

Dewey, Matías

Working Paper

Taxing the shadow: The political economy of sweatshops in La Salada, Argentina

MPIfG Discussion Paper, No. 14/18

Provided in Cooperation with:

Max Planck Institute for the Study of Societies (MPIfG), Cologne

Suggested Citation: Dewey, Matías (2014) : Taxing the shadow: The political economy of sweatshops in La Salada, Argentina, MPIfG Discussion Paper, No. 14/18, Max Planck Institute for the Study of Societies, Cologne

This Version is available at:

<https://hdl.handle.net/10419/104712>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

MAX-PLANCK-INSTITUT FÜR GESELLSCHAFTSFORSCHUNG
MAX PLANCK INSTITUTE FOR THE STUDY OF SOCIETIES



MPIfG Discussion Paper 14/18

Taxing the Shadow

The Political Economy of Sweatshops
in La Salada, Argentina

Matías Dewey



Matías Dewey
Taxing the Shadow: The Political Economy of Sweatshops in La Salada, Argentina

MPIfG Discussion Paper 14/18
Max-Planck-Institut für Gesellschaftsforschung, Köln
Max Planck Institute for the Study of Societies, Cologne
November 2014

MPIfG Discussion Paper
ISSN 0944-2073 (Print)
ISSN 1864-4325 (Internet)

© 2014 by the author

Matías Dewey is a research fellow at the Max Planck Institute for the Study of Societies.
dewey@mpifg.de

Downloads
www.mpifg.de
Go to *Publications / Discussion Papers*

Max-Planck-Institut für Gesellschaftsforschung
Max Planck Institute for the Study of Societies
Paulstr. 3 | 50676 Cologne | Germany
Tel. +49 221 2767-0
Fax +49 221 2767-555
www.mpifg.de
info@mpifg.de

Abstract

An effect of the informalization of production and distribution processes affecting the garment industry has been the spread of sweatshops in areas of industrial eclipse. Whilst the proliferation of these economies is usually analyzed as an outcome of sweeping macro trends, such as the “transformation of global capitalism,” the impact of domestic political decisions fostering an informal and illegal garment sector is less acknowledged. The present discussion paper focuses on informal arrangements that transform and reinforce such major forces at the local level. By alluding to shadow policies, this study sheds light on political actors who take advantage of the fact that some illegal economic activities are not morally contested and are considered to “preserve” jobs and “foster” consumption. Using data gathered in a six-month period of fieldwork in Buenos Aires, I demonstrate that the expansion of the La Salada market is the outcome of a well-established informal taxation system, a robust institutional framework that helps regulate the growing demand of clothes and jobs by low-income sectors of the population.

Zusammenfassung

Eine der Auswirkungen der Informalisierung von Produktions- und Distributionsprozessen auf die Bekleidungsindustrie ist die Verbreitung sogenannter Sweatshops – Niedriglohnbetriebe ohne Tarifvertragsrecht und Kündigungsschutz – in den Grauzonen der Wirtschaft. Während Forscher die starke Zunahme dieser Wirtschaftsformen üblicherweise als eine Folgeerscheinung weitreichender makroökonomischer Trends, wie etwa der „Transformation des globalen Kapitalismus“ betrachten, werden die Auswirkungen politischer Entscheidungen, die innerhalb eines Landes zugunsten eines informellen und illegalen Bekleidungssektors getroffen werden, seltener wahrgenommen. Im Mittelpunkt dieses Beitrags stehen informelle Absprachen, die makroökonomische Triebkräfte auf lokaler Ebene transformieren und verstärken. Die Studie untersucht solche schattenpolitischen Maßnahmen und betrachtet hierzu politische Akteure, die es sich zunutze machen, dass einige illegale Wirtschaftsaktivitäten nicht als moralisch verwerflich gelten und als „arbeitsplatzerhaltend“ und „konsumfördernd“ angesehen werden. Auf der Grundlage von Daten aus einer sechsmonatigen Feldstudie in Buenos Aires wird gezeigt, dass die Ausweitung des Marktes La Salada die Auswirkung eines fest etablierten informellen Besteuerungssystems ist: eines stabilen institutionellen Rahmens, der zur Regelung des wachsenden Bedarfs an Kleidung und Arbeitsplätze von einkommensschwachen Bevölkerungsschichten beiträgt.

Contents

1	Introduction	1
2	Regulating exchanges through shadow policies	4
3	The great metamorphosis of the Argentinian garment industry	6
	From the mid-1970s to the 1990s	7
	From the 1990s until 2002	8
	From 2002 until the present	9
4	The origin of La Salada	9
5	Taxing the shadow	12
	An informal taxation system	13
6	Reinforcing patterns in the garment industry	16
	Growth of informality in the garment sector	17
	Demand for informal financial sources	18
	Duality of production and consumption	19
7	Conclusion	23
	References	24

Taxing the Shadow: The Political Economy of Sweatshops in La Salada, Argentina

1 Introduction

The informalization of production and distribution processes has had a major impact on the garment industry during the last three decades. An additional side effect of the disjunction from state regulations has been the growth of counterfeit clothing. Both informalization and the spread of illicit practices have created a divide in the garment sector between two different standards of production and consumption. While this dualization of the garment industry is usually seen as an outcome of far-reaching political and economic macro trends, such as the “restructuring of global capitalism,” the impact of domestic political decisions that deliberately foster an informal and illegal garment sector is less known.

Previous studies have had little to say on how states promote the informal and illicit production and distribution of garments. The literature on sweatshops addresses the triggers for the current revival of sweatshops and emphasizes the paths opened by macrostructural drivers such as the intensification of global competition, the growth in international outsourcing, or the elimination of trade barriers (Bonacich 2000: 4ff; Esbenshade 2004: 13; Sluiter 2009; Adams 2002: 149). According to this view, macro processes can explain the strategic responses of entrepreneurs at the local level but also decisions made by thousands of immigrant low-skilled workers. This situation applies to Sao Paulo, New York, Los Angeles, and Buenos Aires, that is, cities with a historical position as fashion and garment centers, where companies specializing in high-end niche products co-exist with an economy fueled by small immigrant-owned garment factories and an ethnic labor force (Silva 2008; Hum 2003; Waldinger 1984; Buechler 2004). The literature focusing on the Argentinian garment industry also places an emphasis on macro drivers. In these studies, heterogeneity in the production chain and the informalization of the labor market are seen as adaptive strategies necessitated by the introduction of drastic market-oriented policies implemented since the mid-1970s and particularly during the 1990s (Kosacoff et al. 2004; Campos 2008; Di Bonis 2012; Coatz 2010; Tavošnanska 2010; Busso 2011; Arcos 2013; M. Kestelboim 2012; Lieutier 2009).

Although such a revival of sweatshop production implies an increase in clandestine activity, it is surprising to find – even when we assume the existence of powerful structural drivers - that the aforementioned approaches do not discuss in depth how the state and

I am indebted to Wolfgang Streeck, Philip Mader, Jens Beckert, Renate Mayntz, Annette Hübschle, Aldo Madariaga, María Silvia Abalo, and Felipe Tami for their helpful contributions to this paper. However, I remain responsible for any of its shortcomings.

organizational configurations shape these conditions of garment production. Other than some discussion on the role of legislation and law enforcement (Fernandez-Kelly/Garcia 1989; Amengual 2011; Lieutier 2009; Hum 2003), what remains insufficiently researched are the underground connections among producers, state enforcement agencies, consumers, and politics as prerequisites for the development of sweatshops as a viable strategy.

The present study attempts to fill this gap by focusing on what are referred to here as “shadow policies” introduced by state agencies at different levels. Apart from creating a dualization of a specific economic sector by boosting informal institutional arrangements, political actors intentionally take advantage of the fact that some illegal exchanges are not rejected by society on moral grounds and, at the same time, are also sources of regular income and thus of consumption for poverty-stricken populations. Informality and illegal activities that are not morally contested are subjects of political interest when the economic activities involved are mostly seen as harmless and are considered to have wealth-generating potential.¹

A shadow policy encompassing a well-established, functioning, informal tax system and several informal agreements are the cornerstone of La Salada, an informal and illegal market that has become the most important supplier of low-cost garments in Argentina. This informal system regulates 7,822 stalls, 95 percent of which are garment-oriented, which are open three times per week and operate in conjunction with 31,288 sweatshops located in the immediate vicinity.² The promotion of this specific economic activity intensified at the same rate as the country’s economic recovery after 2002, once purchasing power and domestic consumption increased. Thus, unlike other black mar-

1 Although some sociologists hold that *a priori* distinctions among terms like informal, parallel, alternative, or illegal “appear somewhat arbitrary and ad hoc” (Venkatesh 2006: 11), this study stresses that the analytic distinction between the informal and the illegal is actually not only possible but also useful. Possible because, as Portes maintains, “illegal enterprise involves the production and commercialization of goods that are defined in a particular place and time as illicit, while informal enterprise deals, for the most part, with licit goods” (Portes 2010: 134). In the same vein, Beckert and Wehinger state that “markets are illegal if the product itself or the exchange of it violates legal stipulations” (Beckert/Wehinger 2013: 7). This means that illegality refers primarily to products and informality refers to the avoidance of formal obligations. The distinction is also useful since state authorities are often interested in selectively enforcing laws in order to negotiate the illegality (and not to impose legality). Through the systematic acceptance of bribes, illegal detentions, and other illegal actions within underground settings, the authorities remind individuals on a daily basis that their actions are illegal and, therefore, that there is a clear distinction between legal and illegal goods. For examples of spaces of negotiation created by civil servants, see Dewey 2012, Anjaria 2011, and Auyero 2007.

2 The author counted the stalls with the help of a manual counter in July 2013. The estimated margin of error is approximately 100 stalls and variations on this number depend on whether new streets are being occupied. The average number of associated sweatshops and sewers per sweatshop was calculated based on the author’s own interviews with entrepreneurs and two reports (INTI 1995; D’Ovidio 2007). See the section below *Growth of informality in the garment sector*.

kets emerging after major economic crises, this shadow tax system promoting unregulated work, counterfeiting, and subsequently the supply of low-cost clothing, survived the 2001 crisis and still remains in place today as a regulatory framework for the market. Though it performs something of a social function by helping individuals cope with the crisis, the informal tax system imposed on sweatshops and stallholders selling counterfeit garments has deepened and widened existing dualisms. Ultimately, a shadow fiscal system has fostered two different but complementary types of production and consumption within the same garment sector.

