

Constructing economic citizenship: The challenge of a new model of development.¹

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ABSTRACT

From the analysis of the bases of economic growth in Bolivia in the last fifty years, the author identifies real challenges centered upon the design of creative policies from and for concrete national socio-economic realities and the urgency of micro-economic, industrial policies directed at developing a competitive and diversified economy.

The political, economic and social crisis which threatens Bolivia has deeper roots than the neo-liberal policies implemented in the last twenty years. Once more, as throughout Bolivian economic history, the actual debate has been centered on the old division: more State or more market?³ One supposes, mistakenly, that the supremacy of one of these mechanisms of assignation and distribution of wealth is sufficient to generate sustained growth. This work proposes to change the focus and analyze the bases of economic growth in Bolivia in the last fifty years. From this perspective, what one observes is a strong continuity in the management of public policy, that places its bets on the exploration of natural resources as the principal path to development, generating a public and private rent-seeking culture and overlooks other activities such as, for example, the development of an industrial sector. One feels this lasting influence today when the attention given to the ownership and management of natural gas restricts the argument over the role of the State in the economy and the advantages and disadvantages of the integration of the country to external markets. The use of surpluses generated from natural resources which could be the basis for creating a more diversified economic structure, is pushed to the second level of the argument.

The deep problems which underlie the actual crisis – insufficient economic growth, low productivity and competitiveness, social inequality and poverty – are not explicable by a model of administration, whether more liberal or from the State but also by an over- concentration of development under an economic, social and political logic based on mineral or hydrocarbon extraction. The precise political moment has opened up a great opportunity to analyze the path of economic development that Bolivia has traveled thus far. It is clear that neither the state nor liberal model, concentrated on the exploitation of natural resources, has generated sustained growth, much less a significant improvement in the lives of the majority of Bolivians (Gray, 2003).

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³ In fact we are considering recent Bolivian history observed in a simplified manner: State capitalism from 1952 to 1985, and the free market economy after 1985 until now.

At a conceptual level, it seems that the vision of development as the growth of material wealth, drop by drop, resulting in the reduction of poverty and an increase in the welfare of the population, has been overcome. Now it is understood better that development has to be integral and sustainable and, above all, implies the expansion of the “abilities” of people to choose the manner of life that each values, which links them to constructing effective spaces of liberty through a better distribution of opportunities and rights (Sen, 1999). That is to say that just as for economic growth, so development must be thought of from various economic spaces and with different economic actors.

The new theories of development emphasize that the capacities for insertion into the labor market and access to monetary income define two important vehicles for the distribution of opportunities and rights, and, more directly, to the wealth generated in the country. These opportunities are formed as much from the bases of growth as from the administration of the model itself. Even if Bolivia has been able to force through reforms that achieve processes of greater political participation and the expansion of goods and public services, have the rights and opportunities of participation in the national economic structure hardly been discussed or advanced.

With the aim of supporting this discussion, this present work analyses the political and social conditions which sustain the separation of generation of wealth and income distribution in the Bolivian economy and suggests micro-economic and industrial policies to develop more diversified, integrated economic spaces that could help with the construction of a new economic citizenship moving far beyond the economic logic and policy of natural resources.

The document is divided into four parts. In the first part, the social construction of the Bolivian economy is analyzed, characterized as it is by socio-economic, ethno-cultural and political institutions associated with the exploitation of natural resources. In the second part, client relationships and patronage that sustain the political scaffolding of the enclave economy and the challenges for constructing a more diversified economic citizenship, without which a more sustainable and equal economic and social development would be impossible, are analyzed. In the third part, the real challenge of designing creative policies from and for concrete, national, socio-economic realities is discussed and the urgency for micro-economic and industrial policies to develop a diversified and competitive economy. Finally, in the last part, some concrete problems are pointed out in public and private interventions that interfere with the development of local private sectors and the generation of quality employment.

Economic, political and social enclaves

The Bolivian economy has been historically characterized by a strong economic segmentation. On the one hand the export of natural resources, firstly of silver until the late XIXth century, then of tin and more recently of hydrocarbons, and on the other hand, on a small scale of goods and services of prime necessity destined for the local market. From colonial times until recently, the internal demand for essential goods such as clothes, shoes, candles, wine, sugar amongst others, was mainly covered by local production formed from economic family units and of reduced size. Despite the importance of this economic universe (as much in terms of the number of businesses, as in the generation of employment and the supply of products and services to the internal market), it failed to achieve a sustainable growth of productivity and efficiency and, therefore, was not transformed into the motor of growth for wealth for the country.⁴ On the other hand, the reliance on exporting primary goods and of a few products with added value without significant ties to other economic

⁴ A traditional explanation for the failure of the internal market was its reduced size and the concentration of income and wealth.

sectors, likewise was incapable of generating sustainable economic growth and nor of distributing sufficient income to overcome poverty⁵.

