

6 Discussion

6.1 Empirical analysis of the current situation of the silversmiths in Taxco

The empirical analysis, based on eleven interviews with silversmiths in Taxco, showed that the legacy of the structural changes of the silversmith industry in Taxco, analyzed in the theoretical literature, has strong impact on the situation today. While many factors remained the same, some new developments could be recognized. In general, the workshops are still organized as small family workshops. Apparently, after the downturn in the 80s and difficult macroeconomic conditions that were explained in section 2.1, a slight recovery could be noted for the 90s, as production per workshop increased and tourism that came to buy silver was more or less stable. In the 2000s, the market situation became very bad and currently, in 2014, the silversmiths cannot live from their profession anymore. This is why many people try to find a different or an additional job or close their workshops. In addition, the children of the silversmiths do not want to go on with the tradition. They prefer to study and to leave Taxco. Thus, a striking decline in the silversmith business can be recognized.

6.1.1 *Organizational structure and production*

In terms of organizational structure, the analysis showed that the family workshop is still the predominant form of organization. Apparently, some larger workshops do exist, with up to 15 workers. Mostly they belong to silver shop owners in Taxco who have sufficient capital to maintain a bigger workshop. However, the family workshops with only one silversmith, who sometimes enjoys the help of family members, represent the vast majority. Some of them claim they had people working for them before, but due to a declining market, they needed to send them home. Only one of the respondents has three people working for him and sends orders to about 10 more people with their own family workshops. They all learned the art of the silversmith empirically in family workshops or working for others in former times. They confirm the development of the silver workshops analyzed in the theoretical literature. Many of their teachers had learned in one of the famous big workshops like *Las Delicias* and afterwards separated themselves employing and teaching others. The trend goes towards workshops with only one silversmith. Often brothers learn together in the family workshop, but separate when they get married. The profession is clearly dominated by men, while women often are responsible for packing up and selling the merchandize.

The production process is not as efficient as in the former big workshops, since most of the workshops only possess basic tools and there is no type of labor division. Only in the few larger workshops, they work by dividing labor in order to increase efficiency. For some steps like laminating, where more expensive tools are needed, the silversmiths go to other workshops that specialize in these kind of tools.

Figure 6-1: Family workshop



Source: Picture taken by the author, 2014

Figure 6-2: Basic tools of the silversmith



Source: Picture taken by the author, 2014

In general, most of the silversmiths agree that the techniques of today are similar to those of former times. However, they agree that today many silversmiths only know how to work a

few of them. This means that some techniques have been lost by the time. Many of the old *maestros* who dominated all of them, passed away. A change in demand for cheaper and more commercial types of pieces encourages the usage of simpler techniques that are less time consuming than others are. Thus, some former techniques have been lost, because they are very inefficient. Due to a high price sensitivity in the market, the silversmiths search for ways to make production more efficient. Today for some steps of production, there are working tools that allow skipping some time-consuming artisanal steps. Sometimes the artisans buy components that can be produced more efficiently by machinery in Guadalajara for example. Yet, it is notable that most of the artisans only skip hand-made steps in order to be more efficient and more competitive, but they actually prefer the hand-made way, believing to produce better quality. It is important to point out that in contrast to other countries or parts of Mexico most of the work in silver jewelry production is still hand-made in Taxco.

In terms of production volume, the silver production has decreased significantly. Most artisans claim to produce about 150 to 300 grams of silver a week. In separate cases, they have a production of about 0.5 to one kilo, mostly when they work for wholesalers, and the one workshop with employees uses about 3 to 4 kilos a week. All of the respondents agreed that their production has decreased significantly. Ten years ago, they had a weekly production between 2.5 and 10 kilos per family workshop. Furthermore, all of the silversmiths agreed that the trend goes towards working other metals like alpaca, brass and tumbaga that are much cheaper than silver. Many of them, especially those with less exclusive pieces, work higher quantities of cheap metals than silver today. Two silversmiths that produce more sophisticated, exclusive pieces, say they use the material, the client asks for, which could also be more precious metals than silver such as gold.

