

## DOMESTIC DEVELOPMENT IN THE LABYRINTH

Delgado, Arnoldo Oscar

Comisión de Investigaciones Científicas de la Provincia de Buenos Aires (CIC)

Laboratorio de Investigaciones del Territorio y el Ambiente (LINTA)

Campus Tecnológico, Camino Centenario y 506, CP 1897, Gonnet, Pcia. de Buenos Aires.

E-mail: [oscaradelgado@hotmail.com](mailto:oscaradelgado@hotmail.com)

### ABSTRACT

Since its installation in our country, domestic development theory and practice have been object of diverse assimilation that, at times, contributed to dilute an essential feature of those clusters of Small and Medium Enterprises (SMEs) that founded the domestic interest in 1970's: the continuous innovation of products and production processes, possible only by the imprint of cultural factors in the establishment of a socio-institutional environment self-regulated to benefit it. The stage begun in 2003 seems to be at a similar risk: in order to reverse the terrible consequences of the previous decade and achieving a growth with an inclusion, now it assimilates into the social economy trying to go beyond mere social welfares and form a socio/productive mesh based on solidarity and cooperation ties. Beyond the legitimacy of the pose, the precariousness of the underlying setting demonstrates a gap that still separates us from the ideal model, requiring from us to agree seriously with the medium and long term state policy to promote the territorial development according to the contemporary society requirements.

**KEY WORDS:** Endogenous development; social economy; domestic innovation systems; innovative environment; public policies.

## **INTRODUCTION**

Having passed two decades of the Argentinean pro-domestic development experience, the current approach reenacts the need to establish processes from an endogenous perspective, consolidating for this the production systems progressively aimed to higher value added activities that generate more and better jobs and contribute to the improving of the income levels and quality of life. As the success stories that, back in the 70s, awakened interest in this particular route to development, it is - almost tautologically, as we shall see - the formation and strengthening of authentic regional systems of innovation.

Judging by recent publications, however, the national setting appears to regard as less diverse. For example, Yoguel et al. (2009) seem to consider as sure its existence (though in its infancy), proposing actions to strengthen and consolidate the domestic dimension / regional innovative processes. The Industrial Technology Institute (Martínez, 2010), which raises the need for a national plan to (re) build the industrial factories in the poor regions of the country, rescues the role of innovation and place of the community as an actor and beneficiary: to the aim it proposes, first, providing it with product and processes technologies and an appropriate management to produce goods, financial resources and technical training framework capable to strengthen the knowledge domesticly available; on the other hand, convenience of thinking in terms of complete value chain, strengthening sector grouping, such as clusters that add value to natural resources (with the participation of regional actors, especially those located in universities or institutes of R & D) and to shift the focus of the planning within the community itself.

Less optimistic, Ortiz and Schorr (2009) warn about the persistence of positions that question the need to advance in a process of (re) industrialization affirmed in the construction of dynamic comparative advantages rather than the traditional benefits of natural resources. As they point out, this implies the perpetuation of the assumptions that guided the economic policies in previous decades, whose emphasis on the exploitation of such resources and commodity production have entailed the dismantling of more complex manufacturing and

technological content (particularly those related to the domestic manufacture of capital goods), the overwhelming concentration of capital in few hands (with strong transnational) and an involution of the SMEs, especially negative, due to the role that they have in the present context. The focus on static advantages is worrying as well, while undervaluing the role of scientific and technological progress and delay the strengthening of national innovation system and its domestic components, the true condition of possibility for the formation of territorial production systems capable of sustaining a long-term development. Fernandez and Vigil (2007) question the hegemonic setting of the concept of the above-mentioned cluster, with its not innocent vocation to encourage sustainable communities that can engage with the global world, regardless of a nation-state and carriers, in addition, of origin failure that claim adaptations for its use.

Facing this complex panorama, domestic development faces indoors its own contradiction. Urged to remove the heavy debts accumulated after the neoliberal period, they risk a shift shaft which arouses reasonable reserves: the pressure of the situation might distract us from their ultimate goal, further delaying the implementation of a genuine political economy of development domestic and long claimed. However, it seems clear that in this framework it would be only possible to design, implement and fund policies to promote ad hoc processes supported by continuous technological innovation, with emphasis on the essential aspect that serves as a condition of possibility: the collective technological learning.

