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*The Evolution of the Pattern of Exchange
in Developing Countries*

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As countries undergo a structural transformation from a traditional, almost exclusively, agrarian society to a modern, industrial and service-oriented economy, the whole exchange process gets drastically modified. The conceptual framework that is used in this study relies on the concept of exchange configurations. An exchange configuration is the setting within which an exchange transaction occurs. The building blocks of a configuration are the specific characteristics of 1) the item being traded; 2) the actors; and 3) the environment in which the actors operate.

Section II examines the secular evolution in the pattern of exchange. It reviews and synthesizes the relevant literature dealing with the secular transformation in the exchange process. In section III, the configuration approach is used to analyze the relationship between the structural transformation that takes place during the process of economic development and the evolution of exchange relations. Three distinct and broad phases of exchange relations are identified: an early, a middle and a mature development phase.

The final section applies the phase framework to the specific case of SubSaharan Africa. The impact of different exogenous forces on the evolution of exchange relations (e.g. colonization, state policies and reforms after independence, population growth, and structural adjustment) is analyzed in some detail.

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Executive Summary

In this paper, the exchange configuration approach has been used as an analytical framework to understand the evolution of the different patterns of exchange in developing countries. An exchange configuration is defined in terms of the underlying elements (which are the characteristics of the item exchanged, the participating actors and the environment). In turn the nature of the transaction is endogenously determined through the interaction of these various elements. The study reveals how different kinds of transaction modes such as "gift giving" and "kinship units" can be rationalized as emerging from the specific characteristics of the elements prevailing during a given historical period and setting. Changes in the characteristics of these elements--brought about by exogenous forces, such as wars, colonization, new technologies; or endogenous forces, such as the appearance of an agricultural surplus in traditional agriculture resulting in expanding markets--lead to new patterns of exchange.

The present paper has illustrated various ways in which this approach can help to integrate, expand and provide new insights into the evolution of exchange relations. First, by identifying the key characteristics of the item exchanged, the actors and the physical, policy, legal, and cultural environment; this approach is able to capture in a fairly systematic way, the multiplicity of factors that shape the evolution of exchange transactions. Thus, it provides a useful framework for integrating the work of various anthropologists, sociologists, historians, political scientists and economists on this subject.

Secondly, it provides a consistent methodology to analyze the different types of market and nonmarket exchange configurations that have existed over time. Until

quite recently, social scientists believed that economic theory was not useful for analyzing nonmarket forms of exchange. However, by complementing standard economic analysis with the transaction costs approach, the whole range of exchange systems--occurring within our outside markets--can be explained and understood better. Within a given exchange configuration the resulting transaction is that which minimizes transaction costs. In particular, the process of transition from nonmarket to market exchange configurations is clarified. Various exogenous and endogenous forces that trigger this transition, such as opening up of new trade routes, population growth, diffusion of new technology and imposition of colonial rule were identified.

In section III, some general trends based largely on the historical experience of the presently developed countries were highlighted. It was pointed out how different patterns of economic development are likely to emerge depending on the initial conditions and the role of exogenous and endogenous forces. This was illustrated in the case of SubSaharan Africa (SSA) where, in particular, the role of exogenous forces in the form of colonial rule, and later population growth (through the adoption of modern medical and health practices) and the emergence of nationalist governments, was described. It was shown how the inappropriate application of western notions of property rights led to a disintegration of the traditional systems of production and exchange based on the lineage system. Further, the imposition of various state-run institutions in the economy, such as state farms and marketing boards, contributed to a forced and artificial institutional change and led to inefficiency and stagnation. Past experience has shown that such top-down development without any local participation cannot succeed.

Since the early 1980s, almost all developing countries have undergone some

extent of market liberalization. The issue of the pace and sequence of this process is critical. In the SSA case, traditional land tenure systems that do not allow private property rights to be fully recognized still predominate in most of its rural areas. There is growing recognition of a fundamental disequilibrium between the existing land arrangements, that reflect the earlier practices of extensive agriculture, and the requirements of growth in the context of modern intensive agriculture.

Given the pronounced dualism between the modern, large-scale, export-oriented agricultural subsector and the small-scale, subsistence-oriented subsector in most of SSA, unleashing the forces of competition in such a setting may lead to a very inequitable pattern of land distribution. Thus, it is important that land markets operate in such a way that the poor and vulnerable groups gain better protection of their rights to access to land than they possess in the present dualistic structure. In a setting characterized by marked dualism and the imperfect and incomplete nature of labor, credit and insurance markets, issuing group titles has certain advantages over individual titles.

To conclude, one can say that though it is true, that as the process of development goes on, there is likely to be greater dominance of market configurations, yet "community type" nonmarket configurations are likely to coexist. Public action is likely to continue to be important in certain critical areas such as the provision of basic amenities and social services, transport and communication facilities, and diffusion of new technology and extension services. In these roles, public action leads to speedier evolution of markets and thus plays a complementary and catalytic role in rendering exchange relations more efficient and equitable.

I) INTRODUCTION

Economists have often been attacked for their 'parochial and often ahistorical assumption that the market form of organization is ubiquitous' (Bardhan, 1989, p. 1). Polanyi (1957), for example, argues that before modern times, labor, land and capital exchanges were never controlled, regulated or directed by markets. The exchange process has evolved over time together with the process of social and economic development. As countries undergo a structural transformation from a traditional almost exclusively agrarian society and economy to a modern industrial and service oriented economy, the whole exchange process gets drastically modified. While in earlier chapters² the configuration approach was used to analyze present day market and nonmarket exchange relations, we now analyze how useful this approach can be to understand exchange configurations in earlier time periods and their evolution over time.

The term 'development' suggests a process of evolution from lower or simpler to more complex forms, brought about naturally or through the actions of an intervening agency or exogenous factors. The idea of evolution underlies much of our study on development yet it is an idea which is very little understood. Basu (1991) argues that the 'idea of evolution in society is not one idea but many.' (pg. 5). This multiplicity of ideas largely explains the difficulty in conceptualizing and theoretically modelling the idea of evolution. This is because to understand evolution (say of exchange configurations, in the present case) a framework is needed that is broad

²See Thorbecke and Cornelisse (1991), Thorbecke (1992) and Thorbecke (1993).

enough to incorporate this multiplicity and yet comprehensive enough to serve as an analytical tool.

Moreover since evolution is a process in time, stretching over long periods, an additional requirement has to be imposed on the chosen analytical framework. This framework has to be capable of explaining not only the key elements defining a particular exchange configuration at a particular time (the static case), but also how exchange configurations change and evolve over time (the dynamics). In particular, it should explain the transition from nonmarket exchange configurations and transactions (say within family farms and organizations, and communities) to market configurations and transactions. Several questions have to be tackled such as how do elements related to the characteristics of the item traded, the actors and the exchange environment change over time and thereby alter the nature of the exchange configurations and corresponding transactions? In turn, how do changing exchange relations, for example, through increasing and expanding use of markets affect the characteristics of elements; what are the feedback mechanisms; how long does the process take; how predictable are the changes; what is the path followed; does history matter; and what is the role of the policy maker as an exogenous agent of change?

1. Search for an appropriate methodology

In searching for an appropriate framework and methodology, that helps to explain both the static as well as the dynamics case, a key question has to be faced at the outset. Unlike in the case of physical sciences, where underlying laws remain unchanged over time, can the same be said about laws governing exchange relations

across significantly different settings? For example, while it is generally agreed that human nature to trade and barter has existed from time immemorial, social scientists have debated whether economic logic is universally relevant and applicable to the explanation of the different exchange relations that have existed over time. Until recently, social scientists had largely rejected the general applicability of economic approach since they believed that primitive man did not economize. They rejected the concept of "homo economicus".

Karl Polanyi, for example, argues that an economic analysis of exchange relationships is relevant for societies only when the allocation of resources is dominated by price making markets, which he sees as an historical phenomenon of limited range, primarily characteristic of the 19th century and to a lesser degree the 20th century. According to Polanyi, other allocation systems in history, "transactional modes" as he calls them, are not based on economizing behavior and can be understood only in terms of cultural, social and psychological analysis for which he provides a conceptual framework.³ This view largely sums up the position of the substantivist school in economic anthropology. (Polanyi, 1957; Dalton 1961). On the other hand, the formalist response (Firth, 1946; Forman, 1975; Tax 1953) rejected the antimarket mentality of the substantivists and proceeded to apply formal economic analysis under the postulate of existence of all price-making markets.⁴

While both approaches have contributed significantly to our understanding, they

³This discussion is based on Eggertson, (1990), p. 285.

⁴See de Janvry, Fafchamps and Sadoulet (1991).

lie on opposite extremes. As argued in chapter 1⁵, the literature on New Institutional Economics (NIE) has shown how transaction costs analysis has contributed to broadening the scope of standard economic analysis and helping to integrate these seemingly polar approaches. North (1977), for example, argues that adding transaction costs analysis to the standard economic approach makes it a useful tool for analyzing the whole range of allocation systems in history. (Eggertson, 1991, p. 286). Polanyi's various "transaction modes"--for example, administered trade, reciprocal obligatory gift giving between kin and friends, and householding--are not purely social and psychological institutions according to North. Polanyi's transaction modes are substitutes for price-making markets and are used for the allocation of resources because they economize on costs, particularly transaction costs. It will be argued and shown subsequently that "transaction modes" are akin to our concept of exchange configurations.

Transaction modes vary because the measurement and enforcement costs of exchange vary, and in primitive or ancient societies high transaction costs typically limit or preclude impersonal exchange in price-making markets (Eggertson, 1991, p. 286). In the context of evolution, North makes the point that Polanyi's approach offers no explanation why one transactional mode replaces another, whereas transaction costs analysis may help to do so. Bardhan (1989) summarizes this basic argument as follows:

In the historical growth process, there is a trade-off between economies

⁵See footnote 1.

of scale and specialization on the one hand and transaction costs on the other. In a small, closed, face-to-face peasant community, for example, transaction costs are low, but the production costs are high, because specialization and division of labor are severely limited by the extent of market defined by the personalized exchange process of the small community. In a large-scale complex economy, as the network of interdependence widens, the impersonal exchange process gives considerable scope for all kinds of opportunistic behaviour (cheating, shirking, moral hazard), and the costs of transacting can be high. In Western societies over time complex institutional structures have been devised (elaborately defined and effectively enforced property rights, formal contracts and guarantees, corporate hierarchy, vertical integration, limited liability, bankruptcy laws, and so on) to constrain the participants, to reduce the uncertainty of social interaction--in general, to prevent the transactions from being too costly and thus to allow the productivity gains of larger-scale and improved technology to be realized. (Bardhan, 1989, p. 5-6).

