Undoing the poverty agenda and putting it back together: social policy, economic development, or what?

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Abstract

There are several stubborn causes of the problem alluded to in the title of this paper, but I choose to dwell on four that are less obvious and also lend themselves to suggestions for a research agenda of use to policymakers and program designers and executors in developing countries. The *first* is a tendency in the international donor community to conceive of social policy in a way that allows them to "projectize" and "micro-ize" it–a tendency that, remarkably, shows little variation from left to right across the donor spectrum. The *second* relates to the demise of the now-discredited models of import-substituting-industrialization and industrial policy. Though this discrediting and moving on represents considerable learning about development, it also represents the loss of the strategic focus of this period on employment and the growth of local industry as central to the state project of "serious" economic development itself. The *third* relates to the politics of the informal sector within developing countries, and how this–together with the preoccupation of governments and donors with the informal sector and small firms as social policy, rather than economic-development policy–renders more difficult the pursuit of both the social- and development-policy agendas within countries. The *fourth* points to the importance of managing the generic conflict of interest between workers and owners of capital through institutions of conflict mediation within countries. It shows how this goal is actually undermined by certain features of the poverty-reducing agenda itself which, in turn, also undermines the the pursuit by countries of a better-educated and better-skilled workforce in order to compete in the 21st-century world of globalized trade. The paper includes implications for the design of policy, programs, and projects, and a set of suggestions for comparative case-study research based on the type of lessons that can be learned from a handful of illustrative cases. Hopefully, the suggestions will help to elevate certain aspects of what is now considered to be social policy to the realm of "serious" economic-development policy, where they can have greater and more enduring impacts–and, in turn, relieve social policy of the burdens of some programs that are among the less effective instruments of reducing poverty and providing safety nets.

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I - Introduction

There are several stubborn causes for the confusion alluded to in the title of this chapter, but I choose to dwell on four that are less obvious and also lend themselves to suggestions for researchers, policymakers, program designers and executors in developing countries. The *first* is a tendency of the international donor community to conceive of social policy in a way that "projectizes" and "micro-izes" it–a tendency that, remarkably, shows little variation from left to right across the donor spectrum. The *second* relates to the demise of now-discredited models of import-substituting-industrialization and industrial policy; though the demise represents an advance in our understanding of development, it also has translated into a loss of the strategic focus of this earlier period on support to the growth of local industry, and on including employment concerns centrally in economic-development policy–and, hence, on the lessons to be extracted from this earlier and mixed experience. The *third* relates to the politics of the informal sector within developing countries, in combination with the preoccupation of the donor poverty agenda with the informal sector and small firms as objects of social rather than economic-development policy; this rather strange marriage of national politics and international expertise renders more difficult the pursuit of a proper social-policy agenda within countries and constitutes a distraction from it. The *fourth* points to the enduring challenge of managing the generic conflict of interest between workers and owners of capital through institutions of conflict mediation within countries, and the way in which this agenda is undermined, inadvertently, by certain aspects of the poverty-reducing agenda itself.

1. Projectizing and micro-izing

For all the talk of policy reforms, most donors–as funding organizations–have to organize their work around designing and funding projects. It is their *modus operandi*, their bread and butter. This "project imperative," in turn, influences the way they define the poverty-reduction agenda, or any other for that matter. Historically, however, many of the needed social policy commitments and reforms that have had the largest proven impact on poverty–such as social-security and other social-insurance mechanisms–evolved on a much broader canvas in terms of politics, policy, implementation, and demand-making by organized groups. They did not emerge from the humble beginnings of the micro-ized or projectized approach.

The project-level view of the poverty problem has also gained strength because it is highly compatible with other "micro-ized" views of poverty reduction that are now widely held–briefly, that decentralization together with community participation produces better services for the poor, and that local NGOs are key actors in the carrying out of this agenda. It is not that these views are without merit. To the contrary, their focus on the importance of local voice in bringing about accountability and better service delivery by governments, starting in the late 1980s, has been a welcome change from the earlier exclusive focus on supply-driven approaches. But the celebration of "the local" and nongovernmental has also distracted attention–even of those seriously committed to the poor–from broader social policy reforms.

One major example of the micro-ized project approach to poverty reduction, as supported by many donors, are the Social Investment Funds, starting in the late 1980s, now subsumed in the the category of CBD/CDD projects (Community-Based Development/Community-Driven Development).[2] Donors both large and small have been drawn to these kinds of projects, which have been described as a "safety net" for the poor against the adversities of adjusting to trade-liberalized economic policies and fiscal belt-tightening. By mid-2004, the World Bank alone had committed $7 billion to its CBD/CDD portfolio, in addition to major funding by other large donors like the Inter-American Development Bank, the Asian Development Bank, and the European donors as a group.[3]

As funded by the large donors, the typical SIF is administered by a central-government agency or unit, often newly created for the purpose. It disburses grant funding to myriad communities, sometimes through local governments, for small projects like road paving or rural electrification, the building of schools or clinics, microcredit programs. (For smaller donors and NGOs, such projects are usually not linked to a central-government agency.) According to program design, communities are meant to participate at least in the choice of their project and, ideally, in its design and implementation. An extensive literature on this experience already exists, including a vigorous debate on the *pros* and *cons*.[4] My purpose in bringing the subject up here is not to add to the debates or review them, but to point to the *broader* current of thinking they reflect, and how this contributes to the relegation of certain social-policy concerns to a residual category of safety nets.

Some attribute the large commitment of the major donors to SIFs and CBD/CDD programs as a poverty-reducing tool to "Washington-consensus" views about reducing the role of government, and of central government in particular. This does not explain, however, the equal enthusiasm for SIF- and CBD/CDD projects by smaller donors that often oppose

Washington-consensus or "neoliberal" views–such as NGOs and some of the of the smaller, more socially-oriented Northern European donors. Part of the interest of these smaller donors in SIFs and CBD/CDD more broadly can be better explained by their much smaller size in comparison to the development banks, their provision of grant rather than loan funding, and the mandate of some of them to work through nongovernment organizations rather than governments. All this contributes toward an organizational imperative to produce a stream of bite-sized and discrete projects and, inevitably, to think in these terms.

The more micro views of how to approach poverty reduction have gained such strength that they seem to have become impregnable to contrary findings from evaluation research. For example, various evaluation findings on the effects of decentralization on the poor and the quality of governance show that they vary markedly with circumstances relating to the existing inequality of income, the extent to which the poor already have a voice, and local politics. A recent review of several studies on CBD/CDD programs by World-Bank economists found that "not a single study establishes a causal relationship between any outcomes and paritcipatory elements....Most CBD projects are dominated by elites and, in general, the targeting of poor communities as well as project quality tend to be markedly worse in more unequal communities."[5] Earlier studies on the Social Funds, including by the donors themselves, have been quite mixed. In particular, impacts on poverty and unemployment have often been found to be *in*significant, sometimes even when compared to more traditional and longer-lived employment-generating schemes.[6] Serrano's case study of some World-Bank SIFs in Northeast Brazil, in turn, found these programs to be more supply-driven than demand-driven, and invented the felicitous term "supply-driven demand" to characterize this.[7] These mixed findings on SIF and CBD/CDD programs do not mean that they can not serve other important purposes, like the execution of myriad small works projects. They do suggest, however, that SIFs and similar projects may be a rather dull instrument for the purposes of reducing poverty and unemployment. Making things even duller, the "distributive" and divisible nature of these programs suits them particularly well for patronage purposes, a well known feature of these kinds of programs historically.[8] To offer such programs to the leaders of nations as a "safety net" to catch those hurt by economic crisis–an appealing "sweetener" for the hard political costs of adjustment–turns them into an attractive way *out* of facing the poverty challenge more seriously.

For more than a decade, in sum, the "projectizing" and "micro-izing" mode of the operations of development organizations have captured and monopolized the imagination of the international development community, despite mixed evaluation findings, including from donor-funded research itself. They have lulled many into thinking that such projectizable and local initiatives can make significant contributions to resolving the twin problems of poverty and unemployment. The challenge to the development community is to bring attention back to instruments that have been proven, by development researchers themselves, to be more powerful instruments in reducing poverty.

A remarkably analogous process of distraction from more powerful instruments of reducing unemployment and poverty has occurred in a different realm–that of economic development, to which I turn now.

2. Economic development, employment, and implicit industrial policy

In the international development community, as well as among governments, a kind of post-Cold-War "take" has emerged on the policies, programs, and lessons learned from the prior period of import-substituting industrialization (ISI) and strategic subsidization of investment in certain sectors to promote industrial growth. Whereas policies involving state subsidy and direction used to be denounced by those who did not like them as "communist," today they elicit a response that is even more withering–namely, that this kind of thinking is "old." This has resulted in a kind of "cultural revolution" with respect to the texts and the thinking of this prior period. One finds little literature on the positive lessons to be learned from that period, even if enmeshed in a larger set of policies now deemed to be negative. This despite a growing body of grounded research on that experience, including some of the ISI antecedents of post-ISI successes in growth and exporting[9]–successes often now attributed solely to the liberalizing policies of the more recent period. Texts read by students who will be the future leaders and technicians of their countries have little to say on this combination of negative *and* positive results of the earlier policies, now fallen from grace, let alone the lessons to be learned from the them.

Whatever judgments might be made today about the policies of the ISI period, and however less appropriate the policies might be in a trade-liberalized 21st-century world, policy concerns about employment in that period were wedded to those about economic development rather than, as today, mainly to social policy. Independently of whether the outcomes turned out to be good or bad or mixed, employment concerns had an explicit place *within* the policy thinking about economic development itself and shaped the various forms of public-sector support. Today, concerns about employment have no such home. No longer considered "serious economic development," they are now relegated to the realm of social policy, safety nets, and small-enterprise and informal-sector specific programs–a realm that is more often than not treated as tangential to the central project of economic development. The marginality is reinforced by the bureaucratically functional home for these concerns in social-action, welfare, and labor agencies and, outside the public sector, in NGOs–all of which typically wield less power and have less resources than agencies dealing with economic development.

To be sure, the industrial policy of the ISI period itself often rode roughshod over existing local economies, and sometimes ignored the development potential of local-firm clusters that today have become the object of so much policy interest. Though the ISI policies of tariff protection were meant to support the development of "national" firms, for example, they did not necessarily perform well in terms of enhancing the potential of already-existing concentrations of small and medium firms. Also, as has become more apparent in recent years, some of the most effective public support for employment-creating growth has taken place at the level of subnational governments, at least in larger countries–states, provinces, and municipalities. Many such assists, in turn, have been "lite, " in contrast to the heaviness of the credit and other subsidies associated with the ISI period. Examples are the brokering of the connection to export markets, providing customized training to small-firm owners and their workers, or breaking particular efficiency-hampering infrastructure bottlenecks. This "lite" support of the ISI period, it should be noted, was remarkably similar to the "new" set of policy recommendations now being drawn from the experience with small-and-medium-firm (SME) clusters.

In the ISI period, the explicit and public articulation of industrial policy contributed to making the development of local industry and firms the subject of extensive examination and debate–in government, in development banks, in universities, and in the press. One important subject of policy attention was the attempt to forge customer-supplier linkages between foreign customer firms and local supplier firms, within the larger supportive policy context of laws requiring local content by foreign firms. Today, in many countries, the debates about economic growth suffer from the lack of such attention to matters that directly and indirectly affect employment. What's important here is not so much that industrial policy and its association with excessive subsidies and intervention is discredited, but that nothing as prestigious *and* inclusive of employment concerns has come to replace it in the current discourse about serious economic development. An important exception is the growing policy interest in and support for clusters, arising from more than a decade of research on cases of remarkable cluster growth, starting with those in Europe. In many instances, however, the policy recommendations of the cluster literature are getting lost in translation to subnational levels, and when filtered through the political dynamics of small-firm programs, as the next section reveals.

Despite the strong anti-subsidy and anti-ISI discourse of today's literature on economic development and industrial policy, many governments actually turn out to be robustly subsidizing industry in a variety of ways–often with the encouragement of post-ISI advisors. One of the most conspicuous forms of this–though the details are not always made public–involves the large industrial-recruitment subsidies, provided by goverments at various levels to attract outsider firms to locate in a particular country or state. In addition to the well-known tax exemptions and accompanying public investment in firm-specific infrastructure such as access roads, this often includes additional subsidies from public revenues and development funds such as credit on favorable terms, or discounts on public services such as telecommunications, electric power, and water supplies. These outsider-attracting preoccupations of governments and the large volume of public resources ultimately committed to make this happen often crowd out concerns about how to support the forging of development links between outsider firms and the local economy, let alone building on strengths in the local economy that already exist. There is also considerable evidence that industrial recruitment crowds out local-government expenditures on education and health.[10]

Public officials and technicians working in this area are often at a loss as to how to deal with various challenges arising from these initiatives. For example, many large global buyers encourage or require their developing-country suppliers–often outsider firms themselves–to procure their equipment or other inputs outside the country rather than locally, even where local supply exists and could be improved upon; or outsider companies, newly located in a country, often prefer–understandably–to buy from foreign suppliers with whom they are familiar; or, after the privatization of state enterprises, the outsider firms that buy them often switch their procurement from local supplier clusters to their familiar suppliers abroad.[11] These developments often result in unemployment problems that become the burden of today's social policy.