With respect to quality and design, the problems that have arisen since the transformation of the silversmith industry in Taxco are still present. The artisans coincide that quality has diminished tremendously. This is due to the fact, that today many people with workshops have not learned the artisanship in a holistic way, as described in section 4. Furthermore, there is no quality control at all in Taxco. As mentioned by various artisans, until 1976 there was an Office where all the merchandize was controlled for good quality, before being marked with the 925 stamp of Sterling Silver. In that year, the office was

abolished and no one of the respondents could tell why. Since then the registered, official workshops have their own mark, which identifies them and works as a proof of quality for clients. They are supposed to put it on all their pieces. However, this is not practice. First of all many of the workshops that produce poor quality do not put their mark on such pieces. Second, many workshops are not registered and work unofficially and therefore have no mark. Third, many clients do not want another mark in their merchandize than the 925 silver standard. For that reason, they ask the workshops to leave off their registration mark. In practice, everybody today has a 925 mark and can put it on pieces that do not fit the standard. Taxco has lived a situation of decontrol in quality, which encouraged the emergence of a vast market of low quality products and fraud. The silversmiths all agreed that the reputation of Taxco's silver production has suffered, due to fraud, where other metals have been sold as silver or the silver has been mixed with cheaper metals that was less than the 925 standard. In addition, since a long time the silversmiths are not paid a price per piece that includes the silver price, labor, design and other costs. Instead, they are often paid by gram of silver and gain much less than before. This caused a series of frauds, including other heavier metals in order to gain more, due to the higher weight of the pieces.

In terms of design, many silversmiths do not have the capacity to make their own designs. Since the beginning of the silver artisanship in Taxco, the designer has been a separated function from the silversmith *maestros*, who realize the designs in silver. In addition, there is no protection for designs. The silversmiths say that it is possible to register them, but that there is no actual control and enforcement. Thus, the market in Taxco subsists from copied designs, which includes a lack of creativity, innovation, and distinction. This is why the pieces lack added value through design which lowers their value significantly. Most respondents agreed that designing is a loss of time for them, since the designs are not effectively protected and thus do not result in capital. This stresses the importance of adequate protection of the designs in order to increase innovation, which can give a new value to the silver handicraft.

The artisans coincide that the mentioned problems are main causes for the loss of reputation for the silversmith industry in Taxco. The fraud of some people in Taxco harms all the people working in the silversmith profession. The artisans call for government action in order to implement an efficient control mechanism.

6.1.2 Selling process

The selling process is still similar as demonstrated in the theoretical literature. Wholesalers and Taxco's silver shops dominate the market and the dependence of the silver artisans on them as their clients is still large. In addition, individual designers have silversmiths working for them in their family workshops. Buyer's power is extremely high. This is intensified by the immense competition between the artisans themselves. Through a lack of distinction in their production, price becomes their competitive advantage, instead of quality or design. Since most artisans struggle with gaining their livelihood, the competition is extremely fierce and unfair, causing a downward price spiral. The factors for unfair competition are the following:

- Design copies that make the production replaceable.
- The necessity of many artisans to sell anything at all, instead of nothing, accepting very low prices in order to cover their current expenses (like alimentation, water, electricity).
- Lack of administrative education. Many people do not know how to calculate their real price, including all the costs, which creates competition with unfair prices.
- Registered official workshops compete with unregistered ones that do not pay taxes.
- The inhabitants from Taxco also compete with silversmiths that reside in the surrounding villages, where people live by subsistence production. The silver forging is a secondary activity. Therefore, they can offer cheaper prices, since they have fewer current expenses such as alimentation.
- A declining market where offer exceeds demand.
- A lack of dynamism in Taxco's market, which causes inflexible structures, with few alternatives in switching customers. This creates a high buyer's power and high dependence of the artisans on their customers.

All of the respondents coincide that direct selling is their best option to gain fair prices for their production. However, there are limited opportunities. In order to alleviate the dependence on the shops and wholesalers, twenty years ago the government approved the creation of a Saturday market, where the artisans can put their stand, paying a rent and selling directly to arriving customers. Nevertheless, this market is also affected by fierce competition through a lack of distinction and cases of fraud. Moreover, there is not enough selling

opportunity for all the silver artisans of Taxco. This is also, because the number of clients from outside coming to the market has decreased continuously. Thus, their dependence on the local clients is still large.

