



Unidad de Análisis de la Economía Informal

*Leasing the street: Institutional arrangements on street vendors' property rights in Venezuela**

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Abstract:

Official statistics show that, by 2004, the informal commerce in Venezuela employed 1.5 million people (15% of the labor force), while contributed to 3.25% of the Venezuelan GDP. Street vending is a sub-sector of that informal commerce: *just in Caracas there are about 15.000 street vendors' stands*, each employing up to 5 people. This activity generates negative social collateral effects: delinquency, pedestrian and traffic junks, pollution, property rights violations, etc., which cause concern among politicians, academics, and the public opinion. In this paper we explore why street vending is a widespread activity in almost every Venezuelan major cities by explaining how institutions governing the allocation of informal property rights on street lots support it. This activity emerges and evolves as the result of transactions between the State officials and street vendors on street lots. In such transactions, street vendors obtain informal property rights, while politicians and public officials obtain either bribes, or political support. Once the lot has been "leased", State threats of law enforcement, affects the bribes amount, the political support, as well as who will take bribes.

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1.- Introduction:

Official statistics show that, by 2004, the informal commerce in Venezuela employed 1.5 million people (15% of the labor force) and contributed to 3.25% of the Venezuelan GDP¹. Unemployment rates (averaging 14.11% in the 1996-2004 period), high costs of doing business (e.g. De Soto et. all, 1989 pioneer study in Peru; Penfold, 2001 in Venezuela), and low quality of public goods (Levenson and Maloney, 1998; Azuma and Grossman, 2002), engender positive incentives to engage in that informal activity.

As a sub-sector of the informal commerce, street vending cause concern among politicians, academics, and the public opinion because it generates negative collateral effects: delinquency, pedestrian and traffic junks, pollution, property rights violations, among others. Just in Caracas 15.000 street vendors stands employ up to 5 people each.². Based on results from a case study in Caracas, we explore why street vending is such a widespread activity in Venezuela by explaining how institutions governing the allocation of property rights on street lots support the activity.

Firstly, we develop a theoretical framework to explain that in the core of street vending activity there are transactions between State officials and street vendors in which vendors obtain informal property rights, while politicians and public servants obtain a combination of bribes, and political support.

¹ Instituto Nacional de Estadísticas, 2005, and Banco Central de Venezuela, 2004 respectively.

² Figures from our empirical fieldwork. December 2004.

Our conceptual framework studies the demand and supply sides of property rights on street lots. The analysis illustrates how the threat of over-exploitation of public spaces as a source of rents, defined by increasing scarcity, shapes the choice of institutional arrangements chosen by the street vendors on those property rights.

We also explain how the political and economic rules of the game from the supply side of property rights sustain street vending. We assume that: a) the costs of finding formal employment and doing business are high; b) there are failures in the rule of law so that bribery is a widespread institution; c) formal rules are complete and well defined, and; d) street vendors have acquired informal rights as a consequence of low enforcement. Given those assumptions, the stronger it is the political will to enforce the formal rules underlying the allocation of property rights, the higher the bribes will be (or transaction costs) that street vendors have to pay to either keep their already captured property rights, or to acquire new ones. Whenever bribes increase, political support coming from street vendors to the enforcers of property rights lowers. Thus, enforcing formal rules put at risk political support.

To give an empirical basis to our arguments, we develop an analytical narrative focused on the 1996-2004 policymaking period analyzing the public policies implemented to regulate street vending activity in the city of Caracas. We show how public policies that defined and enforced formal rules during that period were influenced by rational political calculations of gains and loss of political power and bribe taking.

We offer results from our field work describing the characteristics of the property rights “owned” by street vendors. Bribes paid, the impact of the formal rules, and some features of the current informal agreements are showed. Data and qualitative information comes from our empirical fieldwork carried out from December 2004 to April 2005. It includes 376 surveys, and 60 interviews to garment street vendors, and public servants (interviews gathered in two phases 2004 and 2005). At the end of the paper we present some conclusions.

2. - Towards a theoretical framework: demand and supply over property rights on street lots³

The source of value of street vending, as an economic activity, hinges in rents that can be extracted from property rights that street vendors acquire on City’s public-access spaces over which the State has the duty of instituting and enforcing formal rules.⁴

The formal or informal character of the actual property rights on street lots is the result of demand and supply forces: in the one hand, street vendors demand property rights as a productive factor, while, in the other hand, the State monopolizes the supply of those rights. If the rule of law is weak⁵, governments can use that duty as a device to extract either political or economic rents, and vendors can gain access to informal property rights.

³ The concept of property rights we use here is taken from Libecap 1989: “*Property rights are the social institutions that define or delimit the range of privileges granted to individuals on specific assets...*”

⁴ For analytical simplicity, this paper assumes an organizational view of the “State” as a vertically integrated organizational structure where the agency problems have been solved. As suggested by Bardhan, 1997, corruption can be a centralized operation in centrally planed economies.

⁵ A weak rule of law as a source of corruption has been highlighted by Rose-Ackerman , 1978; Weingast, 1997; North, 1984; Bardhan, 1997,. A weak rule of law could also be understood as a “grabbing hand” described by Frye and Shleifer, 1997: “*Under the grabbing hand model, government is ineffective in providing basic services, courts are ineffective in resolving disputes and in the extreme, agreements are enforced privately*”.

An informal allocation of property rights on street lots arise as the result of transactions between the State (the supplier) and street vendors (the demanders).

The demand for property rights:

Let us assume that the city has empty street lots. Will those spaces be occupied by street vendors or not, depends on how costly transaction costs are in gain access to property rights on such locations. Given its monopoly power, the State can either lower or increase these transaction costs by legislating and/or enforcing rules. Thus an increasing demand on street locations can be associated with a lowering in transaction costs motivated by public policies. In such an environment, the kinds of property rights that street vendors can achieve are informal rights with the following characteristics:

- a) They are the result of an underground transaction with the state;
- b) Cannot be “fully” enforced by the state, as a legitimate third party (which leads to informal enforcement mechanisms in which the state could have certain “informal” participation);
- c) Power (political, physical and financial) plays a crucial role in both explaining how they emerge and how are its enforcement mechanisms sustained (by physical harm, moral sanctions, or a combination of both).

