passed through accelerated industrialization based on large-scale production, capital intensity and modern technology. The development strategies tended to ignore the potential of small firms. Large enterprises were promoted as the foundation for economic progress and growth, which would grant the necessary economies of scale, high productivity and efficiency. According to this argument, small firms were, at best, playing a transitory role towards a higher stage of development and were important only for countries in an early phase of industrialization. It was expected that the number of small firms would diminish with economic development.

Current development studies display this classic paradigm: a parallel is traced between the transition from the agrarian world of small hold peasantry to the world of industrial capitalism experienced by Great Britain, and the process of development in the so-called third world countries.²¹ These two historical processes are explained as the story of progress from subsistence (pre-capitalism) to market economy (capitalism) and of the political reforms satisfying the requirements of increasing productivity. In other words, in order to create the conditions for economic growth under capitalism, defined as increasing productivity by specialization, it is necessary to dissolve pre-capitalist social structures which restrain the market for productive input – land, labor and capital – and create an adequate institutional environment. In Marxist terms, the “commodification” of the production factors is a necessary condition to promote economic development, which means that a certain type of institutional context and economic organization must exist in order to obtain increasing productivity and wealth.

This development theory frames the current analysis of economic organizations. Chandler’s (1990) explanation of the industrial success of modern corporations argues that there is one dynamic of growth and competition that drives modern industrial capitalism which has been understood and promoted by managers and executives of the dominant enterprises in industrialized nations. The logic of managerial enterprise is defined as “the cost advantages that scale and scope provide in technologically advanced, capital-intensive industries. In these industries, large plants can produce products at a much lower cost than small ones because the cost per unit drops as the volume of output rises (economy of scale). In addition, large plants can use many of the

²⁰ Among the most important are Rostow (1960), Kuznets (1965) and Furtado (1965).

²¹ Brenner (1986) and Barry (1989).

same raw and semi-finished materials and intermediate production processes to make a variety of different products (economy of scope).” (p.132)

As the argument proceeds, these potential cost advantages are only possible if some conditions are met. One is the constant flow of resources to assure capacity utilization, which depends on the development of transportation and communication systems (railroad, telegraph, steamship and cable). Another is the creation of national and international marketing and distribution systems to guarantee the flow of products from production to distribution. Competitiveness depends on innovation and strategy to create new markets as well as investment in research and development to improve quality and achieve lower costs. Managers select better supply sources and organize more effective marketing services. They also go on differentiating their products and shifting to growing markets. Through these strategies, companies grow horizontally (by combining with competitors) and vertically (by moving backward to control materials and forward to control outlets). This oligopolistic competition “provided the dynamic for continuing growth – of the companies themselves, the industries they dominated and the national economies in which they operated.” (Idem)

The theory of the self-governing market obscures our understanding of how markets actually function as concrete social structures²², because it assumes that economic action must necessarily be “disembedded” from non-economic relations to constitute a “modern capitalist economy.” The widespread assumption that the more differentiated all social spheres are, the more modern the economy, since the market can function and greater efficiency can be achieved, may be misleading because it tends to naturalize a specific institutional context as if it were a necessary condition for economic development. As a consequence, all those economies that do not fit the model of the market economy are automatically labeled as backward. Since small businesses are typically organized along kinship ties, the studies tend to interpret them as obstacles to modernization, legacies from the past that must disappear. This type of approach does not explain the differences among market organizations and the role of specific institutional context and power relations in the success or failure of small businesses.

This approach also feeds the formulation of public policies that enhance unfriendly institutional contexts for small-scale production, reaffirming power relationships within the economic sphere. Albert Hirschman (1986) pointed this out with the label of the “visiting economist syndrome:” the habit of economists of issuing peremptory advice and prescriptions by calling on unique valid economic principles and remedies when dealing with the heterogeneous Latin American economies. Granovetter (1995) has also discussed this problem as the “dirigiste dogma” which asserts “existing economic institutions in many settings as poorly adapted to the needs of the economy and needing to be changed or readjusted.” (p. 1129) Biggart and Hamilton (1992) have criticized the

²² Eccles and Bradach (1989), Leifer (1985) and White (1994, 2002).

neoclassic explanation of Asian capitalism by questioning the assumption that there is a general theory of capitalism and thereby challenged the idea that some features such as the entrepreneurial family firm and the industrial cluster are “aberrations in developing economies;” instead they do not seem to disappear or diminish in developed countries.

An alternative perspective to the deep logic of modernization and industrialization has evolved with the concepts of social change and economic development as less cohesive and more diverse and contingent processes of transformation. It is possible to relate this notion of social change to the Weberian idea of history.

For Max Weber (1978) is not a closed system and social changes are not the result of one ultimate factor located in one of the social spheres (for example the forces of production). There is no inevitable and all-inclusive logic of social change. The direction of causality and the relative weight of the social factors cannot be defined a priori; instead they must be defined by historical analysis. The typical question guiding Weber’s historical explanation was: Why are these phenomena what they are and not something different?

Moreover, as noted by Roth (2000), distinct forms of capitalism co-exist and modern and traditional components persist in contemporary capitalism. Recent studies in transition economies from socialism to capitalism have built on the idea that “capitalism as a construct is analytically interesting only in the plural” (Stark and Bruszt, 1998, p.3) and developed the notion of social change as a continuous process of transformation: “rearrangements, reconfigurations and recombinations that yield new interweaving of the multiple social logics that are modern society.” (Idem, p. 7) In this interpretation, Stark and Grabher (1997) have emphasized the importance of organizational diversity and multiple development paths, noting that institutional legacies are not simple residues of the past but can serve as resources for the future. They criticize the idea of one institutional environment, one organizational form and one social relationship as the most appropriate to achieve efficiency and, therefore, economic growth. Borrowing the notion of evolution from contemporary biologists, these authors argue that there is no one-dimensional process of optimization - a beneficent and unilinear journey from the lower to the higher form of organization, a superlative fittest -, but only the comparative and tolerably fit. As they explain, “evolution proceeds along multiple paths which do not all lead to optimal change. That some development paths produce ineffective solutions and sub-optimal outcomes is not an indication of evolutionary failure but a precondition for evolutionary selection: no variety, no evolution.” Therefore, “competition in free markets does not necessarily favor the fitter and more efficient form of organization: market competition is not an optimizer.” (Idem, p.4)

Other scholars studying different subjects, such as science, technological breakthroughs, economic organizations, political and property transformation, among

other historical events,²³ have also benefited from the assumption that “change occurs through a process analogous to biological evolution: that the variable or system under study is subject to somewhat random variation or perturbation; and that there are mechanisms that systematically winnow on the variation.” (Nelson, 1994, p.109). The focus is on dynamic processes: on the movement of something over time, on how something changes from one moment to another. As Nelson explains, “learning or adaptation can be modeled in terms of a change in the probability distribution of possible actions that an entity might take at any time, coming about as a result of feedback from what has been tried and the consequences.” (Idem, p.115)

The departure from the idea of an all-embracing process of economic development allowed a reassessment of the role of small-scale production in economic growth. Sabel and Zeitlin (1996) propose an alternative explanation of the breakthrough to mass-production capitalism in Western Europe. In opposition to the historical view that mass-production was the only form of mechanization realizable under favorable historical circumstances, they argue that the breakthrough to mass production was “the result of some implicit collective choice, arrived at in the obscurity of uncountable small conflicts, to favor this form of mechanization over other, technologically viable ones” (p.134). Instead of the view of industrial organization as the result of an immanent logic of technological change, Sabel and Zeitlin adhere to a view of industrial organization resulting from social struggles. They show that there were alternatives to mass production such as flexible specialization (high skill and universal machine economies) in the eighteenth century. The emergence of mass production and technological change is explained by power distribution and visionary ideas of machine design, not efficiency deciding between competing solutions to industrial problems. Therefore, the notion of a narrow-track view of industrial development does not explain the economic organization of many of the most famous industrial regions of the nineteenth century. Small firms in these regions “often developed or exploited new technologies without becoming larger; large firms that employed sophisticated and expensive technology from the start did not concentrate on the production of standardized goods” (Idem, p. 142). Thus “the long-term technological dynamism of both flies in the face of the notion that craft production must be either a traditional or subordinate form of economic activity.” (Idem, p. 142) They suggest instead that there was a craft alternative to mass production as a model of technological advance.

The reasons for the interruption of the progress of mechanization on craft lines lie not in some “self-blockage of this model of technological development, but in the unfavorable environment – economic, political, institutional -, with which it had to contend.” As Sabel and Zeitlin explain, “to understand the vitality of these industrial regions we have

²³ White (1992), Boltanski and Thevenot (1991), Galison (1997), Padgett and Ansell (1993), Sabel (1997) and Stark (1997)(1998) and Latour (1988).

to abandon the idea of historical laws of progress and imagine a theoretical world in which technology can, in principle, develop in different ways: a world that might have turned out differently from the way it did and, therefore, a world with a history of abandoned but potentially viable alternatives to what actually exists.” (Idem, p.161) In this world, 1) A body of knowledge about the manipulation of nature can be elaborated; 2) the realization of technological possibilities depends on the distribution of power and wealth in society; 3) once accomplished, technological choices entail substantial investments in equipment and know-how whose amortization constrains future choices. The same point has also been stressed by Granovetter (1984, 1995) who states that the centrality of social structure in small entrepreneurship does not depend on the failure or absence of modern institutions; social ties of immigration and ethnic and other bounded communities can, under specified conditions, furnish the resources necessary for firms to prosper in a "modern setting.”

The analytical attempts to interpret small business activities are inescapably framed by either one of the concepts of social change and economic development discussed so far. In this study, I assume that the organizational dynamic and economic potentialities of small-scale production are not related to an “unmediated and direct selective logic” or “ultimately determined by technological forces,” but rather to organizational routines and a broader political and institutional context. Therefore, the concept of social change adopted here is a time-specific phenomenon, dependent on political and power configurations. I focus on the dynamics of the networks of symbolic and social relationships that are placed within a broader context of political, economic and social institutions, more specifically on the interplay between the state, the associations of small producers and the direct social and economic relationships among firms.

II. DUALISM AND INFORMAL SECTOR

A theoretical framework emerged at the beginning of the seventies to explain the role of small-scale production in developing countries. It addressed a paradox that was not explainable by the dominant theories of industrialization: in the midst of unfriendly institutional contexts and adverse academic and political expectations, small-scale production persisted and accounted for a large share of industrial employment. There was evidence that although large industry absorbed huge shares of total investment, it only accounted for a small share of industrial employment and remained concentrated in metropolitan areas in developing countries. Moreover, much of the increase of

employment in large industry was due to the expansion of previously small firms.²⁴ At the same time, studies²⁵ addressing the problem of unemployment and poverty in developing countries also found that considerable parts of the population in urban areas made a living from self-employment and small-scale economic activities. The main argument was that the absence of unemployment benefits and other welfare payments in these countries compelled people to generate income, however low.

The concept “informal sector” began to be used to account for the persistence of small-scale production and the importance of self-employment. In spite of the controversy and occasionally pointless discussions around the definition of what was understood as “informal,” this concept has remained present in academic discussion and in the formulation of public policy. Because of the widespread use of this idea, the broadness and confusion surrounding its definition, and the narrative of modernization it carries, it is important to review the main interpretations formulated on small businesses within the frameworks that use this concept.

Despite the divergent explanations, the terms informal sector, informal economy or informality include some or all of the following: "small-scale firms, workshops and micro enterprises with low capital inputs where production levels depend on intensive use of labor; nonprofessional self-employed, subcontracted put-out workers, disguised wage-workers; unprotected or only partially protected work, illegal contractual arrangements, not fully regulated or registered or extralegal activities; activities that escape standard fiscal and accounting mechanisms; domestic service; cooperatives and associated activities with little or no separation between labor and ownership of the means of production; casual trade, street vendors, and market sellers, regardless of the source of goods; direct subsistence production." (Rakowski, 1994).

The literature can be divided into three main perspectives: 1) the studies developed under the Program of Employment carried by the International Labor Organization (ILO) and its Regional Employment Program in Latin America (PREALC); 2) the “unregulated economy” (De Soto), and 3) the “structure articulation” (Portes).

Early studies of the informal sector

The first document that presented a clear definition of the informal sector and served as a reference for all subsequent discussions was the study of employment and income developed in Kenya, Africa.²⁶ The informal sector was originally defined from the

²⁴ Anderson (1982).

²⁵ Some examples are ILO (1972), Sethuraman (1977) and PREALC (1974).

²⁶ ILO, “Employment, Income and Equality: A Strategy for Increasing Productive Employment”, Geneva, 1972.

perspective of production, populated by establishments organized with limited capital, with a small number of non-wage-workers.²⁷ The criteria for defining establishments as formal were: “difficult entry barriers, dependence on external resources, impersonal property, large scale production, production processes intensive in capital and modern technology, a labor force with qualifications gained through a formal educational system, and regulated markets” (ILO, 1972, p. 21 ff.; 228ff.) For informal establishments, the criteria were: “easy entry, internal resources, familial and individual property, small-scale production, production processes of intensive of labor and adapted technology, labor force qualified outside of the formal educational system and unregulated markets. This study has found economic dynamism of some of the informal activities and their positive functions for the formal sector, despite the restrictions imposed by unfriendly institutional environments. The recommendations emerging in the study were that government should adopt a more positive attitude and implement policy for active promotion and encouragement.”(Idem)

This classification of the establishments was related to a macro level segmentation of the economic system into two broad areas: the formal and the informal sector. The first was defined as "modern" and the second as "traditional." Capitalist economic establishments, including both the states' activities and private enterprises with a large number of waged workers and a clear separation of administration and production, were grouped into the formal sector. The informal sector represented the aggregate of economic activities without a clear separation of capital and work; where the producer, controlling the means of production, pursues economic activities, taking care both of the administration and the production. The typical work relation in the latter sector was self-employment and non-wage-workers usually in small size firms.

Subsequent studies of the problems of unemployment and underemployment in Latin America found a considerable part of the urban population making a living out of small-scale economic activities. Informal activities were interpreted as the result of a lack of balance created by a macro-economic development characterized by asynchronous changes in demographic growth, urbanization and the creation of new employment. The PREALC, seeking to measure the informal sector in Latin America, undertook many studies using this approach. Following the ILO production perspective, the informal sector in Latin America was defined as the sum of all activities developed by independent workers within small economic establishments. Its existence was explained as the result of the type of capitalism in the region which was incapable of generating sufficient employment to absorb the growth of the urban population.²⁸

²⁷ For a more complete analysis of the origin of the term “informal sector” and the different interpretations on the subject, see Peatti (1987) (1981), Buechler (1992), Cacciamali (1983), Portes and Schaufli (1993).

²⁸ Some works are PREALC (1974, 1978), Mezzera (1988) and Carbonetto (1985).

Small firms were viewed as an alternative to unemployment, where workers were trapped in a situation of poverty and stagnation, since these organizations were seen as not capable of accumulation and profit, due to the lack of modern mechanisms of organization and administration. This view equated informality and poverty and was close to the earlier concept of marginality.²⁹ The predominant economic orientation characteristic of the informal sector was defined as survival strategies as opposed to the goal of capitalist enterprise, which is the generation and accumulation of profit. This other "rationality" - survival instead of profit – was explained as being closely related to the characteristic structure of traditional production: small capital, intensive use of family labor and the absence of regulation.

Within this theory, a certain level of heterogeneity among economic activities was explained by economic conditions such as cycles of prosperity and recession and the impact of macro policies (structural adjustment, welfare subsidies, etc.). Institutional environments and policies did not constitute important variables for the explanation of the economic performance of firms, which ultimately depended on the size of the firm. This conventional explanation of the informal sector assumes that development would lead to economies with an increasingly homogeneous economic landscape, populated by large enterprises organized within a formal legal framework and wage labor. In fact, the PREALC approach proposed macroeconomic policies to expand modern sector employment and increase income in order to solve the problem of informality and improve work conditions.

These early studies did not explain the persistence of the informal sector in periods of prosperity when there is an increase in the demand for workers in the modern sector, nor the successful stories of economic growth of small enterprises. Although there is some evidence that self-employment is linked to the level of unemployment, there is also evidence that small firms are more than a transitory, cyclical phenomenon, as the trend of small firms did not decrease in periods of economic expansion.³⁰

Furthermore, the social conditions that enable groups of people to become entrepreneurs in both periods of recession and prosperity are taken for granted in these studies. The experience of some communities that were not able to create alternative economic activities, in spite of facing high rates of unemployment, challenges the assumption that unemployment is a sufficient condition for self-employment. One

²⁹ The concept of marginality in Latin America was coined under the Marxist idea of uneven development of capitalism. The transference of technology from advanced capitalism to countries with high rates of population growth is seen to produce a large "industrial reserve army" formed by workers who cannot be absorbed by the modern sector of the economy. The marginalized population is made up of urban poor: mostly migrant masses from the countryside consisting of pre-capitalist artisans and domestic workers. (Quijano, 1974) This concept has been criticized for downplaying the role of the so-called marginals in urban society (Perlman, 1976).

³⁰ Sengenberger and Pike (1991).

example is that of the English workers who did not respond with self-employment to the unemployment created by the economic downturn of the late 1970's and early 1980's.³¹ These experiences indicate that to understand self-employment and family enterprises we must look at the social conditions necessary for their emergence because it is not enough to point out the accelerated rural-urban migration and the creation of labor surplus in the cities.

The unregulated economy

In his book "The Other Path", Hernando De Soto (1989) proposed another theory to account for the informal sector. Although he agrees with the PREALC explanation that the primary cause of informality is the rural-urban migration, De Soto does not portray informal activities as survival strategies with any inner capacity of generating growth. Rather, he describes it as competitive production and trade organized by small entrepreneurs outside the regulated economy. This explanation is still based on a dualistic view, but now between powerful economic groups and non-privileged enterprises that lack property rights and access to credit. The real function of state regulation is the legal exclusion of non-elite groups, composed mainly of migrants, from competing fairly in the economy. Informality, thus, is the response of marginalized groups who, due to legal and economic barriers created by mercantilist policies, have managed to develop unregulated economic activities. This definition is similar to the concept of the underground economy in developed societies, which includes activities that are carried out outside the legal framework. The important insights of this approach are the attention paid to the role of power and politics in the definition of the economic potential of small-scale industries and the emphasis it places on the capacity of small enterprises to generate income and savings and, therefore, to create wealth.

Nonetheless these insights are not fully explored because of the perception that the economy is a homogeneous sphere that can function well if it is not regulated. According De Soto, "informals" can promote economic growth only if the state does not interfere in the market mechanisms and the costs of legalizing business operations are eliminated. This theory does not explain the similar problems that small firms have in countries with different levels of "state control," for instance Bolivia and Brazil. It also simplifies the problem for it does not consider the positive and negative impact of different kinds of political and legal rules affecting the competitiveness of small firms. Recent studies have shown that different macroeconomic policies, relating to currency markets, foreign exchange, monetary policy, fiscal policy, taxation, and capital markets

³¹ Standing (1989) and Roberts (1989).

affect large and small firms in different ways.³² Other studies have also emphasized that some small firms take advantage by evading labor regulations and taxes.³³ Moreover, both formal and informal institutional arrangements, including the associations of small firms, as well as the structure of the market are as important as the macro policy context to the definition of the competitiveness of small firms.³⁴

In his new book “The Mystery of Capital” (2000), De Soto builds on the idea already introduced in “The Other Path”, regarding the type of capitalism in developing countries, which he describes as “a private club, open only to a privileged few, and enraging the billions standing outside looking in.” (page 67). By incorporating new approaches, specifically transactional costs and property rights, De Soto overcomes the naïve vision present in his first book where the improvement of efficiency and equity in market transactions is considered to come with the withdrawal of the unnecessary and discriminatory participation of the state. The solution is no longer seen as the state withdrawing from the economy and, instead, is linked to the reformulation of legal institutions and the political will to create a system of property rights that includes rich and poor citizens.

This legalist approach has many advantages. No doubt it offers a new point of view from which to interpret economic activities undertaken by the marginalized sector in developing countries. It also contributes to the perception of this sector as important economic actor in spite of its exclusion from the legal system as a result of the elitist political system. De Soto emphasizes the imperfections of the legal systems in developing countries and their impact on the competitive capacity of national economies. But the new book neither questions the advantages of being outside the legal system nor does it ponder the importance of other economic and political factors, besides the legal ones, to the process of inclusion of these sectors (migrants and poor) as economic actors capable of accumulation. Here it is important to remember that the legal rules and institutions are not the only sources of transactional costs. Problems with infrastructure, access to technology and organizational culture are equally important in defining competitive capacities of small-scale production.

The structure articulation

The “structure articulation” perspective is a third point of view that “characterizes the phenomenon of informality as income-earning activities unregulated by the state in contexts where similar activities are so regulated” (Portes, Benton and Castells, 1989,

³² Frank (1994).

³³ Portes and Schauflier (1993).

³⁴ Schmitz (1995) and Spath (1993).

p.51). In Portes and Schauflier words, "this approach is similar to that of De Soto in the emphasis on the role of the state in the emergence and growth of the informal economy. But it differs from De Soto's in not seeing this sector as isolated from the formal economy or as composed exclusively of micro entrepreneurs" (Portes and Schauflier, 1993, p.51).

The structure articulation approach describes "unified systems encompassing a dense network of relationships between formal and informal enterprises." The nature of this articulation is defined by the scope of state regulation, the requirements of modern firms and the size and characteristics of the labor force. Again Portes and Schauflier: "This analysis begins by noting that the condition of the excess labor supply created by rural-urban migration has had more complex consequences than the survival of the poor at the margins of the urban economy." Among these complex consequences are: 1) the functions that informal enterprises have in supporting modern capitalist accumulation,³⁵ and 2) the creation of new niches in the labor market, corresponding to new positions in class structure. Heterogeneity within the informal sector has been interpreted as the result of the articulation of regulated and unregulated activities by a gradation of "class positions" of enterprises depending on the level of their articulation with the "modern" sector (Idem, p.51).

Although this approach integrates the view of economic life as a dense network of relationships, the insistence on the informal/formal dichotomy prevented it from grasping the diversity of links, organizational forms and groups that could not be mapped across this distinction. As a result, this new approach did not really depart from earlier analyses. The mechanisms explaining the informal sector are still to be found in a macro capitalist dynamic with a center located in the modern sector, which dictates the emergence, shape and size of a dependent sector.³⁶ The type of network of relationships that best fits this model is one that connects big and small enterprises in a vertically integrated system dominated by big enterprises. In fact, the empirical evidence underpinning the "structure articulation alternative" derives from a specific type of subcontracting between big and small firms designed to lower labor costs by

³⁵ Some of these functions are: "the supply of low-cost goods and services for workers in formal enterprises, the allocation of a variety of production and marketing tasks by subcontracting of production, input supplies or final sales to informal entrepreneurs and direct hiring of workers off-the-books." (Portes and Schauflier, 1993, p.49).

³⁶ The informal sector is still explained as the product of the incapacity of the formal sector to absorb the labor supply. The novelty of this argument is that the lack of employment in the formal sector is explained as an initial cause which has a more complex result in the connection of two sectors: the functional support of the modern capitalist accumulation and the creation of new niches in the labor market. Instead of portraying the two sectors as totally separate from each other, the structure articulation argument emphasizes the idea of two main sectors in a relation of dependence and subordination.

evasion of taxes and labor codes.³⁷ Although this type of economic relationship is important in many countries, it is incorrect to generalize it as if it were the only one or the most important one.³⁸ This generalization blurs other settings in which the production process is more autonomous in relation to large enterprises and instead coordinated among several independent family businesses as the markets I focus on in this study.

As a consequence, from this perspective the economic capacity of small firms is seen as very limited. As Portes and Schaufler explain "such enterprises exist precisely by taking advantage of interstices in the regulated economy. Lacking much, their sole market advantage consists in the ability to escape tax and labor codes, capital or technology" (Idem, p.55). If this sector loses the unique advantage of evading taxes and labor codes, "the most likely prognosis would be the disappearance of micro enterprises" (p.55). Portes' approach directs the attention away not only from other types of relationships and links, but also from the actual economic dynamics at work and the emerging patterns of organization. Although small businesses are not organized according to bureaucratic patterns, it is incorrect to conclude that they are neither organized³⁹ nor socially and legally regulated.⁴⁰ This perspective does not pay sufficient attention to non-legal social arrangements such as the cultural conventions of family, kinship and ethnicity in the regulation of economic activities.

Lauren Benton (1994) offers the sharpest critique of the structuralist approach. She discusses the analytical limits of dividing the economy in two segments on the basis of the "relationship between social actors and the state, and, especially, according to how well or badly conformed to expectations described by the law." (p.227) Benton argues that the literature on the informal sector uncritically imported a structural notion of legal pluralism: "levels of law that 'stacks' the formal and informal sectors one atop the other and which view them as instrumental in supporting a parallel system of economic relations that is also divided into dominant and subordinate sectors." (p.225) She discusses two problems associated with this framework. One is related to the specificity of the cases in which the absence of regulation is the most important mechanism defining changes in the conditions under which production takes place. A specificity

³⁷ Such as the "maquilas." The overall picture emerging from the studies on the subcontracting links is that of a hierarchy of firms with a pyramid shape, that is, with a small number at the top, and an increasingly larger number at the bottom, as subcontracting flows from the larger to the smaller firms.

³⁸ Portes, Castells and Benton have tended to generalize it and do not describe explicitly the type of linkage they were looking at. (1989, p.12).

³⁹ Peatti (1980)

⁴⁰ Stark (1989) and Benton (1994). This critique is addressed to Portes and Castell 's definition of the informal economy as a "process of income-generation characterized by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated" (1989, p.12)

based on regulated firms that have access to cheap labor through illegality. But "in many more cases the importance of the boundary between regulated and unregulated activities is overshadowed by the significance of other distinctions, between different styles of production, different locations of production, or different systems of social relations of production" (p.225)

The other problem resides in the identification of legal rules as the most important force structuring actions in either sector. As Benton argues, "the influence of law is filtered through the more powerful organizing impact of social relationships. Networks of small producers, patterns of household authority, tensions between gender and age groups - these cultural arrangements order transactions and relations of production in both sectors, and they cause law to be interpreted by individuals in particular ways." As she explains, other types of political associations also shape a regulatory structure for economic action that is much broader than the web of official regulations and legal rules. The institutional matrix (including patterned cultural relations) does not "break" in the same place as informal and formal distinctions." (p.226) These are issues I explore in my analysis.

The central question that arises from the critiques of the three perspectives analyzed here is the validity and helpfulness of simply dividing the economy in two segments to account for the differences between organizational forms of capitalist enterprises, including differences in the level of capital, technological capacity, productivity and organization of labor, and systems of remuneration. Some of the questions that must be posed in order to evaluate the usefulness of the reference framework on informal sectors are: Does a picture of the economy divided in two sectors account for the phenomenon of self-employment and small businesses, considering the well documented heterogeneity within them? Is it true that these other forms of economic organization would vanish without the advantage of tax and labor evasion, or are other advantages associated with cost-reduction and other economic and social evaluations?

I agree with Lisa Peattie (1987) in her critique that the concept of informal economy in all its versions should be relegated to "an item in the history and sociology of ideas." Although this concept contributed to the identification of problems and a variety of economic activities that otherwise would probably have been ignored, it obscures rather than helps explain their competitive dynamics. This is because it carries a narrative of modernization and industrialization that prevents the consideration of ongoing transactions and different linkages shaping urban economic landscapes. Therefore, I also find the suggestion to adopt the concept without further discussion⁴¹ problematic since it is impossible to "neutralize" the theoretical and methodological implications of this value-laden concept in the interpretation and explanation of self-employment and small-scale production.

⁴¹ Rakowski (1994 note n.1, p.48).

In conclusion, because all these approaches within the informality frame of reference pose the causes and mechanisms for the emergence and continuation of the micro enterprises outside themselves, either in the center of capital accumulation of large enterprises or the formal rules imposed by the state, they do not give a satisfactory explanation of the organizing principles of small-scale production. Even where these economic activities fulfill the "demand" of the "formal sector," their continued existence and organizational form cannot be explained by the needs they serve nor is it sufficient to point out the accelerated rural-urban migration and the creation of labor surplus in the cities. These perspectives do not explain the capacity of collectivities to respond with self-employment and to implement small businesses both in periods of recession and growth or the successful and not so successful stories of small businesses. In other words, this framework drives attention away from the dynamic of local and regional relationships, which reflect the larger opportunity structure through which individuals and families create the means and mobilize the resources to pursue their own economic activities.

III. NETWORKS, INDUSTRIAL DISTRICTS AND FLEXIBLE SPECIALIZATION

A new route for studies on small businesses was opened during the seventies with the discovery of clusters of small and medium-scale firms competing successfully in industries that produced machine tools, knit wear, ceramics, shoes, motorcycles, electronic artifacts and manufactured clothes in Europe. Concepts such as industrial districts and flexible specialization were proposed to explain the conditions that led to the success of some firms, sectors and regions. These concepts fed into a wider debate concerned with a shift in industrial organizations in developed countries. The main argument was that the change in the conditions of international competition from a more stable, homogeneous market to a more uncertain, fragmented and volatile economy was followed by strategic reorientation from mass production organizations to less rigid and more adaptable structures. As Sabel and Zeitlin (1996) explain:

"The more stable the economy, the more it pays to organize production in large, vertically-integrated firms in which output from each department or station becomes the input for the next. Economies of scale reduce production costs and thus extend markets sufficiently to justify the risks of investing huge sums in rigid equipment that can be turned to no other use. The more volatile the economy, conversely, the more it pays to organize each step in the production process as an independent business. Under these conditions, each business is encouraged to protect itself against shifts in demand by

learning to use its resources in the most flexible possible way, and the risk of anyone holding assets too specialized to be adapted to a changing environment is reduced to a minimum. The owners of these specialized businesses with generalizing capacities can then contract with one another to produce whatever the market requires." (p.20,21).

Sabel (1986) identified two new organizational strategies: 1) the kanban or Japanese mass production⁴² and 2) the shift from price competition to the definition of the product⁴³. The fusion of these two strategies led to the practical application of a new model of production that he called "flexible specialization." As Sabel explains, this model is precisely the opposite of mass production in terms of internal organization of the factory and of its relation to the broader economy. "Mass production is the manufacture of standard products with specialized resources (narrowly-skilled workers and dedicated machines); flexible specialization is the production of specialized products with general resources (broadly skilled labor and universal, typically programmable machines). Mass production thus depends on the increasing separation of conception from execution, flexible specialization on their integration. Mass production is thus a low-trust system - subordinates are expected to do only as they are told; flexible specialization is a high-trust system. Precisely because there is no time to decompose construction of new products into simple tasks, superiors must depend on subordinates to elaborate general directives." (Idem, p. 40)

Sabel treats three variants of this model: 1) The small-firm variant which characterizes industrial districts; 2) The internal decentralization of large firms to achieve greater flexibility; and 3) The kanban system of intimate collaboration with an extensive, often local, supplier network with a large firm as the leader. In this section, I shall explore the first variant of the model, as it is the closest to the production markets under study.

The concept of industrial district and the idea that there are economic advantages in the concentration of specialized small businesses in particular localities can be traced back to Alfred Marshall's (1890) analysis of industrial districts in Britain.⁴⁴ He noted that these concentrations of specialized small businesses can create efficiency and competitive advantage through what he named "external economies," that is the benefits produced by the general development of the industry. He not only stressed the advantage of the division of tasks in an industry among many producers, but also

⁴²This strategy is defined as "integrating suppliers more closely into the design and assembly of final products, and training workers to spot and whenever possible eliminate defects, this strategy cuts in-process inventory, reduces the time for model changes, increases quality, and reduces waste." (Idem, p.40)

⁴³This strategy is defined as "instead of producing a more reliable version of the standard good at a lower cost, firms make specialized products that command a market premium by meeting the needs of particular customers better than the mass-produced article." (Ibidem)

⁴⁴ Principles of Economics (1986).

referred to the benefits of an "industrial atmosphere" where there is an "easy exchange of ideas, information, and goods; the accumulation of skills and innovative capability; and the development of a cultural homogeneity allowing cooperation, trust, and consensus among employers, among workers and between both groups." (Marshall quoted in Grabher, 1993, p.21)

As Sensenberger and Pyke (1991) noted, the economic success of the European industrial districts is based not on low cost factors of production - cheap labor, land and capital -, but rather on a particularly effective social and economic organization based on small firms. This organization includes: 1) agglomeration of small and medium enterprises spatially concentrated, 2) strong networks of small firms that divide production among themselves through specialization and subcontracting, being linked through market and non-market exchanges of goods, information and people, 3) intensive interaction creating reciprocal patterns of communication and exchange that facilitate coordination and a continuous learning process, 4) public and private local institutions acting to support the cluster .⁴⁵

The industrial district analysis stimulated the debate on development⁴⁶ by refocusing the critical role of social organization and the importance of such things as non-hierarchical organization, autonomy, cooperation, local and regional networks, competent entrepreneurship and differentiated industrial structure. One important feature of this model is the idea that small firms in an industrial district do not exist alone, instead their survival and success depend on the whole network of firms of which they form part. This perspective reoriented the unit of analysis from the firm to the local and regional network and directed the attention to the social organization of inter-firm links within institutionalized environments. The issue now is not whether small enterprises have the capacity to generate growth and employment, but under what conditions this can occur. In other words, it is not size as such that determines economic and social performance, but the relationships between firms and the institutional environment.

An important problem not yet satisfactorily covered by the literature is the enormous variation in the economic performance between small firms. In addressing this issue, Sensenberger and Pike (1991) pose the following questions: Why have small firms in the same industry excelled in some countries and failed in others? Why do we find highly flexible, efficient small firms, offering good pay, in some quarters and so-called sweatshops in others?