Examining these shadow policies helps explain a specific configuration of political economy, the most visible outcome of which is a dramatic growth of informality and illegality, as is reflected in a remarkable mushrooming of sweatshops and low-cost garment consumption. The effect of a deeply rooted taxation structure on such a political economy is twofold. On the one hand, such a structure “preserves” or “protects” the garment industry by enhancing its competitiveness in the face of imported Asian garments. On the other hand, the same structure allows a radical deregulation of work relationships and the spread of informal economic institutions. By taxing garments manufactured in sweatshops and sold in La Salada, the state gives the market a valuable advantage when it comes to exchanges outside the law – namely, the justified expectation that the law will be not enforced. Overall, using the example of sweatshops in the garment sector, the present analysis is intended to expand and elucidate the existing argument that the state tolerates or stimulates informal economic activities as a way of solving specific social and political problems (Castells/Portes 1989; Centeno/Portes 2006; Cross/Peña 2006; Fernández-Kelly/Shefner 2006). From this point view, sweatshops and the economy in which they are located, appear to be less of a result of overarching forces and more of a deliberate political creation.

Drawing on contributions from different strands of research, this paper first discusses the notion of “shadow policy” from a theoretical perspective and links it to the main empirical finding, namely, the informal tax system. Following this, the recent history of the garment industry is briefly addressed. By illustrating the collapse of the garment production model, expressed in its increasing vertical disintegration and heterogeneity, the paper attempts to explain the rationale of shadow policies as being: to preserve jobs, increase consumption, and maintain political control. The third and fourth sections offer a brief account of the market and its history. The fifth part presents empirical evidence supporting the existence of such an informal tax system as well as informal agreements that aim to promote La Salada’s economic activities. The sixth section depicts the new patterns in the garment sector as a corollary of this particular political economy. A growing demand for informal financing sources, a dual consumption pattern, and an increasing informality are the main features of the current scenario. Lastly, the conclusion explains how the argument advances research on the interface between the state and informal or illegal markets and its particular importance for markets trading in officially banned but socially accepted goods.

2 Regulating exchanges through shadow policies

Phenomena such as shadow policies are a result of ambiguity. An amplification of the well-known difference between legality and legitimacy is an integral part of such policies. Political actors take advantage of the fact that the production and/or commercialization of products forbidden by law are actually widely tolerated and used as sources of regular income. Accordingly, shadow policies are understood as *de facto* political measures consisting of a suspension of enforcement aimed at promoting economic activities which are unlawful but largely accepted.³ In the case of La Salada, this promotion of economic activities involves the active toleration of illegal structures by state agencies; in turn, this tolerance preserves an industrial sector and its ability to compete with imported foreign garments. At the same time, this reveals that what is at stake is not the collapse of the state, which shows a great capacity to adapt to new scenarios, but the collapse of a production model. The introduction of such informal political measures aimed at producing certain economic outcomes creates, by default, a dualization of the garment market. One example of a shadow policy, which will be illustrated later, is a parallel tax system imposed by state agencies on stallholders and workshop owners associated with the large market La Salada in Buenos Aires.

The definition of the phenomenon of shadow policy in this paper draws on two inter-related bodies of scholarship: first, those studies concerned with the role of sweatshops in the contemporary garment industry; and second, a strand of literature devoted to the study of the interplay between the state and informality. The following sections clarify the argument put forth here, distinguishing it from these two sets of contributions and emphasizing two aspects. The first aspect is the very local character of shadow policies, which is understood to reinforce global tendencies. The second is the two-faced character of the state, meaning that its regulation of economic activities could be also illegal.

While the informalization of the production chain in the garment industry and the associated deterioration of labor conditions have been the subject of much research, studies on how these social constellations are locally fostered are few and far between.⁴ The revival of sweatshops in many Asian countries, including Bangladesh, Indonesia, Sri Lanka, Cambodia, China, and Thailand, but also in Brazil and the United States is usually seen as part of a much broader phenomenon, namely, the restructuring of global capitalism (Esbenshade 2004; Sluiter 2009; Bonacich 2000; Adams 2002: 149). In the case of Argentina, such a reconfiguration of the global economic order refers to a set of processes, the final outcome of which has been the spread of informal labor relationships, as has been reflected in a clear decline of the manufacturing industrial complex since the mid-1970s (Kosacoff et al. 2004; Campos 2008; Di Bonis 2012; Coatz 2010; Tavošnanska 2010; Busso 2011; Arcos 2013; Kestelboim 2012; Lieutier 2009). In general

3 For a detailed conceptual discussion on “state protection” and “protection rackets,” as suggested by Tilly and Gambetta, see Dewey (2012).

4 With the exception of Fernandez-Kelly and Garcia (1989).

terms, there are two key developments mediating the global tendencies identified as promoting informalization: one is the increasing income inequality that fosters dichotomous high- and low-income consumption patterns; the other is a growing inequality in profit-making among providers (Sassen 1994: 2290). The providers' incapacity to compete in the garment industry production chain has resulted in a casualization of labor in small businesses, growing self-employment, homework and sweat labor, a weakening of national labor frameworks directly connected with global tendencies, such as the spread of free trade policies, the outsourcing of production, the introduction of new management technologies, and an increase in labor migration (Silva 2008; Hum 2003; Waldinger 1984; Buechler 2004; Lieutier 2009).

The focus of this literature, therefore, has predominantly been on global, far-reaching processes, both economic and technological, affecting local industrial and labor relations. This strand of literature has, however, not sufficiently considered the informal arrangements that transform such major forces and reinforce their disruptive tendencies locally. In contrast, shadow policies emphasize the importance of such arrangements. Indeed, they are defined as local ways of reacting to such structural drivers. They are a key element of local arrangements enabling the persistence of a dual industrial landscape in which sweatshops flourish presumably as strongly as the attempts by authorities to combat them. However, unlike policies supported by law, shadow policies seek to bring about change by promoting or even creating informal institutions that, once institutionalized, become essential for the smooth functioning of informal or illegal markets. Thus, it would be inaccurate to explain the radical deregulation of labor relationships in La Salada by only highlighting the spread of neoliberal policies. On the contrary, such deregulation is the result of previous informal local taxation aimed at promoting the garment industry.

Further, in the field of study on informality, one group of scholars focuses on the mechanisms which enable the state and socio-economic elements to contribute to the expansion and maintenance of the underground economy (Meagher 1995; Weiss 1987; Castells/Portes 1989; Centeno/Portes 2006; Cross/Peña 2006; Fernandez-Kelly/Garcia 1989; Carr/Chen 2002; Tandler 2002). Particularly interesting for the purpose of the present paper is Fernández-Kelly and García's (1989) pioneer study on the garment industry in Southern California. The authors contend that three specific factors make the growth of the informal economy possible. Firstly, informality is fostered by legislation and legislative changes at different levels in response to constituencies with diverse political and economic strength. Secondly, informality expands when the enforcement capabilities of the state are uneven. Thirdly, informality is encouraged when the actions of state agencies are contradictory (1989: 251). As shown by these authors, the regulatory function of the state plays an essential role in the aforementioned mechanisms. In this context, Centeno and Portes see informality as being directly linked to the interplay between the regulatory capacity of the state and its intention of regulating economic activity. They therefore assert that "the weaker the state, the greater the likelihood of an economy being able to escape its grasp. The more ambitious the scope of state regu-

lation, the more cause for escape” (2006: 29). Also exploring regulatory mechanisms outside the law, Cross and Peña distinguish between informal and mafia regulatory arrangements (2006). Whereas the former refers to an informal institutional environment functioning as a regulatory framework for informal commerce, such as street vendors in Latin American cities, the latter alludes to illegal enterprises, such as drug selling in the United States, an economic activity associated with high risks and a lack of social support. However, for the sake of the argument presented here, it is worth emphasizing that the blind spot of these contributions lies in the unambiguous, ideal type of the state, that is, these studies depart from the assumption that the regulatory capacity of the state, whether weak or strong, always follows the rule of law. Hence, such a view prevents us from adequately capturing the significant phenomenon of states regulating markets informally. In other words, what the case of La Salada shows is that the regulatory capacity of the state is far from limited. By means of an informal taxation system, the state reacts to overarching drivers by tolerating the undermining of official work regulations in order to enhance the competitiveness of sweatshops. Consequently, the main objective here is to provide an in-depth analysis of the ways in which some states regulate informal economic activities by doing what only state agents are able to do, that is, suspending the enforcement of the law and introducing *sui generis* regulations.

3 The great metamorphosis of the Argentinian garment industry

“It’s difficult; it’s increasingly difficult to sell these shirts. And I’m one of the few who has a workshop especially set up for doing the sublimation! [a technique for transferring images to fabric]” worries Humberto, a small business owner who used to print the official Argentinian national football shirts. One month later, just ten kilometers away from Humberto’s fully equipped workshop, another workshop owner, Sergio, informed us that he was exhausted because of the bulk of work. His whole production of fake Adidas jackets (around 1,500 pieces) had been sold in barely four hours. Unlike Humberto’s worried demeanor, Sergio was overjoyed.⁵ Replicating the market’s business model, one of La Salada’s managers had opened a new marketplace in Mendoza, and Sergio had managed to set up a stall there to sell his jackets. Since such contrasting experiences are seen repeatedly, the question arises: What is the explanation for these contradictory landscapes in the same economic sector?