In this paper we call “quasi rights” to the informal property rights arrangements complying with the characteristics a), b) and c). Quasi-rights are insecure structures of property rights⁶. The criteria for their allocation, the types of guarantees against their infringement and the course and pattern of their change over time are all established by individual and group leadership, in a calling inspired, by the need to “manage” prospective drops that scarcity imposes on the net present value on the stream of income that they can generate.

⁶ “All these forms of illegal markets exist because the government has (...) attenuated or eliminated property rights” Benson and Baden, 1985.

Despite they are insecure, the value of quasi-rights is not negligible. For instance, in Venezuelan cities it is common to find imperfect Coasean-like agreements between shop retailers and street vendors in which formal entrepreneurs pay money to street vendors to “keep clean” (or out of street vendors) their stores’ fronts, and in which formal entrepreneurs are vertically integrated with vendors who sell their products on streets. Realizing the degree of stability of quasi rights, real state property owners have proposed paying street vendors to dislodge public spaces.

How does scarcity affect the new allocation of property rights on public spaces? Let us assume that the level of enforcement posed on the rights granted to pedestrians has been dropped to zero. At initial stages, an increase in the number of street vendors joining the ranks of those already in existence, will improve the sector’s average productivity by favoring external scale economies. That initial improvement in average productivity will stop at a certain point defined by the scarcity of physical space. Beyond this threshold, any further increase in the number of street vendors will imply a reduction in average income.

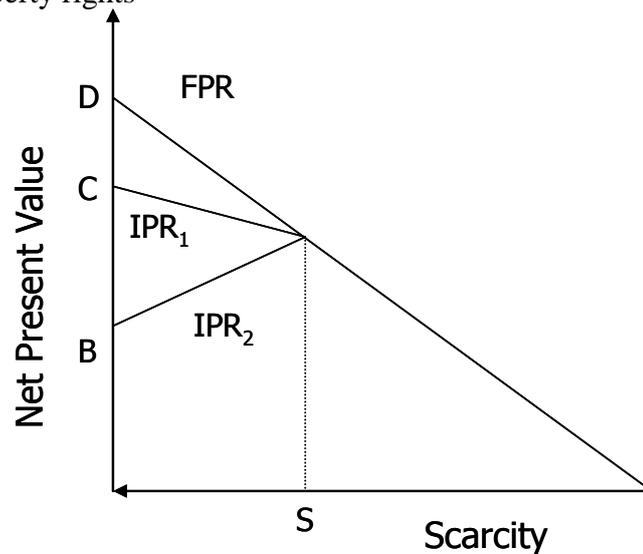
Scarcity of physical space, and the threat of its overexploitation, creates incentives to improve the quality of quasi-rights, or to demand a new formal allocation of property rights. As Furubotn and Petjovich, 1972, note: “...*changes in property rights are triggered by man’s search for greater utility*”. Quasi-rights’ net present value would be lower than that ranging from formal-properly-defined and well enforced property rights. The opportunity cost of keeping quasi-rights, instead of gaining formal rights, generates a demand for formal institutions. Thus legal permits, taxes structures, and other formal

property rights allocations becomes the subject of rational demands. The distributional consequences of a new allocation of property rights in terms of political power is very likely to be the source of violence and conflict (Libecap, 1989, Alston, Libecap and Mueller, 1999)

Graph 1⁷ illustrates how different property rights structures emerge driven by the logic of scarcity. Y axis is net present value on public lots and X axis is scarcity levels (inverted from right to left).

Graph 1:

The demand for property rights



The graph presents three curves that relate scarcity to the net present value of property rights: FPR (formal arrangement) IPR1, IPR2 (quasi-rights). Net present value of property rights increases in the three cases with the number of street vendors up to a certain point (S). Beyond point “S” the opportunity cost of not setting formal property rights increase as much as scarcity does (as illustrated by the difference between IPR1

⁷ The graph is based on Alston and Mueller, 2004.

and FPR). Institutions promoting overexploitation of streets are represented by curve IPR2, which net present value decreases with the growing in the number of vendors further than S.

The crossing of this threshold at point “S” generates the demand for an establishment of property rights (either for formal ones or for an improvement in quasi-rights) to prevent any externalities engendered by the presence of too many street vendors who would interfere with the conduct of business, generating negative effects on profits and therefore on net present value of property rights.

The supply side of property rights:

Through defining and enforcing rules, the State defines formal institutions that influence the allocation of property rights. The supply of formal property rights on public spaces is a state’s duty; not just on the act of granting formal rules, but also, over the degree of enforcement applied to those rules. The mix up of formal rules, plus the degree of enforcement applied upon them, characterizes the degree of informality over property rights (North, 1990).

The existence of a set of complete, well-defined and non-overlapping rules does not warranty its full enforcement (North, 1990). A “weak” rule of law might make enforcement vulnerable to political manoeuvring so that governments manipulate enforcement as a device to extract either political (by populism) or economical rents (by bribery).

Defining formal property rights on an asset could not alter its value in a significant way. Besides well codified norms, the value of an asset is dependent on the level of enforcement (*“the credible threat to induce compliance”*. Barzel, 2002) possessed on the formal rules that govern its allocation⁸. The positive relationship between enforcement and assets’ value, results from the fact that higher levels of enforcement increase the likelihood of exclusive appropriation from the stream of income the assets generate (North, 1990; Anderson and P.J. Hill, 1975). In other words, the value of an asset increases according to the degree of effective enforcement devised to induce deterrence of those considered potential violators of rights.

But the enforcement of formal rights on an asset has a twofold effect.⁹ While in the one hand, it increases the value of the asset to the groups to whom property rights have been formally “granted”, in the other hand it decreases the value of the property rights to those considered potential violators¹⁰. Thus, full enforcement of formal property rights on public spaces, maximizes pedestrian’s value, while augments street vendors’ transaction costs. In other words, assuming that pedestrians “own” the rights, the stronger the level of enforcement, the higher the transaction costs that street vendors should bear to gain access to streets as a productive factor.