⁴⁵ There is an ample literature addressing the industrial districts, clustering and network forms of organization in Europe and United States. Besides the studies mentioned in this chapter, other interesting analyses are Saxenian (1994), Brusco (1982) and Best (1990).

⁴⁶ Some of these studies are Humphrey (1995), Schmitz and Musyck (1994), Pederson (1994), Tandler (1997), Spath (1991), Amorim (1993) and Tewari (1996).

To explain the variation in the performance of small firms, Sensenberger and Pike propose the concepts of "high road" and "low road" as two competitive strategies to face the new conditions of international competition. The "low road" consists of seeking competitiveness through low labor cost and a deregulated labor market environment, and the "high road" is based on efficiency enhancement and innovation. As the argument goes, these two roads are related to two types of flexibility: "active versatility" and "passive pliability." The first consists of "the ability to exploit market niches and quickly respond to orders, based on a skilled and polyvalent labor force." The second transfers "the flexibility requirements of the market to the workforce in a coercive manner" (Idem, p.11), making flexible use of part-time and occasional employment.

The studies show that most of the clusters in developing countries operate within a context of abundant labor. But it is inconclusive whether this is the main factor that leads to the low road strategy, since there is evidence of some clusters showing signs of innovation and technological upgrading although there is also excess of labor supply.⁴⁷ My research suggests that abundant labor supply is an important condition that creates economic pressure to maintain the competitive dynamic centered on low quality products. However, the empirical evidence I found also indicates that this is one component of a model of market coordination that is not the explanation but instead what must be explained. My analysis emphasizes the interplay between an unfriendly institutional context, limited role of associations and deep-rooted concepts and ways of reasoning within direct social relationships in the structuring a system of economic transactions centered in low labor cost.

Nonetheless, it is important to acknowledge that the lesson these studies offer is that competitiveness must not be based on inferior working and payment conditions. When firms are organized in networks of inter-firm linkages with a peculiar mixture of competition and cooperation, they can transform the liabilities of being small into advantages to meet the competitive challenges of an increasingly uncertain and changing market. In other words, the combination of competition⁴⁸ and cooperation⁴⁹ allows small firms to meet economies of scale and scope, as well as improve their competitive capacities, through continuous innovation in technology and products. Moreover, the formation of horizontal linkages allows firms to develop concerted actions to represent themselves and influence and shape their market. These linkages also determine their capacity to base their competitive position on innovation and new markets instead of relaying on cheap labor.

⁴⁷ Schimtz (1995).

⁴⁸ Competition in price, quality, delivery.

⁴⁹ Co-operation through subcontracting and dividing up of orders, collaborating to train labor, collective provisioning services, transferring information, advising and joint-solving problems.

Some experiences highlighted the importance of access to export markets as a factor imparting dynamism to clusters. For example, the case of Sinos Valley in Brazil shows that in the late 1960's, a cluster had been composed predominantly of small firms, but some of these later grew to be very large as a result of their enormous success in export markets in the 1970's and 1980's. This experience differs from the three variants of flexible specialization outlined by Sabel and Piore. Now the Sinos Valley cluster is once more redefining itself, as the larger firms begin to decentralize and establish closer ties to suppliers in order to move into higher quality segments of the shoe market and meet more exacting requirements for delivery and lot sizes.⁵⁰

In my study, I also take up the proposition suggested by Sensenberger and Pike to analyze the position of small firms within the larger economic and institutional context, and to see the expansion of small units as part and parcel of a more general industrial restructuring process, that includes small and large firms in the analysis is also taken up in my study. They claim that because large enterprises have altered their organizational structure toward decentralization, devolvement and disintegration since the 1970's, production and employment have shifted toward small units. But this new tendency neither means that large corporations have lost control and power over the production process, nor that all small units of production are linked to, or controlled by, large companies. There are small firms managing to exist by themselves, including some in competition with large firms in the same market and others that are linked to larger firms. The markets under study are an example of the first experience. Therefore, I rather propose that the inclusion of large companies in the analysis of the Bolivian case should emphasize their political capacity to participate in the policy making process and to influence the development model that empower some economic sectors while undermining the competitive potentialities of others.

The literature on industrial districts provided new ways of approaching the organizational changes pursued in developing countries. The relevance of the European industrial districts for less developed countries (LDC's) is due to the fact that their experiences have occurred relatively late in regions rooted in small-scale agriculture. Moreover, the sectors that have grown in the European industrial districts are the same as those that are thought to have comparative advantages in LDC's.⁵¹ Despite the difficulties of using the European experience as a parameter for the studies in other regions, the focus on clustering led to a fruitful reassessment of the growth potential of small and medium-sized enterprises, while the model of industrial districts provided insights into the conditions that determine small-business performance.

The methodological standpoint proposed in this literature and adopted here is that an adequate explanation for the competitive advantages of any economy must focus on the

⁵⁰ Tendler and Amorim (1996), Humphrey (1995).

⁵¹ Humphrey (1995).

relationship between institutional environments and networks of inter-firm relations. Only from this perspective can a better understanding of the enormous variation in economic viability exhibited by small firms per sector, region and country be achieved. The idea is that competitiveness is not a direct result of better inputs - better educated labor and more modern technical equipment -, but mainly of a better use of these inputs, the ability to learn and the creation of a friendly institutional environment.

One of the most recurrent findings among the studies on developing countries is that small-scale production operates within a general policy environment biased toward large-scale firms.⁵² In Latin America the model of import-substitution has oriented public effort and resources to sectors such as metallurgy, electrical machinery and communication equipment, transportation equipment, chemicals, rubber, pharmaceuticals and machinery where large-scale industries are paramount. Other sectors such as light consumer goods industries,⁵³ with a higher participation of small firms generally, have not been taken into account in the formulation of macro economic policies and have tended to grow more slowly. Some of the obstacles for improving the policy environment for small-scale production pointed out by the literature are: 1) lack of political and professional capacity of small firm associations for bargaining and representing their economic interests, 2) the placement of the concerns and policies for small-scale production far from the center of economic policy, and 3) the lack of knowledge and easy transference of information about the type of policies required to enhance their performance.

My research explores the effects of an unfriendly policy environment already pointed out in the literature,⁵⁴ but here it is analyzed in connection with the role played by the producer associations, paying special attention to the format of collective activities that define a sense of community of interests and mechanisms to solve coordination problems. As we shall see, this associating strategy responds to the questioned legitimacy of small production to generate wealth and employment and the absence of institutionalized channels of coordination with the center of economic policy decision-making.

Even though many studies⁵⁵ have shown evidence that agglomerations of firms are common in a wide range of countries and sectors in Africa, Latin America and Asia, the knowledge of how industrial agglomerations work in developing countries is still

⁵² Liedholm and Mead (1987), UNPD (1988), Spath (1993), Stewart (1989), Schmitz and Musyck (1994), Uzzel (1994), Frank (1994).

⁵³ Such as food and beverage products, clothing and footwear, furniture and lumber, printing and publishing, and non-metallic mineral manufacturing.

⁵⁴ Spath (1991), Schmitz (1995), Humphrey (1995) and Franks (1994).

⁵⁵ Tendler and Amorim (1996), Nadvi and Schmitz (1994), Humphrey (1995), Tewari (1996), Cawthorne, (1995), Kashyap (1992), Knorringer (1994), Tavera (1993) and Rabellotti (1995).

inconclusive and incomplete. Nonetheless, the body of empirical studies on small-firm agglomerations shows that there is a wide range of variance. As Humphrey (1995) summarizes: "Vertical relationships range from orchestration by large firms to arrangements among small firms, and the density and nature of inter-firm linkages varies considerably"(p.3). Moreover, there are experiences of clusters of firms that remain entrenched in a low-skill, low-quality trajectory and others that display sustained competitiveness, even in export markets. This is the reason why these studies prefer to use the concepts of "clusters" or "agglomerations" rather than "industrial district." There is also evidence indicating that growth experience within a cluster may be uneven, with some firms showing innovation and technological upgrading, while others struck in a low road strategy.

Most of these clusters tend to be associated with some form of common socio-cultural identity. The analyses put the attention on the ties among firms, that are not only economic. Ethnic, kin and neighborhood relationships play an active role in providing the basis for trust and reciprocity, and by exerting pressure to limit the boundaries of unacceptable competitive behavior.⁵⁶ But, as Humphrey (1995) underlines, "our understanding of how social networks actually function and influence economic relations within clusters continues to remain rather inadequate. There are indications that where over-arching social networks are weak, inter-firm co-operation is limited. There are also signs, however, that social identities can have a negative influence on inter-firm relations - as with the caste divisions in the Agra shoe cluster." (p. 541).

My study integrates this discussion through the analysis of how social and cognitive resources present in the social network of relationships may generate some types of cooperation while constraining others. The focus on the uneven processes of cooperation and outcomes spreading from the same network of relationships allows the exploration of why the mere existence of physical proximity, dense networks of social relationships, the recognition of a "we-ness" on the basis of class and ethnic backgrounds in developing countries does not necessarily facilitate a market organization based on inter-firm connections in a process of enhancing collective learning and the improvement of standards of quality.

⁵⁶ Bazan and Smichtz (1997), Becattini (1990) and Dei Ottati (1994).

CHAPTER THREE: THE SIMULTANEOUS POSITIONS OF PRODUCERS IN HORIZONTAL AND VERTICAL RELATIONSHIPS

This chapter introduces the economic actors under study through the description of their life trajectory. It starts with the geographical mobility from the countryside to the cities of La Paz and El Alto, the learning process that leads to entrepreneurship and the engagement in associations and collective activities. The analysis shows that the producers' social networks are bounded by ethnicity and class, situating them on a lower position in the Bolivian society. The identification of a *we-ness* on the basis of these two simultaneous positions interweaves with principles of interactions, thereby configuring a rich associational life.

I. OCUPATIONAL TRAJECTORY AND ASSOCIATIONAL LIFE

Rural-urban migration and the learning process

The occupational trajectory of small producers in the sectors of manufactured clothes in general, leather and fabric jackets in particular, and wood furniture in La Paz and El Alto is channeled through a combination of prior relationships in the countryside and new ones in the cities. Seventy percent of the producers interviewed are first-generation migrants, mostly from the Andean highlands (the "Altiplano" region). The remaining thirty percent are second-generation migrants whose parents came from the countryside or the mines. The specificity of this geographical mobility is related to the fact that it does not break the ties between city and rural communities⁵⁷, a process that sustains the

⁵⁷ The most important condition for these strong and enduring ties between city and countryside is the low development of the land market in the Altiplano, which is associated to the tradition that the land is owned for generations by the same families and the constant presence of one of the nuclear family members living on it. This tradition is the result of both the broader features of the social and political structures of the Bolivian society and of internal characteristics of the organization of peasant communities. First of all, law limits market transactions of small properties, yet it is not the state that regulates land property rights, it is the peasant communities themselves. It is also the community that sets the parameters for the transference of property rights including, in some cases, the restriction of selling land to non-members of the community. The community facilitates the flux of information, ways to solve conflicts on property boundaries, heritage, transference of possession and the compliance of rental contracts, land division between community members; most of these contracts are verbal. Due to the excessive and inefficient state regulation on land property, the access to official property documents is highly limited for peasants who have had little education and cannot afford legal aid. The lack of state support increases the importance of internal community regulations to guarantee property transactions. It is also important to consider that the social value of land is not restricted to its use for

circulation of people and resources in bounded networks of relationships. These reinforce similar ways of interpreting the social surrounding, including the position they occupy within the national society, what is worth doing in the economic sphere and ways of doing it. The typical migration trajectory begins between the ages 14 and 16 with the departure from the rural area and the arrival at a relatives' house – an aunt/uncle, brother/sister, and father-in-law/mother-in-law - in the city. The family that receives the newcomer feeds the network of relationships vis-à-vis other favors that circulate in this network such as receiving crop products from the rural community, being invited to celebrations and rituals, and getting the communal support for the preservation of their private property within it.

All the interviewees had found their first occupation through the relative with whom they stayed the first days in the city. The help received is a form of reciprocal labor arrangement within the network of kinship relationships.⁵⁸ The immigrants described themselves as having lacked knowledge and preparation so as to orient the job search in the city. On arrival they were ready to do anything that was available and usually the first open door was the relatives' activity. They took one of two paths: 1) When the relative has his/her own business, the newcomer works with him or her without a formal contract and sometimes with no monetary payment, or 2) When the relative works for another person, the newcomer starts as a helper without remuneration in the same place where the relative is employed. In time he or she begins receiving a reward for the work done.

In the description of the first job experience, the producers express ambiguity in their feelings. On one hand, they feel gratitude for having received the expected help on arrival in the city, which includes the relatives' hospitality and the introduction to the network of social relationships and to the know-how required for the new job. On the other hand, there is a feeling of exploitation of their vulnerability through the unpaid work. This perception of a certain degree of unfairness seems to be kept under control

production. A necessary requisite to become a member of a peasant community is the ownership of a piece of land. Therefore the benefits obtained from land ownership include all the rights the community provides. Peasants depend almost exclusively on local networks of relationships to meet their needs because neither the state nor private organizations supply extensive basic services such as education, health, potable water, justice, among others. Besides the land value associated to the social benefits that come from community membership, the restricted options of work for individuals who do not migrate also must be considered. In rural areas of the Altiplano, the production of primary goods is oriented to local markets with low levels of mechanization, which limits the diversification of economic activities and, as a consequence, work opportunities outside agriculture. These interrelated factors lead to an imbalance between the land value and its market price, which results in the phenomenon that many more people are interested in buying land than in selling it. For a broader analysis on land market see Garcia (1995); on Aimara communal organization in the rural area of Bolivia see Carter and Albó (1988), Yampara (2001) and Albó, Lieberman, Godínez and Pifarre (1990).

⁵⁸ This reciprocal labor arrangement was first analyzed by Albó (1982).

by the fact that it is perceived as part of a system of reciprocity that links distant families within an extended “community.” The family settled in the city perceives the arrival of relatives from the countryside as a temporary opportunity to have free labor, which is “paid” through the transference of knowledge and technical skills. “Learning by working” is one of the requisites for the next step of the labor trajectory, known as “becoming independent”. The expectation to become independent, that is, to make the transition from the role of learner to master is crucial for the reproduction in time of this labor arrangement. After this role change, the new employer will receive the next generation of migrants as learners.

The first urban labor experience with relatives does not last long and the second job is usually in the same type of activity, but in another workshop with a “contract” that at least defines a reward. Some also enter short technical courses in technical institutes to improve their skills. Thereafter, a return to the workshop of the relative is not unusual, but now as a wage earner. The learning process, in general, lasts from two to six years depending on the economic activity branch, age of the learner and his/her capacity to accumulate know-how, capital to buy machines and raw material, necessary prerequisites to open his/her own workshop.

These economic actors identify themselves as artisans and producers, a category that basically means that one is able to learn any handiwork through practice. There is a frequent expression that reflects this idea: “Como es artesano, todo se aprende.” (Since he is an artisan, he learns anything). The process of “learning by working” that leads to the second phase of “becoming independent” reflects, on the one side, structural constraints to follow an alternative path of economic emancipation through the educational system, and, on the other side, open possibilities to acquire any occupation by working as an apprentice.

Recent migrants are aware of the existence of an alternative path where one acquires a profession by studying and then enters the job market within prestigious and well-paid areas such as advocacy and medicine. However, this alternative is considered a privileged one which is out of their reach given the urgency to generate income early in their lives. Gaining independence is a tangible possibility when referred to occupations such as baker, shoemaker, handicraftsmen, carpenter, tailor, and salesman, among others.

It is important to notice that this occupational trajectory channeled through the network of kinship relationships limits these migrants to a specific type of economic activity. A study developed by Albó, Greaves and Sandoval about the migration of peasants from the Altiplano to La Paz in 1982 observed that within this group, finding the first job through a relative or a friend resulted in better employment than when it was sought through impersonal means such as newspapers and advertisement; yet, through the intermediation of a relative, the occupation was circumscribed to an ethnic or peasant style, while through the help of a friend chances augmented to find an occupation as

wage earner in a factory, the public sector or in a formal enterprise. This conclusion was confirmed by more recent research⁵⁹ on the importance of the network of personal relationships in lower segments of the labor market in La Paz. It found that the quality of the job and the associated reward are lower when the hiring procedure is mediated by a relative or a close friend with a similar hierarchical social position than when it is mediated by a more distant person with a higher social status. Even though this study only asked about the present remuneration, not including the long term expectations of these two types of intermediation, it directed my attention towards the fact that the type and quality of the resources, such as information, capital and know-how accessed by concrete actors, are related both to horizontal and vertical ties that establish their position in networks of direct and indirect relationships.

In my research I also found that the inclusion of vertical direct ties was not sufficient to understand the principles of interactions that structure the relationships in these markets. It was necessary to bring into the analysis the indirect and, often unequal, relationships inscribed in formal rules, practices and perceptions that regulate the transit of individuals along different networks, groups and organizations in the national society. The history of interactions that consolidate common understandings, feelings and mutual expectations discloses these direct and indirect connections within which the actors find themselves. From the producers' point of view, power inequality in the Bolivian social formation is not associated with exploitation based on property rights, since they are the owners of the means of production. Instead, power inequality is based on the distance that exists between producers and the decision making process, the support that some groups may receive from the state and the inclusion or exclusion from networks in which information and other resources circulate and may be translated into economic opportunities. These different social positions in personal and impersonal networks of relationships that include patterned cultural arrangements order economic transactions and production relationships.

The step to become independent is associated with an important transition in personal life, specifically to getting married and having children. All the interviewees relate the creation of their own workshop to the moment they form a family. This association between business ownership and family refers to the meaning of family entrepreneurship whose worth resides on the combination of shared risk-taking and mutual cooperation between husband and wife (and later with sons and daughters), through collective work and joint responsibilities to generate income and acquire the necessary resources for themselves and their children.⁶⁰

⁵⁹ Burgos (2000).

⁶⁰ The formation of a family is considered the moment of becoming an adult and a full member of the rural community with civic duties and rights.

Independent activity also responds to aspirations of autonomous accumulation. Autonomy relates to the organization of work and everyday life, and accumulation to a greater chance to acquire material resources than in wage employment, given their educational background and the job opportunities in the urban labor market. Control of the organization of their everyday activities to generate money gives them discretionary power over time and space as well as control over the material resources accumulated. The autonomous accumulation not only shows continuity with past rural activities, but also allows the combination of household work and mercantile work in the urban context. This is important for these families, all with children, and particularly for women who usually assume the main responsibility of housework and children upbringing. It represents an effective alternative for the diversification of risks for the whole family, at the same time that it allows the other members to contribute to the generation of money without neglecting other activities, such as studying and housekeeping.

Social life

Control over the use of time also facilitates participation in an intense social life. Celebrations and rituals mark each year's calendar both in the rural community and in the city. These festivities are related to economic activities and the family life cycle. In the countryside, there are two important moments related to the agricultural cycle: the sowing and the harvesting seasons. These moments require collective work and the sharing of food and drink. The rotation of local authorities each year, the construction of public goods, for example, roads, schools or medical posts, are social occasions celebrated with music, dance, food and drink.

In the city, every occupational organization celebrates its foundation day. During Carnival, it is mandatory to celebrate the "challa" of one's properties, which means one thanks mother earth for everything received in the past year and asks for luck and prosperity in the next. In urban neighborhoods populated by migrants from the countryside, there is also an annual celebration of the neighborhood with a parade.⁶¹ Besides these festivities, there are celebrations related to the family life cycle such as weddings, birthdays, baptisms and deaths.

Economic independence allows artisans or producers to include these social activities in their annual calendar, which reaffirm their membership in social circuits of personal relationships, render valuable business opportunities and consolidate their social prestige. These celebrations are the type of communal activities that mobilize most of

⁶¹ Anze (1995).

these actors and on more than one occasion during the year. Albó (1988) describes these festivities as follows:

The specific form in which these festivities are celebrated, such as the sequence in which participants are invited to drink, who dances with whom, the diversity of outfits and costumes, the dance's symbols and other rituals, reflects the community's structure. In this way, the annual festivities underline the role differences according to sex, age and the status level one has reached in the community; or even differences and existing conflicts, although maybe in a latent form, between families, groups of families or regions. The happiness, music and dancing, the gratifying effects of the generously shared food, drinks and coca leaves, all contribute to establish solidarity between the members of the community. All the annual celebrations are closely linked to the agricultural cycle and they express, as a whole, the main fears and joys that are part of the community's life. Life, death, the sowing and harvesting seasons, work, the anxious wait and the final product are celebrated. In this way, the community usually gathers, presided over by its authorities and also by the ritual servers, "yatiris", during the symbolic distribution ("taqa") and the first land rotation, "aynuqa", that is, after having let the land rest for several years; it also gathers at the moment when it will be used again; during the party for the dead and the beginning of the rainy season ("Todosantos"); during the growing season to verify how the product is progressing; and, finally, shortly after the harvest and already within the dry season, during the grand annual community festivity, when participants enjoy the results of a whole year of waiting and working, while they celebrate the very existence of the community, with its diverse groups, authorities, saints and other symbolic references. (Carter and Albó, 1988, p. 489-90, translation is mine)

The guests themselves finance these expensive parties. For example, for a wedding, the closest people are appointed to be the godfathers/mothers for the music, the food, the cake, for the rings and so forth. In other words, the godfathers/mothers are responsible for the provision of selected items. The other guests arrive at the party with beer and gifts that are carefully registered at the front door on a sheet of paper. The resultant accountability is very important to be able to return, in reciprocity, the same amount of the same item at a future opportunity. Since they keep this written record of the quantity received of the item, the return to that particular person or family, of the same or similar item, may occur even after a long period of time. This specific reciprocity, that explicitly defines what one gives and what the other expects to receive on a similar occasion, establishes the parameter of fairness, which is also present in the regulatory frame of economic transactions (as I will develop in chapter six and seven). During these celebrations, the more you give, the more prestige you have. Accumulated money is exhibited on these occasions as a sign of wealth and nuclear family prestige.

Voluntary associations

Collective action is widely diffused among small-scale producers in La Paz and El Alto. They live in the ubiquitous squatter settlements that ring many Third World cities. The history of these neighborhoods is punctuated by collective activities beginning with the formation of an association. The first action in the new neighborhoods is the obtainment of property documents through associating. When they reach a certain number of families entitled as legal owners of a piece of land, the neighborhood may apply for the legal recognition both from the Federation of neighborhood associations (FEJUVE – Federación de las Juntas Vecinales) and the state. Such documents are prerequisites for demanding basic urban services such as electricity, water and plumbing. Besides these services, the associations also demand the provision of other public goods and services such as environment sanitation, school and health centers, and playgrounds. They promote collective work among the neighbors to build these facilities while they also take responsibility for the bureaucratic paperwork with the municipal and federal offices to support their demands. These associations also join other organizations, such as the Departmental Labor Union (Central Obrera Departamental – COD) and producer associations, in the pursuit of benefits beyond the specific geographical boundaries of the neighborhoods such as the opening of a university and the transference of financial resources from the central government to the municipality.

Neighborhood associations in the popular zones of La Paz and El Alto are not a short-lived phenomenon as in wealthier neighborhoods. In fact, they endure almost forever due to the understanding that the solution for urban problems, such as public lighting, trash, landslides, environment pollution, street markets, sidewalk construction, necessarily requires mobilization. The persistence of these associations in time is also based on their participation in the promotion of emergent demands, such as the organization of work groups for food, the arbitration of conflicts among organizations, groups or individuals, as well as cultural activities, such as the neighborhood annual celebration. Such celebration is an important source of recognition and prestige to the association, which is its main promoter and organizer, even though there is transference of some responsibilities to the wealthiest families, also called “prestes” and “private organizers” along the years.

Another important collective activity in these circuits is the parent association, which may be created as a work commission for the construction of a school, a project that is usually initiated by the neighborhood association. The first action is the provision of infrastructure. Then they process the permits in the Ministry of Education, which may last months and years. Meanwhile, the parents financially support the beginning of the school activities. The concerted actions among parents are almost permanent since the educational necessities increase and change along the years, including the provision of

furniture, new classrooms, work materials, infrastructure maintenance, cleaning, breakfast, among others. These associations also participate as important actors in the recurrent conflicts between teacher organizations and the governments, among other problems that may arise in the area of education.

There are many other associations such as women, ex-miner and youth organizations. These collective activities may vary in terms of durability, importance and autonomy, yet the easy emergence of common actions under a similar format indicates a shared understanding that common interests must be achieved through mobilization. This knowledge coming from past experience in the countryside is reinforced by the results achieved through these multiple experiences in urban settings. In other words, methods of association that include mechanisms of conflict resolution are so well established that people are ready to engage in specific activities without much resistance and friction. For foreign eyes it may appear as a spontaneous action, but a careful observation discloses the fact that it actually reflects a stable organization with rules, control mechanisms and evaluative frames that allow people to identify common benefits above individual ones and set in motion a movement to defend them.

The organizational format of these collective activities is very similar because of an effective coordination between these different grass roots organizations through their federations and confederations, most of them headed by the Bolivian Labor Union (COB). Besides this organizational hierarchy, coordination of activities is also facilitated in the city of El Alto by the physical proximity of the two most important matrix associations' offices located in the same building: the Federation of Neighborhood Associations (FEJUVE) and the Departmental Labor Union (COD).

Producer associations

We have seen, then, that these economic actors are immigrant minorities from the countryside. The arrival in the city and the establishing an independent activity occur through kinship and family ties. These labor arrangements allow individuals and families to capitalize, to acquire skills and to establish social relationships to mobilize resources in order to open a business. The step of "becoming independent" is followed by efforts to stabilize their economic activity, not only to make it last but also to expand it. However, the kin and neighbor ties carried from the countryside are not sufficient to consolidate such market activities. The need to rely on new relationships in the urban setting that go beyond the countryside ties is the result of several conditions. On one hand, the limited material resources that circulate in these previous networks and, on the other, the meaning of family entrepreneurship that leads them to search for self-sufficiency. The formation of an emergent solidarity among other producers in the same type of activity or in the same commercial physical space is their main strategy to stabilize the competitive environment.

This solidarity is organized around perceived common interests that are very pragmatic and tangible. They detect a set of contextual threats to their capacity to maintain viable economic activities, and they confront them collectively. The main issue around which they unfold collective efforts is the control of actions coming from the state. The second issue is the practical regulation of competition that includes the control of newcomers into a specific marketplace, the control of price and quality of the products sold in transaction territories and the access to information and business opportunities. Another important conscious objective for the formation of these associations or the entrance in existing ones is the necessity to create or join an “emergent community” that protects against life’s insecurities such as sickness, accidents and death.

“En una asociación somos una familia y algún compañero o compañera que tenga algún problema de salud o algún problema nosotros tratamos de colaborar tanto moralmente como económicamente.”

“In an association we are a family and if someone has a problem like a health problem, we try to collaborate by giving moral support or money.” Member of association in the leather jacket association (2000)

These new emergent communities are not only a familiar way to search for security, but also constitute a group that provides recognition and prestige. The recognition of one’s worthiness by a group comes mainly by two means: increased wealth and respect for social rules. The goals of making money and getting honor are intrinsically associated, and social occasions are the most important opportunity to establish hierarchies in terms of social status through visible signs of purchasing power – through dress, jewelry, expensive gifts and cash -, and to reaffirm membership in the urban society. In these communities, the logic of explicit prescriptions and obligations is very strong. To be a respected person, it is necessary to fulfil responsibilities and duties along with successful economic activities.

The geographical proximity of the workshops and the commercializing places is the most important catalyzer of association. The physical space where production and/or commercialization are located is understood as a common place that builds community in the sense of common rights and duties. The proximity is important for association not because of the social ties carried from prior networks, but due to the daily interactions that are developed on this new site and the tangible resources that facilitate the building of those collective interests and the coordination of joint action.

The formation of new associations is facilitated by social activities that consolidate mutual commitment. The most important activity for male producers is the formation of soccer teams and the organization of games and championships. The sharing of food and drink on diverse social events with the participation of the producers’ families are also identified as important moments for the consolidation of the associations. Even

though they do not appear as important “goals” for membership, the social activities are constant and not only constitute the starting point for many associations, but also the “mediating game” that allows the overcoming of conflicts.

There are also specific situations that would require the contribution of each member in order for them all to participate. These ‘critical situations’, where some could benefit and others could be excluded, are mentioned as very important either to consolidate the association when it is able to make everyone benefit or to debilitate it when some got excluded. A producer of leather jackets in the city of El Alto described one example of this type of situation. He narrated the moment when he and a group of partners in a formal association were invited to participate in an international fair of small production in Salta, a city in the north of Argentina and close to the southern border of Bolivia. They went there together with their products by bus and one of the producers did not have the official papers to enter Argentina. The problem was even more complicated because he did not have enough money to get them. The dilemma for the group was to leave him behind or to pool money to help him to move ahead with the group. In the narrative this last alternative would only work if everybody agreed with it. They followed the cooperative solution and it became the turning point in the group consolidation.

An opposite example comes from the association of wood furniture in the city of La Paz. The conflict erupted when one of the members of the association participated alone in an annual fair. The other members interpreted this individual decision, which was not consulted with other members, as a betrayal. The narrative expresses that it was not right that a member took advantage of a commercial opportunity without the others, because the association was meant to give everybody the same opportunities and to have all grow together. After this event, the association was unable to promote any common activity; members were not anymore willing to give money to get the official certification for the association or participate in collective activities. This narrative also gives important leads regarding the principle of reciprocity involved in the coordination of joint action, which will be further analyzed in the following chapters. For now the main issue I want to emphasize is the importance of these critical situations, the solutions and the way they are interpreted to consolidate or debilitate associations.

II. RECIPROCITY, PRESTIGE, PROFIT AND LEGITIMACY: INTERWEAVING PRINCIPLES OF INTERACTION

As the previous analysis discloses, producers’ interdependent experiences are governed by four interweaving principles of interaction: profit, reciprocity, prestige and

legitimacy. These principles configure a rich associational life, which gives producers their sense of being at a particular time and place. What they do and the stories they tell to account for their life events are built through social and cognitive ties. These principles of interaction, in addition to formal rules set by the state, provide the governing principles for social interaction. The pursuit of economic goals (profit) intermingles with the quest for sociability, approval, prestige and power to control the changes in the institutional environment. Every aspect of economic activities from the level of profit to the organization of the available means is enabled and constrained by these social expectations and practices.

In this sense, social relations structure economic transactions. The network of small producers and the social arrangements of family, kinship, ethnicity and class spread principles of interactions that regulate social and economic practices. **Reciprocity** implies tacit agreements that govern exchange relationships in which resources and mutual assistance are expected to flow in converging directions. In the social networks of producers, this agreement assumes both the form of generalized reciprocity where what is given and received within a relationship is part of an exchange that does not use a strict criterion of value, and of specific reciprocity where the exchange is precisely calculated and what is given is expected to be reciprocated in equivalent amount of the item given. **Prestige** is a principle of interaction through which individuals and families rank each other in terms of social status. In this sense, prestige is a scale of worth that sets the reference for what people want to achieve and the ways to achieve it. **Profit** is pursued through autonomous activities of nuclear families. The final result of acquiring material possessions such as money and properties is as important as the consolidation of family ties and social prestige. Thus, profit interacts with prestige in so far as money is one of the main signs of worth and accords social distinction within networks of direct social relationships. And profit is related to reciprocity through the circulation of resources that are not only important for starting and consolidating a business, but also for the maintenance of a safety net in case of misfortune.

Legitimacy is the least explored principle in the literature on small business and is central in this study. It refers to the collective efforts of producers to forge a new representation of their economic activities in the national society and to gain recognition as a private counterpart of the state in the economic development of the country. This principle is related to the important role the state plays in shaping economic interactions (amply discussed in the literature on development). For instance, Evans (1995) analyzed the impact of different types of state's involvement, which includes government policies and a host of other social and political institutions sustaining cooperative and competitive ties among firms in industrial sectors in developing countries. Stark and Bruszt (2000) have proposed the concept of "deliberative associations" to discuss the type of coordination between different social actors, including state executives and business networks, to promote marketization and improve economic performance in the East European countries.

Small producers recognize the importance of state's action in setting policies and legal regulations for economic activities and organize joint efforts to influence policy formulation and to monitor the effects of the institutional arrangement on their own economic activities. Small producers in local markets encounter difficulties to do so, which they associate with the social boundaries separating them from other groups. They explain these boundaries through categories that reflect a scale of social distance between groups and the state. Some groups score closer to the state than others, yet there is still a specific point that separates a general 'we-ness' from 'other-ness' within the national chains of hierarchical relationships of inequality and exclusion.

The concrete experiences of social exclusion feed the perception of a somewhat over determined past and future which is expressed through categories of self-identification such as "aymara", "artisan", "producer" and "worker", which are presented as opposed to "entrepreneur", "politician" and "bureaucrat". These categories refer to two "realities": one of discrimination and inequality that situates them on the side of the unprivileged members of the political-territorial community, who do not benefit from the nation's wealth (while others do) and who lack social and economic prestige. And another "reality" of membership and social recognition within a social group who shares a common life style, consumer habits and market niches, collective activities and communication signals.