All of the artisans agreed that the problem of no fair prices arises from the intermediaries, who push prices and encourage the copy of design. Many artisans mentioned that they have been asked by clients to realize a design from paper in silver. In order to create the first peace of that kind it takes a lot of time and effort to find the technique of forging the design in silver. They say the first peace is always the most expensive one, because it takes a lot of time, sophisticated techniques and skills. Once you have one peace, you can create a mold, which allows a faster duplication in series. Thus, it has happened to many artisans that, after creating the first silver piece of a kind, their clients (wholesalers or shop owners in Taxco) did not want to pay the higher price that includes their time efforts, their technical skills and their quality. Hence, they only bought one piece in order to send it for duplication to other workshops that would produce them for cheaper prices.

For such reasons the artisans take direct selling for their best option to gain fair prices. Everyone who can tries to leave out the intermediaries and sell outside Taxco. Two of the 11 artisans exclusively work with clients from outside, and five more sell to clients inside and outside Taxco. From outside they are customers from all over Mexico, such as Querétaro or Oaxaca, while demand from foreigners has decreased constantly. Many of the respondents attribute this to the downturn in the global economy since the financial crisis in 2008 as well as an increase of organized crime in the state Guerrero. However, many silversmiths mentioned that they preferably work with foreigners, as they were the ones who have accepted better prices. If foreigners do not come to Taxco anymore, exportation could be an option for trading with them. Nevertheless, none of the respondents does export. They agreed that exclusively the wholesalers do export to other countries. The respondents who sell to places outside Taxco also said that these clients accept better prices. Through direct selling the margin of the intermediaries is shared by the artisan and the client, guaranteeing better prices to each. Nonetheless, the capacity of selling to outsiders seems limited. A good source of contact is the Saturday market, where the clients get in direct contact with the artisans they want to work with. Later on, the merchandize often is send by mail. Furthermore, there have been efforts to find alternative clients, travelling to other parts of Mexico, selling pieces and

making contacts. In addition, some artisans have begun to organize in groups. Part of the group leaves Taxco in certain occasions to sell the merchandize of all members outside, sharing the risks and the costs. However, this seems to be the exception yet. Causes for the limitations to direct selling are:

- Conflicting government interests: One respondent mentioned that the heads of the local government are silver jewelry shop owners in Taxco and elsewhere, buying from the artisans as wholesalers. The respondent said that if the government really had the intention to change the situation for the artisans, they would try to bring the clients directly to them, instead of buying their merchandize themselves under wholesaler conditions. It seems like the government has no real interest in making the artisans more independent. This becomes clear by one example: Taxco's silver sales depend highly on tourism, which is a seasonal business. Tourists come especially in Easter week and during the yearly silver fair. For some time the government allowed the artisans to put stands in the streets during the silver fair, encouraging direct selling. After a complaint of the shop owners, this permission was abolished.
- Less outsiders coming to Taxco: Taxco has noted a decrease in visits by tourists and foreign wholesalers, due to the downturn in the global economy, hazards by crime and a high silver price, making the merchandize more costly.
- Lack of education, capacitation and experience for the artisans: Many of them mentioned, that they did not have the capacity to export, lacking knowledge about the formalities, not speaking foreign languages, producing low quantities and lacking capital to invest. The reasons why not more artisans look for clients in Mexico, are that they are inexperienced outside Taxco, not knowing other places and habits and producing low quantities.
- In addition, selling efforts in Taxco are solitary, due to the organizational structure of the family workshop. There is a lack of organization between the artisans that could help to strengthen their market position.

Another option for better prices is, selling exclusive products. Three of the respondents said that they could take better prices for offering pieces of higher exclusivity and quality. The oldest respondent knows how to work sophisticated techniques and pieces, he had learned in the famous big workshops, which gives him a competitive advantage over others. One

respondent said that the payment depends strongly on the client, claiming that in Taxco exist some honest ones, too, valuing the work. On the other hand, one artisan who solely works exclusive pieces for one of the latest designers in Taxco said that he pushes prices as bad as other intermediaries do, increasing his profit margin on cost of the silversmiths. The artisans that take better prices due to design are the ones sending their merchandize outside, since in Taxco the design would be copied. What limits the option of selling more exclusive and sophisticated pieces is a change in the clients' taste towards cheaper and more commercial pieces. This trend was explained in section 2.2 and is especially high in the national market, which is currently the main market for Taxco's artisans. However, the silversmiths that reached to establish relationships with special clients that pay better prices, always said that they needed to transfer confidence and to proof their skills, always finding answers to the clients wishes, reinventing themselves and offering good quality.