2. Use of configuration approach to study evolution

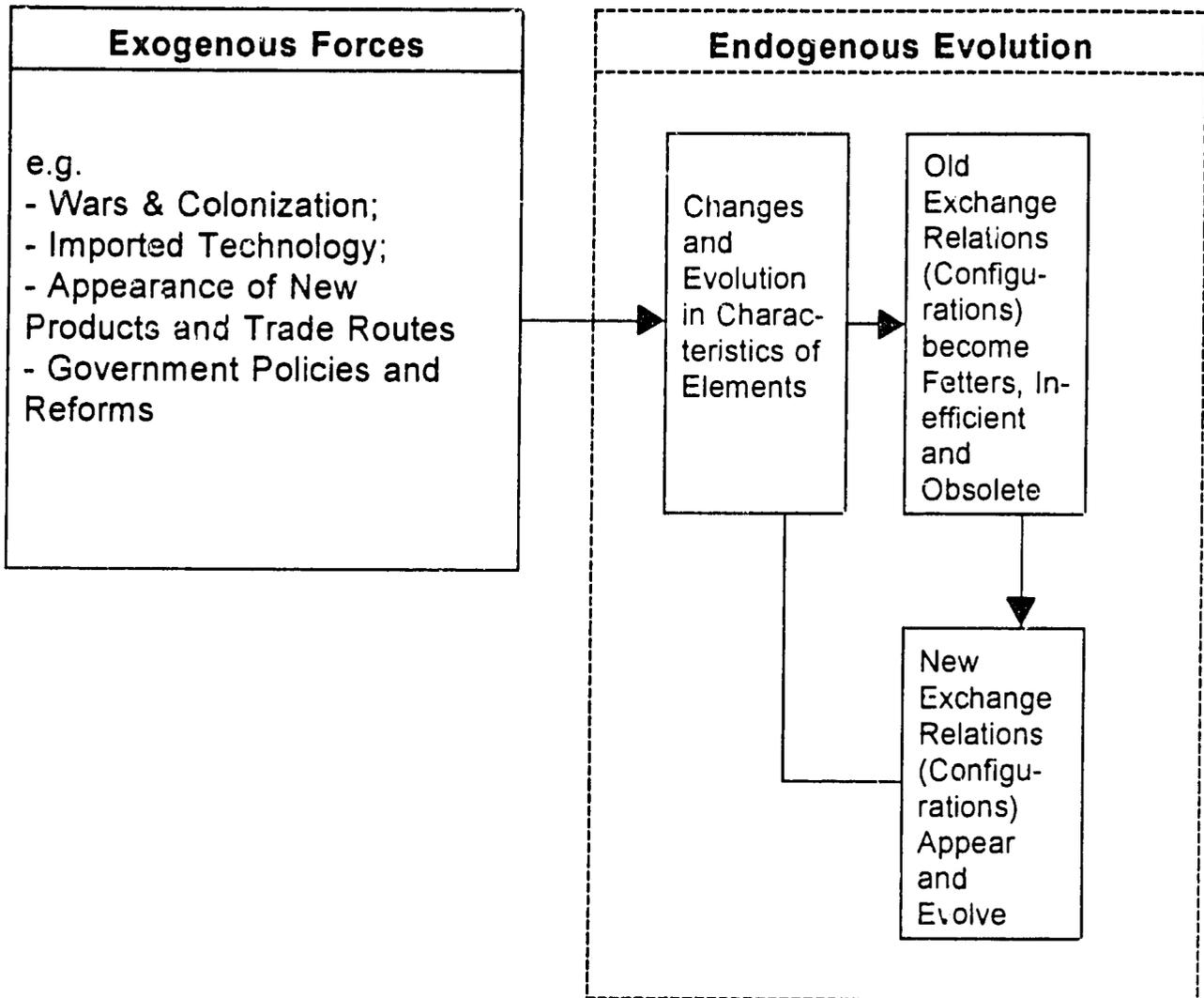
The problem that still remains in North's approach is that a whole array of factors--social, political, economic, cultural and legal underlie the determination of transaction costs. However rich and insightful the NIE and transaction costs literature might be, it does not, as such, provide a fully integrated and comprehensive framework pulling these various factors together. The exchange configuration approach introduced in earlier chapters appears to provide an operationally useful framework to study the evolution of exchange relations reflecting different sets of initial conditions relating to the characteristics of the elements.

Most of the questions raised above can be answered with the help of this approach. In particular, by focussing on the key characteristics of the items exchanged, the participating actors and the environment prevailing at a given point in time and in a given setting, the configuration giving rise to such transaction modes as

"the exchange" of gifts can be rationalized as minimizing transaction costs. The same approach helps to explain how exchange relations and configurations evolve over time. As the characteristics of elements change over time new exchange relations and transactions tend to replace existing configurations and transactions. The evolutionary process is sketched in Figure 1. Changes can be triggered by exogenous forces affecting one or more of the elements, such as wars, colonization, the appearance and diffusion of a new technology like the Green Revolution technology, the appearance of new products and trade routes and arrangements; and a new economic regime marked by structural reforms and new policy packages. For example, the dissemination of high yielding varieties seeds led to a doubling or tripling of yields and concomittant effects on agricultural output. The appearance of a marketable surplus in a traditional exchange configuration (such as the family farm and the community) was crucial in the growth of agricultural product market configurations. Likewise, the diffusion of medical advances, improved sanitation and mass immunization were instrumental in a sharp and continuous fall in the death rate and the subsequent acceleration in the rate of growth of population in much of the developing world. The population explosion altered drastically in many developing countries the resource endowment and particularly the land/labor ratio resulting in radical changes in exchange relations such as the appearance of a market for land--a factor previously not scarce and held communally.

The evolutionary process can also be endogenous, as Figure 1 illustrates. In the dynamic process of exchange that proceeds in tandem with the process of

Figure 1. Interrelationship between Characteristics of Elements and Exchange Configurations: Exogenous and Endogenous Changes.



socioeconomic development, new and expanding market configurations modify the attributes and endowments of actors and the environment--particularly the physical environment and lead to still new exchange relations and configurations. For example, the diffusion of Green Revolution technologies has been aided by the absorptive capacity of grain markets and has been facilitated by the market supply of the required agricultural inputs. Similarly, industrialization may be inspired by sufficiently attractive conditions in markets of industrial goods. In their turn, developments such as the Green Revolution and industrialization, alter certain market elements and these changes will affect the operation of markets. The rise in output per hectare brought about by the application of improved agricultural technology can induce subsistence farmers to switch to production for the market, by itself a change in the market structure. Further, as yields continue to rise and a larger volume of output reaches the market, transactions--and the underlying configurations within which they occur--may change further involving, for example, new arrangements regarding infrastructure, transportation, storage and credit that were not viable or feasible with smaller volumes traded.

The above methodology based on the configuration approach is used in the next three sections of this chapter to highlight and analyze the evolution of the exchange process from three somewhat different, but interrelated, vantage points. Section II examines the secular evolution in the pattern of exchange. It reviews and synthesizes the relevant literature dealing with the secular transformation in the exchange process and the major alternative conceptual hypotheses and theories that

have been proposed to explain the observed transformation. In particular, it appears that the methodology outlined above, is useful in integrating the impact of exogenous forces and that of the endogenous evolutionary process on exchange configurations. Rather than considering these two triggering mechanisms and processes as alternative and mutually exclusive explanations of the appearance and growth of markets--specifically in Western Europe--(as economic historians have debated for generations)⁶ the present framework is helpful in reconciling them and seeing them as mutually reinforcing.

Our framework appears also useful in explaining a) the simultaneous existence of nonmarket and market configurations, side by side, for a given item (say unskilled labor) because of different sets of characteristics of elements obtaining in the different settings; and, b) the transition from nonmarkets to market exchange configurations throughout history.

In Section III, the configuration approach is used to analyze the relationship between the structural transformation that takes place during the process of economic development and the evolution of exchange relations. Most of the previous work in this area has analyzed these developments in isolation. It is argued that a number of elements move in a relatively systematic and predictable way throughout this transformation. Three distinct and broad phases of exchange relations are identified: an early, a middle and a mature development phase. In particular, a number of key and dominant elements shaping exchange configurations, in each of the phases, such

⁶In Section II, the views of Adam Smith, Pirenne and Polanyi on this subject, will be briefly discussed.

as form of organization and technology, the extent of rural/urban dualism, and the transition from agricultural to non-agricultural production, are highlighted and analyzed.

The final section (IV) applies the phase framework derived in the preceding section to the specific case of SubSaharan Africa. The impact of different exogenous forces on the evolution of exchange relations (colonization, state policies and reforms after independence, and population growth through the effects of medical and sanitary innovations) is analyzed in some detail--particularly the transition from Phase I to Phase II.

II) EVOLUTION IN THE SECULAR PATTERN OF EXCHANGE

The nature of the exchange process is shaped by the elements. Over time the underlying elements change and affect thereby the pattern of exchange. The environment--in particular, the socio-economic structure and system--evolves. Communities and countries go through different stages of development. Significant changes occur in the characteristics of the actors and in the relations among them. Some changes in the elements are exogenous in nature such as imported technological innovations (e.g. the previous Green Revolution example mentioned in Section I) and new products (e.g. spice and silk) being introduced by foreign merchants along a trade route. Other changes are brought about endogenously through an evolutionary adaptation process. For example, the gradual transformation of merchant traders into bankers in the Low Countries in the 17th century drastically altered the operation of certain markets and the form of the resulting transactions. In

this case, real and perceived obstacles affecting the performance of existing configurations encouraged modifications in the socio-economic system and its institutions and led thereby to new (market) configurations and structures. Referring back to Figure 1 this type of endogenous change is reflected by the feedback mechanism from the box entitled new exchange relations to that entitled changes in characteristics of elements.⁷

The distinction between internal (endogenous) and external (exogenous) forces affecting the exchange process and the operation of markets is, however, not entirely clearcut. Take the case of the industrial and commercial revolutions in England, for example. To what extent they were triggered by "spontaneous" exogenous forces of a truly revolutionary nature directly changing some market elements or, alternatively, by a search for better means to produce and trade, indirectly influenced by a dissatisfaction with the status quo, is a difficult question to answer.

Likewise, whether government actions are considered to be exogenously or endogenously determined depends on which theory of the state one subscribes to. In a simple Tinbergen (1956) world the policy maker has clearcut objectives and controls policy measures subject to a set of constraints. At the other extreme in the Buchanan world and the public choice literature policy measures and, to some extent, institutions, are largely endogenously determined through collective action and the lobbying activities and strengths of different power groups.⁸ Clearly the distinction

⁷See also Figure 1 in Chapter 2.

⁸For a more thorough discussion of the role of the State, see Thorbecke (1992).

between exogenous and endogenous triggering mechanisms is not an entirely clearcut one.

The transition from one set of exchange configurations to another may take decades if not centuries. Certain market configurations may change rapidly while others very slowly and almost imperceptibly. Furthermore, even after a transitional phase has taken place, some parts of behavioral codes and institutions of the preceding type will linger on for some time. And even though their original purpose may be lost, they can still influence the new market configuration and behavior. Therefore, one can only understand transitional and new market configurations on the basis of knowledge of the successive forms they went through. In other words, path dependence prevails.⁹

In a primitive society, people have only limited knowledge of their natural environment and, thus, few means to control it for productive purposes. Communities are survival-oriented and their members remain aware of their responsibility towards other members. Sharing of production and assets is therefore a custom that can often be observed in combination with other customs that test or express loyalty to the group. Interpersonal relations are of overwhelming importance in such communities and their codes and institutions regulate activities connected with production, distribution, consumption, exchange and transfer. For example, in the widely-practiced usage of gift-giving, the subjects (persons involved in the exchange) are more important than the objects (presents exchanged). However, as economic development

⁹For a good discussion and examples of path dependence, see David (1988).

proceeds and households start to produce a surplus over and above their subsistence needs, inter-household and intra-community relations evolve and lead to a different exchange process. Whereas mutuality and sharing were essential traits for survival in a subsistence setting and may continue to exist for a while, they cease to be the dominating principles of economic activity in a setting in which a surplus is generated.

It is in this vein that Polanyi (1957) formulated his views on the evolution of exchange relations throughout the economic development process. In contrast with Robinson Crusoe's case where the decision as to how much to produce and consume is his own individual one, in self-sustaining, subsistent communities the decision is a social one following prescribed rules, obligations and traditions. Three patterns of social organization and control have been identified among various types of subsistence economies in early states of development, "householding", "reciprocity", and "redistribution". At a later stage of development "exchange" relations take over. According to Polanyi these are "forms of integration" or "transaction modes" which economies need for unity and stability. They may occur side by side but in different proportions in different societies and time periods.

The householding unit is a self-contained and sustaining system which took different forms throughout history, e.g. the Roman "familia" and the medieval manor.

To quote Berry (1967):

In its pattern and organization, the householding unit is closest to Robinson Crusoe. Instead of the single consumer, there are several members of the household; instead of the single producer, there are several, with division of labor, based upon age, sex, social standing, and tradition. The function of the distribution system is to gather the output of specialists producers who, by virtue of specialization, have become

mutually interdependent, and deposit it at the place or places where members of their household will consume it. (Berry, 1967, p. 104)

The small family farm in much of the developing world today--although very rarely of the purely subsistence type--is the contemporary analog of this form of integration. This nonmarket configuration was analyzed in detail in an earlier chapter (see Chapter 3, section 3.4.2 in Thorbecke-Cornelisse, 1991).

Reciprocity relations entail symmetrical arrangements among individuals or groups. In the classical example of the Trobriand Islands (studied by Malinowski) inland communities are paired with coastal villages in a pattern of barter exchange of inland breadfruits for coastal fish. In many instances such transactions are disguised as reciprocal exchanges of gifts.