The deep divide in the Argentinian garment market, that is, the structural division between quality-oriented and price-oriented consumption and production, can be traced back to the mid-1970s when radical free-market-oriented policies were introduced by

5 Names and places mentioned in the article have been anonymized. Due to the fact that the shed markets and the managers and employees working there are few in number and, therefore, easily identifiable, gender and age have also been changed.

the military authorities. While the decade of the 1980s was characterized by a stop-and-go dynamic, by several problems for the planification of production, and by an increasing but constant contraction of textile demand, it was in the 1990s that this transformation of the textile and garment industry became clear. During this decade, the division became even more defined and progressed in parallel with the implementation of an additional set of new and innovative information and communications technologies. After almost thirty years of radical transformation, a new garment market emerged. Phenomena such as growing unemployment, vertical disintegration of the production chain, a generalized contraction of demand, an informalization of working conditions, and an “escape to the quality” carried out by garment companies shaped a second, but complementary, mode of production and consumption.⁶ An insight into these elements is necessary to gain an understanding of both the emergence of La Salada market and the introduction of the tax system.

From the mid-1970s to the 1990s

When Humberto delivered the official shirts for Argentina’s participation in the 1986 World Cup in Mexico, the garment industry’s peak performance was already behind it. In fact, indications of the profound economic transformation that had started in the mid-1970s had become visible. Indeed, the economic reforms introduced by the military Junta after 1976 certainly paved the way toward a textile industry characterized by its internal heterogeneity and increasing informality. On the one hand, the new policies meant that garment customers experienced a drop in purchasing power due to drastic wage cuts and growing long-term unemployment. On the other hand, while this generalized deterioration in wages resulted in declining living conditions for workers and, consequently, a reduction in the demand for clothes, another set of economic policies affected companies more directly. In this context, the persistence of high interest rates, radical trade liberalization, and a progressive appreciation of the national currency triggered investment in capital assets and accentuated a capital-intensive industry profile (Tavosnanska et al. 2010: 70). However, it was not long before the introduction of technology, boosted by an external interest rate which is systematically cheaper than the internal interest rate, became a problem. Although access to foreign credit was an opportunity for modernization, textile companies started the 1980s in a fragile financial situation caused by the poorly performing market, a phenomenon directly linked to diminished demand but also to substantial debts at very high interest rates. The first stage of the transformation had begun: between 1974 and 1985, 40 percent of the textile companies closed, and 36,000 wageworkers were dismissed (Tavosnanska et al. 2010: 70).

6 I borrow the expression “escape to quality” from Kosacoff et al. (2004); it means focusing on high-end products as a way of coping with negative economic changes.

From the 1990s until 2002

The 1990s did not provide sufficient time for recovery. On the contrary, the expansion of liberalizing policies followed patterns similar to those introduced by the military regime. Consequently, the political measures that shaped the new garment industry were characterized by their lack of gradualism and an overvalued currency that resulted in a drop in import duties (Azpiazu/Schorr 2010: 145). Once the law governing the convertibility between the national currency and the US dollar was passed, an increase in imports dramatically lowered the participation of local production in the domestic garment market.⁷ At the same time, the large number of imports also limited price fixing, thereby affecting the textile companies' cost structure and reducing profit margins. Quite quickly, this combination of factors forced companies to face several limitations regarding the introduction of new fixed capital and new technology. Throughout the 1990s, the level of investment in the textile industry was rather low. During the first five years, this was due to the recession in the previous decade, and during the last five years, it was a result of the decline in demand and growing production costs (Kosacoff et al. 2004: 10). The straight corollary of this situation in the textile industry, a sector mainly consisting of small and medium-size companies with no participation in foreign capital markets or economic conglomerates, was a cost reduction achieved through massive job cuts.

However, far from being uniform throughout the production chain, such a process altered the garment subsector in particular. During the period between 1993 and 2001, the value added of this sector fell by 37 percent, whereas the domestic demand fell by 36 percent. In the same subsector, characterized by its labor-intensive nature, employment fell by 51 percent, the hours worked by 45 percent, and real wages by 20 percent (Kosacoff et al. 2004: 3). The consequence of this regressive process was the demise of companies, a phenomenon that led to the disappearance of significant relationships in the industrial network. Although the overall process was extremely negative, two phases can be distinguished. From 1993 to 1996, the garment subsector expanded slightly, increasing its sectorial GDP by 2.4 percent. From 1996 until 2002, however, the same sector suffered a dramatic drop in demand which was accompanied by a strong decline (57 percent) in production (Kosacoff et al. 2004: 54–62). As will be discussed later, the outcome of this process was a highly heterogeneous landscape with low industrial density and lack of articulation among companies, although companies had a limited number of strategy options at their disposal.

7 The Convertibility Law fixed the value of the peso by law at a constant parity of 1 peso=1 USD. The currency appreciation that followed benefitted imports.

From 2002 until the present

From 2002 onwards, the transformation of the garment industry gained new momentum. This new phase was characterized by expansion and growth: the creation of new companies, growing employment, increasing sector GDP, and a rise in demand for garments (Kosacoff et al. 2004: 19; Tavosnanska et al. 2010: 72). However, this phase also exposed and widened existing dualisms.

Three different developments help explain the market duality. Firstly, an overall sustained increase in labor informality was observed, much larger than the growth of formal work. Secondly, the divide between insiders and outsiders became evident in view of the explosion of informal financing sources. Thus, the rapid spread of informal garment production is accompanied by a proliferation of such financing sources. Thirdly, although garment consumption actually increased during the last decade, only a small part of the population had access to the clothing produced since the prices of garments sold mainly in the formal segment became prohibitive for a much larger part of society (Kestelboim 2012). The duality of the garment market is corroborated by its functionality: the informal garment industry developed to the benefit of a sector of society that could not afford formally produced garments. Shadow policies have actively promoted this process.

4 The origin of La Salada

Located fifteen kilometers from the city of Buenos Aires, the La Salada market is at the heart of an informal economy that has become the primary means of acquiring clothing for the lower and middle classes of Argentina as well as its neighboring countries. It covers eighteen hectares on the shore of the Riachuelo, one of the most polluted rivers in the world, and it is composed of 7,822 stalls which almost exclusively sell garments. The bulk of these stalls are comprised of shed markets, whereas the remaining stalls are metallic structures set up outside, permanently occupying public streets. The relevance of this immense garment-oriented economy lies in its wholesale nature. On average, two hundred long-distance buses and thousands of cars arrive at the market three times per week. Massive quantities of jeans, underwear, jackets, socks, shorts, caps, bags, sport shoes, and T-shirts are bought in La Salada and resold in other provinces and neighboring countries. High quality counterfeited Adidas, Puma, or Disney items are cheaper than their original counterparts, even after adding the cost of transport that retailers should pay when they resell items thousands of kilometers away from Buenos Aires.

Sixty years ago, the area where the La Salada market is now located was a quiet place meant for family recreation and enjoyment. What was once an area spotted with salt water swimming pools and thermal springs is today a place where one only finds large

sheds. What remains of the pools and springs are only the battered ruins of a once idyllic landscape. In tandem with the rhythm of the economic and political crises, different groups of immigrants settled in the northern and western areas of the county Lomas de Zamora. After a long and traumatic hyperinflation process throughout the 1990s, the area surrounding the current market became the epicenter of these settlements (Ossona 2014). These new settlements mostly contained immigrants from Bolivia and Paraguay, who started selling smuggled garments or producing handcrafted items in their homes. As in many other urban areas on the periphery of Buenos Aires, the settlement of newcomers was and still is irregular, driven by necessity and the political opportunism of local authorities. With such a lack of legitimate housing, the advancing habitation developed almost entirely through the irregular occupation of land, initially in the form of shacks in the middle of swamps. This explains why great portions of the population today hold no form of a deed for their property; therefore, we find the existence of an immense informal real estate market linked directly to local political brokers.

During the first five years of the 1990s, at the peak of neoliberalism and in the context of an uncontrolled occupation of land, a lack of housing and environmental degradation prompted the proliferation and expansion of an economy detached from official regulations and with close ties to local politics. As an expression of the political balance needed during those times, the political affiliations of the market managers (the bosses of the two largest markets) coincided with two major local political forces (Peronism and Partido Radical). The relevance and endurance of such a merger of politics and trade is illustrated in the fact that this allocation of political affiliation still exists (Ossona 2010).

At the same time that textile industries were closing their doors and increasing the unemployment among immigrants, the old, empty swimming pools were filled with tons of wreckage, large sheds were built, and the streets were lined with wire-mesh stalls. At the macro level, an overvalued currency and the abolition of trade barriers in the textile sector reinforced this tendency. Using the metal structures, the sheds were internally subdivided into thousands of smaller stalls. Thus, similar to Marx's "primitive accumulation," a myriad of small landlords appeared for whom, up to the present day, the rental of stalls remains their primary source of income.⁸ Today, 2,915 outdoor stalls and 4,907 indoor ones are rented per day to those entrepreneurs who want to sell their wares. Hence, by renting a stall within La Salada, producers shorten the commercialization chain, consequently becoming retailers who can offer cheaper products. In this context, as owners of a large number of stalls, the managers mainly profit from renting them, making their business basically one of real estate. To prevent stallholders from being harassed, a situation that would chase away potential tenants, one of the main tasks of

8 Who possesses the stalls' informal property rights is unknown. During the interviews it became clear that the original distribution of stalls followed a clientelistic criterion, one oriented primarily toward the search of consent among different parties. Meanwhile, the permanent occupation of the streets occurred at gunpoint around 2001, and stall ownership there changes according to the same criteria (gunpoint) still today.

the managers is to keep security forces content. The main tool used in this regard is an informal taxation system which, as will be shown, plays an essential role in preventing possible disturbances.