Even if formal rules are complete, well-defined and non-overlapping rules. it does not warranty its full enforcement (North, 1990; Furubotn and Petjovich, 1972). Because of its effect on the value of assets, enforcement of formal rules has political consequences:

⁸ Snidal, 1979, suggest that perfect private property rights exist whenever the marginal cost of excluding others from consumption equals zero, which requires fully effective third party enforcement mechanisms. Veljanovsky, 1983, also points out that the actual impact of regulation is dependent on the level of enforcement.

⁹ *“Property rights denote the existence of some system of mechanisms which serve to permit exclusion of goods and uniquely to determine the beneficiaries (and losers from) that exclusion”*. Snidal, 1979.

¹⁰ This idea is based upon Yoram Barzel’s definition of economic rights which assumes that *“As the probability of theft increases, the ability to enjoy declines”* (Barzel 2002).

the state gains political support from the groups which value increases, while lose support from those groups which value decreases. Thus, the supply of enforcement on formal rules has a political side that should not be ignored (Libecap, 1989; also implied in Demsetz, 1966, Barzel, 1992).

However, the state's opportunity to take advantage of the relationship between enforcement and political support (the "*misuse of public power for private profit*" Sanchez and Waters, 1974) is not always present. It is an expression of the fragility in the rule of law, and reflects the lack of a limited form of government. If the rule of law is weak, the politically rational level of enforcement supplied can be set despite of what is established in the formal rules. In other words, such a political framework enables the opportunity for the bargaining of property rights because of its value (Benson and Baden, 1985).¹¹

The efficiency of interest groups in solving their collective action problems is a basic determinant of this policy outcome. As Furubotn and Pejovich, 1974, show: "*...changes in the content of property rights depend on the relationship between ex ante estimate of benefits to the ruling class from reorganizing the existing property rights assignments and ex ante or even ex post estimates of the costs to be incurred in policing and enforcing the changed structure of rights*".

The level of enforcement has a net effect on the level of political power which balances the support granted by those benefited, and the support withdrawn from those affected.

¹¹ This problem has been deeply explored in Weingast, 1995: "*A government strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its citizens*"; and in Grief, Milgrom and Weingast, 1994: "*...A state with sufficient coercive power to do these things (define and protect property rights) also has the power to withhold protection or confiscate private wealth undermining the foundations of the market economy*". Note from the author inside the parenthesis.

State's payoffs are affected by the relative political efficiency of the conflicting groups (benefited and affected by street vending) to "capture the state", whenever their status quo moves as a consequence of a change in the level of enforcement (Weingast, 1997). As North, 1984, points out: "*The state then becomes the vehicle by which the costs of transacting are raised to capture the gains that will accrue to any interested party that can control the specification and enforcement of property rights*". How effective are those groups in capturing the state, will be an expression of how efficiently have they solved their collective action problems (Rose- Ackerman, 1978, for corrupt policies; and Libecap, (1989) for the general idea).

State's incentives to relax the enforcement of formal rules are not just the result of a political calculus. Politicians realize that by relaxing enforcement below the level of total deterrence, they will have an opportunity to extract bribes from vendors.

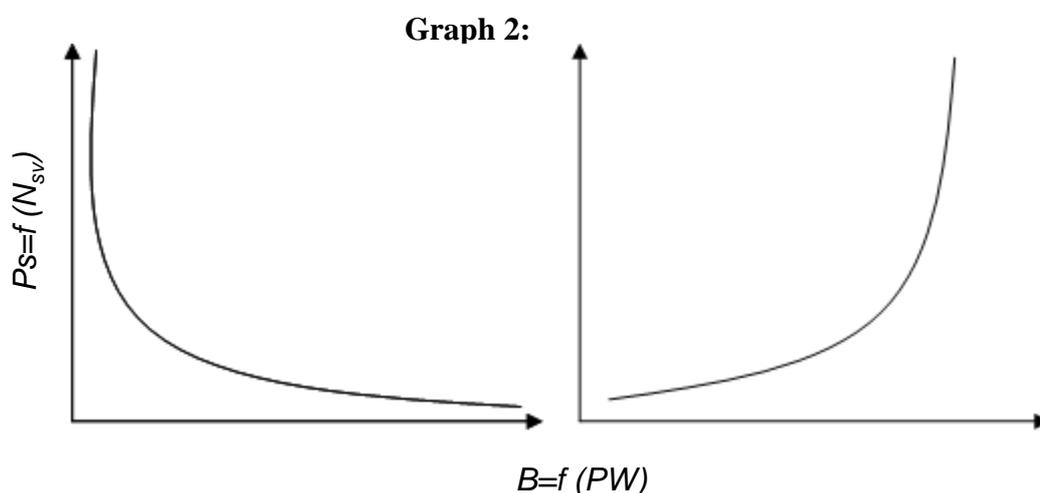
Therefore, the state's maximization function would comprise two constraints implied in reaching the maximum level of political support and the maximum possible amount of bribes.¹² Thus, corruption¹³ becomes a "*potential danger*" because government officials have the power to allocate property rights (Benson and Baden, 1985); a danger which increases with the fragility in the rule of law (Weingast, 1997).

Let's us assume that: a) rules governing the allocation of property rights are properly defined and do not allow performing street vending; b) costs of doing business in other economic activities (formal or informal ones) and finding formal jobs are beyond the

¹² "...crime and bribery market are interrelated because the bribe offered by an apprehended criminal will depend on the expected reduction in the fine for the crime which in turns depends on the severity of the crime committed". Pashigian, 1975. Rose-Ackerman, 1978, also shows that income from bribes and political support shape politicians' utility surface.

¹³ "*Corrupt opportunities are affected by the overall level of state intervention in economic and social life, the discretion available to public officials, the relative efficiency of administrative and political controls, and the form of political competition*". Della Porta and Rose-Ackerman 2002.

tipping point that make them worth, and; c) the rule of law is weak. Relationships between the will to enforce, bribes and political support in two different cost of doing business settings, are illustrated in Graph 2.