Though the degree of today's subsidization of industry is presumably not as great as that of the previous ISI period–no one to my knowledge has actually made such a comparison–the more important difference between the two periods is the *ad hoc* nature of the subsidization of the current period. The current subsidies, that is, are more the outcome of individual deals between a single government and a large firm–foreign *or* local–rather than of a strategic development vision, let alone a vision that embraces goals of sustainable employment. This is why I refer to this state of affairs as "implicit" industrial policy. "Industrial policy," on the one hand, because it does add up to something like that–even though the whole may be sometimes less than the sum of its parts. This disappointing outcome occurs when the recruited firms do not have the developmental impact that was expected; or when the "market-destroying" effect of their arrival is greater than the market-creating effect–neither of these outcomes are unusual.[12] This industrial policy is "implicit," on the other hand, because the language of the current policies makes them seem to be just the opposite of the old "industrial policy" and, indeed, explicitly eschews it in speaking of *eliminating* subsidies while supporting private-sector growth. In addition, implicit industrial policy views the outsider firm as a "new" engine of development, a "transformational" development agent–with its cutting-edge technologies, best-practice organizational cultures, contacts with export markets, and tough-love relationships with its local suppliers. (Actually, this image of the transformational firm is not really new, dating back–along with the recruitment subsidies themselves–to the earlier ISI period.)[13]

At the same time, government officials in economic-development roles fear that the outsider firms will be frightened away and go to another country or state if governments ask for certain concessions in exchange for the subsidies. Such concessions might relate to supporting the forging of linkages between the outsider firms and existing local supplier firms, or in other ways enhancing the outsider firm's role in spilling development to the economy around it. Or, governments simply do not know what to ask for–that is, the kinds of measures that would potentiate the transformational effects on local firms. This lack of knowledge and fear of losing outsider firms is particularly disabling with respect to the ability of these governments to be intelligently proactive with respect to supporting local economic development.[14]

Given these circumstances and this larger context, government officials see themselves as having no other choice than to relegate employment concerns to other realms–the safety nets, informal-sector programs, small-firm programs, microcredit. It is not that these measures are not important, but they often suffer from the aforementioned problems of "projectization" and "micro-ization," not to mention their fatal political attraction in terms of vote-getting. By abandoning the realm of serious economic development, then, these measures miss important opportunities to reduce unemployment and also inadvertently render more difficult the unemployment-combating burdens of the social policy agenda itself.

Development research, in conclusion, could pay more attention to the cases in which the more recent "implicit" industrial policy actually *has* led to greater sustained employment through linkages with local firms–in contrast to those that have not; in which governments actually *were* successful in negotiating development-enhancing concessions from large outsider firms; and in which governments provided strategic support to local firms that was actually effective. Why in these cases, and not the others? Answering this question could provide the basis for an industrial policy that is an improvement on current as well as past policies. It would be neither explicit, à la the discredited ISI regime–nor implicit, à la the current post-ISI approach. Opening up such a policy space in the thinking about economic development would seem to be facilitated by the current interest in small-firm clusters in particular, and small firms in general, to which I turn now.

3. Small firms, the informal sector, and the devil's deal

Over the last decade or so, myriad programs, projects, and policy reforms have focused attention on informal-sector (IS) firms and micro- and small enterprises (MSEs) in general, as part of a broader social-policy agenda of reducing poverty and unemployment. Despite this welcome attention, many public planners, managers, and executors nevertheless continue to view SF/IS programs as "only" welfare, rather than the stuff of "serious" economic development. The particular form taken by SF/IS support in many countries reinforces this view, as explained below, as does the way SF/IS support is often embedded in politics. This jeopardizes certain benefits, ironically, that we hold crucial to the current agenda of reducing poverty and unemployment: greater observance by firms of environmental and labor regulations, sustained increases in efficiency and productivity in local economies and, as a result, improvement in the quantity and quality of jobs.

I was first struck with the darker side of small-firm and informal-sector support when interviewing economic-development officials in the Brazilian state of Pernambuco. I was curious to know why they had not included, in a new program of support to a handful of small-firm clusters in the state, a particularly vibrant and longstanding garment cluster about a two hours' drive from the capital city. They explained that it would be quite awkward to elevate a cluster of firms to "growth-pole" status that was notorious for not paying taxes and not observing other government regulations.[15] At the same time, however, they did not see themselves as having the option to enforce these regulations, even as a *quid pro quo* for providing public support, because the cluster was concentrated in two municipalities that contained more than 30,000 electors.

After visiting some other places and reading about cases in other countries, I came to interpret what I was observing as a kind of unspoken deal between politicians and their constituents–myriad small-firm owners, many in the informal sector. If you vote for me, according to this exchange, I won't collect taxes from you; I won't make you comply with other tax, environmental, or labor regulations; and I will keep the police and inspectors from harassing you. I call this tacit understanding "the devil's deal" because it makes *in*formality to more attractive, and formalization less attractive, than they otherwise might be. Once the deal is made, it is difficult for either side to get out of it, as the above-mentioned comments of the Brazilian officials reveal. Similarly, with respect to complaints by government officials and technicians responsible for well-designed initiatives of cluster support that the latter simply "unravel" when placed in local political environments.[16]

In certain ways, then, the devil's deal can pose just as significant a barrier to formalization and upgrading of small-firm clusters[17] as the actual costs themselves of formalization and regulation. Much of the policy advice on this subject, however, focuses on the "burdens" themselves as the source of the problem–particularly, the costs of formalizing and observing tax, environmental, and labor codes. It advocates reforms, in turn, that grant special relief from these burdens to small firms in the form of exemptions from or reductions of taxes and other costs associated with environmental and labor regulation. In addition, the SF literature is strangely silent on the politics in which SF support is so firmly embedded.[18]

The dynamic of the devil's deal also reinforces the distinctly dismissive attitudes held by many economic-development planners and by development-bank managers toward smaller and informal-sector firms. To the extent that these managers and civil servants acknowledge the importance of SF/IS assistance, they often view it as a "welfare" measure that belongs in "social" rather than economic- development agencies–in ministries or departments of labor or social welfare, or special small-firm agencies. In their eyes, SF support will help mop up the unemployment resulting from the necessary reforms and initiatives meant to restructure the economy and institutions of government for a trade-liberalized world.

In these terms, the SF sector becomes mainly an instrument for preserving and even creating *jobs*–albeit often poor-quality jobs in poor-quality firms–rather than as an opportunity to stimulate economic development. This frees policymakers to dedicate their economic-development attention elsewhere, by reducing for them the political cost of the job losses that ensue from the modernization of industry and economic-policy reforms. From this perspective, and more generally, SF-assistance programs do the important work of helping to maintain the "social peace," rather than necessarily to modernize the local economy.[19] Contributing to this same perspective, many international donors and non-government organizations couch their current support for IS/SF assistance, such as micro-credit and other programs, in terms of "safety-net" measures for poverty reduction.

The devil's deal offers more to IS/SF clusters than just looking the other way from their violation of regulations. Governments often grant small firms a particular kind of support in which there is something for everyone–special lines of cheap credit, blanket credit amnesties when times are bad, and blanket exemptions for small firms from certain taxes and regulations. The exemptions are "burden-relieving" in that they reduce the costs of small firms (or keep them from increasing) in a way that requires no effort on their part. They are also "distributive" in that they benefit *all* small firms–whether they want to grow or not, whether they are seeking to improve their efficiency or not, and regardless of sector.

In maximizing the number of satisfied constituents, this kind of support to small firms is ideal for maintaining and increasing electoral loyalty. It is less than ideal, however, for stimulating local economic development that is sustained and employment-enhancing. Today, that is, the most widely agreed-upon forms of public support for local economic development do not have this distributive and burden-relieving character. In some ways, in fact, they are just the *opposite*. They strategically identify and try to remove bottlenecks to improved efficiency, productivity, and marketing for the sector as a whole. Before any significant support is rendered, they often require or elicit broad involvement of the sector in a process of discovering exactly what the problem is and what to do about it. And they may benefit directly–at least at first–only those firms most capable and most interested in upgrading their production which, in turn, often leads to the latter's formalization. The histories of dynamic small-firm clusters often reveal this particular kind of strategic public support which, in turn, has been central to the formation of strong local economies and the reduction of unemployment.

Once the "devil's deal" has been made between firms and politicians, it becomes politically awkward for governments to carry out the above-mentioned strategic and sector-specific support because it does not automatically benefit all small firms. To the extent that it does benefit the region as a whole–as in the breaking of important infrastructure bottlenecks or the linking of local producers to outside buyers through trade fairs–the benefits may be longer in coming and more diffuse, and their effects may be felt by many firms only indirectly. These traits are just the opposite of those characterizing the relief provided by the burden-reducing exemptions and subsidies–immediate, automatic, universal, conspicuous, and directly available to each firm as an individual unit.

Classifying firms by their size (small, medium, or large) for purposes of public policy, rather than by their product or sector, reinforces the tendencies toward the burden-reducing approach. "Small," that is, can encompass a quite diverse set of firms–rustic and sophisticated, producing in different sectors, and located in different places. For purposes of lobbying for burden-reducing measures, for example, "small" can even be meant to include a rustic brick-making operation in the countryside or a sophisticated software firm in the city. With such heterogeneity, the only way an association can serve a majority of its members is to appeal to the broadest common denominator–namely, size. But the kind of support that best fits the size denominator is the burden-reducing subsidies and exemptions because of, as seen above, their distributive benefits. That is why we often find small-firm associations pressing more for the distributive exemptions than for the strategic supports. In this sense, then, size is also the *lowest* common denominator, in that its associated subsidies and exemptions are the least likely to lead to sustained development.

No one would deny the importance of SF associationalism in the histories of many dynamic clusters. Organizing and lobbying according to firm size, moreover, may be the only way small firms can hope to compete with larger and more powerful firms for the attention of policymakers. At the same time, the attention paid by governments and donors to firms according to their (small) size–and to small-firm associationalism–can also work inadvertently in the same direction as the devil's deal.

The large volume of research on small firms and their clusters does not tell us much about the circumstances under which distributive concerns and demands will dominate strategic ones in SF associations, let alone the sequence by which distributive concerns and their burden-relieving support sometimes miraculously give way to more strategic episodes. Complicating the story, the two approaches may coexist within the same association.[20] Putting together and lobbying for a strategic agenda, moreover, requires harder work over a longer period of time–more deliberation, analysis, and consensus–than lobbying for the burden-reducing exemptions and subsidies. In this sense, the distributive exemptions of the devil's deal will be more appealing to SF associations because they are *easier*, just as they are more appealing to politicians because of their greater *political* yield.

Focusing on the difficulties small and informal firms face in meeting the costs of environmental and labor standards distracts our attention from pursuing opportunities for firms to, indeed, rise to the occasion and meet these standards, rather than be exempt from them. Though we are used to thinking that SFs need protection from these "excessively" burdensome costs, there are many cases in which SFs have actually met those costs and, contrary to the burden-relieving scenario, have been better off for it. They became more efficient, produced higher quality goods, and gained new access to more demanding markets.

How did such dynamic clusters get from where they were before–when they were the pathetic, low-productivity small firms of the welfare scenario–to where they are today? Much of the research on small-firm clusters fails to ask this particular question, dedicated as it has been to understanding how these clusters function at any particular moment in time or drawing best-practice lessons for practitioners. It is the evolutionary sequence of these cluster histories, however, that will reveal lessons on how to promote SF dynamism while not compromising–in contrast to the burden-reducing approach–our concerns for increasing the rule of law, reducing environmental problems, protecting worker rights, and upskilling labor. The histories will also provide insights into the sequences of events and other circumstances under which local actors make the transition from burden-relieving to more strategic and transformative deeds.

Offhand, at least six recent case studies come to my mind of major advances in improving the efficiency, productivity, and other sector-wide aspects of small- and medium-firm (SME) clusters or proto-clusters in which standards were increased rather than waived.[21] In three of these cases, the advances were triggered in part by suddenly-imposed bans of importing countries on a developing country's export. Germany banned the import of leather goods produced with certain chemicals, all used by the Tamil Nadu leather-goods cluster in India; the U.S. banned the import of precision surgical instruments from Pakistan, made in the Sialkhot cluster, because of problems with the quality of steel; and El Salvador banned the import of Nicaraguan cheese because it did not meet the importing country's new hygienic standards.[22] In each of these cases, the importing country had been a major buyer of the export of that product for some time. The firms, acting through previously existing collective, public, and public-private institutions, rose to the occasion–meeting the costs of the new standards, resuming exporting, and becoming more competitive. Of course, one could not and would not want to count on such wrenching import bans as a "best- practice" strategy for upgrading clusters.

The remaining two examples did not need the import bans by customer countries to fuel them, and hence show another possible path to similar results. These two cases were also triggered by problems in the international market–namely, increasing competition to SF clusters caused by the entry of cheaper or better products into the international market from other countries. One case involved a footwear cluster in southern Brazil and the other, a marble cluster in Andalucian Spain.[23]

In both these cases, importantly, the SF associations first lobbied government for the typical burden-reducing measures–tax exemptions, credit amnesties and subsidies. But, unusually, the government explicitly *rejected* the burden-reducing approach as a way of coping with the crisis provoked by the outside competition. Making its own counter-demand, the government agency involved offered a *different* kind of deal in exchange for support: it required that the firms gather together and engage in a time-consuming and difficult exercise that identified problems and proposed sector-specific solutions.