Contrary to the rest of the country's economic climate, La Salada reached its peak year in 2001. Since then, this marketplace has continued to develop into the main low-cost garment supplier for the Argentinian lower and middle classes. Around the central market, several secondary markets emerged that are basically responses to different demands or needs of stallholders and clients. For instance, the informal real estate market gained newfound momentum in light of the stallholders' demand for a space where goods can be kept safe between the days that the market is open. In this way, hundreds of properties close to the sheds and the streets occupied with wire-mesh stalls increased in value and gave rise to the profitable business of warehousing. In the same fashion, the origins of cart pullers and the market services provided by them developed, directly linked to the demand for moving large containers full of garments from the warehouses to the stalls (inside the sheds or in the streets). Currently, each shed market has a fixed number of cart pullers, a situation that, given the high demand of jobs among young people, increases aspirations "to belong" to such an exclusive group of workers. The aspirational component associated with this job also awakened managers' political opportunism. In fact, to belong to one of these cart pullers groups effectively means that they must participate in political demonstrations related to the parties to which managers are associated and to which they offer their support.⁹

La Salada is a good example of the transformation of the Argentinian garment industry. The informality of the economy centered at La Salada covers all sectors, from the production stage, evident in the thousands of sweatshops that have mushroomed all around Greater Buenos Aires, to the commercialization stage at the market and the reselling that occurs in the outer provinces. The systematic avoidance or circumvention of established and codified fiscal, labor, and security regulations make La Salada an economy completely detached from the formal economy. It means, among other things, a disconnection from formal financing sources and, consequently, a cash-only basis for the trade around La Salada. The connections with official regulations that do exist are scarce. On the one side, the shed managers suggest to the stall owners that they pay a self-employed tax (*monotributo*, a tax regime for small contributors), an obligation that, in practice, is no more than a recommendation. In fact, it is more common to rent stalls, not to own them, and this obligation is not transferred directly from tenant to tenant. On the other side, these shed managers are responsible for the payment to the local government for certain services, such as the provision of water and electricity,

9 In fact, those cart pullers who do not go to political demonstrations receive suspensions, usually for two workdays. Additionally, the high demand for the job provoked a curiosity: the positions as a cart puller have a price. Since there is a fixed number of cart pullers working for the sheds and each one has an ID-number, it is possible to buy positions (or ID-numbers). During 2013, the price for one position was around 4,000 US dollars.

and the payment of real estate taxes. Overall, the economy centered in La Salada shows that legality, and even more so, informality and illegality co-exist. As will be shown later on, the interests of the state sector and those of other important actors in this economy – specifically, managers, entrepreneurs/stallholders, and consumers – converge here. Clear evidence of such a convergence of interests appears as an uncontested informal tax system, established after a few years of conflict between security forces, who unofficially tried to establish protection rackets, and the Bolivian community, which refused to accept any state regulation. In 2001, the Bolivian leader of the biggest shed market at that time was officially accused of illegal trade and counterfeiting, charges that ultimately resulted in prison. A few days later he was found dead in his cell after supposedly having committed suicide by hanging himself. This obscure and violent incident marks the beginning of the established, uncontested tax system described below.

5 Taxing the shadow

The hundreds of Adidas jackets produced in Sergio's sweatshop and displayed in La Salada are intended for a market segment that has no access to the original items. This is something Sergio is well aware of. La Salada is composed of several shed markets that are open for business three times per week. There, in 7,822 stalls, stallholders sell garments including T-shirts, jeans, jackets, shoes, socks, underwear, children's clothing, and aprons. Entrepreneurs from several locations around Greater Buenos Aires and south of the city attend the market in order to sell their wares. These entrepreneurs, many of them sweatshop owners, are responsible for buying fabric, designing patterns, cutting fabrics, and carrying out some of the final sewing work. The remaining tasks, mainly the sewing, are outsourced to other sweatshops. Conservative estimates indicate that a total number of 31,288 sweatshops are linked to the garment business, the epicenter of which is La Salada.

What then explains the continuity and significant growth of La Salada, a marketplace to which thousands of sweatshops bring their production and one that is the mainstay of the informal garment industry? To answer this question we need to consider alternative normative frameworks that have guided the decisions made by entrepreneurs, workers, transport companies, and security forces. Such frameworks are particularly important, given that this type of garment production and commercialization involve economic activities without any kind of support from the law. Bearing this in mind, alternative regulatory mechanisms become decisive for market actors.

The following will demonstrate that such frameworks have been provided by a robust informal tax system, a good example of what is referred to here as shadow policy. The success of these policies is based on two interwoven elements. One is that the illegalities related to sweatshops and counterfeit activities are not subject to moral rejection,

and the other is that its economic activities create jobs and increase consumption. As mentioned earlier, the shadow policy behind transactions in La Salada is a tax system, the main function of which is to suspend law enforcement (Dewey 2012). This extended informal tax system covers two sectors: first, the marketplace itself, and second, the routes used by producers and buyers to reach the market. A well-oiled system of tax collection, record books, fixed tax charges, and the option to incur debt are all elements that characterize this as a tax system and not just bribes.

An informal taxation system

At the beginning of 2012, the Argentinian president paid an official visit to the Republic of Angola. Alongside several other businessmen in the president's entourage was Alejandro Morado, the second in command at one of the La Salada market sheds. The main objective of this official visit was to promote commercial relationships between the two countries. Alejandro Morado and the group of La Salada representatives took with them several pieces of clothing produced in the sweatshops surrounding La Salada. A few months later, when visiting Alejandro Morado's boss, who is also one of La Salada's managers, the author met Darío. Surprisingly, Darío also worked as an advisor to Guillermo Moreno, a former Argentinian secretary of commerce. Once the meeting was over and the author was returning home in Darío's car, he emphatically stated "As Moreno says, were it not for La Salada, our people would have nowhere to buy their clothes." This confirmed not only the duality of the garment market but also the existence of a shadow policy.

The 7,822 stalls are distributed among five sheds and along the nearby streets, which are permanently occupied by wire-mesh stalls. Besides the infrastructure, the main difference between the sheds and the wire-mesh stalls on the street is the way they are controlled: the sheds have managers, like Morado's boss, who have an extended and efficient network of informants at all levels. As shown in Table 1, depending on the location, between 40 and 60 percent of the stalls sell counterfeit clothing with brand logos like Adidas, Puma, Nike, and Disney. It is worth pointing out that around half of the garments sold in La Salada do not violate trademark law, a situation that is misrepresented in the mass media. However, regardless of the quality of the copy, each stall at which garments with brand logos are displayed has to pay a tax known as "*marca*" (brand). Those who do not sell any "branded" garments do not pay this tax. It is interesting from an organizational perspective that the *marca* tax has to be paid every time a garment with a logo is exhibited at the stall, and a debt is recorded if, for whatever reason, the stallholder fails to pay. The shed markets have tax collectors who walk through the aisles collecting the "fixed tax" sums. With no such structured organization but equally as effective are the police in their responsibility for collecting tax directly from the street-market vendors. Because they have a central administration, the shed markets also centralize tax collection, whereas in the street markets, the police collect taxes apparently without intermediaries.

Table 1 Number of stalls and taxes collected at the market (sheds and streets) in La Salada

Markets	Sheds					Street	Total
	Red	Yellow	Green	Blue	Violet		
Number of stalls	1,102	2,210	1,254	171	170	2,915	7,822
Number of stalls selling 'brands'	440	875	512	69	72	1,049	3,017
Amount of tax (Argentine Pesos)	150	150	200	100	100	35	
Monthly tax collection (Argentine Pesos)	793,440	1,575,360	1,228,800	82,800	86,400	440,580	4,207,380
Monthly tax collection (US Dollar, exchange rate on July 14, 2013)	145,578	289,042	225,456	15,191	15,852	80,836	771,955

Source: author's calculation based on an individual stall-count and interviews conducted with stallholders from each market.

The collectors justify levying such taxes to the stallholders by referring to the infringement of copyright committed and the need to pay compensation either to the authorities or even to the companies whose rights have allegedly been violated. In the shed markets there is no way of bargaining when it comes to the amount of the tax, which is a situation that shows a high level of organization and institutionalization of practices, whereas on the street markets, stallholders have some scope to negotiate a discount. However, the disadvantage of street markets is that, contrary to what happens in the sheds where just one collector levies taxes, on the street there are a number of people (all identifying themselves as policemen) collecting money. Stallholders selling counterfeited garments, usually entrepreneurs who own sweatshops, take this tax into account when calculating their production expenses. According to several interviews, it is accepted that this tax is the price they must pay in order to increase their sales. Interesting enough, according to the interviews, tax avoidance is rarely a considered option for stallholders, and the level of "tax evasion" seems to be low. Equally significant is the widespread acceptance of this kind of taxation, that is, the absence of protest related to the issue. This lack of resistance to taxation is not only based on the considerable demand for garments that increases profits and makes taxation less significant, but, even more importantly, it stems from the fear of the consequences of refusing to pay, particularly on the street markets, where stallholders are more exposed to a variety of dangers.

The total tax sum collected at both the shed and street markets, namely US \$771,955 each month, is distributed across at least eight state agencies at both national and provincial levels and also in the municipality of Montañitas. A former employee of a shed market recounted his experience as a tax collector:

We went and collected inside. Going through the aisles, gathering money. [When I asked whether there are women collectors, he answered] yes, there are a lot, they go and collect for ... say Delitos y Estafas [the Crime and Fraud Agency], la Brigada de Mitre [the Mitre Police Service], Narcotráfico [the Anti-narcotics Agency], la distrital and the departamental (District and Departmental Offices). The [shed] market also gives money to the coach drivers, around 20 pesos,

and pays for their breakfast [When I mentioned that the shed market manager denies such practices, the ex-collector says] I don't know what it's like now but Pepe [the manager] went to have lunch with Ordaz [a Police Chief] every market day. You have no idea! Sometimes we had plastic bags full of money, and then the members of the Police Service came to collect the money, and I joked with them, telling them that we were recording them. I didn't like them because they took advantage of people.

A current manager of one shed market confirmed that this is the way in which the police forces collect taxes. When I mentioned what other managers had said, namely that the people collecting money are policemen who are independently demanding money without any connection to the market administration, he explains:

Nobody tells me the true story. Who would? The police come and surround you. On weekends they know you have [the collected] money from the "brand" tax, and they come to pick it up, I don't know, Charro, all those famous brands that people wear. They [the policemen] know that fake garments with these brands are made by the Bolivians, all handmade fakes, do you understand? Then you go for Adidas and you get Adidas, and you fall for the story [that they are indeed Adidas], they look the same. Because what else happens? Bolivians and all their workshops work for them [the companies like Adidas]. Do you understand? Because neither Charro nor the other companies have 50 people sewing for them. So they allow this to happen in workshops and this is why workshops get the original pattern. Well, you [as manager] have to deal with all these things. I know who it [the collected tax money] has to be given to. There are around ten of them [state agencies, police]. The Federal, eh, you have to give it to everyone. Because otherwise they stop the vans [of stallholders or buyers] when they enter [La Salada]. They took the vans when they were arriving, and they really f—ed me up.