Redistribution, on the other hand, as a pattern, hinges on the existence of a strong central authority (e.g. head man, group of elders, or head of an extended family). The output is channeled from the periphery to the center from which it is then redistributed to the group according to well-defined customs and rules.

All forms of integration, in the above sense, require a regular and predictable pattern of behavior among the participants. Reciprocity is based on symmetrical movements, while redistribution requires centripetal movements to be followed by centrifugal movements.¹⁰ These three "forms of integration" represent three alternative examples of nonmarket configurations in our terminology. What Polanyi calls "exchange", in turn, is built on actions converging into the determination of prices and

¹⁰Berry (1967) contains a very brief and excellent discussion of the three patterns of social organization and control in subsistence economies.

quantities in a market system--or what we refer to as market configurations.¹¹ Polanyi emphasizes that appropriate institutions develop to support the various types of societal processes corresponding with the above-mentioned forms of integration.

It is interesting to note that the underlying institutions and behavior of actors in the different forms of integration may be in mutual conflict. Thus, for example, the negotiations between parties on opposite sides that characterize the modern exchange process introduces an element of antagonism that cannot be permitted in communities where solidarity is to be maintained for self-protection and survival. This is why in some primitive societies gainful transactions embracing food items are banned (Polanyi, 1957, p. 255).¹²

The shift from one dominating form of exchange relations to another depends on the acceptance of innovations, the incorporation of exogenous factors such as the appearance of entirely new products brought in by foreign merchants, the transfer of technology (e.g. Green Revolution) and innovations (adoption of medical advances and mass immunization) and radical changes in the political and economic ideology of the State and their blending and fusing with elements of the prevailing culture. This acculturation of innovations and exogenous influences is not only a long-drawn

¹¹The use of the term "exchange" by Polanyi to contrast with the three other "forms of integration" appears somewhat misleading in the sense that all four alternative forms involve exchange transactions of one sort or another. Reciprocal gift giving is an exchange transaction over time. Polanyi seems to only consider "true" exchange to take place within markets. This is consistent with his view that traditional subsistence societies and agents do not act according to economic principles. In our framework all four alternatives are exchange configurations, with the first three being of the nonmarket type.

¹²The haggling that may accompany market transactions can also be seen as a form of "negative reciprocity", or the conscious attempt to take more than one gives (take as much and give as little as possible). Such behavior is unacceptable in a society based on reciprocity. (Sahlins, 1965, p. 148).

process, it is also impossible to predict with some degree of precision when it will start, what will trigger it off, or how it will end. This is easily understandable, for the structural changes--be they endogenously generated innovations or exogenous forces drastically alter the living conditions of people affected by them through their effects on the elements .

In general, innovations must be compatible with the existing social, economic and cultural structure if they are to be voluntarily adopted. Further, the readiness to accept innovations will be strengthened if they serve a useful purpose and if the benefits are high, clear to be seen and dependable. (Röpke, 1970, pp. 74-84) Finally, any significant deviation from an existing societal structure is bound to benefit some groups relative to others. The former will wish to implement such innovations and the latter will resist them, not in response to innate conservatism but as a logical reaction to an impending threat. Thus, introduction of innovations will tend to be controversial and in many instances will at least partly be imposed. Section IV gives examples of exogenous innovations that affected exchange configurations and transactions perversely within the context of SubSaharan Africa.

Two theories of the origins of periodic markets and fairs and of the transformation from subsistence forms of integration to exchange have been proposed. The first, dating back to Adam Smith's Wealth of Nations starts with an agrarian society in which surpluses develop, permitting a basic form of division of labor to emerge from the propensity of individuals to barter the surpluses, and leads to the establishment of a specialist group of artificers (smiths, carpenters, wheelwrights)

located in a village central to the farmers they serve and with whom they exchange.¹³ With further specialization and larger surpluses interregional trade follows intra-village exchange. The transformation is caused by a sequence of internally triggered changes along evolutionary lines.

The alternative approach, which is espoused by Polanyi (1957) and Pirenne (1936), reverses the sequence claiming that trade and markets can never arise within communities, for trade is external, involving different communities. The essence of this last approach is aptly summed up by Berry (1967):

Markets do not develop out of the demands of purely local or individual commerce, but are primarily induced by external exchanges of complementary products with an alien population, and are thus the result rather than the starting point of long distance trading. The sequence is seen as one of trade routes, fairs established on these routes, and local (periodic) markets developing around the original parent market as a network of tracks or roads spreads. (p. 109)

This approach holds that markets are developed as a result of external and exogenous forces. This non-traditional view of markets emerging out of external contracts appears to have priority among a number of economic historians at the present time.

In some instances, however, the transformation from subsistence forms of integration (householding, reciprocity, redistribution) to an exchange system does not take place across the board and different systems co-exist, side by side, for a long time in defiance of the many contacts that locational proximity must entail. The Java peasant vs. plantation economy during the colonial period is a much researched

¹³The present brief description of these two theories relies heavily on Berry's excellent synthesis. See Berry (1967), p. 108.

example, where the indigenous, family-based traditional agriculture showed remarkable resilience and appeared to be capable of absorbing an ever increasing population by inventive refinements of the system. Boeke (1953) described this condition as "static expansion" while Geertz (1973) coined the term "involutional change". The latter attributes this extreme case of duality to the conscious efforts of the Dutch Colonial Authorities to keep the two sectors divorced in order to protect or, more cynically, to tranquilize the rural population while promoting the development of the plantations. This implies that in Geertz's view the duality was imposed and artificially maintained through appropriate policies. Boeke, on the other hand, emphasized the culture gap keeping the two sectors apart for lack of compatibility. The plantation system as an innovation was not compatible with the existing social, economic and cultural structure. The result was the appearance of two distinct exchange configurations, side by side. In reality, both of these forces (i.e. the policy and cultural environments) have probably worked in unison to produce a strongly divided societal and economic structure. The whole issue of regional and technological dualism is elaborated upon in the next section on phases of exchange development.

An attempt at explaining the transition from one system of social and economic relations to another has been made by Ishikawa (1975). He distinguishes between community-(and family-)type activities and market-type activities which correspond to a large extent with Polanyi's movements from reliance on the reciprocity and/or redistribution principles to reliance on the market exchange principle. He makes a

further distinction within an agricultural society between families whose permanent income barely assures a "minimum subsistence level of living" (which we shall refer to as subsistence income for short) and families that are better off and that are assumed to represent the landlord-class. Under primitive production conditions subsistence families will prefer the organization of production and distribution in accordance with community relations rather than a market-type organization which will yield a lower income as long as marginal labor productivity falls short of subsistence income. The idea here is that these families would rather receive an institutional income based on the average product of the whole community (total community output divided by the number of workers) rather than the lower marginal product which, at the limit, might be close to zero. For the same reason the non-subsistence families (e.g. the landlords) will have a preference for a market-type of organization.

But this situation will change drastically if, after introduction of improved technologies, marginal labor productivity rises above the subsistence income. Of course, the new technology will not be adopted simultaneously by all subsistence families in a given community so there may be a conflict among the early-adopters and the late adopters regarding the desirable distribution mechanism. Furthermore, the early adopters whose marginal productivity is now higher than the institutional (average product) income will now favor a move to an exchange system entailing accordingly higher remunerations, in contrast with the non-subsistence families (e.g. the landlords) who will now prefer the old redistribution system. Ishikawa also underlines that this general description has in reality many variants in terms of speed

of adaptation, emerging class structure, distribution of benefits, and so on, and suggests that the original social organization (be it hierarchical, caste or communal) is a particularly powerful factor in influencing the move to a market exchange system.

Hayami (1989) in a recent and very interesting paper describes and confronts two rival views of the relationship between community and the market. One view which he calls the "community-yoke" thesis

considers traditional institutions in pre-capitalist and pre-industrial communities to be the feudal yokes preventing realization of not only the economic but also the moral potential of mankind. In this view the market is not only efficient in resource allocations but is also the 'rules of justice' that emancipate people from the yokes of traditional community ties and the arbitrary command of despotism, thereby enabling them to develop virtues such as industriousness, frugality and probity. (Hayami, 1989, p. 4)

Diametrically opposite to this last community-yoke thesis is what Hayami calls the "evil-market" thesis.

In this view, the morals that are considered necessary for the efficient functioning of a market economy based on contracts among free individuals, such as honesty, trust and restraint, are not something to be learned from commerce and market but are virtues nurtured through social interactions in pre-capitalist communities bound by common religion and mutual love. Since those traditional virtues are undermined by market forces based on the unrestricted release of self-interest and material greed, the capitalist market system is demoralizing, and hence, self-destructive. (Hayami, 1989, p. 4)

The community-yoke thesis asserts that the transition from community customs and ties to market economies is beneficial to a majority of the poor since it allows them to move into more productive and remunerative occupations. The evil-market thesis argues that, on the contrary, the disappearance of traditional community relations, such as mutual help and insurance, and income sharing, caused by the

process of commercialization, leads to greater inequality and misery for the poor. (Hayami, 1989, p. 4) Rather than seeing the "community" and the "market" as rival institutions, Hayami considers them as largely complementary. To a significant extent, community transactions and relations are entered into to correct and remedy pervasive market failures in the markets for land, credit, insurance, labor and products. This issue is elaborated upon in the next section where we examine a more formal and household specific definition of market failure (de Janvry, Fafchamps and Sadoulet, 1991) and apply it to explain the transition from nonmarket configurations to market configurations from an early to a middle development phase. The same idea expressed in the terminology of our configuration approach is that a number of specific characteristics of the elements (such as inadequate physical infrastructure and transportation networks, traditional producers being sealed off from the organized credit markets, and low volumes produced and available for exchange) operate as binding constraints on the behavior of actors inducing them to transact within surrogate community or household-based nonmarket configurations (Thorbecke, 1993).

Interestingly, the evolution of the process of exchange need not always entail a uni-directional transition from community-based nonmarket configurations to market configurations. There might be instances where changes in some of the elements-- such as technological innovations relying more on highly skilled brain power and less on manual unskilled labor--might make it increasingly difficult to enforce work rules through an impersonal hierarchical command system. As Hayami (1989), p. 8,

remarks

It may become necessary to design the forms of contract that incorporate incentives to improve unobservable work efforts by improving morale. One possible direction is to establish relations of a community type within a firm. A typical example along this line is the Japanese-Management System....A boss is supposed to develop a patron-client relationship with workers under him so that the section or a division or even a whole company simulates a family or a village. Such a system, which was once regarded as pre-modern, feudalistic and hence, inefficient, is now considered to underlie the high efficiency of Japanese industries as it minimizes the X-inefficiency arising from the prisoner's dilemma situation.

In the next section it is argued that somewhat different paths can be observed in the evolution of exchange relations--depending on the specific characteristics of the elements and, more particularly, on the types of development strategies and policies followed by different governments.

III) PHASES IN THE EVOLUTION OF EXCHANGE CONFIGURATIONS

Different forms of exchange relationships have evolved over time together with the process of economic development. In most discussions on patterns of economic development, the interrelationship between changes in the structure of the economy and changes in exchange relationships are not explicitly analyzed.

For example, Simon Kuznets¹⁴ in his comparative study of the economic growth of nations describes the period since the mid-eighteenth century to the present as the epoch of "Modern Economic Growth" . According to him, the epochal innovation that distinguishes this modern economic period is the extended application of science to

¹⁴ Kuznets (1966)

the problems of economic production. His study characterized this epoch of modern economic growth by the sustained increase in per capita product, growth in population, increase in efficiency of inputs, sectoral shift of national product and labor force from agriculture to manufacturing and services, increase in the rate of capital formation, improvement in transport and communications, and the movement away from small enterprises to large enterprises. However, in his study, the changes in exchange relationships that occurred concurrently during this period are not explicitly analyzed. In terms of the configuration approach, developed here, the transformations that he described correspond to changes in the characteristics of the underlying elements. In this section an attempt will be made to relate these changes to the evolution of exchange relationships.