The respondents coincide that the problem of less demand and lower prices have intensified significantly since the crisis in 2008, about 6 years ago. Before that, the higher demand allowed them to take better prices. Today, some of the artisans have difficulties with calculating a price. Most of them mention to include the silver price and some other variable costs, like acids and pastes, gas and electricity. Many of them do not calculate their labor cost per hour and just say that what rests is the payment for their labor. Only a few know that a price calculation includes the labor cost, including also the help of family members. Only one respondent knew that actually his price should help him recover the investments in machinery by amortization. This person had participated in a course where he was taught in price calculation. Unfortunately, many artisans mention that even if they calculated a higher price they could not enforce it, due to the explained market conditions. Most of the respondents gain about 20 to 25 Pesos (ca. \$1.50 to \$1.90) per working hour. Some of them gain a bit more, because of their exclusivity, special clients or working quicker and simpler techniques that are time saving and lead to higher production volumes. However, it was difficult to calculate their earnings per hour, since they had no clear idea of them and it seemed more as if they were just calculating by rule of thumb, seeing what rests.

What also hurts the liquidity of the artisans, are the payment methods of many shops and wholesalers. As already mentioned, it is common to pay the artisans per gram and not per piece. This is inconvenient for the producer, since they gain a lot less, as the price does

not include many other costs apart from the silver. Often the piece is paid by gram plus a certain percentage for “labor” per gram, leaving out other costs. Due to the trend for light pieces, they often weigh about 2 to 3 grams, which concludes in low gaining per piece. In addition, it is common to only pay the “labor” part and pay the price of the silver later. There seems to be no clear time rule. Many artisans said the clients would pay the silver whenever they liked. This has caught many artisans in a liquidity trap lacking the capital to reinvest in further production. It is also one reason why many workshops broke or why those who can have a second job.

6.1.3 External factors

6.1.3.1 Silver

Today private persons and companies sell the silver as a raw material in Taxco. However, four of eight artisans mentioned that there is a vast black market. The others did only indicate to buy at shops without specification, which means that these shops could also be part of the black market. This is probable, since one artisan mentioned that there are only two or three official shops selling silver. Apparently, only people who need a sales check buy there, which is usually not the case. In general, it seems like they have no clear idea how this black market works. However, many artisans mentioned the reprocessing of the silver lint that remains after the production of silver jewelry to regain silver. Private persons seem to resell the silver at the black market. Some of them mentioned the largest mining company in Mexico Peñoles as a provider of silver and one said that this company was also part of the black market, selling unofficially. Another one mentioned the wholesalers who buy silver jewelry as part of the silver raw material market, without specifying. Two of them said that no legal market exists at all. When combining these answers, it is probable, that almost no official market exists and that everyone who can tries to avoid the official market. This combines with the cultural traits of corruption, illegal practices and weak institutions analyzed in section 2.2. The motivation to buy at the black market seems to be saving the value added tax (VAT). This motivation seems fostered by the fierce price competition in the market where the VAT cannot be passed on to the end consumer. In addition, it takes administrative capacity and effort to make a tax declaration that applies only for registered workshops anyway. However,

the ones talking about the black market admit that quality is below the official one, since the silver is not as pure.

The silver price also affects the artisans in their operations. First of all today's high silver prices in comparison to low and stable prices in the beginnings of the silversmith artisanship in Taxco represent a problem. As already described above, the artisans face a lack of liquidity, which makes it harder for them to invest in silver when prices are high. Some silversmiths confirmed that high silver prices result in a standstill in Taxco's economy, as silver trade paralyzes. The silversmiths mentioned a sharp rise in the silver price since about 2001 or 2002 with a peak when the kilo of silver cost about 20 000 pesos. This coincides with the development of the silver price analyzed in chapter 2.2.

