Society, Community, and Development: A Tale of Two Regions

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SOCIETY, COMMUNITY AND DEVELOPMENT:[1]
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Abstract

Contemporary social science remains quite divided about the type of coordination that allows some groups of agents to carry out successful economic development and which distinguishes them from cases of failure. In some cases, it is said to be traditional or non-market forms of coordination, such family, networks, or shared traditions: these are "communitarian" sources of organization. In most mainstream economics, however, the opposite is said to be necessary: anonymous and transparent rules of the market, property rights, and contracts. These are "societal" forces. For example, for some analysts, Silicon Valley is a case of community, while for others it is due to appropriate societal forces. The same cleavage can be found in rival interpretations of the success of the Asian Tigers, the industrial clusters of the Third Italy, or any of a host of other cases. A more robust explanation shows how both communitarian and societal forces act as checks and balances on one another, all the while each creating specific but different sources of efficiency in the economy. This view is illustrated via a study in contrasts, between a failed case of low-technology economic development in the Brazilian Northeast, and a success story in the state of Jalisco, Mexico.

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I. CONTRASTS IN INNOVATION: WHY SHOULD LOW-TECH BE SO DIFFICULT?

Tonalà, near Guadalajara in the state of Jalisco, Mexico, provides the first-time visitor the impression of a typical Mexican town with narrow, cobbled streets and small adobe houses whose front rooms double as stores. The town center is traditional Mexican plaza style. The streets are clean and well-cared for, with cheerful brightly-colored facades; every morning, each family cleans its sidewalks in front of its shop. Overall, there is a jumble of production, residential, and sales spaces. People are all around, with workers moving ceramic products while trucks almost too large for the narrow streets are crammed full of product, leaving to far-flung destinations to be sold in American and European chain stores. Hundreds of stores line the streets, one after another, offering a wide array of "typical Mexican" handicrafts. On the two big market days,[2] people arrive from all over to buy ceramics, furniture, blown glass, and other decorative objects. The work areas are low-tech and work is hard, but the overall feeling is of bustle but not oppression; this is not surprising, since many of the firms are family-owned and operated and in many, the owners are former workers in other firms.

On the other side of the Guadalajara metropolitan area, the main street of the town of Tlaquepaque is lined with magnificent colonial houses, the central plaza has a baroque cathedral, and there are fine restaurants, bars, cafes and high-quality boutiques throughout the town. The products that can be seen in boutiques, showrooms and tree-shaded courtyards of colonial houses are of high quality, ranging from traditional Mexican-baroque to modern updated hacienda-style design objects. Buyers come from around the world to Tlaquepaque, and a high proportion of its products are exported to North America and Europe. Behind many of these courtyards, and interspersed throughout surrounding residential areas, is a multitude of small- and medium-sized workshops.

The vast Northeastern region of Brazil also has well-developed artisanal and handicraft industries – in ceramics, decorative arts, and housewares – as well as industrial production of many low-technology goods such as wooden and metal furniture, and significant output of clothing and shoes in both large and small firms. Visitors to these firms have a strikingly different impression from Tonalà and Tlaquepaque.[3] Some firms are located in the industrial neighborhoods of cities such as Fortaleza or Recife. The feeling is of grueling industrial work, often hazardous and dirty, whether it be IN shoes or ceramics. Similar kinds of factories can be found in grimy frontier towns such as Imperatriz, in the state of Maranhão, just on the border between the Northeast and Amazonia, where cheap furniture is made from tropical hardwoods by low-paid workers. The Northeast also boasts its share of industrial estates, where the visitor is stunned to travel down long dusty dirt roads "to the middle of nowhere," and to find modern shoe and textile factories, with the latest Italian and Swiss machinery, staffed by a small number of industrial workers, with managers and engineers there to oversee the machinery and attend to orders from computer rooms linked to the outside world by fiber-optic cables. The workers typically have an air of quiet resignation and their monthly minimum-wage salaries[4] are supplemented by food baskets containing packages of rice, beans and other basic necessities.

Moreover, the Northeast is not a developmental success in the low-technology industries: its export levels are extremely low, its penetration of national markets in Brazil is fragile and generally limited to low-quality products, and overall developmental indicators such as the ratio of regional wages to national wages have not progressed much in forty years

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[2] Two days per week when goods are sold not only in shops, but in street markets.

[3] A word on the scale of the comparison reported in this paper : we use the term « Northeast » to refer to case studies which are more precisely about a set of cities and towns in that region , or industrial clusters in cities, including in and around Fortaleza, Recife, Salvador, and Imperatriz. Because, as shall be shown, we argue that the dynamics of failure are widespread, we use the moniker « Northeast » to generalize across these case studies. In Mexico. Tlaquepaque and Tonalá are used as examples of a different developmental dynamic which is also found, with some variation, across a wider region including parts of the states of Jalisco, Michoacán and Léon. Thus, the comparison concerns industrial localities set in wider regional contexts in both countries.

[4] Equivalent in May 2003 to USD80.00, for 44 hours per week.

of intense policy-led effort to develop the region. Why has the Northeast failed where these areas of Jalisco have succeeded? Failure and success, we shall argue in this paper, are closely related to different incentives. Success is based on the incentives that flow from generalized confidence in the economic process; appropriate distributional arrangements; and ongoing collective problem-solving and conflict resolution. These differences in incentives are reflected in such areas as entrepreneurship, coordination with other firms and actors, and investments in physical capital and skills.

Why are the incentives so different from Jalisco to the Nordeste? The three types of incentive are defined by the interaction between what we shall call societal and communitarian forces in each region. Think of community as bonding among people with strongly similar backgrounds and interests, and society as forms of bridging between those groups; both can be institutionalized in rules, laws, and shared conventions, but societal bridging is more often formal than communitarian bonding.[5] Well-studied low-tech success stories such as the Third Italy are often said to be successful because of the communitarian structures that make collective coordination possible. Tight social networks, anchored by mutual trust and reputation effects, facilitate the information flows that underpin an elaborate, highly flexible and innovative production system. High commitment of individuals to firms and of firms to the region enables skills to be transmitted via socialization in regional networks (Becattini,1987). At the same time, in another part of Italy, economic stagnation is often ascribed to communitarian structures of another sort (Gambetta, 1988). The Mezzogiorno is a prisoner of clan-like communities who make normal free markets impossible. Interestingly, this kind of difference is found in debates about sources of success in many other places. Silicon Valley is described by some analysts as a tightly-woven community, whose economic performance depends on informal networks of entrepreneurs

and technologists (Saxenian, 1994). But by others it is described as a set of overlapping markets, with research universities, government financing, venture capitalist, law firms, stock options, high labor mobility, and brutal competition (Cohen and Fields, 1999). Taiwan's success is sometimes said to stem from family- and community-based systems of coordination, and sometimes criticized for being a form of crony capitalism; others claim simply that Taiwan followed the rules of export markets, just as Silicon Valley pushed market logic to its limits in the United States (Wade, 1990). Thus, in these stories of economic development, some claim that the right institutions are communitarian, in the sense of strong bonding within social groups that have positive effects on the economic system. Others, however, claim that it is the force of commercial culture, of widely-accepted principles of competition, that are the source of success; it is society, not community, that generates development.