To do this, the secular process of economic development can be broken down into three broad phases: an Early Development Phase, a Middle Development Phase and a Mature Development Phase. Though it is true that history cannot be compressed into three phases and there is nothing sacrosanct about the number three, it can be claimed that a certain analytical logic underlies this division.¹⁵ The Early Development Phase is the period before the start of the process of Modern Economic Growth and the purpose in delineating this phase is to capture the initial conditions that prevailed in different countries before they embarked on this process. The Middle Development Phase describes the period when most of the structural

¹⁵For instance, according to W. W. Rostow, the transition from underdevelopment to development, can be described in terms of five stages, through which all countries must proceed. These are the traditional society, the preconditions for take-off into self-sustaining growth, take-off into self-sustaining growth, the drive to maturity and the age of high mass-consumption.

changes pointed out by Kuznets took place and the Late Development Phase characterizes the period after that. Thus according to this classification, most of today's "developing countries" are in the Middle Development Phase and the "developed countries" are in the Late Development Phase¹⁶.

Typically a number of exchange configurations characterize each phase. However for analytical purposes one needs to focus on those configurations that are considered to be most representative of a particular phase. This is the same kind of difficulty that was faced in Chapter 1 while building a typology of markets. It was noted there that many elements tend to follow bimodal distributions and tend to be interrelated. Accordingly a dual-dual framework was built up to help in the classification of key characteristics of the various elements. Similarly here the dual-dual framework is used to identify key configurations in each phase. As a society and economy move from one phase to another two changes occur simultaneously. First, the characteristics of elements within each configuration change and, second, the relative importance of each configuration within the overall structure is also altered. Thus, it will be shown that the family farm configuration is present in all the three phases but its characteristics and relative importance undergoes a major modification in the process of socioeconomic development.

¹⁶A USAID Report on Africa (1991) suggests that agricultural marketing systems pass through five stages of evolutionary development. Phase I in their classification corresponds roughly with the Early Development Phase, Phase II and III with the Middle Development Phase and Phases IV and V with the Late Development Phase, respectively. The rationale behind this much finer classification was to show how state intervention has to be closely tailored according to the particular phase that a marketing system is going through. The Report identifies certain variables which propel the evolution of these marketing systems from one stage to another. Interestingly enough, these variables which the report describes as driving forces, match very well with the various elements in the configuration approach used in this chapter.

A. PHASE 1: THE EARLY DEVELOPMENT PHASE

In phase 1, traditional agriculture predominates and production and transactions are generally concentrated in the northwest quadrant of the dual-dual framework as shown in Figure 2. Food production constitutes the bulk of total output. During this phase, however, household and cottage enterprises start to appear in the form of various crop processing units, carpentry, masonry, handicrafts and so on. The technology used is very traditional and the form of organization is informal. Urban activities are limited and relate primarily to various artisan crafts, trade and services, public administration, military and education.¹⁷

Having described some of the major characteristics of the elements let us now analyze how these elements endogenously determine the nature of exchange relationships in this phase. Traditional agriculture predominates in this phase and it is characterized by certain distinct features that largely determine the kind of transactions likely to emerge.¹⁸ Firstly, agricultural production activities tend to be strongly interdependent due to ecological interdependence of biological processes. For example, diversion of irrigation water may result in water shortage for downstream

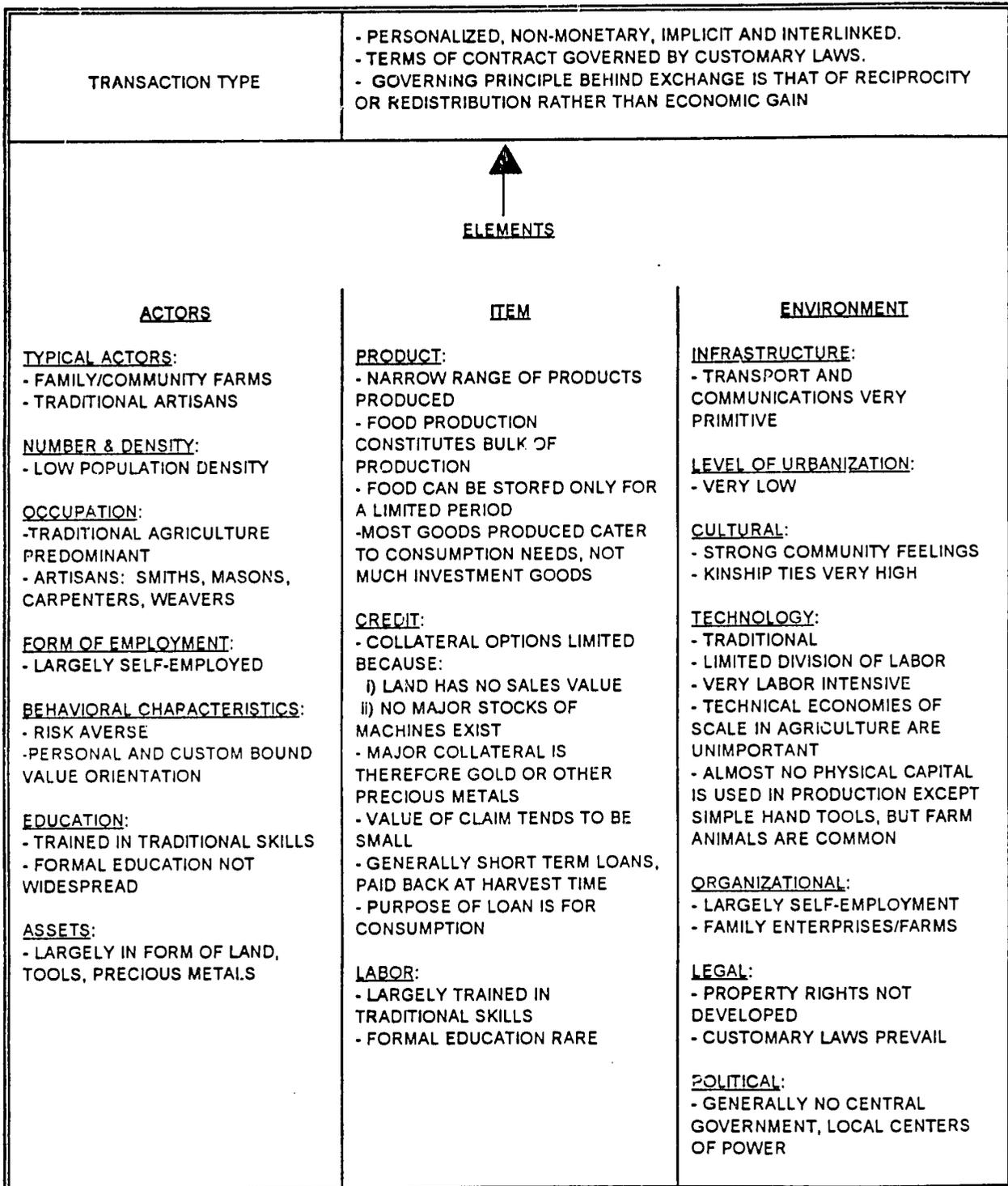
¹⁷For instance, according to Pirenne (1936; 57-8) in the case of medieval Europe, "the towns contained a minority, sometimes even a very small minority of the population. In the absence of statistical data prior to the fifteenth century no precise numerical estimate can, of course, be formed, but we shall probably not be far wrong in supposing that in the whole of Europe between the twelfth and the fifteenth centuries the urban population comprised never more than a tenth part of the total number of inhabitants.....It is an undoubted fact that from the demographic point of view, medieval society was essentially agricultural". This was true in other parts of the world as well during this phase.

¹⁸The discussion here is largely based on the recent literature on agrarian institutions and in particular the work by Hayami (1989).

FIGURE 2. EARLY DEVELOPMENT PHASE (PREDOMINANCE OF FAMILY FARM CONFIGURATION)

			TECHNOLOGY AND FORM OF ORGANIZATION	
			TRADITIONAL TECHNOLOGY AND FAMILY OR SELF-EMPLOYED ENTERPRISES	MODERN TECHNOLOGY AND LARGE ENTERPRISES
G E O G R A P H I C A L L O C A T I O N · N A T U R E O F P R O D U C T	R U R A L	A G R I C U L T U R A L	FAMILY FARM CONFIGURATION (FOR DETAILS REFER TO FIGURE 3)	U N D E V E L O P E D
		N O N - A G R I - C U L T U R A L	BEGINNINGS OF COTTAGE ENTERPRISES - HANDICRAFTS, TEXTILES, MASONRY, CARPENTRY	
	U R B A N	UNDEVELOPED		

FIGURE 3. FAMILY FARM CONFIGURATION IN EARLY DEVELOPMENT PHASE



farmers in a river valley. An individual farm is usually too small a production unit to internalize much of these production externalities. It thus becomes imperative for the village members to coordinate their production and exchange activities to reduce these conflicts. Customs or accumulated precedents rather than stipulations of formal laws tend to be more effective in governing exchange relationships.¹⁹

Secondly, traditional agriculture is subject to a lot of uncertainty. Vagaries of nature cause substantial variations in food production of each household. Primitive technology does not allow the storage of output for more than one production period. Furthermore, in such societies where there is no centralized state, it is not possible to use regular taxes and bounties to affect the distribution of food among households. Binswanger and Rosenzweig (1986) point out that formal insurance markets are also impracticable as a consequence of moral hazard, covariant yield risks and lack of suitable collateral options. The nuclear household is too small for spreading the risks of harvest failure or animal disease, so the larger kinship unit or horizontally and/or vertically integrated families become the insurance collectivity in many such cases.

Thirdly, information is costly and asymmetrically distributed. Thus incentive problems arise in all transactions that involve payment or deliveries of goods and services at a future time (i.e. credit, insurance, labor or rentals of assets). In case of agricultural products, marketable agricultural surplus of semi-subsistent peasants is usually small in volume and variable in quality. Therefore, as Hayami (1989) points out,

¹⁹See for example Bardhan (1993).

it is impracticable to introduce modern marketing practices such as grading and brand names, aimed at reducing the uncertainty about product quality. A market tends to be inefficient or vanish altogether because of high transaction costs due to absence or asymmetry of such quality information. (p. 6).

The problem of quality uncertainty in traditional agriculture also makes it more difficult to monitor labor. In urban industries characterized by machine process, work is highly standardized and easy to monitor. The biological process of agricultural production is however subject to infinite variations in ecological conditions. It thus matters a great deal whether a laborer performs his work with careful attention and adjustments in response to variations in ecological conditions. Such work quality is extremely difficult to monitor. Moreover agricultural operations are generally spread over a wide space and this adds to the problem of monitoring.

Because of the above mentioned characteristics associated with traditional agriculture such as production and quality uncertainty, costly and asymmetric information, incentive problems and small market size; it has been shown that transactions tend to be interlinked.²⁰ As Hayami (1989) points out,

The presence of severe quality uncertainty coupled with small market size makes it unprofitable for specialized agents to engage in the marketing of various goods and services separately. Consequently a strong tendency emerges in the village community for various transactions to be interlinked, in a highly personalized relationship.... Multiple transactions between the same parties permit the saving of transaction costs because much of the cost of information collection and contract enforcement is common to all the transactions. (p. 7)

A widely studied example of such interlinked transactions is sharecropping

²⁰See for example Bardhan, 1980 and 1989, Basu 1983.

tenancy where the tenant agrees to pay a certain proportion of the total product as the rent. Such an arrangement, as opposed to a pure wage contract, helps to overcome the problem of incentives and monitoring and, as opposed to a pure rental contract helps to overcome the problem of missing insurance markets. Usually the landlord also advances credit for production and consumption purposes. Braverman and Stiglitz (1982) point out that the landlord by altering the terms and the amount of the loan that he makes available to the tenant can induce him to work harder or to undertake projects more to the liking of the landlord. This interlinking of credit with tenancy contracts helps in internalizing some of the externalities associated with traditional agriculture. Very often the landlord also patronizes his tenants in such ways as giving gifts at the birth of a child or using his connections to help solve the tenants' problems with other villagers. The tenant reciprocates by his loyal services to the landlord.