More than the high price affects its volatility. The silversmiths confirm that the volatility makes it hard to calculate and can even lead to losses. In many cases, the price of a client's order is fixed before its execution. Thus, when the artisans have to pay a higher price for the silver than calculated the customer does not want to pay it. On the contrary, if a price agreement is reached afterwards and the silver price decreased, the customers also pay them at the low current price. Volatility and silver price affect the business even more since it is common to pay the artisans by gram of silver. In addition, demand also becomes more volatile, since the customers are insecure about investing, when prices change on a daily basis.

6.1.3.2 Competition

As already mentioned, the silversmiths feel strongly affected by competition amongst each other. The competition focuses on price, which goes hand in hand with strong buyer's power and a change in the market trend towards cheaper products. In addition, the artisans feel affected by competition from outside, which is no artisanal, but mechanical production. The silversmiths mentioned that this type of production comes from Guadalajara in Mexico as well as other countries like Italy, Germany, Thailand and China. However, many silversmiths feel proud of their quality and artisanal manufacture and some of them stated they would not see this kind of mechanical production as real competition. Furthermore, they contributed minor or at least no comparable quality to the pieces from machinery. Nevertheless, in a market that tends to cheap products without valuing the artisanal production, such merchandize must be considered as competition. Some silversmiths also mentioned that they

do not find many foreign products in the market of Taxco, mainly the Italian chains. Even if so, it must be taken into account that the competition is taking away market share from Taxco in other parts of Mexico and the world. One artisan verified that the entrance of foreign silver jewelry intensified in the 90s when many Free Trade Agreements were established, which was explained in chapter 2.1.

6.1.3.3 The role of the government

The artisans agree that there is no sustainable support from the government. Most of the artisans demand from the government an effective quality control in order to re-establish the reputation of Taxco. Furthermore, they want the government to find them markets. This could be through promoting the tourism to Taxco, bringing clients directly to Taxco or capacitating the silversmiths for exportation. Ultimately, there have been some attempt of promoting tourism by the state government of Guerrero, especially focusing on national tourism. Some artisans also ask for an effective design protection in order to increase dynamism and innovation in Taxco, creating higher added value for their pieces through exclusive designs.

The artisans agree that the only support has not been a holistic strategy, but some single efforts of a financial kind. Many of the respondents coincide that these financial aids are distributed by corrupt practices. Apparently, the programs are announced in local TV and radio; however, several of the respondents who signed up for a program did never get any financial support. They attribute this to not being part of the right social circle. They say one needs to affiliate in groups close to the government to be considered. This coincides with practices of corruption and favoritism in the government sector that were analyzed in chapter 2.2. It seems obvious that the programs are closer to populist politics than sustainable aid for the artisans. One artisan mentions that these programs especially take place before municipal elections. In addition, various silversmiths mentioned that they were not accepted in the programs, even if they had the necessity, while others did benefit who did not even work in the silversmith profession. This seems like one of the common practices in Mexico to embezzle funds.

In addition, there were some attempts from the federal government to give support to the artisans. However, similarly it was mostly of financial kind without guidance, which means the money did not help to improve the situation of the artisans on the long term in a sustainable manner.

Four artisans claim to have participated in courses of coaching between the end of the 90s and 2012. One was a design course sponsored by the company Peñoles. Other two courses were about administration and calculating prices, sponsored by the government. The last one was a course in efficiency and labor division, provided by the association Compite. It seems like everyone can participate, but apparently one has to know the right people to be invited to such courses. Two people who participated in courses say that they were useful. One says that the labor division course did not work out, due to Mexican mentality that impeded successful teamwork. This cultural trait was closely analyzed in section 2.2 and seems to hem collaboration amongst artisans. The other one said that the advice for price calculation was interesting; however, it did not help, since he could not implement the higher prices, due to fierce price competition. Two silversmiths stated that currently there are different courses by the government. Apparently, many artisans do not participate in courses, because they do not know about them or they believe it is a waste of time. As already mentioned in the section of design, many silversmiths do not want to invest time as they think it would not result in capital. Due to their necessity, they prefer keeping up with production.