The political and institutional superstructure that accompanies this path of economic development has maintained differentiated levels of economic citizenship between entrepreneurs. In this paper the degree of economic citizenship is measured by the access of these actors to spaces where public policies are formulated and the enjoyment of rights legally guaranteed by the State⁶. From these criteria one can identify two groups of entrepreneurs: first class economic citizens who enjoy the rank of partners of the State in wealth generation and the promotion of the economic development of the country, and that, for these conditions, have greater opportunities to participate in public decision-making processes, as well as counting on more guarantees and certainties to take risks in their economic activities. These form the select group of the “big businessmen”.

Parallel to this, wide social sectors were maintained as second class economic citizens whose main role was centered on the production of their means of survival without interfering in the main track of national economic development. These were formed, the owners of smaller-scale businesses, artisans and peasants who worked for their own account. They are not identified as economic actors whom the State should consult and consider on economic policies. Their marginal condition regarding the centers of decision-making limits the existence of minimal guarantees within the official rules of the economic game and imposes an atmosphere of greater micro-economic uncertainty in assuming risks. The different rules of citizenship and its effects on the capacity for growth and generation of quality employment are analyzed in the next section. For now, we shall discuss the contribution of the visions of development in force in the country on the formation of the segmented socio-economic spaces and the distinct grades of the economic citizenry of the entrepreneurs.

The economic segmentation is constructed from other social and ethno-cultural groupings which historically have characterized Bolivian society. The private agents of development are “the businessmen” which make up white, modern and prosperous of Bolivia, while the “producer and artisans” represent the “cholo”, Indian, traditional and poorer side of the country. These socio-economic and ethno-cultural distances which are expressed in distinct categories of self-identification are an important part of the formation of economic sectors that have not managed to advance towards the social, political and economic links propitious to a dynamic and articulated economic development.

An important element which contributed to the social and political construction of the economic segmentation and reliance on growth based on natural resources is the strict relationship to the national understanding of the conditions and the agents of economic development. These visions encompass and continue to define the demands of the social movements, the corporate organizations, the proposals of the programs of the political parties, as well as to the public policies formulated by distinct governments. Beyond the disagreements over the role of the State and other connected themes, the organized social forces share the idea, together with the business elites, that

⁵ Various theories show why countries that rely only on natural resources as the basis for development, after the short-term boom end up growing less in the médium and long-term. Amongst the better known are the theories of rent seeking elites the deterioration in exchange rates and the Dutch disease.

⁶ The discussion on citizenship has focused mostly on the conquest of the social rights of the workers, such as the right to work, a just wage and social security. Less developed is the thought that the different grades of access to the rights by the entrepreneurs, or rather, those individuals who do not live in a relation of work dependency and who take on risks of investing capital, time and often, their labour to obtain ‘uncertain’ income. A significant part of the Bolivian population is found in this situation.

the popular economy cannot play any significant role in the economic development of the country. We shall examine some of these ideas that have laid deep roots in the Bolivian social imagination.

One of the most influential interpretations in Bolivia, for being shared as much by the left as by the right, is anchored in the theories of economic modernization based on the English experience of the XVIII and XIX centuries. The idea of progress through the concentration of capital and the division of labor among many workers in the same unit of production was one of the great themes of classic writers such as Adam Smith and Karl Marx. For both of these thinkers, large-scale production with single-purpose machines and unskilled labor in the production of standard goods is the most efficient form of production in capitalist society. In more modern vocabulary, it corresponds to the economic optimum of industrial efficiency. Whatever form of economic organization of production and interchange that does not fulfill these conditions – the system of private ownership of the means of production on a large scale - would be destined to be crushed by forms nearest to this model. Within this perspective, production on a small-scale, lacking the dynamic of specialization on the basis of concentration of capital and workers, cannot increase productivity or accumulation and, therefore, cannot promote the accumulation of wealth⁷.