"Soy aymara, yo creo que con esas palabras decimos todo. Por eso siempre estoy en la defensa de las personas que más necesitan, de las personas que generalmente están siendo atropelladas, no son escuchadas, yo me siento parte de ellos, creo que debo defenderlos, con eso quiero decir que voy a ir en contra de aquellos que tienen una buena posesión"

"I am Aymara, I believe that with these words all is said. That is why I always defend the most needy people, people who are generally being overwhelmed, are not listened to, I feel part of them. I believe I have to defend them, with this I mean that I will go against those who have good possessions." Member of the federation of producers who export manufactured clothes FENAENA (2000)

The shared life experiences and the stories to account for them reflect the hierarchical stratification of the Bolivian society. On the top of the pyramid, there is the urban or occidental lifestyle while its broad bottom is constituted by a peasant lifestyle. Different social groups label the immigrants who follow an occupational path of entrepreneurship as peasants with a pre-modern culture. Their economic activities are interpreted by political and economic elites as incapable of contributing significantly to the development of the country.

Regardless of the wealth and employment generated by their activities, the immigrants are restricted to a specific social circuit bounded by ethnic and class categories. There is no a direct translation of material accumulation into social prestige within the higher order social networks. Two or three new generations transiting through prestigious educational institutions are necessary to transform the label of 'peasant style entrepreneurship' into a modern perception of their activities. Only then are they accepted in the entrepreneur formal associations such as the Bolivian Confederation of Private Entrepreneurs and the National Chamber of Industry, and the elite networks of relationships that include cocktails, parties and other social events.

Producers who do not "exit" these circles and prior formal organizations, even though they accumulated large amount of capital, bring to light the concrete experiences of these social barriers. These successful producers explain that they do not feel comfortable in the entrepreneur associations because they are not treated as equals, and, wherein their old circuits, retain social recognition and prestige. In order to understand this larger matrix of relationships, I explore in the next chapter the temporal process through which the social distances between groups and a common identity within groups got established.

CHAPTER FOUR: ENTREPRENEURS, PRODUCERS AND THE STATE

This chapter reconstructs the history of the social relationships between producers, entrepreneurs and the state. It pays attention to the temporal process that has led to the differentiation of producers and entrepreneur collective identities and the formation of separate associations, in which the latter became the private counterpart of the state while the majority of the country's small-scale producers aligned with wage-workers. The social distance between 'entrepreneurs' and 'producers' has grounded the weak coordination channels between the state and producers and the limited public initiatives for their markets.

I. THE SOCIAL POSITION OF SMALL PRODUCERS IN THE NINETEENTH CENTURY

The economy of Bolivia has historically been characterized by the export of primary goods, first silver, until the end of the nineteenth century, and later tin, oil and natural gas. Up to the beginning of the 1950's, Bolivian society was composed of a few families that owned most of the land and the tin mines, and among whom were the renowned "tin barons", Patiño, Hochschild and Aramayo, who controlled the country's political and economic life through a voting system based on non universal suffrage. At the bottom of the social pyramid were the quechua and aymara indigenous groups, among thirty three ones⁶². Most of them lived in the countryside and worked as a peasants on a semi-slave system in private properties owned by a few families or in the mines, without any political participation whatsoever. Most of the indigenous population made their living in a subsistence economy, with hardly any or no integration at all in mercantile relationships, and less so in the country's political life. There was also an intermediate group constituted by artisans and producers living in the

⁶² The importance of the indigenous groups in the Bolivian society then and now may be grasped in the information collected in the latest Census (2001), which shows that 62% of the population older than 15 years identify themselves as indigenous, distributed as quechua (31%), aymara (25,2%) and the rest as guarani, chiquitano, mojeño and other natives.

cities. They were identified as indigenous, “mestizos” or “cholos”⁶³, and did not have the status of full citizens.⁶⁴

Since the colonial period and until far into the nineteenth century, the internal demand for goods such as shoes, clothing, textiles, flour, sugar and wine was satisfied mainly by a local production based on a hybrid and quite rudimentary combination of family artisans and small-scale manufacturers.⁶⁵ They formed a popular class of cholos and mestizos that used unsophisticated technology. They had a higher social status than the peasants due to their insertion into urban markets, but still occupied an inferior social position in regard to the oligarchic groups.

After gaining independence from Spain in 1825 and with the opening of the regional markets, the entry of foreign goods into the Bolivian local markets, among them English and North American textiles, became intense. Although there was competition coming from the imported products, difficulty in access to the banking system and a precarious transportation infrastructure, local initiatives to produce national goods, such as beverages, foods, textiles, clothes, soap, glass, among other consumer goods continued to predominate.⁶⁶ These enterprises continued to be furthered primarily by artisans, but gradually individuals coming from the traditional land-owning elites, merchants and foreigners settled in Bolivia entered the manufacturing sector.⁶⁷ According to the Census of 1846, quoted in Butrón (1990), there were 9,914 artisans in the entire country, 25,232 workshops and 20 artisan unions. The distribution of these workshops in the country’s nine departments is shown in the following table.

⁶³ Cholo is a category in the popular vocabulary in Bolivia that has multiple meanings. In this context it is used to identify the former peasants who experienced vertical and horizontal mobility by their integration into urban activities. This category implies the idea that they still embody the countryside culture and indigenous origin.

⁶⁴ For an interesting analysis of the different National Constitutions and the concepts of citizenship each carries, see Barragán (2003).

⁶⁵ An excellent collection of studies on colonial markets in Bolivia is Larson and Harris (1995). Also for national markets during the republic in the nineteenth century, see Butrón (1990) and CNI (1981).

⁶⁶ CNI (1981)

⁶⁷ Fernández (1999).

Table 1: Artisan workshops in Bolivia-1846

DEPARTMENT/ Type of workshops	Chqa	La Paz	Tarija	Potosi	Cbba	Oruro	Pando	Beni	Atacama	Total
Cotton loom	19	16	14	16	106	14	86	92	-	363
Woolen loom	804	1120	98	940	450	360	-	-	-	3572
Tannery shop	64	8000	36	125	193	-	20	22	-	8460
Glazed pottery shop	18	8	5	4	32	2	11	-	-	80
Gun powder shop	54	82	5	81	93	32	-	-	-	347
Grocery store	238	386	45	98	134	27	10	-	16	954
Bakery	175	210	55	182	243	16	2	-	8	891
Candy shop	47	20	2	22	7	8	5	-	-	111
Bars	21	1450	9	34	35	22	8	-	10	1589
Singani still ⁶⁸	250	140	30	84	62	-	98	20	-	684
Chichas ⁶⁹ still	1.148	950	189	978	1.128	72	528	-	20	5013
Carpenter shop	74	84	21	67	114	16	43	22	7	448
Blacksmith shop	75	94	22	137	95	23	32	20	2	500
Silversmith shop	29	31	4	69	26	8	19	8	1	195
Shoemaker shop	153	204	51	143	270	36	32	22	6	917
Tinsmith shop	17	14	1	5	11	2	1	-	-	51
Milliner and hatter shop	21	32	13	20	43	7	16	-	2	154
Tailor shop	97	98	28	102	280	43	20	20	5	693
Saddlery	20	11	13	17	58	3	7	16	-	145
Barbershop	13	27	1	6	12	5	-	-	1	65
TOTAL	3.137	12.977	642	3.130	3.392	696	242	242	78	25.232

Source: Butrón 1990 quoting Dalence (1975).

⁶⁸ An alcoholic beverage made with grape.

⁶⁹ A popular alcohol beverage.

During the first half of the nineteenth century, a few legal instruments were created to protect national industry in response to the artisans' worries concerning the legal and illegal entrance of foreign goods and the growth of workshops outside the union organizations. One of these instruments was the 1839 Law that banned the import of foreign products while it favored the investments in machinery by national industry.⁷⁰ These initiatives and procedures had few substantial results.

An exception worthy to mention of the lack of state attention to small production in Bolivian history is the period between 1848 and 1855 under the government of Belzú. During President Belzú government, the strengthening of local manufacturing became the governmental strategy for national development.⁷¹ This led to direct government participation in the organization and recognition of the artisan unions. Thus, the government tried to convert the associations into its legitimate private counterpart.

In a speech in the legislative chambers at the end of his term of office in 1855, Belzú expressed his “revolutionary” inclination towards the popular groups in the following words: “Under my sponsorship new elements of order and conservation have emerged in the political scenery: Classes, disinherited by the injustice of time have risen up from ruin and taken their place among us” (Lora, 1967, p. 352, translation is mine). This identification of the artisans as the excluded group who deserve not only a status of full citizenship but also support to become an important agent of the economy, encountered strong resistance from the oligarchic groups who branded them with ethnic and class clichés. The artisan-producers denounced this negative view, the everyday experience of discrimination and the feeling of unworthiness of respect in the newspapers at that time.⁷² After this period, there were no other government that promoted local manufacturing as its central development strategy.

II. ECONOMIC DIVERSITY AND OCUPATIONAL IDENTITY

In the nineteenth century, the artisan workshops differed in terms of organization and prevalence in the market, and in the social position and ethnic ascendance of the owners.⁷³ The workshops were classified into “cholo” and indigenous, when family networks and low education levels of the owners prevailed, or as “abolengos” or

⁷⁰ CNI (1981) and Butrón (1990).

⁷¹ Lora (1967).

⁷² Barragán (2003).

⁷³ CNI (1981), Rodríguez (1999), Butrón (1990) and Barragán(2003).

criollos, when the owners had higher social status. It is surprising, however, that an occupational identity was furthered as well as the consequent organization into unions.

The accomplishment of unity under the category of artisan-producer, which gained strength during Belzú's government and consolidated during the first decades of the twentieth century, was sustained by the artisans' acknowledgement of their disadvantageous social position and the discrimination they were exposed to within a society organized in social strata with a strong colonial heritage.⁷⁴ The similarity of the discourses proclaimed by producers in the mid-nineteenth century, the first decades of the twentieth century and in the interviews I carried out in 2000, regarding their social position in comparison with that of the economic groups backed by the state, allows us to speak of a continuity in time of their self-identification as economic actors who find strong resistance towards a recognition of their potential to contribute significantly to national development. The discourses display the same perception of the social barriers that make "artisans" and "producers" not peers, colleagues or competitors of the "national agents of development" (entrepreneurs) in the eyes of the state and the economic elites.

DISCOURSES OF SMALL SCALE PRODUCERS IN THREE HISTORICAL MOMENTS: 1850, 1920, and 2000

1850

"Queremos que se escuche nuestra voluntad, que se atienda a nuestras necesidades, que se alivie nuestra miseria."

"We want our voice to be heard, our needs to be attended, our misery to be alleviated." Newspaper "El Artesano de La Paz", June 17, 1850, cited in Barragán (2003)

1920

"Eso ha llevado a la Federación. Le ha hecho sentir que el hombre que tenía las manos callosas, cada callo representaba y era un timbre de nobleza de ese hombre, de nobleza y de honradez. Porque ese hombre, esas manos, esos dedos, no habían hurtado, no habían robado, sino que habían producido su pan con sus fuerzas y con el sudor de su frente. Y entonces, ya ha sido muy fácil decir: Yo no soy indigno, no soy inferior".

"That has made the union. It has made man feel that when he had callous hands, each body scar represented a sign of nobility of this man, of nobleness and honesty. Because, this man, these hands, these fingers had not stolen, had not robbed, but rather had produced his bread with his own strength and sweat. And then it was easy to say: I am not unworthy, I am not inferior." Teodoro Peñaloza,

⁷⁴ Barragán (2003) and Lehm and Rivera (1988).

founder of the Local Labour Federation – FOL, first decades of the XX century, cited in Lehm y Rivera (1988)

2000

“Somos mal tratados, hay discriminación del gobierno, de la sociedad, de la alta sociedad. Tenemos que ser muchos y luchar en las calles para hacer eco de nuestras necesidades. Nuestro slogan es: He imaginado una forma digna de vivir, sin pedir prestado ni robado, he decidido ser empresario”

“We are mistreated, we are discriminated by the government, the society, the high society. We must be many and fight in the streets for our needs to be heard. A member of ADEPI El Alto (2000)

The importance of the similarity of these discourses resides in the identity of small producers as part of the working class, which is closely linked to the union format of their associations and the confrontation politics. The defensive relationship with the state has predominated until nowadays. The similarity of discourses also expresses the lack of attention given by the state to small-scale production during the twentieth century.

Liberal policies vs. protectionism

Although after 1855 the different governments had to take into consideration, in some way, the demands of a stronger and more organized artisan sector, towards the end of the nineteenth century liberal policies were consolidated. Political elites rejected protectionist measures and the industrial promotion frequently demanded by the local producers, thereby reinforcing a development model centered in an economy of export of primary resources and the import of industrialized products.⁷⁵ Since then, national manufacture only had brief periods of explicit politics favorable to its development, but these did not become a coherent and sustained regulatory framework that could enhance the growth of a strong industry of consumer goods for internal and external markets.⁷⁶

While in other countries of the region the battle between liberal and protectionist policies during the second half of the nineteenth century was more even, with the consolidation of an industrial bourgeoisie with enough political influence to push for protectionist and industrial enhancement policies⁷⁷, after the Belzú government the artisans and manufacturers in Bolivia were not capable of standing up to the interests of

⁷⁵ CNI (1981), Rodríguez (1999) and Iguiniz (1982).

⁷⁶ Rodríguez (1999).

⁷⁷ Leopoldi (2000).

an oligarchic group entrenched in the production of primary goods and in importing secondary goods.

Open international commerce and the construction of railways from the near Chilean coast to the Bolivian highlands and then connecting to other cities within the country furthered the entrance of first-necessity products such as food, candles, soap and clothing made in Chile and other countries, with no exchange taxes⁷⁸ and at a low price. This easy entrance of foreign products had a negative effect on the artisan activity in the entire country. At the beginning of the twentieth century, Bolivia's main suppliers were Germany, U.S.A, Great Britain and Chile.

Small workshops and the first industrial companies

Between 1887 and 1915, industrial companies were created in several Bolivian cities⁷⁹, mainly with foreign capital. They were dedicated to rubber extraction, the production of tobacco, matches and alcohol, and to road construction. The owners of the mining companies were not interested in diversifying their activities by investing in the manufacturing sector. Meanwhile, the production of textiles and clothes, as well as food, beverages, leather and shoes, chemical substances, candles, soaps and typography remained pulverized in small workshops, which were seen as belonging to groups of mestizos and Indians.⁸⁰ This production was aimed at local markets for middle and low-income buyers, while the wealthy groups preferred imported goods like French furniture and European crystal.⁸¹

During World War I, international commerce was restricted and new factories emerged, producing first necessity goods like the textile factory "Forno" in 1923, followed by the oxygen factory and the textile "Punto". Soon, many others appeared: the flour factory "Molineras", the "Domigno Soligno" textile factory, the "Viacha" cement factory, the "García" shoe factory, the "SAID" cotton textiles factory, the "Yarur e Cia" soda beverages factory, the "Zamora" shoe factory, the "Dillman" food products factory, the "Taquiña" brewery, among others. These private initiatives did not rely on supporting

⁷⁸ In 1904 the payment of taxes was reestablished for Chilean products.

⁷⁹ Among these were the Agricultural Company of Corihuaico, the Bolivian Rubber and General Enterprise, the Slaughterhouse Company of La Paz, Hidroelectric Company, Boston e Bolivian Ruber, the Incahuara Gold Company, The Bolivian Railway C, Shepard y Cia, Tambopata Syndicate Lmt., The Zongo Rubber Estate.

⁸⁰ In the "Guía Económica de Bolivia", a magazine published in 1915, there is a description of the industries of fabric and manufactured clothes in La Paz and El Alto which states that " they belong to individuals of the "mestizo" and "indigenous groups" cited in CNI 1981, P. 25.

⁸¹ CNI (1981).

economic policies, which were mainly oriented to the export of primary resources and the import of industrialized goods. These enterprises were directed to a very limited internal market due to two main factors. On one side, urban consumers with a higher purchasing power were used to imported products and, on the other, the restricted incorporation of most of the peasant population as consumers because of the self-sufficient peasant economy.

III. ECONOMIC PROXIMITY AND SOCIAL DISTANCES BETWEEN PRODUCERS AND ENTREPRENEURS

Even though by the middle of the twentieth century the industrial sector of perishable goods, such as food and beverages, as well as of textiles for the middle and working class was still characterized by the predominance of small artisan producers and a few establishments with signs of modernization and mechanization, the distance between entrepreneur and producer collective identities was already consolidated, carrying heavy ethnic and class features which were mirrored in distinct formal associations. In the vocabulary current at that time, ‘industries’ were linked to proprietors that belonged to the elites of landowners and businessmen, and mostly to foreigners who opened small factories operated by novel steam machines for the production of beer, alcohol, textiles, manufactured clothes and food. In 1945, it was estimated that 50% of industrial capital was in hands of foreigners residing in the country⁸² and that they occupied 2% of the active economic population. These statistics did not include information on small-scale production classified as artisan.

The origin of the industrial entrepreneurs’ organization

In 1931, in the context of the worldwide depression, the Industrial Chamber in Bolivia was created under the leadership of textiles entrepreneurs who, until then, had belonged to the National Commerce Chamber. The Industrial Chamber formulated a five years plan for industrial development that asked the government to: review bank laws and credit for national production, to construct roads and public infrastructure, among other actions. Between 1931 and 1938, various activities coordinated between the Chamber and the state were put into practice in response to their proposals.⁸³ In 1938, the Industrial Chamber organized the first national congress of entrepreneurs who they

⁸² Rodríguez (1999).

⁸³ CNI (1981).

agreed on “constituting the National Industrial Chamber, with the purpose of uniting the country’s industry in one entity whose members will assume the defense of their own interests and cooperate, in its name, with the economic policies of the nation’s government” (CNI, 1981, p. 45, translation is mine). It is at this point that the sector of industrialists originated, distinguishing it from other business activities. In other words, in the midst of a hostile social and political context, with strong interests opposing the state’s support for the development of an industrial sector which was still weak, an organization representing the specific interests of industrial entrepreneurs, with the capacity of exerting institutional pressure, was created and became, in time, one of the private counterparts of the state.

In the late 1940’s, the new political parties and the Bolivian governments began to favor industrialization, understanding it as a modernization instrument capable of advancing economic and social development. This change was in tune with the influential proposals of the Economic Commission for Latin America (ECLA) of the United Nations, which encouraged the implementation of a model based on import substitution. During this decade, the National Chamber of Industry (CNI) mounted various efforts to coordinate proposals with the governments so as to enhance national industry through industrial legislation plans. In 1944, the second congress of Bolivian industrialists turned in a draft project to the authorities which recommended industrial expansion, specifically, the creation of a group to enhance industrial policies (Junta de Fomento Industrial), the need to improve industry statistics, a better use of national primary resources, the reform of taxes on import, changes in labor laws and the creation of industrial schools, among others. Many of these recommendations were taken into account by the authorities and translated into governmental policies. The poor results, however, revealed the dispute between interests within the government that did not favor the industrial entrepreneurs and the inconsistencies of the industrial development project.⁸⁴ But what is important is the inclusion of this sector into the political arena and the open institutional channels of coordination between industrialist entrepreneurs and the state.

The origin of the artisan-producers union

Parallel to the organization of industrial businessmen, the artisan-producers union was consolidated under the anarchist ideals of dignified labor. First, the Labour Federation of La Paz was established and later, in 1912, the International Labour Federation. In 1918, the Labour Federation of Workers of La Paz (FOT) was created, after which similar organizations were established in other Bolivian cities. In 1927, the Local Labour Federation (FOL) was founded, bringing together the unions of masons, tailors,

⁸⁴ CNI (1981).

carpenters and mechanics.⁸⁵ These organizations set out proposals that derived from anarchist-socialist ideals, such as the 8 hour-workday, humanistic education for laborers, social legislation, wage regulations, accident insurance and an adequate treatment of women's and children's work.⁸⁶ These demands allied the artisan producers with the emerging labor movement under organizations that assumed the representation of a wide variety of social groups, by then so diverse that they included labor unions, workshops and factory associations, peasant organizations, school and university teachers, intellectuals and wage-workers from the cities, provinces and mining centers. In a scenario with new left-wing parties as the Revolutionary Left-wing Party (PIR), the The Bolivian Socialist Group (FSB) and the National Revolutionary Movement (MNR), it did not take long for the anarchist artisan associations to transit towards a form of Marxist revolutionary unions.⁸⁷⁸⁸

The weight of ethnicity and class in the separation of entrepreneurs and producers

The convergence of such diverse interests into the category of artisan-producers and the social distance to the category of entrepreneurs, reflected in separate associations, cannot be understood as the direct result of substantial differences between the units of production, their market position and given commonality of economic interests. These social distances resulted from organizational efforts that facilitated the agglomeration of certain groups, while pushing others away. Their positions in a society with strong colonial features were more important than the proximity of their economic interests as proprietors and employers.⁸⁹ This process ended with the differentiation both of their identities and the format of collective activities, where the entrepreneurs became the private counterpart of the state while the majority of the country's small-scale producers aligned with the wage-workers in the channeling of their corporate interests.⁹⁰

⁸⁵ Lehm and Rivera (1988)

⁸⁶ Van Der Veen (1993).

⁸⁷ Van Der Veen (1993).

⁸⁸ Other conyuntural factors such as the Chaco war contributed to debilitate the anarquist influence because of its anti-state and anti-war positions.

⁸⁹ This analysis benefited from studies of the social and historical formation of collective action of entrepreneurs. Some of them are Haydu (1999), Roy and Parker-Gwin (1999) and Bowman (1988) who criticize the statement formulated by Offe and Wiesenthal (1985) that entrepreneurs have more advantages than workers to organize themselves as a group with common interests.

⁹⁰ In the year 1985 there was a detour in this process. A realignment of interests occurred along with the consequently different categories of self-identification. A new organization is created, bringing

At first, however, there was no clear differentiation between a consolidated modern industry and an immature artisan sector, in terms of technology and market incidence. The industrial and manufacturing setting in the area of consumer goods was characterized by the predominance of handicraft production and a slow growth of factories at the beginning of the twentieth century. This handicraft production presented an important internal heterogeneity: some producers worked individually or in a family system, some began to adopt features of factory organization and, finally, others were already running larger industries with more modern machinery and employed workers. The new groups of industrialists, with a strong component of foreigners and individuals coming from the higher classes, did not show a substantial difference in relation to the technical and final quality products with the artisan-producer sector, although they did begin to define a collective comprehension of the production process as divided by manual and administrative work.

In the second instance, the group that became the National Chamber of Industries (CNI), was mainly formed by foreigners and people from the oligarchic networks⁹¹ who were also struggling for political recognition by an indifferent state that was oriented to the export of primary resources and import of luxury goods. The narratives in public speeches, written documents and the interviews I did in 2000 with leaders at former times show that they were involved in a process of class formation (as was also occurring with the artisan-producers) through a distinctive culture of respectability and refinement in which the social distance regarding workers and lower class groups played an important role. In this process, entrepreneurs identified themselves as emergent industrialists. Artisan-producers, who were seen as belonging to popular groups with specific ethnic and cultural features, almost automatically became “the others.”

In effect, the interviews I carried out in 2000 with some of the entrepreneurs who participated in the formation of these associations reveal how unthinkable was the inclusion of the artisan-producers into their social circles and emergent organizations in the first decades of the twentieth century, as if the exclusion was, in itself, part of their

together both small-scale producers that were members of the entrepreneurs' chambers and those that were organized into artisan-producer associations, under the new category of micro-entrepreneurs. This association has presented a new political position and discourse that channeled their demands through the chambers of entrepreneurs. However, this organization was not able to capture the greater part of the small producers and artisans who continued connected to their traditional form of organization, matured during the past century.

⁹¹ The last names of the representatives in the industrials' national meeting when the CNI was founded indicate the social position of them. From La Paz were Juan Said, Juan de Recacoechea, Elias Ciusani, Roberto Tavolara, Virgilio Cattoretti, Pablo Bacón, Hans Borchet and Nelo Vaccari. From Cochabamba were Carlos Walter Urquidi, Toribio Miranda y Eduardo Saenz Garcia. From Sucre, Gustavo Medeiros y José Luciano Osorio. From Oruro, Julio Jáuregui y Max Justiniano. From Santa Cruz Otto Meyer. From Riberalta Abel Reyes Ortiz. (CNI, 1981).

common identity. It is striking how far class narratives display rival identities in a language that highlights contradictions between modernity and tradition, capital and wage-workers; contradictions that are crossed by ethnicity and cultural background. From their public and private statements, we can glean implicit definitions of group interests and social boundaries.

“Pero también yo creo que influye el hecho de que unas seis o siete décadas atrás el empresariado boliviano estaba compuesto por diez personas, grandes productores y los grandes terratenientes, que estaban en el agro y el resto de la gente se consideraba fuera de eso, entonces me da la impresión de que eso todavía se mantiene. Antes el común, denominado pequeño, mediano, encontraba más socorro digamos dentro de los sindicatos que dentro del empresariado. Éstos eran muy cerrados y todavía son... está cambiando pero es un proceso que no se puede forzar tampoco...”

“But I also believe that six or seven decades ago the Bolivian entrepreneur group was composed of ten individuals, large producers and land owners, and the rest of the people were considered to be outside of this group. This situation seems to persist until today. Before that, small and medium producers found help within the labor unions and not in the entrepreneurs’ associations. These were shut out and they are still so... this is changing but it is a process that we cannot speed up.” Member of the Bolivian Confederation of Private Entrepreneurs – CEPB (2000)

The ‘emergent industrialists’ activated country clubs, organized separate neighborhoods and helped to form private schools for their children.⁹² It is plausible to assert that their employers’ class consciousness emerged from status group formation: class specific institutions were tools for social closure and settings in which local elites cultivated a common identity, as it occurred in other countries.⁹³ Personal ties and status conventions were developed and are still maintained in a process of differentiation and enforcement of cultural distinctions. That allows them, internally, to forge common interests among men otherwise divided by business competition or by industry-specific concerns and, externally, to act as the private group representing the future of the country and, therefore, as the legitimate private counterpart of the state.

As time passed and the social distance between artisan-producers and industrials grew, entrepreneurs increasingly invoked a common rhetoric of law and order in which

⁹² In La Paz, this the genesis of the tennis club and the Golf club, the neighborhoods of Calacoto and La Florida and the elite American school and the German School.

⁹³ Roy and Parker-Gwin (1999), Bowman (1988) and Haydu (1999).

national interests were identified with their private interests in contrast to the “mob rule” of strikers, “informals,” artisans, unions leaders and wage-workers, who were said to defend selfish interests that damaged national development through the destruction of public goods and the disturbance of private activities. Nowadays, their vision does not make distinctions between producers, artisans, merchants, smugglers and informals, and it expresses an oversimplified classification that puts “the others” under one subaltern category without fine-grained distinctions.

“Bueno algunas asociaciones no están afiliadas, por ejemplo, los gremialistas, también los pequeños artesanos, los pequeños industriales bueno los pequeños artesanos, más que todo porque son muy desordenados y ellos no trabajan en forma institucional sino trabajan muy aisladamente; ellos lo único que hacen prevalecer es la fuerza sobre la razón, y nosotros somos al contrario, nosotros como federación somos enemigos de utilizar la fuerza o la presión, preferimos nosotros utilizar el diálogo y más que todo razonamiento para poder solucionar nuestros problemas... La convulsión social manejada por intereses mezquinos de dirigentes sindicales, dirigentes campesinos que perjudican al país, destruyendo los bienes de dominio público como son carreteras, parques, plazas, escuelas afectando la actividad privada, por eso no se puede desarrollar nuestro país...”

“Well, some of the producer associations are not affiliated to our entrepreneur organizations such as the merchants, small artisans, small industrialists Well, mainly the small artisans because they are very unorganized, do not work in an institutional form, instead they work in an isolated form, the only thing they do is impose force over reason. We (entrepreneurs), on the contrary, as a federation, are enemies of force and pressure, we prefer dialogue to find solutions to our problems... The social convulsion is caused by selfish interests of the leaders of the labor union, it is so disadvantageous to the country, it destroys collective goods such as roads, parks, schools and negatively affects the private economic activities. This is the reason why it is impossible to develop the country...” President of the Federation of Entrepreneurs of La Paz (2000)

The entrepreneurs’ discourses are permeated by the consideration that they would be better off if they could incorporate, into their associations, some of the “entrepreneurs” who are not only employers but also proprietors of important amounts of capital, but because of the latter’s social proximity to workers, their social and ethnic identities and the labor union format of their associations, they find it difficult to get close and become “peers”.

“Hay un sector empresarial que más se considera sindicalistas, como el

sector campesino, por ejemplo, funciona a base de sindicatos, sin embargo, si los definimos correctamente son pequeños empresarios, porque son dueños de una propiedad en la cual cultivan, sea cual sea el producto, lo venden libremente en el mercado a quien quieran. Además dan trabajo a otros. Sin embargo, su organización que viene de la época de los incas seguramente es sindicatos... Lo mismo pasa con el sector de transporte, cualquier dueño de más de un camión, dos tres, ya es empresario porque fácilmente puede tener más de medio millón de dólares en capital y está dando trabajo a los chóferes, ayudantes, mecánicos, vende horas de boletos. Sin embargo, ellos se llaman sindicato de transporte, entonces para nosotros el sindicato es la parte laboral y el patrón es la parte patronal y es ahí donde hay una desubicación por parte de algunos empresarios en no considerarse empresarios y que se va perdiendo con el tiempo, pero que existe todavía. Por eso ellos no solicitan pertenecer a las instituciones que representan a los empresarios.”

“There is an entrepreneur sector that defines itself as syndicalists, such as the campesino (peasant) sector, for example. These sectors function as labor unions. But if we define them correctly, they are small entrepreneurs, because they are the owners of the means of production and they sell the products, whatever they are, freely in the market. Moreover, they give jobs to others. The key point is that their organizations come from the Incas where probably the labor union was the main format... The same occurs with the sector of transport. Every owner of more than one truck is already an entrepreneur because easily he can have more than half a million dollars and he is employing many workers. Even so, they call their organization a labor union and for us (entrepreneurs) labor union is related to salaried workers and not with employers. It will disappear in time, but it still exists. This misrepresentation of themselves is the main reason for their lack of interest to affiliate with the associations that represent the entrepreneurs.” Ex-President of the National Chamber of Commerce (2000)

“Cada uno tiene que definir a qué sector pertenece, pertenece al sector sindical pertenece al sector empresarial, debido a que en el país la influencia de doctrinas y de gobiernos con matices de izquierda ayudó también a que la mayoría de los sectores se vayan al sistema de los sindicatos ... pero es un proceso, uno se siente mujer o se siente hombre, y se define ... Ellos no se asocian porque no se siente empresario y no por cuestiones de formalidad porque la Confederación se fija en la asociación y no en los afiliados.”

“Everyone must define the sector to which he belongs, he belongs to the union sector or to the entrepreneur sector. Due to the influence in this country

of doctrines and governments with left-wing inclinations, the first option is more important than the second one... one must either feel like a woman or a man and define oneself accordingly. And they do not affiliate to our organizations because they do not feel like entrepreneurs and it is not a problem of formal barriers since the Confederation of Entrepreneurs does not make requirements that would limit their affiliation.” Member of the Bolivian Confederation of Private Entrepreneurs (2000)

Thirdly, the importance of the social position within a society with strong colonial features is also reflected in the fact that the artisans who participated in the organizational process during the early decades of the twentieth century remember having experienced a contradiction between themselves as political contestants with socialist ideals, and as entrepreneurs and employers concerned with their interests as a group of property owners. When they narrate their history, they state that the defense of the workday of eight hours was not automatic since it was against their interests as employers. The decision to join salaried workers in this fight is explained as the result of their political and social marginality in relation to a sealed-off elite. They reason that the ground for the link between artisans and wage-workers in the first decades of the twentieth century was the generalized perception of the experience of humiliation and lack of dignity provoked by the oligarchic elites. They felt slighted because of their ethnic and occupational origins and vulnerable in the face of the possibility of becoming wage-workers at downturn moments.⁹⁴

“No se toma en cuenta que tanto artesanos como obreros están confundidos por la prepotencia del que tiene dinero, y esa humillación es la que hace precisamente que estén unidos, por su dignidad misma, porque se creen tan capaces como aquél que tiene dinero y dirige, y talvez con más talento, por eso luchan.”

“It is not taken into account that both artisans and workers are confused by the domineering position of those who have money, and this humiliation is precisely what makes them be united, for their dignity, they feel as capable as those who have money and manage, and maybe with more talent, for this they fight”. José Clavijo in Lehm and Rivera (1988)

“Hay también otros políticos que dicen: - Aj! Éste es artesano; el artesano hace prestes, asiste a fiestas, va y le tira sus picanteadas, chupa y se gasta toda su ganancia, arruina a los operarios y todo se lo gasta.”

⁹⁴ Lehm and Rivera (1988).

“There are politicians who say: This is an artisan, he goes to ‘prestes’, he assists to parties, he eats picantes (a popular food), drinks, wastes his entire profit, ruins the workers... and he spends it all.” Jose Clavigo in Lehm and Rivera (1988)

It is interesting to note that the discourses of small producers, then and now, do not make distinctions between entrepreneurs, landowners and mine owners, putting them all in one dominant category of the oligarchic block. It is in this historic process that the majority of the small-scale producers identified themselves with the manual workers and defined their destiny as being linked to that of the wage-workers, all of this within the Marxist framework that still influences their organizations strongly, as I will continue analyzing in this chapter.

IV. THE REVOLUTION OF 1952, STATE CAPITALISM MODEL AND PRIVATE ECONOMIC ACTORS

The year 1952 represents a turning point in Bolivian history for it marked the beginning of a radical transformations that led to a new social, economic and political structure. The National Revolutionary Movement (MNR) led by the elected president Víctor Paz Estensoro, inaugurated a new development model with the active participation of the state as the planner and provider of infrastructure and also as an economic agent through public enterprises. Based on this model, the MNR leaders dismantled the political and economic system installed until then and, thereby, gave the oligarchic groups a heavy blow. The main measures taken were the nationalization of the large mining companies through the creation of the Bolivian Mining Corporation (COMIBOL), the universalization of the vote and the agrarian reform which redistributed the land to the peasants.