According to this, the first part of this paper reviews briefly the itinerary followed by domestic development in our country and its current dilemma; the second one approaches the deep relations that joint territory, endogenous development and domestic production systems, a crucial issue to understanding the required public policy; the third part presents a conceptual exercise that combines the traditional argument that justifies government intervention to promote technological innovation with the demands for the creation of a new public service and the fourth part presents some conclusions drawn from previous arguments.

## **DEVELOPMENT**

### **1. From municipality crisis to including growth: domestic development or social economy?**

In order to present a synthetic overview about what happened to the domestic pro-development ventures in Argentina since the installation of the topic in the late 1980's, it seemed appropriate to take as regards two characterizations made by Arroyo (1997, 2007) that, from his point of view, are descriptive of the extreme stages of the cycle reached here by national experiences.

The first one (municipality crisis) expressed with irresistible wittiness the unquestionable fact that marked that early stage, framed by the reform that allowed the full implementation of neoliberal economic model and the replacement of the until then valid state-centric matrix for another one with a centrality in the market, with fearful consequences for the population and territory: I mean, both domestic and in the rest of Latin America, its emergence on the public agenda did not seem to respond well to a real appreciation of the domestic but rather, the urgency of the fiscal crisis and the pressures of external borrowing that motorized the abrupt decentralization of functions to the sub national levels, unaccompanied by the effective transference of the economic and financial resources necessary to deal with it (situation exacerbated by the lack of municipal autonomy distinguished by the reform of the Constitution in 1994, but outstanding for many provinces of the country). It is characterized by assimilate development with economic growth, and assimilate domestic development with municipal development, this first stage privileged the role of exogenous contribution seeking the improvement of the attractiveness of the city by improving infrastructure, tax breaks or other measures that would satisfy the investor. According to the dominant speech, positive social effects are coming (the famous spillover effect) through the increasing of employment and the improvement of the people incomes. Of course, nothing happened. And yet, when successful cases showed the emergence of industrial parks, investment and changes in urban structure, the results were far from being as positive as expected: so, as pointed out by Arroyo, in the

installed parks by foreign investment, the adopted profile was unproductive but attractive (even predator), the creation of infrastructure, in many cases, lacked any planning, and above all, as might be expected of a simplistic view of the multidimensional nature of authentic development, social inclusion and a significant increase of employment did not happen.

Throughout the 1990s, the strengthened domestic democracy, participatory strategic planning (with promises of consensus and re-legitimization of linking policy-society) and the public-private joint were emphasized to motorize productive projects (through the creation a Development Agency), the journey seemed to end abruptly with the collapse of 2001. Many experiences were interrupted or entered into crisis, with most of the municipalities checked by the food emergency, and by then, none of the presented approaches have come to represent the hegemonic paradigm, becoming a crisis of the concept and the coexistence of all points of view in an exchanged and overlapped way. Despite the lack of a systematic evaluation of previous ventures, some certainties evidenced that the threshold for access to the domestic development world was, indeed, too high for most of the municipalities of the country. In first place appeared the need for a defined production profile from which the process could be motorized (the requirement that seemed to meet only 5% of cities). Then, the importance of an adequate size of the city to ensure a municipal machine gifted with a certain level of complexity to guarantee minimum professional and economical and financial resources without losing the essential effect of the closeness between the social partners (which preferably positioned cities between 10,000 and 100,000 inhabitants). Finally, we also had some prior training in the domestic area for the necessary coordination between state, market and civil society, usually resulting from the complexity of public policies that have come to implement (social, promotion of productive development.)

