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Buying stability: The distributive outcomes of private politics in the Bolivian mining industry

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ABSTRACT

Social movements and interest groups in developing countries increasingly challenge large firms to influence their behavior and make direct claims for redistribution of the gains from economic activity. In response to such private politics, firms seek to maintain political support in the localities in which they operate so that they can avoid conflict and secure access to resources. To secure local support and defuse opposition, some firms take actions that expand access to essential public goods, services, and economic opportunities, while others use targeted clientelistic benefits that reward only a few. What accounts for this variation? Answering this question is key to identifying the development consequences of private politics. This article explores this question through a study of multinational mining firms operating in Bolivia, drawing on qualitative data from interviews as well as an original household survey. It shows that the political structures and organization in the localities in which firms operate create distinct incentives for firms to distribute benefits in targeted or inclusive ways. This finding contributes to studies of the local politics of natural resources and firm responses to social contestation.

1. Introduction

Social movements and interest groups of a variety of types increasingly challenge large firms to influence their activities and make direct claims for redistribution of the gains from economic activity (Vogel, 2008). In response to such private politics, firms seek to maintain political support in the localities in which they operate so that they can avoid conflict and gain access to the resources they require. To secure support and defuse opposition, some firms take actions that expand access to essential public goods, services, and economic opportunities, while others use targeted clientelistic benefits that reward only a few. Thus, private politics can have divergent distributive consequences that contribute to local development outcomes. What accounts for this variation?

This article explores the distributive consequences of private politics through an analysis of four multinational mining firms operating in Bolivia. Natural resources make a particularly good context for inquiry. On the one hand, localities in which mining firms operate experience negative externalities and struggle to capture the gains from natural resource extraction. On the other hand, there have been extensive conflicts between social actors and mining firms (Arce, 2014; Bebbington et al., 2008; Dargent, Orihuela, Paredes, & Ulfe, 2017; Haslam & Tanimoune, 2016; Jaskoski, 2014; Paredes, 2016). Exposed due to their large capital investments and need to access resources, mining firms have powerful incentives to distribute economic resources in ways that might prevent disruptive conflicts (Costanza, 2016; Franks et al., 2014; Henisz, Dorobantu, & Nartey, 2013; Perla, 2012). Yet the dominant approach to analyzing distributive politics of natural resource still focuses mainly on states as the only actor that converts rents from extraction into public goods and social services, either ignoring firms as distributors of rents or contending that the actions of firms are uniformly clientelistic (Arellano-Yanguas, 2011a; Frynas, 2005; Zarsky & Stanley, 2013). These studies suggest that firms either do not need to maintain local political support or that firms can gain support through clientelism and therefore do not have incentives to augment local access to public goods and social services. Does political support for mining firms depend upon factors beyond individual exchange, such as the quality of public goods and social services in the localities where they operate? Under what conditions do firms have incentives to undertake inclusive distribution in order to maintain a political climate in which they can operate?

Drawing on qualitative data gathered during fieldwork and an original survey of 1425 people in four mining enclaves in Bolivia, I show that the state is not the only actor distributing rents from extractives; some firms respond to political demands by engaging in private distribution, which I define as the distribution of economic benefits by firms for political purposes. In addition,

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I uncover variation in the forms in which firms distribute benefits, with only some contributing to public goods and social services in a sustained way in the localities where they operate. My explanation for this variation hinges on the ways social organization and structures of the localities, or enclaves, in which the firms operate generate political incentives for firms to engage in targeted or inclusive distribution. When enclaves are fragmented in terms of the economic interests of the population and local social organizations, firms bargain with groups that constitute a small fraction of the population and, consequently, request targeted benefits. By contrast, when enclaves are cohesive, firms tend to bargain with groups that consider the interests of the entire enclave and, consequently, request public goods and shared benefits. In addition, only in cohesive enclaves does public opinion towards firms become linked to the quality of collective goods and social services in nearby communities. Thus, only in these cases do firms gain mass support by improving service quality broadly. In sum, I provide an account of the local politics of extractives that incorporates direct, private distribution. By doing so, I build a theory of who gets what from firms' efforts to generate political support in the face of social pressure in the localities where they operate.