Another role of the government is the collection of taxes. The artisans say that actually they must register their workshops at the government by law. Nevertheless, many of them do not register. They say the only advantage of being registered is in case you need sales checks for your clients, which is usually not the case. Some claimed that it was more common to register, when there was a lot of exportation in former times, because they needed sales checks and the registration gave them prestige with the clients. Today, due to the crisis of the silver handiwork in Taxco, demand has decreased that much that they do not want to register anymore. They say with barely enough money to eat, it is difficult to pay taxes, without getting anything in return from the government. Some of them mentioned that they would feel better about paying taxes, if they knew the government would use the money to give sustainable support to the artisans, opening new markets. One artisan said that the government “strangulates” them every time more with higher taxes or requirements, which has led to the bankruptcy of many workshops. These circumstances are why currently many workshops prefer not to register and there is no effective control mechanism. Hereby many cultural traits, analyzed in section 2.2, apply: A corrupt government that focuses on short-vision politics of favoritism and a resulting disrespect for the rule of law from the artisans,

made possible by weak institutions and a lack of control. By that, the artisans become part of the informal sector, working in unofficial workshops.

The registered workshops receive a special mark from the government for their pieces, which guarantees the quality. Every piece with the mark can be traced back to the workshop of production. However, one registered artisan mentioned that the responsible Chamber charged about 500 pesos for yearly renovation, like a license. Later on, the artisans found out that the same transaction cost five Mexican pesos in Mexico City. Thus, they felt disappointed and left the Chamber. The mentioned examples demonstrate that there are many irregularities in the government behavior and that single attempts of control and improvement are undermined by corruption.

6.1.3.4 Tourism

Tourism today is mainly national. The artisans agree that international tourism has decreased a lot since about 6 years. The national tourism decreased too, what the artisans attribute to slow economic growth in the Mexican economy, as mentioned in section 2.1, and an increase of organized crime in the state of Guerrero. Some said that national tourism was recuperating a bit, due to promotion by the state government and more security forces in touristic places. In general, the national tourism is the more stable one. International tourism arrives mainly at the two important dates: Easter week and for the international silver fair. One artisan also claims that unfortunately Taxco has not a lot to offer. He said that people come to Taxco to get to know its colonial beauty and its famous church *Santa Prisca* or to buy silver.

In addition, the type of tourism has changed. The once travelling to Taxco to get to know the town, often travel with limited budget and do not want to spend large amounts of money on silver. The silversmiths said that there is a lot of innocent or ignorant tourism who does not see the authenticity of a jewelry piece, which leads to a depreciation of the art. The artisans claim that tourists prefer to buy little souvenirs. The other type of tourism are wholesalers traveling to Taxco to buy silver products. Often they come for the market on Saturday. This day the town fills with buyers. They come to find the artisans on the market or at their homes. Unfortunately, this type of tourism often does not spend on board and lodging, since they often travel the same day or spend only one night. Thus, the touristic infrastructure like hotels and restaurants does not benefit in great scale. However, as

mentioned in section 3 of the theoretical literature Taxco has potential as a tourist destination. It seems not yet exploiting that whole potential.

6.1.4 General conclusions for the empirical analysis

In general, it is to say that the artisans live in a situation of high insecurity: They have no social security and no financial security, mainly caused due to a volatile silver price, volatile demand, high buyer's power and a lack of opportunities or alternatives. However, it became clear in the interviews that many respondents are passionate about their profession and proud of it. What they dislike is that they can hardly make a living from their job, due to unfair price conditions. One silversmith said: "We don't live well. We are in a bad situation, 99% of us. This is why we look for alternatives: other metals, other jobs such as driver, in the construction or if you know something else e.g. in electric services. But I can't. I don't know anything else than this. I only know how to work the silver. I'm trapped."³ Similarly, it happens to all the artisans over 35, who said that the limited labor market in Taxco would not accept anyone above that age.

The fault for the difficult situation seems to lie at both ends: customers and producers. The clients, because they are not willing to pay real prices and buy minor quality. The artisans for having drifted to illegal practices of fraud and not valuing their work, competing with extremely low prices and accepting a deterioration in quality. In addition, external factors that are difficult to control influence their situation.

One artisan made an important comment, which shows that high quality goes always hand in hand with a good price: "I do not buy always the cheapest materials. If the client pays me a good price I use high quality materials for the production." This shows that many silversmiths do not want the largest profit margin possible, but to live decently. Furthermore, they want to offer high quality products. They are proud of their profession and want to reestablish their reputation and the reputation of Taxco.