This brings to us the second characterization given by Arroyo to take in account the dominant speech from 2003. It is a kind of corrective equation of previous approaches, characterized by the need to overcome the devastating effects of 1990 in terms of poverty, marginalization and exclusion never resolved: now the challenge arises as inclusion + growth, seeking convergence with the precepts of the Social Economy. The idea is to revitalize the

economy from the bottom, taking advantage of resources assigned to social support to generate "a social-productive plot based on the principles of cooperative and associative economy" [Quetglas, F., 2008, p. 85]<sup>(1)</sup> and to pass from the pure welfare to the productive and organizational responses. In addition, there are other positive differences: (i) recognition of the need to establish processes endogenously, using the territorial capacities of any kind and consolidate domestic production systems, (ii) the abandonment of the assimilation with the municipal development that restricted the territorial dimension of possible development (it is talked about, for example, to support activities that generate added value and economic processes that articulate regions and forming solid production chains and corridors between the cities), (iii) the acceptance - though obvious and previously a little bit put sideways- of the inability to conceive a domestic autonomous development of macroeconomic variables and macroeconomic constraints and the national production profile.

Less auspicious, but more realistic, is the impact of the uneven implementation of a strategic planning (Delgado, 2008a): far from the grandeur of yesterday, the horizon proposed is limited in two or three years, establishing very specific and articulated lines of action, to strengthen economic activity with high impact on employment. And the risk of a new assimilation as pernicious as any of the foregoing, in this case with the mentioned Social Economy it is crucially concerning. There is no doubt about the necessity to implement social pro-inclusion policies and recovering of the condition of full citizenship for all inhabitants, which amply justifies the ongoing efforts<sup>1</sup>. But the fact remains that this is in any case necessary but not enough to found an endogenous development process like the one being pursued. As Quetglas says:

"(...) It May be good now to think about domestic development not from that perspective, almost like an evolution of social policy, but as a real set of public policies (...) from a territorial perspective. To promote domestic development is to make economy policy and, as such, discussing fiscal policy, the allocation of public resources for infrastructure or the adequacy of labor regulations. (...) The assimilation of domestic development and social economy, seemingly a minor issue, can become a conceptual barrier, or to establish a framework for limiting the social partners and public decision makers "[Quetglas, F., 2008 , pgs. 85-86] <sup>(2)</sup>.

---

1 As he writes in this article, Arroyo himself (2010) gives an account of the significant problems that still persist in the social field: a) an extreme poverty reaches 10% of the population, b) economic informality affects 40% of working force; c) inequality that marks a difference of 28 to 1 between the 10% richest and the 10% poorest, d) youth who is neither studying nor working, and e) life in large urban centers where 70% of the population is settled and where overcrowding, job insecurity, poverty and violence coexist on a daily basis.

To line up with this reflection that we share, and in order to understand the rationalization that should encourage the public policy in the field, it is worth to return to sources and to re-check conceptually the endogenous development and its possibilities, looking over the essential role of collective technological learning that underlies the continuous innovation in SMEs, the basis of economic dynamism that characterizes it. To this we turn next.

## **2. Territory, innovation and technological learning in the context of the theory of endogenous development**

The last decades have left plenty of studies about various types of territorial configurations as productive economic dynamics with a strongly innovative bias, supports true development processes in domestic and regional levels: whether they be industrial districts, technology districts, regional innovation systems, clusters, innovative media or others, these new places of industrialization that underpin the competitiveness of firms and regions in the world have succeeded in drawing attention to the heterogeneity of the locations and the irrefutable contributions grounded in the specific socio-territorial identity, producing a true turning point in the traditional ways of thinking about development economics. Rather than a technical process only, it appears socially constructed from elements historically rooted in domestic realities and result in different and specific settings in which the territory becomes a privileged factor, an expression of historical, cultural and social components that lay on the very foundation of the organization of production and of the continuous interaction between economic and social spheres. This would demonstrate the exhaustion of a long tradition of economic models, that to attribute a decisive role to the presence of privileged economic functions and advanced sectors, just define not only a hierarchy of countries but also evolution stages of required development (Courlet and Pecqueur, 1996): when balancing particularism, the persistence of traditions and sense of belonging to the original community, the consideration about the territorial dimension thus becomes potential benefits. These factors were discussed not long ago and analyzed as obstacles to the consolidation of modern production and that provided a proper place for small-scale domesticated production usually found in less developed countries and regions.