Finally, a public servant currently working for Montañitas Municipality who was the right-hand man of one of the managers goes further when he describes the final stage of tax collection and the relationship between La Salada and the government:

In La Salada markets, and I'm not only speaking of the Yellow Market, I also mean in Larroque and Turdera, the guy who has a stall and sells *marca* has to pay 450 bucks, and those who don't sell *marca* pay 300. The difference is because of the fact that people go and buy branded clothing. But also because part of this tax goes to the companies, which might make a ruckus. Do you understand? If I were Adidas, I would make a great ruckus! I would close down the stalls; judicially I would kick the market people in the ass! I would close the markets down. What do they do? So, in order for this not to happen, Adidas goes every month and takes the money, Nike takes the money, Topper takes the money, everyone takes the money. Do you understand how it works? Do you understand what I'm saying to you? Nobody knows that. In this district there are 300 organizations. All of them received bags with 30 pairs of shoes. Brand new. Nike, Adidas, and so forth. Do you know where they came from? From La Salada. It's called "Ropa para Todos" [Clothes for Everyone]. I warn you, if you repeat what I'm saying tomorrow, I don't know you.

The second tax is not imposed on stallholders but on the buyers who travel to the markets by long-distance bus. This is collected by a federal security force and is similar to bribes because it is collected at random, does not involve fixed amounts, and the amount charged is not registered. However, similar to the *marca* tax, the function of the payment is to suspend law enforcement. Therefore, the economic activity is not abolished but taxed. A former chief of the National Gendarmerie claims:

But it isn't in anyone's interest [that the security forces stop buses at La Noria Bridge or on the highways]! Nobody would agree. Because otherwise the circus is over. Look, it isn't convenient for any authority that buses don't come any more ... because they regularly leave an *ovule* [sic, tax]. If the business is over, we are f—ed. I take you and call you “stupid!” [He imitates a senior policeman speaking with a junior officer who has stopped a bus] What are you doing? I told you, stop the buses from time to time; of 20 [buses] you stop one. If you take 100 pesos from each passenger ... with 50 passengers ... you do the math!” It is not that they don't check, they make arrangements for everything. Do you think that if I see a bus on the highway I don't know it's coming from La Salada? They even have the money ready! The passengers themselves say “guys, we should put the money there”.

With these taxes, particularly the “brand” tax, the state has access to resources that allow political control and the strengthening of patronage networks and that enable it to address issues regarding administration and the state budget. Such taxes ensure the functioning of an essential market, that is, the garment market. On the one hand, political control over the population comes from the fact that the state ensures a certain level of income by creating jobs which are insecure and against official regulations. On the other hand, political stability is achieved by promoting consumption and ensuring access to garments. The results of the political elections in those constituencies close to the La Salada market provide clear evidence of this political control: in Lomas de Zamora as well as in the region south of Buenos Aires, political candidates of the ruling party have always won. Patronage networks are strengthened, for instance, through the implementation of social programs like “Ropa para Todos” (Clothes for Everyone) aimed at providing emergency help to citizens and administered by community-based organizations. The aforementioned “informal” taxes indirectly enable the state administration to function at the provincial and municipal level. In fact, as was already pointed out by the former right-hand man of a manager quoted earlier, the shed markets pay a monthly sum of four million pesos in “formal” taxes (property tax, garbage collection tax, street lighting tax, and taxes and fees for other public services), which is a sum upon which the local state budget depends. In other words, the performance of local and provincial governments depends on the money collected through illegal taxation.

6 Reinforcing patterns in the garment industry

What kind of shape is the garment industry in now, after several years of a shadow taxation system? This section will show that Humberto's worry and Sergio's joy are undoubtedly influenced by the development and consolidation of patterns, caused or reinforced by the shadow taxation system. Although it would be an exaggeration to claim that the three well-established trends to be described emerged solely as a consequence of taxing stallholders' activities, it would be difficult to explain these patterns without reference to such taxation. Hence, the remarkable growth of informal work, the spread of informal financing sources, and the dualization of production and consumption are institutionalized trends that have been molded by significant suspension of law enforcement, specifically, the active tolerance of illegal economic activities.

Growth of informality in the garment sector

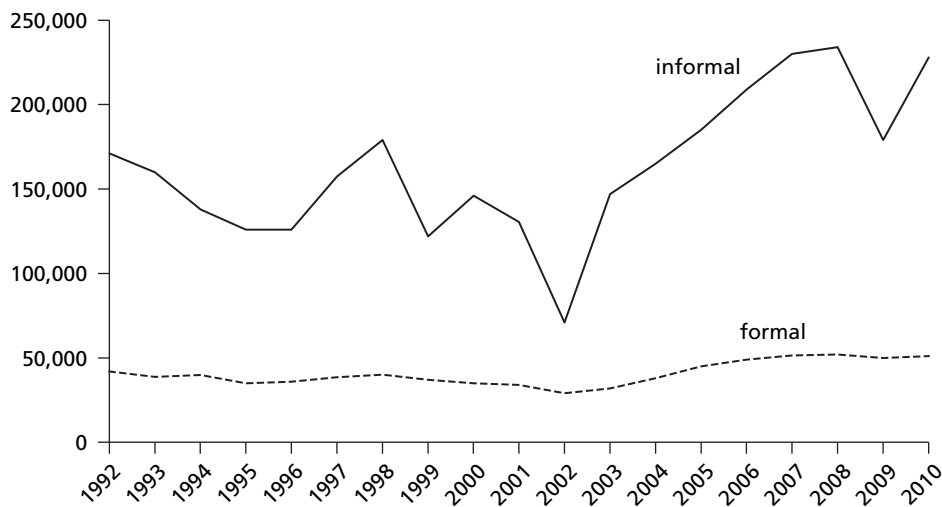
Boosted by the sustained increase in domestic demand, labor informality gained renewed momentum and expanded along the entire garment production process during the period immediately after the 2001 crisis (Coatz 2010; INTI Textiles 2010; Coatz et al. 2010). Although sweatshops were by no means a new phenomenon, a massive mushrooming of enterprises took place after the crisis (D'Ovidio 2007; Lieutier 2009). Also, it was not only the sweatshops that started to hire informal labor. The period after 2001 also saw informality extended into all stages of garment production, from the purchase of fabric to the final step, commercialization. In other words, a myriad of enterprises started working entirely informally during this period (Coatz 2010: 22).

As a consequence of the aforementioned vertical disintegration and absence of law enforcement (Amengual 2011), the informalization of large sections of the garment industry developed into a strategy applied by companies already present in the market but also by small, up-and-coming sweatshop owners who saw the unregulated outsourcing as a business opportunity. This process is of central importance to understanding the emergence of a myriad of sweatshops which are essential for the local garment industry and thus specifically targeted by the shadow policies.

The dualization process is clearly evident in the evolution of formal and informal employment, the latter understood as unregistered work. In fact, as Table 1 shows, the absolute number of people working as informal seamsters skyrocketed from 42,000 in 2002 to 177,000 in 2010, a fourfold increase. Meanwhile, during the same period, the number of formal seamsters decreased from 29,000 to 51,000. In other words, whereas in 2002 59.15 percent of people working as seamsters were informal, in 2010 the equivalent figure was 77.6 percent, an increase of 18.45 percent (INTI Textiles 2010; González 2006: 6–7; Choren 2012: 36). Given the lack of reliable statistics, it is useful to compare these figures with information provided by other scholars. Lieutier (2009: 90), for instance, holds that by 2008, between 70 and 80 percent of employment in the garment sector was unregistered. Using the official Censo Económico of 2004, Coatz (2010), points out that 73 percent of the labor force in this sector was unregistered, a figure similar to the estimate (73.9 percent) provided by the Cámara Argentina de Indumentaria de Bebés y Niños (Caibyn 2010, Argentine Chamber of Baby and Child Clothing Industry). Similarly, based on the Encuesta Permanente de Hogares, Tavosnanska (et al. 2010) also notes that 76 percent of the labor force was unregulated in 2004 and 2005. In addition, the Cámara Industrial Argentina de la Indumentaria also confirmed unregulated labor to be over 70 percent by 2013 (personal communication).

In addition, these percentages can be verified by using a calculation referring to the sweatshops and workers linked to La Salada. If the number of stalls selling garments in La Salada is 7,822, and we conservatively assume that there are four workshops behind each stall, this gives us an approximate number of 31,288 sweatshops located in Greater Buenos Aires and the area south of the city. Moreover, if we assume that each sweatshop

Figure 1 Total amount of formal and informal seamsters by year, 1992–2010



Source: INTI Textiles 2010.

employs five workers, mostly seamsters but also buttonholers, ironers, cutters, and assistants, this gives us a total number of around 156,440 employed workers.¹⁰ Finally, regarding this plethora of sweatshops, those that entered into a process of informalization but are still somehow connected to the formal production chain should be distinguished from those that are exclusively informal. While the former are connected to the formal chain, for example, by producing for premium brands, the latter are detached from the formal network and also channel their production informally.¹¹

Demand for informal financial sources

The economic recovery after 2002 led to a growth in demand for credit, mainly met by informal means (Higa 2013). Unfortunately, there is no quantitative data enabling us to estimate this growth, neither for the number of borrowers nor the credit volume. The information provided here is based on the author's fieldwork in La Salada as well as on interviews with managers of microcredit institutions, sweatshop owners, and the only available study on this topic. The purpose is to show that there are, in fact, several well-established, available sources of financing. This would explain the consolidation of a garment production industry that is completely detached from the formal network.

¹⁰ See note 1.