In contrast to both sides in this debate, we argue that both society and community are necessary and it is their interactions which determine whether and to what extent the appropriate incentives to economic development are generated. What matters is the relative strengths of society and community, their institutional forms, and how they interact in shaping incentives which in turn enable the long-term process of economic growth.

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[5] These definitions bear an intentional similarity to those used by Putnam, 2000, though in our view the sources of each can be quite different than those claimed by Putnam. Our position is described in greater detail in Storper, 2005.

Table 1:

THE ECONOMIC EFFECTS OF SOCIETY-COMMUNITY INTERACTIONS

INCENTIVES NECESSARY TO LONG-TERM DEVELOPMENT	PRINCIPAL MICRO-ECONOMIC EFFECTS OF EACH INCENTIVE	OPERATIONAL INSTITUTIONS: BEHAVIOR, ROUTINES, REGULARITIES	ROLE OF COMMUNITARIAN "BONDING" IN BRINGING ABOUT EACH INCENTIVE	ROLE OF SOCIETAL "BRIDGING" IN BRINGING ABOUT EACH INCENTIVE
Generalized confidence ↓	▪ **Reduces transactions costs** ▪ **Reduces moral hazards** ▪ **Raises expectations and efforts** ↓	▪ **Encourages Schumpeterian entrepreneur** ▪ **Improves coordination of firm-firm transactions** ▪ **Raises investment levels** ↓ →	▪ **Reputation effects, shared conventions, identities: (depends on process of group formation):** ▪ **overcome certain information problems in low-cost way (but can encourage rent-seeking)** →	▪ **Overarching rules promote transparency and limit rent-seeking, help to complete markets** ←
Effective and acceptable distributional arrangements ↓↓	▪ **precedent encourages ongoing 'sacrifices' in face of shocks (Rodrik)** ▪ **Overcomes disincentive to participate and make effort (Aghion)** ↓↓	▪ **Raises investments in skills** ▪ **Raises work and entrepreneurial participation rates** ▪ **Improves willingness to pay taxes (investment)** ↓↓ →	▪ **Voice and loyalty** ▪ **Being in the same boat enhances acceptability** ▪ **Membership may involve real forms of intra-group redistribution** →	▪ **Counteracts corporatism and distributional hold-ups** ▪ **Standards of fairness and efficiency constrain group demands** ▪ **Inter-group mobility (exit), disciplines groups** ←
Successful ongoing conflict resolution	▪ **Participation of groups is enhanced** ▪ **minimize rent-seeking from corporatism**	▪ **Better adjustment of rules governing entrepreneurship and labor markets.** ▪ **Intelligent ideas more likely to receive support as public policy** ▪ **Coalitions can form, avoiding chaotic instability** →	▪ **Secure groups encourage coalition formation: voice that gets heard (but risk of P-A problems)** →	▪ **Limits to group power encourage compromise** ▪ **Exit options, defection, make other coalitions possible, hence dynamically limit P-A problems** ←

Legend:

→↓ **:** cumulative and/or one-way causal effect

→←: two-way interactions and feedbacks

The crux of our argument is shown in the fourth and fifth columns of Table 1. Each of the features of successful development depends on both community-based and societally-based relationships between persons, and on the interactions between these two forms of

coordination. This interaction, when successful, is one of mutual checks and balances; when unsuccessful, the checks and balances are not sufficiently present, allowing the potentially negative effects of society or community alone to make themselves felt.

When the conditions do not exist for society-community interactions of mutual checks and balances, however, then other less favorable outcomes for economic development are likely to be the result. In the case of Northeastern Brazil, we shall see that relatively strong, but distorted forms of societal rules, combined with weak communities, generate insufficient public goods; low confidence and high transaction costs; and a distribution of wealth that reduces motivation for entrepreneurship. In Tonalà and Tlaquepacque, by contrast, society and community interact to sustain confidence, shape distributional arrangements and foster problem-solving such that innovation is ongoing and sustains local development.

3. THE PERVERSE EFFECTS OF A "CIVILIZING PROCESS:" SOCIETY AGAINST COMMUNITY IN THE BRAZILIAN NORTHEAST

The Brazilian *Nordeste* remains the country's unsolved "regional question," a source of worry for decades.[6] The conventional diagnosis of Brazil's "Northeast problem" is that it stems from the region's imperfect integration into the national society. This is said to be the consequence of a social structure molded by a colonial plantation economy and slavery, leading to a post-colonial society split between a landowning economic and political elite and impoverished landless masses afflicted by recurrent droughts. An integrated regional development program for the Northeast, authored in the mid-1950s under the aegis of the

[6] Some basic indicators of economic development for the two areas are provided in the Appendix. The Northeast is a much bigger region than Jalisco and Michoacán (40 million versus 10 million people, representing respectively about one quarter of Brazil's population and 12% of Mexico's). However, both are regions with big cities, poor rural hinterlands, ethnic specificities when compared to the "core" regions of each country. No inter-regional comparison can, of course, ever have the quality of a controlled experiment, and it is important to bear in mind questions of regional history and context when carrying out comparisons of the sort undertaken here, in which we have attempted to deploy the theoretical framework presented in the previous section in as rigorous, but still context-sensitive, manner as possible.

GTDN and later the SUDENE,[7] placed emphasis on developing its social and economic infrastructure. This was to be accompanied by massive investments to link the Northeast physically and economically to the rest of Brazil, and to install modern social institutions, a market culture, and modern industries. The latter were to be implanted through public investments (nationalized industries and subsidies), on the basis of a strategy of generating backward and forward linkages and hence generating self-propelling development. The development of the Northeast was to accomplish a "civilizing process," extended from the core of Brazilian society and territory, to its periphery.

Certain forms of economic progress do exist in the region, largely confined to large-scale factories of nationalized firms and to the development of a service economy in the coastal cities. There have also been significant improvements in some indicators, including income, health and literacy. Nonetheless, in relative terms, the NE is just as far behind the rest of Brazil as it was at the beginning of the development push more than forty years ago. Wages in manufacturing are only 55% of the Brazilian average, with output per worker at only 48% of the Brazilian average. Manufacturing employment has stagnated at less than 16% of the Brazilian total, in spite of massive incentives (Lavinas, Garcia and Barros, 2000). The Northeast's share of GDP has fluctuated between 12-16% of the Brazilian total since the 1970s, and its share of Brazilian exports declined from 20% in 1975 to 7% in 2001. Overall household income levels and income per capita are around half the Brazilian average.[8]

In contrast to the dominant views, our conclusion from a three-year study of the region's low-technology industries is that *economic integration and a certain form of modernization have succeeded.* It is development that has failed. This is because integration

[7] The GTDN refers to the Working Group for the Development of the Northeast and the SUDENE the Superintendency for the Development of the Northeast.

[8] Lavinas, Borges Lemos and Rolim (1999), in an analysis of national accounts, show that there is a net export of capital from the Northeast to other regions of Brazil, on the part of Brazilian firms implanted in the Northeast. This is yet another sign of the underlying lack of attractiveness of the Northeast: the fact that firms do not

has been achieved at the price of importing many of the worst characteristics of Brazilian economic culture in general – lack of generalized confidence, unworkable distributional arrangements, and ongoing conflict and unstable coalitions. These strong societal features interact with elite clannish behavior, and block the creation of incentives that would be necessary to generate a vibrant indigenous entrepreneurial economy. Moreover, this grafting of the national economic culture onto the NE generates few of the advantages of bigness, concentration and State-sponsored capitalism that have benefited southeastern Brazil.