2. Local natural resources politics

A growing literature on private politics analyzes contestation between social actors and firms in the extractives industry. Studies have shown that a range of actors—for example, community, labor, environmental, and agricultural organizations—employ legal and contentious means to influence resource extraction. A recent study of Latin America found that more than one hundred large mines, one fifth of all those operating, faced contentious mobilizations that involved blockades, strikes, and, at times, violence (Haslam & Tanimoune, 2016; on Africa, see Steinberg, 2018). There has been a substantial debate over the causes of these conflicts, with theories pointing to various factors, including the negative externalities of extractives that threaten people's livelihoods, the unequal distribution of economic benefits, and the behavior of states (Arce, 2014; Bebbington et al., 2008; Haslam & Tanimoune, 2016; Jaskoski, 2014; Ponce & McClintock, 2014; Özen & Özen, 2016). These studies have also put forth theories to explain why particular social movements succeed in achieving their goals.

While debates over the causes of social mobilization and success of groups seeking to block the expansion of extraction continue, it is clear that firms have strong incentives to respond to social demands and prevent costly conflict, as studies show a direct relationship between profits and local support (Henisz et al., 2013). One action firms take to gain political support is providing economic benefits, such as public goods and development assistance, for the localities where they operate (Markus, 2012; Franks et al., 2014). Studies have documented firms using this approach in a range of countries, including Guatemala (Costanza, 2016), Malawi (Kamlongera, 2013), Mozambique (Steinberg, 2016), and Papua New Guinea (Banks, Kuir-Ayius, Kombako, & Sagir, 2013). Funds that firms allocate to such private distribution are substantial; for example, between 2008 and 2011, a set of forty Peruvian mining firms reported voluntary payments for local development totaling $157 million per year (to put this into context, international development aid that flowed into Peru during this period was $395 million annually).[1]

While the sums are large, the distributive effects of private politics have not been systematically studied—we know little about who gains what from contestation. Overall, there is skepticism that expenditures by firms can contribute to access to public goods and social services in areas affected by extractives industries. Researchers often claim that power asymmetries between firms and social groups are so extreme that firms have to do little to gain local support. Moreover, scholars contend that the political linkages between firms and individuals are built upon individual clientelistic exchange, rather than on firms' contributions to local development (Arellano-Yanguas, 2011b; Frynas, 2005; Zarsky & Stanley, 2013). Thus, if there are any improvements in public goods provision or social services due to extractives, they should come through state redistribution. Such a view is implicitly shared with a related strain of literature on the distributive consequences of natural resource industries that analyzes the state as the sole distributor (Arellano-Yanguas, 2011a; Caselli & Michaels, 2013; Robinson, Torvik, & Verdier, 2006). Combined, these studies suggest that people living in extractives enclaves solely access public goods and social services provided by states.

While still nascent in the literature, there have been attempts to describe or explain the different ways in which firms might distribute rents in response to social pressure. One set of accounts looks to the state to explain firm behavior. Some studies suggest that when states are less willing to support firms in the face of protest, firms are more likely to expend resources to maintain peace locally (Steinberg, 2016). Others suggest that local governments play a key role by helping firms gain political support and by serving as an intermediary between the firm and society (Costanza, 2016). Therefore, we might expect the position of governments, whether they seek to attract and retaining foreign capital, as well as the state's actions to achieve these goals, to influence the distribution of rents by firms. Another possibility is that governments implement policies that allow firms to displace the state by taking on basic developmental tasks. For instance, the right-leaning Peruvian government of Alan-Garcia created a program to stimulate voluntary contributions of mining firms (Arellano-Yanguas, 2011b), while the subsequent more left-leaning Humala administration ended the program to more fully insert the state into the redistribution process. As private provision of social services might displace the state (Jones Luong, 2014), left-leaning governments may avoid such actions by firms.

An alternative set of accounts looks not to the state but to international norms that can induce firms to contribute to local economic development. For example, Jones Luong and Weinthal (2010) argue that some extractive firms have a greater "commitment" to responsibility and, as a result, provide public goods that influence local development. Researchers have pointed to firm participation in international programs and industry organizations, such as the International Council on Mining and Metals (ICMM), as an indication that a firm abides by standards (Dashwood, 2012). Others have predicted that small firms, sometimes called junior and mid-tier firms, are less constrained by global norms compared with senior firms (Dougherty, 2011). Furthermore, firms with capital from China are often hypothesized to be unconstrained by global norms compared with multinationals headquartered in advanced industrial countries (Kotschwar, Moran, & Muir, 2011). These arguments predict that "responsible" firms—that is, those engaged with global norms—contribute to local development.

3. Distributive consequences of private politics

In contrast with the accounts in the extant literature, I build a theory of differences in firms' local distribution of economic benefits around the incentives firms have to maintain political support in the areas in which they operate. I center the analysis on each firm's enclave, defined as the geographic area where production takes place that is highly influenced by a firm in terms of economic

[1] Firm spending data EITI, aid data, IMF.