Due to the multistranded nature of exchange relationships in this phase, it does not make much sense to analyze land, labor and credit configurations separately. Most transactions are virtual, implicit and within the family. Thus the family farm configuration is the appropriate unit of analysis here, as shown in Figure 3. Thorbecke (1993) describes how the *raison d'être* of the family farm configuration lies in the two forms of insurance that it provides. The first is an intergenerational form of "old age" or social security insurance and the second is insurance against state contingent uncertainty.

In this phase, family farms tend to be very often horizontally linked with other

family farms through a variety of patron-client, kinship and tribal relations (as in various parts of Asia, Africa and Latin America)²¹. In Europe, the family farms formed part of the great medieval estates. According to Pirenne(1936, p.60), these estates consisted, of on an average, 300 farms(mansi), or about 10,000 acres and many of them were undoubtedly considerably larger. The whole of the land was under the jurisdiction of a "cour" or a manor and was divided into three parts: the demesne, the tenants' holdings and the commons. The demesne constituted the seignorial reserve and consisted of the all the lands set apart for the exclusive use of the lord. The size of the tenants' holdings was based on the minimal size land required to support a family. The commons consisted of the natural meadows, marshes ,heath or forests which surrounded the cultivated soil. The tenants had to work for 1-3 days a week on the lord's demesne and also had to pay various dues in kind, on certain customary dates. In turn, the lord provided them protection. Thus the manor was not just an economic but also a social institution. It imposed itself on the whole life of its inhabitants. In this case, the family farm can be seen as an exchange configuration within the larger configuration of the manor.

B. PHASE 2: THE MIDDLE DEVELOPMENT PHASE

1. Transition from Self-sufficient to Market-oriented Units

In phase 2 there is a movement away from self-sufficient units to market oriented units. To understand the factors that lie behind this movement we will

²¹ In Section(IV), exchange relationships within the lineage system in SubSaharan Africa are described in greater detail.

discuss here the model on market failures built by de Janvry et al (1991). They argue that,

Typically when commodities such as food and labor can be bought and sold by a peasant household, their sales price is a fraction of the purchase price. The widths of the price bands depend on transportation costs to and from the market, mark-up by merchants, the opportunity costs of time involved in selling (search costs) and buying (recruitment and supervision costs) risks associated with uncertain prices and availabilities that determine perceived certainty equivalent prices that are lower than farm gate prices for items sold and higher for items bought, and a variety of other transaction costs that are largely household specific. (pp. 1401-2)

According to this model, then, whenever the shadow price of a product or a factor which the household produces and uses fall within this price band, trade will not occur. If the shadow price is above the price band, the household should buy the commodity until the shadow price that equates supply and residual demand for home production falls to the purchase price and vice versa. Thus the greater is the size of the price band the more likely it is that the household will remain self-sufficient. The poorer the infrastructure, the less the information that is available and the more risky the transactions; the greater is the size of the price band. Thus, it is a multiplicity of factors such as improved transport and communication facilities, improvement in storage and processing technology, spread of legal and financial institutions, which by reducing the size of the price band can ensure greater market participation by earlier self-sufficient units. Also factors like imposition of monetary tax and increased availability of manufactured goods, by raising the cash requirements and the incentives of the households, can have the same effect. Notice that all of these factors correspond to the various elements in the configuration approach.

2. Factors Behind the Transition

What led to the above outlined changes in the characteristics of elements? As was already discussed in Section II, many of these changes were triggered by exogenous forces such as wars, colonial rule and appearance of new trade routes and new products. Other changes particularly in the historical experience of Western European were of an endogenous type. However, in almost all countries, two factors can be singled out as being most important in the evolution from self-sufficient units to market-oriented units. These are the increase in population and the opening up of internal and external trade.

a. Population growth

In Boserup's (1965) analysis, population growth has eight principal effects: 1) it reduces the fallow period; 2) it increases investment in land; 3) it encourages the shift from hand hoe cultivation to animal traction; 4) it encourages soil fertility maintenance via manuring; 5) it reduces the average cost of infrastructure; 6) it permits more specialization in production; 7) it induces a change from general to specific land rights; and, 8) it reduces the per capita availability of common-property resources.

Further, as Binswanger et al (1989) point out,

population growth mitigates the effects of person-specific risk in two ways 1) It leads to markets for specialized crops and non-farm products, and allows greater diversification into them. 2) It reduces the average cost of infrastructure, thus allowing greater market expansion for some goods, and further diversification. (p. 133-4)

By thus affecting various characteristics of the underlying elements, population growth has a major impact on the evolution of exchange configurations.

b. Opening of external trade

The principal effect of opening up of external trade is that the household or the village community is no longer constrained to remain self-sufficient. For example, in an earlier closed region, the availability of external markets break the prevailing demand and supply constraints and allow the usual gains from trade to be reaped. This immediately raises the marginal value of factors at their former levels of utilization.

The opening up of external trade also has important consequences on the risks facing an agrarian economy. If the export crop is a new or previously minor crop, a decline in covariant risks facing the villagers is likely. This is because the new crop often becomes a source of portfolio diversification. Furthermore food can be imported in bad years, thus reducing the risks facing traditional agriculture. Since covariant risks decline, Binswanger et al. (1989) argue that there is less need for the vertical extension of households.

3. Evolution of Specific Markets

As the family farm configuration shrinks in importance, a variety of market and nonmarket exchange configurations emerge. To identify the key characteristics of these configurations the dual-dual framework described in Chapter 2 is used.

Let us start with the product market and nonmarket configurations. It is to be noted here that two changes are occurring simultaneously. First a larger output is being produced and marketed, and secondly new products start appearing. Accordingly four distinct product configurations can be distinguished within the dual-

dual structure. These are: 1) Family (or community) farm system which is gradually moving away from a purely subsistence orientation to a more market orientation; 2) Commercial large scale (often mechanized) agriculture which might comprise plantations and/or large scale production of food crops; 3) The informal rural and urban manufacturing and service market in which small firms are gradually replacing household and cottage enterprises; and 4) Modern industry and the beginning of a modern service configuration. Figure 4 presents these configurations within the dual-dual framework. A careful examination of this figure reveals that these four configurations can be identified fairly distinctly in terms of different specific combinations of characteristics of elements and the corresponding exchange relationships.

During this second phase, the informal sector continues to grow. Gradually, small firms replace household enterprises. As agricultural production expands together with the size of the marketable surplus and rural incomes, newly created and expanding markets for consumer goods and some capital goods (used as inputs into agriculture) appear. Because of the rudimentary nature of the infrastructure and the transportation network (in figure 4 this is one of the characteristics of the underlying environment in the informal sector configuration), a highly fragmented pattern of production centered on small-scale units results. Products tend to be differentiated, subject to low scale economies and covering small markets.

Perhaps of even greater importance during this phase is the increasing relative importance of modern technology and form of organization and of urban industrial

production. This movement can be seen clearly when Figure 4 describing Phase 2 is compared with Phase 1 in Figure 2. The northwest configuration which was predominating in the early phase is being encroached on from the east (through the use and application of modern technology and form of organization and all other characteristics of elements related with the former) and from the South (through the increasing importance of urban production and associated characteristics).

Product markets are generally the fastest to develop. Markets for factors of production, particularly land, develop very slowly. The peculiarities of land as a commodity--its physical heterogeneity, the diversity of motives for its purchase and the relatively small volume of transactions--generally hinders the development of land markets (Morris and Adelman, 1988, p. 65).

In Figures 5 and 6 a slightly modified form of the dual-dual structure is used to describe labor and credit exchange configurations. These figures are largely self-explanatory; therefore, the interested reader can refer to them for details. Next we turn to another major aspect of the transition from Phase 1 to Phase 2 which is increasing monetization of transactions.

4. Monetization

Transactions can be expressed in monetary or non-monetary terms. As transactions grow and become more comparable, professional traders can start to play a role. With the introduction of metallic and later fiduciary money, the problems of storage, acceptability and transport of bullion can largely be overcome. Yet, there are specific situations, very common in rural areas of developing countries, where money

FIGURE 4. MIDDLE DEVELOPMENT PHASE -- PRODUCT EXCHANGE:
EMERGENCE OF FOUR DISTINCT CONFIGURATIONS

		TECHNOLOGY AND FORM OF ORGANIZATION	
		TRADITIONAL TECHNOLOGY AND FAMILY OR SELF-EMPLOYED ENTERPRISES	MODERN TECHNOLOGY INCORPORATED OR UNINCORPORATED ENTERPRISES
G E O G R A P H I C A L L O C A T I O N, N A T U R E O F P R O D U C T	R U R A L A G R I C U L T U R A L	<p><u>FAMILY FARM CONFIGURATION</u></p> <p><u>ACTORS</u></p> <ul style="list-style-type: none"> - FAMILY FARMS - SUBSISTENCE ORIENTED - RISK AVERSE - PERSONAL AND CUSTOM BOUND VALUE ORIENTATION <p><u>ITEM</u></p> <ul style="list-style-type: none"> - GENERALLY FOOD CROPS (SOME CASH CROPS BEGINNING TO BE GROWN) <p><u>ENVIRONMENT</u></p> <ul style="list-style-type: none"> - TRADITIONAL TECHNOLOGY - SMALL-SCALE FAMILY ORIENTED UNITS - LAND RIGHTS BEGINNING TO EMERGE 	<p><u>LARGE SCALE FARMS/PLANTATIONS</u></p> <p><u>ACTORS</u></p> <ul style="list-style-type: none"> - LARGE SCALE FARMS/PLANTATIONS - FOREIGN DOMINATED/DOMESTIC - INTERESTED IN PROFIT MAXIMIZATION <p><u>ITEM</u></p> <ul style="list-style-type: none"> - CASH CROPS/PLANTATION PRODUCTS <p><u>ENVIRONMENT</u></p> <ul style="list-style-type: none"> - MODERN TECHNOLOGY USED - LARGE INCORPORATED OR UNINCORPORATED ENTERPRISES - CAPITAL INTENSIVE TECHNOLOGY - HIRED LABOR USED - GENERALLY SHELTERED BY GOVERNMENT
	R U R A L & U R B A N	<p><u>NON-AGRICULTURAL INFORMAL</u></p> <p><u>ACTORS</u></p> <ul style="list-style-type: none"> - FAMILY AND COTTAGE ENTERPRISES - TRADITIONAL ORIENTATION - RISK AVERSE <p><u>ITEM</u></p> <ul style="list-style-type: none"> - TEXTILES, BLACKSMITHRY, FOOD-PROCESSING, CONSTRUCTION, HOUSEHOLD SERVICES, TRANSPORT AND TRADE SERVICES <p><u>ENVIRONMENT</u></p> <ul style="list-style-type: none"> - TRADITIONAL TECHNOLOGY - SMALL-SCALE ENTERPRISES - LABOR-INTENSIVE UNITS - SELF-EMPLOYMENT 	<p><u>MODERN INDUSTRIAL SECTOR</u></p> <p><u>ACTORS</u></p> <ul style="list-style-type: none"> - EMERGENCE OF LARGE FACTORIES - BEGINNINGS OF MODERN SERVICES SECTOR - INTERESTED IN PROFIT MAXIMIZATION <p><u>ITEM</u></p> <ul style="list-style-type: none"> - CAPITAL GOODS - SOME CONSUMER GOODS - LIKE TEXTILES, ELECTRICAL GOODS <p><u>ENVIRONMENT</u></p> <ul style="list-style-type: none"> - MODERN TECHNOLOGY - LARGE-SCALE, CAPITAL INTENSIVE - HIRED LABOR USED - HIGH DEGREE OF GOVERNMENT INTERVENTION
		<p><u>TRANSACTION TYPE</u></p> <ul style="list-style-type: none"> - PERSONALIZED, INTERLINKED, SOME MONETIZATION APPEARS <p><u>MARKET STRUCTURE</u></p> <ul style="list-style-type: none"> - FRAGMENTED MARKETS, LOW LEVEL OF COMPETITION 	<p><u>TRANSACTION TYPE</u></p> <ul style="list-style-type: none"> - IMPERSONAL, MONETIZED <p><u>MARKET STRUCTURE</u></p> <ul style="list-style-type: none"> - LINKED WITH FOREIGN MARKETS, LABOR MARKETS EMERGE, BANKING, FINANCE FOR TRADE, LIMITED COMMERCIALIZATION OF LAND
		<p><u>TRANSACTION TYPE</u></p> <ul style="list-style-type: none"> - GENERALLY MONETIZE, OFTEN PERSONAL <p><u>MARKET STRUCTURE</u></p> <ul style="list-style-type: none"> - REGIONAL MARKETS, LIMITED LINKAGES WITH FORMAL SECTOR, LOW COMPETITION 	<p><u>TRANSACTION TYPE</u></p> <ul style="list-style-type: none"> - MONETIZED, IMPERSONAL <p><u>MARKET STRUCTURE</u></p> <ul style="list-style-type: none"> - PRODUCT MARKETS NATIONALLY LINKED - LABOR MARKETS EMERGE - SPECIALIZED BANKING INSTITUTIONS LINKED