Where:

B: bribes amount;

PW: political will to enforce formal property rights;

PS: political support;

N_{sv}: number of street vendors; political outcome of street vendor's pressure strategies;

Implicit is the increasing function of *B* in *PW* (the higher *PW*, the higher *B*). In Graph 2.1, political support variable *Ps* is a decreasing function on *B*. The more street vendors have to pay out in bribes to allow them to gain access (or in initial installation bribes) or to continue in the business (or in permanence bribes), the lesser the political support *Ps* they give the policy-related enforcers.

The inverse relationship between bribery and political support showed in Graph 2.1 stems from the assumption of high costs of doing business, formalizing currently informal vending activities, and finding formal employment. Relaxing those assumptions, Graph 2.2, shows that the relationship between the value of bribes and the degree of political support can be reversed. Whenever costs of doing business are low,

enforcement of formal rules implies moving vendors from street vending to other economic activities, which might entail political gains.¹⁴

Whenever enforcement degree lowers to zero, bribery does not necessarily disappear. When it happens, local leadership takes the place of the third party enforcer of informal agreements, so that part of bribes previously extracted by the state, are now taken from local grassroots organizations' leaders (Ostrom, 1990). If enforcement is zero, the leasing of the street becomes a private institution. Between zero and full enforcement there are "hybrid" bribes-extracting organizational forms that involves both local leaders and the Government officials.

¹⁴ However that might imply some costs of investing in human capital. In time, street vendors' human capital becomes a specific asset for the informal sector whose market value for the formal sector decrease.

Formal rules, enforcement and bribery: an analytical narrative

1996-1998: the “battles” against street vendors

With a speech ended saying: “...all this is about the right to work that, as you know, Venezuelans have. I will defend that right because even in the Vatican Square there are street vendors”¹⁵, the candidate who was later elected as Libertador’s Municipality Mayor, ended his electoral campaign in late 1995.¹⁶ In January 1996 the new Mayor and the Federal District Governor signed a joint decree intended to formally avoiding street vending activity in Caracas’ sidewalks, squares and boulevards¹⁷. Thus, the Municipality initiated its “*Plan for Public Spaces Recovery*” intended to institute and to enforce formal property rights, while promised the relocation of street vendors in new Municipality markets, yet to be built.

That apparently Pareto-efficient policy was thought as to increase street vendors’ transaction costs on their current property rights, while granting vendors formal property rights on Municipality markets. On the basis of a successful implementation of the policy were: a) the achievement of a sustainable cooperative strategy between all levels of government to define and enforce new rules, and; b) the actual building of such markets in places where vendors’ “full income” would not be jeopardized, and their effective relocation.

¹⁵ “Los Buhoneros del voto” El Nacional. Newspaper article. 11/26/1996

¹⁶ Although divided in five Municipalities, the Libertador’s Municipality is Caracas’s main local level of government.

¹⁷ Before 1999, when a new Constitution was approved, the Venezuelan President appointed the Federal District Governors (Chief of the Regional Level of government). 1999’s new Constitution replaced the Federal District Government by the Metropolitan Government. First Metropolitan Government’s Mayor was popularly elected in August 2000.

New formal rules avoiding street vending included two joint decrees between the local and regional governments (1996 and 2000) and two Municipality ordinances (1997 and 1998)¹⁸. Its enforcement was built-in the use of public force to reach the progressive dislodge of public spaces by actively persecuting vendors located in key zones of high pedestrian traffic (Caracas sidewalks, boulevards, squares and illegally occupied public terrains). While the enforcing of new rules was progressively achieved, just a small portion of street vendors were either relocated in the new markets (whose building was constantly postponed due to bureaucratic delays), or given formal permits to remain in streets.¹⁹

From the beginning, the new policy faced with political opposition from grassroots organizations of street vendors who spread out a portfolio of survival strategies. Vendors' "*run and come back*" tactic was very popular to cope with police threats.²⁰ Other strategies included vendors' anger protests in front of public buildings (Congress, Municipality, etc.), temporary kidnapping of public servants and men in holy orders, as well as promoting long hours of traffic junks in Caracas' main avenues. They also tried legal actions through the Supreme Court to denounce Municipality's violation of their "Constitutional right to work".²¹ Vendors even organized in "unions", and asked to the International Labor Organization and the Latin American Workers Bureau, to mediate in their conflict. Besides street vendors protests, Municipality's councilmen and

¹⁸ See: Gaceta Municipal del Municipio Libertador (1996); Gaceta Municipal del Municipio Libertador (1998).

¹⁹ For instance, in August 1997, the Municipality received 17.000 petitions of permits to use streets by December. Just 220 formal permits were granted.

²⁰ That network-kind strategy consisted in running and hiding, just to go back as soon as the police had gone. The process was typically repeated many times in a day.

²¹ Venezuelan Constitutional rights gave no prevalence to either the right to work or the inalienability of public property. Local-level rules did not solve that fundamental dilemma.

members of Parliament actively complained about the “anti-humanitarian” policy implemented by the Mayor.²²

Enforcement strategies took into account Venezuelan commercial year round cycle. Each January, thousands of vendors were dislodged from selected areas, as part of what the ex- mayor declared to us in an interview was his “battle *by battle policy*”. Whenever relocation was ineffective, dislodged street vendors tried to occupy other public spaces where the police constantly persecuted them. Enforcement of rules was typically relaxed by December when the demand on public spaces increased significantly.²³

Meantime imperfect enforcement opened the gate to bribery from medium-level officials (the police, councilmen, and other public servants) who, taking advantage of a “waving policy”, extracted rents from street vendors by granting them temporary informal permits in implicit “tolerance zones”. Unions of vendors rose as interlinks between with public servants in an attempt to “protect” their informal property rights. In many places of the city, there were fixed weekly rates payable to unions, shared by, either the police, or by public servants.

By middle 1998, the Municipality had dislodged street vendors from the main areas of the city where they tended to congregate in (boulevards, ground transportation terminals, entrances to metro stations and banks, and illegally occupied markets). However, both political pressures, and failures in the policy implementation jeopardized the credibility in the long run sustainability of the policy.

²² In November 28, 1996, a young street vendor woman died in a protest between vendors and the Police.