¹¹ During 2009, La Alameda, an NGO dedicated to combatting clandestine sweatshops, and the National Institute of Industrial Technology (INTI) launched a certification program for companies which consisted of an audit of the supply chain. This certification enabled companies to advertise their products as "free from slave labor" and gave them an advantage over those companies without certification. According to Facundo, a La Alameda lawyer, only one (OMBU) out of 150 companies was able to pass all the audit stages.

There are three primary sources of financing used by enterprises specializing in the garment sector and channeling their production through La Salada: first, a system known as *Pasanaku*; second, loans from suppliers to sweatshops; and third, microcredits given by financial institutions or by the government. The *Pasanaku* or “circle” is a very common type of credit used in Bolivia and other Latin American countries. It is based on trust among a group of participants who periodically contribute a fixed sum of money. Decided by a raffle at the beginning, each person in turn receives the contributed sum multiplied by the total number of participants. No interest accumulates on the contributions. The mechanism works like a savings system with the advantage that participants receive a large amount of money paid out as a lump sum. *Pasanaku* becomes useful when, for instance, garment entrepreneurs need to purchase a new sewing machine or want to buy fabric in bulk.¹²

The second type of financing consists of loans from suppliers to entrepreneurs, which are commonly used for buying fabric (Higa 2013: 43). In most cases such loans are based on interpersonal trust built up over the years, and the interest rates, if there are any, are frequently low and fixed at the moment of the transaction. A commonly occurring situation is one in which suppliers finance buyers by being prepared to “wait” for payment from buyers. They can do so either because they have already included an interest rate in the price or because suppliers seek the client’s loyalty.

Finally, entrepreneurs also have the option of financing offered by microfinance institutions or even by the state itself (Higa 2013).¹³ Microfinance institutions offering a range of different loans are mainly located in Greater Buenos Aires and the south of the city. In both cases, they charge significantly lower interest rates than informal credit providers or loan sharks. Examples of these institutions in the region bordering La Salada are Fundación Alternativa 3, Fundación Sagrada Familia, Emprenda, FIE Gran Poder, and OMLA. The last two focus particularly on the Bolivian community that commercializes production through La Salada. Additionally, state credit lines are part of special programs for small entrepreneurs and are disbursed either in cash or by means of reimbursements. The main difference between these last two types of financing and the first two is the level of informality of the enterprise or the legal status of the entrepreneur himself.

Duality of production and consumption

The two different consumption patterns arose as a result of structural transformations affecting the garment industry and particularly resulted from what several scholars describe as the “escape to quality” (Kosacoff et al. 2004: 17; Kestelboim 2012: 7). Garment

12 Interviews with entrepreneurs.

13 Interviews with the CEO of OMLA Microcredits and the director of RADIM (Red Argentina de Instituciones de Microcrédito).

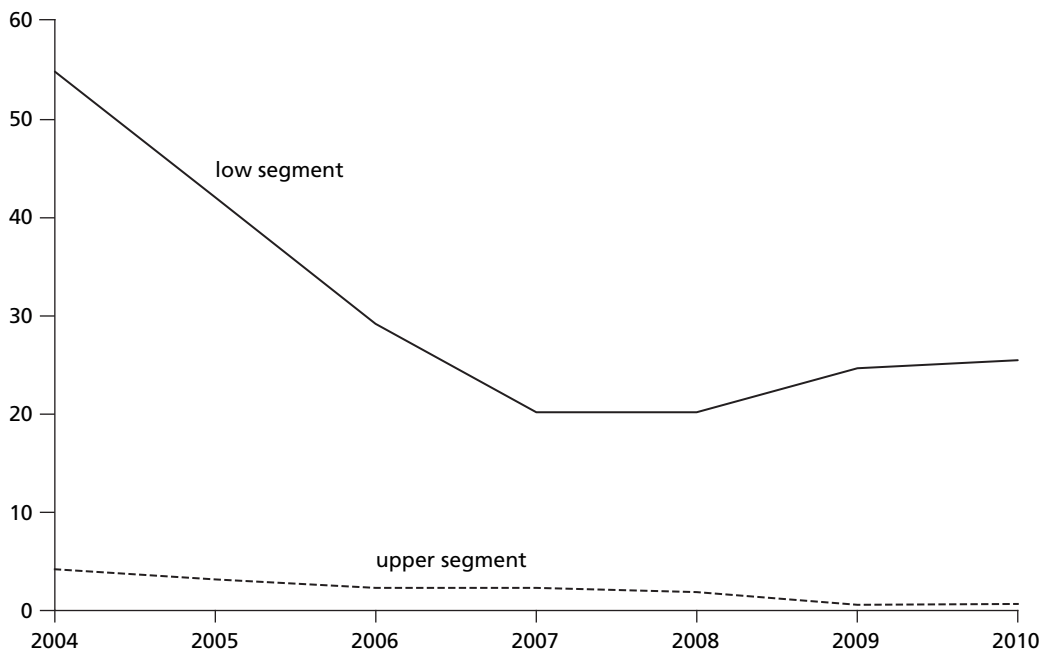
companies facing the effects of a dramatic fall in demand and an increase in production costs discovered that the outsourcing of production processes could be used as a mechanism to reorientate the business. Outsourcing has thus enabled companies to focus on those parts of the production chain that are more profitable and oriented toward high-end products and to abandon those without comparative advantages. It was this search for differentiation from standard products, mainly imported from Asia, that led to the “escape to quality,” meaning the production of upper-end garments to attract a public for whom the price plays a secondary role. The consequence of this shift toward a premium segment meant a withdrawal from the production of basic products oriented toward a standard segment of the market. An insight into this strategic reorientation of production goals is key to understanding the emergence of sweatshops, a phenomenon directly linked to the large section of the market virtually disregarded by local companies. Whereas only 20 percent of supply is oriented toward the upper-end segment (ABC1), as Kastelboim pointed out, the other 80 percent is focused on the lower and mid-end segments where the demand is elastic. A large proportion of the garment market started to be supplied not only by illegal import channels but also by an informal type of production and commercialization with high levels of labor insecurity. Eighty percent of production is commercialized in this way (Kestelboim 2012: 2). This trend is also corroborated by the fact that big clothing stores like C&A or Johnson, which have traditionally been suppliers for a mass consumption segment, have left the country.

Decisions to reorientate toward the premium segment were not only a response to Asian competition and the result of a reorganization of production through outsourcing. During the 1990s and the following decade, new forms of commercialization of the garment industry also played a significant role in increasing nonindustrial costs and stimulating the aforementioned trend. Shopping malls, outlets, department stores, and hypermarkets increased the costs of real estate occupation (associated with real estate speculation) to such an extent that these costs accounted for 40 percent of the final price of one premium piece of clothing by 2012.¹⁴ If we bear in mind that the shift toward more sophisticated products also implied an increase in the cost of marketing, pattern-making, design, and advertising, as well as other expenses associated with brand development, a mutual conditioning between trends within the market can be observed. The “escape to quality,” the vertical destruction of the production chain (outsourcing), the informalization of the production chain (particularly in the sewing segment), and fixed costs such as real estate occupation and brand development have mutually reinforced the dualization pattern.

However, an additional element completes this picture. The growth and sustained informalization process in the last stage of the production chain also led to a sustained shortage of investment in technology and professional skills, a situation that accentuated the decisions of brand companies to reorientate toward more sophisticated, nonstandardized products. In this regard, Kastelboim asserts that production under these conditions

14 The reference is being made to a pair of jeans sold in a shopping mall (Kestelboim 2012).

Figure 2 Availability of proper clothing and shoes by social stratum and year, 2004–2010



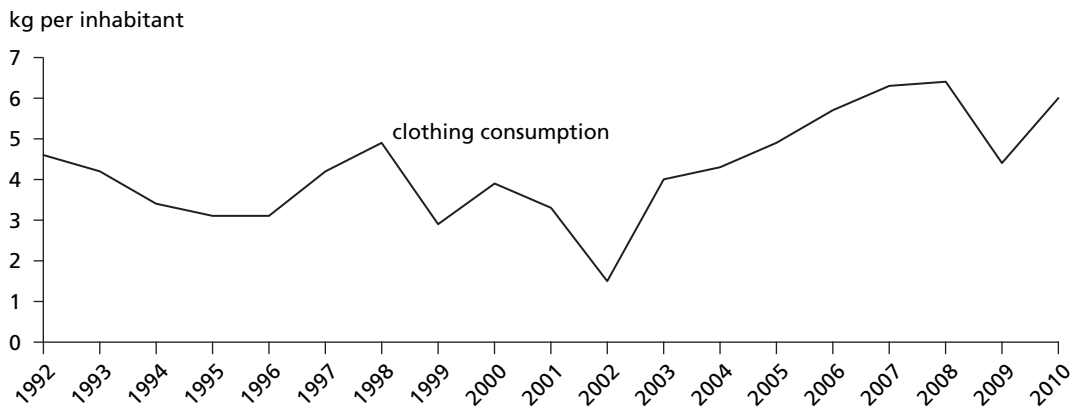
Source: Salvia (2011).

meant that companies specializing in standardized production series intended for a mid-end and mass market segment found it more difficult to access workshops with high-standard technology for garment production (Kestelboim 2012: 8). The consequences of the lack of investment in technology and the skilled workforce are twofold. Firstly, outsourcing and widespread informalization meant that companies had more limited access to workshops with adequate technology. Secondly, although outsourcing and informalization definitely led to a decline in technology and a reduction in skilled labor, it should be stressed that a large proportion of skilled workers (former employees in garment companies) migrated to the informal sector, bringing their know-how.