Along with the given examples, the so-called Domesticated Productive Systems (LPS) are included, a term that refers to a configuration of firms grouped by proximity and specialized around an activity or on a range of leading products, which maintain commercial relationships but also informal to each other and with the socio-cultural insertion context, producing positive externalities for the whole. Unlike the district in the strict sense, we speak here about a dominant industrial *métier* but not unique - with the possibility of existence of other industries - and a preponderance of SMEs, which does not exclude, in some cases, very territorialized relationships between large companies, between large groups and SMEs; although a different link from the traditional subcontractors (Courlet, 1994; Soulage, 1994, Kern and Llerena, 1996). We consider this definition is still too general, taking a look at some of its outstanding features: (i) they are not located anywhere but in areas of strong craft tradition in which one or more inherited competitive advantages from the past (skilled workers, seasonal craft) that have come to crystallize around a particular activity and to adapt to a specific market: they express the so-called diffuse industrialization, which organizes the production from the division of labor among a multitude of SMEs, characterized by a production flexibility resulting from the use of multi-purpose machines, skilled workers and greater specialization - what Piore and Sabel (1994) baptized just as flexible specialization - which corresponds, at a time, with the flexibility of a social net that offers a variety of shapes and relationships of production: craft workshops, freelance workers, part-time workers, home workers, broadcast of a second job, etc. (Kern and Llerena, 1996; Courlet, 1994, Garofoli, 1996), (ii) this flexibility of production, and the subsequent long-term adaptability, are based mainly on the density of relationships between different producers, creating a learning by interaction whose results are embodied in new skills together, in a greater efficiency in trade and production, and cooperation routines which feedback the cohesion of the system -learning to which is added, sometimes, the result of the interaction with users by providing crucial knowledge to suit exactly their requirements in terms of technical specifications, quality, delay, etc. (Kern and Llerena, 1996), (iii) finally, they appeal to the interplay of two market operation mechanisms: (necessary for regulating demand and supply of goods) and reciprocity (commonly expressed by an exchange of free services), in which the

relationships between the agents reach an own life beyond the purely commercial transaction, the mutual understanding, craft, and in some cases the relationship, allow trust, and with it, the quick transfers of knowledge and information that facilitate the functioning of the market and allow the construction of more systematic and stable links between companies (Courlet, 1994).

Let us now, following Garofoli (1996), analyze some of the socio-territorial factors that seem to operate as prerequisites for this particular route to development, paradigmatically expressed by a fuzzy industrialization and the SPL: (i) above all, the existence of a social formation sufficiently homogeneous in terms of cultural behaviors and aspirations; relatively high social mobility, a more equal income distribution; a social structure that rewards effort, encouraging the creation of a new business, considerable flexibility in the labor market. This, in turn, is determined by a work ethic and sacrifice that spreads throughout the system and determines a substantial socio-cultural identity between the productive and the politico-decisional spheres; (ii) a strong demand for government intervention by social forces related to a consistent development of community services, consistent with the needs of the system (healthcare, school system and vocational training, public transport, housing, etc. (iii) accumulation of knowledge, professionalism and know-how disseminated at domestic level, agglomeration economies derivate from the productive integration between companies and the effective flow of information, and crucially, ways of self-regulation introduced by the community itself in order to balance the tensions between competition and cooperation.

Thus, Garofoli highlights that not only the importance of material resources, labor, historically accumulated capital, entrepreneurship, specific knowledge of production processes and specific professional skills but also the decisive productive existence of interdependencies intra and inter-sectors and, quite crucial, domestic capacity to guide development based on continuous innovation. In his own words:

"Endogenous development means, in fact: (a) the power to transform the socio-economic system, (b) the power to react to external challenges, (c) promoting social learning, (d) the ability to enter specific forms of social regulation at the domestic level, that support the above points. In other words, endogenous development is the ability to innovate at every level "[Garofoli, G., 1992, p.7] <sup>(3)</sup>.