²³ Labor legislation commands employees to pay, by middle November, salary benefits that can triplicate the monthly average income of those formally employed. The income effect on consumer products demand lasts until late December. January is typically a low-sales commercial season.

Change in relative prices promoted by the new policy had not changed preferences on public spaces from those who had loosed their sources of income. Furthermore, the number of prospective street vendors had not stopped growing (increasing the demand on streets). The political cost of enforcing rules increased as much as relocation of vendors was ineffective.

1998-2000: the electoral environment and the enforcement of new rules

1998-2000 was an unprecedented electoral period in Venezuela. During those years, population voted 2 times for President, 2 for Governors and Regional Representatives, 2 National referendums approval of a New Constitution, 1 for the Constituency Assembly representatives, 2 times for Parliament representatives, 1 for Mayors and Councilmen, 1 for the Latin American Parliament representatives, 1 for Andean Parliament representatives and 1 time to elect the Metropolitan District Mayor and Councilmen.²⁴

Results of 1998 Presidential elections had a strong impact on the Municipality's "*Plan to Public Spaces recovery*". With 80% of popularity, the new President arrived to power with the promise of a new Constitution. In a 1999's national broadcasted TV program, he explicitly commanded public servants, "*not to touch street vendors*". From that moment, the Executive, who took power in early 1999, would assume a more direct involvement in the street vendors' matter. The National Government designated a new Federal District Governor and, in late 1999, appointed a Commissioner for the Informal Sector Issue.

²⁴ Source: *Venezuelan National Electoral Bureau. Statistics Department. 2003*

The Mayor's political support, from the upstream levels of government regarding the *Plan for Public Spaces Recovery*, was withdrawn. That fact, besides the already mentioned failures in the implementation, limited the Mayor's capacity to sustain the policy. Open conflicts between the President and the Mayor, and between the latter and the Governor were frequent and public.²⁵ On the basis of such public diatribe was the change in the policy orientation fostered by the Executive, from an active enforcement to a low enforcement policy led by the Federal District Government.²⁶

By late 1999, a new *low enforcement policy*, generated an "overshooting" in the demand on property rights, coming from about 10.000 former street vendors who had been dislodged and still waited for relocation, and the unemployed (or those in low income jobs) who, given the lowering in transaction costs, now considered street vending as a worth activity.²⁷ Externalities such as traffic junks, over crowded streets, delinquency, etc., increased in importance. Civil society started to claim a solution for the street vendor's dilemma.²⁸

In order to cope with those demands, by January 2000 the Federal District Governor approached the Mayor to sign a new joint decree formally avoiding street vending.²⁹ That January, about 8000 vendors were moved out of Caracas' streets. Some of them were relocated on the same public terrains from where, two or three years ago, they had been dislodged. Informal temporary permits were again given in "tolerance zones".

²⁵ Cross-denunciations of street's leasing between the Mayor and the Governor were frequent in such conflict.

²⁶ That policy was based upon defending the Constitutional right to work.

²⁷ Although there are not statistical records, vendors declared that from 1999 there has also been a boom in immigrant population coming from Peru, Colombia, Haiti and Lebanon, to become street vendors in Caracas.

²⁸ 57.20% of the surveyed vendors in our sample, declared to have initiated as vendors after 1998.

²⁹ Decree Number 3. January 17th 2000. Gobernacion del Distrito Federal.

Street vendors responded quickly and actively by using the above quoted pressure strategies. In March 2000, by creating the National Bureau for the Informal Sector, they denounced the violation of their rights at the Venezuelan Supreme Court. Traffic junks and city chaos fostered by vendors' protests increased again in importance. Given the electoral climate, authorities relaxed enforcement on property rights. By September 2000, street vendors had reoccupied main Caracas' streets.

During 1999 and 2000, public denounces of bribery (initial installation as well as permanence bribes) increased substantially. New players in the game such as blocks and street "coordinators" rose to take bribes formerly taken by public servants. In some cases denounces of bribery-involved actions pointed at public servants in different levels of government (regional Government, Municipality, and other public organizations).

In 2000, the Executive fostered a candidate as Mayor for Libertador's Municipality who, from his electoral campaign, announced the continuity of a "*soft hand*" policy, currently fostered by the Regional Government. That candidate won elections in August 2000.

2000-2004: low enforcement

With the approval of a new Constitution in 1999, by 2000 the Metropolitan Mayorality substituted the Federal District Government with a new elected Metropolitan Mayor and new Councilmen. New Municipality Mayor and Councilmen were also elected.

By early 2000, the Municipality announced its policy plan: “*let street vendors remain in streets until finding a structural solution to the problem*”.³⁰ That structural solution would be reached once street vendors would have been moved toward formal employments or formalized their micro business. The success of such a policy required sustainable economic growth to generate as much well paid job places enough, as well as profitable investments opportunities enough, as to absorb street vendors to the formal sector.

Such policy was early opposed by the Metropolitan Mayoralty, which favored the palm intended to the “*recovery of public spaces to citizenship*”. Political differences, beyond the street vending matter, between the Metropolitan Mayor and the Municipality Mayor, as well as between the latter and members of the Executive (included the President), led to the restriction in the Metropolitan Mayoralty budget, and to the intervention on the Metropolitan Police in late 2001.

Constrained in its in budget and limited its political support from upper levels of government, the Mayoralty advanced initiatives among which were the recruitment of former New York police chief credited with slashing crime in that city in the mid-1990s for a 9 months security plan in 2001, as well as the issuing of some decrees legislating on urban planning management in critical street vending areas (2002).³¹ However, those actions had low impact upon the actual dynamics of street vending in Caracas from 2001 and 2004.

³⁰ El Mundo. Newspaper article. January 15 2002.

³¹ For instance “Declaratoria de Espacio Público Metropolitano”. Cabildo Metropolitano de Caracas. February 20 2002. Agreement N° 0009-2002 .

By December 2001 low enforcement of formal rules was explicit. The Municipality Mayor declared to media: “*it must be understood that it is traditional to see people by December trying to make more money by selling of whatever stuffs*”.³² Failures in the implementation of the Municipality policy included the ineffectiveness of several commissions appointed to deal with the problem (mafia, legislation, granting temporary permits, etc.) and the delays in building of markets where vendors had been promised would be relocated in. additionally, the aggregate economy was not neither growing nor decreasing unemployment rates.