In the Andalucian case, the marble cluster had declined through the years partly because of increasing competition in the international market from the Italian marble industry. The Planning Ministry offered the following deal: the firms would themselves have to get together, decide what the problems were and how they might be overcome, and then arrive at a proposal on what to do. In addition, the Ministry required 100% consensus among the sector's firms, in return for which it offered technical and facilitating assistance for this process, and the promise of financing for whatever proposal for upgrading that might emerge. This was a deal also, then, but in certain ways it was just the opposite of the devil's deal: what it demanded in return was not political loyalty, but a set of behaviors that would lead to greater economic dynamism.[24]

In the Brazilian case, similarly, the association of small footwear producers–faced with a crushing increase in cheap footwear imports in the late 1990s–lobbied the state government of Rio Grande do Sul for tax relief. The government denied the burden-reducing relief, but proposed a different kind of exchange. It offered to finance and assist in other ways the participation of these firms in an important major trade fair, an annual event held in the shoeproducing Franca region of Brazil, so as to increase their exposure to the large Brazilian market. As a result, their sales increased significantly, which also increased the state's sales-tax return by more than the amount expended for this support. This story also shows that such strategic deals can yield political returns as robust as those of the burden-reducing measures. The state's footwear cluster, located a few hours from the capital city, had typically voted against the party in power at the time of this offer–the left-wing Workers' Party. Many of the smaller firms who benefitted from the trade-fair experience, however, shifted their allegiance to that party in a subsequent election for governor, in a first-time split of the political loyalties of the footwear-producing sector as a whole.

A final example comes from the history of the now-famous Emilio-Romagna cluster in Italy, so highly disseminated today as a model, and the mother of all models for SME clusters. In researching the history of that cluster in the 1950-1970 period, Criscuolo (2002, 2003) found that measures were taken early on to make formality more attractive to firms, rather than the opposite–namely, exempting them from the "burdens" of formality. For example, assistance was provided by the small-firm association in tax preparation, as well as accounting–both of which have economies of scale that make them more costly for small firms (firm associations also helped intermediate cases of individual firms in the courts, and other relations with government). This kind of support created incentives for firms to formalize and embark on an upgrading path, in direct contrast to the burden-relieving path.[25] For all the current dissemination given to the "lessons learned" of the Emilio-Romagna case, this particular set of them is not particularly prominent, if it appears at all.

These case histories suggest, in conclusion, that the widespread sympathy for small firms as a special category–and in particular their proclaimed "inability" to pay taxes and meet environmental and labor standards–distracts our attention from approaches to meeting these costs that leave firms and the local economy better off. These include making formalization more attractive; reducing environmental degradation; protecting worker rights to organize, and improving health and safety in the workplace; expanding the coverage of social security, health, and other social insurance to poorer workers; and increasing the tax yield of governments so as to better finance public services and, in so doing, drawing government and firms together into a social contract to respect the rule of law and buy into a more inclusive style of economic development.

Treating small firms as a special category also works at cross purposes with recent advances in the thinking about how to support existing local economic systems that constitute, or could become, *clusters*. Seeing the sector-specific cluster as the unit of analysis, rather than the individual small firm, produces a different animal: it typically includes medium and even large firms, as well as small firms that are formal as well as informal. And much of it is customized to the needs of a particular cluster at its particular stage of evolution. A good part of the support, moreover, takes the form of providing bottleneck-breaking collective goods and services, rather than support to firms as individual units that fall below a certain size.

Finally, the seemingly reasonable policy sympathy for protecting small firms from regulations and their costs becomes toxic when combined with the political dynamics of the devil's deal. Waiving tax, labor, and environmental regulations out of concern for the "plight" of small firms may simply condemn local economies to low-level economic stagnation, degradation of the environment, and violation of worker rights. This unnecessarily burdens the task of poverty-reducing social policy.

Cases like those laid out above–where clusters or proto-clusters actually succeeded in meeting regulatory requirements and at the same time became more competitive–need to be analyzed for their lessons, a question that the lessons for policy drawn from the large body of writing on clusters rarely focuses on specifically. This would show policymakers and program designers–particularly at the subnational level, where such enforcement and economic-development support increasingly takes place–another path and another set of possibilities. Showing that such outcomes are perfectly imaginable, and familiarizing planners with the felicitous outcomes of actual cases and the paths that led to them, might also contribute toward reducing the generalized antipathy in the economic-development sector of many countries toward the enactment or enforcement of environmental and labor standards. This takes us to the topic of the next section.

IV – "Under the radar": workers, worker protections, and labor unions[26]

The poverty-reducing and human-rights agenda of the international development community has increasingly embraced the protection of workers' rights to organize, measures to protect workplace health and safety, and other measures of "decent work"–like formal labor contracts and social-insurance protections.[27] Some items of the anti-poverty agenda, however, have inadvertently translated into an *anti*-labor agenda–or, worse in some ways, a "labor-ignoring" agenda. From the previous sections, we can already discern some of the reasons for this: the policy interest in exempting small firms from costs and responsibilities in the labor area (as well as in the tax and environmental areas), the efforts of "implicit industrial policy" to attract outsider firms by preserving "cheap labor" as a country's or region's main comparative advantage, and the focus on decentralizing program actions to the most local of levels, where labor institutions tend to be weak or few and far between. This section takes up the matter of labor institutions–regulatory and labor unions–directly.

Building permanent institutions that manage enduring conflicts of interest like those between owners and workers, Rodrik has argued paraphrasing Marx, is what macroeconomics is really about–namely, how to divide the surplus between them.[28] Those countries that were more institutionally equipped to mediate the conflict between labor and management, Rodrik found in a cross-country analysis, actually grew better. Rodrik's enduring conflict of interest–and the need for institutions to manage it–are, of course, not limited to workers *vs.* owners. They routinely trouble the relations between other sets of actors, creating similar economic and political problems. An obvious example is the conflicts of interest between different subsectors of firms in the same value chain–such as between producers of tanned hides and footwear, or between producers of footwear and footwear-equipment manufacturers. Schmitz draws on his detailed research on the Sinos-Valley leather-goods-exporting cluster in Brazil–which includes various associations along that supply chain (hides, equipment, etc.)–to illustrate the need for institutions to manage this variation on Rodrik's generic conflict.[29] His study shows how the absence of mediating institutions in that case of an otherwise successful cluster–and a hands-off stance by the government to which the cluster appealed for intermediation–prevented the cluster from coping successfully with the challenges of the increasingly globalized trade in leather goods and their inputs over the last decade. Partly as a result of this failure of intermediation in the mid-1990s, Brazil fell from its place in 1994 as the world's largest footwear-exporting country.

How different Rodrik's (and Schmitz') views sound from the development discourse of today, which posits a harmonious and single-voiced "community" to which government actions can be fruitfully decentralized. This latter view, so common to the "micro-ized" perspective and outlined in the first section above, seems to actually assume away Rodrik's enduring conflict. In this sense, the harmonious view is blind to the persistence of generic conflicts and, hence, to the need to pay attention to building institutions for mediating them. In certain ways, this vision of harmony–or of easy "harmonizability" of interests–represents as over-simplified a reading of reality as that of the 1960s, when the opposite view was often heard in progressive quarters–namely, that "class conflict" and the asymmetry of power between elites and the poor were enduring and irremediable, dooming many proposed reforms. In a sense, then, today's vision of the harmony of "community voice" goes to the opposite extreme, committing the same error of oversimplification.

The development literature and policy advice of today does pay attention to labor unions, but not in the sense that Rodrik is suggesting. Far from viewing labor unions and other worker associations as essential institutions in the management of development's conflicts–along with business associations and government–these observers point to labor unions as jeopardizing important proposed reforms that would benefit "the poor," such as flexibilization of the labor market. Labor is criticized for its "self-interested" policy agenda, acting in effect as a "labor aristocracy" that pursues its own bread-and-butter gains and then fiercely defends them, and also for engaging in unsavory relationships with the state and political parties. It also blames these behaviors for the growing informal sector and the gap between formal-sector and informal-sector wages, and for condemning the informal sector to low wages and disguised unemployment.

The empirical record on all these claims is, actually, quite mixed. Findings are often inconclusive or one study's findings contradict the other's. On the informal-formal wage gap, for example, Maloney finds in a cross country Latin-America study that it is not unions that drive this outcome so much as large firms in high-illiteracy countries having to invest more in compensatory training of their workers and, hence, paying higher wages so as not to lose this investment–the so-called "efficiency wages."[30] This was his explanation of why the gap was higher in countries with higher illiteracy. On union ties to political parties and the state, as another example, Kuruvilla and Mundell found–in comparing histories of employment relations in several third-world countries–that the intensity of union ties to the state and political parties did not correlate with the level of union influence, power, or voice.[31] Galli and Kucera's 2004 review of several studies of the relation between labor standards and increased informal employment in Latin America also found inconclusive and contradictory results. At the same time, the "strongest result" of their own research, using panel data on 14 Latin American countries, showed that countries with stronger "civic rights"–including the right to organize trade unions and the existence of collective bargaining–were associated with higher, not lower, shares of formal to informal employment.[32]

Contributing to the unpleasant portrayals of labor unions is the tendency of the political-economy literature on macro reforms to identify the peak-level labor confederations as the culprits in jeopardizing proposed reforms of social security, let alone to modernize the system of labor regulation. This mainly macro-institutional focus results in missing the various forms of change and innovation that are taking place at sub-national levels–sometimes being supported by the central labor federations themselves–as the examples of this chapter will illustrate. In dissertation research on the Argentine case, for example, Natalicchio found that the world of employment relations and accords outside the macro-level realm contradicted the sweeping pessimistic judgments of this literature not only for the Argentine case, as well as some other Latin American cases.[33]

The unpleasant portrayals of labor unions and other worker associations–whether accurate or not–are not necessarily inconsistent with the positive role that Rodrik emphasizes. In fact, as we know from history, labor unions and other worker associations have often played important roles in bringing about broad gains that have been central to the poverty-reducing agenda–defending worker rights to organize and pressing successfully for other protections such as workplace health and safety measures. In addition, and in contrast to the image of a self-serving labor aristocracy, labor unions have often worked successfully–and in the face of serious opposition or inertia–to bring about broader policy changes that spill benefits to many outside their ranks. Often, moreover, they even put their power behind reforms in sectors not related to their own and were not of direct benefit to their membership. This could happen partly and precisely because they had some modicum of power, the kind of power that the critics of labor-union "intransigence" rue. Yet many of the reforms backed by labor unions in the examples that follow were or are key items on the agenda of the international development community.

South African labor unions, for example, played a major role in the struggle to bring an end to apartheid, as major allies of the African National Congress movement and, subsequently, of the ANC party. In the current post-apartheid period, some of these same unions have sometimes fiercely criticized the ANC governments' power–sometimes privately from the inside, sometimes publicly–a form of pressures for accountability from the "outside." South Africa's history from apartheid to the present, of course, is often treated as an unusual case–given the uniqueness of apartheid and its history of isolation. But, as Beckman notes in the example presented below, "the basic ingredients of the [South African] union story....are familiar from union stories everywhere–the struggle for rights and recognition, the protection of members and leaders, the pursuit of alliances and political influence, the response to changes in markets and policies."[34] An obvious parallel example outside South Africa can be found in the long struggle of Brazilian trade unions in the 1980s against the military regime, and their strong presence in the debates on how to restore democracy to that country and the shape it should take.[35]

For the United States, Thompson (2005) shows that in large cities with significant black membership in public-sector unions–like New York, Philadelphia, and Detroit–these unions played a major role in terminating longstanding discriminatory legislation and other practices against blacks in housing, education, and access to credit before the period of civil-rights activism in the third quarter of the 20th century and thereafter. For many years, to take an example from another country and another sector, Brazilian trade unions in the manufacturing sector vigorously backed agrarian reforms that were of no benefit to their urban-manufacturing rank-and-file[36]–agrarian reform having also been a key item on the international development community's poverty-reducing agenda. In a final example from Honduras in the 1970s, the strong labor union of workers on the banana plantations of the Standard Fruit Company near the Caribbean coast lobbied for and subsequently backed a vigorous agrarian reform benefitting tenants and other landless agricultural workers in other parts of the country.[37]

Some advances in worker rights and protections have also been facilitated by a quite different set of pressures and dynamics that worked through the market, independently of labor unions and regulatory institutions, and sparking changes in the organization of production. As illustrated by the following cases, some firms and firm associations respond to these pressures by upgrading and/or expanding their markets–ofttimes in response to threats to their competitiveness arising from the liberalization and globalization of trade. Though the affected sectors and their industry associations will often not explicitly support worker rights and protections, they will be less inclined to oppose such improvements to the extent that the latter are consistent with the desired upgrading and market expansion.[38]

Michael Piore has contributed to illuminating this particular causal link between changes in business dynamics and in labor standards, both currently and historically.[39] Asking where improved labor standards actually "come from" at any particular historical moment, he suggests that they have often been partly impelled by changes in market dynamics that reverberate on the structure of production. Though some scholars may disagree with the emphasis Piore places on market-driven factors, Piore does not dismiss the important causal role of parallel changes in regulations and social policy. With respect to the major changes in employment regulation that emerged during the New-Deal period in the U.S., for example, he is simply trying to more fully answer the question of why business did not put up a bigger fight, as it had for years in the earlier part of the century.

In the cases that follow, the market dynamic partly drove improved labor conditions alongside the other drivers–labor organizing, sympathetic social movements, politics and the improved legislative, judicial, and regulatory actions that ensued. Before analyzing one set of cases in greater depth–involving two fruit-exporting clusters in Brazil–I briefly present three examples from, intentionally, different sectors and different countries. As in the more detailed Brazilian cases presented subsequently, labor standards improved and unions were important actors in a larger process that did not jeopardize competitiveness and, in many ways, involved significant upgrading. These examples are meant to show that there are things happening in various places "under the radar" that produces the stereotypical view of labor unions.

Three quick examples

Textiles in Nigeria. Nigeria provides an example, from the textile industry, of collective bargaining associated with both upgrading *and* improved government monitoring capacity resulting partly from the behavior of the union as outside actor. Far from being a hindrance to industrial restructuring, the Nigerian textile union played an active role together with management in upgrading the industry in the 1990s, which contributed importantly to its modernization in the face of crises and adjustment–a history related by Andrae and Beckman.[40] The crisis created a kind of positive dependency of each side on the other, which drove a process of serious bargaining and discussions about re-structuring.