This theoretical frame has remained the central matrix for the interpretation of development and industrialization in Latin America⁸. Until the 60s there was a consensus among economists and politicians of the region that the path to development was narrow: modernization and a “take off” into self-sustained growth necessarily came through a strategy of industrialization based on large scale production, intensive capital and modern technology. This vision of development conceived of big businesses as the basis of economic growth in that they guaranteed the necessary economy of scale, high productivity and efficiency. Small businesses, according to this perspective, in the best of cases, took on a transitory role, and were thus secondary in those countries that had yet to reach a more advanced phase of development.

In Bolivia, the idea that the great companies, public or private, national or foreign, are the “engines of development” was associated with the wagering on growth based on natural resources. The process of forming a “business class” in the first half of the XX century happened under the domination of those groups that controlled the export of natural resources, tin at that time. The nationalization of the mines and the economic policies of the Revolution of 1952 tied the emerging class to the State and to the resources coming from tin. This conditioned the forming of a business culture strongly marked by tenant and patrimonial logic, typical of the economy of extraction. The structure of the Bolivian economy maintained the characteristic of a weak economic diversification promoted by a limited business class in the middle of an economy mainly formed by enterprises identified with the popular sectors and separated by social and ethno-cultural boundaries from the elites of the country. The role of economic modernization of the country was assigned to a select and restricted group, whose members were promoted to partners of the State to formulate policies and to transfer economic opportunities. The others were combined as tradesmen, workers and peasants under the category “popular mass”, viewed as actors more interested in re-distributive processes and in social policies.

Both forces of the right as of the left took part in this process. From the side of the social movements led by the Central of Bolivian Workers (COB), the Marxist ideological matrix and the

⁷ For a critical reading of these classic thinkers, see Sabel & Zeitlin (1996).

⁸ Among the most important are Rostow (1960), Kuznets (1965) and Furtado (1965).

proletarian revolution kept the “chola bougeoisie”⁹ trapped in a feeling of blame for being “little bourgeoisies” and possible enemies of the proletarian revolution¹⁰. The vision of small-scale production as the structural result of an incomplete capitalist development unable to transform the majority of the indigenous and peasant population into proletarians can be found in the work of René Zavaleta Mercado and Guillermo Lora, two important thinkers of the left from the latter half of the XX century and influential ideologists of the COB. Zavaleta (1987) interpreted the continuity of the smaller producers and artisans as part of an alternative path of historical development which establishes enormous problems for the political unity of Bolivian society. This thinker argues that Bolivia is a “motley society” in which coexists different production, social and legal relations that are linked to diverse political structures and cultural matrices. If some interpret this diversity as positive, others see it as negative, for Zavaleta¹¹ it constitutes reliable proof of the elite’s inability to unite and homogenize the economic structure and political organization of the country.¹² Beyond the richness of this reading of Bolivian society that Zavaleta offers, his argument contains the narrative of modernization as the only way for political and economic evolution, in which there is no place for a politically and economically important role for small producers and other forms of economic organization.

The same perspective, but certainly with a more explicit argument about the awkward position of the artisans and producers within the country’s capitalist development, is to be found in the writings of Lora (1967). For this author, the XIX century associations of artisans incorporated a colonial spirit, placing serious obstacles for the development of productive forces. Lora feels that the project of President Belzu (1842-1855) to create a republic of small owners, was condemned to fail due to the pre-capitalist technology and the feudal spirit of these production units. According to the author, artisan production on a small scale did not offer Bolivia an alternative to overcoming its underdevelopment and for this reason had no future. The failure of Belzu’s project, according to Lora, “proves the impossibility of economic development on the basis of artisan and peasant activities, when they are only the human expression of the continuity of the colonial period within the Republic” (Lora, 1967: 358). Lora continues with the point: “to maintain the country within the limits of small-scale production was and is a reactionary project. When did artisans embody the growth of productive forces and were capable of transforming society and remodeling it in their image? Only in the medieval era” (Ibid: 360). For this author, the progress of productive forces necessarily requires that the State comprehends that the motor of commercial capitalism is in the hands of international business and not in the hands of small-scale production, which will necessarily disappear with the process of modernization and accumulation.

This vision not only diminishes the possible protagonist role of producers, artisans and peasants as agents of development in the collective imagination of citizens in general and, in particular, of decision-makers; it also undermines the organizational abilities of producers and artisans to intervene with their own demands in the public sphere. On not having space in other union organization, including to the “businessmen”, the principal channel of dialogue for this social group

⁹ Term proposed by Carlos Toranzo understood here as “businessmen” who are identified for their proximity to the popular social strata, for their links to the rural area, and for their ethno-cultural inscription.