The overwhelming majority of local firms in these sectors in the Northeast make products that target the lower reaches of their markets, with only occasional forays into medium- and high-quality products.[9] Some firms act as mass production subcontractors or are assembly plants owned by medium-to-large sized Brazilian firms, mostly from the southern and southeast regions. The products of the latter are destined for national markets; by contrast, the products of NE firms are destined principally for regional markets; neither category has any significant presence in markets outside of Brazil, with the exception of shoe-producing firms who work for foreign buyers. Though entrepreneurs and managers regularly attend trade shows in the USA and Europe, and a significant percentage are well aware of new product concepts and production technologies, for the most part, their ambitions are limited. Table 2 shows the interactions between society and community which account for this lack of local ambition and the limited local ambitions of national firms, which in turn limit developmental success in the Northeast.

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practice ongoing capital-augmenting investments, but rather use the region as a source of short-term profits, which are not reinvested in the Northeast.

[9] We performed site visits, interviews with key actors in both firms and government, in sectors which are amenable to this type of upgrading via learning, but which start out with low barriers to entry and low technological requirements. These sectors include glassware and ceramics, shoes, textiles, food products made with tropical fruits, wood furniture, and certain services (Lavinas and Storper, 1999, 2000, 2001). Additional interviews were carried out in the machinery sector and in certain services industry firms, especially courier services. Also interviewed were local and state economic development officials, and university-based incubators." Detailed statistical analysis was carried out at the Institute for Applied Economic Research, IPEA, in Rio de Janeiro.

INCENTIVES	INSTITUTIONAL-IZED BEHAVIOR	COMMUNITARIAN FORCES	SOCIETAL FORCES
Lack of generalized confidence: predation and uncertainty	▪ **Poor interfirm coordination** ▪ **Large firm dominancem disconnected from local networks** ▪ **Predatory behavior in markets** ▪ **Regional, low-cost, low-quality markets.**	▪ **Weak local institutions for promoting generalized trust, confidence in transactions** ▪ **Highly personalized, nepotistic relationships** ▪ **High local clientelism** ▪ **Widespread corruption** ▪ **Instability in relationships**	▪ **National policies and institutions that promote oligopolies** ▪ **Powerful actors diminish local margin of maneuver** ▪ **High national clientelism reinforces power of oligopolists** ▪ **Macroeconomic instability favors bigger firms**
Unsatisfactory distributional tradeoffs/ arrangements: low effort, misguided effort	▪ **Local entrepreneurs have low ambitions: the playing field is seen as being highly uneven: regional rivalries within Brazil + no ambition to export** ▪ **Non-elite cannot get into entrepreneurship because of inequality level** ▪ **Workers have effort disincentive due to inequality**	▪ **Local entrepreneurs seek rents whenever possible: markets incomplete, skewed** ▪ **Rent "niches" are leftovers from dominant national firms** ▪ **Labor unable to press for upgrading, inclusion, training (extreme inequality)**	▪ **Dominant groups seek rents, institutionalize them, esp. extremely unequal access to credit and subsidies** ▪ **Rents reinforce protectionist, inward orientation** ▪ **Labor dominated by corporatist representation.** ▪ **High level of informality and non-representation;** ▪ **State institutions not strongly organized on the ground**
Ongoing conflict and lack of problem-solving	▪ **Inability to form sustainable developmental coalitions in the region** ▪ **Conflict dominates in face of economic shocks, for all classes: sense that someone else is not sacrificing** ▪ **Firm-worker conflictual relations** ▪ **Conflictual sectional (interregional) relations** ▪ **Low-quality, get in/get out**	▪ **Low sectoral cooperation: networks are fragile, unstable** ▪ **Low firm-worker problem-solving:conflictual and formalistic relations** ▪ **Conflict leads to short-term strategies, unstable and shifting relations between groups** ▪ **Many have good ideas, but nobody builds coalitions to push them** ▪ **Inequality too high**	▪ **Policy is interventionist** ▪ **But policy not transparent or stable** ▪ **Depends on power** ▪ **Policies work *coup par coup,* lack medium-term consistency and predictability** ▪ **Winners take all in policy competition, until next round** ▪ **But political alliances shift, so even elite coalitions do not have ability to push strategies in**

	strategies because of uncertainty, fear of predation, politics ▪ **Difficult to get good ideas implemented, accepted, even though their value is widely recognized** ▪ **Extremely conflictual society**	**at the local level as well**	**sustainable way** ▪ **No tradition of consensus-seeking**

3.1 LACK OF CONFIDENCE

There is nothing automatic or universal in the ways that entrepreneurship is carried out; economies vary widely in their collective entrepreneurial levels and habits (Casson, 1995; Kirzner, 1973). Brazil has a powerful large-firm presence in many sectors, which are "piloted" by the big firms, who exercise critical market power, access to distribution, and technological mastery.[10] These firms also have political access, especially to public credit through the BNDES,[11] and thus have dramatically more staying power than do small firms, especially in the face of Brazil's endemic macroeconomic instability and the ability to exploit rents from public policies that consistently favor the big firms. Consistent with this, many Brazilian sectors are highly oligopolistic, well beyond what one would expect in a domestic economy of its size. And, unlike South Korea -- another "big firm" developing economy (Amsden, 1992) -- Brazil exports a very small percentage of its output, [12] but its big firms do earn significant rents in domestic markets.

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[10] Indeed, large-firm presence in Brazil is much greater than in Mexico, and average manufacturing productivity much higher. Part of this has to do with the bigger internal market in Brazil, but this makes it all the more striking that there is little observable benefit to the Brazilian export sector. And it also illustrates that the barriers to entry for Northeastern firms are quite high, because of the way that economies of scale have been developed in many Brazilian manufacturing sectors (see Mulder, Montout and Lopes, 2002 for a Brazil-Mexico comparison).

[11] "Banco Nacional de Desenvolvimento Economico e Social," i.e. the National Bank for Economic and Social Development.

[12] The dominant view of this in Brazil is that protectionism on the part of the EU and the USA is to blame for Brazil's poor export performance. It is incontestable that Brazil's main export strength, agricultural

In spite of this big firm orientation, Brazil is also a highly entrepreneurial economy; its overall rate of entrepreneurial activity per 100 adults is ranked 5th in the world, just ahead of Ireland and the USA (Reynolds et al, 2001). In the West, South and Southeast of Brazil, there were many examples of such entrepreneurship leading to long-term growth, from small to medium- and even large size, especially during the period of rapid development in the 1950s and 1960s; however, Northeastern startups were not part of this process, and today they do not follow this growth pattern. Part of this has to do with the phenomenon of being a "latecomer" region in a country with more highly developed regions and their firms and of having missed out on the great developmental jump of earlier decades. NE firms occasionally – though not frequently – become suppliers to big national firms from other regions. While this may provide them markets, it does so within the established structure of oligopolistic markets, and so places local firms in positions of submission to large national firms, and discourages them from striking out on their own. An analogy may help in understanding this. The United States does not do well in many of the industries in which Italy does. It is difficult to imagine American firms engaging in the small-scale high quality furniture production which abounds in Italy, because US national supply structures are dominated by large firms. Small firms, when successful, are likely to be bought up in the US, their products commercialized at vast scale, and subjected to mass marketing. This isn't a problem if there are other areas in which regions can excel. But it is a problem for a region such as the NE, because it starts out in a dependent position and does not have the means to enter as an innovator in other markets.