FIGURE 5. LABOR EXCHANGE CONFIGURATION IN PHASE 2

		TECHNOLOGY AND FORM OR ORGANIZATION	
		TRADITIONAL TECHNOLOGY FAMILY ENTERPRISES SMALL-SCALE	MODERN TECHNOLOGY INCORPORATED/UNINCORPORATED ENTERPRISES LARGE-SCALE
GEOGRAPHICAL LOCATION, NATURE OF PRODUCT	RURAL AGRICULTURAL	<u>INTRA-FARM LABOR ALLOCATION</u> (SOME HIRING IN AND OUT OF LABOR SEASONALLY)	<u>AGRICULTURAL LABOR MARKET</u> (APPEARANCE OF COMMERCIAL FARMS AND PLANTATIONS)
	RURAL AND URBAN NON AGRICULTURAL	<u>INFORMAL LABOR MARKET</u> 1) LARGELY SELF-EMPLOYED 2) GOVERNMENT REGULATIONS LIKE MINIMUM WAGE LEGISLATION DO NOT APPLY 3) NO LABOR UNIONS	<u>FORMAL LABOR MARKET</u> 1) LARGELY BASED ON HIRED LABOR 2) GOVERNMENT REGULATIONS LIKE MINIMUM WAGE LEGISLATION AND OTHER LAWS ENFORCED 3) LABOR UNIONS EMERGE

FIGURE 6. CREDIT EXCHANGE CONFIGURATIONS IN PHASE 2

		DEGREE OF INTERMEDIATION AND CHARACTERISTICS OF BORROWERS AND LENDERS	
		NO INTERMEDIATION-DIRECT CONTRACTS NON-REGISTERED LENDERS BORROWERS HAVE NO COLLATERALS	FINANCIAL INTERMEDIATION REGISTERED LENDERS BORROWERS WITH COLLATERALS
G E O G R A P H I C A L L O C A T I O N	R U R A L	RURAL INFORMAL CREDIT CONFIGURATION	RURAL FORMAL CREDIT CONFIGURATION
	U R B A N	URBAN INFORMAL CREDIT CONFIGURATION	URBAN FORMAL CREDIT CONFIGURATION

is hardly needed. Again, the example of subsistence farming applies since the same actors (i.e. the members of the farm household) produce the food and consume it. Another example concerns the labor market during the harvest season, when labor services can be traded directly for food since each party can supply the item that the other needs in a complementary and barter fashion.

Generally speaking, the first markets to be monetized are product markets.²² Families or communities oriented to subsistence production may find that they produce a surplus and offer it for sale. By so doing they run a relatively small risk as long as they retain a quantity considered adequate for survival. Labor markets tend to be monetized at a later stage. If the surplus production over own consumption continues and perhaps expands with the introduction of improved technologies, a tendency towards commercialization may begin. Other well known causes for monetization are increased division of labor, the desire to buy consumer goods, the conscious introduction of cash crops by the government and the obligation to pay taxes.

After the introduction of money, the relations among individuals in a community will gradually become more impersonal. In a group that used to be self-supporting and self-sufficient, the possession of money allows consumption of goods produced by outsiders. Furthermore, as the surplus becomes an established part of total revenues, production decisions are likely to change when account is taken of opportunities in the product market. Motivations will become less inward-looking than before and traditional rules of distribution will be eroded. At the same time, increased

²²For a more extensive discussion, see Chandavarkar (1977).

monetization heightens sensitivity to inflation. This is the reason why the degree of monetization does not increase monotonically over time; in many cases a drop in the use of money in transactions has been observed as a reaction to high rates of inflation.

5. Patterns of Development

Whereas it seems that this dual-dual structure is typical of many--if not most countries--in the middle development phase, this structure is not necessarily universal. The problem in constructing a typology of the patterns of development is that given the multidimensional nature of the development process, the typology one constructs is quite sensitive to the particular aspect of the development process that one proposes to study.²³ For the specific purpose of studying the different qualitative aspects of evolution of exchange relationships, across countries, it appears useful to begin by distinguishing between early and late starters, and then further between dualistic and nondualistic patterns of growth.

The "early starters" are defined here as countries which by the end of the nineteenth century, had secure individual property rights, national markets for a wide range of commodities, diverse specialized regional capital institutions and widespread commercialization of land and labor.²⁴ Amongst the early starters were most of the

²³ For instance, Morris and Adelman (1988) using data for 23 countries, in the period between 1890-1914, build four different typologies, classifying countries on the basis of their growth of market institutions, type of industrial expansion, response of agriculture to expanding economic opportunities and the international character of their economic relation with other countries.

²⁴ The classification "early starters", corresponds to the categories A to D in the typology, on the growth of market institutions, built by Morris and Adelman (1988).

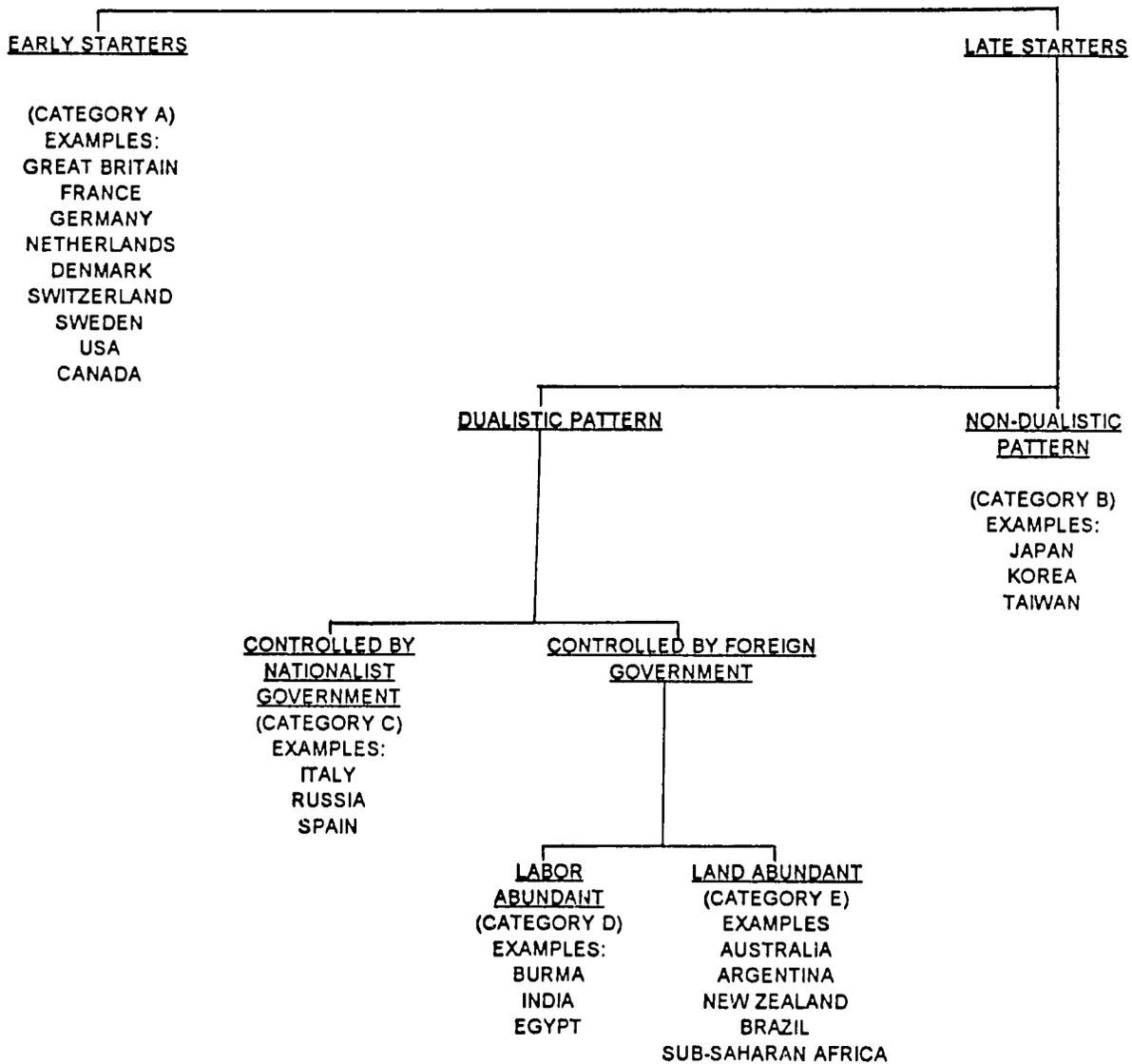
West European countries as shown in Figure 7. The pattern of development here was broadly that of an endogenous evolutionary kind and stretched over a much longer period of time, in comparison to the other patterns delineated in Figure 7. A common characteristic of the late starters was the much greater role of exogenous forces in shaping their development paths. The pace of development was much faster here. This was largely because the process of development was based on diffusion of imported technology.²⁵

Amongst the late starters we can distinguish between those countries which had a dualistic pattern of development and those that did not. Countries such as Taiwan, South Korea and Japan (during the Meiji period) followed consciously a unimodal strategy of agricultural development and, as a consequence, largely avoided the marked dualism in agriculture between a traditional and modern subsector. Where countries used such a unimodal approach and agricultural development strategy, the classification scheme and typology used here, would have to be modified accordingly to reduce or eliminate the technological dichotomy that appears in the form of the vertical line dividing agriculture in Figure 4.

Amongst the countries following a dualistic pattern one can further distinguish between those controlled by nationalist governments and those controlled by foreign governments. In Section IV the pattern of development of SubSaharan Africa is

²⁵In an interesting paper on economic growth, Hayami (1991) asked the following question: "Along what axis of major confrontation will the world economic and political system be structured after the demise of the cold war?" He then goes on to predict that the new axis of confrontation will be between the early and late comers to industrialization. Thus, in terms of the various catch-up models that have been formulated, by Hayami and others, the distinction between early and late comers is analytically very important.

FIGURE 7. DIFFERENT PATTERNS OF DEVELOPMENT IN PHASE 2



analyzed in detail as an example of a land-abundant region where colonial forces played a major role in the process of development. Wherever appropriate, cross references to the other patterns of development are noted.

C. Phase 3: Mature Development Phase

The mature development phase (phase 3) is marked by the predominance of modern industry and service activities. Figure 8 which is, likewise, self-explanatory captures the new situation. It can be seen that encroachment from the east (through the application of modern technology and related elements) has continued and that the traditional sector in both rural and urban areas is disappearing. Simultaneously, the increasing importance of urban production is reflected through the much larger area covered by the southeast quadrant which has become predominant.

Improvements in the physical environment (such as improved road network) leads to a much larger domestic market that now integrates previously smaller regional and subregional markets. This same element is partly responsible for the relative decline of small firms which are losing their previously held locational advantage. In addition, economies of scale with respect to plant, management and marketing play an increasingly important role in the choice of technology which, in turn, strongly favors large firms.²⁶ Specialized institutions evolve for commodity exchange and for

²⁶At this stage, it ought to be mentioned that D. Anderson has developed a three-phase explanation of changes in the size structure of industry over time for a large number of developing countries. Using the percentage shares of total manufacturing employment in respectively, a) household and artisanal activities; b) small workshops and factories; and c) large factories, Anderson shows clearly that the former dominates in phase 1, small workshops and factories increasingly replace household activities in phase 2 and large firms become increasingly important in phase 3 which also sees the gradual disappearance of household activities. Anderson's explanation of the factors which influenced these changes is generally consistent with the present analysis although focused by design on the changing size and structure of firms throughout the development process. See Anderson (1982).