¹⁰ Van der Veen (1993) undertakes a very interesting analysis of the process of union organization among small producers.

¹¹ Some interpret this motley society as an opportunity to reorganize society on the basis of traditional structures (Medina, 2001 & Comuna, 2001, 2002). Others interpret it as a problem of modernizing the country (Laserna, 2004).

¹² I am grateful for the commentaries of Rossana Barragán on differing interpretations of the motley society.

with the State, was for a long time, The Central of Bolivian Workers whose ideological framework dictated that capitalist development necessarily required industrialization based on big businesses with strong State support, an intermediary phase for the socialization of the means of production. In the Central Obrera Boliviana (COB), artisans and producers did not encounter a space of representation before groups with greater power such as the miners and peasants, and to a lesser degree the tradesmen, or the possibility of consolidating their economic interests and negotiating channels with the State (Rojas, 1995 & Van Der Veen, 1993).

This scene did not change in the decades that followed the Revolution of '52 and in the '70s the concept of the informal sector was introduced into political and intellectual circles that reinforced the identification of this sector, without distinctions, with the poor and exploited. In time, this concept was transformed into the new paradigm of interpretation of small-scale production and of public policies directed at the sector of small and micro businesses and handicrafts. In the years '80 and '90, the actions of the State continued to consider the small units as marginal to the "serious" path of economic development and, therefore, as subject to social policies but not economic ones. Despite certain advances in the State discourse, mainly in the first and second Strategy of the Struggle against Poverty (2001 and 2004 respectively), public policies continued restricted to the formalization of businesses, their incorporation to the tax system and their greater and better access to financial services. The spaces of formulating economic policies remained closed to this sector.

Another influential interpretation over the ability of small-scale production to assist in economic development was registered in the cultural field. Small-scale production is explicitly linked to an alternative ethno-cultural system of norms and values to modern rationality. This vision comes from the conception of ethno-cultural identities that establish priorities and values different from the accumulation of capital and of efficient and competitive organization (Scott 1975 & Worf 1966). This interpretation suggests that the small production organizations are destined to stay outside the circuit of economic growth, and therefore, are not strategic agents of development. Two currents can be inferred from this alternative. The first stigmatizes these alternative forms of social and economic organization as dysfunctional to growth (Laserna, 2004) and the second romanticizes them as immune to western modernity (Medina, 2001). Both, nevertheless, assign these activities to the sphere of social policies for the relief of poverty and protection of cultural differences. This vision does not impel public and private initiatives aimed at strengthen the participation of these activities in more profitable commercial circles.

All these explanations analyzed until now condemn production on a small-scale to marginalization in the sphere of formulating official rules of the game, which inescapably affect their production activities and reinforce the social, political and economic distances which characterize Bolivian society and economy. Even though these economic spaces count on their own regulations based on norms, expectations, practices and social controls as "effective" as the official rules, these transactions are not immune to the obligation and sanctions related to official laws. It is also important to consider the reach of the unofficial regulatory framework and what they can achieve when they contradict or are not recognized by official laws. One of the limitations refers to the ability to regulate social relations and to solve conflicts, which is restricted to personal relationships. This could also include varied levels of arbitrariness and inefficiency as well as making difficult expansion to economic transaction beyond close relationships.

The process of social, political and economic distancing between the “business class” and those who are customarily called “micro and small businesses”¹³, became sharper when they were assigned distinct social roles under the so-called “formal” and “informal” sectors. To the first they made responsible for the regeneration of wealth and the tributary collection associated with natural resources. To the second, they made responsible for the generation of self-employment and the precarious work that muffles poverty and the negative effects of structural economic reforms. This dual perspective oriented the actions of the State in the last century through the definition of agents of change and receivers of help, generating at the same time the institutional superstructure and the national business environment. The result is the maintenance of a path of growth in which the generation of wealth and the creation of employment are not articulated. Actually big businesses generate 65% of the gross domestic product (GDP) and only 7% of employment, medium and small business, 10% of GDP. The remaining 25% of the GDP is generated by micro-businesses, which absorb 83% of the workers¹⁴.

From individualistic relations to economic citizenship

The absence of universal rules and institutional mechanisms of definition and application of policies gives place to, yet at the same time is the result of, an enclave economy – economic, social and political spaces isolated between themselves – that do not generate real links between the different economic sectors, do not accumulate efforts and production resources in dynamics of growing productivity and competitiveness. One of the characteristics of this political scaffolding is that the channels of communication with the State to consult, coordinate and influence economic policy were only open to a few businessmen while the majority of the economic actors were marginalized.