Between the 1950’s and the 80’s, the state assumed an active economic role by creating public enterprises in the areas of energy, telecommunications and infrastructure, which were considered as strategic for the country’s development, and in other sectors where private actors were not seen as capable to enter. During this period, the state also played the role of promoter of an incipient entrepreneurial group by creating national investment banks such as Banco Agrícola, Banco Minero and Banco del Estado to provide subsidies and incentives as well as tax and exchange policies to protect and stimulate national production.

The industrial development model that served as the central matrix for policy formation in the left and right-wing governments since the revolution of 1952 was a “take off”, of the sort hypothesized by W.W. Rostow (1960) and promoted by the Economic

Comission for Latin America (ECLA) – a sudden spur of output that begins sustained industrial growth, which necessarily accelerated industrialization based on large-scale production, capital intensity and modern technology. The economic policies of this model ignored the potential of small firms even though the medium-sized enterprises were a minority in comparison with the numerous small units with a long tradition in the manufacturing sector and an important incidence in local markets.

Enterprises run by “modern businessmen” were promoted as the foundation for economic progress and growth, which were expected to achieve the necessary economies of scale, high productivity and efficiency. According to this view, small firms with proprietors identified with a low class and indigenous origin were at best playing a transitory role towards a higher stage of development and were important only as sources of employment for a population that could not yet been absorbed by the modern sector in expansion. In this drive to large industries the dimension of the small-scale producers was completely lost for they were considered pre capitalist residues or a colonial heritage.

The formation of the Bolivian labor union (COB- Central Obrera Boliviana)

By 1952, the labor unions were already dominating the national political scenery, with the mining and railway sectors at the head of the movement. That year, through the initiative of the Revolutionary Labour Party (POR), the National Revolutionary Movement (MNR) and the mining union (FSTBM), the Bolivian Labor Union (COB) was founded. The COB brought together a large number of federations, confederations and unions from different areas such as the producers, miners, employees of commercial banks and industries, printing workers, builders, bakers, and peasants. During the following years, many organizations that belonged to the Local Labour Federation (FOL), and had high levels of participation of artisan-producers, affiliated with the COB. The organized workers of the COB soon turned into one of the important pillars supporting populist governments after the national revolution. Many ministers of labor emerged from within the unions and the governments responded to the workers’ strong pressure by extending labor and social rights.

To reach the goal of a better distribution of the national income proposed by the MNR government, the number of public jobs was increased and the salaries of functionaries were improved. One of the main reasons for the gradual imbalance of the public budget that led to the inflationary crisis and the debt in the early 1980’s, alongside other variables, was precisely the exaggerated enlargement of the public sector and the state’s incapacity to collect taxes to finance its expenditures. This weakness was overcome by

either emitting more paper money, and thereby generating “inflationary financing”, or by receiving foreign loans.⁹⁵

Left-wing ideologies and the awkward position of small producers in Bolivian Union Labor

After 1952, the artisan-producers entered another phase of organizational reconstruction when they formed another association, the Confederation of Artisans and Traders in 1955. Among their demands were that artisans be taken into account by the MNR government policies for economic development and be given social security benefits, and that the import of manufactured goods be prohibited. This new association brought together both artisans and small merchants; in time, the latter surpassed the artisans in number and influence. This alliance proved unfavorable to the artisan-producers since they lost their specific interests, along with their own identity under the dominance of the interests of merchants.⁹⁶ By channeling their demands through their matrix organization – the COB –, they established an indirect relationship with the state mediated by an organization dominated by other more powerful groups, such as the merchants and the miners. Within the COB’s union structure, the artisan associations also found themselves trapped by feeling guilty for being ‘petit-bourgeois’ and therefore potential enemies of the proletarian revolution.

Because the COB’s ideological framework agreed with the vision that capitalist development necessarily requires industrialization based on the large companies with strong state support, understood as the intermediate phase to the socialization of the means of production, the small-scale producers, whose specific interests did not fit into this scheme, hardly found any space of representation within the COB. Left-wing intellectuals and ideologists of the workers’ movement, who had an important influence in the COB, understood small businesses as a kind of relic from the pre-capitalist phase of national development. In reviewing the *oeuvre* of Alvaro Zavaleta Mercado and Guillermo Lora, the two most important left-wing thinkers of the last half of the twentieth century in Bolivia and organic thinkers of the COB, the main picture that arises is that of the small production as the structural result of an incomplete process of capitalist development unable to transform the majority of peasants and indigenous people into proletarians. Zavaleta (1974, 1989) interprets the continuity of the urban and rural workers closer to the condition of artisans as part of an alternative path of historical development that poses enormous problems for creating a political unity. This

⁹⁵ Morales (1989).

⁹⁶ Van der Veen (1993).

author argues that in a “motley society”⁹⁷ there are deep differences between social and legal productive relationships that are linked to diverse political structures and cultural matrices. This argument is overlaid by a narrative of a unique road of economic and political evolution that does not quite fit the economic and political role of small producers with an indigenous ascendancy.

In the same line, but certainly with a more explicit argument about the awkward position of artisans and producers within the country’s capitalist development, we find Lora’s writings (1967). For this author, the artisans’ associations of the ninetieth century embodied a colonial spirit, generating serious obstacles to the growth of the forces of production. Lora concludes that President Belzú’s project to create a republic of small proprietors was condemned from the beginning due to the colonialist and pre-capitalist technology and spirit of these small units of production. Artisan production did not offer Bolivia the alternative of moving away from its economic underdevelopment, for it did not have any future except to condemn the country to its isolation and poverty. The failure of Belzú’s project, according to this author, “is the proof of the impossibility to develop the economy based on the artisans’ and peasants’ activities, since they were anything but the human expression of the continuation of the Colonial period into the Republican moment.” (Lora, 1967, p. 358, translation is mine). Lora continues his analysis arguing that “to maintain the country within the limits of small-scale production was and is a reactionary project. When did artisans incarnate the growth of the forces of production and were able to transform society and remodel it according to their image? Only during the medieval age,” he concludes (idem, p. 360). For Lora, the progress of the production forces necessarily required the state to acknowledge that the motor of commercial capitalism was in the hands of international entrepreneurs and not in that of the small-scale producers, who would necessarily disappear with the accumulation and modernization process.

The lack of representation of the artisan-producers in the COB was reflected in their absence in the organizations’ leadership. Only in 1962, one representative of their association became member of that group. Despite the limitations, the confederation remains affiliated to the COB, not only because it shares its ideological matrix, but also because of the social proximity of artisan-producers and wage-workers⁹⁸, and the difficulties to enter alternative organizations, such as the entrepreneur associations.

⁹⁷ The concept of motley society is proposed by Zavaleta to explain the persistence of a system of local authorities and production relationships that operate in parallel with the efforts of consolidation of a modern political unity and the process of accumulation of capital. This concept synthesizes the multiplicity of cultural and economic matrices that form the Bolivian society.

⁹⁸ As I developed in chapter three, the occupational trajectory of small producers characterized by the pasaje from wage-workers to owners of workshops and the neighborhood where they live establish direct contact among these two groups. It is also important to consider in this regard that the very unstable economic condition of their units poses the constant threat of returning to their position as salaried workers.

Entrepreneurs and the state after 1952

In the new project of economic transformation, the oligarchic networks that ruled the country before the revolution encountered an open opportunity to diversify their economic activities and to remain as the private counterpart of the state. In this new context, the entrepreneurs' associations consolidated their political position as the legitimate representatives of the private sector and the main reference for the state in the formulation of economic policies. Within social circuits with direct channels of coordination of perspectives and interests, closed entrepreneurial and bureaucratic groups were forged; on the one hand, they gave the political support for state actions and, on the other, received support, although inadequate and inconsistent, for creating and sustaining private activities.

During the government of Víctor Paz Estensoro (1952-1956), there was a period particularly favorable to industrial development, with substantial transference of money generated by the public mineral enterprises, to the industry in the form of subsidies. Besides the governmental policy to transfer resources, other economic conditions also favored the industry, such as the difference between the official and "black market" exchange of foreign money and the devaluation of the national currency, which reduced the interests of bank loans and real salaries. However favorable these conditions were, the industrial scenario was not substantially modified in terms of technological modernization.⁹⁹ In 1956, with the stabilization policy, of the 1,682 registered establishments only 924 were left by 1964, and the work force of 20,446 wage-workers and employees was reduced to 14,875, therefore cutting down 64% of the production output.¹⁰⁰ The entrepreneurs pointed out several adverse factors for this low performance in the decades following the revolution, such as the workers' capacity to put pressure on the government for social benefits, the continuous growth of the smuggling of foreign goods, and the insufficient support received from the state for the national industry.¹⁰¹

The next governments alternated between left and right-wing positions and used the state either to satisfy the populist demands of redistribution by increasing the amount of jobs and the salaries paid, or by supporting the private sector through subsidies and credits. This development model, with the growing participation of the state in economic activities linked to the areas of hydrocarbons, mining, energy, infrastructure and services was not able to enhance the development of an independent private sector, despite having attained social improvements and a significant economic growth in the

⁹⁹ Rodríguez (1999).

¹⁰⁰ Ibid.

¹⁰¹ CNI (1981).

1960's. On one hand, the productive activities that were initiated and continued under state protection and support did not enhance efficiency and competitiveness; on the other, this development model did not foster favorable conditions for an ample sector composed of small units producing goods for national consumers and neighboring countries.

The first public policies directed to small units of production

In the 60's, we begin to find some legal actions directed to the markets formed by small units of production, although isolated from the national development plans and with results of little importance. In 1961, the Supreme Decree 05918 was passed establishing the "protection of the artistic legacy and of the culture" and, in 1969, the Supreme Decree 08844 created a committee to support small industry and handicrafts production. These initiatives culminated, in 1976, in the creation of the Bolivian Institute for Small-scale Industry (INBOPIA) to support and regulate artisan activities.

In the following years, other legal dispositions emerged such as the Supreme Decree 16953 whose goal was to support "small industry and handicrafts" through the liberalization of taxes on the import of machinery, tools and raw materials, with the certification of INBOPIA, and the exemption of credit and utilities taxes. The decree also established several attributes for INBOPIA as, for example, being able to hire and channel internal and external credits, and to give financial aid. However, INBOPIA's activities did not go further than registering the artisans and promoting some bazaars and, thus, the dispositions were not complied with. According to INBOPIA's information, until 1983 only three artisans and small-scale industrialists benefited from the liberalization of tariffs on the import of machinery. INBOPIA also did not become an important office in the formulation of economic policies.¹⁰²

The economic boom of the seventies

During the 1970's, because of the easy access to external financial help, the Bolivian economy experienced a period of high investment rates, especially public ones. The result was an accelerated growth of the national gross product. The loans were used to finance both the expenditures of the public sector and projects to diversify the production for exports, some of which were successful as, for instance, the selling of natural gas to Argentina. Nonetheless, a large part of those resources ended up making

¹⁰² INASET (1988).

private groups, with easy access to those funds, become rich quickly, or were spent on unsuccessful projects.¹⁰³

In 1971, a new investment law was passed, following the law of 1965 that exempted enterprises from the payment of taxes on the import of machinery, technology and certain raw materials.¹⁰⁴ Besides, the government provided liberal credit for the private sector and Bolivia was included in the Andean commercial agreement. A favorable setting was created for middle and large-scale economic activities in the areas of industry, mining, agriculture, cattle, sustainable natural resources, construction and tourism. However, the structural problems of the industrial sector, such as imported technology and raw material, were not solved.¹⁰⁵

The relative economic stability, accelerating migration from the countryside and demographic growth expanded the urban market, which in part favored the economic milieu for small-scale units producing consumer goods. In fact, part of the small-scale producers expanded their units by increasing the number of workers and the volume of capital. But at the same time the sector suffered the intensification of commercial competition with both foreign merchandise, imported legally and illegally, and the opening of new units by the newly arrived immigrants. The proliferation of small units reduced the distance between producers and wage-workers, and enhanced the identification of the sector, from the states's and entrepreneurs' point of view, as being part of the society's deprived and poor group.

In that decade, the concept of "informal sector" was introduced to intellectual and political circles and became the conceptual framework for public initiatives regarding the small and medium industry and handicraft production, for the INBOPIA institute and for the decrees mentioned above. As the analysis in chapter two shows, this frame reinforced the identification of this sector with the poor and those marginalized by the economic and political systems, and their disqualification as potential agents of economic development. Under the influence of this conception, for the next decades the state's actions continued to regard the small economic units as being outside the economy's dynamic sectors. This, in turn, limited the institutionalization of coordination channels with their representative organizations.

Despite the lack of state support, small production of consumer goods continued significantly to feed the internal markets. During this decade producer associations began to proliferate at the base level, as well as intermediate and matrix organizations. Among the latter were departmental federations, representing different sectors, up to

¹⁰³ Morales (1989).

¹⁰⁴ For more details about this legislation, see Violand (1990).

¹⁰⁵ Ildis (1983).

national federations. All of these associations had the COB¹⁰⁶ as their major entity of representation, which implied the problems of identification and representation already discussed. The producers could not be identified with the bourgeoisie, which had state support, nor completely with the salaried workers. At the same time their interests did not coincide with those of the merchants. Even though the distances and contradictions between the producers' and the merchants' interests became more severe during the seventies, these two sectors stayed together through the creation of the Sindicalist Confederation of merchants, artisans, among other workers (CSTGACMVB), in 1977.

The crisis of the model of state capitalism

By the end of the 70's, the development model based on the export of mining products and hydrocarbons (natural gas and petroleum) and on external debt began to show signs of its exhaustion. On the one hand, the production of minerals declined rapidly at the same time that their prices fell in international markets (especially the price of tin). On the other hand, the easy access to external resources came to an end and international interest rates increased abruptly. This last fact converted the debt services into a heavy burden for the Bolivian economy. Besides the exhaustion of the growth strategies implemented until then, from 1978 to 1982, Bolivia suffered a period of great political instability with a series of coups d'état that produced nine presidents in only five years. During this period, high amounts of capital left the country, reaching, in 1980 and 1981, 590 million American dollars, equivalent to 10% of the GDP, which were classified under the category of "mistakes and omissions" in the balance of payment. In 1982, international loans ceased and the economic problems began to accumulate, as it was impossible to have access to external resources, together with the increment of the interests of the debt and the increasing loss of the export value.

In 1982, Siles Zuazo assumed the government in an economic condition that was already highly deteriorated, with a GDP registering decreases of 1% in 1981 and 6.8% in 1982, and an inflationary process of 170% in 1981. In that same year international banks stopped granting loans to Bolivia. The political order must also be taken into account because of its contribution to the already difficult situation. Siles Zuazo's was a center left-wing government that came after a long period of military dictatorships; a time during which the many unattended social demands that had accumulated were again put on the public agenda with the return of democracy and, particularly, because a government engaged with the popular sectors had come into power.

The inflationary process caused the shortages for the population and a decline in the salaries' purchasing power. As the left-wing coalition of Siles' government was not

¹⁰⁶ In order to understand the centrality of COB during this decade, it is important to consider its role in channeling the social movements against authoritarian regimes.

able to respond to the demands for more jobs and higher wages, in spite of their tentative effort to redistribute wealth, the people organized in unions and other worker organizations, mainly backed by the COB, reacted by going on strike, stopping work and marching in the streets. Thereby they created an environment of chaos and confrontation, which also affected the economy's productivity.

V. NEW TRENDS IN PRODUCER ASSOCIATIONS

With the return of democracy and relative growth during the seventies, the producer organizations began to reconsider their social and economic position within the country, reevaluating their points of view and the strategies to defend their interests. In this reevaluation they questioned the dominance of political interests over economic interests, and their identity as workers and not as entrepreneurs.¹⁰⁷

This process ended up with the formation of two new associations. The Sindicalist Confederation of Artisans of Bolivia (CSTAB), in 1983, which was an effort to rescue and strengthen the producers interests by separating them from the merchants who, by then, were dominating the association they belonged to.¹⁰⁸ And the Bolivian Federation of the Small Industry and Handicrafts (FEBOPI), formed in 1985, in the attempt to create a specific organization of small entrepreneurs and producers, affiliated to the National Industrial Chamber (CNI) and the Bolivian Confederation of Private Entrepreneurs of Bolivia (CEPB).

The foundation of the syndicalist confederation of artisans of Bolivia (CSTAB)

During the 1980's, the CSTAB organized three congresses in 1983, 1987 and 1989. Regardless of the acknowledgment that the past representation strategies were not effective in promoting the producers' economic interests, the results reached in the three congresses and reflected in the Handicrafts Law Project, presented to the National Congress in 1990, did not show discontinuity in terms of discourse and organization and, rather, conserved the anarchist traditions from the beginning of the century and reinforced their link with the COB. The only significant change in this process was the separation of the collective representation of producers and merchants.

¹⁰⁷ Van der Veen (1993).

¹⁰⁸ The document of the CSTAB foundation states that during the VI congress of the prior organization with merchants, "the artisans presented a letter complaining about the lack of attention to their rights and duties and the poor recognition of their dignity as handiworkers. Unfortunately... this letter was not even read." Cited in Rojas(1995).

In the second congress, the CSTAB and the Central Union Artisans were able to unite into a new organization, the Sindicalist Confederation of Artisan Workers of Bolivia (CSUTAB). This new organization approved the “Political Thesis of Artisan Workers.” This entity immediately affiliated with the COB, even though the latter had lost its representational capacity due to the political and economic changes after 1985. It also joined the Latin American Association of Artisans (ALA) and, later, the Confederation of Latinamerican Workers (CLAT), which had a Christian democratic orientation.¹⁰⁹

The “Political Thesis of Artisan Workers” is a document that advocates a utopian social and state organization, based on a combination of anarchist ideals, Socialists principles and the organizational models of the rural communities. The goal is the communal property of the means of production and their direct administration by the workers organized into cooperatives. The thesis proposes self-administration as an economic system based on democratic businesses, where the worker-boss relationship is overcome and both exploitation and the concentration of power in few hands are avoided. This declaration of principles was translated into the law proposal, which demanded that the state assume a protective role regarding artisan cooperatives through tax policies, commercialization facilities, and technical support for the sector.

As I shall analyze in chapter five, this proposal ignored the structural changes that the country was undergoing, particularly regarding the transition from a ‘model of state capitalism’ to a ‘market model’. The scope of the economic and political proposal was incompatible with the new development model aimed at strengthening a market economy. Hence, it is not surprising that this law was never passed in Congress.

The creation of the Bolivian federation of small industry and handicrafts (FEBOPI)

In 1985, the Bolivian Federation of the Small Industry and Handicrafts (FEBOPI) was founded by a group of small entrepreneurs, already registered in the National Chamber of Industry (CNI) in a special category as small enterprises, that felt their specific interests were not taken seriously nor adequately represented. They also understood that without a separate grass roots organization it was very difficult to attract the majority of small producers to affiliate with the CNI and CEPB.

According to FEBOPI’s founders, the CNI was organized predominantly in response to the needs of the large enterprises even though the number of small enterprises registered in the CNI was higher than that of the large ones at the beginning of the 80’s. In their view, decisions were monopolized by an elite group of large industrialists, with the resulting marginalization and disregard of the bulk of the associates who were

¹⁰⁹ Rojas (1995).

medium and small industrialists. The credit, cooperation, and technical assistance services offered by the CNI were not benefitting the small and medium industrialists who were also unable to express their real needs in terms of economic policies. The only service that effectively reached these members was the monthly distribution of reports and bulletins. These contained updated information about the emission of legal dispositions, tax changes, credit plans, training courses and activities done or planned to be carried out by the chamber.¹¹⁰

The most important objectives of the FEBOPI were: 1) to group together all existing associations and organizations of small entrepreneurs, producers and artisans; 2) to enhance technological progress; 3) to cultivate a spirit of mutual help and assistance between the associations; 4) to further integration with other organizations so as to attain collective benefits in all aspects; and 5) to facilitate the use of, and help create, financial aid systems favorable for their activities (FEBOPI, Estatuto Orgánico, La Paz, 1986).¹¹¹ The Federation represented associations in the nine departments of Bolivia, denominated “departamental associations” of small industry and handicrafts (ADEPIS).

This organization created the Institute for Social, Economic and Technical Assistance (Instituto de Asistencia Social Económica y Tecnológica- INASET), with experts hired with financial help from the Konrad Adenauer Foundation of West Germany. The institute would undertake research and provide technical assistance to the FEBOPI. It helped the FEBOPI formulate a law proposal for their sector, which was presented in the National Congress at the beginning of the nineties.

Contrary to the project presented by the CSUTAB, this law proposal has a pragmatic character as it is primarily concerned with concrete proposals about taxes, credits, commerce and support for small units of production. The proposal also defines with which offices and what mechanisms FEBOPI should coordinate with the state, trying to turn it into one of its private counterparts. It does not question the development model implemented in 1985, although it does demand a higher level of participation on the part of the state in the promotion of the manufacturing sector of small units. It justifies this demand by pointing to the importance of small firms in terms of employment and income generation.

¹¹⁰ INASET (1988).

¹¹¹ INASET(1988)

Differences between FEBOPI and CSUTAB

The two law proposals reflect opposing points of view that are the result of distinct organizational traditions as well as social distances between the collective identities of “entrepreneurs” and “producers” constructed during the decades before. Each of these proposals, elaborated in the two matrix organizations, also exhibits important contradictions regarding the perspective dominant in their respective grass roots organizations.

In the case of CSUTAB, the priority given in the proposal to cooperatives and the socialization of the means of production does not recognize the symbolic importance that independent work centered in the nuclear family has for small producers (as I have already analyzed in chapter three). It also does not reflect the search for individual accumulation of capital of the productive units that it represents. This contradiction explains the detachment of the activities developed by the grass roots associations from those of the organizational apex (CSUTAB). It also can be traced in the limited benefits that the grass roots associations offer to their members and in the ineffective mediation of their interests by the matrix organization in relation to the state. I will continue analyzing these consequences in the next chapter.

In the case of FEBOPI, the modernizing discourse, centered around new categories such as micro and small entrepreneurs, comes into conflict with the identity of artisan-producers, built during the previous decades and still predominant in the grass roots associations. The adoption of the new category by the federation did not have a direct impact on the self-identification of the associates, who keep defining themselves as producers and artisans even though they recognize some pragmatic advantages of using the entrepreneur category in specific scenarios.

“No soy microempresario, porque el término no me gusta mucho y otro es que yo no lo enfoco muy bien ese tema y el de artesano si lo enfoco desde mis raíces.”

“I am not a micro entrepreneur, because I do not like the word and I do not understand it, by contrast the name artisan I can understand from my roots.”
Member of ADEPI – La Paz (2000)

The slogan of ADEPI El Alto, below, expresses an adaptation of the category “entrepreneur” that clearly does not cease to relate the producers to the social group of excluded and marginalized actors. Most of the individuals I interviewed are still not comfortable with this new category to identify themselves and redefine it in order to conciliate the ambiguity in their social representation and discourses.

“He imaginado una forma digna de vivir, sin pedir prestado ni robar al Estado... ¡¡
He decidido ser Empresario!!”

“I want to live a dignified life, without asking for money from others or robbing from the State...!” I decided to be an entrepreneur!!”. Slogan of ADEPI- El Alto (2000)

Added to the fact that the associations offered limited benefits in a context not favorable to strengthen the manufacturing sector for internal buyers, this conflict explains the difficulty to attract new associates. In any case, FEBOPI and other federations that arose during the 90's with a more pragmatic organizational and discursive profile such as the Federation of Micro and Small Entrepreneurs of the city of El Alto (FEMYPE), became the closest counterparts of the state in the negotiation processes of policy formulation for the small business sector. The CSUTAB and the other confederations, affiliated to the COB, followed a long road of confrontation with the state, through massive demonstrations and direct pressure measures that, in most of the cases, reacted to already implemented policies.

The history of the relationship between the state and the small producer associations has shaped the contemporary arrangement of policies and regulations for small production in local markets and the producers' collective strategies. In the next chapter, I turn to the institutional environment and the scope and form of the producers' collective activities to control the interferences of public action in their economic activities.

CHAPTER FIVE: INSTITUTIONAL DRAWBACKS AND COLLECTIVE ACTION

This chapter analyses the state presence in local markets and its effects on the format of producer associations and collective strategies. The presence of the Bolivian state in national markets has three important characteristics. First, regardless the adopted development model, state actions may enforce or change the existing arrangements in the production markets. Second, the public decision-making process is embedded in social networks tie the state in different ways to the various economic and social pressure groups. Third, the national setting is marked by high levels of conflict over basic parameters of the political system and hence by significant institutional changes. The low levels of impartiality, reliability and efficiency of the institutional, financial and legal systems create instability and heterogeneous contexts for economic activities within the national economy.

The scope of collective action and the methods of associations constrain the producers' sense of community of interests. Producers' joint activities display three main features: compliance with some of the legal rules, labor union organization; and confrontation politics. These forms of collective action comes from the perceived political position in the national society and the past experience of association. Both provide both specific lenses to interpret the political arena and the resources available for the work of organization.

I. THE INSTITUTIONAL CONTEXT

The state as central actor by default

Bolivia is not an exception regarding the protagonist role assumed by the state in economic transformation during the twentieth century, nor does it differ substantially from the domestic organization problems that most Latin American countries face. Bolivian state has performed the roles of entrepreneur, promoter of economic growth and regulator of the economic sphere along with the classical roles as guardian of the internal order, protector of the national sovereignty and provider of goods and services such as infrastructure, public education and health care. Governments have responded to the populations' needs with the help of non-governmental organizations (NGO's) and international organizations by extending and improving the delivery of public services and goods.

The Bolivian state has never ceased to be the central agent of the national economic sphere. Before the 1952 revolution, it had consistently pursued liberal economic

policies that supported tin export within an oligarchic network headed by three families, Patiño, Hochschild and Aramayo. Between the fifties and the eighties, the state assumed an entrepreneurial role through the nationalization of the mines and by running enterprises in the energy, telecommunications, and infrastructure sectors, among other enterprises defined as strategic for the country's development. During this period, it also acted as promoter of an incipient entrepreneurial group through the creation of national investment banks intended to provide subsidies, incentives and policies to protect and stimulate national production.

After the political and economic crisis in the late seventies and early eighties characterized by successive coups d'état and a vertiginous increase of the external debt, Bolivia returned to a democratic regime and faced the challenge of controlling a hyperinflation that reached as much as 8,000% per year.¹¹² In 1985, through Supreme Decree 21060, also known as the New Economic Policy, the state put an end to state capitalism and entered a new era of neo-liberal policies, with internal and external economic liberalization, privatization of public enterprises, flexibilization of the labor laws and the restructuring and reduction of the public sector.¹¹³¹¹⁴ The first result of this new policy was the reduction of the inflation rates. Between 1987 and 2003, inflation, measured annually, was stabilized at 4%.

The support granted by the state to the large industry sector, such electricity, transport and communications, gas, water and financial services, which were privatized, explains the growth rates above 4.5% per year in these sectors, in contrast to the growth of other sectors such as manufacturing (3.8%) and traditional agriculture (2.5%). The relative participation of each sector in the Gross Domestic Product (GDP) has not considerably

¹¹² In the early 80's, the funds to finance public expenditures had deteriorated and the external debt interests increased, reaching 8% of the GDP. Facing this situation and unable to have access to internal resources via taxes or to reduce public expenditures, the only way out for the government was to issue more money, in other words, impose the inflation tax. Once the inflationary process began, the already scarce public resources deteriorated even faster and, in consequence, more money emission was necessary. This process led to a hyperinflation with prices rising more than 50% per month in 1984, and reaching 8,275% one year later. The price of the main export products also showed increasing losses while international credits remained frozen. In this context, both the saving capacity and the possibility to invest in productive ways declined, all of which, in consequence, brought a decrease in production and capital investment.

¹¹³ The anti-inflationary shock included measures such as the stabilization of the exchange rates; restrictive tax and monetary policies; an increase of the public sector income through a tax reform and the internal prices of public-enterprise products, primarily petroleum and natural gas. The economic liberalization occurred through the opening of the internal market to foreign products and by eliminating the governmental control over prices and salaries, leaving them to the discretion of a system of direct negotiations. This also included the derogation of labor dispositions that guaranteed work stability. The public sector reforms consisted in freezing salaries, massively firing people from the public sector and reducing the social expenditures.

¹¹⁴ Jemio and Antelo (1999).

changed during the last two decades. Bolivia's production structure is still concentrated on agriculture, natural resources (mining, gas and petroleum), manufacturing (agro-industry, textiles) and commerce, which together represent more than 50% of the GDP.

Table 2: The Bolivian economic structure (1980, 1985, 1990, 1995, 2000)

ACTIVITY	1980	1985	1990	1995	2000
Agriculture	13.8	16.2	15.3	14.9	14,5
Petroleum and Natural Gas	4.9	5.6	4.3	4.1	4.8
Mining	8.1	5.0	5.9	6.1	5.3
Manufacturing	19.4	16.2	17.0	17.1	16.6
Electricity, Gas and Water	1.1	1.4	1.6	2.1	2.1
Construction and Public Works	3.7	3.2	3.1	3.4	3.4
Commerce	9.3	8.6	8.9	8.6	8.4
Transport and Communication	6.1	8.4	9.3	10.0	10.7
Finance and Banking	8.9	9.6	8.5	8.3	10.1
Social, Communal and Personal Services	5.0	3.9	3.8	3.8	4.5
Restaurants and Hotels	3.9	4.3	3.9	3.7	3.1
Public Administration	11.7	11.8	10.0	9.4	9.1
Indirect Taxes	4.1	5.7	8.3	8.6	7.4
TOTAL	100	100	100	100	100

Source: Own elaboration with data from INE and UDAPE (2001).

The prescription to shrink the state by restricting its economic involvement and its responsibility to deliver public goods and services did not prevent it from being involved focused in promoting the export of products such as natural gas and soybean. The policies in the commercial sector were aimed at improving the incentives and allocating resources to further the growth and diversification of Bolivian exports. Some of these mechanisms were: 1) the creation of a single and uniform tariff first of 20% and later between 0 and 5%, for capital goods and 10% for all other imported goods, 2) the elimination of exemptions and other requisites such as import permits, 3) new mechanisms to guarantee "tax neutrality" by authorizing the reimbursement of indirect taxes paid by exporters of non-traditional products, when acquiring raw materials and other components included in the cost of the exported merchandise, 4) the formation of the National Council of Foreign Trade (Consejo Nacional de Comercio Exterior – COMEX), with the participation of public and private sector representatives, and 5) new multilateral and bilateral commercial agreements and the expansion of the already existing ones such as the Latin American Integration Association (ALADI), the Andean Nations Community (CAN), the Southern Common Market (MERCOSUR) and, recently, the Americas Free Trade Area (ALCA).

As a result, the value of exports in dollars doubled between 1985 and 1998, and the structure of Bolivian exports was modified with the increment of non-traditional export

goods, especially soybean and its derivatives, jewelry and woods. However, the exports are still quite concentrated on a few products related to the country's natural resources and its agricultural production, among which soybean, zinc, silver, gold, tin, natural gas and wood are the most important.

The social embeddedness of the state

The class and ethnic stratification of Bolivian society and the political mechanisms to control the state apparatus, both through political parties or coups, have maintained a small group of interconnected families as the economic and political elites. Patron-client ties and traditional loyalties have governed the relationship between the state and private capital. These relationships have controlled entry into leading political positions. Entry is open only for a small group, while others are kept outside the networks that tie the state more closely to the economy. Small producers in local markets are among the society's most vulnerable sectors, those marginalized from the state's decision-making centers of economic policies. They are not recognized as part of the entrepreneurial sector in the sense that their economic activities are not seen as capable to foster economic growth. Even though, their economic activities flourish.

According to the 1992 Census of Economic Establishments, the Bolivian economic universe was mainly made up of establishments that employed up to 4 people (81.3%), followed by businesses with 5 to 9 employees (7%). An official study carried out in 2001¹¹⁵ shows that 72.6% of the population working in urban areas are employed in productive units with up to 9 employees, 7.6% are in units with 10 to 19 employees, 5.6% in units with 20 to 49 employees and 14.3% in units with 50 or more workers. The same source informs us that units with up to 9 employees generate 25.5% of the GDP, and enterprises with more than 50 employees generate 65.3% of the GDP. The other 6% is represented by enterprises with 10 to 49 workers.

Table 3: Employment and contribution to the GDP according to the size of enterprises - 1999 (US\$)

Number of employees	GDP US\$	GDP %	Urban jobs	Employment %
1 to 9	2,135,025	25.5	1,411,970	72.6
10 to 19	229,555	2.7	147,277	7.6
20 to 49	280,588	3.3	108,674	5.6
50 or more	5,466,426	65.3	277,436	14.3

¹¹⁵ Vice-ministry of Micro enterprises (2001).

Errors	254,606	3.0		
TOTAL	8,366,200	100	1,945,358	100

Source: My own elaboration with data from Vice-ministry of Micro enterprises, 2001.

The economic policies in place since 1985 have had the entrepreneur organizations (CEPB, CNI, CNC, among others) as their main private counterpart and it was with them that permanent consultation and coordination were carried out. Small producers in local and national markets were excluded from this process and, therefore, they only came to know most of the new dispositions after they were passed. It is important to take into account that only a few of these dispositions directly addressed the production for internal markets, although the economic policies affected the formal rules for all transactions, including those in which small producers were involved.

