

Globalization, Free Trade, and the Social Impact of the Decline of Informal Production: The Case of Artisans in Quito, Ecuador

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Summary. — In the context of globalization and policies to promote free trade on an international scale, this paper discusses what has happened to artisans in Quito, Ecuador, over the past 30 years. The trends of conservation and decline have not been uniform over time and they have not affected all micro-firms in the same way. There has been a long-term process of restructuring and decline of these producers and they have clearly suffered from national and international free trade policies. This has resulted in levels of alienation, xenophobia and racism that are likely to have negative political consequences.

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1. INTRODUCTION

The International Labour Organization (ILO) estimates that informal employment comprises one half to three quarters of non-agricultural employment in the developing countries and that informal work arrangements have not only persisted but have also expanded over recent decades (ILO, 2002). It is estimated that in different countries of Latin America, the informal economy now employs between 30% and 70% of the urban workforce (Maloney, 2004). The self-employed are considered to be the largest component of the informal economy and this group is often used as a proxy for the sector in developing countries. Self-employment in non-farm activities has been increasing in all developing regions of the world and in Latin America during 1980–2000, self-employment increased from 29% to 44% of all non-agricultural employment. However, it is also generally accepted that the persistence and growth of informal activities are also related to the tertiarization of the economies in developing countries and recent figures suggest that 76% of all non-agricultural employment in Latin America is in trade and services, with 24% in industrial production (ILO, 2002). If the “informal sector” is increasing as a proportion

of the urban economy in Latin America and the majority of the poorest urban population depends on this sector of the economy for their subsistence, any strategy to increase social justice and reduce poverty and inequality has to take this sector into account (Sethuraman, 1997; Trebilcock, 2005).¹

Over a period of 35 years, however, the difficulty in defining the informal sector or the informal economy has been recognized in the literature. The theoretical or ideological positions of different authors have led to a proliferation of terms that have sought to delimit and define the economic activities of the urban poor. Around the same time as Hart’s concept of the informal sector was being adopted by the neo-Keynesians of the ILO (Hart, 1973; ILO, 1972), Latin American social theorists were debating “dependency” and the roles of the “reserve army of labor,” the “marginal mass” and the “marginal pole of the economy”

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(Cardoso & Faletto, 1969; Marini, 1973; Nun, 1969; Quijano, 1974). The usefulness of the informal sector concept was challenged by neo-Marxist analysts in the developed world who preferred a conceptual framework that used categories such as “petty commodity production” and the “petty commodity sector” (Bremen, 1976; Bromley & Gerry, 1979; Le Brun & Gerry, 1975; McEwan-Scott, 1979; Moser, 1977) or “petty production” and “petty trade” (Le Brun & Gerry, 1975; Lewin, 1985). Although the “informal sector” continued to be accepted as a useful generic concept, the neo-Marxist perspective dominated academic thinking until it was displaced in the 1980s by a resurgent neo-classical interpretation of the economics of poverty that celebrated the role of “informals” as “micro-entrepreneurs” in the urban economy (De Soto, 1986). As thinking about small firms and micro-enterprises has changed, the growth in the numbers in the “informal economy” has continued to be linked to a concern for those who live and work in precarious conditions of urban poverty (ILO, 2002).

When this research started 30 years ago, neo-classical and Marxist economic theory were in agreement that small-scale production would disappear with the evolution of capitalism in Latin America. With the growing interest in the informal sector and marginality, however, alternative views about the process of change began to emerge. In the decade of the 1970s, some authors argued that, rather than disappearing, small-scale forms of production were being expanded and modified due to their new mode of articulation in the global economic structure (Quijano, 1974, p. 403); or that, while in developed countries small-scale production is residual and tends to disappear, in peripheral economies it tended to be conserved (Le Brun & Gerry, 1975, p. 9). Bettelheim argued that they would be “restructured” (partially dissolved) and subordinated to the dominant capitalist relations of production (and therefore conserved) (Bettelheim, 1972, p. 279).

If these small-scale economic activities were expanding or being restructured, there was no evidence about the precise nature of the changes that were taking place. Were all non-capitalist activities expanding, or were some expanding and others declining with the net result being an increase in numbers? If they were being modified, in what sense: was the structure of the sector changing; were the internal structures of the firms being modified; were their

external relations with other firms undergoing a change; and if one or more of these processes were taking place, what precisely was happening in this process of change?

It was generally accepted that the question of the conservation or dissolution of small-scale production in developing countries was of crucial importance for the elaboration of policies for the elimination of urban poverty and the promotion of economic growth. However, these theoretical questions were not investigated empirically and the shortage of evidence allowed neo-classical economists to return to the central stage in the 1980s, with traditional interpretations of the future of small-scale non-capitalist producers. In keeping with the re-emergence of the neo-classical model, “petty commodity producers” and the rest of the urban poor in the “informal sector” were characterized as “micro-entrepreneurs” who could be the golden future of capitalism in Latin America.

The fundamental question for neo-liberal economists with respect to small-scale producers was why are they not becoming fully developed capitalist enterprises? According to their thinking, the small-scale producers of the “informal sector” ought to have been developing into large-scale capitalist enterprises in the formal sector and, since this was not occurring, the logical question was why not—what is impeding their growth? The legalistic interpretation of De Soto of this process of change, or of the lack of it, assumed that small-scale producers were part of a restricted sector of the economy, including traders and other service providers, which could be the motor of growth if restrictions to free trade were eliminated (De Soto, 1986). This interpretation, which immediately found favor with the free-market growth theory that was emerging in the 1980s, presented the “informals” as a new class of businesses that would make a full entrepreneurial contribution to economic growth if the bureaucratic rules and regulations of the state were eliminated. It was thought that the solution lay in the application of neo-liberal policies, which would liberate markets and reduce the role of the state in the economy. This would encourage small-scale producers to grow in numbers and expand in size from non-capitalist to capitalist forms of production. In spite of neo-Keynesian scepticism, this model has continued to dominate development thinking about small firms through to the present time.

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