Northeastern SMEs respond to this situation by avoiding competition with the big national firms, but in the wrong way. They orient themselves toward regional markets for the low-quality products that do not interest the national firms. They exploit limited incomplete

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commodities, would grow considerably were there not such agricultural protection in Europe and the USA. However, this would do little for Brazil's weakness in manufactured exports, and can not explain why Brazil has done so much more poorly over the last 50 years than other countries, especially the HPAEs, which started out in the same position as Brazil. For a detailed comparative analysis, see Amsden, 2001.

areas in markets through a calculated risk strategy, but they do not benefit from sufficient optimism or confidence in the economic process to undertake true, market-reshaping innovative entrepreneurship (Knight, 1921; Casson, 1995; Kirzner; 1973; Schumpeter, 1991).

Still, these problems cannot be attributed exclusively to the predatory large-firm behavior which is encouraged by these societal forces. The communitarian forces that might, under some circumstances, be capable of generating entrepreneurial capabilities capable of innovating in the face of these market structures, do not exist. Some would counter that, in any case, communitarian forces that support entrepreneurialism never constitute serious competition for oligopolistic firms, but examples such as the post-war experience of the Third Italy prove them wrong.[13]

Thus, there is clear existence of a problem of society versus community: regional entrepreneurs have low ambitions, not because they lack creativity or knowledge, but because of rational fear of the risks that come from the national (societal) environment, and this lack of generalized confidence is not counterbalanced by the alternative of solid communities that could facilitate coordination.

3.2 DISTRIBUTIONAL ARRANGEMENTS: HIERARCHY AND RENT-EXTRACTION

The situation described above is reinforced through distributional arrangements – big and southern versus small and northern firms, and successful rent-seeking by the former group to the exclusion of the latter. Distributional arrangements also concern the distribution of wage income. The literature on success stories makes a great deal out of the "good" work habits found in those places, as opposed to the bad or "disorganized" labor markets in other

[13] In the face of highly oligopolistic firms in Lombardy and the Piedmont, which were favored by the national government in Rome, the firms in the Third Italy managed, through local collective action underpinned by generalized confidence, to carve out viable market niches for themselves and came to dominate Italy (and many export markets).

places. In the countries that have done well in the kinds of industries we considered in the NE, many approaches to shaping labor markets are in evidence. In Italy the entrepreneur is often a former worker, the family unit remains important in many industries, workers often have strong durable ties to local communities, and local and regional states in turn play an important role in labor training (Becattini, 1987). In Denmark, family is not especially important, but local ties are, with extensive cooperation in the locality, in the context of a highly-regulated national labor market which shapes relations on the shop floor, in the direction of equality and mutual respect (Lorenzon, 1999; Lundvall, 2002). In Taiwan and Hong Kong, families often own and operate firms, with multigenerational extended families providing the firm's labor and capital resources, to some extent outside normal market circuits (Numazaki, 1991).

Brazil does not closely resemble any of these examples, though there are certain features of the Brazilian labor supply process which have counterparts elsewhere. For example, Brazil has a history of large-scale unionism (like Italy and Korea), a large unionized public sector and a tradition of corporatism in its labor market (as in France) (Marsden, 1999). Labor relations have been conflictual, as in South Korea. Brazil, and especially Northeastern Brazil, however, stand in contrast to all these examples in the key ways its institutional framework generates labor supplies and incentives to work, train, and learn. Most important, in our view, is that South Korea, Taiwan and Hong Kong all have much lower levels of inequality than does Brazil; in the first two cases because there were significant land reforms at the beginning of the current industrialization process. Brazil, by contrast, has industrialized against the background of an enormous rural population lacking access to land resources and hence in the possibility of a satisfactory rural life, along with rapid urbanization and industrialization, and extensive modernization of the agricultural sector. Income inequality is among the highest in the industrialized world. Education is highly uneven, with significant

parts of the population lacking literacy or other non-manual skills or having insufficient levels of them. Moreover, though these are general characteristics of the national labor market and income structure, they are more severe in the Northeast. Recent theories hold that both labor and entrepreneurial effort and participation can be subject to a strong disincentive effect above certain degrees of inequality (Aghion, 1998). This is because the probability of getting access to such essential resources as a decent wage or capital (respectively) is extremely low when inequality is extremely high and positionality effects are high.

Brazil also has a strongly formalistic system of labor relations, anchored in huge union federations,[14] modeled after certain European countries; the State is the key intermediating actor between these "social partners" (Marsden, 1999). Given the extreme inequalities of Brazil, however, the most frequent outcome of this situation has not been sustained dialogue between worker and employer organizations, but a distant and conflictual relationship, and a high degree of state paternalism. The paternalistic labor relations system actually interferes with building the communities through which independence and upgrading might one day become possible. Labor is thus largely unable to serve as a force for constructing any putative developmental coalition. Aggravating this situation is the fact that even these rather dismal formal relations apply to only 40% of the work force, so that for the other 60% straightforward power relations – highly asymmetrical because of a very high rate of informality and extreme abundance of the unskilled – are the rule (Oliveira, 2003).

Though schooling has improved somewhat[15] -- with higher rates of school attendance and growing literacy -- the average poor person in the Northeast has little or no chance of using much more than very modest improvements in formal education (Easterly, 2002). The middle classes are, of course, where the strongest incentives for knowledge accumulation and

[14] As in certain European countries, the Brazilian union federations control big pension funds and administer them, and pay for big professional staffs via this activity. They are also the privileged negotiators of changes in labor law with their respective legislatures. In some countries, they are constitutionally recognized in these roles (Marsden, 1999).

use are present; and yet, as we have seen, these middle class entrepreneurs, even when they are skilled and knowledgable, are frustrated at every turn in the road.

3.3 THE ABSENCE OF COALITIONS THAT COULD SOLVE PROBLEMS AND GENERATE CONFIDENCE

The various problems described above interact and have cumulative effects, one of which is to limit the formation of coalitions that would boost the developmental potential of the Northeast. Society-community interactions that are present in the Northeast conspire to generate conflict, unstable and shifting coalitions, and hence lack of capacity for long-term upgrading of industrial performance.

The vicious circle of low-skills, low-wages, high mobility, low trust of workers, and a huge skills gap between management and workers, is not just injurious to the social mobility of the less-skilled; it has the wider effect discouraging firms from training their workers or trying to involve them in a medium-term strategy of quality improvement. Labor is thus not present as an institutional agent in any putative developmental coalitions.

One of the principal areas in which this failure to have problem-solving coalitions is reflected is in the poor export performance of the Brazilian economy. Enhancing export performance obviously depends in part on relatively straightforward technical measures: tariff policies; bureaucratic efficiency in import and export regulation, inspection, and transportation; clear and enforceable contracting and payment procedures, aligned with international norms, and so on. Serving external markets, however, also requires coordination with those markets, which in turn depends on the development of detailed networks of human relations: between domestic producers, trading companies, and external buyers. It requires building up a reputation for on-time production of goods that conform to the prices and

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[15] Average years of schooling for Brazil as a whole is six compared to four for the Northeast.

qualities desired, and that the coordination between producer, transporter and buyer link the producer successfully to the outside. It requires absorption of information from buyers and from external market "environments" about the evolution of products and confidence on the part of external buyers that producers will be able to keep up with this evolution. Generalized confidence is essential to all these transactional processes. A number of our interviews were disturbing in relation to these criteria. While only a minority of the entrepreneurs interviewed were unaware of these requirements, many more evidenced an attitude of resignation with respect to their capacity to meet them or even with respect to the possibility of developing such capabilities. To transform such an environment would require collective action, but there is a lack of effective developmentalist coalitions which would be capable of doing so.