In the last two decades, the most significant and sustained effort made by the state in relation to small businesses was to integrate them into the national tax system. Parallel to the launching of the New Economic Policy, the Single Taxpayer Register (RUC)¹¹⁶ was implemented, as well as the Simplified Tax Regulation¹¹⁷, which differentiated the economic activities with low levels of transactions for taxpaying purposes. These initiatives responded to the dominant view that small units of production and commerce were merely a group of illegal activities that evaded taxes and generated low quality jobs. In the late '80s the perception of the small units of production became more complex with the recognition of their importance as mufflers for the negative social effects of the new development model being implemented in the country. But these gradual changes did not affect the limited orientation of public and private initiatives to offer micro-credits, mainly through NGO's,¹¹⁸ and to integrate them in the tax system.

Financial liberalization implied the withdrawal of the state from credit operations. Based on this new conception, some public banks were shut down (Agriculture Bank, Mining Bank and State Bank). New laws were passed and new entities created to strengthen the banking system and to further market competition.¹¹⁹ In spite of these

¹¹⁶ Supreme Decree 21520.

¹¹⁷ Supreme Decree 21521.

¹¹⁸ Sánchez (1988).

¹¹⁹ In April 1993, the Law 1488 of Banks and Financial Entities was passed and the following aspects were consolidated: the loosening of the interest rates, the free allocation of resources by financial intermediaries, the minimum requirements of capital, and the proprietary fitting. This law was complemented with the approval of a new Bolivian Central Bank in October 1995 that provided the issuing body with independence in its management and autonomy to guarantee the purchasing power of the domestic currency. During the following years, various financial entities were created, for instance, the Fund of Financial Development and Productive Sector Support (FONDESIF).

initiatives, most of the Bolivian population still did not have access to credit and financial services because of a deficient legislation regarding collaterals and guarantees. During the 90's, many NGO's offering financial aid outside the formal banking system proliferated without an adequate supervision by the state. Their interest rates between 25 – 35% were far higher than the interests charged by banks (8-15%).

In time, it became clear that unemployment and poverty could not be solved only through the hydrocarbon and mining sectors, which do not demand as many workers as those related to medium, small and micro enterprises. The attempts to include the latter sector in the economic policy agenda were unambitious and marginal. The dominant perspective that classified them as an “informal sector” prevented the understanding that they formed significant national and local markets of consumer goods.¹²⁰ In this decade, there were some isolated and short-lived efforts to take small businesses into account, but these efforts were mainly guided by the idea that their main function was the survival of the poor.

The low level of state organizational coherence

The patrimonial tradition has preserved the state as the most important source of employment accessed by personal connections rather than meritocratic civil service recruitment. The control of state resources is pursued as the principal source of power and wealth through personal ties between high-ranking bureaucrats and private actors. However, closed networks of corporate groups encapsulated within the state and pursuing their own clientelistic agenda have not inhibited external influences from international organizations and internal pressures from the excluded groups who demanded redistribution policies and the state apparatus institutionalization.

One of the most important reforms that responded to these popular demands was the Popular Participation, which started a process of state decentralization in 1994. It transferred the administrative responsibilities regarding physical infrastructure, health services, education, culture, sports, tourism, roads and irrigation to the municipal governments. The transfer of resources from customs and other taxes backed this process. All this increased the public social investments and established the involvement of civil society through the acknowledgement of the peasant communities, the indigenous and neighborhood organizations. It also promoted participative planning under the heading of social control.

¹²⁰ One of the most influential works for the dissemination of the concept of informal sector in Bolivia during this decade was done by CEDLA and FLACSO (1988).

In this regard the Bolivian state cannot be classified as predatory,¹²¹ although the high levels of corruption and rent-seeking behavior on the part of the political and economic elites. There has been some improvement in public accountability¹²² and in the establishment of offices with committed and efficient professionals who opened channels of coordination with organized social sectors outside the influence of the president's small clique and his collaborators. These reforms in the public apparatus but also its vulnerability to pressures, such as strikes and public demonstrations, were important factors in generating some communication between the state and marginalized social groups.

Since 2000, new public measures have been carried out by the Vice-ministry of Micro-enterprise, created in 1998, within the Ministry of Labor. An important milestone in changing the policy framework for small production was the National Dialogue in 2000, which assembled about 500 representatives of small producer organizations. One of its results was a strategy to strengthen small production in order to fight poverty. The "Bolivian Strategy for the Reduction of Poverty" expressed the intention to create a favorable environment for the development of these units. Although they were still seen as activities of poor actors, this was the first official document that recognized the importance of having a legal, financial, and tax frameworks consistent with the characteristics and dimensions of the micro and small enterprises.

In that the same year, the Vice-ministry of Micro-enterprise launched its "National Plan for the Development of Micro and Small Businesses." This document showed an important shift in the state's discourse, since it proposed that these units should be seen as important contributors to national economic growth and job creation. Here the importance of the relationship between producers of different sizes to support each other in their growth and expansion through production chains was finally

¹²¹ Evans (1995).

¹²² During the past decade, several political and administrative reforms have also been carried to improve the public sector's efficiency, through its institutionalization and independence. The Constitutional Court was created to ensure compliance with the constitutional laws, the Judicature Council was formed as the administrative and disciplinary organism of the Judicial Power, and the Ombudsman to guarantee the citizens' rights and liberties. The judicial reforms were also aimed at ensuring the rule of law and, therefore, at preserving an adequate environment for business transactions. To this end, the new Civil Code and Criminal Code were passed. The customs reforms, the civil service program, the public servant statute and the institutionalization of the internal tax service sought to achieve transparency in the administration, which needs to be strengthened in public entities, particularly at the decentralized level. Specific dispositions for different sectors were also approved, such as the Mining Code, the Hydrocarbons Law and the Forestry and Environment Laws. In 1994, the Sector Regulation System (SIRESE) was established through Law 1600 with the objective to regulate, control and supervise the activities carried out in the areas of telecommunications, electricity, hydrocarbons, transport and water. This law established anti-dumping and pro-competition dispositions. SIRESE is conducted by a General Superintendence and the Sector Superintendencies which have a technical, administrative and economic autonomy.

acknowledged. This realization was based on the idea that a shift from underemployment to dignified employment is linked to increased productivity and competition capacity of the small units. The plan also stated that these could only be achieved if coordination channels are institutionalized between their organizations and the state apparatus in those areas where economic and social policies are formulated.

This new policy, originating within an office marginal to the spheres responsible for formulating economic policies,¹²³ shows that an important step was taken towards considering these markets as spaces that deserved more attention from the state. Nonetheless, the most recent public initiatives are still mainly concerned with the legal formalization of those enterprises, with their incorporation into the national tax system, and the improvement of access to financial services. However, the initiatives are not coordinated with other economic policies.

The unequal opportunities to access the core of economic policy decision-making, added to the low level of internal coherence of the state policies, still hamper small production. Local markets of consumer goods still do not operate within an extensive and stable underpinning of common understandings, rules and laws supplied by the state.¹²⁴ Not only formal rules (policies and laws) are relentlessly changing but also new dispositions promoted by different public offices with overlapping responsibilities present contradictions and cumulative requisites. One example of jurisdictional overlap is the existence of two vice-ministries in charge of supporting micro and medium enterprises, the Vice-ministry of Industry and Commerce, within the Ministry of Economic Development, and the Vice-ministry of Micro-enterprises, in the Ministry of Labor. In principle, the first should pursue policies oriented to the general development of the sector, while the second should promote the creation of jobs and the improvement of their conditions. However, it must be noted that the Vice-ministry of Micro-enterprises was created precisely because the other office was not responding to its mandate. Once they began to coexist and because the responsibilities of the previous office were not redefined, their distinction became unclear. Both entities claim authority over the resources for the sector of micro and medium enterprises.

The Vice-ministry of Micro-enterprises acknowledged this as part of a broader problem of coordination within the central government and fostered the creation of a new committee formed by vice-ministries¹²⁵, private agencies, local governments, chambers of commerce, producers' associations, entrepreneurs' associations, NGO's, banks and universities. Its purpose was to overcome the growth barriers faced by small unit

¹²³ The position of this Vice-ministry within the Ministry of Labor did not facilitate its coordination with other ministries in charge of economic policies.

¹²⁴ Zevallos and Velazco (2003), SBPC (2001) and Velazco (2003).

¹²⁵ Vice-ministry of Industry and Commerce, Vice-ministry of micro-enterprises, and Vice-ministry of Finance.

production markets. Even though the “Integral Framework of Policies for a Competitive and Productive Development of the Medium and Small Enterprises,” proposed by the committee, expresses higher ambitions, it is still mainly concerned with financial services.

Although the neo-liberal reforms after 1985 show an important level of coherence in the four subsequent democratic governments (V́ctor Paz Estensoro, 1985-1989, Jaime Paz Zamora, 1989-1993, Gonzalo Śnchez de Lozada, 1993-1997 and Hugo Banzer Súrez 1997-2002), the state has not solved the problems regarding institutional efficiency and efficacy nor has it reduced the political interferences, the corruption and instability of public employment. Political arbitrariness and heavy dependence on external financing have limited the results of many of the reforms implemented during the nineties.

Formal regulation

The state regulates economic transactions through determining the goods and services that are objects of legal exchange, the conditions of transactions and places authorized for commercialization. These plus other rules necessarily imply costs for businesses in the form of taxes, penalties or bribes. The presence of representatives of public order, controlling and penalizing transactions that do not comply with the rules, interferes in everyday activities and affects the capability of economic actors to keep producing and commercializing goods and services. In this section, I analyze the drawbacks of this system of regulations.

Commercial register (personería juŕdica)

The commercial enrollment gives new enterprises legal status in the national territory. The rationale for this requirement includes: a) the increase of state income, b) the improvement of business transparency; and c) the availability of information about the economy in general. In theory, this legal document propels economic coordination by signaling that firms met the minimum requirements and that business deals are backed by the judicial system. This procedure is expected to occur before the beginning of the business operations. But in Bolivia, as in many other developing countries, this registration occurs only after the business is already consolidated. The low level of enrollment in the commercial system becomes evident when we observe the disparity between the number of small units registered in this system and in the tax system, which was rationalized and simplified. As we can see in the following table, seven times more units are registered in the tax system than in the commercial system.

Table 4: Differences between commercial and tax register

Commercial and tax Systems	Number registered
Commercial System	44,972
Taxpayer universe	320,000
Simplified tax regulation	80,000
Complementary regime IVA	35,000
Universe of unipersonal enterprises	205,000

Source: Tax System and Commercial System, 1999.

The expensive fees and the long bureaucratic process are the main factors limiting enrollment. The procedure includes 27 steps and takes around 80 business days. The cost to open an enterprise in Bolivia is 44 times the minimum wage and 3 times the GDP per capita. This is one of the highest costs in the world. It becomes unattainable for most of new small businesses that usually rely on a very limited amount of capital, totally allocated to rent a premise and buy raw materials and working tools.

Table 5: The business registration costs in Bolivia

Indicators	
Steps	27
Time	80 business days
Costs	US\$ 2,696

Source: Djankov, 2000, cited in SBPC, 2001.

Public authorities create new requirements with the only purpose to generate income for the commercial register office. The lack of a legal basis for most of the requisites, which are institutionalized internally through administrative decisions, is an important indicator of their arbitrariness.

Table 6: Legal Basis for the Commercial System

Requirements for the unipersonal enterprises	Legal basis
An application brief signed by a lawyer and presented to the SENAREC National Director	Administrative resolution*
A legalized photocopy of the RUC (the taxpayer identification) and an additional simple photocopy	Administrative resolution

An opening balance sheet sealed by the SIN, the Association of Accountants, and the accountant professional standing	Administrative resolution
A photocopy of the ID card of the legal representative	None
An invoice of the official fee of Bs. 100	None
Publication of the public deed or Constitution Attestation	Code of Commerce
Payment for the official invoice (Bs.100) and Bs.15 for each certificate (whether it be of Constitution or Power of Attorney)	Administrative resolution
A large folder	None
Forms 2 and 2 of Enrollment and Partner Registration provided by the SENAREC and dully completed by the legal representative	Administrative resolution
Form #1 of Trade Name Reserve verified by the SENAREC.	Administrative resolution
An enrollment application brief issued to the SENAREC National Director, signed by a lawyer.	Administrative resolution
A legalized photocopy of the RUC	Administrative resolution
An opening balance sheet sealed by the SIN, the Association of Accountants, and the accountant professional standing	Code of Commerce
Public deed of incorporation (two copies, as a minimum) A power of attorney attestation from the legal representative (two copies, as a minimum)	Code of Commerce
*They do not exist in the current Code of Commerce; therefore, these requirements for the enrollment of the enterprises are illicit.	

Source: SBPC, 2001.

Tax system registration

The implementation of the Single Taxpayer Register (RUC) facilitated the enrollment of small units in the tax system. The simplified tax is a special system for small merchants, artisans and producers to pay taxes in accordance with their capital. The persons eligible for this system must have a working capital between US\$ 256 and US\$ 2,407, at most, and their annual sales must not exceed US\$ 8,850. The applicants must complete a form, show their ID card and a document verifying their home address. Enrollment in this tax system is a requisite for the registration in other systems, such as social security, health care, and municipal working license, among others. It also makes

available other benefits such as incentives and tax credits. Since the tax reform, the RUC has become the most important proof of formality of the economic units.

Labor registration

The registration of workers is one of the most complex and time-consuming legal procedures. All employers who have one or more employees must enroll them in the Ministry of Labor and other public offices responsible for the provision of health assistance, social security and other benefits. The enterprises must also be registered at the National Health Fund and the National Working Education and Training Institute (Infocal). At the Ministry of Labor, the enterprises must fill out an application specifying the name of employees and monthly salaries. This must be accompanied by work contracts. Every three months the enterprises must fill out a new form to update the information of employees and wages. They also have to file any occupational injury, which must also be updated on a quarterly basis. In addition, the workers have to be enrolled in one of the private pension funds.

As in many countries in Latin America, the Bolivian labor law establishes a wide range of benefits for the dependent labor force. However, the structural reforms implemented in 1985 contradict the role assigned to the state by this legislation, which includes the obligation to regulate work relationships and to amply protect workers. The mismatch between the labor legislation and the new economic policies creates a legal vacuum, which opens the opportunity and the need for private actors to move between the different public offices in a zigzag fashion, fulfilling some requirements and overriding others. Consequently, the level of registration of workers in the systems of social insurance and health assistance is low. An estimation made by the Ministry of Labor in 1998 indicated that only 18% of the workers are covered by those systems.

There are many other regulations such as the license of location and installation, occupational health and security, fire prevention measures and specific permits. All these legal requisites presume that enterprises have financial written statements, stability in the payroll and projections for future income. This is not the reality of most of small units of production. Producers deal with the state's interference with their economic transactions through common sense theories that allow them to cope not only with the public offices, but also with the other agents who have a presence in their economic activities. The stories and practices give coherence to the set of collective activities to confront these interferences.

II. COLLECTIVE ACTION, FORMALITY AND THE OBSERVANCE OF LEGAL REGULATIONS

The analysis of the producer associations brings out the importance of ‘formality’ both as the fulfillment of the state’s legal norms and as the explicitness and rigidity of the associational rules. In order to advance our understanding of the organization of collective efforts and economic activities in Bolivia, it is important to revise the different definitions of formality and informality in the literature on organization, development and small businesses.¹²⁶ It is possible to list the following uses: 1) Informality related to the internal firms’ activities not established in the formal/chart structure, 2) Informality as parallel structures of economic coordination to the “market” and the “state”, 3) Informality referring to activities not observing the legal requirements such as certifications and taxes, 4) Informality as criminal activities, and 5) Informality in opposition to the mainstream, accepted as normal by the majority. Most of the discussions conflate more than one of these definitions, but they are all specifications of a more general idea: Informality as an implicit agreement or tacit knowledge, or as unwritten rules of coordination. The concept includes two issues: 1) compliance with the law and 2) formal organization of collective action.

My study found that small producers pursue formality in both senses. They take into account the legal rules established by the state, and their associations have explicit rules of coordination. As for the first dimension, compliance is treated as central to control economic and institutional uncertainties and to foster business opportunities. However, legality is not all-inclusive, since it is very rare to find an economic unit that complies with all the legal rules. Regarding the second dimension, collective efforts are governed by written rules certified by recognized authorities, such as the federations and confederations of producers and the state.

In contrast to these two dimensions, business coordination is highly informal. Transactions do not rely on written contracts backed by the state or other social organizations. Business deals consist generally of oral agreements with weak mechanisms to solve any possible problems. Producers display very little trust in the judiciary system to enforce legal contracts. The absence of the state in this matter has not been replaced by societal organizations, such as business associations, that would be entitled to establish alternative mechanisms to resolve problems, to exert control over the economic agreements, and to impose penalties in case of malfeasance. In comparison with other countries, business associations assume a very limited role in supporting business operations. Within the economic units, the degree of formal

¹²⁶ Stark (1989), Stinchcombe (2001), Medina (1986), Portes, Castells and Benton (1989), Sik (1992), and Sabel (1995).

management devices is very low, consisting mainly in a precarious manual bookkeeping.

Legality

The literature on small businesses and self-employment has emphasized illegality as an important business strategy.¹²⁷ It has been argued that informality, as extra-legality, was the main competitive advantage for a large number of firms in developing countries. This interpretation has framed the policy-making process in Bolivia.¹²⁸ However, my study found that illegality *per se* is not an important business strategy in the urban markets under study. Small producers search to be *de jure* legitimate economic actors through the enrollment of their enterprises and of their associations in some of the public systems, such as the commercial register and the simplified tax system. The compliance with the legal framework is seen as a mechanism of protection against the state itself and other grass roots organizations such as the neighborhood associations.

Producers use the word “respaldo” (support) to indicate that having the papers in order and paying the taxes, protects against hostile actions from the state. It also gives them access some advantages, such as public competitive biddings, educational training and credits. Moreover, from their point of view, being legal gives an adequate stand to question the rules and policies dictated by the state. In other words, they understand that being legal entitles them with citizenship to make collective claims on the state. The way found to adapt to the legal frame is by interpreting what is reasonable and acceptable to comply with. Producers choose in what areas and in what degree to be formal, negotiating their legitimacy as legal economic agents with each of the public entities. It becomes clear that, at the enterprise level, the institutional system is neither monolithic nor interlocking, so that compliance varies with both the particular regulation and the business stage. These units operate in a gray area between illegality and legality¹²⁹ through selecting the advantageous legal requirements while minimizing risks associated with illegality.¹³⁰

The definition of what is important and feasible is forged in the intersection of cultural norms regarding social justice, the advantages of compliance and law consistency. In

¹²⁷ This literature was extensively analyzed in chapter two.

¹²⁸ The influence of this theoretical framework in the policy-making process in Bolivia was analyzed in chapter four.

¹²⁹ Tokman (1992) has discussed the interplay between underground and legality in the informal sector.

¹³⁰ This is not specific of small units of production in Bolivia, since big enterprises also play between compliance with some regulations and non-compliance with others.

relation to the notions of justice, there are unwritten parameters defining what is reasonable to demand and to expect. Producers balance firm's profit and government support. When the unit does not have continuous production or the level of income is too low, there is the common understanding that it should not be registered in the tax system. Producers also compare the additional values their activities generate for others in general and for the state in particular (through the consumption of inputs such as water, electricity and raw materials) with the services and public goods they receive from the state (such as streets, public security, sanitation services and pollution control). Producers find themselves giving more than receiving, which leads them to question whether the demand for additional taxes is reasonable.

As to the consistency of official requirements, Bolivia presents many problems as most of developing countries. In a wide study, De Soto (2000) showed the high costs to small firms to become and to continue formal.¹³¹ However, bureaucratic costs are not a major deterrent for small firms. In Bolivia, legality is generally viewed as not realistic at the beginning of the business, but it is considered appropriate at a later stage. Every step towards formality depends on the income level, the business stability and the visibility needed to maintain its income, which makes the evasion impossible or not worthwhile.

The pragmatic reasoning as to the advantages offered by legality shows a direct correlation with the age and size of business. For new units, usually oriented to low-income consumers, informality offers more advantages. For these, it would be impossible to comply with most of the legal requirements. There is also an inversely proportional relationship between unit size and the municipal license register. Of the units with less than five workers, 50% are registered in the municipal government; of those with 5 to 9 workers, 70% are registered; of those with 10 to 14 workers, 83% are enrolled; and, finally 100% of the units with 15 to 19 workers are registered. Start-up units compete on the basis of low operation costs. It includes flexible labor arrangements where the owner participates directly in production and commercialization with the help of family members. Producers use the household premises and rely mainly on the reinvestment of profit. Non-compliance with some of the legal requirements is a strategy to reduce the fiscal costs of operation. For the consolidated units, informality generates more disadvantages than advantages. In addition to the costs to stay informal, such as bribes, illegality also limits access to the opportunities provided by by the state or by external markets. Even though 81% of small and medium enterprises are directed to low and medium income buyers, 54% have the municipal working license and 47% the single taxpayer register.¹³² This shows that a significant part of the small units comply with the basic documents established by law.

¹³¹ For more details about this argument, see chapter two.

¹³² Vice- ministry of Micro Enterprises (2001).

Table 7: Number of production enterprises with municipal business license.

Number of employees	YES	NO	Does not answer	TOTAL
1-4	49.9%	48.6%	1.4%	100%
5-9	70.3%	28.8%	0.9%	100%
10-14	82.6%	17.4%	0%	100%
15-191	100%	0%	0%	100%
20 and more	100%	0%	0%	0%

Source: Own elaboration with data from the Vice-ministry of Labor, Cooperatives and Micro-enterprises, 2001.

The commercial enrollment is highly valued by producers even though it is also one which least producers have. This apparent contradiction gets less mysterious for outside observers when the producers' interpretation of the parameters of legality is taken into account. Producers argue that registration by the association substitutes this requirement for individual firms, even though law does not state it. This collective reading ends up being a way out of the costs and difficulties implied in getting this document, which amounts to US\$ 1,000. The associations studied asserted that the commercial register is the most important legal document, since it certifies their existence in the political jurisdiction. The members compared it to a birth certificate.¹³³ Most associations have already it, some are in the process of obtaining it and the rest want to have it in a near future. Besides the pragmatic advantages this document offers, its symbolic value gives an enormous satisfaction since it means the associations are legally recognized by the state.

“La personería jurídica le da toda la autoridad a una institución.”

“The commercial register gives all the authority to an institution.”
Member of the association of producers of leather jackets (2000)

As for the labor arrangements, there are some differences among units. The minimum wage may establish a floor for worker compensation in some enterprises, while in others it is recognized that with the irregular flow of business activity the workers' income must also ebb and flow. In such cases, the recognition of the basic survival needs leads to a fluid work relationship. To facilitate this, workers may be allowed to

¹³³ This equivalence was also substantiated by the tax bureau.

supplement their unstable incomes under the umbrella of the enterprise by using the business equipment and facilities for small personal jobs. This is accompanied by an understanding that, in turn, workers must make themselves available in times of high labor demands.

Other requirements such as the register of business names, the copyright, the fulfillment of the safety standards and labor rights, and the quality certification established by the International Standardization Organization (ISO) present lower levels of compliance. The interviewees did not mention these documents except for the ISO 2000. Producers select the documents to comply with by evaluating each of them in terms of three conditions: 1) whether they are useful, 2) known, and 3) achievable. To be useful means that it must bring some benefit for the unit. The document must also be of common knowledge and be comprehensible for the producers. And, finally, it must be possible to comply without jeopardizing their activities. If the legal rule does not fit these conditions, it will not be considered and, therefore, it will not govern market transactions.

One paradigmatic example of the importance of these conditions comes from the experience of producers of electricity meters. They first associated when the national company of electricity COBEE was privatized and became part of ELECTROPAZ in 1994. This enterprise tried to control the internal market for the electricity meters imported from Spain by forcing consumers to buy them together with the energy service contract. The company refused to accept the boxes produced internally by small units and campaigned against this national product when it extended electrification in new neighborhoods. The decreasing demand for the domestically made gauge boxes caused the shut-down of many units in this sector formed by 3 to 8 persons in the following years.

The producers, who were mainly first and second generation-migrants from the countryside and residents in the city of El Alto¹³⁴, but who did not know each other very well until that time, formed an association to confront the ELECTROPAZ actions. First they tried to contact ELECTROPAZ and after many denials, they got a hearing. The company argued that the local boxes did not comply with the security norms and offered a monetary indemnity for the market loss. Before making a decision, the producers decided to contact other organizations such as the Bolivian Institute for Quality Standards (IBNORCA), the National Chambers of Industry and Commerce, the Energy Superintendence and the Vice-ministry of Electricity. In the Energy Superintendence, they found an employee who explained that since 1985 the economic transactions were governed by “the market rule of supply and demand.” He also explained that in the gauge boxes market it meant two things: the IBNORCA

¹³⁴ The president of this association defined herself as an Aymara, a female artisan coming from the countryside; a producer and not an entrepreneur.

certification on the basis of the norm NB77 and low price. Hereby, producers realized that low cost and high quality boxes were the only conditions to continue in business, and that no enterprise could impose one specific product in the market.

After this explanation, the organized producers felt confident to confront ELECTROPAZ. They searched other allies such as the media and the neighborhood federation of El Alto. Based on the arguments of the “free market” and the concept of monopolization to classify the actions of ELECTROPAZ, the association started the struggle to sustain their members in the market of meters. The federation helped them contact the neighbors and restrain the actions of ELECTROPAZ. The media were very important to put more pressure on ELECTROPAZ and the government. The next step was to get the IBNORCA certification. The possession of this document, a significantly lower price than the imported boxes from Spain helped the producers to stay in business. This is an example of how the formal rules that enhanced competition (the anti-dumping regulation and the ISO 2000 quality standards) got to be known and comprehended by a group of economic actors who perceived their usefulness and the feasibility to comply with the rules. They understood the advantages of counting on other norms to make them less vulnerable in relation to a strong competitors.

In conclusion, the answer to the question as to whether informality is an important feature of the business strategy in the urban markets under study, I contend that the degree of legal formality varies, depending on the perceived usefulness, comprehensiveness and achievability. In these markets, the formality strategy is very important in so far as some level of business stability is achieved through *de jure* recognition by the state.

Even though complying with some rules, producers are not safe from abuses by low-ranking public officials who misuse their authority to extract bribes. The probability of detecting problems that will allow them to fabricate a case and ask a “payment” in exchange for “silence” is high because a complete observance of law is almost impossible. The government officials already know what they might find in a small production unit. The potential problems relate to the certifications required to operate according to the legal frame, including connections to the main electricity and water ducts, business registration, payment of taxes, and compliance with social security and occupational safety regulations.

Producers perceive the corrupt behavior of public officials as class and ethnic discrimination. They explain that their poor neighborhoods, their clothes and names and their lack of knowledge about the rules and their rights make them vulnerable. In reaction, they form associations. Once they are not alone to respond to the public authorities, they are capable to lessen these abuses. Producers have learned that low-ranking public officials are more careful when they deal with a group than with isolated individuals. Producers alert each other about a visitor by phone or by sending someone and the message gets passed on quickly to prepare for the possible visitor. These

informational nets are crucial in the defense against abuses, and are facilitated by physical proximity.

“La asociación se ha fundado en función a los abusos de autoridad de la Alcaldía, de extorsiones de parte de la PTJ, de la renta interna; en ese sentido es que se ha fundado esta organización, para poder defendernos, porque muy individual no se puede, así en frente de estas autoridades, porque son abusos prácticamente, se pasan de su autoridad, y así hemos nacido el 6 de septiembre de 2000.”

“The association was founded in response to the abuses from the municipal authorities, the police, and the fiscal offices. The main reason to establish this association was to defend ourselves, because individually it is not possible, in front of these authorities, because their abuses practically go past their authority; that is how we were born o September 6th, 2000.” Member of the association of producers of manufactured clothes (2000).

“Después de la asociación, la renta ya no nos molestan, antes venían a molestarnos, dábamos plata con engaños, ahora les decimos que somos una asociación, ya no nos molestan... ahora pagamos simplificado.”

“After we organized as an association, the fiscal authorities do not bother us anymore; we used to give bribes, now we tell them that we are an association, we are registered in the simplified tax system, and they do not bother us anymore.” Member of the association of wood furniture producers (2000).

“Todos sabemos que es mejor pertenecer a una organización para no quedarse solitarios en algún reclamo, puede ser la renta, la alcaldía ... siempre por eso los mercados cuando se forman en sindicato tiene más fuerza, uno solo no tiene la unidad que hace la fuerza.”

“Everybody knows that is better to be associated with an organization in order to not be isolated in confronting the public offices, whether they be the fiscal agency, the municipality ... This is the reason why when a market is formed in a labor union format, it has more power; a single person does not have the unity that creates the power.” Member of the association of handmade clothes producers (2000)

Formal rules of association

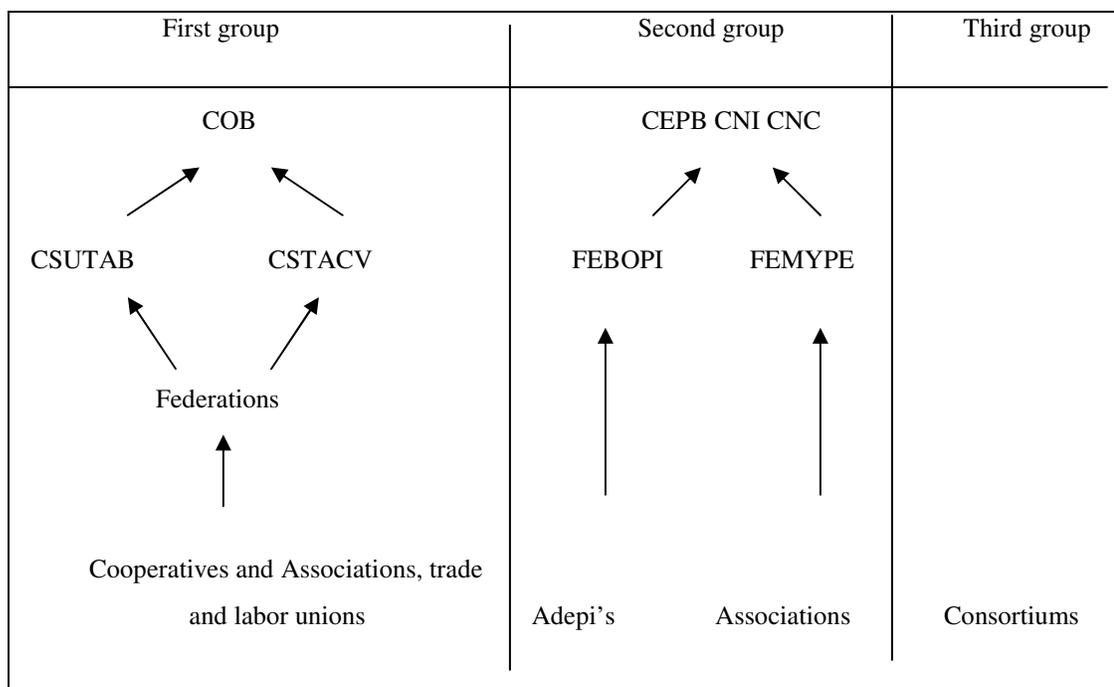
The framework that defines how to behave as a group, the mechanisms to make decisions, is built within hierarchical structures with a staff that systematizes duties and obligations and enforces decisions. The boundaries of membership are clearly defined and there is no ambiguity regarding who is in charge, who the members are, what is obligatory and what the penalties are in case of disobedience. In general, associations, federations and confederations of producers assume a format very similar to that of the labor unions.

These codified frames of collective action are crucial to deal with the uncertain and unstable context because of the absence of consolidated grounds of acceptable behavior in the external environment. As a consequence, producers do not use the state apparatus for support. One of the associations' rules is that problems among members must be resolved internally, without the intervention of the state. This is so because trust in the justice and police impartiality and efficiency is too low and the costs associated with the use of these mechanisms are too high.

In general, the organizational structure consists of three levels: grass roots associations, intermediate associations known as federations, and higher entities called confederations or national unions. Each level responds to different criteria such as geographical extension and sector specificity. On the first level, there are different forms of associations such as mutual funds, trade and labor unions, artisan centers, producer consortiums. The number of these associations is not definite, but there are some estimates of around 500 producers-artisans associations in the capital and intermediate cities of Bolivia.¹³⁵ Most of these associations are affiliated directly or indirectly with the Confederation of Artisans Workers of Bolivia (CSUTAB), founded in 1989. Others are affiliated with the Confederation of Artisans and Traders (CSTACV), founded in 1955. At the same time, these confederations are affiliated with the Bolivian Labor Union (COB). Fewer are affiliated with the Bolivian Federation of Small Industries and Productive Handcrafts (Febopi) and the Federation of Micro and Small Enterprises of the City of El Alto (Femype), with the National Chamber of Industry (CNI) and the Bolivian Confederation of Private Entrepreneurs (CEPB) as their overarching representative organizations. There are also associations that take the form of cooperatives and consortiums that are not affiliated with higher-order federations and confederations.

¹³⁵ CEDLA (1989).

Graphic 1: Three groups of producer associations



Source: Own elaboration.

My qualitative research indicated that most producers are affiliated with at least one grass roots association and many to more than one. Usually, they are affiliated with an association in their production sector (wood furniture, handcrafts, garment) and to a commerce association. In contrast to my findings, quantitative research undertaken by the Vice-ministry of Micro-enterprise pointed out the low level of affiliation – 3,718 manufacture units affiliated as against 23,013 not affiliated. However, this official information is probably not accurate because there is a tendency among the producers to immediately answer “no” to any question posed by unknown inquirers, especially if they are government officials, given the existing low level of trust. My experience has shown me that only with patience, a cautious approach and an adequate rapport are they willing to inform about their social and organizational connections. Furthermore, taking into account the important role played by associations to access marketplaces and to protect their members from state abuse, I am inclined to think that the level of association is higher than that shown in the official data.