The low enforcement policy generated the raising of new, and the empowerment of already existent local mafias. As much as the demand over property rights increased as the result of the lowered transaction costs, local mafias that “lease street lots” took the place of the third part enforcer. Power to enforce came from contacts with government officials, extended locally based family and kinship networks, as well as physical force. The result of the low enforcement policy was to redefine who supplied property rights, as an organizational response to the changes in the transaction costs infrastructure. By these days, street vendors claimed for the legalization of bribes.

³² El Universal. Newspaper article. 12/15/2005.

Current figures about property rights

The quality of property rights

Results from our 2004 survey show that 67% of surveyed declared they did have rights to use their occupied street's lots as source of rents (See annexes Chart 1). Formal rules governing the allocation of property rights were considered, either non-pertinent in 38% of cases, or being ill defined (35%) (Chart 2). This figure can be considered a strong indicator of weakness in the rule of law.

When asked about *who granted* property right, 55% declared it was given by public servants (the President, Major, police officer, etc.) while 34% declared "myself" or "local leader". When asked about *what organizations* granted such rights, 56% of respondents declared it was granted by government-related organizations, while 38% declared favouring themselves or local grassroots organizations (Charts 3 and 4). Both figures suggest that there is a "shared" responsibility between the local governments and grassroots organizations in assigning property rights. That hypothesis was reinforced by answers taken from 2005 interviews, where 95% of respondents declared to be currently paying different kinds of bribes to local leaders in order to either gain stability on their current rights, or to get access to relocation programs sponsored by the Municipality. Furthermore, survey answers regarding the source of coercion (grassroots leader or organizations (47%) or the police (49%)) reinforce the main idea (Chart 5).

When ranking the degree of importance of some institutions: a) Municipality Ordinances; b) Time occupying the lot; c) Acquiring the public lot by informally buying it to other street vendors; d) Labour law, e) Others; we found that an informal institution

such as “time occupying the lot” was the most important 20.5% (Chart 6). When ranking “informal factors” influencing the stability of property rights, we again found that time variable having an important weight, next to the frequency variable (going every day). Besides those variables, informal networks (local leadership, government, family and friends) were considered key factors, suggesting that networking is in the basis of the activity (Bars graph 1).

Prices of streets:

a) Street vendors declared that in 68% of cases, paying bribes to coordinators, grassroots organizations or to the police, could give someone access to property rights. It means that bribery is in the core of the initial allocation (Chart 7). When asking for the initial installation bribes amount, we found an average of 1,436 US\$ (see Bars graph 2). We also asked vendors to compare seasonality in transaction costs implied in obtaining property rights. 93% of surveyed vendors declared that time and money expenses in obtaining a public lot were comparatively higher in the last quarter of the year, while 90% declared that those expenses were lower by the first quarter of the year (Charts 8 and 9).

We compared how bribery changes between already settled vendors, according to three scenarios:

a) *Whenever it is close before local elections:* we can infer that close to local elections, bribery from the Police lowers as the result of the already discussed impact on political support. However, when the State’s will to enforce lowers, the demand on public lots increases, so that local leaders bribe street vendors as a device to cope with a prospective “tragedy of the commons” that would jeopardize the group’s

average income. Just 25% of the sample considered that street vendors are not an important issue regarding local elections (Chart 10).

- b) *In the event of law enforcement threats:* threats of law enforcement have an increasing impact on bribes paid to Police, when compared to bribes taken from leaders. The former is due to the public force is in charge of dislodging vendors without taking into consideration informal institutions that involve local leadership. Despite we have documented a number of dislodge threats in the last ten years, 50% of surveyed have never been moved out from their places, which obviously ameliorates credibility in those threats, diminishing the impact of dislodge threats on the actual bribe amount payable to public authorities (local government has loosen reputation). We found that 51% of vendors find no effect on dislodge threats in their current bribes paid to police.
- c) *By the end of each year:* as the result of increasing demands on public spaces, bribes both paid to the police and to the local leaders are almost in the same rate. We explored how bribery was influenced by seasonality and founded that in 68% of cases bribes were higher in the last quarter of the year, while 61% declared that were lower in the first quarter (Charts 11 and 12).

When asked about “permanence bribes” amounts the average amount was US\$ 37.82 (Chart 13).

Conclusions

Institutional change requires the consensus of those with the power to set and enforce rules toward new arrangements (North, 1990; Ostrom, 1990). Street vending in Venezuela is a showcase on how economic and political institutions have interacted to set an incentive structure that tends to reinforce the pervasiveness of an activity that generates so many social externalities.

This paper has developed a theoretical approach and highlighted some empirical evidence to show how bribery, corruption and populism, are in the core of the answer to the question regarding why is street vending a widespread activity in Venezuela.

This paper also intends to open a broader research line concerning how to address empirical research on issues such as the rule of law, bribery and corruption in developing countries from a new institutional economics perspective. It also pretends to contribute with the empirical methodology to deal with transaction costs measuring.