Closely related to this is, of course, the understanding of the way that generates and disseminates technological innovation which has characterized their SMEs, resulting of an incremental process by "dynamic interaction of the skills developed over time, learning that has been developed and the organizational culture within a certain environment [Yoguel and Boscherini, 1996, p.104]<sup>(4)</sup>. The firm learns by doing (so-called learning by doing and its range of variations), but also, crucially, by its interaction with others (including learning by interacting with the customers themselves), which underscores the gravity of noneconomic externalities arising from geographical proximity, as pointed out by Marshall, when he studied the industrial district. And this is so because, as we have seen, the system of values, rules, belief and shared representations that underlie the common culture and defines the socio-territorial identity are specifically translated into a set of non-economy externalities that shape relationships, SMEs among themselves and with other institutions of domestic society, consolidating an environment or decisive socio-institutional environment for innovation and for economic development sustained in it: (i) for the first one, due the informal mechanisms which arose from mutual trust reduce uncertainty of firms, diminish transaction costs and promote the circulation of knowledge and interactive learning, amplifying the individual possibilities to reduce the minimum size required for firms engaged in innovation, (ii) for the second one, due to the continuous interaction of the system of values and institutions provides a real micro-economy regulation that, on the one hand, harmonizes competition and cooperation, and on the other, can regenerate the resources that the community needs but are not produced by the units that composed it, including the transfer of know-how and the existence of a highly skilled and specialized workforce.

Clearly the SPL are, by definition, social and historical products integrated to the organization of the territory and domestic society, so that any attempt to copy them without further delay is clearly doomed to failure. However, understanding how they are constituted and how they function can be a source of important considerations when thinking about domestic development strategies and implement actions accordingly. Countering their extreme specificity, they have in their favor that the territorial dimension where they are based on is present

anywhere (though perhaps in degrees more or less apparent and affirmed), and if they are operated properly on it, they can begin a walking towards a development reasonably solid. Therefore, judging the precedent contents, it is clear that if the chosen mode is the endogenous development hardly this path may traveled if the domestic production systems are not also domestic systems of innovation. In fact, the way that some authors define the latter coincides almost exactly with our prior definition of the SPL, "the space of interaction between companies and institutions in a common geographic location, which includes labor relations of competition and cooperation" [Yoguel et al., 2009, p. 68]<sup>(5)</sup>. Let's advance so, a little more, towards the conceptualization of the potential role of the domestic governments in the matter that occupies us.

### **3. The hanging challenge: the domestic systems of innovation**

The innovation operates as a system and as such the quality of its several elements is so decisive as the synergy between them: due that many times the mayor difficulty of the policies to promote it arises from different actors (companies, universities, government laboratories, etc.) pursue partial strategies or not necessarily convergent ones, the agglutinating and coordinating action can be appreciated as one of the more significant in any level of government responsibility (Organization of Commerce and Economic Development, 1992). The state is considered unanimously as an integration factor and to promote associations and the creation of nets of any kind to optimize these essentially systemic features of technology – accumulation, externalities and interrelationships – and facilitates the learning processes that are on the base of the innovative dynamics.

Reinforced by the successful performance of industrial districts and domesticated production systems, the impact that explicitly assigns the concept of innovation system to socio-institutional framework has been translated in the assessment of environment and with it, from domestic (and regional) level as a natural scenery of the bonds of solidarity and reciprocity that forge more easily the relationships between institutions, firms and other actors that define it. With all the importance (to the point that Esser et al. rise it to the rank of fourth level is essential

for development, the meta-economy) of this level of social activity and strategic agreement does not cover, however, the potential actions of domestic authorities in this field. To promote technological innovation is considered, as Johnson and Lundvall (1994) say, everything that contributes to its development, introduction, dissemination and use: not only universities, technical institutes and laboratories of R&D, but seemingly distant elements and relationships from science and technology as, for example, the general level of education and skills, work organization, industrial relationships, banks and other financial institutions, and so on. Clearly, then, that an ad hoc policy is inseparable from many others, some under the responsibility of domestic government itself and other power of higher government bodies, but all necessarily concurrent in order to bring coherence and consistency to the measures implemented in the macro, meso and micro-economic development levels.