The first group in the graphic above shows that intermediate level federations and confederations bring together associations of producers and salaried workers and traders under the head of the Bolivian Labor Union (COB). This organization facilitates an internal union-type structure, a common political discourse and actions characterized by confrontation politics, which include two types of tactics: public pressure and dialogue.

The second group is composed of producer associations and federations affiliated to the Bolivian Confederation of Private Entrepreneurs (CEPB) and the National Chamber of Industry (CNI). Even though this group moves away from the discourse and self-representation of the first, it maintains the strategy of confrontation politics but with a difference sequence of the two tactics. Finally, consortiums and cooperatives with no affiliation to superior entities form the third group.

Confrontation politics

The collective activities and discourses prevailing in all three groups and in all their hierarchical levels reveal that they share the same image of the state as a distant entity in relation to which they have an excluded and marginalized position, although they also conceive it as an entity entitled to represent them and in charge of responding to their demands as members of a geographical collectivity (the city and the country). “To get something from the state” or “to defend themselves from the state” are the recognized common objectives that easily get people together who otherwise are involved in a competitive economic dynamic. The history of the producers’ organization and their relationship with the state taught them to understand that their main collective interests are to defend themselves against the hostile actions from the political and economic elites, to enhance their recognition as legitimate members of the polity and to access benefits given by a discretionary state.

Small producers lack “*de facto*” recognition by the state as important economic actors. They are submerged in a regulatory nightmare perceived as more harmful than useful for their economic transactions. The legal rules and economic policies that directly affect their activities usually are known *ex post*, without any consulting process taking into account their interests and points of view. Small producers invest a great amount of time and efforts to understand the new public dispositions and to figure out how to reorganize their market activities so that they can function within or around the ever-changing legal dispositions. Lack of information and closed channels of communication with the state have the effect that their demands for specific regulations and norms are not seriously considered by the state.

Producers narrate two recent experiences that are worth describing in order to better comprehend this “*de facto*” marginalized political position. In the wood furniture sector, there is the generalized complaint about a new forestry law (n. 77) that prohibited the commercialization of motor-saw lumber, which is the most affordable. The producers were informed about this new law only when it was already passed. They were not included in the process of consultation and negotiation that took place before its promulgation in 1996. The social actors involved in the process were those identified by the government as having direct interests in the amendment of the old legislation of 1974. These were: political parties, entrepreneurs linked to the lamb

sector, ecological organizations, indigenous people located in the Amazonian area, international organizations, peasant organizations, civic committees, municipalities and the media.¹³⁶

Small producers of wood furniture were left out, although the entrepreneurs of wood furniture were included. What is important to highlight is the lack of articulation between small producers of wood furniture and the organizations included in the consultation and negotiation process, especially the political parties, the entrepreneur associations, and the municipal and central governments. The sector's lack of visibility in spite of its interests in the modification of the law and its omission as an eligible counterpart are striking. This general absence of links is the main factor that inhibits their possibility of anticipating the impact of such legislation on their economic activities, and it explains their non-action during its elaboration.

Even though there are justified ecological and economic reasons to prohibit this method of cutting trees, the impact for an important segment of the wood furniture market was not considered in the process, and therefore, not a single public initiative was taken to prepare and facilitate the adaptation of the producers to the changes introduced by the new legislation. They, in turn, had to quickly create strategies to be able to continue in their activities, such as bypassing the law. This increased the costs of their transactions because the wood became more expensive and bribes began to be paid.

A similar experience occurred in the sector of manufactured clothes in general and jackets in particular. There was a struggle to control the legal and illegal import of used clothes. Producers tried a number of initiatives to discuss the problem of the used clothes, while it was still a controlled phenomenon. These efforts took advantage of every open channel with public authorities, such as seminars organized by the national and municipal governments, written communications, personal audiences, as well as street riots and public demonstrations. Actors expressed their worries about the "unfair competition" coming from both smugglers and legal import of used clothes without any type of control. These clothes (donated by charitable organizations in industrialized countries, mainly the United States of America, and then commercialized by intermediaries in developing countries) were in direct competition with their products in a market niche oriented to low and medium income buyers. Producers demanded the prohibition of imported used clothes or, at least, a better system of customs and sanitation control, since many of these clothes entered the country infected with diseases such as scabies. In 1997, the Supreme Decree 24691 regularized the used clothes imports instead of prohibiting it.

The producers consider unacceptable the easy entrance of goods to be sold in internal markets at prices that do not reflect the costs of production. In their words, it establishes an unfair competition in internal markets and reinforces the demand for low-price and

¹³⁶ This process was documented by Cedla, Tierra and Promab (1998).

low-quality products. Easy entrance is also interpreted as benefiting the importers who have close connections with politicians. The presence of the used clothes has disarticulated the production market of manufactured clothes and caused the closing down of many small and medium units that were expanding until that time. In December 2002, the producers of manufactured clothes, through their associations, organized a new wave of street riots to demand the improvement of the customs control of used clothes. They accused the public authorities of lack of political will to solve this problem.¹³⁷

The decrease of the relative importance of the manufacturing sector in relation to those of commerce and service, within the universe of small and medium economic units in the last ten years, corroborates the problems indicated by the interviewees as to the continuity of their economic activities. In 1992, 51% of small units were in the commerce sector, 29% in service and 20% in manufacturing. In 2000, the commercial units ascended to 56%, the service units maintained the same percentage, and manufacturing descended to 15%. This means that in the last 10 years the relative participation of the manufacturing sector fell 25%.¹³⁸

Both examples show how the “*de facto*” exclusion of the small production units by the state is experienced concretely and generates responses that fit into the confrontation politics strategy. The image of the state as an organization that controls resources and distributes them among different groups through public policies or corruption activates the shared understanding that the open route for those who are not included in the social networks that tie the state to the economy is through confrontation politics. This strategy arises from the understanding that only in great numbers and through demonstrations that disturb urban life, authorities will hear their demands and give them answers. It is not their “quality” as legitimate economic actors, who produce wealth and contribute to the development of the country, which will make them be heard and seen, but their “quantity” as it poses a threat to the peaceful stream of the economic and social everyday life. The presence in public spaces through “getting bigger” by demonstrating numerical importance is seen as the most effective way to participate in the public policy decision process.

“Hacemos eco de nuestras necesidades.”

**“We echo our necessities.” Member of the association
of micro-entrepreneurs and producers of the city of
El Alto (2000)**

¹³⁷ La Prensa, December 8, 2002.

¹³⁸ Vice-ministry of Micro enterprises (2001).

“Queremos ser más hartos, comprendemos mejor, también luchamos juntos, sabemos muy bien, cuando somos más hartos, nos hacen caso mejor.”

“We want to be many more; together we understand better; we fight together, we know very well that when we are many, we are taken more seriously.”
Member of the federation of small producers in the wood furniture sector (2000).

Artisans and producers interpret this lack of recognition on the part of the state as unfair, since they consider themselves important contributors to the economic and social development of the country. They feel that their internal market deserves more attention and care by the state, since they generate goods and employment. The confrontation politics that arise from this perception include two types of actions to make claims on the state: 1) public meetings, associational marches, demonstrations, strikes and similar actions, and 2) the coordination with authorities, dialogue, and the presentation of programs to public authorities. The expressions used to explain the first type of actions are: ‘to take something from the state’, ‘to confront it’, ‘to react to a position adverse to us’ and ‘to beat them’. As to the second type, they use: ‘to open discussion spaces’, ‘to coordinate with authorities’ and ‘to channel demands’.

These actions are usually employed together, even though the order varies. The first group of associations (graphic 1) uses strikes and public demonstrations as its main tactic and secondarily uses dialogue whenever the state opens institutional spaces of coordination. The second group tries to rely mainly on a direct coordination with the state and secondarily use the tactics of street riots. The third group displaces individual efforts to enhance their economic activities in coordination with public offices and private organizations with a lower political contour.

“Yo como dirigente tengo que convocar marchas, darle un puñete en el codo de los gobernantes para que ellos se den cuenta que nosotros existimos. Ministerios ocupados por burócratas insensibles, sabemos que no nos escuchan y no hacen lo que deberían para mejorar la producción.”

“As a leader, I have to organize street riots, we have to beat the government representatives to make them understand that we exist. The ministries are occupied by insensible bureaucrats, we know they do not listen and they do not do what they should to improve production.” Member of the syndicalist Confederation of Artisan Workers of Bolivia (2000).

“Nuestro propósito no es hacer huelga ni manifestaciones callejeras, si no dialogar con el gobierno, pero si esto no resulta entonces somos obligados a esto.”

“Our objective is not to strike or riot, instead to have dialogue with the government, but if this does not work then we are obliged to do the first actions.” Member of the association of Small Industries and Productive Handcrafts. La Paz (2000).

I saw the confrontation politics at work in following the movement of small borrowers in 2001. They demanded the intervention of the government in order to reschedule the debt payment with the micro-credit system.¹³⁹ This movement escalated to asking for attention through months of marches in the streets of La Paz and demonstrations of semi-naked people, to keeping the employees of the Superintendence of Banks as hostages. Only with this last extreme and violent tactic, after six months of collective mobilization, the micro borrowers were able to meet the government authorities to discuss their problem. This episode, which is not an exception, highlights the pattern of communication established between the state and the “excluded groups”: the reaction only comes after actions that interfere in the everyday life of the cities or when they become a problem of “public security.”

The alignment with dependent workers and the confrontation politics have been effective for the acknowledgment (of these groups) as members of a polity and for group consolidation, although they have shown poor results for their recognition as legitimate private counterparts of the state. The identification of the difficulties to achieve this last objective has led to the displacement of organizational strategies in the last decades. As I discussed in chapter four, first artisans and producers struggled to distinguish themselves from merchants in terms of interests and objectives. Later on there was another division marked by the founding of a new organization - the Bolivian Federation of Small Industries and Productive Handcrafts (FEBOPI) and grass roots associations (ADEPI's). This organization followed the model of National Chamber of Industry (CNI) and the Bolivian Confederation of Private Entrepreneurs (CEPB) with whom they were affiliated. This led to the formation of other associations, such as the Federation of micro and small enterprises of the city of El Alto (FEMYPE). These entities forged discourses and practices with new profiles. They proposed specific economic policies and channels of coordination with the state, trying to take their place on the side of the “legitimate entrepreneurs”. The displacement of this second group is reflected in their self-identification as an association of micro-entrepreneurs and entrepreneurs.

¹³⁹ This system is analyzed in chapter six.

As a result of their alignment with entrepreneurs, the new discourse and the priority given to the tactic of dialogue with the state, these groups lessened the distance, to a certain degree, between themselves and the political and economic elites. They became the main federations with which the Vice-ministry of Micro-entrepreneurs began to coordinate the promotion of policies for the sector. However, this is a limited achievement because they do not have the status of peers within the entrepreneur confederations and chambers, and because this Vice-ministry occupies a marginal position in the state apparatus, for it is located within the Ministry of Labor and not within the Ministry of Industry and Commerce, as they demanded.

Nonetheless, the creation of associations under new organizational templates and the establishment of a public office responsible for the development of the micro entrepreneurship are signals of change. The Vice-ministry of Micro-enterprise elaborated a law proposal for the enhancement and development of small producers in coordination with some of the producer associations, as for instance the Bolivian Federation of Small Industries and Productive Handcrafts (FEBOPI) and Federation of Micro and Small Enterprises of the City of El Alto (Femype). This law proposes a series of national and municipal measures that, although they have not been fully implemented, are aimed to create a better institutional environment for their activities. Some of these measures are bonuses for technical training, the granting of an entrepreneur identification document with national validity that authorizes its owner to participate in the provision of goods and services for the state, as well as the development of studies to identify the problems in the production chains in selected sectors, mainly related to the agro-industry, so as to design more pertinent policies. Efforts have also been made to show the sectors' contributions to the national economy and to the generation of employment, as well as, to illuminate the institutional and economic difficulties they have to face.

These new public initiatives are still marginal in relation to the core of the economic policies and the regulation system. Therefore, there is still a long way to go until significant changes in the policy and regulatory arrangement may be achieved and, consequently, a new relationship between the state and the small producer associations can be established.

CHAPTER SIX: DEFENSIVE PRODUCTION MARKET

The discussion in this chapter is directed to the mechanisms of mediation and control of economic transactions that form a specific model of market coordination adapted to the risks and incentives spreading from the institutional and economic environments. Through an empirical description of the multiple ways of engaging in transactions from stable relationships within and between firms, membership in business associations, arm's-length and dyadic exchange between firms, I disclose the enabling and constraining effects of the arrangement of policies and legal regulations, and the network of direct relationships on the organization of market transactions.

This chapter is organized in three parts. The first provides a general characterization of markets formed by family owned enterprises oriented to profit maximization that display significant heterogeneity between firms in terms of production structure and market incidence. The second part analyzes the coordination system of production for consumer goods formed by small production units of fabric and leather jackets in the cities of La Paz and El Alto. The third part synthesizes the social arrangements that regulate economic transactions.

I. GENERAL CHARACTERISTICS OF SMALL PRODUCTION UNITS

The Federation of Micro and Small Enterprises of the City of El Alto (Femype) describes their associates as “enterprises that are managed by a natural or juridical person under any form of organization and managerial form that develops a productive or commercial activity. The main characteristic of these enterprises is that they are managed and operated by the owner, with a mediocre market incidence, low degree of division of labor and low level of capital.” (Femype, 2000 translation is mine) This self-portrait of the market makers expressed in a cheap quality pamphlet and openly distributed in every meeting or public occasion provides interesting leads as to who they are and what they are aiming for as an organized collectivity. First, it expresses the enormous organizational heterogeneity in terms of capital, division of labor, and access to technology and market incidence. Second, it also points out the existence of a common ground found in the combination of ownership and management, a central characteristic of family owned enterprises. Third, this portrait shows an awareness of the difficulties to capture market shares at home and abroad, revealing thereby the willingness of the group to accumulate capital.

Heterogeneity

In an effort to categorize the great heterogeneity among small and medium enterprises that compose local markets, I propose two extremes in the types of economic enterprises: one formed by units overwhelmed by basic problems, and the other where the units are already in a position to expand their economic opportunities and increase the chances to profit and accumulate. Startup units are the majority of the first type while those with at least five years in the business predominate in the second type. There is a continuum between them that may be captured by observing the trajectory of individual firms over time.

There is a correlation between time in the business, volume of capital invested in technology, number of workers and market share. The total investment per unit of production, for instance, ranges on average between US\$ 2,800 in the first type and US\$ 83,500 in the second. In direct proportion to the total investment, the sale volumes oscillate between, about US\$ 1,000 and US\$ 24,700 per month. Most enterprises offer cheap and low quality products to local and distant marketplaces for low-income buyers. Others are aimed to high and medium-income buyers who demand medium quality and novel products. The latter are national consumers, whose benchmark comes from medium quality products of international markets with which they compare quality and price of national products. And, finally, only a few units export their products to medium and high quality segments of international markets.

We can observe the differences in technology by looking at the distribution of units that use electricity (57, 7%) and those that have only manual technology (34,4%). Among the first, there is an important variation in terms of the complexity and diversity of the machines as well as their quality and durability. Within this group, most units, however, have less complex technology and are localized closer to the first type.

The analysis of the economic units that are members of formal associations, such as Femype, confirms the significance of their differences already documented in the literature about informal economy in developing countries¹⁴⁰ and the studies on industrial clustering¹⁴¹, although their relation to collective efforts to intervene in the institutional and competitive environment was not fully explored.¹⁴² A question that

¹⁴⁰ PREALC (1974) (1978), Mezzera (1988) and Carbonetto (1985).

¹⁴¹ Rabellotti and Schmitz (1997).

¹⁴² Some studies that address this issue are Lyon (2003), Ramirez (1999) Peiro and Dominguez (1999).

arises here is why successful small entrepreneurs do not choose to exit their business associations and rather prefer to stay side by side with less successful counterparts.

I have suggested in chapters three and four that the answer may be found in the interplay of two important factors. The existence of social barriers in a highly stratified society that do not allow these entrepreneurs to be seen as equals in other formal associations of “higher status” and the importance of maintaining social memberships in the circuits that not only give them recognition and prestige, but are also an open channel to receive information and to make claims to the State. I enrich this analysis here by observing how this format of collective action is connected to other mechanisms of mediation and control of economic transactions in building a specific model of market coordination in which the producers “select” some areas to deepen inter-firm dependency, while keeping others as a realm of independency by internalizing transactions as much as possible in separate units of production.

Family owned enterprises

Beneath these differences, there is a common ground to all the units along the continuum between the two types of economic organizations described. They are all family owned enterprises, most of them are located in the same space or close to the household, and family members are involved in the production process. This overlapping of two units of production of goods and services, the first one for direct consumption (the household) and the second for the market (the firm), has been analyzed in the literature in terms of the negative and positive effects of family owned enterprises in the structuring of production markets.¹⁴³

The negative side is associated with interferences of the daily household work in the production of marketable goods. It was also pointed out that there was an absence of a certain isolation of the production process necessary to achieve the best results from the resources used on a timely basis. Additionally, there is not always a match between the skills required and the available family members. There is also the problem of separating the family and work roles and an unclear definition of work expectations and compensation. This may weaken the establishment of quality standards for the workers.

The positive side is related to the flexibility to adapt quickly to changing circumstances. In La Paz and El Alto the decrease in demand is confronted by diminishing and, in extreme cases, interrupting the production, facilitated by the deployment of family labor. There is also the possibility of playing with different combinations between family and waged workers depending on demand. This is

¹⁴³ Ram (2001), Sanghera (2002) and Ozcan (1995).

essential to maintain a constant flow of cash that allows the unit to respond to expected and unexpected family and business needs.

Beside these pragmatic effects of family involvement in business units, I pay special attention to the process through which kinship and neighborhood relationships extend into economic interactions. In my analysis, I explore the connection between the concrete organization of family owned enterprises and the organization of market transactions, which resides in the fact that the meaningful economic practices are produced and reproduced within and between family households. These personal relationships not only give sense to what is worth doing in the economic sphere but also structure the way of doing it, through the channeling of material and nonmaterial resources and the opening or closing of opportunities to cooperate in the flux of transactions.

Profit and economic accumulation

The third aspect of the self-portrait is related to the shared goal of capital accumulation. The producers display interest in the market future by acknowledging the difficulties to keep the unit viable as well as to make it grow. The business strategies will be analyzed in greater extent later, for now I want to emphasize that the search for profit and material accumulation is not incompatible with risk aversion attitudes as was implicitly and explicitly suggested in the literature on developing countries.

The studies on informality opened a strong debate around the “economic logic” that governs the first type of economic units without an exhaustive analysis of how these units gradually were able to move toward the second type. Some suggested the dominance of survival logic as opposed to a capitalist logic. This other “rationality” – survival instead of profit – was explained as closely related to the “structural” characteristics of the production process such as low level of capital, intensive use of family labor and the marginality of formal regulation.¹⁴⁴

The economic difficulties, that means, having little capital, limited access to up-to-date technology and well trained workers, low quality inputs in addition to the absence of adequate policies lead the majority of these units to work on a day-to-day basis and thereby impede the undertaking of certain alternatives open to prosperous economic actors, such as taking profitable risks and investing in new opportunities. Short horizon of action, observed by other analysts¹⁴⁵ and confirmed by the present

¹⁴⁴ This argument was discussed in chapter two.

¹⁴⁵ Golte (1980), CEDLA and FLACSO (1988), Portes, Castels and Benton (1989).

research, should not be interpreted as a different kind of economic behavior incongruent with profitable activities. On the contrary, looking at the structural and cognitive conditioning of this economic behavior, in terms of the limitations and incentives to take risks within a set of environmental uncertainties, I could understand the social construction of calculative activities that reproduced themselves for a long period of time, although they have remained unable to enhance their competitiveness in national and international markets.

II. COORDINATION OF INTERDEPENDENCY THROUGH UNEVEN LEVELS OF COOPERATION

The analysis of the transactions uncovers the many mechanisms that regulate the production flow in local markets formed by small units. Accumulation, in this specific institutional and economic environment, requires important efforts to cope with risks in order to maintain the units of production operating and to generate new business opportunities. These efforts are built on endogenous notions of competition and market that emerge in the processes of production and exchange.

The strategy of competition that places certain transactions within a firm and others between firms is formed by efforts to cope with practical problems framed as risks involved in decision-making processes. This strategy is pervasive along the continuum between the two types of production units. As I have already pointed out in the first chapter, the sources of risk identified by the producers are: 1) changes in market conditions provoked by decisions taken in national and international political arenas, 2) problems coming from the microeconomic environment and the administration of the business, and 3) personal and family ill fortune.

These uncertainties arise from the social interdependency that constitutes economic life. The dominant strategy to minimize the unexpected events that may threaten the continuation and stability of economic activities consists precisely in minimizing interdependency as much as possible by avoiding systematic inter-firm cooperation in core business activities, while incorporating other levels of inter-firm cooperation mainly to approach the state, to access marketplaces and to create a safety-net to handle personal misfortune. The conjunction of actions undertaken by the actors produces and reproduces a regime of coordination that is perceived as effective in dealing with the risks emanating from interdependence.

The conditions that construct this strategy are to be found in the social structure and the institutional context in which these concrete economic transactions are embedded: the arrangement of policies and regulations, the collective identity and formal associations, and the deeply rooted concepts and ways of reasoning within the

network of direct social and economic relationships of producers. These conditions lock actors in old practices that keep them from building potentially better grounds for production and exchange.

First, there is the unfriendly arrangement of policies and regulations. The State's lack of support for internal markets and the inefficiency of the regulatory system have a direct and indirect impact on the production markets. The absence of economic policies oriented to support producers to overcome problems in the transactions from access to inputs to the commercialization of final goods directly constrains the opportunities and resources available for producers, and, therefore, creates incentives for the perpetuation of the known competitive strategy. The inadequate regulatory system also obliges producers to maneuver around legality, which not only consumes time, money and effort, but also makes them averse to strengthen their visibility and contact within the business community.

This adverse legal and policy arrangement reflects the limited institutionalized channels of coordination between the public centers of economic policy decision-making and small producers in local and national markets. It has an indirect effect on the competitive regime because the format of association and the scope of collective activities resonate with this distant and hostile state. The defensive and paternalistic relationship between producer associations and the state contributes to maintain intact the boundary between collective interest and competitive interest. The chance to broaden the understanding of the benefits of deepening inter-firm cooperation is, then, restrained within a policy and legal context that diminishes the incentives to bet on the sharing of risks.

This leads to the **second** condition related to the collective identity and the format of collective action. The producers find themselves occupying two parallel social positions: one of exclusion from the social circuits and formal associations that are defined as the legitimate counterparts of the state in the economic development of the country, and another of inclusion in categorically circumscribed groups with whom they are personally connected. These simultaneous positions are the result of a historical process of social stratification that built barriers and distances between groups on the basis of ethnic and social categories and closed circles of interactions.

The producers' identification as socially marginalized actors and their alignment with wageworkers under the union labor format of association entailed specific frames to behave as a group, the mechanisms to achieve decisions and the strategies to employ that constrain their sense of community of interest and the scope of present and future action. Collective activities promoted by the producers' associations are encapsulated in a defensive and paternalistic relationship with the State. In fact, they are involved in initiatives to solve everyday problems such as the control of public harassment from low ranking bureaucrats, the payment of taxes and the compliance with legal requirements to ensure the functioning of their economic units. Besides these, they

also pose demands to get direct help in money, cheap infrastructure and lower or no taxes.

Activities oriented towards the business community are practically restricted to the access and regulation of marketplaces where they sell their products. For instance, the associations do not play any significant role in setting an effective system to promote business deals and to implement control mechanisms to back them up. They do not contemplate activities to help firms to achieve certain levels of formality so as to facilitate transparency necessary to socialize risks between firms or procedures that would create incentives to comply with business agreements, nor are they concentrated on enhancing the contacts within the business community in order to improve the access to, and quality of, raw material, technology and capital.

This organizational format reinforces and reproduces local practices and meanings attached to competition and cooperation in a system of coordination centered on the internalization of the production process within firms, while it does not offer social and organizational resources that would support the evolvement and deepening of inter-firm transactions.

This, then, brings in the **third** condition of the deeply rooted concepts and ways of reasoning within the network of direct social relationships. In order to act, economic agents engage in a process of interpretation of situations, definition of uncertainties and the establishment of possible ways to deal with them; a process that does not occur within isolated minds. On the contrary, it involves dialogue and conversation between individuals directly related to each other. The social nature of this process creates a sort of common ground of references and scales that allow economic actors not only to evaluate daily problems and make decisions about how to handle them, but also to believe that their evaluations are the “true” apprehension of reality. The overall results are orders of routines, cognitive frameworks, institutions and practices that stabilize production and exchange activities according to shared expectations about market competition and economic efficiency. These established understandings are reflected in a common language on transaction and production matters, contracting rules as well as agreements as to what aspects should be shown or discussed with one another and which should not.

The tangible output of this process of interpreting and acting consists of goods that, once produced for general buyers, are submitted to the test of finding concrete ones. The outcome is, then, interpreted and processed by producers based on the available cognitive and social resources. The explanations that are given to justify possible imbalances or balances between expectation and realization usually reassure past strategies and justify the current economic coordination.

In other words, the combination of these three aspects of the social structure reinforces the “adequacy” of old practices to maintain their units of production, and sustains local ways to respond to incentives, as well as, to deal with risks present in

the business environment. This explains the continuity of the model that locates core activities for the fluidity of production within the firm and the peripheral activities outside it. From the producers' point of view the uncertainties related to their micro environment of transactions pose risks that are better controlled within the unit of production, while the uncertainties that are associated with the macro political context and personal ill fortune shall be better dealt by inter-firm association.

The strategy through which they internalize the production process defines rigid firms' boundaries that have proven very resilient to change. These boundaries confine the division of activities to the realm of separate family businesses composed by spouses, children, trainees and paid workers. Systematic economic cooperation occurs within firms and not between firms. Yet the production process is only possible by establishing loose connections with the other units, hence making information, knowledge and resources circulate. The transference of tangible and intangible resources occurs in arm's-length and dyadic relationships.

In what follows, I analyze the transactions in the flow of production in the market of fabric and leather jackets as part of a market configuration structured through direct social relations that are part of a broader institutional and economic context. For analytical reasons, I divide it into three phases: upstream connections to access technology, raw material, information, workers and capital, the production connections to aggregate value, and downstream connections of commercialization of goods. It is important to notice that these phases constitute a sequence of activities that end up in a final product, although performed simultaneously by the unit owners.

Upstream connections

Capital

The capital for opening a new business comes mainly from money saved during the learning process as an apprentice and wage worker. There are also reports of relatives who help by lending material, technology and a place of business. Once the business is running, the most important source of capital is reinvestment of profits (67% of the cases). Outside the firm, other channels to raise capital are personal relations including relatives and friends, the rotating credit named "pasanaku," and impersonal ones such as informal moneylenders and micro-credit systems that appeared at the end of the 80's and proliferated during the last decade (90's). Banks were only used by 4% of the producers.

Table 8: Sources of capital for small firms

Reinvestment of profit	Relatives and friends	Rotating credit "Pasanaku"	Informal lenders	Micro-credit systems
67%	4.5%	4.5%	10%	4%

Source: Own elaboration with data from the present research.

The institution of "pasanaku" has been described amply in the literature, as it is widespread in many societies.¹⁴⁶ Geertz describes it as follows:

"The basic principle upon which the rotating credit association is founded is everywhere the same: a lump sum fund composed of fixed contributions from each member of the association is distributed, at fixed intervals and as a whole, to each member of the association in turn. Thus, if there are ten members of the association, if the association meets weekly, and if the weekly contribution from each member is one dollar, then each week over a ten-week period a different member will receive ten dollars... If interest payments are calculated... the numerical simplicity is destroyed, but the essential principle of rotating access to a continually reconstituted capital fund remains intact. Whether the fund is fixed by lot, by agreement, or by bidding; whether the time period over which the society runs is many years or a few weeks; whether the sums involved are minute or rather large; whether the members are few or many; and whether the association is composed of urban traders or rural peasants, of men or women, the general structure of the institution is constant." (Geertz, 1962).

Belonging to a rotating credit association is a way to save money and raise capital. The members of this temporary association are socially connected through kin ties, friendship, common acquaintances or vicinity. This is a very reliable institution with low report of failure in Bolivia. The strength of social linkages is visible in the effectiveness of the horizontal pressure in ensuring the meeting of obligations.

The high collateral and loan guarantees required by formal banks limit small producers' access to this type of credit. But producers also point out social barriers to approach the bank system. Most claim that banks are reluctant to lend money because they do not fit the client profile. Interviewees told stories about how they experience fear and discomfort when entering banks. The disregard and surprise displayed by the employees are the main indicator of a mismatch between them and the standard clients; a behavior that is reinforced once confronted with the producers' lack of

¹⁴⁶ Ardener (1962).

familiarity with the vocabulary and procedures expected in those offices, and, worse even, their impossibility of responding to the formal requirements. It seems that producers cope with these constraints by convincing themselves that is better not to have debts, or at most small ones, in order to guarantee business survival. In this matter the producers tell many stories about others who had to close down their businesses because they could not pay their debts because of low sales, use of the income to meet family needs, mismanagement and stiff competition. The four percent that do access the formal banks are those who have a better market position; most of them are already exporting their products. Producers also reported the important role played by sons who had been in colleges and universities to help them in this transaction.

Bilateral and multilateral organizations, government and NGO's identified financial constraint as the key barrier for small business growth. This "finance-first approach" led to the opening of micro-credit banks specially directed to these borrowers. As in other parts of the world, these initiatives, called "peer lending" or "micro-lending", consist of loans that are collateralized not by goods but by a group of people, who first gets assembled and then takes joint responsibility for the loan. The group receives new loans only when the books are at least partially cleared on the original loan. One of the first experiences with this system was the Grameen Bank of Bangladesh.

The "solidarity credit", as it is called in Bolivia, became an "alternative" for small businesses to raise capital. This modality of lending money emulated the above-mentioned traditional "pasanaku." This micro-credit system operates with peer lending which offers short-term credits of relatively small amounts of money with twice or three times the interest rates offered by formal banks. The justification of these high interest rates is based on the supposed high risk of credit to small and medium enterprises resulting from what economists call information asymmetry, that is, difficulties to access accurate information about the financial situation and productive capacity of a myriad of small enterprises.¹⁴⁷ But the significant profit made by this system challenges its own argument. Managers also defend the high interest rates by arguing that "solidarity credit" is still the best option for small businesses since formal banks are not a viable alternative and informal lenders charge interest rates as high or higher than theirs.

The fact is that micro-credit systems did not become a viable alternative for the majority of small businesses in the manufacturing sector (only 10% used it), mainly because of those interest rates, the short-term lending and the small amount of money offered. Most clients of this system are traders who deal with legal and illegally imported merchandise from neighboring countries, which are mainly directed to low-income buyers and have a very negative impact on the local manufacturing sector.

¹⁴⁷ FUNDAPRO (1997) and Gonzales and Rivas (1999).

By adopting the familiar institution of the *pasanaku* within the system, micro-credit was very successful, with only a 2% of payment delay until 1997. Then delay increased significantly mainly because of an effective control of smuggling by an improved customs agency and the coca eradication policies that restricted the volume of illegal money circulating in the national economy. Both affected specially traders dealing illegal merchandise, the main client of micro-credit systems.¹⁴⁸

Money raised through relatives, friends, and via “*pasanaku*” is always limited and most of the time is not available at all. This explains why producers do not see it as a source of capital. Adding this to the fact that producers hardly have access to formal banks and face the disadvantages of micro-credit, they mainly rely on personal savings and reinvestment of profit into their units. This situation creates pressure for they depend on money from weekly trade to be able to buy new inputs and also to maintain the production flow. These are severe obstacles for small business in general, and for long-term strategies of inter-firm cooperation in particular.

Technology

In the leather and fabric jacket markets, two sorts of providers make machines available: illegal merchants and shops that represent international enterprises. New units mainly use the illegal provision of cheap second- or third-hand machines made in China and Korea. In general, the merchants do not know the machines’ mechanics, or the use of accessories, and they do not provide spare parts. Therefore, very few offer additional services of support and repair. The inadequate knowledge of these machines on the part of the producers is responsible for their insufficient exploitation. The legal shops offer Japanese and Chinese machines, as well as maintenance and repair services. The clients are the consolidated small units that produce better quality goods and are willing to pay higher prices for their inputs. With both providers, transactions are usually paid in cash and rarely have long-term payments.

The decision to buy these machines, tools and other inputs is based on: 1) a precarious knowledge of their characteristics, obtained mainly through occasional meetings with other producers, and 2) low price. In my research I found no report of private or public organizations offering help to access or use these or new technologies or of producer associations implementing support or services. These last ones do not consider this type of activity their task and also lack the necessary knowledge to offer this service. Therefore, within the business community of small units, there is limited exchange of information and knowledge that could lead to the development of new and own technology and a better use of that which is available.

¹⁴⁸ This situation originated the movement of small borrowers analyzed in chapter five.

Added to the scarce economic resources and limited information, such as specialized magazines, internet, etc., this situation hinders the producers' possibility of broadening their view about their situation in comparison with other producers and about new trends in technological change.