Figure 8. Phase III. Mature Development Phase: Predominance of Industry and Service Sectors

		TECHNOLOGY, FORM OF ORGANIZATION, POLICY ENVIRONMENT			
		Traditional Technology and Organization	Modern Technology and Incorporated and Unincorporated Firms		
		Non-Sheltered	Non-Sheltered	Sheltered	
		Inter-Family			
G E O G R A P H I C A L L O C A T I O N . N A T U R E O F P R O D U C T	R u r a l	Agriculture	D i s a p p e a r i n g	Commercialized large scale enterprises (often incorporated family farms) using modern technology. Rural decentralization of modern industry. Production for market. High degree of government intervention. High degree of linkages among markets.	
		Non-Agriculture			
	U r b a n	P r i v a t e I n d u s t r y	Tradeable	D e c r e a s i n g	Predominance of corporate sector and wage employment. Reliance on modern technology. Large firms and large scale production displacing workshop and small factory production. Impersonal value-orientation and predominance of monetary and formal transaction. Market-orientation (arms-length trading). High level of financial development. Risk taking. Pre-dominance of industry and service production. High degree of government intervention. Sheltering of markets through e.g. protection from foreign competition (for tradeables) and subsidies for non-tradeables. High degree of linkages among markets across factors, products and regions (countries) yet some segmentation continues to exist.
			Non-Tradeable		
P r i v a t e S e r v i c e		Salaried			
	Self-Employed				
		Government		Government sector plays increasingly important role.	

mobilizing labor, land and capital, such as staple food exchanges, joint stock companies and land mortgage and investment banks.

IV. CASE STUDY - SUBSAHARAN AFRICA

A. PHASE 1: THE UNDERDEVELOPED STAGE

The major characteristics of this phase were presented in the preceding Section III. Here the focus is on certain distinguishing characteristics of SubSaharan Africa (SSA), that have implications for the way exchange relations evolved in that region. These characteristics are low population density, land abundance and semi-arid climate. In terms of the configuration approach, these are characteristics of the environmental elements. In the discussion below, it is shown how these initial characteristics shaped the market and non-market exchange configurations that emerged over time. In particular, the lineage system is identified as an important exchange configuration.

The underdeveloped stage (Phase 1), as discussed earlier, is characterized by agriculture as the predominant economic activity and the technology used is rudimentary. In the case of SSA because of the semi-arid climate and the absence of irrigation, there is just one short growing season. Seasonality in production is thus highly pronounced. Coupled with this is the high weather risk. Within small areas, crop yields tend to have high positive covariance. Furthermore, risks arising from this weather uncertainty cannot be mitigated by trade across different agro-climatic regions due to high transport and communications costs. Thus, the need for some form of

insurance appears high.

Binswanger and Rosenzweig (1986) show that in this underdeveloped phase, crop insurance was infeasible as a consequence of moral hazard, covariant yield risks, geographical isolation, and limited collateral options. Collateral options were limited because of the following reasons. First, simple technology and low population density implied that land was abundant and had no sales price and, therefore, could not serve as a collateral. Secondly, animals were a poor form of collateral as they were subject to a high degree of collateral specific risk. Thirdly, because of the simple technology no important stocks of machines existed, to serve as collaterals. Fourthly, tropical climate and transhumance implied a limited quantity of housing investment. The major collaterals, therefore, were gold or other precious metals which did not have a positive expected return.

Under such conditions, lineage relations based on kinship ties emerged as an organizational framework to afford its members maximum insurance against risks that could not be adequately self-insured. Besides insurance, Platteau (1991) points out that the lineage based system served another major function. He argues that,

In SSA problems of survival arise not because land is in short supply but because it can only be exploited through an effective human organizationIt is precisely one of the roles of the lineage to provide such an organizational framework. (p. 73)

The lineage based system of land relations can be characterized as a system under which land is held under corporate tenure, implying that it is subject to strong communal regulations. The general principle underlying it is that each member of the group is entitled to be allocated a sufficient amount of land to support his family.

Moreover the allottee has possession and use of the land as long as it is being cultivated and the heirs would normally be given the land that was cultivated at the time of his death. Possession of land in tribal or lineage based societies is thus personal and statutory in the sense that access to a portion of the communal resources is mediated through membership in a social group. As Platteau (1991) points out, "no concept of private property rights as understood in the Western legal practice inspired from the Roman Code is implied in the above system of rights of access to land." (p. 74).

Lineage or social groups with surplus cultivable land can always accommodate land-hungry outsiders provided that the latter agree to enter the local network of personal interrelationships and accept the authority of the local chief. The new residents are expected to pay regular dues, usually in the form of labor services, a share of the harvest or other types of contributions. Platteau (1991) makes an interesting observation in this context. He notes that,

The fact that the contribution is strongly influenced by the state of the relation between the land occupier and the village chief as well as by the length of residence, implies that their contribution does not correspond to land rent, that is it is not the price paid for access to a scarce good. (p. 76)

In contrast to the case of Asia where land was scarce and hence was a symbol of economic prestige, in African societies the control of labor power proved far more important and constituted the real base of economic prosperity and social prestige.

B. PHASE 2: MIDDLE DEVELOPMENT PHASE

In Section III, it was shown how the middle development phase is characterized by the transition from self-sufficient units to market oriented units. In the case of SSA, the middle development phase can be subdivided into two periods: the colonial period and the period after independence. The focus here will be to analyze the impact of exogenous forces in the nature of colonial rule and later the emergence of nationalist governments, on the evolution of exchange configurations. Since SSA like most other developing countries today, has not really reached Phase 3, the analysis here would hopefully contribute to an understanding of the forces that hinder or foster the further development of markets.

1. The Colonial Period

Colonial policy towards land was perhaps one of the most important triggering factor in breaking up the old lineage system. Therefore a logical starting point is to analyze how colonialism affected not only the evolution of land markets but also the evolution of labor, credit and agricultural product markets through its impact on the existing interlinkages.

a. Impact of land policies

Platteau (1991) points out that one important objective of colonial land policies in SSA was the appropriation of land for commercial purposes whenever there were expatriate settlers willing to put land into cultivation or foreign concessionaries willing to set up plantations or explore mineral resources. In the British African Colonies, the first step consisted of considering that only land under active and visible cultivation

was really occupied. Unoccupied land was classed as Crown Lands. Thus, in assessing African land-use patterns, the Western powers were led by conceptual categories that are only relevant to intensive forms of agriculture cultivation. They failed to see that fallow land areas have a critical role to play in extensive methods of land exploitation and in the social reproduction of indigenous societies.

Such a policy of expropriation of unoccupied land enabled the colonial powers to deprive indigenous societies of vast areas of land. Large estates were set up on some of these lands. Here authorities outside the community and household organized the structure and location of production and defined the rules of exchange. In most cases, especially in settler countries (like Kenya and Rhodesia) the appropriated land areas were the best lands available. The consequence was that a large number of African peasants were forced to draw their livelihoods from lands of inferior quality or work as hired labor on these estates. Sahn and Sarris (1992) point out that,

In Mozambique, colonial policies forced many Africans to work as contract laborers rather than tend their farms, and those that remained on their land were often forced to produce cotton and rice intended for Portugal. Hence the labor markets developed not through population growth and external trade, as outlined by neoclassical theory of institutional change, but through coercion. (p. 7)

With respect to land occupied by the natives, the British colonial authorities adhered to the doctrine that all colonial land in SSA was held in communal tenure: individuals had only user rights to land and ownership of tribal lands was vested in the chiefs. Many studies have pointed out that the village political domain was traditionally "plural". The chief was not allowed to concentrate power and could often

be removed if his rule was arbitrary. The British colonial policy by strengthening the power of the chiefs often made them corrupt.

The French colonial policy towards land rights was very different. Right from the beginning of their domination they generalized the adoption of formalized private property among indigenous populations with a view of creating inviolable rights that could be freely negotiated according to the willingness of the individual holders. Clearly this notion of individual property rights was quite alien to the African social system and led to the breakdown of the traditional system of land management and exchange relations associated with it.

In contrast to the SubSaharan Africa's case where land was abundant, in land scarce countries like India, the creation of individual property rights during the British colonial rule, led not only to the breakdown of traditional systems of land management but also to massive land transfers, rising indebtedness and landlessness in the rural areas. On the other hand, the creation of land rights in most of the presently developed countries, was an induced response to the changing characteristics of the underlying elements and hence was largely endogenous in nature.

b. Impact of state intervention in agricultural marketing

With respect to agricultural marketing, the dominant form of state intervention in SSA was the setting up of the various state marketing boards. Although the marketing boards themselves date mainly from the Great Depression and the Second World War, for export crops they were preceded by the private monopolistic trading companies, particularly in West Africa. The main goals of the state marketing boards

were that they would reduce monopoly profits, lower price variability and increase marketing efficiency. Bates (1981) argues that extraction of surplus was and is, the principal function of export marketing boards and that there is very little historical evidence of price stabilization in the face of fluctuating world prices.²⁷

2. Period After Independence

a. The direct impact of government policies

Most of the nationalist governments that emerged after independence were rooted in the socialist paradigm. These new governments had to create resources for running the state apparatus and had to establish a political base of support particularly through the urban elite. Thus colonial institutions such as the export marketing boards that were quite efficient at surplus extraction from the peasants, were adopted and adapted by the newly independent countries. The leaders of the colonial period also had to come to terms with the legacy of the colonial period that had left these new nations dependent on international trade. The system of international trade was often perceived to be unfair and a source of vulnerability that in some cases led to the rejection of trade as a path of growth.

In Guinea, for example, the government decided to adopt inward looking self-sufficiency policies. These policies were to be implemented through a centralized state controlled power base. The State endeavored to organize virtually all production in the form of state owned enterprises and controlled the supply of inputs and marketing of outputs. Land rights were redefined and all the land traditionally held by

²⁷For a detailed discussion of commodity boards and other forms of State intervention, see Thorbecke (1993).

the village chief or elder became the charge of the Party's village level council. Large capital intensive farms were established and given preferential access to subsidized inputs. Private trade was considered an anti-social behavior and in fact was strictly prohibited by the state until 1981. Instead, each active rural household member was required to provide the state with a predetermined amount of agricultural output at the official prices. These policies were enforced through the setting up of road blocks to preclude private shipping between regions or simply through the local party apparatus keeping a watchful eye on the local farmers.²⁸

Similarly in Mozambique, exclusive responsibility for marketing the food and export crops was with the state. Prices were set centrally and panterritorially. The only space left for the private sector in the rural trade was at the retail level. Even that was extremely limited as the shops were sanctioned by the state and the margin between the state determined wholesale price and the retail price was decreed.²⁹

Countries like Malawi, however, followed a different path along the principles of the mixed economy approach. It adopted an agro-based export oriented strategy. However here also state policy promoted the expansion of the estate sector by encouraging appropriation of customary land. The state deemed it illegal to even produce the most lucrative crops such as burley, flue-cured tobacco and sugar. Sahn and Sarris (1992) argue that, "the result was that estate producers not only had the monopolies on high return export crops but the active discrimination against

²⁸Sahn and Sarris, 1992, p. 10.

²⁹ibid.

smallholders also ensured plentiful supply of cheap labor". (p. 12)

In most countries the dominant form of state intervention in the agricultural product markets continued to be the state marketing boards which were established during the colonial period. As Thompson (1991) points out

It would be fair to say that in most countries the marketing boards have not achieved the results hoped for in terms of increasing efficiency and improving prices to the farmers....These inefficiencies result from overstaffing, inadequate budgets, poor management and lack of competitive pressures. (p. 16)

b. Impact of population growth

A distinguishing characteristic of SSA in its middle development phase has been its extraordinarily high rate of population growth. Between 1970 and 1982, Africa's population grew at 2.8% p.a. In contrast to this, during the nineteenth and early twentieth centuries, when European nations were industrializing, Europe's rate of population growth seldom exceeded one percent a year. In other parts of the developing world, although population growth has been rapid, it has not been as rapid as in Africa. Even in the 1960s when population growth peaked in Asia and Latin America, population growth rates remained below three percent (World Bank, 1986)

In Section III, the effects of population growth in the middle development phase have been touched upon. It was pointed out there that population growth lead to an increasing pressure on land, some intensification of agriculture and a fall in average cost of infrastructure. This was observed in the case of SSA also. However, unlike the case in other regions, there has been very little increase in land productivity in SSA and agricultural production all over Africa has been largely stagnant. Per capita

production of food grains in Africa actually fell during 1970-82 (World Bank, 1986).