However, despite the recognition that in every level of state responsibility there exists a range of relevant measures to promote and facilitate innovation, at least in our context, the role that could fit to the establishment of municipal in the matter, seems to be an outstanding conceptualization: far is still to be recognized for their specificity and, therefore, to become a focal point of public policy. Hence, before considering and selecting menu items, it seems to be necessary to understand more fully what is to be the north of their actions. We will test a comparing analysis with the legal rationality based on the creation of a new public service: to explore whether the promotion of innovation is important enough to establish itself as such, it will permit to present some arguments to be settled, in part, the outstanding conceptualization and to understand the potential of domestic government under the new leadership that is being sought.

### **Promotion of innovation: is this a public service?**

As stated Citara, the issue of what is meant by public service:

"(...) is one of most difficult that can be faced in the field of administrative law, since it not only makes its most intimate essence but transcends it. (...) in the hierarchy of legal science, administrative law, is a clear emanation of constitutional law and both are tributaries of Political Science, but especially from that which its branches deal with the Theory of the State. From thinking about what state is, what it should be, and what should

be its limits depend on, ultimately, the relationship of its duties and functions, which will emerge as a conceptual cascade of those essential thoughts [Citara , R. M., 1995, pgs. 21-22]<sup>(6)</sup>.

It is, therefore, a field that can be examined not only the way in which people meet their individual and collective needs but also the way it is redefining the role of the state apparatus and its relations with different society sectors. However, usually the effort is aimed at studying the management of services and its ways to resolve the apparent contradiction implied in giving to individuals the exploitation of what previously was characterized as public, rather than to review the type and quality offered services, it is essential to address the challenge from our point of view. Let's start by framing the issue in the modern conception of constitutional and social state, for which its sole and missed goal is the continuation of the common good, i.e.: gives to each his own, guided by the ideal of Justice...

"On the basis of unconditional respect for fundamental rights of human beings, the task of governing is to make available to its subjects all those availabilities that are needed to fulfill the destiny of people. We speak about 'availability' and by that we mean the installation and commissioning of the fundamental structure that justifies the existence of the State as such, not selfishly abstentions task known at the time of *laissez faire*, but intervening actively to provide the indispensable elements for human development. It is here where the concept comes into play 'social', so much as justified and transcendence in our days and that means nothing but other thing than pure application of the ideal of Justice in social relationships in the community [Citara, R. M., 1995, p. 23]<sup>(7)</sup>.

In such context, the idea of public service primarily anchored in the state's obligation to provide what, in every time and place, society demands as indispensable to its development; in other words, what is perceived as a social need that requires public response. Hence, the rule that stands the service is a formal declaration by the legislature of that need to be filled. Of course, this entails certain additional requirements, beyond the desire of the public about the urgent need that could be fulfilled somehow by certain tasks: (i) first, they must not only belong primarily to the private scope - otherwise, we would be invading the legitimate sphere of action of the society and stifling free enterprise - but, on the contrary, to leave private scope in charge would not be fulfilled it or would do it unsatisfactory (high cost, uncontrollable prices, poor performance), (ii) then, they are felt by the people as a necessity not exclusive of an individual or individuals solely considered, but common to significant numbers of people in the national

sociological context, regardless of covering the entire population or only to a sector on which society has a vital interest, (iii) thirdly, the notion of necessity indicates and heads towards goods that cannot be left to the will of those who produce them: they are common goods, says Citara, so public services are no longer simple goods, (iv) finally, society is willing to make an expenditure so that, through the state, it is satisfied.

Derived from the above reasoning, any search or approach to the notion and concept of public service allows revealing that there is a general tautological consensus: Public service is what the State, through legislation, says is a public service.

"It is not the essence of public service whether or not the users pay or not for it, and how they do it. What constitutes a state public service is public awareness of community need, for the characteristic reasons of the current situation, it is understood that it has to be satisfied by the state. The circumstances of the case will determine the legislature, for reasons of prudence and opportunity, to precise whether that need is covered by a public service to be paid at the time use, if a specific tax contribution is created or imposed or if expenses are covered from general revenue. We should consider the many sources of diversity that arise out of each need in a given place and time, it can also lead the legislature to create a public company or a new administrative body or assign the task to existing entities "[Citara, R. M., 1995, pgs.93-94]<sup>(8)</sup>.