Raw Material

Raw materials for the production of fabric and leather jackets, such as textiles, buttons, sewing thread, glue, string, lining and sponge, are accessed through providers concentrated in two specific streets in a commercial zone of La Paz. In these streets there are more than 60 shops, 70% of which have a daily sale up to US\$ 57, 15% between US\$ 57 and US\$ 114 and 15% between US\$ 114 and US\$ 344. The merchants are intermediaries that sell raw material imported by a small group of Chinese and Koreans. The leather for the manufacture of jackets is 100% national. There are three channels of leather provisioning: 1) Big and medium tanneries such as Macubol, Unicuero, Illimani, Proinco and Andino. Most of the leather is exported and, that which cannot be exported because of its low quality, is sold internally. 2) Medium tanneries managed by ex-employees of the big companies. These are the main suppliers for local small producers of leather jackets. 3) Small tanneries owned by leather jackets' producers. Producers integrate this activity to overcome the difficulty to obtain leather in high demand seasons.

Most of these transactions are characterized by frequent 'individual go-alone' purchases in small quantities, in an arm's-length transaction with sellers. Payment is in cash and there is no credit or additional services. When the purchase is large, up to US\$ 10,000, the conditions change, as they will include credit, exclusive material and additional services such as transportation and information on new materials and accessories, thereby making the producer-merchant relations more stable. The purchase of raw material takes place on specific days. During these moments, producers meet and exchange information about the quality of raw material, possibilities of negotiation with sellers, new locations to commercialize their products, etc. Usually, these exchanges occur in pairs, through informal chats. Eventually these meetings can result in one producer leading another to become member of his/her formal association.

“Ciertos colegas se juntan cuando van a comprar material, siempre hay conversaciones, siempre son amigos, entonces como trabajadores en el mismo sector, nos juntamos ahí, van comunicándose, enterándose de novedades...”
“Some colleagues get together when they go to buy raw material, there are always conversations, they are friends, as workers in the same sector, we

get together at these moments, we communicate, we get to know about new things.” Producer in the fabric jackets (2000).

What is striking is that these regular meetings, which occur every week or almost every other week, and membership in the same association do not generate cooperation to solve common problems such as the scarcity of raw materials in high seasons and the difficulties to purchase it in high quality. Producer associations do not assume a role in the improvement of the supply channel that would include breaking down the monopoly of the import of raw materials or promoting collective purchases that would lower the price of the raw materials and create incentives for the suppliers to sell better quality goods in local markets. The fact that they buy most of the raw material for the manufacture of jackets from small traders may reinforce the invisibility of this monopoly, however it does not explain the absence of cooperation to overcome it. Interviewees have expressed their awareness of this monopoly even though it is not directly experienced.

What blocks the evolvement of cooperation in upstream transactions, as in other production activities, is the organizational routines that neither consistently represent core business operation and transaction as part of their community of interests, nor have adequate mechanisms to sustain cooperation for collective economic gains. There is the understanding that the firms' capacity to deal with these transactional problems is part of their competitive advantage over the firms that are less able to do so. At the same time, there is a slight consideration that upstream transaction problems are part of a faulty institutional context. This incipient perception is trapped into the general label “state problem” and it does not evolve to a more elaborated understanding, which would eventually lead producers to identify the necessary institutions to overcome these problems.

Micro conditions create the context for blocking discussions that could allow producers to check their tacit conceptions and organizational routines. One of these conditions is related to the abilities and skills of the associations' leaders to promote defensive and paternalistic actions directed to the state. The concentration of their efforts on these activities, which reward them with prestige as “good leaders” has undermined their knowledge and capacity to promote another range of activities within the business community. This creates a major obstacle to open a ‘space’ within formal associations to collective consideration of production problems. This is certainly a missing step to mature a broad comprehension of their common interests and to forge organizational mechanisms to support cooperation in the marketplace.

Another micro condition that contributes to this blockage is the disappointment over public action to resolve these transactional problems. Producers cite the poor results of a few collective initiatives, for instance, to facilitate internal access to high quality leather, as the proof of the worthlessness of these actions. The absence, in both cities, of

private and public organizations dedicated to research and development of new raw materials for the sector also strengthens the limited discussion within the business community about operational and transactional issues. The low level of conversation and discussion, in turn, contributes to the reproduction of the go-it-alone way and arm's-length upstream transactions.

The go-it-alone way to buy raw materials and arm's-length transactions with sellers have negative effects on the firm's organization. These modalities constrain technical information about raw material and weaken managerial skills for negotiation. Most units do not have policies for the acquisition of raw material. This is conceived as a simple and, often, isolated purchase of an article. It does not entail control or follow-up mechanisms of the quantity and quality of the materials bought in relation to the units' needs. Transactions are assumed as given, like a natural phenomenon that no one can anticipate or change. This understanding reinforces the idea that business growth occurs mainly through the increase of machines and tools. Only a minority of the enterprises, directed to high-income clients, includes quality improvement and reorganization of business operations as important to competitive advantage.

Labor

The most important source of labor is the nuclear family. Besides this, there are two channels to recruit workers, both involving direct personal relationships. The first is related to immigration from the countryside, where the new comers arrive at a relatives' or a fellow's house and get the first "job" in the family business as apprentices. This migration chain through extended family ties involves an institution of reciprocity that, for the migrant, offers an open channel to geographical mobility. This includes a place to stay and the introduction to a new network of relationships and technical skills, and, for the receiving family, a constant access to low cost labor. The second form of recruitment is through settled migrants in these two cities, mainly neighbors' and old workers' acquaintances and friends. Labor supply is not problematic given the limited demand of workers in the Bolivian production apparatus and the constant flow of migrants. Yet, the majority of the available workers have very low level of skills and craftsmanship.

The relationship with workers is expected to be short, the payment is usually low and it does not entail minimum rights nor, therefore, mutual commitment. Since small producers in local markets compete on the basis of price, they take advantage of the low cost of workers and the flexible labor relationship promoted and maintained through traditional practices and unclear and deficient labor law regulation. Workers are in a disadvantaged position since they may be hired and fired at will, and they do not have any kind of protection against employers' noncompliance of agreements.

The consequences of a highly adaptable workforce with little security and high labor turnover for competition are very different between markets with underqualified and poorly paid workforce and the ones with better qualified workers who move rapidly from one well-paid job to another. I will get back to this issue in the next section.

Production connections

The introduction of modern technology such as electric sewing machines with industrial capacity¹⁴⁹ has not significantly changed the organization of production and the technical capacity of workers in the market of fabric and leather jackets. In the majority of small units there is low division of labor, which is performed by workers with multiple manual abilities but limited skills and know-how.

Production organization

In general, the owner supervises the process and participates in designing, cutting, sewing and finishing jackets. In units closer to type one, production is organized by product with the workers responsible for the whole process. In units closer to type two, there is the combination of production by product and by process. In production by process, each worker is responsible for one step of the process and there are separate places for each step (cutting, sewing, washing, embroidering and packaging the goods).

Some units of production hire external services, for example, for over-locking, stitching and embroidering, or industrial washing. But, due to the low quality of the services and their lack of reliability, most businesses try to avoid their use by internalizing the activities. Producers do not search for ways of improving those external services, for example, by establishing a closer relationship that would permit a continuous exchange of information about product improvement. There is also the practice of sending some parts already cut to be assembled in the workshops of ex-workers in high-demand seasons or when there is a sudden surge of demand. Even though these intermittent inter-firm connections exist, there is still the widespread perception that independence is the key factor to sustain themselves in the market.

¹⁴⁹ The investment in machines among small and medium enterprises has increased in the last decade. The average of machines per unit of production increased from 1,8 in 1990 to 3,6 in 2000. It means that the average value of this investment has passed from US\$ 543 to US\$ 2,087.

This translates into hiding the machines and the providers, as well as the catalogues from which designs and ideas are copied.

Secrecy and imitation

The strategy to differentiate products from substitutes is based on nuances of price and quality, which are achieved by secrecy and exclusiveness. Secrecy is complemented by the practice of imitating designs and models. When a producer brings to the market a jacket with a new design, the other producers, by observing the buyers' acceptance, will imitate it very quickly, and the next day there are many producers offering the same good. Even though there is not a great deal of investment in new designs, which are mostly copies or modifications of jackets displayed in catalogues, plagiarism diminishes the benefits of innovation.¹⁵⁰

“Yo no te puedo mostrar a ti porque tu eres mi competencia, yo no te voy a mostrar a ti, por ahí tú te vas a comprar mañana la misma máquina que yo tengo.”
“I cannot show you (my workshop) because you are my competitor, I will not show you because tomorrow you may buy the same machine I have” Producer of fabric jackets (2000).

By and large, however, changes of styles are very slow; producers continue copying old designs without even innovating in the materials. A quick response to international and domestic fashion is not a priority and new moves are limited to minor changes that have proven acceptable for consumers. The practices of secrecy and imitation are not limited of these markets and other experiences have shown that they do not necessarily limit the growth of enterprises even though they may hinder their competitive advantage.¹⁵¹ What differentiates the overall results of these practices in the markets studied is that they are structured around low-quality products that compete mainly on the basis of price. More than half of the producers define this criterion as the most important basis for competition (55%), followed by the improvement of quality (33%) and lastly the innovation of designs and models (8%).

¹⁵⁰ In contrast to the evidence that indicates that low levels of investment in design restrain the problems of copying as found in the Industrial District of Modena. Lazerson (1994).

¹⁵¹ Saxenian (1994) argued that the easy flow of knowledge that characterizes the Silicon Valley business community is one of the most important features for regional advantage in comparison to the Boston 128 route business community, in which the culture and practices of secrecy, self-sufficiency and risk-aversion dominate.

Low technological and organizational innovation

The practices of secrecy and imitation establish a dynamic where the returns are not exponential and producers find themselves in a zero-sum game because imitation and adaptation are not inscribed in technological and organizational innovation. In fact, 57% of the producers in the manufacturing of clothes did not report any changes in the last five years. The other 43% reported some innovations: change in the product design (17%), introduction of new products (6,5%), new market shares (6,4%), changes in the working process (5,3%), technological changes (4%) and changes in raw material (4%). However, these were not broad enough to be considered part of a strategy that could generate continuous innovation in the production techniques and products.

Even though there are few reports of technological innovation, improvisation and adaptation are widespread in the production process. For example, some units, unable to buy modern or high-tech equipment, improve the performance of old equipment through recycling and identifying new applications. Producers call them “maquinaria hechiza” (witch machinery). This capacity to improvise is limited to already known production processes and it does not bring significant quality improvements. I found that once such improvements work, they are likely to be imitated by others. The diffusion of these experiments occurs first within small circles of producers, usually between those who have kinship links or who share the same neighborhood. Gradually, these experiments extend into broader networks through dyadic contacts. This pattern of economic relationships does not lead to progressive cooperation or interdependence among the enterprises nor does it encourage higher orders of innovation. Because of the paucity of changes in work techniques and production organization, the majority of the units do not overcome problems such as the waste of raw material, the inadequate use of the technical capacity and low quality standards.

Labor relationships

Well-educated workers are not perceived as an important source of advantage. On average, workers have low levels of formal education; the learning process occurs on the job and is limited to specific pre-established activities. Only a few units have broadly skilled workers who receive reasonable wages. These are the more consolidated units, closer to type two. Most small units offer only short-term work without contracts or any form of security and low payments. The most common form of payment is through a piece-rate system, except in the units organized by process, where it is on a monthly basis. In situations of cash-flow shortages, wages are

postponed or workers are immediately laid-off. Workers' cutback does not necessarily imply the suspension of activities since there is always the possibility of calling upon family members to substitute them. While there is some variation in the length of the working week, most workers spend long hours on the job. Hired workers usually work six days a week, for seven or eight hours a day, while family labor consists of even longer hours, commonly eight hours a day and seven days a week in high demand seasons.

Under such unstable conditions for the workforce, it is difficult to improve skills and craftsmanship. In fact, there is limited interest in doing so and the majority of employers do not offer formal training. At most they invest time explaining, showing and supervising what the new workers have to do. If the workers do not have previous experience, they will start with basic tasks and progressively will learn by watching others. As the owners of jacket units explain, how far they get depends on personal motivation and talent. However, at the same time that they point out that the workers' low skills hinder the possibility of improving quality standards and the introduction of innovations, they do not consider this a crucial drawback. They explain that the high labor turnover discourages the investment in long-term informal training or formal training. The risk is that workers may get another job in competing units or even open their own firm when they have enough capital and know-how.

Producer associations do not address these problems and, therefore, there are no initiatives to build institutions to prevent these negative effects. The business community does not count on public and private organizations dedicated to include these production bottlenecks in their agenda, limiting themselves to a financial-first approach. This context, where producers do not even consider possible changes they would like to see in the future regarding their workforce, reinforces the existing labor relationships.

Management resources and decisions about production volume and price

Decisions about volume depend on the resources available and the experience with past demand. The volume of the jackets produced today is defined in relation to the jackets sold yesterday and the future access to marketplaces. The producers calculate the price of a jacket by adding the price of inputs, plus a low margin of profit that is set in relation to other competitors' prices. Accounting instruments are not well developed; the most important is double-entry bookkeeping, which is usually filled in by hand. There is limited understanding of key concepts such as cost structure and gross profit. Most producers fail to include the cost of their own work or of their unpaid family, and there is an inadequate calculation of the working capital depreciation. The first type of firms fits this description more accurately. On the other

end of the spectrum, there is a tendency to higher levels of formality of management resources, mainly due to the entry of family members who have received college education in the firm.

This low level of formality within the units of production is not only a problem for bookkeeping, but also hinders the transparency necessary to socialize risks with other firms. The associations are not helpful in this matter for they do not consider their purpose to improve the individual firm's management resources. There are not public initiatives oriented to give support in this area.

Independence

Producers do not conceive the possibility of sustained and collective economic growth for all producers in a local market. This explain why 93% of the manufacture units reported that they have not been associated systematically with other units in the production process, which would include collective purchasing of raw material, the joint response to large demands and the exchange of technology and know-how. When asked about any collaborative experiences, producers proudly state that they are "independent," meaning that their businesses do not depend on others outside the nuclear family. Here the category "to be independent", that appears to explain a step in the labor trajectory, assumes new meanings. These guide competitive strategies that differentiate the areas in which the mutual dependence is recognized and others in which independence is pursued.

"Producir en forma conjunta? Tendríamos que mostrar nuestro catálogo especial, modelos especiales y trabajar con ellos ya sería hacerme competencia y no estaría bien."

"Produce together? To do so we would have to share our special catalogue, our models and to work together would imply to bring inside the competence and this would not be right." Producer of leather jackets (2000).

As I showed in chapter three, the typical labor path of producers includes a step they name "to become independent," which consists of making the transition from apprentice to employer, by opening one's own business unit. This step is linked to forming a new family and it responds to the aspiration of autonomy, understood as the administration of one's own workshop and freedom from pressure to redistribute profits to kin and country fellows. It is also related to social prestige obtained through economic success, conceived as being able to accumulate without the help of others

outside the nuclear family. Opening one's own business is translated into independence from partners in vertical and horizontal transactions.

The management strategy of maintaining such "independence" is reinforced by concrete risks and incentives that make the shared expectations and practices last. One of these risks is associated with the continuous changes in legislation and policies that are mostly known *ex post facto* by small producers. The absence of institutional channels of coordination with the state obliges producers to be agile to adapt to new legal dispositions. This adaptation is much more easily dealt with individually than through the coordination with other units, given the limited organizational assets for cooperation in business transactions.

Although the literature on industrial districts asserts that collaboration is a mechanism that may help small units to reduce their risks, my study found that it is not that simple. Without effective enforcement of laws and contracts by the state and the absence of social institutions that support and guarantee agreements (law enforcement substitutes), interdependency may bring more losses than benefits, increasing risks in, an already very unstable environment. More specifically, socialization of risks is not an attractive alternative when the level of confidence in the judicial system is low, added to the fact that associations do not play any significant role in facilitating the transparency of business deals, in implementing mechanisms of social control to back up the deals and in strengthening contacts within the business community to improve the access to, and quality of, raw material, technology and capital.

The management of risks occurs within the firm by working long hours, taking advantage of flexible work relationships, diversifying operations through mixed trading or, trading in small quantities, and assuming many trading costs themselves. Problems relating to the availability of raw materials and capital are confronted on a day-to-day basis, order-to-order routine. No stock of raw materials.

The viability of mutual dependency becomes more complicated by the fact that partners are usually not able to bear unexpected losses in view of their restricted wealth. A producer whose output is close to the minimum standard-of-living must be concerned with the most probable level of output, and if he thinks it has a chance of leaving him below his minimum level, he will not go in this direction. It is also important to consider that producers do not count on any kind of institutional insurance or social security and that there is always the possibility of arbitrary political decisions and personal misfortune, on top of the usual fear of the possible results of production. Potential partners, with whom producers could have problems, are their security net, the only ones they may count on in a moment of personal crisis, and therefore, it is not wise to put these relationships in jeopardy by establishing risky partnerships.

The more prosperous producers are unwilling to honor agreements when there are not mechanisms of complaint and enforcement. Their profits are mostly converted into

material investments such as land and buildings. They ignore the concept of a reserve of capital that could be used to honor such agreements through investments in training skills and other business operation or to pay compensation in case of failure.

Maneuvering through legality and illegality

A suffocating bureaucracy with low levels of impartiality, reliability and efficiency obliges small producers to maneuver through legality and illegality. This imposes costs to adapt, to a certain extent, to the legal rules and to find ways to protect themselves from the interstices of legal compliance. Besides the payment of bribes and membership in associations that protect them from low-ranking bureaucrats' abuses, there is also the tactic of invisibility. This tactic affects the physical organization of production and, thereby, complicates efficiency. It also diminishes the level of contact within the business community by reinforcing the practice of isolation. It withdraws the possibility of taking advantage of external opportunities or to benefit from deepening inter-dependency.

An encounter with invisibility

On one occasion I went to a production unit of fabric jackets and the owner took me to a room with two workers. I thought that this was not a mature unit given the extremely simple physical appearance of the house infrastructure and the type of machinery. As the conversation evolved, she told me that there were two other workers (in another room) and soon I found out that there were many more, in something that began to feel like a labyrinth of small rooms. I was in an enterprise with a physical capital of around US\$ 70,000. Even though she possessed the most important legal documents, she still employed the politics of invisibility. She had the fear that if government bureaucrats knew the size of operations, they would ask for more money or make trouble because of any irregularity. This fear was also responsible for her resistance to contact public or private institutions and to know or become known by new entities or persons. (Researcher, 2000)

Downstream connections

The market is understood by producers mainly in terms of access and control of physical spaces where commodities are transacted, in this case leather and fabric jackets. These marketplaces are genuinely experienced as a collective construction achieved by groups of producers who were the first to arrive and made a locality visible for buyers to find specific commodities. These places are described as the

reward for the time and effort invested by producers who had to wait for buyers but who now claim the right to regulate the entrance of newcomers through a formal organization that sets rules for the functioning of production units and selling places.

Competition is identified as the arrival of other producers or sellers of the same or similar products at “their” marketplaces. The peers with whom they are physically proximate and share membership in formal producer associations are the first-order competitors with whom they maintain a careful distance. The community of interests is limited to the control of commercialization channels and the relationship with the state and other organizations such as the police, the tax office and neighborhood associations. At the same time, producers are very cautious not to strengthen any tie that may connect the units in a more long lasting way during production and in upstream and downstream processes. As we have seen, the level of specialization in these markets is very low and there is almost no complementarity between firms. There is a clear preference for internalizing the entire production process. The result is an organized market of isolated production units.

Market space and size are a single dimension in the sense that market expansion is conceptualized as the occupation of new physical spaces through membership in associations and not as new market shares through changes in their business strategies that would include new practices of marketing, manufacturing and purchasing. The physical spaces can be permanent or temporary and they may be in a private area (shop or campus fair) or a public (street or park) one. There are four types of marketplaces, both in La Paz and in El Alto, differentiated by place and time. Their importance varies from sector to sector and also depends on the maturity of the enterprise. In all four, producers are organized in formal associations that are responsible for restraining the entrance of newcomers and representing their members before neighborhood associations, the municipality and other public or private entities.

The first type consists of permanent firms producing similar goods concentrated in specific streets. Goods are produced and commercialized directly for final consumers or intermediaries, or in response to specific buyer demands. The second type are street fairs that operate everyday or on specific weekdays during the entire year. Producers have assigned places for specific hours or for the whole day. Here, producer associations assume a regulating role by controlling the use of space, the payment of rents and obedience to rules and obligations. These fairs are located not only in the above mentioned cities, but also along the borders with Peru, Chile and Argentina. (For instance, in La Paz, every day from 5 to 7 a.m., in the “early morning fair” of the Tumusla street, wool sweaters and leather and fabric jackets are sold directly by the producers; in Desaguadero, on the Peruvian border, two days a week, from 3 a.m. to 12 p.m., producers and merchants sell manufactured clothes and shoes). The third sort of marketplace is formed by temporary fairs, which may be located in streets or in specific sites, where they open for a few days once a year.

These fairs are well publicized and heavily attended (for example, the FEBOPI fair in El Alto, functions for a month, usually during July, selling all sorts of manufactured products and art crafts). The last type consists of private shops owned individually or, in very few cases, in partnerships called consortiums. The tendency of opening similar shops in the same street results in the establishment of this type of marketplace, which becomes permanent in time (as occurred with the Graneros street in La Paz, where along various blocks, and organized by sectors, diverse manufactured goods are sold). The shops are open every day, although some close on Sundays.

In all four marketplaces, by getting together with peers, competition is regulated through barrier entries for new competitors and internal rules for the production and exchange of similar or related products. Territorializing marketplaces is not only the main mechanism to control the number of competitors, but also controls new products' quality and price. The attempts to control the price and quality of the products sold in the same marketplace are far from perfect. Producers explain that they still compete on price and quality and that this leads to more contention. Cooperation through formal association in delimited physical spaces creates a wellness and an other-ness that never have a fixed boundary. Although the barrier entries are not completely effective, they are able to slow down the rhythm of new entries.

The owners and their families commercialize the final goods. When production volume is low, the most important channel of commercialization is the local marketplace. For units with higher volumes, products are sold locally or in street fairs on the Argentinean and Peruvian borders. The transactions with consumers who buy small quantities are at arm's length. More entangled relations are developed with intermediaries who buy large quantities or place specific demands. In transactions between producers and final consumers who buy one or two products, payment is made in cash and the extension of credit is infrequent. In exceptional cases when credit is given it must be paid within three months. The demand of products by intermediaries is based on verbal agreements and sometimes includes the advancement of money. The relationship between producers and intermediaries may create what is called "caseras", where the buyer returns to the same producer time and again. The continuance of these transactions depends on price and compliance with past agreements.

These markets present a high level of price rivalry that comes from a combination of factors. One is related to the geographical concentration of similar products. Another has to do with the organizational practices, which not only count on scarce managerial and material resources, but also bet on independence. Another is associated with the buyers' income: 32% of the products are sold to low level income

buyers, 49% to medium income buyers and 18% to high-level income.¹⁵² Most customers have a restricted budget to purchase clothes since most of their income is spent on food and housing. Since 1986, with the liberalization of international commerce, a fourth factor deepened the rivalry within the manufacturing market: the easy entry of new producers or sellers of low quality clothes. It takes the form of an “invasion” of huge volumes of used clothes that enter the country under hardly any regulation and are then sold by people otherwise unemployed in La Paz and El Alto. The economic crisis that affects the country since the last decade has aggravated this situation. It has put more pressure on these markets both from the increasing number of new competitors with similar products and from their decreasing demand. These unexpected external changes are constraining their viability in the long run and bringing to light the limits of the competitive strategies practiced until today.

III. SYNTHESIS OF THE SOCIAL ARRANGEMENTS ORDERING ECONOMIC TRANSACTIONS

The analysis developed in this chapter discloses the uneven levels of cooperation in production, which involve stable and long-run relationships and short-term interactions. The following table synthesizes five social arrangements that order economic transactions between and within firms in the market studied. They range between “the firm” and “the market”. Each social arrangement has its own principles of interactions that spread rules and institutions to sustain coordination. These social arrangements are nuclear family enterprises, bounded social networks, formal associations, dyadic exchange and arm’s-length transactions.

The first social arrangement organizes economic interaction through primary family relations on the basis of reciprocity and profit. The second orders economic interactions between extended kinship ties, community fellows, neighbors and friends on the basis of reciprocity and prestige. The third comprises formal associations in which members are connected to each other through the principles of legitimacy, reciprocity, prestige and profit. These three social arrangements involve mainly stable and long-term direct social ties.

¹⁵² The average income of consumers of some of the markets of manufactured clothes in La Paz is US\$ 125. And in El Alto it is US\$ 67.

The fourth social arrangement consists of exchanges between pairs of persons who meet each other occasionally. The interactions under this arrangement are mainly sustained by reciprocity and profit. These dyadic exchanges occur mainly between acquaintances, but may also involve friends, neighbors, kins, community fellows and associates in formal organizations. Finally, the fifth social arrangement is the typical “market” of arm’s-length transaction mediated by price. This arrangement regulates transactions mainly between distant persons who only share a short economic connection, but it also functions for transactions between individuals who share a stable and long run relationship.

Table 9: Regulatory arrangements of economic transactions

		Stable and long-run direct ties			Short-term interaction	
Type of relations		Mother, father, sons and daughters (X)	Friends, neighbors, community fellows, kins (Y)	Associates (Z)	Acquaintances (B)	Impersonal others (A)
Regulatory arrangements		Family enterprise	Networks of relationships	Formal associations	Dyadic Exchange	Arm's-length Transactions
Dominant Principles of interactions		Reciprocity and Profit	Reciprocity and Prestige	Legitimacy, Repriprocity, Prestige and Profit	Reciprocity and Profit	Profit
Upstream connections	1. Capital	X	Y			A
	2. Raw material				B/Y/Z	A
	3. Technology				B/Y/Z	A
	4. Workers	X	Y			B/A
Production connections	5. Meanstream Production	X				
	6. Exceptional situations: Help, Borrow of raw material, subcontract				B/Y/Z	B/Y/Z
Downstream connections	7. Commerce	X		Z		A
Control and power of disposition	8. Public goods			Z	B	
	9. Policies and formal regulations			Z	B	
	10. Safety-net	X	Y	Z		

Source: Own elaboration.

The engagement in each economic activity or transaction is governed by a combination of some of these five arrangements. Capital is channeled through the nuclear family (savings), networks of direct relationships (pasanaku) and arm's-length transactions. The latter consists mainly of informal lenders and micro-credit systems. The purchase of raw material and technology is made in the go-alone way with no horizontal cooperation between producers to make collective acquisitions. The relationship with sellers does not establish long-term transactions, as there is always the ritual of searching better prices and opportunities. During the purchase of raw material, occasional meetings offer the opportunity to exchange information about the available inputs. This occurs between pairs of producers.

The technological adaptations are eventually shared through dyadic contacts, first between producers who have family, friendship or neighborhood ties and later it may become a broader common knowledge. Information about new market opportunities, advantages of formal associations, new legal dispositions and economic policies among other relevant information, flows through stable relationships in bounded communities, formal associations and dyadic ties. Workers are incorporated through personal relationships. First, there are the nuclear family members, second there are the kin and country fellows and, finally, the neighbors' and old workers' acquaintances. The relationship with hired workers is expected to be short and it does not entail minimum rights or mutual commitment.

The transformation of inputs into final goods for general and specific buyers occurs mainly through stable relationships within nuclear family firms. There is a conscious avoidance of risk sharing with other firms. This business strategy does not exclude the eventual cooperation between firms, such as the borrowing of raw material, helping to fix a broken machine and subcontracting with other firms to complete a large demand. But this cooperation is fortuitous and does not transform into a new form of systematic coordination. These short-term transactions usually involve acquaintances, associates, neighbors and friends.

Family members are in charge of commercialization. The organization and control of physical marketplaces are pursued by membership in associations. The transactions between producers and general consumers are at arm's length. The access to public goods and the control of their power of disposition are pursued by membership in formal associations. Finally, there is also the search for a safety net to deal with misfortune, such as sickness, death or natural disaster that could put the economic activities in jeopardy, given the limited access to a public system of social assistance. The stable relationships and the formal associations provide this safety net.

The resulting combinations of regulatory arrangements in the production of consumer goods, specifically leather and fabric jackets, mirror the socially constructed boundaries between individual and collective interests and the deployment of social resources made available by the principles structuring interactions.

CHAPTER SEVEN: CONCLUSION

As we have seen through out this dissertation, the production market under study displays a common socio-cultural milieu similar to other agglomerations of small economic units in developed and developing countries. The ties among firms are not only economic. Ethnic, kin and neighborhood relationships connect small producers in local markets. But, instead of extending general trust and reciprocity identified as important social conditions for the evolvement of systematic inter-firm cooperation, the effects of these dense social networks on the markets in Bolivia are uneven cooperation.

I close this study by, first, recounting the coexistence of cooperation and non-cooperation in the network of social relationships through which transactions take place and, second, by reviewing the social dynamics blocking the direct transference of cooperation widespread in the producers' social network into inter-firm cooperation.

I. UNEVEN LEVELS OF COOPERATION

The opening of a business is channeled through kinship ties and neighborhood relations from the countryside that furnish the beginner with social resources such as money, knowledge, new connections in the urban site, to organize a unit of production and establish market transactions. Even though the learning process occurs through working in firms owned by close persons, it does not bring about new firms specialized in an activity or product that would complement the unit just left and the others in the chain of production. Instead, a fierce competition is established between firms that emulate each other in avoiding inter-firm cooperation.

Once the producers are owners of a unit of production, the access to business organizations is also channeled through direct personal relationships with other producers. They get to know each other in a myriad of opportunities in the process of making deals. For instance, they meet each other when they buy raw material and sell their products. Since there are important geographical concentrations for the commercialization of inputs and outputs and in the location of the production units, the probability to meet fellows in the same type of activity is very high. The frequency of these meeting is also intense because they usually buy and sell small quantities on a weekly basis. During these informal meetings, producers exchange information about the associations, the leaders' performance and the advantages

offered by them. It is through these acquaintances that they choose in which association to become members.

These meetings are also important moments to talk about the quality of raw material, possible new deals, new technologies and marketplaces to sell products. These recurrent contacts allow them to reaffirm old acquaintances and to establish common grounds for dyadic short exchanges and sometimes more long lasting transactions. These networks of direct relationships also open the possibility of counting on each other for help in exceptional situations. This can include, for example, borrowing raw material in high demand seasons when it is difficult to find them or the transference of part of the work, usually to a neighbor workshop or a former worker to complete a large demand. Some also raise capital by associating with others through the “pasanaku” or peer-lending groups in micro-credit systems.

Even though direct ties structure the flow of production, producers are reluctant both to engage in joint efforts to find collective solutions to problems in the production process and to socialize risks in a more systematic way. The awareness of bottlenecks in upstream and downstream transactions does not generate collective efforts to solve them through formal and informal associations. The shared business strategy consists of internalizing the production process as much as possible and to avoid subcontracting, that means, taking work from other companies and giving work to others. This type of transaction carries a high degree of dependence and its low presence indicates that producers neither recognize its greater advantages over the go-alone strategy nor do they feel sufficiently secure to rely on others.

It is true that membership in business associations fosters a sense of belonging to a community that, not only protects from a hostile institutional environment but also recognizes their social worth through a rich social life. Association is seen as the best way to defend against abuses from low-ranking bureaucrats, implement collective initiatives to influence the arrangement of policies and regulations and control the institutional effects on their own economic activities. It also allows producers to access marketplaces to sell products, while providing a safety net in case of personal misfortune.

But overall associations do not promote activities to support business transactions and operations. They neither offer regulatory mechanisms in substitution to law enforcement, nor do they facilitate transparency of business’ deals, implement mechanisms of social control to back them up or strengthen contacts between firms. In sum, there are no initiatives to encourage members to find solutions to problems in the flow of production such as the bottlenecks in upstream and downstream transactions.

Producers share, however, a rich social life that includes constant celebrations and events that consolidate social prestige and reassure their belonging to social circles of personal relationships. They also participate in voluntary associations as neighbors

and parents that promote common efforts to ensure the provision of public goods. These interactions reinforce membership in bounded networks with a lower position in the national society. The categories used to express collective identities such as aymara, producer and artisan, which are opposed to k'ara, entrepreneur and bureaucrat, denote the recognition of a we-ness on the basis of ethnicity and class.

Thus, dense networks of social relationships with recurrent encounters, membership in associations and the involvement in diverse types of collective activities are not sufficient conditions to bring about systematic inter-firm cooperation in core business transactions. Cooperation is generated for some activities while others operate beyond its scope. The understanding of the boundaries between cooperation and non-cooperation is advanced by looking at the cognitive and social connections that people make to engage in joint efforts.

II. COGNITIVE AND SOCIAL CONNECTIONS SUSTAINING COOPERATION

Cooperation is as a qualified process for specific activities that does not conceal competing interests in others. It is dependent on the articulation of communities of interests and the resources to organize joint efforts. The same group of people may acknowledge certain areas of mutual dependence in relation to which they practice cooperation and create institutions that sustain it and, at the same time, maintain other areas as spaces of independence and the domain of individual interests. Moreover, the social resources that sustain the work of organizing some joint activities may not be directly adequate to another group with different expectations, standards of fairness and punishment, or criteria of worth to distribute the costs and benefits. In what follows, I discuss these two related processes.

Community of interests as confrontation

The articulation of communities of interests and the deployment of resources to organize joint efforts are in themselves cognitive and social connections through which actors constitute their identities. Patterned interdependent activities arise with the stories about social reality and the location of groups in it that not only constitute retrospective reasons but also structure what people do. In the market studied, it is the self-recognition of producers as excluded and marginalized groups in the national society, as well as a collectivity that reproduces sociability with a distinct standard of social worth, customs, rituals, shared stories and beliefs, what grounds the specific sense of commonality.