In this case, management enlisted the cooperation of the union in training workers in the new requirements of the production process–rather than meeting worker resistance with violence, as occurred so commonly in this sector. Also uncharacteristic of typical expectations, shop-level union committees were able to challenge and defy their own union officials when feeling shortchanged. With respect to both management and union leadership, moreover, the committees were able to resist co-optation by both the state and management. This is not a trivial accomplishment, for management or unions–both of which often prefer *not* to delegate power over production decisions to shopfloor leadership. Some studies of workplace restructuring and upgradining in unionized firms in advanced countries have actually pointed to the key role of such shopfloor committees for the problem-solving and information-gathering required to carry out the restructuring of production successfully.[41]

That both labor *and* capital felt vulnerable during this period laid the grounds for this collaboration, creating a kind of dependence of both union officials and management on the intermediation of shop-level committees. For managers, the union provided an "unofficial ally" in the difficult process of adjusting the industry and its work force to the drastic changes in markets and production conditions. Though these processes of mediation of conflict and grappling with the need to restructure the industry initially took place in the largest, most sophisticated, and vertically-integrated part of the industry, they ultimately spread to many other firms in the sector–smaller, less sophisticated, and less integrated. The latter had a tradition of being more hostile to labor organizing. Spillover effects like these are important to the spread of institutions of labor-management mediation, as well as of learning about how to upgrade.

Finally, Andrae and Beckman found that this experience in the Nigerian textile industry contributed to building the regulatory capacity of the state. (There is a variation on this kind of story in the subsequent section on the labor-inspection service and the labor union in two Brazilian fruit clusters.) The Nigerian union demanded more regulatory accountability from the state, pushing it to develop its own capacity to regulate labor-management relations–what the authors aptly call a “disciplining from below.” Actually, this dynamic of the disciplining of government by unions is akin to the “voice” and “demand-driven” drivers of public-sector improvement that are so central to the international development community’s current focus on the importance of citizen demands for improving the accountability of public agencies.

Although there are many texts explaining the virtues of such “demand-driven” pressures on government–and much confidence has been bestowed on myriad civic groups to exert such pressures–labor unions rarely appear in this cast of virtuous actors, with a few notable exceptions.[42] Instead, they are stereotyped as the obstructors rather than, as in cases like these, the handmaidens of improvements in the conditions of work.

Leather-goods in Franca, Brazil. Whereas the Nigerian example involved larger firms and textiles, the case of leather goods in Brazil revolves around a classic cluster–with all sizes of firms and diversified with manufacturers of leather-goods inputs. The Franca leather-goods cluster in Brazil in the interior of the Brazilian state of São Paulo is the second-largest exporter of footwear in the country, and the largest supplier of footwear to Brazil’s considerable domestic market. The cluster, which encompasses 14 municipalities, employs 365,000 formal workers in addition to myriad informal-sector workers.[43]

The leather-goods sector in developing countries is characteristically populated by small and medium firms, and is known to be a stereotypical violator of environmental and labor standards. Franca, through its more than half century as a leather-goods cluster that started to export in the 1970s, has been no exception, as documented in a 1995 UNICEF report on child labor. Over the last decades, nevertheless, labor unions have developed in Franca’s leather-goods cluster, alongside associations of firm-owners, including the state federation of industries (FIESP). In the lead municipality of the cluster, Franca, unions and firms have attempted to engage in joint initiatives around improving environmental and labor standards and management of conflicts. With respect to conflicts in particular, they created a bilateral council for resolution of individual conflicts outside the labor courts, followed some years later by the creation of a conciliation "chamber."[44] Reflecting this experience with joint initiatives, the worker *sindicato* of Franca reported in a survey to have daily contacts with various firms–personal, by e-mail, letters, etc. (This contrasted with the significantly lower number of contacts with firms reported by worker *sindicatos* surveyed in the other 13 municipalities of the Franca cluster.)

Significantly, these institutionalized processes of consultation and conflict mediation do not mean that conflict disappeared from the Franca scene. Progress has been mixed and often shot through with tension. But the ongoing attempts to institutionalize these interactions merits further attention, given the unlikely conditions under which they emerged. Though it might seem difficult to reconcile Franca's collaborative labor-industry initiatives with this degree of continued tension, these findings are nevertheless consistent with Rodrik's focus on the generic nature of the conflict and, hence, on the need for institutions to manage it.

Multiple sectors in Argentina. In an extensive study of changes in labor-management relations in Argentina, Natalicchio found important changes taking place "under the radar" of the existing formal system and often at more decentralized levels.[45] As with the other cases of this chapter, the positive changes in Argentina were partly a result of the challenges and problems brought by globalization, and the attempt to gain or regain international competitiveness. In contrast to the literature's gloomy portrayal of "little change in the labor area" in terms of reforming the labor legislation or reducing the centralization of collective bargaining, Natalicchio actually found a rich variety of changes–constituting a "parallel system of labor relations" that was evolving in a variety of important sectors, and along two different institutional paths. The first involved civil contract law, outside the formal legislation that traditionally regulates employment relations and in sectors as varied as chemicals, metal-mechanic, retail, and banking. The second involved the institution of collective bargaining and its decentralization in the textile and automobile sectors, as well as the privatized sectors of water, electricity, oil, gas and transport (trains and subways).

In framing her findings, Natalicchio pointed to the mismatch of the empirical reality she found with the literature on this subject for Argentina. The following section represents my own attempt to analyze some cases in greater depth so as to provide a more faithful representation of what empirical reality looks like "under the radar."

II - Labor and fruit exports in Northeast Brazil: two interlinked cases

In themselves, the three sketches above give us a glimpse of the variety of settings and sectors in which labor-management institutions have evolved in a way that could be positive for workers *and* firms a the same time. These cases, however, would require more probing in order to throw more light on the questions being raised here. This section attempts to understand better the dynamics that could drive such outcomes by delving into the history of two related cases of fruit-exporting clusters with large workforces in Brazil's poor Northeast. This region of nine states has almost 50 million people–28% of Brazil's population–with per-capita income and social indicators of roughly one-half that of the rest of the country. (The aforementioned Franca case is located, in contrast, in the country's richest region in the state of São Paulo.) The cases are (1) the Petrolina-Juazeiro region (mango and grape exports) straddling the states of Pernambuco and Bahia (PJ); and (2) the Mossoró-Açu region (MA) in the state of Rio Grande do Norte (melon exports), both in Brazil's poor Northeast–as distinct from the more developed region where the aforementioned Franca leather-goods cluster is located. Two excellent doctoral dissertations on these cases by Octavio Damiani (PJ) and Raquel Gomes (MA, PJ, and a third cluster), provide an excellent empirical basis for illuminating the labor issues as an integral part of the larger story of upgrading and increased competitiveness in international markets. The rendering that follows relies also on my own fieldwork in the Northeast, partly with Damiani and Gomes, and their generous e-mail exchanges with me during the drafting of this chapter.[46] I start with Petrolina-Juazeiro, because it is the larger of the two, has a longer history, and in certain ways preceded Mossoró-Açu.

Petrolina-Juazeiro (PJ). Over the last two decades, the Petrolina-Juazeiro region has become Brazil's major exporter of irrigated fruits (grapes and mangos) to European and U.S. markets, as well marketing a wider variety of fruits to Brazil's large domestic market. Over the past three-to-four decades, irrigated fruit production by commercial growers and peasant farmers in the region has fueled considerable economic growth, contributing to a doubling of the agricultural labor force in the region from 1970 to 1995–from 59,000 to 119,000–and a more than fivefold increase in the percentage of the agricultural labor force working in irrigated fruit and horticulture, from 6% in 1970 to 38% in 1995 (from 3,500 to 40,000).[47] Prior to the 1990s, there were no formal work contracts or social insurance, work conditions were harsh, and wages were less than the minimum.

By the mid-1990s, a major improvement in the conditions of the 40,000 workers in PJ's irrigated-fruit sector had taken place. Whereas previously, virtually all of the agricultural workforce was temporary (99% in 1970), as is typical in this sector, the temporary share had fallen dramatically by 1995 from 99% to 40%, with the remaining 60% of workers being permanent. This attracted rural-union organizers, since permanent workers are easier to organize than temporary and/or migrant workers. The result, within three years, was a permanent system of collective bargaining and outcomes that included minimum wage plus at least 10%, fringe benefits, safer transport conditions to-and-from the fields, and compliance with child-labor and health-and-safety regulations. The parties to the collective agreements were not individual growers, but the grower export association, VALEXPORT, and the state union federation, FETAPE, together with the unions in the covered municipalities. Remarkably, the agreements covered temporary as well as permanent workers, non-union as well as union members, and all workers in irrigated agriculture, not just those of the fruit-exporting growers. After these agreements began, all workers were registered at the local office of the Ministry of Labor.

This outcome was most directly the result of a state-level federation of rural workers' unions (FETAPE) with a long history of organizing workers on the sugar plantations that had dominated the wet and verdant coastal region for two centuries. Its organizing effort brought growers to the bargaining table without violent conflict and within only three years after a large and first strike action.[48] Equally important, the increased costs of the labor accords did not jeopardize the international competitiveness of PJ's fruit exporters. Production and exports grew robustly during this whole period, together with constant improvements in the quality and delivery capabilities increasingly demanded by global buyers. The fruits of labor organizing in this case, in other words, were compatible with–and perhaps even facilitated–the growth and upgrading of this fruit-producing export cluster.

What drove this surprising acceptance of collective bargaining in a sector and region where it rarely exists and is often strongly resisted, by government as well as business?

First was a market dynamic that included increasing demands from global buyers for better-quality fruit, together with supply-side technological adaptations by growers that made year-round planting and harvesting possible. The institutional encarnation of these grower-exporter concerns involved an association of fruit exporters in the region, VALEXPORT, the key actor that came to represent grower firms in the collective bargaining process.

Second, was a powerful central-government parastatal for the development of the PJ region–CODEVASF (the San-Francisco River Valley Basin Authority)–in addition to a policy of substantial tax credits, initiated in the 1960s, to firms from outside PJ initiating grower operations there. CODEVASF's founding in the late 1960s was inspired in part by the Tennessee Valley Authority in the U.S., and consciously modeled on it. As CODEVASP became a stronger presence in the Valley, its own interests–political, professional, and economic–lay in bringing benefits to as wide a range as possible of quite different, and sometimes conflicting, interest groups. This applied not only to growers *vs.* workers, but also to large commercial growers *vs.* small peasant farmers.

The *third* and more directly-driving force was a key institutional actor–the longstanding state-level labor-union federation representing rural workers–FETAPE (The Pernambuco Federation of Agricultural Workers). FETAPE was part of "federated" structure of municipal unions, state federations, and a central confederation in the country's capital. A final *fourth* and more directly-acting institutional driver was the Ministry of Labor and, particularly, its regional office in Recife, including its labor-inspection service. Because the PJ (and later) MA stories are long and complex, I relate only those details required to illuminate the labor outcomes as illustrations of the broader themes of this chapter. Because the market and state dynamics are intertwined in this story, they appear together in the following subsection. Similarly with the labor unions and labor-inspection services of the subsection following that.

Global demand, market response, and a little help from the state. The chronology of events that led up to the collective bargaining agreements between the grower association in PJ and the rural labor union in 1993 started at least two decades earlier, with the large public investments in irrigation of the San Francisco River Valley, and the new federal program of tax incentives to firms from outside. This affected the PJ labor outcomes in three sequential steps::

First, the irrigation investments made year-round cultivation of fruit possible for the first time in this semi-arid region which, in turn, made the choice by growers to hire a permanent *vs.* a temporary labor force less costly in relative terms: with irrigation, the typical slack periods and lower year-round demand for labor of rainfed-only agriculture–which had made a permanent workforce unnecessarily costly–would no longer exist.

Second, CODEVASF created and nurtured the now-independent grower-exporter association, VALEXPORT–for the purpose of continuous upgrading of quality, necessary to enter demanding export markets: large global buyers in the European, U.K. and U.S. markets of PJ's grapes and mangos increasingly pressured their grower-suppliers around the world for better-quality fruit, better post-harvest treatment, and a steadier and more reliable supply.

Third, and finally, the market-driven pressures for better quality and reliability combined with the possibility of year-round cropping made possible earlier by public investment in irrigation, translated into greater firm-level investment in worker training. This meant, in turn, a longer time period before new workers would reach their full productivity levels–up to three or more months, reducing worker productivity as well as increasing (training) costs for growers. Hence their reporting, in interviews, their need for workers with greater skill–a "better class" of worker who would simply not accept only temporary work. It was these kinds of market changes and labor-market considerations that set the stage for future grower acquiescence to paying the higher wages and benefits of the collective-bargaining accords. (These changes in relative labor costs as perceived by growers–permanent *vs.* temporary–are not peculiar to this case, or to the agricultural sector in general. The microeconomic-dynamics of the changes in the PJ case are well captured in a general economic concept of "the efficiency wage." This concept grew out of a conundrum posed by economists as to why firms would sometimes pay wages higher than the prevailing market wage required them to do.)[49]

Without the prior public investment in irrigation, then, the change in production techniques from seasonal to year-round would not have been possible. Just as significant, the increasing demands of global buyers for improved tending of the plants and post-harvest treatment made this significant change in the structure of production even more attractive to growers. The parastatal's accompanying "soft" investment in founding and supporting a strong grower association focused on upgrading and exporting–and encouraging ever-increasing independence of that body from the public sector–was as important as the "hard" irrigation infrastructure: it added to the possibility and the attraction of planting year-round and exporting to demanding global markets and, hence, of investing in a permanent workforce.[50] And finally, these developments made possible the creation of a collective body of fruit growers–VALEXPORT–that could later represent their interests sitting opposite a labor union on the other side of the bargaining table. It is this combination of forces that worked to make the advent of labor standards, better working conditions, and higher wages more tolerable to growers than before. The outcomes of these arrangements, in turn, were compatible with the ability of the growers to enter and compete in global markets, via a path that required constant upgrading.