In spite of the different models of administration over time, Liberalism before the 1952 Revolution, State Capitalism from 1952 to 1985 and the Market model after 1985, the relations between the State and the private sector (big, medium and small businesses) continue to be marked by a patrimonial and rent seeking culture, typical of an economy centered on the exploitation of natural resources. The search for State assistance by businesses was practically continuous and formed part of the predominant business culture of the country. What is important for businessmen is the management of contacts and influence to guarantee security and investment opportunities (IIG-UNDP, 2003). Through personal relations between some businessmen and political leaders in government positions, economic and political favors were transferred which could consist of the direct transfer of wealth (land, subsidies, or pardoning of taxes) and in the provision of economic positions. The examples include transference of ownership or the right to operate a privatized business, the concession of monopoly or quasi-monopolies, as with credits at highly subsidized rates and government contracts. The businesses with direct ties to the political elites, principally the grand and medium ones, resolve the problem of guarantees so that contracts and investments are respected by the government and third parties through particularistic agreements that are not converted into universal rules (Krueger, 2002). The economic governance understood as structures of confidence and security for investments is established for a select group who can continue their activities as long as they manage the agreements with the coming governments.

For micro and small business, the State is a distant, hostile being, source of secure benefits. In spite of the efforts of union organizations like Bolivian Federation of Small Industries (FEBOPI), the

¹³ Category which suggests differences in the physical size of economic actors. Also in its reference to the number of workers, volume of capital and other business characteristics, could also be interpreted as an expression of the power and the ability of these actors for political and social participation.

¹⁴ Estimates made by the Vice-Ministry of Micro-Business(2001).

Federation of Micro and Small Businesses (FEMYPE), the Binding Committee of Small Producers, among others, these actors do not manage to open institutional spaces to express their demand and coordinates responses. This marginalization produces perverse effects such as weakening initiatives for dialogue while giving incentives for pressure in the streets. It also creates a culture of lack of confidence, strengthening the secular practices of patronage and client status which only function in the limited benefits of protection and rent. This creates a defensive and simplified social capital which limits the relationship with the State to the search for mechanisms of protection against abusive practices and specific benefits such as direct financial resources, and liberalization of taxes, amongst other matters. These practices lead to union organization and businesses themselves no viewing the importance of public policies and laws in the formation of a business environment favorable to competition and access to national and international markets. On limiting their action to short-term, defensible demands, the producers and their organizations do not take advantage of the opportunities of coordination with public and private institutions to accelerate processes of innovation and access to markets (Wanderley, 2004).

While privatized/capitalized companies count on a framework and institutions specifically designed for them, the big and medium businesses participate in the design of the laws and policies which affect them and establish particularistic agreements for specific benefits. In comparison, the institutional framework and economic policies are not coordinated with businessmen of units of a small size and producers, and do not develop their functions to create guarantees for the fulfillment of contracts, access to financial resources, information, to knowledge of innovation, and business opportunities and export to wide economic sectors. These firms create their own (informal) rules to operate that, although completing the same function as various official rules, do not generate much of the benefits associated to an economic and juridical universal order and to transparent and inclusive relations with the State.

To this heterogeneity of formal and informal rules are added the own institutional weaknesses of the Bolivian State. One of these is the duplicity of responsibilities between different instances of government, which compete for the same resources and multiply the formal requirements for the legal functioning of companies. The inefficiency and lack of transparency in public administration has led to higher costs than benefits for the legalization of companies.

The businesses in general and, more specifically, those of smaller size, are obliged to maintain themselves in a grey zone of fulfilling certain requirements and not others. This incomplete legality creates not only financial but business costs. In the first place the risk to the continuity of the business, in the sense that not completing even one of the legal norms could lead to severe sanctions, mainly for those who do not count on the system of “informal security” given to membership of the circles of power. The way out is paying bribes to public functionaries in charge of inspection. The low level of control within the State has created a situation where inspection has extra dues as the objective on the part of the same functionaries. The result is corruption and the deviation of these resources in private pockets instead of there being destined to the offer of goods and public services for the same sector.

As we have seen, the marginalization of economic actors in relation to the formal rules and economic policies creates an adverse environment and limits the strengthening of production chains and the generation of quality employment. The condition of second class economic citizens negatively affects the ability for innovation and creates incentives to isolation (through internalizing all the process of production). The results are low levels of articulation between businesses, low

productivity, and a restricted access to national and international markets. We shall review this theme in more detail in the next section¹⁵.