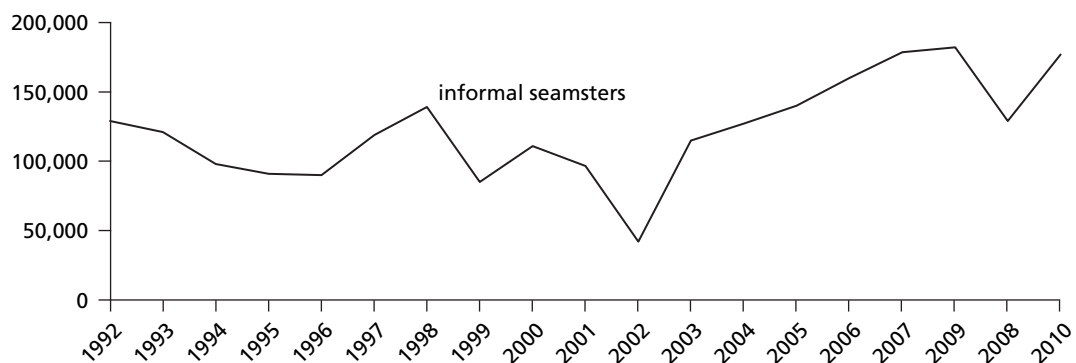
From the point of view of consumption, duality is evident in the exclusion of a large part of the population from access to formally produced clothing. Despite the fact that there has been consistent growth in the consumption of clothing over the last decade, it is equally true that access to goods such as clothing in the low-income segments of society has been restricted (Kestelboim 2012; INDEC 2006; Kestelboim 2009). Such a segmentation of consumption, as Javier González asserts, “between ‘luxurious products’ or ‘quality differentiated’ products and products for ‘standard or basic consumption’ has its roots in the structure of income distribution itself, which derives from the social structure of production” (González 2006: 7).

Figure 3 Comparison between clothing consumption per inhabitant and total amount of informal seamsters by year, 1992–2010

Clothing consumption per inhabitant (kg) by year, 1992–2010



Total amount of informal seamsters by year, 1992–2010



Source: Textiles 2010.

In order to analyze the problem of access to garments, this paper uses the deficit of clothing in homes distributed according to socioeconomic strata. Figure 2 shows an overall improvement between 2004 and 2010 with regard to the availability of proper clothing and shoes. However, the same figure also shows significant disparities between the lower and upper segments of society. In the former, the deficit reaches its lowest level between 2007 and 2008, the year in which a constant increase in this deficit began to be observed. Meanwhile, in the latter, the deficit has continually fallen (Salvia 2011: 66, Statistical annex).

Although the deficit does not directly show the consumption of clothing produced informally, it does indicate that a large section of society now has reduced access to clothing. Consequently, it supports the aforementioned argument, also corroborated by several scholars, that seeking profitability in sophisticated niches as well as the increase in nonindustrial costs (real state occupation, marketing, and brand development) critically restricts access to formally produced clothing. Because the figure on the consumption

of garments produced by sweatshops is shadowy, the question remains as to whether there was a reduction in the deficit of garments due to consumption in the formal or in the informal chain.¹⁵ This is an important question, given that garment consumption per inhabitant has increased or decreased in step with demand for informal seamsters (Figure 3).

7 Conclusion

This paper argues that the divide characterizing garment sectors such as the one in Argentina has been deepened and widened by the introduction of what are referred to here as “shadow policies.” These are domestic political decisions aimed at producing specific economic outcomes, for example, the creation of jobs and an increase in clothing consumption. Such political decisions are *shadow* ones because they promote the expansion of both means of production that are subject to various regulations and informal, or even illegal, exchanges. They are *policies* because they seek to generate regular income and increase consumption in poverty-stricken populations. Thus, shadow policies foster a paradoxical type of political economy: whereas the policies “preserve” and “protect” jobs and consumption, they also produce a rare and radical deregulation of work relationships. A crucial element determining the success of shadow policies is the widespread opinion that the economic activities involved are harmless and capable of generating wealth. This approach is also based on a critical reading of two bodies of literature. Theoretically, the notion of shadow policy positions itself among approaches stressing two aspects. First, shadow policies emphasize “the local” as a place of reaction to macrostructural drivers, as described in the literature focused on the revival of the sweatshop. Second, shadow policies contradict the common assumption that the regulatory capacity of the state, whether weak or strong, always follows the rule of law. In fact, the opposite is true since shadow policies show that states can regulate markets also informally or even illegally by suspending law enforcement and introducing *sui generis* regulations.

This paper also provides strong empirical evidence that shadow policies promote the informal and illegal garment market in Argentina. This evidence basically consists of an extended and robust informal taxation system imposed upon stallholders selling clothing at the La Salada market. By illustrating how this informal tax system works, which state agencies are involved at different levels, and the volume of resources that

15 Just as with unofficial crime statistics, there are also unofficial statistics for garments produced in sweatshops. At least in Argentina, the source of statistics referring to garment consumption is essentially the records on formal transactions (imports, exports, declared sales, etc.). In that sense, surveys such as the Encuesta Nacional de Consumo de los Hogares do not distinguish between the two types of garment, so that the consumption of informally produced clothing remains hidden.

flow around the system, this study demonstrates that shadow policies do indeed have the ability to frame expectations and enable a smooth functioning and a widespread system of exchange.

A line of enquiry for further research is also suggested here on shadow political decisions aimed at producing certain economic outcomes. As has already been mentioned, most current approaches to the growth of sweatshops take as *explanans* the global, far-reaching processes embodied in the so-called restructuring of global capitalism. However, in light of shadow policies, this topic gains new momentum. The expansion of markets centered on products and processes that are unlawful but largely morally accepted questions the extent to which they are only the result of macro drivers. Thus, if local politics is taken into account, not only would it be possible to achieve a more nuanced picture of shadow exchanges, but also to provide a more accurate response to the question of how governments achieve political control.

References

- Adams, Ronald J., 2002: Retail Profitability and Sweatshops: A Global Dilemma. In: *Journal of Retailing and Consumer Services* 9, 147–153.
- Amengual, Matthew, 2011: Cambios en la capacidad del estado para enfrentar las violaciones de las normas laborales: Los talleres de confección de prendas de vestir en Buenos Aires. In: *Desarrollo Económico* 51, No. 202/203, 291–311.
- Anjaria, Jonathan Shapiro, 2011: Ordinary States: Everyday Corruption and the Politics of Space in Mumbai. In: *American Ethnologist* 38(1), 58–72.
- Arcos, María Ayelén, 2013: Tallers clandestinos: El traspatio de las grandes marcas. Organización del trabajo dentro de la industria de la indumentaria. In: *Cuadernos de Antropología* 10, 333–351.
- Auyero, Javier, 2007: *Routine Politics and Violence in Argentina: The Gray Zone of State Power*. Cambridge: Cambridge University Press.
- Azpiazu, Daniel/Martín Schorr, 2010: *Hecho en Argentina: Industria y economía, 1976–2007*. Buenos Aires: Siglo Veintiuno Editores.
- Beckert, Jens/Frank Wehinger, 2011: *In the Shadow: Illegal Markets and Economic Sociology*. MPIfG Discussion Paper 11/9. Cologne: Max Planck Institute for the Study of Societies.
- Bonacich, Edna, 2000: *Behind the Label: Inequality in the Los Angeles Apparel Industry*. Berkeley: University of California Press.
- Buechler, Simone, 2004: Sweating It in the Brazilian Garment Industry: Korean and Bolivian Immigrants and Global Economic Forces in São Paulo. In: *Latin American Perspectives* 31, 99–119.
- Busso, Mariana, 2011: Las ferias comerciales: También un espacio de trabajo y socialización. Aportes para su estudio. In: *Trabajo Y Sociedad* 16, 105–123.
- Caibyn, 2010: *El sector de la indumentaria infantil en Argentina*. Buenos Aires: Cámara Argentina de Indumentaria de Bebes y Niños.
- Campos, Martín, 2008: La heterogeneidad del trabajo informal: Los resultados de un estudio cualitativo sobre los sectores del comercio textil, la construcción y el transporte. In: *Aportes a una nueva visión de la informalidad laboral en la Argentina*. Buenos Aires: Banco Mundial, Ministerio de Trabajo, Empleo y Seguridad Social, 231–258.