To summarize, then, we say that:

"(...) A public service, broadly defined, is one that is offered on an ongoing, regular way and consistent to the generality of the inhabitants of a country or a homogeneous category of them, to satisfy a need that natural agents of society understand that it has to be satisfied by the community, spontaneously by members of society in the exercise of willing autonomy or applying the subsidiary principle, by the State, according to respect due to natural field of activity of the human person and having as its goal the realization of the common good "[Citara, RM, 1995, p. 81]<sup>(9)</sup>.

Reflecting about whether the promotion of innovation is important enough to establish itself as such in domestic governments, we are looking at the defining features of a public service: everything - sociality, continuity, regularity, and uniformity - seems relevant. However, for reasons of brevity and because it is the first condition of possibility, it is back on the characterization of public need and compare it with the budgets that are universally used to justify government intervention in our field.

On one hand, we said that the needs to be satisfied should not belong primarily to the scope of individuals and, even more: they left in their hands would not be met or would do it

unsatisfactorily. On this point, there is no doubt that innovation-as it is classified as such by the market recognition and commercial success of the novelty that it incorporates - compete naturally the private sector. However, given the importance that it now represents for the competitive performance of firms - and, by transitive character, to the economic development - this does not contradict but rather underpins the fact that the creation / consolidation of a conducive environment and favorable to it, is a matter of full public interest. The appropriateness of the actions that are within the framework of politically sustainable development strategies, the leadership required to conclude the actions of public-private linkages, promotion and consolidation of ties outside the market that support reciprocity and international collaboration inter-firms - the crucial importance of the availability of infrastructure acquire extra-firms, the preponderance that SMEs have in domestic economies with its well-known limitations of resources of all kinds, to name just a few essential issues to innovative environment, we clearly face with a host of actions to be taken that, as required by the declaration of public necessity, cannot be properly performed or do it unsatisfactory in the hands of individuals.

Then, we noted that the public need to refer to common property that cannot be left to individual will of those who produce, or equated to mere commodities. This is precisely where government action pro-innovation is perhaps the most important support since this is the characteristic of knowledge and, by extension, innovation based on it: is an imperfect economy good that cannot be treated as simple tradable goods in perfect market conditions. And that is, for the following reasons: (i) it is, in some way, a public good: it is not limited with the first use nor it is exclusive, (ii) it creates externalities, and as such, cannot function by price ( simply because it cannot be fully appropriate by anyone, not even by those who invested to develop it), (iii) it is increasingly accumulating since the original innovation is adopted and adapted to new results throughout its life, (iv) its production has a risk. The combination of these features faces economic-technical problem known as market failure: hence, the state must intervene with certain targets (it has enough innovations and stroke) and tools (technology promotion law, public institutions, and legal frameworks - as intellectual property rights). The logic is clear: without its involvement as promoter, regulator and facilitator, the technology market is torn

between two extremes, both socially sub-optimal. At one extreme is the innovative individual-entrepreneur who desires full benefits as possible, i.e.: a perfectly proper; on the other extreme, it is society, which wants technology available at no cost. The first case gives sub-optimal results at short term, since the full appropriability would abort essential spills to the social process of innovation. The second case is sub-optimal at long-term, therefore, precluded of any possibility of financial compensation for their investment, the entrepreneurs would be discouraged in their search for innovations.

This is the basic rationale that justifies the need for public action in terms of innovation at any level of government and, therefore, also for domestic governments which policies should be underlying to. Regarding the legal aspects that I intended to inquire for possible recognition as a new public service (municipal, inter-municipal or regional), in any case as calling attention to the desirability of an interdisciplinary approach to the best definition of engagement, scope and municipal establishment limitations in this field (and more broadly, in the same domestic development, an issue at all complex and multifaceted.)