As a conclusion, the following mayor problems could be identified through the interviews:

- Lack of sustainable government efforts: the government does not find markets for the silversmiths, corruption, no quality control, no design protection.

³ Quote from one of the interviews. The artisans prefers to remain anonymous.

- Lack of capacity and capital for the artisans: lack of advice and training for the silversmiths to become more independent and seize new opportunities.
- No fair prices: buyer's power, unfair competition in the local market, international competition with machinery production.
- Decreased market opportunities: slow growth in the Mexican economy, saturation of the national market, lack of opportunities for direct selling, no possibilities to reach the international market (no international tourism, no capacity for exportation), less tourism due to crime and world economic downturn, loss of reputation for Taxco's silversmiths, change in market taste towards cheap and commercial products.
- High silver price and high volatility.

All these difficulties have caused that the young people of Taxco do not see their future in the silversmith business. When once the silversmith workshop offered brilliant opportunities to young people in Taxco, today the children of the respondents prefer taking a different path for their future. Many of them leave the town to study a superior education, or to work in the United States. However, most of them will probably live and work outside of Taxco, leaving the tradition and the elderly people behind. Since government has failed to diversify Taxco's economy in time, the town will offer limited future options for its young generation. However, the market seems to regulate itself, decreasing the number of people working in the artisanship. This could gradually improve the situation of the remaining artisans, due to less competition. As Castillo (2009) said: The profession of the silversmith is art. It is not a profession that should be performed only due to necessity without passion. This would condemn the art.

6.2 Fair Trade: a solution for the silversmiths in Taxco?

The situation of the artisans seems to be condemned by various external factors and a lack of political action. No sustainable long-term strategy for the artisans of Taxco could be identified during the research. In addition, socio-cultural factors impede an internal solution to the problems. Corruption impedes the prudent and sustainable spending of government funds, Mexican consumer mentality lets the national market shrink and mistrust amongst

artisans prevents their successful collaboration. This is why intervention from outside seems to be another possibility.

6.2.1 Comparison of success factors before and today

In the following table, the success factors from the beginning of the silversmith industry are compared to the situation of today. This contributes to a better understanding of the factors the Fair Trade concept would have to address in order to make the silversmith business profitable again.

Table 6-1: Comparison of success factors in years of success and today

Factor	Years of success	Today
Value proposition	Special designs, high quality and handiwork	Price
Organizational structure	Hierarchy based on skills, quality control over production by the <i>patrón</i> , high productivity through tools and labor division	One-man workshops, low productivity
Innovation, Design	High innovation in designs	Lack of innovation and special designs
Access to high potential markets	Good access through direct selling to tourists and exportation	No access to high potential markets, such as international markets, where silversmiths could sell with higher exclusivity, charging better prices, while national market lacks potential.
Market knowledge	Good market knowledge through direct contact with the target markets	No knowledge of international markets
Reputation of Taxco's silver jewelry	Creation of world-class reputation for design and quality	Loss of reputation. Reputation today: Taxco = center of reproduction
Profit margin for producer	High profit margin through direct selling, prices defined per piece and clients willing to pay the labor and design.	Low profit margins, due to price competition, buyer's power, and change in market taste.

Source: Own elaboration based on information from historical research and empirical interviews

6.2.2 Fair Trade Principles applying to the silversmiths' problems

6.2.2.1 Market access for marginalized producers

A Fair Trade partner can operate as a bridge between the silversmiths in Taxco and international markets. Such a Fair Trade Partner could be an independent enterprise, working according to Fair Trade principles. As demonstrated in figure 5-2, this enterprise could associate with one of the big international Fair Trade organizations or could follow the example of pakilia, as a self-proclaimed Fair Trade organization, creating transparency on a personal basis without an official Fair Trade label.

As explained in section 5.1 especially the US and the UK as well as other European markets are high potential markets for Fair Trade products, where people are willing to pay a higher than the conventional price in order to support producers, by valuing their work. As mentioned in section 2.2, section 4 and section 6.1 the national market does not fulfill such characteristics and is rather price sensitive than quality and design oriented. This means that a solution could be exporting the products of the silversmiths to other markets that pay better prices and value high quality. This coincides with the results of the interviews, presented in section 6.1, where artisans mentioned that foreign customers would respect better prices and value quality. In addition, by exporting, the artisans would be less affected by the competition in the local market and their designs would be better protected, if they were not released in the local market. This coincides with the answers from artisans that sell to outside customers, as mentioned in section 6.1. They said they preferred selling outside in order to protect their designs from being copied in the local market and by that conserving some exclusivity that assured better prices. Thus, entering such new markets could help them to return to the value proposition of quality, design and handmade rather than the cheapest price.