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Annexes

Chart 1

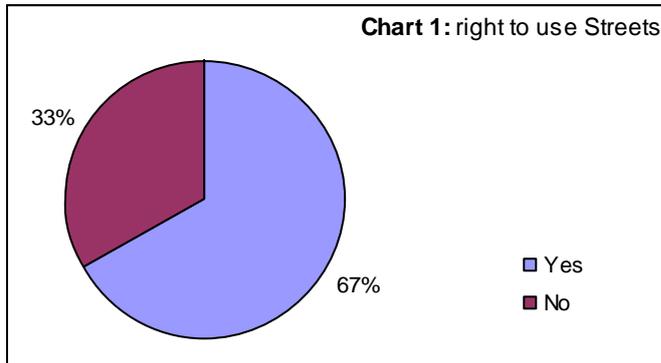


Chart 2

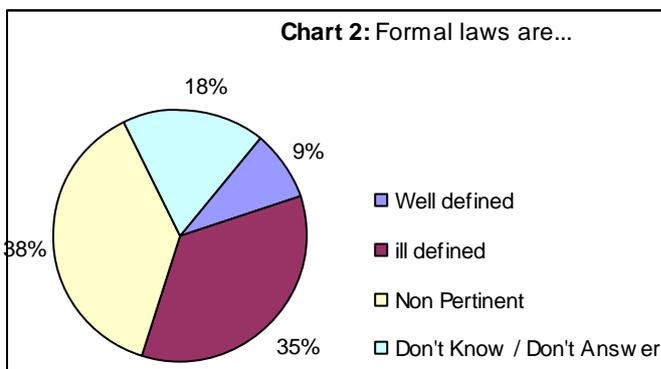


Chart 3

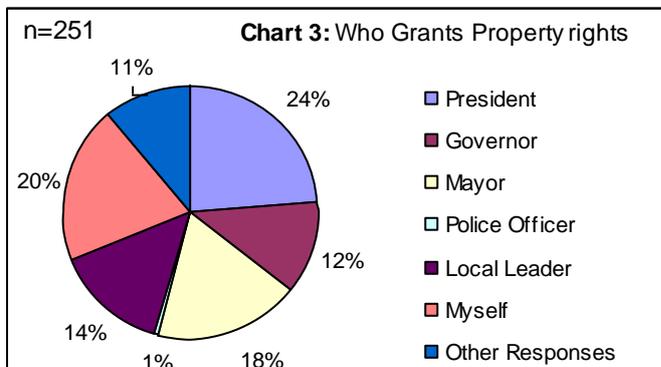


Chart 4

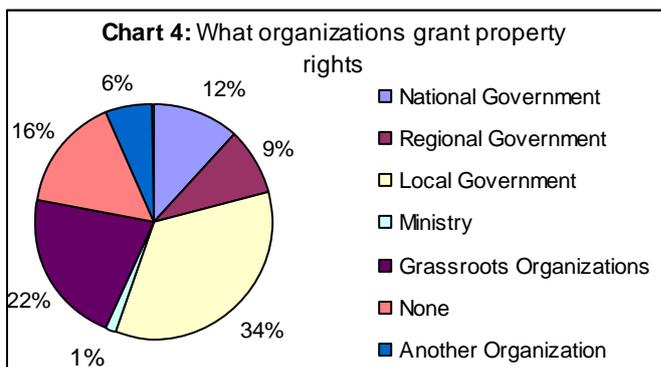


Chart 5

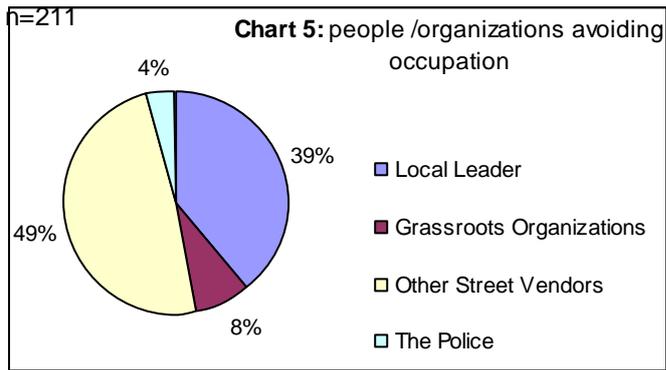
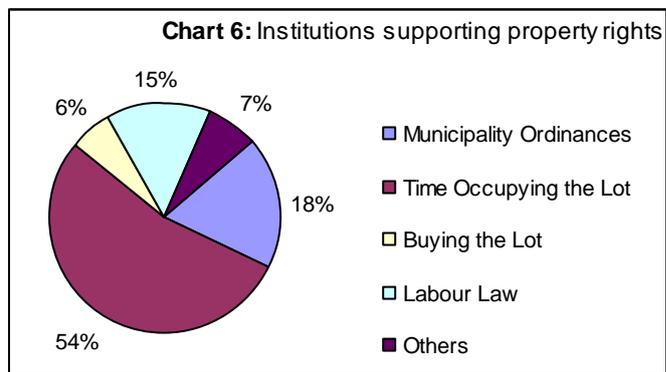


Chart 6



Bars graph 1

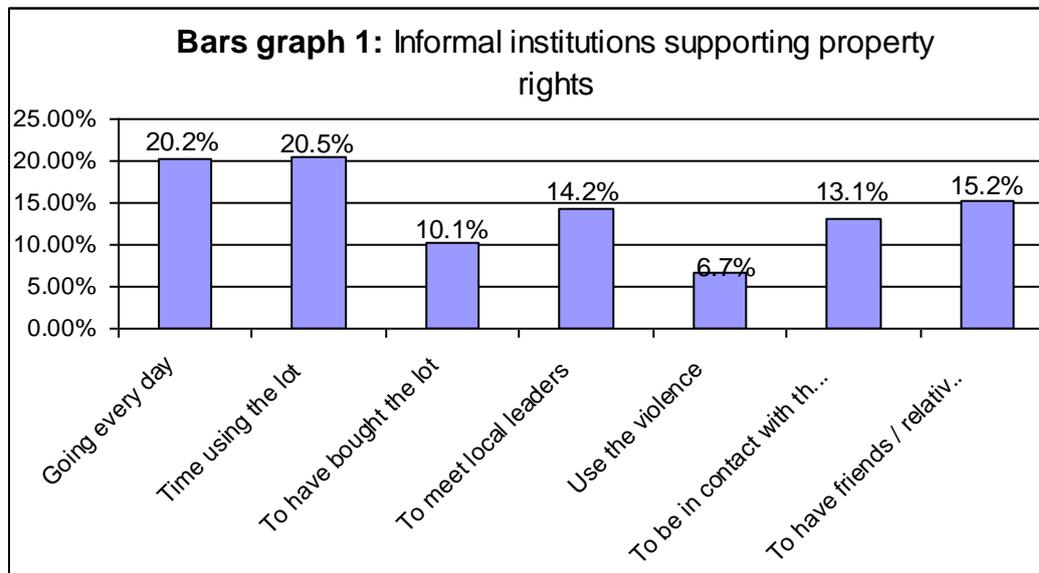
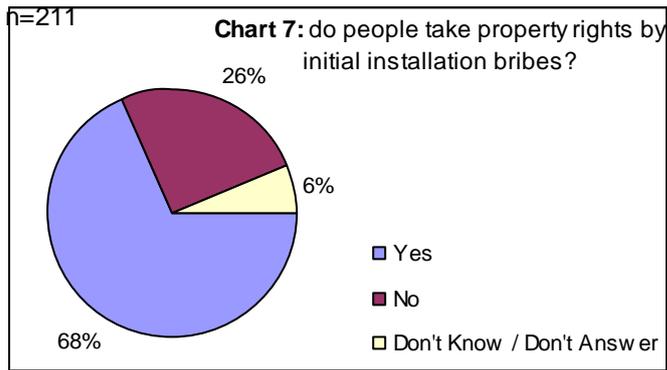