Africa's urban areas have not been able to keep up with this rapid population growth and the accelerating influx of migrants from the rural areas. Above all, modern sector enterprises have not been able to absorb this flow of migrants. The result has been massive unemployment and underemployment in the urban areas. To optimize their survival strategy, migrants enlist themselves in the informal economy before some lucky ones get absorbed into the lower ranks of the city's formal sector. A large reverse migration from the urban areas back to the rural areas has also taken place.

c. Growth of the Informal sector

The massive growth of the informal sector and the exchange configurations associated with it, are a characteristic feature of today's developing countries. In the middle development phase of the presently developed countries, the informal sector was not very dynamic and, in fact, was quite marginal to the overall economy. In the context of SSA, the informal sector can be regarded as a positive response to the defects of the formal economy that have been outlined above. It was essentially a spontaneous adaptation on the part of the urban poor to the needs, structures and markets that are not adequately provided by the formal sector (Adepoju, 1983). Thus in the case of SubSaharan Africa, the dual-dual framework presented in Section III is particularly useful since it captures very well this dualism between formal and informal sectors on the one hand and the dualism between rural and urban areas on the other.

In the rural areas, Sahn and Sarris (1992) point out that,

Important response to state control by the peasantry included the development of parallel markets, reliance on barter and inward looking

strategies as revealed through high subsistence ratios. It was the emergence of these parallel markets and related coping mechanisms that sustained the producers and consumers during the years of disintegration and decline. And, in fact, evidence would suggest that the more pervasive state controls, the more vital and pervasive a role played by such indigenous institutions. (p. 16)

They further point out that in Tanzania, farmers withdrew from the cash economy and into barter. This is evidenced by the fact that the amount of real per capita currency holdings declined by 45% between 1979 and 1985, the period of most acute crises. In fact, all over Africa, the growth of parallel retail food markets was a clear manifestation of the state's inability to administer its ill-conceived policies of pan-territorial, pan-seasonal pricing of agricultural products. Consequently, a parallel retail system emerged along with the official sales through the marketing board where normal seasonal price increases were observed. These parallel markets raised marketing costs because private traders required greater returns to undertake the risks associated with unofficial marketing. In Tanzania, prices in parallel markets were at times as high as nine times the official price.

All this raises an important question as to whether increased monetization of exchange relations and greater integration of markets can be expected to take place, over time, with development, in case of all countries? The above experience of SSA suggests that there may sometimes be a "backward" movement in the sense of reverting back to barter and emergence of greater market segmentation. This arises essentially as a response to the prevalent distortions in the economy. In terms of the configuration approach this illustrates the idea that there is a correlation between the evolution of exchange relationships and the underlying elements. Thus very different

exchange configurations could emerge depending on the evolution of underlying elements.

SUMMARY AND CONCLUSIONS

In this paper, the exchange configuration approach has been used as an analytical framework to understand the evolution of the different patterns of exchange in developing countries. An exchange configuration is defined in terms of the underlying elements (which are the characteristics of the item exchanged, the participating actors and the environment) and the nature of the transaction which is endogenously determined from the interaction of these various elements. It has been shown in this paper how by using this approach, different kinds of transaction modes such as "gift giving" and "kinship units" can be rationalized as emerging from the specific characteristics of the elements prevailing at a given historical time. Change in the characteristics of these elements, brought about by exogenous or endogenous forces, during the process of structural transformation, leads to evolution of different patterns of exchange.

The present paper has illustrated various ways in which this approach can help to integrate, extend and provide new insights into the existing theories of evolution. First, by identifying the key characteristics of the item exchanged, the actors and the environment; this approach is able to capture in a fairly systematic way, the multiplicity of factors that shape the process of evolution. Thus it provides a useful framework for integrating the work of various anthropologists, sociologists, historians and economists

on this subject.

Secondly, it provides a consistent methodology to analyze the different types of market and nonmarket exchange configurations that have existed over time. Until quite recently, social scientists believed that the economic approach was not useful for analyzing nonmarket forms of exchange. However the recent work by North(1977), amongst others has shown how adding transaction costs to standard economic analysis helps to understand the whole range of exchange systems in history. Thus for example it has been argued in this paper how Polanyi's three "forms of integration" are essentially different exchange configurations. The transactions taking place within these configurations can be explained in terms of the specific characteristics of elements constituting these configurations. Within a given configuration the resulting transaction is that which minimizes transaction costs.

Thirdly, the approach can help to better understand the process of transition from nonmarket to market exchange configurations. In particular, using the concept of market failure developed by de Janvry et. al (1991), various characteristics of the elements such as the available technology, the prevailing infrastructure and the risks facing agents were identified as being crucial in determining market participation. Various exogenous and endogenous forces that trigger this transition such as opening up of trade routes, population growth, diffusion of new technology and imposition of colonial rule were identified.

Fourthly, using this approach it was shown that the process of evolution need not always entail a unidirectional transition from community based non-market

configurations to market configurations. Very often community type transactions are entered into to correct and remedy pervasive market failures . Thus rather than seeing the "community" and "market" as rival institutions, one must recognize their complementarity in the process of development.

However evolution is a very complex process. No single approach can capture its various dimensions. This also makes it particularly hard to predict how the evolution process would proceed. In section III of this paper, some fairly general trends based largely on the historical experience of the presently developed countries were presented. It was pointed out how different patterns of economic development are likely to emerge depending on the initial conditions and the role of exogenous and endogenous forces. This was illustrated in the case of SubSaharan Africa where, in particular, the role of exogenous forces in the form of colonial rule, and later population growth (through the adoption of modern medical and health practices) and the emergence of nationalist governments, was described.

In the case of SubSaharan Africa it was shown how the inappropriate application of western notion of property rights led to a disintegration of the traditional systems of production and exchange based on the lineage system. Further, the imposition of various state run institutions in the economy such as state farms and marketing boards contributed to a forced institutional change in the economy and led to inefficiency and stagnation. Past experience has shown that such top down development without any local participation cannot succeed.

The failure of these past policies is now widely recognized. The need for

defining a new role of the state has emerged. In this context, what are the implications of this study of evolution of exchange configurations, on redefining the role of the state? Or, in other words, what does one miss out when one analyzes just the present patterns of exchange to give policy recommendations? Why is a historical perspective at all important for policy makers?

As pointed out in Section II, the most compelling rationale for studying evolution is that one can only understand transitional and new market configurations on the basis of knowledge of the successive forms they went through. Institutions in the factor markets of developing countries like that of labor tying, sharecropping, interlocking of land, labor and credit contracts cannot just be taken as frozen data from history. There is need to understand the rationale behind the formation of these different market and nonmarket configurations and how they adapt and mutate in response to changed circumstances. In the analysis below, a few examples are given to illustrate the insights that this study of evolution can add to some contemporary policy debates, like that on pace and sequence of market liberalization, and the creation of markets for natural resources.

Since the past decade, almost all the developing countries have undergone some extent of market liberalization. The issue of the pace and sequence of this process of market liberalization is very critical. As an illustration, consider the case of SubSaharan Africa, where, as pointed out in Section IV, traditional land tenure systems that do not allow private property rights to be fully recognized, still predominate in most of its rural areas. There is a growing recognition of a fundamental

disequilibrium between the existing land arrangements that reflect the earlier practice: of extensive agriculture and the requirements of growth in the context of modern intensive agriculture. In terms of the analysis set forth in this paper, two pertinent questions arise. First, given the existing disequilibrium situation are there significant costs involved in letting the system evolve spontaneously under the pressure of circumstances and guided by the driving force of rationally behaving economic agents? Secondly, is there any role for policy intervention, if so, what?

Platteau(1991) in a very intensive survey of the situation argues that in the present situation, "where land has turned into such a scarce asset and the rights are not well secured, the society has to incur high costs not only in terms of efficiency but also from the standpoint of equity and insurance considerations". (p.253) He thus recommends formalization of land rights through the issuance of titles or other land register documents as an urgent step. However, the next crucial question to ask in this context is whether it is advisable to create land markets free of any constraint or must these markets be regulated in some way? It is here that the framework of this study can shed some light.

To begin with, it is important to recognize, as shown in Section IV, that there is a marked dualism in terms of the technology and type of organizational structure between the traditional and the modern sectors in the rural areas of SSA. Unleashing the forces of competition in such a setting may lead to a very inequitable pattern of land distribution as happened in many countries in Latin America, where there are at

present very high levels of land concentration.³⁰ Thus it is important that land markets be regulated in such a way that poor and vulnerable groups gain better protection of their rights to access to land than they have in the present structure of dualism.³¹

To get guidance on how the land market must be regulated, several important policy lessons can be learnt from a comparative analysis of evolution of land markets in other countries. For example, in the Section on "Phases of Development", it was pointed out that if private titles to land are created and the land market is allowed to operate freely in a situation where a highly imperfect credit market and absent insurance markets prevail, then this may lead to a high level of indebtedness and eventual sale of land by small and marginal farmers. This is what happened in the case of India. In contrast, in the case of South Korea and Taiwan, an initial policy of land reform was followed by a unimodal strategy of agricultural development. This strategy led to a more broad based pattern of development with much higher growth rates in the agricultural as well as the industrial sector.

Consequently, it appears important to set out the various stages of the evolution of exchange configurations and analyze what is the most important policy intervention at each stage. For instance, a recent World Bank report on land rights in Africa points out that,

Since many countries (and regions) are at different stages of this transition (towards providing better incentives for individuals to improve their land), Africa has diverse and changing land rights. Agricultural

³⁰ For more details on this see de Janvry(1981).

³¹ This has also been suggested by Platteau (1991) p.254.

modernization combined with population pressure will make land titling necessary. Traditional tenure systems need to be codified. Titles could also be provided to groups for collective ownership. The transition to full land titling will take time to achieve in most African countries and should be attempted only in response to demand by rural people". (World Bank, 1989:104)

Interestingly enough, the report suggests group titling as an intermediate step. Given the marked dualism in SSA and the imperfect and incomplete nature of labor, credit and insurance markets, issuing group titles has certain advantages over individual titles. For instance, group titling can save on budgetary expenditures and transaction costs, increase flexibility in the pattern of land use, provide economies of joint farming (given the indivisible nature of many agricultural operations) and provide an important insurance mechanism.

Essentially the same arguments in favor of group titling can also be made in the context of assigning rights on common natural resources such as grazing areas, forests and fishing areas. Given the pressure on these resources, it has become imperative to clarify rights to manage and own these resources. Much of the earlier literature on the tragedy of the commons, suggested state control and privatization as the only two solutions to the problem.³² However a large number of recent studies point to a third option which is for the resource to be held in the form of common or communal property.³³

As argued in Sections II and III, an agrarian economy generally characterized

³² See for example Hardin(1968), Gordon(1954).

³³ For examples on this see Ghai and Vivian(1992), Wade(1987) and Ostrom(1990).

by a greater interdependence among agents and behavior is closely regulated by social norms and customs. Because of these factors the cost of reputation loss is generally very high, much like losing one's credit rating in a developed economy. In such situations, therefore, the social overhead costs required to maintain common property rules may be substantially lower than a "top-down" enforcement of private property rights.³⁴ A "community-type" nonmarket configuration would be preferable in such cases over a market configuration.

To conclude therefore, one can say that though it is true that as the process of development goes on, there is likely to be greater dominance of market configurations, yet "community type" nonmarket configurations are likely to coexist. Public action is likely to continue to be important in certain critical areas such as the provision of basic amenities and social services, transport and communication facilities, and diffusion of new technology and extension services. In these roles, public action leads to speedier evolution of markets and thus plays a complementary role.

³⁴ For more details on this argument see Runge(1986).

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