This is merely a particularly severe expressions of the institutional dynamics of the Brazilian economy as a whole, albeit with certain regional specificities. In this vein, Schmitz (1999) studied industries in the Sinos Valley in the southern state of Rio Grande do Sul, one of the areas of Brazil that has been most successful in industrializing based on small- and medium-sized firms. He showed that developmental coalition-building failed there because firms are reluctant to engage in any kind of horizontal cooperation. Hence, attempts at upgrading production systems through organizations designed to promote more effective marketing through quality standards, respect of delivery times, and consistent use of design information, have failed.

Things are not like this in all low-tech regions in developing countries, however; the examples of our two clusters in the state of Jalisco, Mexico provide a counter-example to the Brazilian Northeast, in virtually all respects.

4. TWO INNOVATIVE SMALL-FIRM CLUSTERS IN JALISCO, MEXICO

Like Brazil, Mexico engaged in a strong effort during the 1990s to integrate itself into the global economy. Unlike Brazil, which remained relatively closed, the Mexican economy saw rapid growth in the value of its exports (30% of GNP as against 6% for Brazil), exporting almost three times as much as Brazil, whose economy is larger than Mexico's. Of course, a principal reason for this development is Mexico's proximity to the USA, its principal trading partner, reinforced via its entry into NAFTA. But the effects of globalization are wider and deeper than this point might suggest, and some of them --- such as the case we are about to analyze – predate NAFTA by many decades.

The region of Guadalajara, including parts of the state of Jalisco and the neighboring state of Michoacán, is home to numerous vibrant clusters of small- and medium-sized firms dedicated to a wide range of goods. In the Mexican economic literature, Guadalajara is known as "the big city of small firms" (Arias, 1985). From the colonial period to the present, the entrepreneurship of the region has been reflected in a much greater presence of SMEs than the national average. In the metropolitan area and its hinterlands can be found clusters of SMEs in jewelry, accounting for 60% of national output in gold jewelry, and a district specializing in women's shoes which is second in Mexico only to the much-studied cluster in the state of Guanajuato. Guadalajara has twice as many firms as the Monterrey metropolitan area. And labor force statistics show that Jalisco has a far higher proportion of workers without wage-income, i.e. workers in family firms, than does the nation as a whole (see Table 3). Tonalà and Tlaquepaque (henceforth, T&T) are of particular interest because of their concentrations of firms engaged in production of low technology goods – housewares, furniture, ceramic tiles and other artisanal building materials, glassware – with a very high proportion of output destined for export markets. They are thus comparable to the activities we examined in the Brazilian *Nordeste.*

TABLE 3: MANUFACTURING ACTIVITIES IN THE DISTRICTS[16]

Tlaquepaque
Selected activities

	economic units[17]			employment		
	1988	**1993**	**1998**	**1988**	**1993**	**1998**
Total manufacturing	545	979	1858	7224	13961	20107
Garment, textiles, leather	12	28	71	955	706	1506
Wood industries and wood products	43	85	211	818	1049	1837
Mineral non metallic product. (except products derived from petroleum and coal)	126	173	419	1788	1707	2650
3812, metal structures including *herreria*	62	120	185	152	899	1219
3813, metal furniture	8	14	39	62	252	411
Total selected sectors	251	420	925	3775	4613	7623

Tonalà

	1988	**1993**	**1998**	**1988**	**1993**	**1998**
Total manufacturing	275	502	2475	1428	2759	10814
Garment, textiles, leather		21	100		393	801
Wood industries and wood products	10	31	236	29	114	1204
Mineral non metallic product. Except products derived from petroleum and coal	139	151	1264	750	1064	5081
3812, metal structures including *herreria*	25	67	174	59	172	442
3813, metal furniture		6	83		66	500
Total selected sectors	174	276	1857	838	1809	8028

Tonala and Tlaquepaque

Selected sectors	425	696	2782	4613	6422	15651

Detail on production activities in Tonala

Tonala Census summary[18]

Product	Workshops	%
Clay and ceramics	812	66.9
Stonework	17	1.4
Plaster	93	7.7
Bronze, copper and brass	32	2.6
Papier mache	85	7.0
Blown glass	43	3.5
Furniture and wood products	42	3.5
Tinware	18	1.5
Ironworks	37	3.1
Various	34	2.8
Total	1213	100

[16] Source: Economic Census. INEGI. 1988, 1993, 1999.
[17] The census counts both formal and informal sector firms ; however, it is very likely that informal firms are undercounted because many do not have an official address or are in residential quarters with no indication of being a business.
[18] Source: Casa de Artesanos de Tonalà, Census of Artisans 1997.

Tonalà and Tlaquepaque are successful because each has strong incentives for production and accumulation which are outcomes of the interactions between community and society, as summarized in Table 4.

INCENTIVES	INSTITUTIONAL-IZED BEHAVIORS	COMMUNITARIAN FORCES	SOCIETAL FORCES
Socially-constructed, localized confidence	**1200 SMEs in Tonalà. 800-1000 in Tlaq. = strong entrepreneurship. Schumpeterian in Tlaq (innovation); Kirznerian in Tonalá (market niches).** **Excellent inter-firm coordination: family firms are subcontractors to medium-sized firms and international marketing agents (like Italian *imprenditori)*** **Cooperation helps intermediators promote districts' products to outside, tempers corruption and moral hazards inside** **Reputation effects are central** **There are limits on predatory, price-exploitative behavior on part of distributors/intermed-iators** **International markets = incentive to keep trying, but also to adapt, refine, innovate products based on local culture/skills/look (the "scarce" asset)**	**Entrepreneurs know, identify with each other.** **Informal associationalism within district reduces transaction costs and moral hazards.** **Informal cooperation between producers and intermediators** **Most local intermediators are in it for the long-run, because see themselves as part of community, diminishing attempts to exploit producers** **Production sharing is common** **"What produces growth is not the State, but pre-Hispanic culture and "mestizo sincretism" (local bonds prevail)**	**Long-time presence of foreigners who link local producers to world markets = reinforces confidence** **Local actors in concert with locally-involved foreigners = circumvent national oligopolies, avoid corruption** **National distributors/intermedi ators create price pressure on producers** **Macroeconomic instability somewhat offset by access to foreign markets, and by commitment to quality** **Imported business practices help stabilize the situation, incentive to do so** **International markets create price and quality incentives and possibility of expansion**
Distributional arrangements: hierarchical, but stable and considered fair: incentives to keep trying	**Local entrepreneurship encouraged and transmitted from owners/artisans to workers and within families** **Incentives to work hard because possibility of long-term**	**Medium-sized firms (50-60 empl) use family-community system to regulate labor supply and distributional rules** **Other firms specialize in consolidation and act as "cultural translators:" define orders, finance, and**	**Local groups have access to local political power, but foreigners have access to markets and information (sometimes they are mixed: there are many couple-based firms where one is Mexican the other non-Mexican)**

