

**The Art of Harvesting Local Solutions to Shared
Problems in the Americas**

Matthew Bird
University of Chicago

Executive Summary

Like it or not, major debates over policy in the Americas continue to revolve around those for or against some version of the Washington Consensus. One side proposes a second generation of reforms attentive to crises and institutions and corrective of original weaknesses, while others discredit the Consensus and search for solutions in a cautious approach to market reform that addresses social inequalities. Such tensions have already been felt in drafts of the 2005 Summit of the Americas declaration.

Either way, policy success will also depend on the government's ability to design mid-level policies that harvest grassroots solutions to shared problems. If we can learn to appreciate cultural diversity and view certain social frameworks not as barriers but as potential facilitators, then we can identify local solutions in a way that will enable the Americas to realize its shared goals of economic growth, more and better jobs, decreased poverty, and strengthened democratic governance. The Peruvian case demonstrates how such an approach may work.

The Art of Harvesting Local Solutions to Shared Problems in the Americas

Introduction

Like it or not, major debates over policy in the Americas continue to revolve around those for or against some version of the Washington Consensus. One side proposes a second generation of reforms attentive to crises and institutions and corrective of original weaknesses,¹ while others discredit the Consensus and search for solutions in a cautious approach to market reform that addresses social inequalities.² Such tensions have already been felt in drafts of the 2005 Summit of the Americas declaration.

Either way, policy success will also depend on the government's ability to design mid-level policies that harvest grassroots solutions to shared problems. If we can learn to appreciate cultural diversity and view certain social frameworks not as barriers but as potential facilitators, then we can identify local solutions in a way that will enable the Americas to realize its shared goals of economic growth, more and better jobs, decreased poverty, and strengthened democratic governance. The Peruvian case demonstrates how such an approach may work.

Harvesting Local Solutions to Shared Problems

Not many think of Peru as a model of good governance; the country is known just as much for its poverty, violence, and corruption as for its breathtaking landscapes and

¹ Pedro-Pablo Kuczynski and John Williamson, eds., *After the Washington Consensus: Restarting Growth and Reform in Latin America* (Washington DC: Institute for International Economics, 2003).

² For critiques of the Washington Consensus see Joseph Stiglitz, *Globalization and Its Discontents* (New York: Norton, 2002) and Moises Naim, "Washington Consensus or Washington Confusion?," *Foreign Policy* 118 (Spring 2000): 86-103. New recommendations and concerns can be seen in draft proposals of the 2005 Summit of the Americas Declaration.

Incan ruins. But this Andean nation is also home to an intellectual tradition, of which Hernando de Soto is but one example: the art of turning inveterate problems into innovative solutions. Peru's entrepreneurs and state decentralization offer a model of how governments in the Americas can create jobs, reduce poverty, and strengthen democracy via mid-level policies which harvest local solutions to shared problems.

SMEs, job creation, and the informal economy

Hernando De Soto's argument that extra-legal businesses emerge as a rational response to bureaucratic costs has changed our understanding of informality, and his policy recommendation – institute legal reform to reduce transaction costs and grant property rights – is now being implemented throughout the globe.³

But De Soto was not the first in Peru to turn a social problem into a potential solution. In the 1960's, scholars argued that the squatter settlements that grew as a result of mid-century rural-urban migration to Lima should not be seen as urban anomie, but as a solution to it, given the social clubs, credit associations, and communal projects the settlements created. The key was to facilitate migrants in realizing the solutions they already provided for themselves.

De Soto's study of Lima's informal economy followed this tradition; only he provided a theoretical framework in the analysis of transaction costs. Migrants needed money and jobs. Since Lima and the government could not generate employment, they produced their own through the creation of small and medium-sized businesses.

However, the formalization costs were too high so they resorted to their own strategies of operation and growth.

³ Hernando De Soto, *El Otro Sendero* (Lima: Instituto de Libertad y Democracia, 1986)

A crowning achievement of this is Gamarra, Lima's commercial textile center which stretches over 20 blocks and is home to 10,000 small businesses and 16, 600 stores, generating 45,000 jobs and \$500 million in annual sales. These figures are not the result of foreign investment but of local entrepreneurship.

Gamarra has passed through four stages of development.⁴ The first dates to before 1972 when small merchants, mostly migrants from the Central and Southern Andes, clustered to produce and sell fabrics and clothes. Many only possessed elementary school educations before arriving to Lima in their teens where they worked odd jobs, learned their trade, and became vendors. Over time, they invested their personal savings into their enterprise and grew their confection businesses.

Gamarra's second phase consisted of growth through group organization, which provided basic infrastructure and allowed them to expand to national markets. In essence, the businesses clustered together, continued to streamline their production chain, and cooperated to provide basic security through mutual vigilance and the pooling of resources.