The following section takes up the two final driving forces in this story–the labor-union federation and the labor-inspection service–which briefly introducing some relevant details from the second fruit-exporting case, Mossoró-Açu (MA).

Labor unions. It is tempting to close the explanation of PJ's positive labor outcomes at this point–the market dynamic appearing to be a compelling causal story.[51] The market dynamic identified above, moreover, is not inconsistent with various stories of globalization-driven upgrading in developing countries, albeit not usually including the labor piece of the dynamic, let alone positive outcomes for workers. In Brazil, in fact–where PJ's prominence as a fruit-exporting cluster has come to be a source of great pride and reporting, particularly to Northeasterners–a "market" explanation of this success is typical. Namely, the story is recounted (as MA is later) as a success of private-sector dynamism in a new policy environment of post-trade- and other economic liberalization. Partly for this reason, I came to understand fully the nature of these two labor-specific institutions in explaining the labor outcomes only after looking more carefully into the second fruit-exporting case–the MA melon-producing region. This subsection lays out that comparison briefly with just enough detail to illuminate better the way this set of institutions worked in both cases and across them–namely, a federated network of rural labor unions working in both states, and state-level offices of the Ministry of Labor, and supported by it.

First, a few words about the case of Mossoró-Açu. Two states to the north of PJ, the Mossoró-Açu region of the state of Rio Grande do Norte (RN) burst onto the scene as a large melon exporter and supplier to the domestic market in the early 1990s. By the early 2000s, MA was the largest exporter and second largest producer of melons in Brazil, employing 13,600 workers.[50] Also, and most important with respect to the labor focus here, MA–along with PJ–was one of three dynamic fruit-growing micro-regions in the Northeast that the labor confederation CONTAG had become interested in targeting in the late 1980s, as explained briefly.[51] MA growers accepted collective bargaining and worker protections at almost the same level as in PJ–minimum wage plus, formal labor contracts, certain health-and-safety requirements, and commitments against the use of child labor.[52]

At first glance, the differences between the two cases seem more striking than the similarities. This raised questions as to how PJ's changes in labor relations could have spread so rapidly to MA, and whether they actually did spread to MA rather than emerging *sui generis* ouf of that different environment. In MA, for example, the crop was annual instead of perennial, and there was no large accompanying change from a temporary to a permanent workforce throughout the upgrading period, which included a large portion of seasonally migrant labor (most from within the state). MA's melons were seemingly less demanding than PJ's perennials–requiring less careful tending (in post-harvest as well as production), less skilled labor, and less investment in training the workforce–particularly in contrast to grapes. In addition, public institutions were almost absent in the MA case, in contrast to their much greater presence in PJ.[53]

In MA, similarly, grower organizations were less active with respect to collective goods, and also less encompassing than in PJ's history, partly because melon production was dominated by three or four large and pioneering firms, in contrast to the less concentrated size distribution of firms in PJ. The less-concentrated size distribution of grower farms in PJ in itself was no doubt a partial result of CODEVASP's strong presence there–not just through the investments in irrigation, but in its strong support for associationalism among commercial growers focused on exporting and upgrading. State-supplied irrigation infrastructure in MA, moreover, represented a minor share–though not insignificant–of irrigation for the region's melon production. Irrigation was supplied privately by growers for the most part–initially with deep tubewells, then followed by shallow tubewells after the discovery of shallower underground water.[54]

My attempt to reconcile these differences with the similarity of the labor outcomes led me to look more closely at the story of the rural labor unions in both cases. This story, in turn, was at some points intertwined with that of the regional office of the Ministry of Labor in each state's capital city, including its labor-inspection service. I present the PJ piece of this history first, because of its stronger and longer prior history, and its imprint on the evolution of the MA labor story.

In both cases, the state federations of rural workers–FETAPE in Pernambuco and FETARN in Rio Grande do Norte–formed part of a federated and–by then–loosening corporatist system (municipal, state, and central), which included the peak confederation, CONTAG, in the country's capital, Brasília. (With increasing democratization in Brazil in the 1980s, this originally corporatist system show greater signs of flexibility, variation, and political loosening; federations and local unions varied in strength and pro-activeness from one state and *município* to the other, and through time.) In both cases, in turn, the federations collaborated with the state office of the Ministry of Labor, including its labor-inspection service.[55]

As early as the late 1980s, the attention of Pernambuco's FETAPE had been drawn to the growth of irrigation investment in the PJ region, the subsequent development of "modern" fruit production, and the transition from temporary to permanent labor.[56] As union leaders recounted, these developments transformed PJ from an unattractive target of organizing into an extremely attractive one–even though it was located at the western and opposite border of the state, more than an eight-hour drive from the capital-city, Recife, on the state's eastern coast, where the federation was headquartered. With PJ's new commercial growers and their large contingent of permanent workers "who did not disappear after the harvest," it was much easier for the union to to find workers together in one place for meetings and, just as significant, to be able to sustain the contact throughout the year. FETAPE leaders also liked the "more modern" mentality of the grower firms, many of which were from the more developed southeast of the country, with diversified enterprises. They had an avid interest in entering the rapidly globalizing markets for tropical fruits in the industrialized countries–starting with the U.S., U.K., and Europe. In contrast to the sugar firms of the coast where the federation was located and organized for many years–or to the less sophisticated farmers of the pre-irrigation PJ region–the federation expected that the new fruit-growing enterprises to be "more used to" labor unions. FETAPE wanted to ride this wave.

For FETAPE, the new organizing attraction of PJ marked a radical change in the federation's history of organizing workers in the traditional sugar-cane plantations of Pernambuco's, where the state's capital city lies and the federation is headquartered. Recife is located along a long and fertile coastal strip of land–the *zona da mata* (forested zone)–which extends both northward through the states of Paraíba and Rio Grande do Norte, and southward through Bahia. The good rainfill, the rolling topography, and fertile soils contrast with the semi-arid and drought-prone interior. For at least two centuries, this coastal region has been dominated by labor-intensive sugar-cane plantations and processing mills, giving rise early on to a traditional and politically powerful sugar-cane elite who lived in or close to the capital city. Starting in the second quarter of the 20th century and reaching well into the third quarter, FETAPE built its strength organizing the sugarcane workers of this zone.

By the late 1980s, the federation was concluding that little was to be gained from further organizing initiatives there. They saw the sugar-cane elite as entrenched and uninnovative, particularly in contrast to the emerging and much more "modern" fruit-producing growers in PJ.

By 1991, as a result, FETAPE started its newly-defined mission to re-focus its organizing on PJ instead by sending two leaders with salary to work in the then-sleepy rural union of Petrolina, providing other kinds of organizational help as well.

FETAPE's relation to the national-level rural-union confederation, CONTAG, was crucial to the federation's gains in PJ, starting with its change in strategic focus (as was the somewhat later decision of FETARN in RN state to focus on MA). Beginning in the 1980s, CONTAG strategized about shifting part of its organizing strategy to the newly developing areas of dynamic agriculture in the country–in addition to its continuing concern for small peasant farmers and agrarian reform. Located in the country's capital, CONTAG leaders perceived that PJ's and MA's evolving "modern" forms of agriculture represented examples of the government's new focus on export-oriented agriculture in general as key to the country's development and modernization. This contrasted with the earlier developmental focus of government policy on the manufacturing sector, and the earlier focus of CONTAG on "traditional" agriculture–whether land-scarce small farmers or landless workers on larger farms. In 1988, the confederation invited the federation presidents and other union leaders from across the country to come together at headquarters in Brasília–financing their trips–to strategize about the new initiative. At this meeting, CONTAG and the federations identified in particular three such newly dynamic areas in the backward nine-state Northeast region–PJ, the MA melon-producing region in Rio Grande do Norte, and the fruit-growing region of Barreiras in the western part of the state of Bahia.

By 1993, two years after starting its organizing campaign in PJ, FETAG's first mobilization of workers took place, including strikes at several large fruit-grower firms. In that very same year, the first collective agreement was signed. This was a remarkably short period compared to many histories of labor organizing. Just as remarkable was grower acquiescence, and without violence. One only need think of other such organizing campaigns among rural workers with considerably less success–such as that of the United Farm Workers in the horticulture fields of California over the past fifty years–to be impressed with this outcome.

The previous subsection, in sum, had pointed to market-driven considerations driving the ability of PJ's fruit growers to absorb higher labor costs. This subsection has shown how the three-tier federated structure of the union system, and the convening power and forward-looking strategizing of the confederation, contributed–embedding the state-level federations in a larger context of support and information-sharing. This structure gave FETAPE–and, later the RN federation, FETARN–the technical expertise about the sector and organizing, the political support, and the broad-based historical experience, to embark on an ultimately successful organizing strategy.

The stronger state federations, in turn, helped the weaker or latecomer federations in their network. FETAPE, for example, already had a supportive history with FETARN, from an earlier period in the 1980s when FETAPE drew on its long experience organizing sugar-cane workers in Pernambuco to help FETARN organize the sugar plantations in the *zona da mata* of that state. Toward the end of the 1980s, then, FETAPE found it perfectly natural to help its FETARN counterparts when the latter embarked on their own initiative to organize the melon workers of MA and seek collective bargaining contracts with the growers. The liveliness and strength of the network or of certain parts of it waxed and waned from one period to another–more activist and independent in one period and more coopted in another, for example, or more free of state repression in one period, and more subjugated in another. Even when dormant, then, the ongoing existence of this federated labor institution provided a structure within which any particular part might rise up from dormancy to action–often, seemingly easily. This is an important lesson to note, suggesting the high marginal impact to be gained with nurturing and support from the outside.

A second important institutional actor on the labor side was the Ministry of Labor and its regional offices with their labor-inspection services in Recife and Natal–to which we turn now.

Labor inspection services. The Ministry of Labor, with its regional offices and labor inspectors, represented another key institution in PJ and MA labor outcomes. Parallel to the labor-union system, this government institution's federated structure was also conducive to the building of networks and the exchange of experience, expertise, and information. Though this is a rather obvious and perhaps empty comparison, the recent strong focus of the development literature and policy advice on the benefits of decentralizing the financing and responsibilities of central government to local government has left these particular features of government functioning somewhat in the shadows.

Both the Pernambuco and Rio Grande do Norte regional labor offices adopted a considerably more effective model of monitoring firm violations throughout their states–called the "Grupo Rural"–that was shown to and urged upon them by the Ministry of Labor (ML) in Brasília. In the mid-1990s, the ML's director of labor inspection had convened a meeting in Brasília of its regional-office directors, explaining how the Grupo Rural worked: most significantly, it took the monitoring function from the municipalities where it had routinely operated, and placed it in the state office. This might seem counter-intuitive, especially in light of the arguments favoring decentralization of responsibilities to local governments. Locating the inspectors in municipal capitals closer to the firms, after all, would seem to make inspection visits to dispersed rural firms easier than from the further distance to headquarters in the state capital; a municipal base would also place labor inspectors closer on a daily basis to workers and others wanting to report violations, as well as embedding the inspector in the workings of local labor-market practices.

Past experience had shown the ML and state federations, however, that many of the municipally-based offices were often too weak to resist the pressures of local politicians, let alone important firms, against the reporting the violations. Directors of both regional labor offices mentioned the Brasília meeting–leading to their the subsequent adoption of the GR model and its "centralization" of the inspectors in the capital city–as crucial to certain gains they witnessed in compliance. As independent evidence of these gains, growers we interviewed in MA complained openly to interviewers about the vexing new presence of the labor inspectors, and the annoying improvements they had to make–like portable toilets for field workers, clean bathrooms in the packing plants, shade covers on the open vehicles used to transport workers to the fields to protect them from the near-equatorial sun, etc. (In response to our follow-up questions to some growers about whether their ability to compete in the market had been reduced as a result of these costs, they said "no"–sometimes reluctantly, or shrugged off the question in a way indicating "no".)

At least as important to the more effective monitoring of PJ's and MA's fruit growers was the help provided through an informal collaboration that developed between the inspectors and the state federation and, in some cases, the local-level unions. As in many other states of Brazil, Pernambuco's and Rio Grande do Norte's inspection service suffered from chronic lack of staff and of the vehicles and fuel necessary to make inspection visits. This crippled its ability to monitor–a common problem for labor inspectors, particularly in developing countries in less developed regions. Because of the necessity of making unannounced visits to firms, the transport difficulties were particularly undermining–especially in these cases of monitoring labor and health-and-safety compliance on or near farms that were located at considerable distances from the labor office and from each other. In many cases, the inspectors had no choice but to use public transportation, which often ended up in their "unannounced" visits being reported to firms beforehand with considerable notice. Or, they would seek rides with other agents better endowed with vehicles and whose jobs also required roaming the countryside vehicles–like agricultural-extension or rural-preventive-health workers–who happened to have a trip scheduled to that particular area *and* were sympathetic to the goal of compliance. All these constraints forced inspectors to make fewer inspection visits or none at all.