	survival or even "getting ahead" **Even indigenous people have a chance: some village production has become stable and remunerative**	**organize subcontracting** **Blurred distinction between workers, entrepreneurs, families = transmission of skills, bonding to avoid moral hazards, secure quality** **Foreigners who appreciate local culture actually reinforce local bonding**	**Thus, there are local-global intermediaries** **Pressure from world market is real: foreign buyers seek cheaper imitations in other countries**
Dynamic problem-solving, adjustments, responses to crisis, institutional innovations	**Nexus of foreign community, cosmopolitan buyers and shippers, powerful family-ethnic culture, artisans** **Locals have a stake in problem-solving, there is no winner-take-all solution**	**Relatively non-antagonistic relations because many entrepreneurs are former workers/artisans** **Many different voices, but overlapping networks for expressing** **Local informal solutions arise in order to circumvent national politics, rules, and bureaucracy, and to temper local corruption, and informal relations are stronger than formal**	**Intermediaries have to press for local solutions in terms of price and quality: reality check is strong, but so is creativity to respond.** **Coalitions form which do not depend directly on national politics or political brokers** **Local formal associations are sometimes captured by national political parties and/or become corrupt**

4.1 CONFIDENCE

In the small-firm clusters in T&T, there is strong localized confidence in the sustainability of the local economies. This is not to say that there are not great hardships, including economic cycles, competitive pressures inside and from outside the districts, and even failures of local cooperation, cheating and corruption. All in all, however, there is a strong sense – supported by experience – that the clusters have staying power and offer conditions under which skill and hard work can pay off. The evidence for such confidence is strong. As the statistics show, T&T have enjoyed steady growth in the number of firms,

employment and exports. In qualitative terms, interviews demonstrate the importance of reputation effects in limiting, though not eliminating, predatory behavior – especially undercutting local prices by cheating on product quality or working conditions so much that competitors cannot survive.

One important reason why confidence is renewed is the connection to international markets; they provide a long-term demand level which local or national markets could never sustain. 75% of blown glass and 60% of ceramics production were exported in the late eighties (Mercado Martinez, 1989) and this dynamism persists today. Confidence comes from the fact that the districts have survived several rounds of being challenged by competitors, and reinventing themselves to serve foreign markets through better or updated products.

This long-term staying power is a result of ongoing adaptation, the incorporation of national and international artistic influences, and the inclusion of new Mexican and foreign agents into the system. Mexican popular art was saved from oblivion in the 1920s when a major international exhibition of the Mestizo, native and colonial art of Mexico was held in Mexico City and Los Angeles, in concert with the publication of *Las Artes Populares en México*, prepared and edited by the well known Jaliscan muralist, Dr. Atl, a book which created an artistic « canon » for indigenous crafts and established their identity as works of art (Monsivais, 1996). T&T capitalized on this revived recognition of the artistic value of their products. Again in the 1950s, they were given a new boost when Jorge Wilmont from Monterrey and Ken Edwards from the USA (Romo, 1990) were both attracted by the rich pictural motifs in local pottery and linked them to foreign buyers. From there, Odilon Avalos from Puebla incorporated blown glass and new techniques of coloring the glass (Alvarez, 1969) improved later by Camaraza; Sergio Bustamante drew on the Guadalajara gold jewelry traditions to bring jewelry and paper maché to the districts; new rustic *hacienda* furniture styles arrived via the Alfaro family from Nogales; and Luna and Figueroa subsequently

grafted new designs forms for urban residents in Mexico and abroad (*Adobe Diseño*); and ironwork was later added to the mix (Mercado, 2003), among other numerous contributions. Thus, each time demand shifts (fashions, foreign buyers, chain stores redefine their lines) it is worrisome, but the challenge has been met through artistic and stylistic product innovation.

This confidence is also the result of a very delicate balance between local solidarities, which act as shock absorbers when national and international forces push for change. Entrepreneurs know each other and identify with each other, both in Tonalà, where entrepreneurs often have worked together in firms, or even are members of the same or of linked families, and in Tlaquepaque, where they may emerge out of working for highly esteemed artists or may be members of the artistic community themselves. According to Mercado Martinez (1989), who classified the workshops into three categories – family, semi-industrial, and industrial -- Tonalà's family workshops are on average 33 years old and some go back four generations; 54% of workers are the owners' children, 18% are their wives, and 28% are brothers or other family members. The semi-industrialized workshops had an average age of 10 years, 80% were founded by the current owner, and employed an average of six workers. In this category one third of the workers are family members. The industrial workshops average 17 years and employ 37 workers, with the largest counting 87 employees. Family members here work in administrative, management and supervisorial duties, and occasionally design, but not in direct production (Mercado Martinez, 1989). Family members or other workers often are assisted in establishing their own firms and then work as contractors to the workshops where they started out. This system of spin-offs and subcontractors leads to extensive local knowledge-sharing. But knowledge diffusion also comes about through common socialization, a shared culture which incorporates elements of indigenous, Mestizo and colonial aesthetics, as well as through local bridging via

intermediaries, between producers and designers, artists and artisans; this is a highly structured "society of communities."

The role of marketing intermediaries is critical in maintaining the community-society balance in T&T. The intermediaries have one foot in the local community and another in the wider network of international markets, trade shows, and clientele. But these intermediaries see themselves as part of the districts. Foreigners came to Tlaquepaque and Tonalà a number of decades ago. A small number of North Americans, notably, were attracted to the area by its cultural and artistic traditions. They became involved in working with local producers, helping them to reach North American and later, European markets. Later on, this became a two-way street, where they brought back knowledge of markets that permitted local producers to adapt their products to be more suitable to those markets. Over time, this behavior developed beyond a few maverick personalities into a stratum of intermediaries, who are very much analogous to the *imprenditori* found throughout the Third Italy**.** Nowadays, they generate business for local producers, putting together the firms necessary to meet a particular order; some represent the districts in international trade shows, while others simply wait for the buyers to come to Jalisco, relying on established reputations. In any case, they bring the discipline of foreign prices and necessity to meet foreign quality standards and timing (Mercado, 2003). All is not rosy: there are occasional intermediaries who attempt to exploit the locals; interestingly, most of them are Mexican rather than foreign, seeing the districts just a way to make products as cheaply as possible. Here, again, there is a radical difference between our Mexican and Brazilian cases: in Brazil, intermediaries are almost always seen as opportunistic rent-earners who raise prices, and lower the efficiency of markets.

Ethnic identities are also mobilized as community bonds. Indigenous communities have strong participation in certain regional production chains.[19] There are many towns in Jalisco and Michoacán populated by very small firms, who act as subcontractors to larger firms in the Guadalajara metropolitan area. Though there are latent ethnic tensions, the arrangements are relatively stable because they are collective in nature. Michoacán is full of towns specialized in distinctive crafts, the best known of which is Santa Clara de Cobre, a town devoted to the production of copper products. These local communities are in turn linked to world markets through the markets of Tonalà and Tlaquepacque.

4.2 HIERARCHICAL BUT STABLE DISTRIBUTIONAL ARRANGEMENTS

One of the most impressive aspects of Tonalà and Tlaquepaque is their "buzz," the energy that one senses in being there, from the sheer amount and pace of work being done, from the conversations and exchanges occurring inside firms, on the streets, in front of juice and coffee stands, on streetcorners. Yet the buzz does not feel like pressure or exploitation, because the people involved have complex connections, through family, community, and previous work situations.