## **CONCLUSIONS**

According to the theory of endogenous development, it is a clear that specific public policies are needed for strengthening domestic innovation systems: as shown by the study of districts and other similar configurations of innovative SMEs, the ability of firms in this sense is strongly associated with their potential to learn, to create competencies and transform specific generic knowledge. Indoors, essentially, the characteristics of their human capital, the organization of the work process and the ability to take advantage of goods and services purchased or obtained and human resources to produce the conversion contract are the most important. However, outside, it is equally critical dissemination of knowledge in the environment as a whole, which depends on the existence of different types of networks and linkages among stakeholders. In other words, the ability to innovate is a result of the development of their own skills as well as the circulation of knowledge through linkages with other actors and institutions

that have emerged from the mutual trust: hence the importance of building or strengthening the innovative environment that we were talking about and that is, ultimately, a collective device for learning.

Awareness about needing to strengthen this binding pattern between the productive and socio-institutional sphere absolutely necessary is not new in our environment: in fact, it was explicitly enshrined as an object of interest at least since the formulation of the National Multi-Year Plan for Science Technology in 1999. A decade later, despite of plurality of attempts of creating the necessary institutionalism with an intermediate nature (exemplified by the Development Agencies), is conceived as a challenge still pending. The deep crisis of 2001, which is often, with some reason, attributed the discontinuity of many experiences, should not mask the underlying problems remain unresolved, including: lack of adequate awareness about the importance of the topic in their own domestic areas, the inability to erect in a genuine state policy that requires action at the macro, meso and micro-economy, and lack of adaptation of a development paradigm based on possibility requirements currently absent in our reality, but feasible for a social construction in a medium and long term.

In the a vicious circle way, the underestimation of the precariousness of the existing setting reappears today in the formulations of the specialists, as stated bluntly the recent work that examines the strengthening of domestic innovation systems in Argentina:

"The approach made (...) implies the presence of certain minimum conditions in terms of income, access to decent housing and public services and infrastructure, so that policy actions may be aimed at capacity building and the satisfaction of needs that extend beyond the primary level of food, health and access to certain basic public goods. This requirement to ensure a certain minimum level is not only about tangible matters like these, but also includes justice, understood in a broad sense (social, environmental and territorial). From these minimum requirements, the key elements of policies should aim to develop the institutional system, the productive environment of economic operators, production networks and different types of linkages, human resources and work organization that facilitate generating of learning process and knowledge sharing "(Yoguel et al., 2009, pgs. 1974-1945) <sup>(10)</sup>.

Also, as a vicious circle turns back this work to its initial approach: domestic development or social economy ?. Everything seems to indicate that, far from being a contradiction, there are two concurrent paths in our current setting. Among its conditions of possibility, as we saw, the endogenous development is a strong public intervention to provide community services that meet the needs of the system (healthcare, school system and vocational training, public

transport, housing, etc.).. In addition, actions aimed at creating a social-productive scheme based on the principles of cooperative and associative economy are entirely appropriate: as Garofoli indicates:

"(...) the problem of development is not a problem of competitiveness and (relative) cost of labor, but activation and recovery of unused or misused resources. It's about creating a culture of production, contributing to training of know-how, to initiate the process of interdependence between domestic actors, to disseminate knowledge and, simultaneously, stimulate rivalry and competition at the same time of solidarity and cooperation "[Garofoli, G., 1996, p. 376, T. A.] <sup>(11)</sup>.

However, to go towards an endogenous development with an innovative bias will suppose more intentional and long-term efforts, with concurrence of all levels of government and consistency in several economic plans already identified. Particularly at domestic levels, due to the social and interactive nature of the innovation process, it will be required above all public-private agreement to adopt the innovation as a way to possible development, facing consequent costs (not only economic and financial costs, but mainly in terms of organizational learning) and thus enable the deployment of possible actions from the domestic levels, a broad range that starts with an essential political, legal and administrative *aggiornamento* of the own municipal level and, gradually, to progress towards the implementation of scientific and technological policies and specific technological infrastructure and even to the creation of new tax schemes to consolidate and maintain an innovative environment, real hard core of the successful processes of endogenous development (Delgado, 2008b).

## **BIBLIOGRAPHICAL**

Please refer to articles Spanish bibliography.