Consolidation characterized the third stage. New challenges arose for the entrepreneurs, as they had to improve their competitiveness through training and technology while defending their businesses against the hyperinflation and political violence that besieged Peru during the late-80s and early-90s. At times, observers saw the commercial center adrift, as it appeared that the informal nature of their businesses had reached its limits.

But Gamarra weathered the storm and now finds itself in a fourth stage with the introduction of new technologies, design houses, financing and the search for

⁴ Carlos Ponce, *Gamarra: formación, estructura, y perspectivas* (Lima: Friedrich Ebert, 1994).

international markets.⁵ New challenges continue to emerge. To defend its commercial interests, it has organized politically and spoken out against possible unfair trading practices and the threat of Chinese textiles. But what explains this success – the 10,000 businesses, the 45,000 jobs, the \$500 million in annual sales?

The formalization of businesses through the reduction of legal costs and the granting of property rights has played a role. But how can we understand the resilience and social innovation of these migrants? How did they not only survive but flourish in spite of Peru's weak state? In his effort to universalize his policy recommendation, De Soto may have glossed over an important component to the Peruvian case, a point which New Institutional Economists (NIE) spelled out in the early 1990s: the role values play in the creation of democratic and free market institutions.⁶

De Soto did not write *The Other Path* to demonstrate the differential role of socio-cultural organization for economic success. In fact, he makes the reverse argument. The book's title references the Shining Path, a Maoist guerrilla group which argues that Peru's Andean population and past is socialist to the core. De Soto demonstrates the opposite, that Andean migrants are natural capitalists. He assumes the same to be true for the rest of the globe's poor.

However, Gamarra's success also relied on the use of Andean strategies. Migrants left small highland settlements, characterized by agricultural subsistence and dense kinship and community ties whose core practices, despite shifts since the Spanish

⁵ The designation of the fourth stage is based upon my own fieldwork.

⁶ The literature is vast. It begins with the original insights provided by Ronald Coase on transaction costs. For institutional transformation, see Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990). The literature became extended and popularized through the social capital concept, see Robert Putnam et al, *Making Democracy Work* (Princeton: Princeton University Press).

conquest, were grounded in pre-Columbian social and economic organization. A unique form of reciprocity and redistribution grounded in kinship and emergent from Andean ecological demands characterized Incan social and economic organization.⁷ Because of the diversity of the Andean environment, certain staple foods could only grow in certain altitudes. To meet subsistence needs, communities settled between the major maize and tuber growing areas in order to gain better ‘vertical control’ of the surrounding zones. Households were apportioned their own land for each level. To meet labor demands necessary for harvesting or turning over one’s fields, households called upon a dense system of reciprocal relations for helping one another. Historical Andean redistribution came at the level of collecting and sharing products at the village level. The growth of the Incan empire extended reciprocity and redistribution to the state level, though not without its own problems. Reciprocity and redistribution, despite regional and historical variations, have persisted in Andean communities until the present.⁸

Andean migrants used these strategies in land invasions, community organization and the informal economy.⁹ In Gamarra, the creation of clusters, the pooling of resources, and the sharing of knowledge, as well as other uses of social networks, emerged as natural extensions of Andean reciprocity and redistribution strategies. Solutions other than property rights remain embedded in Lima’s informal economy. Andean entrepreneurs thus harvested their own organizational solution to the shared problems of poverty and unemployment. The challenge throughout the Americas is to identify

⁷ John Murra, *The Economic Organization of the Inca State* (Greenwich: Jai Press, 1980)

⁸ See for example Enrique Mayer, *The Articulated Peasant* (Boulder: Westview Press, 2002)

⁹ See for example, Jurgen Golte and Norma Adams, *Los Caballos de Troya de los Invasores* (Lima: IEP, 1987) and Susan Lobo, *A House of My Own: Social Organization in the Squatter Settlements of Lima, Peru* (Tucson: University of Arizona Press, 1982).

grassroots solutions that already exist and facilitate their realization through policy which taps into existing cultural logics.

But Lima's urban informal economy is not the only example. Local solutions have also emerged in Peru's decentralization reform.

Decentralization, local communities, and democratic governance

Decentralization has existed as a minor goal since the First Summit of the Americas in 1994, but not until the 2004 Summit in Monterrey did OAS nations make an explicit call for it in its Declaration.

Like other countries in the Americas, Peru's centralized government has great difficulty responding to citizen demands. Many blame the historical neglect of the country's Andean regions for the emergence of the Shining Path in the 1980's and for the low-level social unrest still present. As Peru experienced significant instability in the early-90s the need for stronger government became accepted wisdom.