- Carr, Marilyn/Chen, Martha Alter, 2002: *Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor*. Working paper on the informal economy 2002/1. Geneva: International Labour Office Geneva. <http://natlex.ilo.ch/wcmsp5/groups/public/--ed_emp/documents/publication/wcms_122053.pdf> (14 August 2014)
- Castells, Manuel/Alejandro Portes/Lauren A. Benton, 1989: World underneath: The Origins, Dynamics, and Effects of the Informal Economy. In: Manuel Castells/Alejandro Portes/Lauren A. Benton, *The Informal Economy: Studies in Advanced and Less Developed Countries*. Baltimore: John Hopkins University Press, 11–39.
- Centeno, Miguel Angel/Alejandro Portes, 2006: The Informal Economy in the Shadow of the State. In: Patricia Fernández-Kelly/Jon Shefner (eds.), *Out of the Shadows: Political Action and the Informal Economy in Latin America*. University Park, PA: Penn State Press, 23–48.
- Choren, Adrian Gustavo, 2012: *Hacia nuevas formas de control del trabajo clandestino en el sector de la indumentaria en Argentina*. Buenos Aires: Universidad de Tres de Febrero. <www-biblio.inti.gov.ar/TRABinti/ChorenTesis.pdf> (14 August 2014)
- Coatz, Diego, 2010: *Heterogeneidad productiva e informalidad en la cadena textil-indumentaria*. CEU Working Paper. Buenos Aires: Centro de Estudio UIA.
- Coatz, Diego/Fernando García Díaz/Sergio Woyecheszen, 2010: Acerca de la dinámica creciente de la heterogeneidad productiva y social en la Argentina. In: *Boletín Informativo Techint* 332, 49–79.
- Cross, John C./Sergio Peña, 2006: Risk and Regulation in Informal and Illegal Markets. In: Patricia Fernández-Kelly/Jon Shefner (eds.), *Out of the Shadows: Political Action and the Informal Economy in Latin America*. University Park, PA: Penn State Press, 49–80.
- D’Ovidio, María, 2007: Quién es quién en la cadena de valor del sector de indumentaria textil. In: *Fundación El Otro*. <https://www.mpf.gov.ar/Institucional/UnidadesFE/Ufase/trata/Recoleccion/Quien_es_quien.pdf> (14 August 2014)
- Dewey, Matías, 2012: Illegal Police Protection and the Market for Stolen Vehicles in Buenos Aires. In: *Journal of Latin American Studies* 44(4), 679–702.
- Di Bonis, Lucía Carolina, 2012: *La industria textil argentina en escenario global actual: Un análisis del impacto de china y los países asiáticos en la cadena de valor local*. Buenos Aires: Facultad de Ciencias Económicas de la Universidad de Buenos Aires.
- Esbenshade, Jill Louise, 2004: *Monitoring Sweatshops: Workers, Consumers, and the Global Apparel Industry*. Philadelphia, PA: Temple University Press.
- Fernandez-Kelly, M. Patricia/Anna M. Garcia, 1989: Informalization at the core: Hispanic women, homework, and the advanced Capitalist State. In: Alejandro Portes/ManuelCastells/Lauren A. Benton (eds.), *The Informal Economy: Studies in Advanced and Less Developed Countries*. London: Johns Hopkins University Press, 247–264.
- Fernández-Kelly, Patricia/Jon Shefner, 2006: *Out of the Shadows: Political Action and the Informal Economy in Latin America*. University Park, PA: Penn State Press.
- González, Javier, 2006: *Trabajo servil, trabajo asalariado y desarrollo industrial: La emergencia de formas de trabajo servil en la industria de confección de indumentaria argentina (III)*. INTI Bulletin 42 Saber Cómo. Buenos Aires: Instituto Nacional de Tecnología Industrial.
- Higa, Daniel, 2013: *Estudio sobre fuentes formales e informales de financiamiento para la microempresa en Argentina*. Buenos Aires: PlaNet Finance.
- Hum, Tarry, 2003: Mapping Global Production in New York City’s Garment Industry: The Role of Sunset Park, Brooklyn’s Immigrant Economy. In: *Economic Development Quarterly* 17, 294–309.
- Instituto Nacional de Estadística y Censo, 2006: *Encuesta Nacional de Gastos de Hogares 2004/2005*. Buenos Aires: Instituto Nacional de Estadística y Censo.
- Instituto Nacional de Tecnología Industrial (Textile Division), 2010: *Información Económica INTI*.
- Kestelboim, Mariano, 2009: *Estimación del tamaño del mercado de indumentaria y de textiles para el hogar de la Argentina*. Fundación Protejer. <www.fundacionprotejer.com/img/informes/medicion-mercado-indumentaria-textiles-hogar_mayo-2009.doc> (14 August 2014)
- , 2012: *La formación del precio de la ropa*. Fundación ProTejer. <www.fundacionprotejer.com/img/informes/formacion-precio-ropa_diciembre-2012.pdf> (14 August 2014)

- Kosacoff, Bernardo, et al., 2004: *Evaluación de un escenario posible y deseable de reestructuración y fortalecimiento del complejo textil argentino*. Buenos Aires: United Nations, Cepal-Oficina de Buenos Aires.
- Lieutier, Ariel, 2009: *Esclavos: Los trabajadores costureros en la ciudad de buenos aires*. Buenos Aires: Retórica Ediciones.
- Meagher, Kate, 1995: Crisis, Informalization and the Urban Informal Sector in Sub-Saharan Africa. In: *Development and Change* 26, 259–284.
- Ossona, Jorge Luis, 2010: *El shopping de los pobres: Anatomía y fisiología socioeconómica y política de La Salada*. <www.unsam.edu.ar/escuelas/politica/centro_historia_politica/publicaciones/JorgeOssona/EL_SHOPPING_DE_LOS_POBRES.pdf> (29 September 2014)
- , 2014: *Punteros, malandras y porongas: Ocupación de tierras y usos políticos de la pobreza*. Buenos Aires: Siglo Veintiuno Editores.
- Portes, Alejandro, 2010: *Economic Sociology: A Systematic Inquiry*. Princeton: Princeton University Press.
- Salvia, Agustín, 2011: *Deudas y progresos sociales en un país que hace frente a su bicentenario: Argentina 2004–2010*. <www.aacademica.com/agustin.salvia/113> (14 August 2014)
- Silva, Carlos Freire, 2008: *Trabalho informal e redes de subcontratação: Dinâmicas urbanas da indústria de confecções em São Paulo*. Dissertation thesis. São Paulo: Universidade de São Paulo. <www.teses.usp.br/teses/disponiveis/8/8132/tde-24112009-113627/en.php> (14 August 2014)
- Sluiter, Liesbeth. 2009: *Clean Clothes: A Global Movement to End Sweatshops*. London: Pluto Press.
- Tavosnanska, Andrés (ed.), 2010: *La industria argentina en el ciclo 2003–2008: Nuevas dinámicas, nuevos actores, perspectivas*. Buenos Aires: Universidad de Buenos Aires. <<http://home.econ.uba.ar/economicas/sites/default/files/cespa23.pdf>> (14 August 2014)
- Tendler, Judith, 2002: Small Firms, the Informal Sector, and the Devil's Deal. In: *IDS Bulletin* 33, 1–14.
- Venkatesh, Sudhir Alladi, 2006: *Off the Books: The Underground Economy of the Urban Poor*. Cambridge, MA: Harvard University Press.
- Waldinger, Roger, 1984: Immigrant Enterprise in the New York Garment Industry. In: *Social Problems* 32, 60–71.
- Weiss, Linda, 1987: Explaining the Underground Economy: State and Social Structure. In: *The British Journal of Sociology* 38, 216–234.

Recent Titles in the Publication Series of the MPIfG

MPIfG Discussion Papers

- DP 14/17
W. Streeck, L. Elsässer
Monetary Disunion: The Domestic Politics of Euroland
- DP 14/16
D. Kinderman
Challenging Varieties of Capitalism's Account of Business Interests: The New Social Market Initiative and German Employers' Quest for Liberalization, 2000–2014
- DP 14/15
A. Johnston, A. Regan
European Integration and the Incompatibility of National Varieties of Capitalism: Problems with Institutional Divergence in a Monetary Union
- DP 14/14
M. Höpner, M. Lutter
One Currency and Many Modes of Wage Formation: Why the Eurozone Is Too Heterogeneous for the Euro
- DP 14/13
D. Akyel
Ökonomisierung und moralischer Wandel: Die Ausweitung von Marktbeziehungen als Prozess der moralischen Bewertung von Gütern
- DP 14/12
M. A. McCarthy
Neoliberalism without Neoliberals: Evidence from the Rise of 401(k) Retirement Plans

- DP 14/11
M. Lutter
Creative Success and Network Embeddedness: Explaining Critical Recognition of Film Directors in Hollywood, 1900–2010
- DP 14/10
D. Krichewsky
The Socially Responsible Company as a Strategic Second-Order Observer: An Indian Case
- DP 14/9
J. Hien
The Return of Religion? The Paradox of Faith-Based Welfare Provision in a Secular Age
- DP 14/8
M. Höpner
Wie der Europäische Gerichtshof und die Kommission Liberalisierung durchsetzen: Befunde aus der MPIfG-Forschungsgruppe zur Politischen Ökonomie der europäischen Integration
- DP 14/7
J. Beckert
Capitalist Dynamics: Expectations and the Openness of the Future
- DP 14/6
M. Dewey
Crisis and the Emergence of Illicit Markets: A Pragmatist View on Economic Action outside the Law

MPIfG Books

- P. Gerlach
Der Wert der Arbeitskraft: Bewertungsinstrumente und Auswahlpraktiken im Arbeitsmarkt für Ingenieure
Springer VS, 2014
- G. Klas, P. Mader (Hg.)
Rendite machen und Gutes tun? Mikrokredite und die Folgen neoliberaler Entwicklungspolitik
Campus, 2014
- W. Streeck
Buying Time: The Delayed Crisis of Democratic Capitalism
Verso Books, 2014
- A. Afonso
Social Concertation in Times of Austerity: European Integration and the Politics of Labour Market Reforms in Austria and Switzerland
Amsterdam University Press, 2013
- D. Akyel
Die Ökonomisierung der Pietät: Der Wandel des Bestattungsmarkts in Deutschland
Campus, 2013
- J. Beckert, C. Musselin (eds.)
Constructing Quality: The Classification of Goods in Markets
Oxford University Press, 2013

Ordering Information

MPIfG Discussion Papers

Order printed copies from the MPIfG (you will be billed) or download PDF files from the MPIfG website (free).

MPIfG Books

At bookstores; abstracts on the MPIfG website.

www.mpifg.de
Go to *Publications*.

New Titles

Consult our website for the most complete and up-to-date information about MPIfG publications and publications by MPIfG researchers. To sign up for newsletters and mailings, please go to *Service* on the MPIfG website. Upon request to info@mpifg.de, we will be happy to send you our Recent Publications brochure.

ERPA

MPIfG Discussion Papers in the field of European integration research are included in the *European Research Papers Archive (ERPA)*, which offers full-text search options: <http://eiop.or.at/erpa>.

Das Max-Planck-Institut für Gesellschaftsforschung ist eine Einrichtung der Spitzenforschung in den Sozialwissenschaften. Es betreibt anwendungsoffene Grundlagenforschung mit dem Ziel einer empirisch fundierten Theorie der sozialen und politischen Grundlagen moderner Wirtschaftsordnungen. Im Mittelpunkt steht die Untersuchung der Zusammenhänge zwischen ökonomischem, sozialem und politischem Handeln. Mit einem vornehmlich institutionellen Ansatz wird erforscht, wie Märkte und Wirtschaftsorganisationen in historische, politische und kulturelle Zusammenhänge eingebettet sind, wie sie entstehen und wie sich ihre gesellschaftlichen Kontexte verändern. Das Institut schlägt eine Brücke zwischen Theorie und Politik und leistet einen Beitrag zur politischen Diskussion über zentrale Fragen moderner Gesellschaften.

The Max Planck Institute for the Study of Societies conducts advanced basic research on the governance of modern societies. It aims to develop an empirically based theory of the social and political foundations of modern economies by investigating the interrelation between economic, social and political action. Using primarily an institutional approach, it examines how markets and business organizations are embedded in historical, political and cultural frameworks, how they develop, and how their social contexts change over time. The institute seeks to build a bridge between theory and policy and to contribute to political debate on major challenges facing modern societies.