One of the challenges confronting Bolivia is to create political and economic institutions capable of building an universal economic citizenship understood as the process of participative inclusion of economic actors in the construction of universal economic and juridical rules through mechanisms of formal and transparent decisions. The challenge is to avoid the re-composition of prebendal redistribution systems and processes of political incorporation without economic inclusion which could arise if Bolivia keeps its bets only on natural gas exploitation. In the following paragraphs we shall analyze policies that might aid an alternative route to economic development.

Creative policies from and for national socio-economic realities

The countries of Latin America and particularly Bolivia, have undertaken structural reforms and institutional changes that propitiated macro-economic stability, the restarting of economic growth and the deepening of democracy. The program of internal and external liberalization of the economy, the privatization/capitalization of public companies and the making of labor market flexible has reached its limit. The idea that greater macro-economic certainty, greater levels of foreign investment and the efficient assignment of resources via the market together with other State reforms would promote the economic and social development have not happened. We live in a moment of deep social and political crisis that demands a reformulation of the basic principles of social life.

One of the main questions put in this context is: what are the conditions for the development of widened production networks in which the distinct economic sectors formed by large, medium and small businesses are more articulated and can conquer niches in international markets and consolidate national markets? The reply to this question begins by assuming that the failure of the Washington Consensus demonstrates that there are no general recipes of economic policies. The path for sustainable growth of the industrial sector and improvements in the quality of life for important sectors of the populations lies with the formulation of creative economic and industrial policies designed from concrete realities, and so, development has much to do with self-discovery and deliberation.

Even though macro-economic stability, competitive markets, strategic integration to the global economy, juridical security, a regulatory framework adequate for correcting faults in the marketing and avoidance of financial crises, dynamic productivity and economic diversification are general conditions for economic development, there are no general guidelines on how to make them concrete from different national realities (Rodrik, 2004). To design our own route of development, one counts on, nevertheless, with the experiences of other countries, mainly those that have managed the qualitative leap into sustainable growth and achieved greater levels of wealth distribution. These experiences indicate that the key is in the micro-economic bases of development, which are constituted by the formal and informal institutions, industrial policies, and links between businesses, material and organizational resources which form the business environment that structure the competition (Sabel y Zeitlin, 1996). Micro-economic certainty is as important as macro-economic certainty for transactions; both define greater levels of confidence between agents and increase productivity and competitiveness (Zucker, 1986 y Rus, 2002).

Economic growth is not only the result of the combination of capital, technology and labor, as was thought for a long time. Certainly the wealth of a country, which is to say the value created by a

¹⁵ Idem.

day's work by capital and the physical resources invested, depends on the level of productivity, it also depends on the business strategies and the quality of national environment for economic transactions (Porter, 1990; Fairbanks, 1997 y Storper y Salais, 1997). The type of relation between the State and the private sector is a principal element in the formation of a propitious atmosphere of competitive, economic dynamics (Evans, 1995 y De Soto, 2000). Bolivia must confront the agenda of micro-economic and industrial policies to create articulated socio-economic spaces. The challenge is to comprehend how the chains of added value are formed, how we should choose to participate in them in an era of globalized markets linked by advanced information technology. We cannot continue counting on the advantages of abundant natural resources and cheap labor. To maintain this form of competition is to undermine the enormous potential of the economic and social development of the country.

Various academic disciplines, such as sociology, anthropology and geography have contributed to the new ways of conceiving of economic space and the formulation of industrial policies. The market is not only an abstract mechanism of assigning resources under the principle of efficiency. Markets are social structures and processes of interaction and coordination that depend on formal and informal rules¹⁶. Markets are not only formed by competitive relations in which one business wins and the other loses. The virtuous combination of cooperation and competition is a necessary condition for markets to expand, both internally and externally (Biggart y Hamilton, 1992). This means maintaining competition relating to prices, quality and delivery times and, at the same time, pushing cooperation through the division of work between different businesses in the same industry (specialization and sub-contracting), creating longer-lasting relationships between buyers and sellers in production chains, collaboration in worker training, the collective provision of services and development of patterns of communication and the interchange of information that allows for problem solving and constant learning processes. Cooperation is also important for collective representation in front of other actors and, specifically, for influencing policies which affect market activities and for exercising their citizen rights.