In light of these seemingly insuperable obstacles, the informal collaboration between the two state federations and the labor inspectors was key to improving compliance. For example, FETAPE dedicated the significant increase in its revenues from the PJ organizing drive in the late 1980s and early '90s to purchasing vehicles for its staff members to visit PJ grower farms in their far-flung locations. Informally, FETAPE staff offered to coordinate these visits with those on the agenda of the labor inspectors seeking rides. With the new revenues from organizing, in addition, FETAPE itself was able to form its own permanent monitoring team, contracting a number of union leaders for that purpose, and making weekly visits to growers, with an average of two firms visited per day. Because these meetings and other encounters with workers gave the union a sense of which firms were most out of compliance, it passed this information on to the labor inspectors. This enabled the inspection service to more efficiently plan their inspection visits, and to target the worst violators and increase the spillover effects of any particular inspection visit in an area. The union's site visits also played a direct role in educating workers about the rule of law at or near their place of work–disseminating information about worker rights as protected by the law through published materials, radio talks, and meetings with workers at large firms.

The particulars of this informal collaboration, then, clearly contributed to increasing the efficacy of the inspection service's monitoring task and, ultimately to the gains for workers made in the PJ and MA stories. In general, such mutual support between field workers of unions and labor-inspection services in other places and other time is probably not that unusual, at least in verbal accountings. Also, this kind of informal collaboration between field workers can be found among field workers of different public agencies, and even between the latter and the field workers of nongovernment organizations (NGOs). It often goes unchronicled as well. In the case of cooperation among field workers of different public agencies, this results partly because the the managers of these agencies–whether strong or weak–usually gives low priority to inter-agency collaboration, for various reasons. As a result, "the lack of inter-agency collaboration" plagues projects and programs set up to depend on it, and is so often named to be the culprit in evaluations of troubled programs, that it has come to look like boilerplate. With respect to the unchronicled collaboration in the field between public agencies and NGOs, agency managers are usually committed to a public discourse that denigrates the other: NGOs say they do better than the public sector and are free of its defects, and public agencies say NGOs are technically unskilled and inexperienced, and bask in the luxury of a scale of operations that is too small to be of relevance to public-sector mandates. The informal mutual support of labor inspectors and union organizers is paid even less attention. Indeed, it is often portrayed by observers in a negative light. The next subsection turns to this matter.

Capture, cooptation, and corporatism? Why call attention to a story about informal and mutual assistance between labor inspectors and labor unions? *First*, there is remarkably little interest in studying labor-inspection services and their efficacy. *Second*, though some observers who have noted this synergy consider it a bad sign, not a good one.

Histories of improved service provision by public agencies in general often reveal a period of interaction with concerned outside institutional actors–not just collaborative, but also filled with demands and bursts of tension. Typical examples are the associations of the intended beneficiaries of improved service–like small-farmer associations, organized beneficiaries of welfare services, parent-teacher associations; or, the non-membership organizations representing the organizations, like nonprofit organizations. This is especially the case of public services that rely on "street-level bureaucrats"–in addition to labor inspectors, environmental inspectors, prosecutors and their staffs, preventive health workers, forest-protection workers, agricultural extension agents, and the like. In fact, SLBs tend to typify public services meant to reach poorer clients or protect them from exploitation. As explained in Lipsky's seminal text on SLBs–he invented the term–they perform much of their work outside the office, are partly dependent on their outsider-clients and their organizations for information, support, and benefit from outsider demands to strengthen the service.

A ready example from this chapter is the case of the Nigerian textile unions presented earlier. The Nigerian union, that is, demanded more regulatory accountability from the state, pushing it to develop its own capacity to regulate labor-management relations. The authors characterized this pressure on the government by the textile unions as a "disciplining" of the state "from below." This expression, actually, is a variation on the theme of the role of "voice" and other "demand-driven" pressures from clients and beneficiaries of public services as key drivers of improvement in public service delivery–now considered as a *sine qua non* in the international development community of how to improve service delivery. But labor unions usually are nowhere to be found in this cast of healthily complaining characters demanding accountability from outside the state. This partly explains why the literature on improving public-sector governance and on human rights has paid little attention to labor-inspection services.

A quite different reason for this neglect has to do with the kinds of topics that spark the interest of development researchers. The mundane daily interactions of labor inspectors with unions at the local level–or for that matter, of any other street-level bureaucrat–do not exactly set off this kind of spark. With respect to development researchers interested in labor issues in particular, the subject of labor unions as SLBs are often crowded out by the more professionally appealing macro-level research on labor and labor reforms or on the microeconomics of firm decisions about workers, and worker decisions about participating in the labor market. To researchers of street-level bureaucracies in the public sector (SLBs) and their counterparts studying "front-line workers" in large firms (FLWs)–often sociologists of organizations–the daily work lives of public-sector labor inspectors represents a rich trove of material. Indeed, this is exactly what has drawn the attention of the labor economist, Michael Piore, who has studied in particular the Mexican and French labor-inspection services. Piore, however, is an exception.[57]

The analytics of SLBs and their discretion over their work, then, are not the lens through which labor regulation is usually examined in the development field. Though the SLB literature has grown apace since's Lipsky's seminal work of that title on U.S. public-sector workers in the 1980s, the literature on improved governance in developing countries has not really drawn on this literature for policy lessons. This may have to do with a greater preoccupation with reducing the size of the public-sector bureaucracy, and solving part of the problem by devolving power and responsibility to lower levels, or to firms or nonprofit providers in "partnerships" across the public-private/nonprofit divide. Whatever the explanation, the labor-inspection services of these cases deserve more attention, because as public regulatory agencies, they are usually weak and underfunded. Yet their purpose is central to the current development agenda–namely, institutionalizing "the rule of law" by, in this example, building the capacity of weak public regulatory agencies to serve workers better–as well as firms and the broader public good.

The second reason for the relative obscurity of labor-inspection services as a subject of interest that many observers view the interactions chronicled here between labor-inspection services and labor unions as unsavory–namely, as "capture" or "cooptation" by unions of inspection services, as "corporatist" relations between state and labor or, simply, as a too cozy relationship for comfort. Indeed, this kind of mutual support can indeed sully the labor inspector's dual role as teacher of as well as enforcer to firms–and hence jeoparidizng the credibility of the inspector's attempt to convince firm owners of the wisdom of compliance. (Others observers see this synergy as a larger story of corporatist capture and cooptation *of* unions by the state.)

In many cases–including those presented here–the mutual support may indeed include ingredients of capture, cooptation, or corporatism. But whether or not these undesirables exist in any particular case, this does not preclude their co-existence with positive outcomes. Indeed, this mixture of undesirable and desirable has been frequent in the histories of modernization of weak regulatory institutions in labor–let alone in other regulatory realms like environmental regulation. Though such a mix may not be the ideal or first-best path to increasing government's capacity to regulate, monitor and generally strengthen the rule of law, in other words, it has proven to be historically an important driver of such improvement.[58]

In sum, the federated networks on labor unions in Latin America and elsewhere are commonly portrayed in a negative light–as "corporatist"–rather than negative *and* positive. To dismiss these institutions as "corporatist–and then equate corporatism with something bad–is to miss the kinds of positive developments illustrated in this chapter. The mistake inheres in *not* discerning the wide variation on the ground among unions–between and within countries, between the peak union federation and its locals, and from one local union to another. The cases that are indeed corporatist, moreover, are often evolving toward looser versions. To characterize such combinations of positive and negative traits as dominantly negative is to miss the variety to be found in the increasingly looser versions of corporatism that do not fit the stereotype. As the Brazilian cases show, it was the *federated* nature of the institution that contributed to the gains made for workers, whether or not they were corporatist.

Not all federated structures, moreover, are corporatist, captured, or coopted. This means that positive developments that arose out of federated structures are sometimes not given their due credit. The most famous example is the "grass-roots democracy" of U.S. history as hailed originally by de Toqueville, and proclaimed as a cornerstone of the history of American democracy to this day. Theda Skocpol–in her exhaustive historical research on civic associations in the United States over the last three centuries–found that many of these "grassroots" local groups were actually part and parcel of a federated structure that was in no way only "bottom-up." They were, in other words, the local piece of a federated structure that paralleled that of government, with local, state, and central-level counterparts. In fact, it was Skocpol's findings–from a time without corporatism, and involving organizations that were not labor unions–that helped me to better discern the institutional dynamics behind the labor gains in the Brazilian fruit-cluster cases. Bringing cases like these to public light, so as to make them more concretely imaginable to countries in which they are taking place, and to their governments that are struggling to improve the rule of law.

III - Going global: out of sight, out of mind

Why are these kinds of the cases, and the lessons to be learned from them, not of more interest to the development community? Aside from ideological factors, two possible explanations come to mind**.** First, the absence of local or national labor unions in the donors' poverty-reducing scenarios has been matched by a growing enthusiasm for non-union international actors as the standard-bearers on this issue–particularly the human-rights NGOs. As with NGOs in general, the international NGOs are viewed as responsible, sincere, and high-minded in the campaign to protect workers from abuse, such as in the plants or subcontractors of multinational brand-name firms like Nike, Adidas, or The Gap.[59] The portrayal of labor-union behavior in any particular country, in contrast, is seen as just the opposite: self-interested and corrupt, burly and obstreperous, and sullied by political-party connections.

The international human-rights campaigns regarding labor and other practices are making significant contributions to raising international consciousness around labor (and environmental) concerns, as is the longstanding work of the International Labor Organization (ILO). But the sympathetic attention bestowed on these international actors in contrast to national actors–and on Northern actors rather than within-country labor organizations–has inadvertently helped to strengthen those fractions of the business community within developing countries that have typically opposed the rights of workers to organize and other worker protections. The international and Northern venue of the standards debate, that is, enables these fractions to cloak their arguments against labor organizing in the mantle of "anti-North" nationalism: "foreign" norms are being "imposed" by, yet again, the more developed "North"–and with purpose of "protecting" Northern markets. Whether or not these allegations are correct in any particular case, this does not deny the importance of worker rights and protections as a central theme of the poverty-reducing agenda. If anything, this war of words about standards speaks to the importance of having this debate take place *within* countries, rather than between North and South. The same applies to the task of building institutions within countries to mediate the conflict between labor and capital.

Recently, a handful of scholars in the legal-institutions field has pointed to the importance of such within-country debates historically in the evolution of healthy legal institutions and, hence, the rule of law. They have been exploring the question of how the "right" legal institutions come into being, against the backdrop of today's concern about how to "help" developing countries adopt and develop such institutions. Drawing on histories of legal institutions in the developed as well as developing countries, these researchers have found that the more enduring legal institutions emerged out of long periods of debate within countries, and the compromises made among differing contending groups–rather than from those countries where legal institutions were "transplanted" from other places.[60]

Ironically, then, the shifting of the worker-rights agenda to the international arena, and its concomitant de-fanging of the "old" and national labor-union agenda by an international world of fresh, young human-rights and fair-trade NGOs–has inadvertently emboldened the *anti*-labor-rights position within developing countries. This also places the donor world in the same camp, unintentionally, with the least progressive business elites in many poor countries. More importantly, the indifference to institutions that represent or protect workers'rights within countries, and the repeated portrayal of them as compromising the poverty-reducing agenda as well as the growth agenda, does a disservice to the cause of building the institutions of conflict mediation that are necessary to both the poverty-reducing and economic-development projects.

A second and final explanation for the lack of constructive attention paid to the matter of labor institutions in developing countries is the oft-noted fact that formal-sector employment is declining steadily as the informal sector becomes an ever-increasing share of employment. Correspondingly, the share of unionized labor in the workplace has also declined over the last decades, though there are important exceptions in the service sector, such as banks and in public-sector unions. Formal-sector employment and labor unions, it is often concluded from these trends, are simply no longer "where it's at." This is not to deny the significance of informal-sector labor and firms, nor the decline of formal-sector unions and other worker associations in many countries. But part of this weakening of worker organizing is a result of the economic crises and adjustment policies of the past two decades, and their accompanying unemployment problems. These social costs, in turn, have generated compensatory social-policy measures by donors and governments, some of which are particularly "blunt instruments" of the "residual" safety nets, noted earlier in this chapter. More importantly, the decline of labor unions itself has been exacerbated by the sustained portrayal of them as contributing to poverty, rather than as an important potential ally in bringing about its reduction. In this sense, declaring labor unions and the formal sector to be "not where it's at" also works to bring about this very turn of events.

In some ways, it is the ultimate irony that whereas business interests were often portrayed earlier as "the bad guys" with respect to the fate of proposed reforms meant to reduce poverty and unemployment, the bad-guy role is now assigned by today's development discourse to labor unions. Business, in turn, has now been transformed into the happy camper of this vision. Witness, for example, the wave of interest in and studies of public-private partnerships, with business elites often speaking for the good of "the community" in various decentralized programs. Reflecting and also contributing to this turn of events, the scholarly literature on business associations in economic development has proliferated, while that on labor unions in developing countries is hard to find, except in the specialized field of "labor studies"–which is pretty much out of sight of the international development world. This despite the fact that anyone who looks into this murky area in developing countries runs across enough cases of gains from labor organizing and non-conflictual outcomes–like those of this chapter–to provide substantial raw material for drawing a set of policy-relevant lessons across these cases.

By envisioning a project of employment creation and poverty reduction in which labor unions and other worker associations are the bad guys, in sum, we ignore at our peril important social and political institutions that will advance that project. Though labor unions are often portrayed as tainted by their "political" involvements, moreover, the poverty-reducing project is, indeed, a highly political and national one–as history shows us. But much of the thinking about poverty reduction in the international development community takes place beyond national borders in international fora, and is often rather technocratic in excluding such forces as key variables in determining outcomes. All this adds up to a serious lapse in thinking about building sustainable institutions *within* countries for protecting worker rights.