This stands in marked contrast to the feeling one gets in so many places we visited in the Northeast of Brazil, which are of slowness and routine, even in the large factories where high output levels are expected of the wage workers. The level of entrepreneurship – in production and marketing – is high because there are reliable long-term payoffs to creating firms. In part this has to do with the internal and external distributional arrangements of the districts. Internally, as noted, many firms employ family members or people they know through community or family relationships. This creates a certain flexibility in remuneration, so that when times are good, compensation is made for sacrifices that occur when times are

[19] for an analysis of different types of production chains, see Polenske, 2001

bad. In addition, family-based firms lower their costs through non-waged labor. At the same time, this gives individuals possibilities of long-term wealth accumulation that would not be possible were they merely wage laborers. These distributional arrangements are also inter-ethnic to some extent; as noted above, subcontracting extends from districts in Jalisco to certain villages in Michoacán and elsewhere which are essentially populated by indigenous peoples. This gives them an economic base which, however subject to the harsh realities of fluctuating markets, is something that they rely on for their independence, a big incentive to keep at it. Societal forces also play a role in the achievement of this delicate distributional balance. Local groups have access to local political power, but foreigners have access to markets: the dialogue between the two groups is key to achieving the mix of price-efficiency, quality-efficiency and sharing out of risks and benefits that creates incentives for everyone to keep trying.

In Tlaquepaque, there are numerous artists and artisans whose products give them international renown. The economic rewards are considerable, but not such as to make others feel they are unattainable; the incentive effect is therefore quite strong. In Tonalà, there are cases of firms growing to have relatively large production runs, mostly by supplying large foreign chains such as Pottery Barn or Pier One Imports. Once again, this is a contrast between our Mexican and Brazilian cases: in the Northeast, there is widespread fatalism about the possibility of serving international buyers, even in the shoe industry where an international clientele already exists, because it is taken for granted that Brazilian firms will soon lose out to the Chinese.

4.3 PROBLEM-SOLVING AND ADJUSTMENT

Problem-solving is principally informal and "distributed" in nature; there are few formal organizations of local government and producers, and those that have been attempted

have more than often failed. For example the *Instituto de la Artesanía Jalisciense*, is a public agency for promoting Jalisco crafts, but in practice has little role to play in the district. The *Casa de la artesanía de Jalisco,* a marketing branch of the Instituto, is a rarely-visited crafts store somewhere in Guadalajara. Formal industry associations in Guadalajara have shown also weaknesses and internal conflict, notably in the case of the jewelry association, which after recurrent scandals has not been able to generate a mechanism to assure the quality and metal content -gold and silver- in their members' products. There are happy exceptions, and an important one of which is the furniture association of Jalisco. After a long period of conflict, it has coalesced into the organizer of the most important furniture trade show in Mexico. But it should equally be noted that formal organizations have the disadvantage of being identifiable by, and hence, subject to influence of dominant political parties, governments, and public bureaucracies, which generally limit their problem-solving capacities more than they enhance them. Thus, rather than taking the form of formal developmental coalitions, the problem-solving activities of the districts are characterized by discussion between different agents in the system and consequent adjustment in firms.

The key linkage in making this happen is once again the intermediaries, who bring information about markets and products to local producers, and take information from local producers to wider markets. This is where the "data" on problems comes from; it is the early warning system for local producers that problems may be coming, but it is also the early alert system that they may be on to something good. The information gets distributed because the intermediaries are not producers themselves; they have no incentive to hoard information, but rather want to diffuse it in most cases. But even among firms, there are incentives to diffuse, because of the system of production-sharing on one hand, and on mixed identities (artisans and owners are often former workers or family members).

The one area in which formal coalitions are successful is that of urban planning and local development. Tlaquepaque´s commercial districts, in conjunction with the local authorities have secured zoning for the integrated production and sales of crafts, art and connected services. They have also conserved the architecture and urban amenities of a splendid colonial town, and this image is a key element in the promotion of the district and its products. The place-specific qualities of Tlaquepaque provides them the symbolic and material infrastructure to and match them with tourists eager to find high-quality, unique Mexican crafts -- and willing to pay for them. Tonalá has used its urban space in a different way, more directly related to local social networks. The *tianguis* secure high-cost scarce urban space for the smallest producers and distributors through the local government. Thus, they effectively control who can enter the district and where they can locate, but also prevent the disintegration of the district due to scarcity of space. The contrast to the towns we studied in Northeastern Brazil could not be more marked: workshops are crowded either into poorly maintained urban areas with crumbling infrastructure or in isolated, depressing industrial parks with dusty unpaved access roads and effectively no nearby services, and no integration between production, sales, and community life.

More generally, the nexus of design-oriented producers and intermediaries has been effective on a number of occasions in problem-solving. In the 1970s, when times were difficult for the districts, Bustamante[20] achieved better linkage between high-level foreign retailers and producers in Tlaquepaque, allowing the latter to raise average prices and save their businesses. His example was followed by the Preciado family[21] and by Agustín Parra[22]

[20] Bustamante is an artist and artisan, known for his sculpture and jewelry, which are exhibited around the world. He is also the owner of a chain of galleries which sell his work in Mexico and abroad. A detailed biography and catalog of his work may be found at www.sergiobustamante.com.mx

[21] The Preciado family is one of the most visible artisan-entrepreneur groups in Tlaquepaque. They produce a wide variety of objects, ranging from wood furniture to decorative products. They export a great deal and are present in many international shows.

and Rodo Padilla[23], among others. They concentrated on maintaining high quality, establishing recognizable personal styles, and creating an image associated with their names (a sort of trademark). They did so in part by participating in national and international competitions, thus entering the art world. In this way, they pushed up their market value, enabling them to earn profits well above the industry average. In so doing, they had positive spillover effects on other, less well-known producers, who could raise their prices through the market's association of them with the place and its style. Still, there is a long way to go. Producers complain that there is insufficient institutional incorporation of design. They compare the treatment of design and designers in the Guadalajara area unfavorably to the institutional recognition of design in Italy or Catalonia; producers are said to want design without paying for it and without acknowledging it in an institutional sense.

Current challenges are numerous. Cheap imitations of Mexican-style products are fabricated in China. An American consumer can buy a Chinese-imitation *chimenea* for her patio at K-Mart for $60.00, where the real product made in Tlaquepaque will cost five times as much. There are quality differences, but there is no *appellation d'origine controlée* to clearly identify the real thing. High-end products are subject to fashion changes and competition from European design-oriented firms. There are ongoing, but informal attempts to face these challenges and to compose the coalitions that could do so. A key aspect is the production and diffusion of design in the district. New generations of artisans other agents have backgrounds as professionally-trained designers; they are coming to the district and bring new ideas both for production, marketing and organization. At the current time, they have complained of a lack of accurate information on external markets and their changing

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[22] Agustín Parra is a painter, sculptor, *retablista* and designer of high quality furniture and wood sculptures. He is an entrepreneur with production facilities, as well as retail shops in Tlaquepaque and Guadalajara. His work can be seen at www.agustinparra.com.mx

[23] Specialist in ceramic figures and sculptures based on Mexican folklore : www.rodopadilla.com

fashions, and insufficient public and private support for design. All in all, problem-solving exists but all is not well and further attention to design upgrading is needed.