The understanding of competition has advanced not as a condition but rather as a process for maintaining the capacities for insertion in markets through innovation and constant improvements. The objective of intervening on a micro-level is the development of adequate links between businesses working in the same production chains so as to create increased productivity and lessen dependence on external support. International experiences indicate that competition is not necessarily founded on conditions of low-quality employment with the flexible use of time, part-time work and low salaries as is the Bolivian case. If economic competition is based on innovation, quality products, the capacity to gain niches in international markets and to respond rapidly to demands, growth will be sustained by qualified workmanship, more stable employment and higher salaries. The challenge is to create the conditions for Bolivia to travel by this "high road" of development¹⁷.

To advance in the design of a new way of development, we should part from our economic and social reality and recognize that it is formed from economic units of a reduced size. Even the big companies in Bolivia are small compared to other countries. A great part of the economic universe is organized under a family logic, with little sophisticated technology and unqualified labor. The level of specialization in the industrial process is very restricted with precarious links between companies. The predominant business strategy is not division of labor (specialization) between

¹⁶ White, 1994, 2002; Burt, 1992; Stark & Bruszt, 1998; Fligstein, 2001 & Abofalia, 1996.

¹⁷ Sensenberger & Pyke (1991) have proposed two ways: the "high road" and the "low road" of growth strategies in the globalized world. The first is based on increased efficiency and innovation and the second on cheap labour and low quality.

various producers in the same production chain. The predominant business strategy is the internal integration of all the production process within the company. And finally the majority of units are oriented to the national market with very loosely connection to the reduced sector of formal export.

To this panorama is added the tendency of the growth of “ant-scale” business activities with products imported legally or illegally to the detriment of goods with added value, tendency that responds to an adverse institutional context for production. Despite which, the Bolivian economy has managed a certain level of diversification and could become an economic fortress if it manages to resolve the problems that limit the increase of productivity and competitiveness. It has been proved that the size of business is not what defines the ability for growth in an economy. Various countries with similar characteristics to Bolivia, with a relative importance of units of reduced size in industrial sectors similar to ours, and that also are stuck in traditional family, social and cultural relations, have managed to take the jump to sustained innovation and enter into globalized markets (Schimtz, 1995 y Humphrey, 1995). The question is not if the units of reduced size have the capacity to generate growth and quality employment, but under what conditions this can occur. In other words, size is not what determines economic and social performance. But it is the links between firms and the institutional context (the official rules and the rules embodied in the practices and expectations of the economic agents).

Challenges for the development of local production systems

Even though small and medium businesses are not the elixir for economic development, the inclusion of small and medium sized enterprises form an important part of the solutions for linking the creation of wealth and the distribution of opportunities and rights. In this section, I will synthesize several lessons of national and international experiences to articulate the distinct economic sectors and I will discuss some concrete problems in the country that limit the development of local production systems and the creation of quality employment.

- 1) The sustainable increase in quality employment requires overcoming the predominant vision of programs, projects and policies directed at the informal sector and small businesses. These initiatives are thought of as social policy for reducing poverty. The effectiveness of these actions directed at units of reduced size depends on their being encompassed as economic policy directed at sustainable growth of efficiency and productivity of local economies.

This implies the recognition of producers, artisans, businessmen in small economic units as legitimate economic agents who assume risks and take investment decisions in the local, regional and national economic spheres. The design of these policies needs to start from the incorporation of all private agents in the process of consultation and formulation. Only through the institutionalized participation of private agents in the decision making process will it be possible to advance in a legal and political framework which responds to specific needs of the sectors. In this effort, “big business” and their unions play an important role in the approximation and incorporation of other entrepreneurs and economic actors without class, ethnic or cultural distinctions.

- 2) The financial focus which places the access to capital as the main problem of economic growth deviates the attention to the complexity of the problems of business and industrial development. It is important to prioritize actions directed to those problems of industrial organization, such as the lowering costs of transactions, the continuous increase of efficiency and productivity, the problems’

solution to bottle-necks in the up-stream markets (supplies for production), the conquest of niches in external markets, amongst others.

3) The supply of credit to small business should not only respond the principle of profitability for the banks neither should it be primarily conceived as a measure for reducing poverty. Micro-credit should primarily favor the production sector before the commercial sector. This implies establishing adequate interest rates, loan sums and times for payment in relation to the needs and possibilities of production units.

Second storey banks which have spread all over the country in the last two decades have mainly favored “ant-scale” commerce. It is calculated that 70% of the clients of Banco Sol are storekeepers. It is important to consider the effects that this modality of offering credit creates in terms of capitalization and productivity for industrial activities as well as the indirect and negative results for this sector, mainly manufactured and consumer goods. The critical analysis of the national experience in this matter is the first step for new institutional designs of credit supply which favors the production sector.