No matter how hard we work to dream up a better approach to reducing poverty, the task is being made more difficult by allowing the subject of labor organizing and workplace conditions within countries to remain in oblivion. This state of affairs has been fed by the hope that the problem of decent work will somehow resolve itself naturally through growth, or the view that the informal sector is now the main stage where the poverty-reducing drama will unfold. The opportunity is also being missed to bring in a scarce ally on the domestic scene to stand behind the poverty-reducing agenda, and to build essential institutions for the mediation of the generic conflict between management and workers. In turn, the opportunity to link support for labor standards with concerns about increased competitiveness is being missed, because of the often mistaken conviction of governments that their comparative advantage lies in cheap labor, and that anything that improves labor conditions will jeopardize that. It does not necessarily have to be that way–as seen in some of the cases above, where improved competitiveness and better worker conditions were inextricably intertwined. Collective institutions of labor *and* business, no matter how flawed, were crucial to bringing those positive-sum outcomes about.

It is important to clarify further the significance of the fact that the gains to labor in these varied cases did not come at the cost of industry competitiveness in international markets, and that institutions evolved to mediate the conflict between labor and management. This is because governments and their technicians–whether central or local–fear that any gains to workers will come at the cost of competitiveness and hence spoil the economic-development project, particularly in today's trade-liberalized world. Reinforcing the fear, public officials and technicians often lack knowledge of the potential link between high-performance practices in the workplace and improved competitiveness, of how to go about supporting such changes in local economies, or of how to support the growth of institutions that manage the generic conflict between workers and employers. Not knowing what else to do, and fearing labor conflict that will scare outsider firms away and lose the support of local business elites, many governments operate from the fallback position that they must protect–at all costs–their region's or country's "cheap-labor advantage." This means that they are gun-shy about increased worker protections and even promise to weaken existing ones–as has happened in places as different as some of the states of Northeastern Brazil and the Southern states of the United States.[61] In so doing, and in counting so heavily on cheap labor as economic-development policy, they are also in many cases foregoing the sustained growth and job creation that they imagine they are gaining.

Obviously, the market changes that spur business upgrading will not always be positive in terms of worker rights and protections and the poverty-reducing agenda generally. As in the examples of this paper, advances in labor relations may be limited to certain sectors, firms, or time periods. But these are precisely the circumstances that need to be understood, and the universe of cases that needs to be explored. To do so, requires asking, for example, why and how was major conflict avoided in these cases and others like them? Why in these cases did increased wages or collective bargaining *not* lead to a loss of competitiveness in foreign markets but, rather, to upgrading and improved competitiveness? Whether or not these kinds of cases are a minority or even exceptions, they and others like them pose mysteries that need to be solved. They should serve as models for inspiration, for imitation, and for reducing the widespread fear among government officials and business that improved labor conditions and organizing will always open a pandora's box of spiraling labor costs. Understanding such cases will also reveal opportunities to advance the economic-development goal of upgrading and competitiveness by linking it to complementary "high-road" approaches to the workforce.

The point is not to argue that such outcomes are the norm, but to show that they are possible in the very countries where governments–from the central level on down–live in dread fear of doing anything that jeopardizes their cheap-labor "advantage." The examples of this paper–and others yet to be chronicled–should be drawn upon to help reduce the fear of increased labor costs that is uppermost in the minds of governments, let alone business.

Concluding, briefly

The bad news of this chapter, in sum, is that certain goals of the poverty-reducing agenda are being undermined by the very international donor community that invented that agenda and takes it dead seriously. The good news is that there are clear opportunities to do things somewhat differently, which are waiting to be plucked like low-hanging fruit. There are also real-world examples in various developing countries of how to proceed, waiting to be researched. I have sought to give a taste of those examples and how they might help us to think and act differently. They do not require radical transformation, but only some changes in current habits of thinking about how the world works, in accordance with the arguments and the evidence presented herein. They build on raw materials that often exist already in developing countries, as well as a fine tuning of attention already being paid to certain new approaches. And, consistent with the much-evolved current style of inquiry of the international donor community, they require looking at existing experiences with a slightly different eye and drawing a set of practical conclusions on how to proceed.

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[For a related publication of the ILO on decent work, see:
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2.SIFs are a large sub-category of CBD/CDD projects–a broader and more recent category of demand-driven, community-based project–their percentage share being difficult to determine from World-Bank records. There are several names used for the social funds–including Social Funds (perhaps the most general category), and Social Emergency Funds (applying to temporary emergencies caused by natural or man-made disasters). I use the acronym SIFs (Social Investment Funds), rather than the looser characterization as Social Funds, partly because SIFs have become much more prominent in the current portfolio of social-fund projects, and partly so as to avoid confusion with the acronym commonly used for small firms (SFs), including in the third section of this chapter.

3.The World-Bank figure is from Mansuri and Rao (2004).

4.See the following for clearly *pro* or *con* arguments and evidence. For the *pro* view, the best source and the most extensive set of studies can be found on the World Bank's web site and the publications listed therein. For a concise *pro*-and-*con* set of arguments from within the World Bank, see van Domelen (*pro*) and Dellerman (*con*) at: www.worldbank.org/publicsector/civilservice/acrext/vol1page1.htm. For the *con* view, see Cornia (1999, 2001), Cornia & Reddy (2001), Stewart & van den Geest (1995), Tendler (2000a), Tendler with Serrano (1999). For clearly mixed reviews, see IDB (Inter-American Development Bank)(1997), and the evaluation of the SIFs by the World Bank's Operations Evaluation Department (World Bank 2002). A more recent review by of the CBB/CDD projects by World Bank economists Mansuri and Rao (2004) is quite skeptical (see next footnote). Many thanks to Vijayendra Rao for e-mail clarifications on this paper.

5.The authors reported finding some evidence, nevertheless, that such projects "create effective community infrastructure" (Mansuri and Rao [2004], p. 1/abstract).

6.With respect to insignificant impacts on reducing poverty and unemployment, see, for example, (1) the chapter on the subject in the Inter-American Development Bank assessment of SIFs by Goodman, Morley, Siri, and Zuckerman (1997); (2) the comparison of SIF impacts on reducing unemployment as compared to longer-standing traditional public-works employment schemes (Cornia 1999, 2001; Cornia and Reddy 2001), and Stewart and van den Geest (1995); and (3) the recent assessment of the World Bank's Operation Evaluations Department of Social Funds (WB 2002).

[0]Serrano (1996). Serrano sat in on several local meetings where decisions were made about choice of project, and interviewed participants at these meetings, as well as consulting firms that prepared the design for the community, and government technicians.

8.Lowi's 1964 article on "distributive" programs in the U.S. is the classic that introduced this term in the literature, to characterize programs that had something for everyone, or at least did not take away from some to give to others. He contrasted their greater political appeal and acceptance to those of "redistributive" programs, which clearly took from some (land, taxes) in order to give to others.

9.For a set of country economic development studies examining the antecedents of certain export successes, see Helleiner (1995b; also, 1995a). For a case study of Chile related to successful small-and-medium-firm export clusters, see Perez-Aleman (2002). Bruton's 1998 article also presents a balanced retrospective on the ISI experience.

10.See Tendler (2000b, 2002) and the sources cited therein, including on the experience in the U.S. South, the part of the country where industrial recruitment has always been the greatest.

11.An example of the first and second outcomes can be found in Schmitz (1998), with respect to the Sinos Valley shoe-exporting cluster in southern Brazil; an example of the third can be found in Barnes and Kaplinsky (2000), with respect to the auto-parts industry in South Africa–and in Dohnert (2002) with respect to the privatized Venezuelan steel producer and its initial rejection of procurement from the local metal-mechanic sector.

12.I take these terms from the work of Gordon Hanson and colleagues, who have reviewed the litearture on this subject (Hanson 2001), and also attempted to measure in certain country cases the net effect of investment by outsider firms in terms of local firms and employment lost *vs.* created.

13.The portrayal of the outsider firm as a transformational engine of development was common in the language of the "old" industrial policy of the ISI period–at least in that part of ISI that tried to lure outsider firms to locate within the protections of high tariff walls while, at the same time, promising tariff relief for these firms' imports of crucial inputs. There is, however, an important difference. In the ISI period, a set of complementary policies obligated outsider firms to procure a certain percentage (often increasing through time) of their inputs from local firms, particularly machinery (e.g., Mexico's local-content laws and Brazil's Law of Similars). In addition, and without much expenditure, public institutions often brokered the forging of these customer-supplier relationships, while providing technical assistance to the local firms in upgrading their product to meet the demands of the buyer firms for improved quality and reliability. This kind of support is similar, as noted in the text, to the current recommendations that have emerged from the cluster literature.

14.I have written about these fears at greater length, discussed some of the reasons that outsider firms are actually willing to grant concessions, and explored other aspects of implicit industrial policy and the conditions under which some outside firms tend to have more positive spillover effects than others. My findings were based on interviews with firm managers and owners, and local government officials–as well as on the literature of the U.S. South in the 20th century, and the FDI literature in general (Tendler 2000b, 2001, 2002).

15.The non-payment of taxes in this region has been no secret in Brazil. A national news magazine reported—in an article on the dynamism of the cluster entitled, "Taxes not paid here"–that "this [cluster] wouldn't even exist if firm owners had to pay taxes." The chief the state of Pernambuco's Treasury Department, in turn, said that the taxes collected there did "not even represent 1% of what could be collected" (Furtado, 2001).

16.These complaints were made by several participants at a two-day workshop in Brasília in August of 2003, convened to explain the government's new initiative to support SME clusters in accordance with the latest wisdoms on the subject. The word "unravel" is my translation of the Portuguese word "desestruturar," and of the characterization of such undesirable outcomes as "desestruturantes."

[0]With apologies to today's cluster specialists, I will use the word "cluster" throughout more loosely than it is sometimes defined, partly for lack of a better single word and to avoid the more ponderous "agglomeration." In its more carefully-defined form, a small-firm "cluster" usually means a set of small firms located close together geographically with significant inter-firm relations among them, with an at-least evolving associational dynamic, and

usually some history of success in growing, and in improving efficiency and productivity; in more recent definitions, other parts of the supply chain to which those firms belong also have to be present to qualify as a "cluster." In reality, the firms that make up a cluster are characterized less by their size than by the space they occupy together, and the fact that they produce the same product, or products in the same value chain. This rather imprecise use of the word cluster, though common in the policy discussions and practical manuals on how to support "small-firm" clusters, hence excludes important actors in or around them. I nevertheless use this sloppier term in the text, not only for the purpose of brevity, but because it is consistent with the language used by the international development community in describing and justifying the kinds of policy objectives and programs discussed in this

18.There are some exceptions, though they tend to come from outside the small-firm literature, involving country studies by political scientists; some take place in the now-industrialized countries. For example, Cross (1998) actually narrates an analogous deal between the Mexico-city government and well-organized (informally) street vendors; he documents how continued informality in this case was central to the government's willingness to support the vendors' organizing efforts, and to negotiate a series of their demands. In a study of taxation in Zambia, Rakner (2001) notes that the government "may have refrained from broadening its tax base to include the emerging informal business sector in order not to jeopardize its support among the Owambo-speaking majority." Italian political scientists studying Italy's postwar period have pointed explicitly to the importance of "[c]lientelist generosity–in the form of regulation to protect small business, a lax approach to tax collection for the self-employed, and so on–was systematically directed at these groups" (Hopkin and Mastropaolo 2001). Suzanne Berger's work on this same subject in Italy and France is cited in the following note. For an interpretation of small-firm politics in the U.S. economy as affecting viewpoints and policies, see Brown, Hamilton, and Medoff (1990).

19.Using the small-firm sector to maintain employment and the social peace is not unique to the current period, or to less-developed countries. In work on the political economy of industrial policy in France and Italy, published more than 20 years ago, the political scientist Suzanne Berger (1980, 1981) explicitly linked the pro-SF programs and regulations that developed in France and Italy during the 1970s to the simultaneous pursuit of a *large-firm* industrialization strategy by those very same governments. She had posed the question of why two countries that had so explicitly pursued a large-firm modernization industrial policy could at the same time have enacted such pro-SF legislation and assistance. It is from her work that I take the term, "keeping the social peace."

20.I thank Alberto Criscuolo and Nichola Lowe for pointing out these possibilities to me–based on their research on, respectively, the early history of the Third-Italy cluster of Emilio Romagna, and more recent developments in a case from the Mexican state of Jalisco (Criscuolo 2003, and Lowe 2003).

21.As the cluster literature shows, most small-firm clusters are a mixture of small and medium firms. The recent cluster literature recognizes this by referring to them as SME clusters (small- and medium-firm), though they are nevertheless often referred to in practice as "small-firm" clusters. In addition, many such clusters may have large-firms in their midst, if not at a distance–either as producers, buyers, or suppliers. More recently, the acronym MSE has also come into use with respect to programs targeting "micro" and small enterprises, suggesting a smaller size distribution of firms and less formality than MSEs.

22.For the German/Indian case, see Tewari and Pillai (2005); for the U.S./Pakistan case, see Nadvi (1999); and for El Salvador, see Pérez-Alemán (2000). Note that, in the U.S./Pakistan case, Nadvi comments that there was more cross-cluster success in improving the quality of the precision steel than with respect to labor and environmental standards (personal communication).

23.For the Andalucian case, see Michael Barzelay (2000). For the Brazilian case, I rely on an interview with Professor Luiz Miranda of the Economics Department of the Federal University of Rio Grande do Sul.