However, the exportation would need to be based on fair conditions for the artisans in order to improve their economic situation. This means the preference of the Fair Trade value chain than the conventional one, cutting out intermediaries (see figure 5.1). As the artisans do not have the capacity to export themselves, a fair trading partner could resolve that problem. The mentioned example of the Fair Trade startup pakilia in section 5.2, demonstrates how the capacity of the Fair Trade partner complements the work of the artisan. The Fair Trade partner has capital and knowledge to export, knows the international market

tastes and distribution channels, while the artisan has knowledge of the handmade, traditional and artisanal production methods that are valued by the Fair Trade movement.

6.2.2.2 Sustainable and equitable trading relationships

On the one hand, a Fair Trade partner represents a constant client for the silversmith, since the collaboration aims at a long-term relationship. This guarantees the artisan a more stable demand. In addition, it secures a more stable business environment in general, as the Fair Trade partner pays fair prices that include all the costs and risk factors. By that, the artisan becomes less dependent on international shocks in silver prices for example and can calculate real prices that include all the cost factors he has not included before, such as amortization for machinery and tools. This leads to a more sustainable development of the silversmith profession and can turn the process of decapitalization that has been going on for decades in a process where the silversmith accumulates sufficient capital to grow on a sustainable basis with the assistance of the Fair Trade partner. By that, the producer becomes more autonomous and freer in decisions over his life, leaving behind the need of only covering his day-to-day needs.

6.2.2.3 Capacity building and empowerment

In addition to the payment of fair prices, the Fair Trade partner makes a commitment in capacitating the silversmith in order to enhance his sustainable development, making him more independent from others. Capacitation for the silversmiths in Taxco is necessary in administrative tasks like price calculation and administration of the workshop, such as international quality standards and market tastes. Such knowledge would help the artisan to become more successful and independent in an international environment.

Furthermore, capacitation could help them to become more productive or to enter strategic collaborations with other silversmiths forming Fair Trade cooperatives, that could lead to higher productivity.

6.2.2.4 Consumer awareness raising and advocacy

As already mentioned, the Fair Trade partner works as a bridge between the consumer and the producer. This means that the distant relationship to the consumer, that is part of the conventional supply chain, is abolished. The Fair Trade partner informs the consumer about the living circumstances of the artisan, as well as the production process and assures the

quality. By that, consumer consciousness rises and leads to the willingness of paying fair prices. The transparency created by the Fair Trade partner is an assurance for the end-consumer that the artisan is paid with a fair price. In addition, Fair Trade partners such as pakilia often implement marketing strategies for their products in the target markets, which could help to regain some of the former reputation of Taxco's silver jewelry.

6.2.2.5 Fair Trade as a “social contract”

The implicit “social contract” requires that buyers decide to give more than within conventional market conditions. Thus, all of the already mentioned aspects are part of the “social contract” between the Fair Trade partner and the artisan. Fair prices allow the silversmith to accumulate capital for reinvestment. By capacitation, he can improve his business strategy, his offer and the management of his financials for reinvestment. The combination of these factors allows the silversmith to implement a strategy of sustainable growth.

6.2.2.6 Conclusion

The application of Fair Trade principles addresses the problems of the silversmiths in Taxco and refers to all the mentioned success factors in table 6-1. The application of this concept in a broader scope could actually improve their living conditions. As mentioned in section 5.1, important is the motivation of the Fair Trade partner to improve the living circumstances of the producers. The Fair Trade partner can combine the consumer interests of conscious consumers in western countries, while improving the economic situation of the producer, which leads to a more equitable distribution of wealth. By that, a win-win situation for all the involved parties can be created, as the example of pakilia in section 5.2 shows. However, in order to have a higher impact it is important to apply the concept in greater scale. Thereby, the Fair Trade partner is challenged to open new market opportunities for a joint growth.