4) The policies for reducing or liberalizing taxation and other costs associated with formalization of small units per se may hide populist motives (electoral loyalties). These policies are also used to guarantee “social peace” and lessen social pressures that arise as a response to reforms and economic policies that create poverty (Tendler, 2002). The sector of small units transforms itself into an instrument to preserve or create low quality employment and in low productivity business before taking the opportunity to stimulate economic development. The alternative to the vision of small units that need protection is in measures to modernize the local economy. Policies that generate incentives to increase productivity and competition through creating opportunities so that businesses can fulfill reasonable requirements before they can be exempt from them are necessary. Initiatives that help them to be more efficient, to produce goods of greater quality and to gain access to more demanding internal and external markets are necessary.

5) An institutional atmosphere with transparent, simple rules, and with clear benefits is fundamental for creating incentives to increase productivity and competitiveness and, as a result, generate more quality employment and a greater level of formality in the economy. The level of formality (in terms of the number of businesses that complies with the legal requirements) depends on the degree of efficiency, transparency and simplicity of the legal framework and economic policies. When formality creates benefits that surpass the associated costs associated to legality, businesses respond positively to formalization. It is important to consider that informality also creates costs and that the central objective of laws and economic policies is the promotion of a propitious business environment.

6) Unions, producer associations and local governments have a fundamental role in the process of increasing productivity and competitiveness in local markets¹⁸. This implies overcoming the defensive orientation of the unions towards the State and a new orientation towards building business communities. Producer associations can play an active role in providing assistance and learning through organizing visits to international factories in the same sector, promoting participation at international trade fairs, contact with institutes, foundations and universities that offer formation and training, broadcasting knowledge about standards export quality, facilitating the certification processes amongst others. The

¹⁸ Perez-Aleman,2000 & Tendler, 1997.

associations are also important to construct incentives and effective controls for socializing risks. Changes in the unions' and producer associations' organizational culture is directly dependent on changes coming from the State and, specifically, in its relation to associations and unions.

7) Sub-national governments are key actors for local economic development through actions oriented to promote articulation between businesses in different positions in production chains – as much as competitive as complementary – and between firms and support and service organizations, such as universities, research institutes, foundations, NGOs, union organizations amongst others (Blair y Reese, 1999). Local economic development consists in the growing linkage of economic units, as much for geographic concentration as for the synergy created by constant innovation, growing productivity and competitiveness. The basic conditions for development are: a) positive externalities derived from strategic qualification of workers, b) synergic effects between businesses and other agents that participate in production processes in an economic atmosphere that favors learning and constant innovation, c) open channels for the flow of information between economic actors, d) forms of collective action that search the competitive advantages of the cluster in relation to other clusters e) an institutional environment of rules and policies favorable to production (Tironi, 2001).

Final commentaries

The analysis of the institutional and political frame which sustains economic development redefines the problem on the role of the State in the economy. The problem ceases to be the disjunction between private or public logic in the economy and it is converted into a discussion over the institutional ties which should support the complementary relations between market and State, and the role of actors in a heterogeneous economic structure as the basis for achieving an integrated development of Bolivia.

In Bolivia there is a standing debt with the small-scale producer sector which have not enjoyed the opportunities and rights to improve the quality and reach of their economic transactions and, thus, consolidate their economic activities and create quality employment. Among these sectors are the micro, small and medium sized economic units.

The rent-seeking culture, characteristic of economies that export natural resources, and the particularistic and patrimonial relations have defined formal and informal mechanisms of guarantees and the creation of micro-economic certainties only available to a few businesses, while the great majority have not counted on institutional or personal channels to public decision-making spaces. These economic units do not have access to systems of support from the State to lessen the risks in transactions, nor have policies directed at minimizing the costs of transactions, to improve neither productivity nor competitiveness.

The absence of economic citizenship, understood as universal and transparent rules and institutionalized mechanisms of access to the spaces of formation of public policies and the application of laws is one of the most important problems we have to face in order to articulate economic growth and income distribution. Micro-economic and creative industrial policies from and for the concrete realities of Bolivia, which encompass the processes of deliberation with the growing inclusion of economic agents who were historically excluded, can help with the construction of an economic citizenship as with the strengthening of the production networks with

virtuous links between distinct economic actors, leading to economic diversification and the competitive ability of the national economy in an era of globalization.

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