[0]These kinds of positive-sum 'deals' that are negotiated between governments and firm associations appealing for burden-reducing measures are sparked not only by lobbying of governments by small firms and their associations. In some cases, small-firm clusters have been benefitted by analogous deals struck between governments and *large* firms and firm associations–in which governments granted the burden-reducing subsidies requested by the large-firm

associations only on condition that they be accompanied by support to small firms and their associations in the same value chain. Dohnert (1999) recounts a history remarkably similar in its dynamics to the Brazilian footwear case in the text. In the early 1980s, large garment firms in the Brazilian state of Ceará–now a major SME garment cluster in the country–approached the governor asking for burden-reducing relief for a crisis of over-capacity, caused by market conditions and a previous over-expansion fueled by large public subsidies. The governor agreed to provide assistance for their participation in a national and international trade fair in the country, but only on condition that the large-firm association extend this assistance to SMEs, enabling them to design and mount their own stand at the trade fair, as well as financing their travel and lodging costs. Dohnert refers to this part of the history, among other factors, in explaining the current vibrancy of the Ceará SME garment cluster today. She also alludes to this kind of deal-making around burden-reducing requests from large firms as helping to explain why the Ceará cluster was characterized by a significantly larger degree of formality among small firms, as contrast to the famously non-tax-paying garment cluster in the state of Pernambuco referred to earlier.

25.As Criscuolo (2002) points out, and as noted earlier, this history revealed a coexistence of incentives for small firms to formalize and upgrade together with the lobbying for the more classic burden-reducing approaches.

26.I borrow the phrase "under the radar" from the text of Marcela Natalicchio's case study of Argentina (2004, 2006 forthcoming), which is also one of the cases used in this section.

27.The expression "decent work" was introduced officially in 1999 by the new Director General of the International Labor Organization, Juan Somavia (ILO 1999). It was meant to include productive work under conditions of freedom, equity, security, and dignity, in which rights are protected and adequate remuneration and social coverage are provided (p. 10).

28.Rodrik (1997, 1999). See also Messner (1997) and Schmitz (1998, 2001) for studies on the importance of these conflict-managing institutions in the ability of clusters of industrial districts to successfully cope with market crises and other challenges–not only in managing conflicts between workers and employers, but the generic conflict of interest between associations of buyers and suppliers in the same value chain.

29.See Schmitz (1998, 2001).

30.Maloney (1999, 2004), a World-Bank economist, explains this finding in terms of the behavior of large modern firms in trying to compensate for the illiteracy of the workforce. In more illiterate countries, that is, large firms compensate by investing *more* in training than in the literate countries and, in turn, have to pay their workers a higher "efficiency wage" in order to keep them from leaving, given that exit causes the firms to lose this investment in worker training. (The interest rate was the other important factor contributing to the gap.) My own interviews with firm owners and managers in Northeast Brazil (2002) were not inconsistent with this interpretation, in that managers consistently explained how they easily "got around" the low literacy of the workforce by providing firm-specific training.) In another example, and with respect to the claim that the minimum wage and its increases tends to reduce formal employment, a test of the impacts of the minimum wage on employment on employment in the U.S. context and with respect to low-skilled workers in New Jersey found no effects of the increases in the minimum wage studied–as reported in the *American Economic Review* by Card and Krueger (1994).

31.Kuruvilla and Mundell (1999:12). Their country case chapters were South Africa, India, Malaysia, the Commonwealth Caribbean, Mexico, and Hong Kong, with reference to some other countries as well.

32.Galli and Kucera (2004). The authors controlled for GDP per capita and some other variables. They suggest some caution in interpreting this association, suggesting that the causal relationship maybe dynamic and complex (p. 825).

33.[0]Natallichio (2004, 2006 forthcoming). She describes this macro-political literature as missing the under-the-radar innovation and change by first judging that no reform or advance has taken place, and then limiting the analysis to three points of "blockage" by labor institutions at the macro level–namely, the political strength of union movements to oppose reforms, the existence of veto points in labor institutions, and labor-based political parties (2004, p.1). She does not deny that such macro-political processes exist–only that they are an incomplete picture. The part they miss is crucial, since it is constructive, and suggests processes under which such reforms actually take place.

34.Beckman (2003, pp. 1, 11), which draws on Andrae and Beckman (1998).

35.The powerful metal-mechanic unions were particularly important in this struggle. They also went on to found the Workers' Party in the mid-1980s and, later in 2002, win the presidential elections.

36.This, not to mention the key role of the *rural* labor unions themselves in successfully pressuring to bring about legislation protecting the rights of tenants and agricultural workers, even during the military dictatorship–and in bringing successful challenges to the courts of employer violations of existing legislation. Though these unions were called "rural labor unions," they also included–and were usually led by–small landowning farmers. Their backing of agrarian reform and labor rights, then, was also not particularly "self-interested." Indeed, a powerful association of landowners resisting the reform–the União Democrática Rural (UDR)–pointed this out publicly to the small landholders who usually presided over the unions, repeatedly cautioning them that they would be the first to be expropriated under an agrarian reform. In response, and after a long period, the government explicitly raised the ceiling under which expropriation would not occur to reassure them and woo their support.

37.Tendler (1976). For those looking for self-interest, one could certainly hypothesize elements of it in this case. The union's backing of the kind of strong agrarian reform effort carried out by a populist military government in Honduras in the 1970s might have helped to increase the membership of the union at a time when membership could be foreseen as declining, in that the company was showing signs of withdrawing from production and remaining mainly in the marketing of bananas.

38.It is also common that labor unions and firm associations (or a few large influential firms in the sector) come together to lobby government. Though this is associated with self-interested causes–like protectionism in the U.S. and developing countries–it is often intertwined with a process of recommendations for improving sectoral efficiency. A striking example is the wooing of labor-union support by the Venezuelan steel-making complex in the Guayana region (SIDOR)–which was privatized in 1994–in order to present a united front in lobbying the government for temporary protection from steel imports in the face of a drop in the price of steel imports resulting from soft market conditions and the entry of cheaper producing countries into the international market, including Venezuela. Being a foreign company, it could not gain what it wanted without the support of the union. This somewhat forced marriage also resulted in the privatized SIDOR's reversing its decision to switch procurement of metal-mechanic inputs to its foreign suppliers, to the detriment of a large metal-mechanic cluster of small and medium firms that had grown up around the steel plant in the previous period. In Brazil, the Sectoral Chambers (*Câmaras Setoriais*) in the auto industry were formed by firm and worker *sindicatos* in the early- and mid-1990s for the purpose of jointly discussing and proposing measures to government for improving the situation of the industry (Arbix and Rodríguez-Pose 2001). The Sectoral Chambers have since passed out of existence for a variety of reasons, one of which was the federal government's growing distaste for the substantial power of such a labor-business alliance.

39.See, especially, Piore (1990 and 2004).

40.See Andrae and Beckman (1998), and Beckman (2000 and 2003). The Nigerian case as presented here relies on this case, and the expressions in quotes are from Beckman (2000). He also cautions that the story of the Nigerian textile sector is far from an unmitigated success. He points to the weakness of the Nigerian state in failing to provide the necessary water, power, and bother basic infrastructure to the sector–in addition to fiscal indiscipline and monetary policies that caused rampant inflation. This placed limits on the textile sector's gains noted in the text (pp. 16ff).

[0]See, e.g., Frost's study (2000) analyzing variation in the results of workplace restructuring based on two matched pairs of integrated steel-making sites at four plants in the United States. All four cases were unionized, with two showing positive results with respect to restructuring and market results, and two negative.

42.In addition to Rodrik's texts cited previously, Stiglitz explicitly includes labor unions in arguing for the strengthening of civil society (2002:166,171, as cited by Galli and Kucera [2004:811]).

43.Though Franca also exports footwear, the largest producing *and* exporting leather-goods cluster in Brazil is the Sinos-Valley cluster in southern Brazil. For the information on the Franca case, I draw on the study of labor relations in the leather-goods supply chain in Brazil by Noronha and Turchi (2000, 2002) and subsequent e-mail exchanges with both authors, and on SantAnna–I thank Richard Locke for drawing my attention to this report (2004, and an e-mail exchange in 2005).

44.There is some evidence that this initiative may have recently lost momentum.

45.This section is based on Natalicchio (2004 and her forthcoming 2006 dissertation), and several e-mail communications with her.

46.See Damiani (1999), plus his (2003) article on the labor piece of that case; and Gomes (2004), and her draft proposal on the labor story of that case (2001). Damiani and Gomes are not responsible for any interpretations herein with which they might not agree.

47.These figures also include irrigated horticulture production, which was a fraction of the workforce in irrigated fruit production.

48.With respect to the absence of conflict in the PJ case, it is interesting to note that the Petrolina-Juazeiro region, which straddles Brazil's San Francisco River Valley, marketed itself initially to its European and U.S. buyers as "the California of Brazil," as printed on the label of each piece of fruit. The "California" designation, of course, was meant to imply world-class modernity in agriculture. Ironically, the Brazilian "California" seemed to have achieved significantly greater advances in labor than those revealed in the history of organizing among the grape growers in the "real" California of the U.S.

49.The answer to the question lies in firms' concerns about keeping their better workers from leaving–as illustrated in the PJ case–which would cause the firms to lose–among other things–their investment in training, including the simple on-the-job learning required for a worker to get up to full productivity. The sectors from which the conceptual work was drawn were manufacturing and, later, services–rather than agriculture. A recent application of the higher-than-market-wage conundrum and it efficiency-wage explanation can be found in Maloney (1999, 2004), where he discovers and analyzes the phenomenon in some manufacturing sectors in Latin American countries. (Maloney's larger purpose is to present a different explanation than prevailing ones as to the gap between informal-sector and formal-sector wage gaps.)

50.Brazil's agricultural research parastatal, EMBRAPA,was also an important contributor from early on–developing seeds and root stock that would work well in the region's hot sun and closeness to the equator.

51.I thank Octavio Damiani's persistence in arguing convincingly that the story did not stop here, though he may or may not agree with the resulting account here.

50.MA exported 50% of its melon production. Data on the size of the melon workforce are estimated Gomes (2004) based on an average of three workers per-hectare and average annual area planted in melons in the 1998-2002 period of 4,545 hectares. Gomes' study compares three fruit-exporting clusters–in addition to MA, PJ and Santa Catarina apples. The material in this section draws on this study, as well as her 2001 research proposal and on recent e-mail exchanges between us–as well as my direct impressions from interviews with her during a field trip together in Rio Grande do Norte.

51.The third area was the Barreiras region in the west of the state of Bahia, an area of rapid growth of fruits, as well as grains.

52.PJ's labor standards and worker coverage were always better in certain ways than in MA.

53.This does not mean that subsidies to growers were not present–as they were in the form of working-capital and investment credit from parastatal banks at highly subsidizes rates, as well as highly subsidized electric-power rates charged by the state electricity parastatal (electric power for irrigation pumps could account for–after rates were raised in the late-1990s–roughly 30% of grower costs, larger than labor as a percent of total costs).

54.With the exception of the portion of melon production from the Açu region, which was supplied by canals built with state support from a federal-government dam built in an earlier period to regularize river flows.

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56.Prior to the development of the fruit cluster, rural workers were mainly family workers on small peasant plots and not wage workers; or, they were mainly temporary workers–and sometimes seasonal migrants–rather than permanent.

57.Piore has been particularly interested in how labor inspectors exercise their discretion–namely, how they decide to choose what to enforce from the myriad violations they see on the shopfloor when they visit firms–and how this affects the goals of labor inspection. Piore's research on this topic, however, is relatively unknown among those in the international development community writing about improving government performance. See his 2004 paper, and the excellent workshop he organized on this subject at M.I.T. in January of 2005.

58.Concerns about "capture" in developed countries usually refer to the greater power of the outside "capt*ors*" over the weak capt*ur*ed–as in the case of environmental agencies captured by the industry interests they are meant to regulate, or drug-industry regulators captured by the pharmaceutical companies, not to mention weak labor ministries captured or even headed by the business elites they are supposed to regulate–as has occurred in various developing countries. In our cases, neither the union nor the inspection service are necessarily that powerful at the state or local level relative to those who have created the problem being regulated–in this instance, the aggregate of firms violating health-and-safety and other worker-protecting regulations.

59.With respect to Nike, for example, see O'Rourke (1997, 2002); Greenhouse 2000, a *New York Times* article on O'Rourke's 2002 study); and Fung, O'Rourke, & Sabel (2001).

60.For example, Pistor (2002) and Berkowitz *et al.* (2001). I first became aware of this literature three or four years ago at a seminar presentation at M.I.T. by Katharina Pistor, and was struck with its parallel to the labor-management debates and compromises in developing countries. In these writings, Pistor and colleagues "show empirically that countries that transplant most or all of their formal legal system

61.For example, the state government in at least one of the Brazilian Northeast states introduced a bill in the state legislature–which it lobbied successfully to pass–that would exempt outsider firms from the labor legislation by allowing them to form "labor cooperatives." These cooperatives, in reality, were actually controlled by the firms, which under the new regulations could "contract" the cooperative as a contractor, hence freeing them of paying fringe benefits (which added roughly 60% to the wage bill) and of providing other workers protections. This weakening of labor protections was so roundly criticized by social movements and others in this case, that the government formally terminated it a few years later, albeit leaving the new regulation in place for existing outsider firms. A much better-known case of this weakening of labor protections to facilitate recruitment of outside (cont'd) industries comes from the economic history of the U.S. South. The Northeast example, as well as of the way comparative regional advantage is construed by local governments, are based on various interviews I conducted with government officials and business leaders in Brazil, as well as a reading of literature on the U.S. South in (cont'd) the (cont'd) 20th century and on foreign direct investment in general (Tendler 2000b, 2002).