5. EXPLAINING CONTRASTS IN DEVELOPMENT

Some might be tempted to reduce the differences between the Brazilian and Mexican cases analyzed here to their different colonial pasts and the social structures inherited from them, much in the same way that some have claimed that the successes of European industrial districts are due to their accretion of social capital over the very long-run (Putnam et al, 1993). But the cases at hand both share histories of colonization, with the attendant creation of colonial elites and disenfranchised masses. There are important differences, in that in the Northeast slavery was pronounced and institutionalized and a slave population was imported from Africa, whereas in Jalisco and Michoacán, indigenous communities -- though strongly affected by the colonial and post-colonial epochs -- have survived. Still, in both, strong mestizo cultures were generated; in both, colonial structures were not so different. T&T have benefited from the revaluation of Mexican artistic traditions and from the small-firm industrial structure of the Guadalajara region, while the Northeast has suffered from the devaluation of its artistic traditions and from a long history of industrial policies in Brazil which emphasize large-firms, top-down policies, and the neglect, if not the active destruction, of communities. Brazilian national policies and societal dynamics have not only neutralized many of the intended positive effects of regional development policy, but have actively created blockages to regional development in the Northeast. In the Mexican case, though national policies and forces have done relatively little good,[24] they have been gotten around in

[24] There have been no significant regional economic development plans for Jalisco state or the Guadalajara region. In the case of Michoacan, a development pole was installed, in the form of a large steel meel and a port (the Las Truchas Project in Lazaro Cardenas), creating an isolated development enclave typical of such, largely failed, experiments. Thus, the regions in question were much less the object of coordinated national development policies than was the Northeast of Brazil, with the SUDENE experiment. See note 10, above, for more information on the SUDENE regional development policy in Brazil.

many ways; and Jalisco has benefited from wave after wave of innovative, enthusiastic agents from outside the region, who have had the right ideas at the right time. Still, they have also found fertile ground with which to implant those ideas and make them grow.

It should be clear, then, that societal and communitarian forces are the results of long pasts, but also are constantly evolving; they shape the incentives to act upon current information, market possibilities, and other resources which become available. Much contemporary regional development policy takes the operational level of practices, routines, and institutions -- clusters, inter-firm relations, best practices, marketing -- as its direct target. Our analysis suggests that while these might be valuable benchmarking exercises, such operational aspects of economies only come about when underlying social forces generate incentives that encourage agents to make them happen. Policy that focuses only on these observable intermediate outcomes of the development process is likely to fail. The kind of policy that is likely to succeed will have not only short-term goals, but long-term structural effects on institutions, in the sense of changing expectations that underlie the coordination of economic agents so that different patterns of collective action can emerge.

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APPENDIX: BASIC INDICATORS

	Mexico 1980	1990	2000	Jalisco 1980	1990	2000	Michoacan 1980	1990	2000
Firms(a)	131625	138835	344118	9902	10204	27784	5464	6996	19731
Change N of firms		5.5	147.9		3.0	172.3		28.0	182.0
Average firm size(a)	20.5	19	12.3	17.1	17.2	11.7	6.2	8	4.2
% firms less than 10 W.	81.2(b)	86.3	90.1	85.1(b)	80.5	87.2©	93.2(b)	94.4	96.6(d)
% firms less than 100 W.	93.3(a1)	96.2	98	95.7(a1)	97.3	98.5©	97.3(a1)	99.1	99.6(d)
Per capita income (GDP/pop)	3343.5(x)	4088(e)	5371(f)		4082(e)	5305(f)		2051(e)	2947(f)
PCI as % of national PCI					99.9(g)	98.8		50.2(g)	54.9
% product exported, region						36.8%(h)			7.1%(n)
% product exported, nation		3.97%(i)(j)	15.71%(i)			9.8%(h1)			0.6%(n)
Exports of goods and services									
as % of GDP	6.9(k)	12.9%(l)	28.7%(m)						

a: Data for years 1980, 1988, 1998. Source: 1980, XI Censo Industrial. 1989, X Censo Económico. 1999, XII Censo Económico.
a1: % of firms with wage workers. XI censo industrial INEGI 1980.
b: Less than 25 workers % of firms with wage workers. XI censo industrial INEGI. 1980
c: Data for year 1998, INEGI, Anuario estadístico Jalisco, edición 2000.
d: Data for year 1998, INEGI, Anuario estadístico Michoacan, edición 2000.
e: GDP data for year 1993. Population data for year 1995. Source: GDP, INEGI. Sistema de Cuentas Naci□nales de México. Population data, Censos de Población y Vivienda, I□EGI.
f: Source: GDP, INEGI. Sistema de Cuentas Nacionales de México. Population data, Censos de Población y Vivienda, INEGI.
g: With data for 1993
h: State GDP/state total exports. Source SEIJAL with data of BANCOMEXT, http://seprove.jalisco.gob.mx
h1: Total national exports/total state exports. Source SEIJAL with data of BANCOMEXT, http://seprove.jalisco.gob.mx
i: Manufacturing exports/manufacturing total production value. Manufacturing exports source: SHCP, Banco de México, Secretaría de Economía e INEGI. Production Value source: For 1990: INEGI. SCNM. Cuentas de Bienes y Servicios, 1988-1999. Aguascalientes, Ags., México, 2000. For 1999-2001: INEGI. SCNM. Cuentas de Bienes y Servicios, 1996-2001. Aguascalientes, Ags., México, 2003.
j: The NAFTA comision for labor cooperation presents a number of 18.3% exports as % of the GDP.
k: GDP data from world development report 1999/2000. Exports data from Banco de México.
l: Data for 1994. OECD Main Economic Indicators, february 1996.
m: OECD main economic indicators august 2002.
n: Exports and GDP for year 1999. Source, Secretaría de Desarrollo Económico de Michoacán.
x: GDP for year 1980 from OECD main economic indicators. March 2003.

	Brazil			Northeast		

	1980	1990	2000	1980	1990	2000
Firms(a)	1,088,918	1,428,368	2,238,687	107,555	140,578	288,998
Total Employment (a)	20,492,131	23,198,656	26,216,463	3,134,418	3,670,857	4,374,850
Average firm size(a)	18.8	16.2	11.7	29.1	26.1	15.1
% firms less than 10 W (a)	79.93	81.64	85.01	74.82	76.45	83.32
% firms less than 100 W (a)	97.42	97.86	98.61	95.97	96.59	98.12
Monthly average working income(in minimum wages) (a)	3.68	5.43	5.02	2.87	4.16	3.55
Monthly average salary manufacturing (in minimum wages)(a)	3.96	5.36	4.79	2.77	3.3	2.9
Per capita income (GDP/pop) (b)	3,236	3,116	3,400 ©	1,527	1,744	2,038 ©
National GDP (billion US$) (a) (d)	211	469,3	602,2			
Regional Share - NE/National GDP (d)				14,10 (e)	12,86	13,09
% product exported, NE/Total exports (d)				28%	12%	7%

a) RAIS (for the 80's, data refers to the year 1985)

b) SUDENE, SIG, 2003 - US$ 1999

c) Year 1999

d) Source: IPEA - apud IBGE, Contas Regionais do Brasil, 1985-2000. Micro-dados

e) Year 1985