Fujimori responded to Peru's political and economic crisis with a three-pronged policy. He liberalized the economy, dismantled Peru's two guerrilla groups through intelligence and increased authoritarianism, and addressed poverty, especially in the Andes, through populist electricity, potable water and highway infrastructure projects. While these works addressed the socio-economic conditions that fostered the rise of Peru's guerrilla groups, they were made possible through centralized authority and state corruption. The web created by the Fujimori-Montesinos intelligence apparatus – the videos, the bribes, the media control – are well known, but fewer people are aware of how the web extended into rural communities, captured its leaders, and altered the political

culture of groups that long organized themselves according to strategies of reciprocity. In other words, the methods Fujimori used for delivering these services helped create an Andean welfare culture.

After Fujimori resigned in 2000, an alternative path for delivering government to Peru's regions emerged – decentralization. This reform would shift political, administrative and economic responsibility for specified services to municipalities and regional governments in order for them to address development, mitigate corruption, and strengthen democracy. Despite Fujimori's induced shift in the political culture of local communities, many communities have risen to the challenge, solving their problems through a combination of local practices and new governing mechanisms. The strategies Andean communities have long used to harvest fields and thatch roofs are now being utilized in Peru's current decentralization efforts.

One community in Ayacucho, the birthplace of the Shining Path, has used its transfers to create a local development project. The community has designated families as production units, a natural choice since community reciprocity strategies emanate from kinship relations. These families use these funds to raise *cuyes* (guinea pigs) and build trout farms. The municipality has organized a *Festival de Trucha* to promote sales and consumption. Earnings gained from product sales have helped these families become autonomous economic units. Family and community organization grounded in reciprocal relations underpin this endeavor.

The same means has been used for different ends in a community in Pasco. The accumulation of solid waste and its incineration has become a problem on a public road. The municipality set up an "ecological communal work committee" consisting of local

residents to keep vigil over the area and identify those residents that dump the waste without respect to pickup times. The committee then reports those responsible to the Municipality. Attitudes these communities have towards responsibilities toward shared resources motivated their voluntary and cooperative action. Furthermore, the willing donation of labor to defend communal interests is common, as seen in the success of “ronda campesina” groups or informal security forces, which helped defeat the Shining Path.

According to PRODES, an organization supporting Peru’s decentralization process, up to 90% of the local governments it works with in seven regions satisfactorily utilize mandated participatory budget mechanisms. This success is reflected in the fact that while the central and regional governments have respective 20% and 40% approval ratings, local governments enjoy approval ratings of 60%.¹⁰

Local communities have combined their own grassroots solutions with the funds and mechanisms provided through decentralization reform to create their own answers. The government’s responsibility was simply to facilitate the process and allow the community members to resolve the issues, tasks they have already done for centuries, be it thatching a roof, harvesting crops, starting businesses, or defeating guerrilla groups.

Conclusion

It has become fashionable to claim that we need to think out of the box to solve common problems in the Americas. Part of the challenge, however, is not thinking out of the box, but thinking in and through culture to design mid-level policies that will generate

¹⁰ Interview with PRODES director, Thomas Reilly.

economic growth with employment, create jobs to fight poverty, promote SMEs, and strengthen democratic governance.

The past twenty years of policy in the Americas has demonstrated that economic growth and democratic governance are more than opening markets and holding elections. Success also depends on the strength of institutions, be they formal or informal. Even John Williamson, the man responsible for articulating the Washington Consensus, has lamented the inattention he paid to this topic: “Recognition of the importance of institutions,” he says, “was perhaps the key innovation in development economics in the 1990s.”¹¹ Since then, followers of institutional analysis have asserted that particular types of values are required to build democratic and free market institutions. But this analysis only goes halfway. Policy makers should pay attention to institutions, yet NIE conclusions may prove too narrow. Institutions are embedded in values and informal rules, but there is also often more than one way to solve a problem. The trick is to view certain socio-cultural frameworks not as a barrier but as a potential facilitator, and to harvest these local solutions in a way that will enable the realization of the 2005 Summit of the Americas goals of economic growth, more and better jobs, decreased poverty, and strengthened democratic governance.

If principles are universal, as many argue, then grassroots solutions should already exist. Although this recipe does not pretend to address all the major issues facing the Americas, some conclusions are becoming readily apparent. Regardless of whether the macro-level policy opts to create jobs and generate economic growth through second-generation free market reforms or through redistribution, government policies will

¹¹ John Williamson, “The Washington Consensus as Policy Prescription for Development,” from a lecture in the series “Practitioners of Development” delivered at the World Bank on January 13, 2004.

continue to face obstacles unless they design mid-level interventions that work with existing institutions.