Chart 7



Bars graph 2

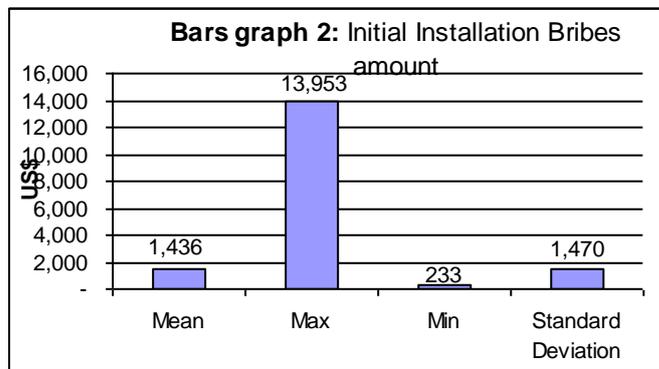


Chart 8

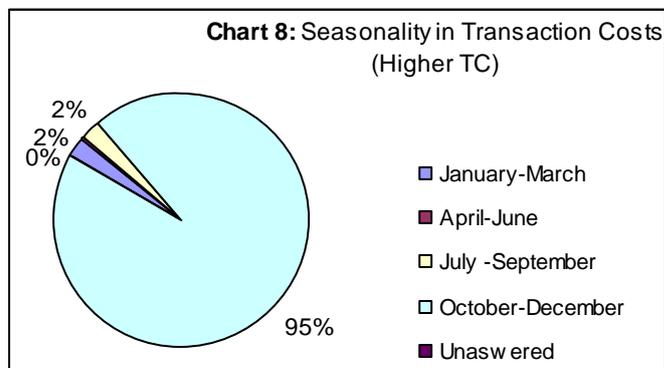


Chart 9

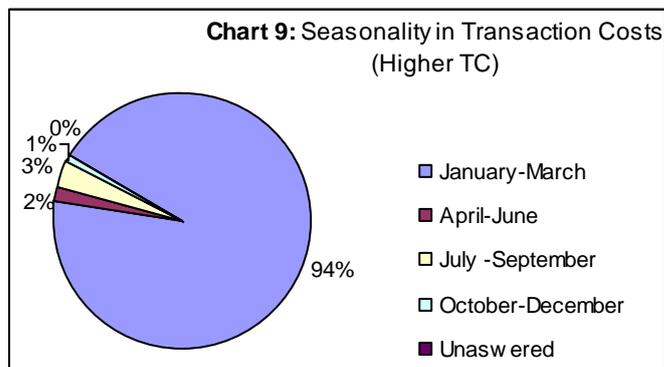


Chart 10

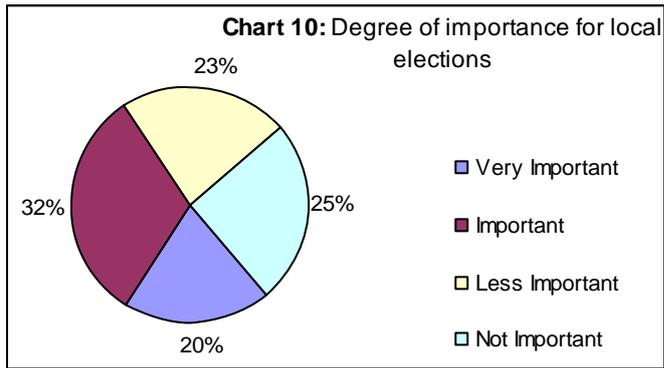


Chart 11

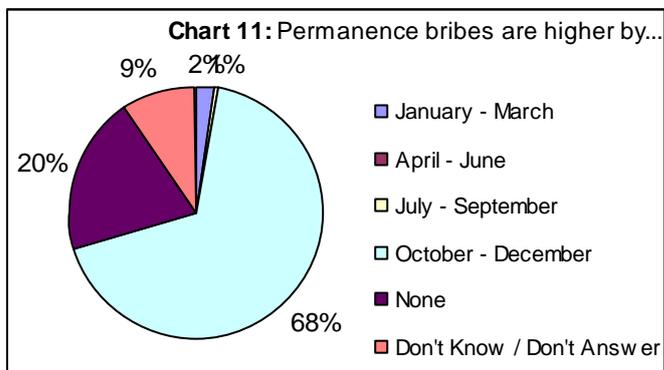


Chart 12

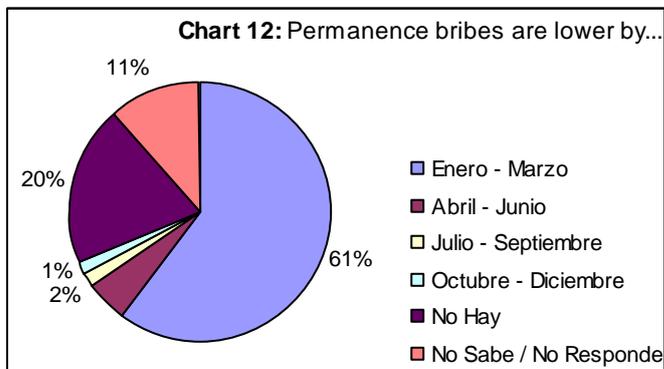


Chart 13