The barriers separating groups along hierarchical chains of social stratification, more specifically their exclusion from the associations of entrepreneurs, and the availability of left-wing ideologies within their direct network of relationships contributed significantly to the historical alignment of producers with wage-workers and the adoption of the labor union format. These cognitive and social relationships structured both the lenses to interpret their social position and the strategies to act collectively. These actions are framed by the representation of the Bolivian society as formed by a class and ethnic conflict where the state and “entrepreneurs” are coded as the representatives of “capital” while artisans, producers, wage-workers and unemployed are the exploited.

The defense against a hostile and distant state and the simultaneous demand for benefits from it are the nuclear content of producers’ sense of community of interests, and therefore, the accepted basis for engagement in joint efforts. The image of the state as a distant entity that does not recognize them as legitimate economic actors, yet an entity that is entitled to represent them and that should respond to their demands as members of a geographical collectivity (the city and the country), activated the shared understanding that the open route for those not included in the direct social network that closely ties the state to the economy is by confrontation politics. “Getting something from the state” or “defending themselves from the state” are recognized common objectives that easily get people together who are otherwise involved in a competitive dynamic of individual interests. This distant relationship with the state is rooted in an unfriendly arrangement of policies and regulations that creates more uncertainties and risks than advantages for markets formed by small production units. The absence of economic policies oriented to support producers to overcome problems in the flow of transactions from the access to inputs through the commercialization of final goods directly constrains the opportunities and resources available for producers and, therefore, deepens the risks and creates incentives for the perpetuation of the competitive strategy of isolated firms.

This competitive strategy consists of a set of material practices attached to the symbolic value of gaining independence. But the avoidance of outside economic dependence goes together with deepening economic dependency within the social bond of marriage. The value of independence is linked to a shared aspiration of autonomy and prestige centered in family entrepreneurship. Autonomy refers to being able to run one’s own firm and to be freed from pressure to redistribute profits to kin and fellow countrymen. Prestige is associated with economic success as synonym of being able to accumulate without the help of others outside the nuclear family. The conversion of the meaning of independency from a step in the labor trajectory to a management strategy is pragmatically possible because the practice of secrecy between firms competing on nuances of price and quality is compatible with cutting prior relationships.

The practice and meaning of independence cohere with other notions orienting interdependent actions such as market share and competitive advantage. Market share is understood as territorializing marketplaces through membership in associations and not as the capture of new market shares by changes in business strategies, including new practices of marketing, manufacturing and purchasing. Competition is identified as the arrival of other producers or sellers of the same or similar products at the marketplace. The first-order competitors are the producers who are physically proximate and with whom they share membership in formal associations. This defines the horizon of possible action and generates an economic configuration that responds to the very definition of market competition as a zero-sum game, that is, opportunities are understood as static and what one producer gains is in direct proportion to what others lose. This world of possibilities does not include sustained and collective economic growth for all producers in a local market.

In sum, the lack of coherent and sustained support from the state for markets formed by small production units and the defensive collective action reinforce deeply rooted meanings and practices and inhibit the enlargement of the collective understanding of common interests and, as a consequence, the very possibility of evolving other relationships within the business community, and between small producers and the state.

Social resources for defensive joint efforts

The common understandings and mutual expectations that consolidate collective efforts are structured in a form of association that entails concrete mechanisms of mutual accountability in balancing the equitable individual contributions and rewards. The social resources to propel participation and to control opportunism are inscribed in an order of concrete reciprocity of tangible and visible benefits to be achieved by observable and simultaneous individual efforts. This principle of reciprocity derives from the widespread collective actions in the social circuits of small-scale producers in La Paz and El Alto. These actions share very similar methods of association, which include mechanisms of conflict resolution inherent to coordination that are so well established that people are ready to engage in specific activities when they are activated.

The strong dependence on communal work for the production of public goods both in the countryside and in the city forged social institutions that allow the control of opportunistic behavior endemic to each collective effort. Kinship ties and past experience are not understood as an antidote against non-cooperative behavior; instead, concrete control mechanisms built on proximity in specific activities are expected to be effective. The principle of reciprocity does not outweigh the sense of

independence in economic activities, and the well-defined boundary between family autonomy to accumulate money and defensive collective activities is highly valued.

Some of the institutions of mutual help built from the rural communities in the Altiplano that circulate as common knowledge among migrants are the yanapa, ayni, mink'a and faenas. The "yanapa" is an Aymara word that means help. A family or a person may ask for help in case of necessity without any formal promise. This occurs mainly among relatives. Another form is the "ayni" in which it is expected that the favor will be reciprocated in a future occasion both in the form of work or product. In the "mink'a", a equivalence is immediately given with something that is available, which may be an agricultural product, food, drink or money. There are other forms of mutual help that transcend a small group of families and involve the whole community such as the "faenas". The construction of houses and the maintenance of communal buildings such as schools, churches and roads presuppose the contribution of every member of the community.

When there is communal work for a particular person, it is expected that it will be reciprocated with the same amount of effort. When the communal work is directed to a public good, it is expected that everyone puts in the same amount of effort; when someone fails to do so, the process is interrupted until the person decides to cooperate. If this cooperation fails, no matter how important the public good, it is possible that the work will not be finished and none will benefit from it. This extreme situation demonstrates the profound meaning of fairness that demands concrete and immediate contribution from each member touched by the group. Physical proximity is then a central resource to this type of collective activities.

Social resources such as authoritative standards of fairness and sanction have been incorporated in the building of business associations. The criterion of worth to distribute of the costs and benefits of joint action is based on visible and concrete contributions of time and effort by every single member to achieve a well defined public or private good. The social control mechanism that sustains this standard of equity is set in motion by elected leaders who impose pecuniary and, in extreme cases, physical penalties. The type of activities and the objectives of collective effort that are suitable to this standard of accountability must comply with some of the following criteria: be concrete, simple, performed in a short time or simultaneously by members physically proximate.

The standard of equity that defines what one gives and what one can expect to receive has proved efficacious to propel participation and to control opportunism in defensive collective activities in the economic sphere. The confrontation politics implemented through specific tactics, such as strikes and public demonstrations, comply with the criteria of concreteness, simplicity, simultaneity and physical proximity. In the production process, the building of a marketplace and its regulation, through mechanisms such as entry barriers, blocking of government intervention and the

solution of disputes over space, respond to the criteria of simplicity, physical proximity and concreteness. Collective activities to help a member in a situation of personal misfortune, such as illness, death or natural disaster, are also easily activated within these networks due to their adequacy to the shared principle of reciprocity. The same is valid for the joining of efforts oriented to a variety of social activities that are very important in consolidating prestige and social recognition.

However, these social resources that work so well for some collective activities are not directly translatable to systematic inter-firm collaboration in the production process, which would demand a continuous coordination to solve problems and to calculate the values given and received. Thus, specialization through subcontracting does not comply with the criteria of concreteness, simplicity and simultaneity. It would involve long-run interactions and the management of emerging problems between partners working in separate units of production to reach benefits not visible in the short-run. It would also need another type of social control mechanisms to resolve possible conflicts and opportunistic behavior, since pecuniary and physical penalties imposed by a third person entitled with a hierarchical authority do not work for this type of cooperation.

Moreover, the inadequate regulatory structure reflected in the low level of confidence in the judicial system and the absence of social institutions within the business community to back up agreement make the sharing of risks an unacceptable alternative since it may bring more losses than benefits. The weak public policies oriented to improve the opportunities for transactions in local markets entails incentives for arm's-length transactions between economic units and the strategy of internalizing production as much as possible within firms instead of relying on specialization.

This analysis, then, has directed our attention to the social resources that enable and constrain cooperation between economic actors who are connected to each other within a local production market. It highlights the importance of creating new standards of equity and concrete mechanisms of mutual accountability that would allow the associations to assume new roles in the business community and the economic actors to try new ways of engaging in transactions. But underlying these organizational assets, the fact remains, however, that the sense of community of interests is circumscribed by producers' weak legitimacy as economic actors and their vulnerability in relation to a distant and hostile state. This means that the concentration of joint efforts to defend themselves and to win resources from the state militates against a broad comprehension of the gains that cooperation can generate for individual actors searching for profit.

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ANNEX 1: INTERVIEWS GUIDES

1) Semi-structured questionnaire for small producers who are engaged in representative organizations in La Paz and El Alto.

INTERVIEW GUIDE – UNION, ASSOCIATIONS, FEDERATIONS AND CONFEDERATIONS MEMBERS

Name of association _____

Address and telephone _____

Name of the interviewee _____

I. History of organization:

Since when do you work as leader of this association?

When and how was this association founded?

How and where did the founders of the association meet? Were they related, family, neighbors, met in a fair, or in an organization?

How does the idea of the association come about?

Do you already have a legal office? (Importance of recognition instances)

Did some moment or important event ever occur in the history of the organization? Describe.

Until now, has your organization had periods it has not been operational? When and why?

What was the biggest achievement in your organization?

The rituals of the organization–saints, parties, apthapi,...

Does the organization celebrate in some date? When? How? What is the importance for members?

II. Organization structure

What is the current number of associates or members? What sectors?

What are the requirements for them to associate?

Did the number of associates increase – decrease in recent years? Why?

How do you find out about new association members? (Knowledge of old members, location in the same area, directions...)

In what neighborhoods do the members live in %?

How does the organization communicate with its members?

What is the main reason for producers to associate? What are the benefits that the organization offers?

In your opinion why are not there more producers that want to associate?

What are the producers assisted in (raw material purchase, sale, they share a big order, they help each other in the shop when a machine is ruined or borrow material when needed)? Why is not there more? (exploit notions like individualism, selfishness, fear, distrust, solidarity)

In what areas would it be desirable to have more combined actions?

III. Strategies and agglutination mechanisms and trust issues

What is the biggest difficulty to agglutinate and to mobilize members? Are there trust problems? What? How trust is generated?

In what instances or for what reasons it is easy to summon members? And what are the most difficult? Why?

What are the mechanisms that your organization uses to make your members participate?

And what are the penalties when they do not comply?

What is the frequency the organization summons its associates? What are the most important reasons?

When was the last occasion that the organization summoned its associates? Why?

Is the organization affiliated or does it have agreements with other institutions or public or private associations?

IV. The economic sector:

In your opinion, what are the main problems the sector you represent suffers and why? (In relation to legal and political conditions, daily and productive conditions)

What actions does the organization carry out to solve these problems?

With a piece of paper with the drawing of the association in the middle, request the interviewee to draw the institutions or more important organizations (his/her strategic allies) with whom he/she coordinates to solve the problems?

Once the paper is handed in, ask if there would be other organizations at municipal, government level, NGO's, other unions or associations with which they work with to solve their problems or those that are the responsible to solve these.

What are the sector's representation channels with the State? (COB, CEPB, Political Party) (space inside COB, distance in relation to managerial organizations)

What did the creation of the Small Business Vice-Ministry represent for the sector?

What social class do you belong to? Explain

How should I classify you in terms of your economic occupation-activity? (manager, small business manager, artisan, producer...) Explain.

How did you learn this occupation? Do you have other relatives or family in this same sector? Do they live around here as well?

Producer associations

- . ADEPI – Asociación Departamental de la Pequeña Industria y Artesanía - La Paz – Cristina Enriquez
- . ADEPI – Asociación Departamental de la Pequeña Industria y artesanía de El Alto - José Núñez
- . AMABA – Asociación Mixta de Artistas Bordadores Autodidactas - Pablo Puncara y Rene Rojas
- . AMOR - Federación Mixta de Orfebres y Relojeros La Paz - Fernando, Oscar y Julio
- . Apostol Santiago – Leather jackets - Angel Edmundo Nogales Molinedo
- . APPECAL - Asociación de Pequeños Productores en Confecciones de El Alto – La Paz - Señor Siñani
- . ARTEMA – Asociación de artesanos de Muebles – Munaypata La Paz - Julia de Quisbert
- . ARTEMA - Consorcio de artesanos de madera – El Alto - Juan Ventura
- . ASAPRON - Asociación de Productores en Metal Mecánica de la Zona Norte de El Alto - Juan Huanca Fernández
- . Asociación 20 de octubre Tunel de San Francisco - Juan Pinto
- . Asociación Carpinteros Ceja El Alto - Ricardo Condori
- . Asociación de Artesanos Barrio Madrid, Villa Adela Distrito 3 - Rosario Gonzales Vda de Gonzales
- . Asociación de artesanos de cajas metalicas de medidores -Máxima Escobar de Mamani
- . Asociación de artesanos floricultores Kantuta - Roberto Quispe
- . Asociación de carpinteros ebanistas 30 de mayo de El Alto - Nazario Tarquino
- . Asociación de máscaras folclóricas - Gonzalo Cruz
- . Asociación de Pequeños Empresarios en Madera - Carlos Guzmán
- . Asociación de Talladores en madera de La Paz - Policarpio Quispe
- . Asociación Madera- La Paz - Alfredo Illanes
- . Asociación de comerciantes minoristas – Tumusla Eguino
- . Asociación de productores en cuero - Fernando Tito
- . Asociación de Veleros - Joaquim Chambi
- . Asociación Picada Cacho - Edwin Lahor García
- . CADEPROC - Camara Departamental de la Producción y Comercialización – Antonio Vargas
- . Central Única de Artesanos de Bolivia - Demetrio Ibañez
- . CICAL – Consorcio Comercial Industrial en Calzados y Artículos de Cuero - Genaro Torrez Poma

- . Confederación Única de Artesanos - José Luis Fernandez
- . Consorcio Artema de El Alto - Gregorio Condori
- . Cooperativa Suma Punkara – El Alto - Clotilde Calderon y Virginia Alvarez
- . COSEDAL – COR - Edgar Delgado
- . CUSTAB - Confederación Unica Sindical de Trabajadores Artesanos de Bolivia - - Ana Robles
- . FDTAPESU - Federación Departamental de Trabajadores Artesanos Productores Exportadores de Servicio Utilitario - Juan Cosme Alavi
- . FEBOPI – Federación Boliviana de la Pequeña Industria y Artesanía - Jaime Vega –
- . FEDAPAP – Federación Departamental de Productores en Arte Popular - Vicente Quispe
- . Federación de micro y pequeños empresarios de la ciudad de El Alto y Provincias - Hernán Moron
- . Federación de artesanos trabajadores en madera de la ciudad de El Alto - Hector Delgado
- . Federación de carpinteros - Miguel Aliaga
- . Federación de Comerciantes Minoristas en Artículos Varios de la Ciudad de El Alto - Jorge Mamani Quispe
- . Federación de Gremiales - Juan Melendres
- . Federación de maderas - Adolfo Aguilera
- . Federación de Maestras Mayores - Susy Chino
- . Federación de Trabajadores en madera El Alto - René Simo Castillo and Hector Delgado
- . Federación Departamental de Sombrereros - Florencia Olivares
- . Federación Ferias de Navidad - Rosario de Gutierrez, Tomasa Arratia and Constancia Rodriguez
- . FEDESOS - Federación Departamental de sombrereros – Florencio Olivares
- . FEMYPE - Federación de la Micro y Pequeña empresa de la ciudad de El Alto - José Gutierrez
- . FENAENA – Federación Nacional de Artesanos Expositores de las Ferias de Navidad y Viajeros al Interior y Exterior de Bolivia - Maria Eugenia Calsina Rivero
- . PROCAFOL – Productores de Calzados Folkloricos - Luiz Gutierrez
- . UMORA - Unión Mixta de Orfebres y Relojeros – El Alto - Moisés Palma

Semi-structured questionnaire for entrepreneurs, leaders of the most important business associations in Bolivia.

INTERVIEW GUIDE - BUSINESS ASSOCIATION LEADERS

Name of association _____
 Address and telephone _____
 Name of interviewee _____
 Position or position in the org. _____

I. Organization:

Since when do you work in this organization? What is your title or position (in case this is not known)?

What is the current approximate number of associates or members? Do you have an idea of the number of members in relation to the total of businessmen by sector?

What is the profile of the members? Why?

Did the number of members increase - decrease in recent years? Why?

What is the main reason for businessmen to associate (in terms of benefits)? Has this changed? How?

Until now, has your organization had periods in which it has not been operational? When and for what reason?

How does the organization finance its expenses?

How does the organization communicate with its members?

How are the president and the directory defined? For how long?

What is the frequency of the associates' meeting? When was the last occasion that the organization summoned its associates? What was the reason? What was the date?

What are the programs and more important actions of the institution at the present time? What problems do they look to solve?

II. Private sector and national industry

In your opinion what are the two major problems (structural) for the consolidation of the private sector in Bolivia?

What were the most favorable moments in the Bolivian history for national industry? Why?

In your opinion, which institutional or political principal advances was/were (laws and policies) for the consolidation of the private sector in Bolivia?

What was the role of the private sector in this (approval of the law, policy design...)?

Do you know what was the role of the organization in the approval of the Law of investments of 1971? Was it active, passive? Who came out with the initiative? In case you do not know this, suggestion of sources or someone to know this history?

III. Organized businessmen:

In relation to the history of the business associations, what were (in your opinion) the most important moments in the process of organizing? Mostly the industrial ones? Was there an event, moment or particularly important history in this process? Which? (Follow the path of the organization's history)

What are the relationship channels of the organization with the State? And what has the strategy of the managers been to address the State?

Who are the strategic allies of the organization (with which it coordinates to solve the problems of the sector right away)?

Does the organization represent small entrepreneurs? If no, why not? If yes, how was the incorporation process? In some moment did it represent? And why did it stop to represent? What were the main reasons?

What social group do you belong and represent?

Entrepreneurs associations

Asociación Nacional de Mineros Medianos

Vicepresidente Humberto Rada

Cámara Nacional de Comercio

Gerente General Jose Khun

Cámara Nacional de Comercio

Ex presidente Alejandro Yafar

Cámara de Exportadores (CAMEX)

Presidente Bruno Giussani

Cámara de Exportadores (CAMEX)

Director Javier Castellanos

Cámara Nacional de Industria

Director Eduardo Peinado

Cámara Nacional de Industria

Asesor económico Luis Pardo

Cámara Nacional de Industria

Gerente General Gerardo Velasco

Confederación de Empresarios Privados de Bolivia (CEPB)

Director Max Castelli

Confederación de Empresarios Privados de Bolivia

Miembro del Consejo Consultivo Guillermo Crooker

Federación de Empresarios Privados de La Paz

Director Jorge Quiroga

Federación de Empresarios de La Paz

Presidente: Hernán Sánchez Salazar

Semi-structured questionnaire for small and medium producers and entrepreneurs.

COLLECTIVE ACTION AND PRODUCTION MARKET IN BOLIVIA

INTERVIEW GUIDE

Number: _____ Date: _____ Interviewer: _____

Individual information

1. Name of the company/shop: _____
2. Neighborhood: _____ 3. Address: _____
4. Sector: _____ 5. Main products: _____
5. Name of the interviewee: _____ 6. Sex (F or M): _____
7. What do you do in the company/shop:

8. What is the highest level of education you attended: _____
9. Did you have some training - formation classes? (What and where) _____
10. Do you live in this property? Yes ___ No ___
11. In the event that you do not, in what neighborhood do you live? _____
- B. Gender relationships, ethnic, family, vicinity, and community origin:
12. Which languages you speak: 1) _____ 2) _____ 3) _____
13. Where were you born? (community or neighborhood) _____ 14. And your parents? _____
15. Father's main job _____ 16. And mother's _____
17. For migrants, when did you come to live in this city? _____ (year)
18. How did you get your first job? How did you find out about this job?

19. Do you have any relatives or fellow community neighbors that live in the city? Yes ___ No ___
20. In what neighborhoods or zones? _____

21. How did you learn this occupation?

Working with a relative Working with an acquaintance Working in a shop with a person that was not my acquaintance

In an educational institution Other _____

22. Why do you have your business in this neighborhood? _____

23. Does any relative or fellow community neighbors work in this same type of work or something close? Yes ____ No ____ 24. For those that answered yes in what neighborhoods do they work?

25. How many shop owners of this town are your acquaintances?

Majority ____ Half ____ Minority ____

26. How many shops in this type of work approximately exist in this neighborhood?

27. Do you find some advantage of having your shop in this neighborhood? Which ones?

28. What are the disadvantages of working in this neighborhood?

29. How many people work or help you in your shop? _____ 30. How many are your relatives? _____

31. How many are from your community? _____ 32. How many workers live in this area? _____

33. In which folkloric festivities do you participate in during the year?

34. In what occasions do you meet with relatives and fellow community neighbors?

35. If you need something for the house, do you have someone to request these items?

To borrow some food (vegetables, rice, potato)? Yes ____ Who _____ No ____

To pick up or to stay with the babies? Yes ____ Who _____ No ____

In the event of some accident or illness? Yes ____ Who _____ No ____

To borrow silver? Yes ____ Who _____ No ____

Medicine? Yes ____ Who _____ No ____

To advise a son/daughter? Yes ____ Who _____ No ____

Help to build or to repair something in the house Yes ____ Who _____ No ____

Other

36. Do you participate in *pasanaku* (common community lending fund source)? Yes ____ No ____

37. If yes, with whom in order of importance:

38. Do you participate or did you already participate in solidary credit? Yes ____ No ____ 39. If yes, with whom in order of importance:

C. Participations in organizations

40. Are you a member or do you participate in the following organizations:

Name

Name

() Civic committee _____

() Surveillance committee _____

() Local neighborhood group _____

() School group _____

() Association or federation _____

() Cooperative _____

() Festivities groups (processions) _____

() Sports' Leagues (soccer) _____

() Church _____

() Unions _____

() Political Party _____

() Other

41. For those that answered yes in association or cooperative, what benefits does an association or cooperative offer?

42. For those that answered yes in association or cooperative, how did the association come about? (Describe the history)

43. In your opinion, which should be the central activity of the association?

44. Do other groups or associations exist in your sector? Yes ____ No ____

45. If yes, why did you choose this association and not another?

46. Which obligations do you have toward this organization?

Monthly payments: Inscription fees Bs. _____ Regular Bs. _____

Obligation of attendance to meetings or activities yes ____ no ____

Obligation of attendance to mobilizations yes ____ no ____

Other _____

47. What were the last activities promoted by the association?

D. Productive relationships

48. Which shops, productive units or companies are your main competitors (in order of importance)?

_____, b) _____, c) _____

49. Where are your main competitors located?

in this same neighborhood in this city in other parts of the country overseas/abroad

50. Your main competitors are:

big companies medium companies small companies

51. Do you have some type of contact with them? Where? For what?

52. To beat your competitors, which are the main mechanisms that you use? (order of importance)

I price _____ Quality _____ New designs _____ Quickness and punctuality _____

53. Do you play soccer or drink beer with other producers? _____

54. Do you celebrate birthdays or marriages with other producers? _____

55. Did you already lend or ask to borrow raw materials or machinery? Who? _____

56. What do you do when there are some problems or State measures?

57. Did you buy materials with other producers at some time?

58. Did you at some time sell products in a combined way already?

59. Do you visit other producers' shops? Never ____ Sometimes ____ We always visit one another ____

60. And did they already visit yours? Never ____ Sometimes ____ We always visit one another ____

61. Did you already look for information on export norms or fairs with other producers?

62. Did you already produce jointly? _____

63. Did you already subcontracted or did you subcontract production of some part of the product or to respond to a big order? For whom? _____

64. Did you already ask for help or opinion from another producer about some production problems?

65. Do you exchange information on the increase of raw materials' price or other issues that affect all?

66. Did you already take part with the other producers in fairs or exhibitions? _____

67. Did you access new designs of products or new technology? _____

68. Did you already have help or did you already help other producers with the construction of something else in the shop? _____

69. Have you had a bad experience in one of these relationships? How was it? How was the problem solved?

70. In your opinion, which are the main difficulties or fears that one has working with other producers?

71. What is important in order to trust the job (with workers and with other producers)? For example: that they are family, to have shop fences, to belong to an association

72. With crisis, relationships between producers:

Increase _____ Diminish _____ Remained the same _____

Examples: _____

73. How do you define product prices (do you have control of expenses? What do you include?)

74. Do you verify other producers prices to define yours? Yes ___ No ___

75. If yes, from which producers:

Producing in the same neighborhood _____ Producing of the city _____ Other _____

76. How do you buy raw materials?

77. Where you buy your machines and tools (%):

Vendors located in the neighborhood In the city National International

78. Who do you sell your product (% of the sales):

Direct for buyers A salesperson that has a store in the city

A middleman that places the product in several stores Another company that subcontracted

An agent that exports Trade shows Other _____

79. The buyers come here or you or your workers travel to sell the product: _____

80. Which is the main market that you sell your product?

El Alto La Paz Other departments Abroad

81. Have raw material vendors or buyers for whom you sell have approached to ask or to offer suggestions to improve raw materials?

82. Would you like to expand your market at national or international level? Yes ___ No ___

83. How can one have access to other markets?

84. What activities do you believe that represents more risk in your job? Why?

85. How do you think you business will be in 5 years:

Worse _____ Same _____ Better _____ Much Better _____

86. What would you like your children to work in?

E. Relationship with government and private institutions

87. You have or have had some type of relationship with:

Specify the organizations or departments or secretaries or unit description

- () NGO's _____
- () Municipality _____
- () Central government institution _____
- () Technical and information support institutions _____
- () Big sector companies _____
- () Magazine or specialized publication _____
- () Internet Service _____
- () Radio or television program on the sector _____
- () Institution or export organization _____

88. These relationships were a result of direct contact or through the union or another association or grouping?

89. Did you already participate in some activity with other producers to press the municipal, departmental or national government to benefit the sector? _____ For what reason?

90. Who organizes these activities? _____

91. What happens if you do not fulfill your participation duties in the association?

. marches against the State _____

. in the organization and attendance to festivities _____

. in *pasanaku* _____

(common community lending fund source)

. in production _____

100. Do you have something more to say?

Producers
Manufactured clothes

“San Antonio” Artesanias - Mayde Claudia Poma – Ely Poma

Alpaquita - Javier Luna Condori

Arte Rummy - Ruth Cuellar

Artesanías “Jeshua Tejial” - Eulogia Pascual
Artesanías en Tejidos “Inti Punku” - Jesus Mendoza
Artesanías Nuevo Amanecer - Felix Tarqui
Artesanías Pajsi - Gonzalo Rea
Artesanías Wiñay Marka - Andres Yujra Flores
Asociación Señor de Mayo - Señora Antonia
Creaciones “Paola” - Paola Apaza
EIDERS - Angel Waldo Paco Paco
Giovana - Lucia Mamani
Nicol’s Tejidos - Jorge Calderón Flores
Tejidos “Melman” - Edgar Mamani, Martha Mamani
Tejidos Mauge - Maria Eugenia Orosco
Tejidos Mi sueño dorado - Tita Angela
Tejidos Wari- Teresa Sierra K.
ACMCA - Maria del Carmen Arenas
Angora Textiles - Freddy Bascope Lopez
Centro Comercial Pachamama - Ruben Chambi Mamani
Chamarras de cuero - Andres Alejo
Confecciones España - Norma Eliana Sarzuri
Confecciones Santa Lucia - Joaquina Mamani Villegas
Creaciones Mady - Maria Luiza Flores
Deportivos Landaeta - Edwin Landaeta
Gava Sport - Jaime Diaz Soliz
Industria Textil El sol - Samuel Saavedra
Industrias Cuericarp - Emeterio Condori Lecona and Gerardo Anuquipa
Leo Genuine Leather - Freddy-Martin
Manufacturas Textiles Andina - Luis Miguel Muley
Punto Blanco - Adolfo Melgarejo
Rodas - Paliña Jorge Landa
Taller de confecciones Alpach - Ernesto Pavez Chavez , Orlando Fernandez
Taller de Ropas Folcloricas - Benito Cruz
TEC MANHATHAN - Ricardo Ballon, Antonio Handall and RoseMary
TEXTILES NUEVA ESPERANZA - Maria Cristina Contreras

Vicuñitas - Elsa Mamani

Wood furniture

Ambiente Boliviano - Jaime Trigo F.

Artec Diseños - Roberto Muñoz

Casa & Cosas - Angélica L. Ch. De Sarmiento

Casa y Jardín - Nury B. Meruvia

D'talles - Lucio Callisaya C.

D'Atelier - Daniel Vega de L. T.

Equus - Alfredo Illanes

Industria de Muebles San Ignacio - Ignacio León Alegría GG

Mobilia - Javier Inchauste

Muebleria Carlitos - Vladimir Carlos Avila Loza

Muebles Gonzales - Walter Gonzales C.

Muebles Grecia - Julia Quisbert

Muebles Huchani - Ramón Huchani Chura

Muebles J& Perez - Jeaquline Quispe M.

Muebles Modelo - Filiberto Sarzuri T

Muebles Rusticos Ayar - Felix Duran

Muebles San José - Isidro León A.

Muebles Torres - Jose Torres

Premier - Humberto Frias Calderon

R-R Muebles del Hogar y Oficina - Gloria Reyes Rios

Semi-structured questionnaire for leaders of neighborhood associations.

INTERVIEW GUIDE – NEIGHBORHOOD GROUPS, FEJUVE AND CONALJUVE LEADERS

Name of association _____
 Address and telephone _____
 Name of interviewee _____

History of organization:

Since when do you work as leader of this association?

When and how was this federation, confederation or neighborhood group founded?

What is the current number of members or associates?

How and when do you decide to be organized? For what reason?

Who's idea was it? Were the founders known, were they from the same providence, family...?

Is there some type of recognition of the associations on the part of the State? Are they inscribed or does some documentation exist? Which? Where do they take out from?

Did some moment or important event ever occur in the history of the organization? Describe.

Until now, has your organization had periods it has not been operational? When and why?

Has the organization signed agreements with the municipality? Or with other instances? Which was the most important or more recent? And what happen with these?

What was the biggest achievement in its organization?

Neighborhood characteristic (For neighborhood groups):

How do the new neighbors associate?

Are all neighbors members? What is the percentage of affiliated neighbors in relation to the total of neighborhood neighbors?

Does it happen that somebody new does not want to associate? What happens to those that want to associate or do not want to participate?

Where are the neighbors from (in % terms)? Are they mostly from one area? Did the neighbors already know each other before settling here? How do they arrive to the neighborhood or what are the most common means to know house areas or available houses? How did you arrive to this neighborhood?

What are the common activities of neighbors? In what occasions do they meet? Does solidarity exist between neighbors or are they more selfish? In what other activities are they helped? Between women and between men? And do children and young people create friendships or sports groups? (examples). In what area is there more selfishness or more solidarity?

What achievements did the neighbors get for the neighborhood? The history of the improvements of the neighborhood.

Are there neighbors' parties? What sports do they practice together? Who?

What type of productive activities is there in the neighborhood? Are the creators known?

Organization structure

How is your organization structured internally as well as externally upstream (federations, central) downstream (associations)?

How are the leaders chosen? By how many and how long? Which are the most important approaches in the leaders' selection?

What is the relationship:

Neighborhood groups with the unions and with producers associations

Federation with COR - COSEDAL and with the SMALL BUSINESS FEDERATION

Neighborhood groups and FEJUVE with City Hall and the Department's Government

With what frequency does the organization summon its associates? Which are the most important reasons?

When was the last occasion that the organization summoned its associates? Why?

In the last two years which are the most important events the neighborhood group participated in? Who did it summon or invite?

What is the main benefit the organization offers to its associates?

In what instances or for what reasons it is easy to summon members? And what are the most difficult? Why?

What are the mechanisms that your organization uses to make your members participate?

And what are the penalties when they do not comply?

IV. Neighborhood and other organizations

In their opinion, what are the main problems of your neighborhood (for neighborhood groups) and for the city (for the Federation)?

What actions does the organization carry out to solve these problems?

With a piece of paper with the drawing of the association in the middle, request the interviewee to draw the institutions or more important organizations (his/her strategic allies) with whom he/she coordinates to solve the problems?

Once the paper is handed in, ask if there would be other organizations at municipal, government level, NGO's, other unions or associations with which they work with to solve their problems or those that are the responsible to solve these.

What is the relationship of the organization with City Hall and with the department's government?

What social class do you belong to? Explain

Neighborhood associations

Junta de Vecinos de Alto Obrajes – La Paz - Naty Valda de Maldonado

Junta de Vecinos Zona Los Andes – La Paz - Antonio Sarsuri Plata

Junta de Vecinos Munaypata – La Paz - Anselmo Vidal Mendoza Loza

Junta de Vecinos Villa Avaroa – El Alto

Junta de Vecinos Villa Adela – El Alto - Eloy Hidalgo

Junta de Vecinos Urbanización Bolivia - Willy Alfaro

FEJUVE – Federación de Juntas de Vecinos - Alfonso Romero Arendano and Alex Morales

Public authorities and experts on small business

Vice-ministry of micro-enterprise - Vice-minister Felipe Hartman

IDEPRO - Directora Monica Velasco

IDEPRO - Consultora Teresa Morales

CEDLA - Investigador Bruno Rojas

Alcaldía El Alto - Oficial Mayor de Promoción Económica – Flavia Jimenez

Alcaldía La Paz - Oficial Mayor de Promoción Económica – Cecilia Bonadona

Centro de Promoción Gregoria Apaza - Directora – Ana Quiroga and Silvia Fernandez

INASET - Director Jorge Velazco

PROCAL CEPB - Directora Jimena Rojas

PROGRAMA BOLIVAR -Director Jorge Gonzalez

Banco Mundial - Representante en Bolivia - John Newmann

Consultores Associados - Luis Baudoin