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Conceptual Model of
Peasant Market Dynamics

Night Riders: A Socio-economic Analysis of Market Middlemen in a Traditional Peasant Economy in Northeast Brazil

by Timothy J. Finan*

A Preface on Methodology

This dissertation represents an attempt to understand the regional marketing system of a peasant society in Northeast Brazil. The methodological point of departure singles out the market participants, especially the peasant middleman but also the producer, and argues that the structural characteristics of this market can be seen as the result of the continuous strategizing of these individuals in their quest for a secure living under sometimes less than ideal economic circumstances. Although individual economic behavior constitutes the starting point, the ultimate goals of this study lie in the elucidation of dynamic relations between individual actors within a specific socio-economic context. As such, individual motives and socio-cultural constraints merit equal importance as explanatory variables.

The analytical tools utilized here combine the holistic, behavior-oriented approach of the anthropologist with formal methods and the problem focus of the microeconomist. In undertaking this research, I systematically attempted to acquire the fundamentals of microeconomic theory without sacrificing the anthropologist's attention to the details of socio-economic behavior in an effort to more adequately understand and analyze the market system under study. In a sense, then, this dissertation seeks to demonstrate both the complementarity of the distinct methodological approaches and the theoretical limits to which each

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approach, in the name of analytical validity, must attend.

The data collected for this dissertation reflect its methodological perspective. Contrary to the situation of many economic case studies, time did not constitute an effective constraint upon the data collection process; the Bank of the Northeast of Brazil, the major development institution in the Northeast, financed the dissertation research for a period of eighteen months and made their facilities available for some time after. Thus, it was possible to follow the market system through its annual variations and to observe some of the longer term changes. Essentially, four classes of data contribute to the analysis of this system:

i) price data--I was able to collect daily prices at both the farm-gate and wholesale levels for the better part of two years. Although the accuracy of some of the price data can be held to question, the complementary relations between the types of data provide the means to make the necessary adjustments on the collected prices.

ii) interviews with market middlemen--after approximately six months of preparation, 62 market agents from both within and without the peasant region were interviewed with an extensive questionnaire form. The information from these interviews was meant to illuminate various aspects of producer-middleman and middleman-middleman relations, price formation strategies, assembly and transportation costs, risks and uncertainties, and the socio-economic background of the middlemen. This sample represents about half of the middleman population in the region under study.

iii) interviews with farmers--following the middleman interviews, a shorter questionnaire was later applied among 67 peasant producers of the major cash crop with the intention of delineating the producers' marketing behavior: their strategies to reduce market risks, their attitudes toward middlemen, the use of government facilities, and their future plans for this agricultural activity. The sample was stratified to reflect differences in access to government programs in the marketing sector. The information from these interviews proved quite useful in comparing divergent opinions of producers and middlemen on some of the same questions.

iv) participant observation--the rather extended research period provided the opportunity to establish close, confidential relationships with both farmers and middlemen. I observed the buying and selling process many times, traveled with the middlemen to their urbans markets, and participated with them in both professional and non-professional activities. After a certain period of time, I was able to elicit information--essentially, the "tricks of the trade"--which did not emerge from the interviewing. Also, this traditional anthropological method allowed me to position the middlemen within the context of their communities and the social strata which they occupy. Finally, the data collected from prolonged observation and informal interaction proved invaluable for the interpretation of the more quantified information, as when comparing the phenomenon of price variation with the actual pricing strategies of the individual marketers.

The original design of this research was structured as an inquiry into middleman behavior and its effects upon a peasant agricultural system. However, the tremendous creativity of the market agents and the great fluidity of the market itself led me to emphasize first the role of the middleman in the dynamics of the market process and then the consequences of these dynamics upon the economic system as a whole. In a sense, the definition of market performance, initially quite narrow, was broadened in the course of the research to include more encompassing socio-economic questions.

In terms of the analysis, several common economic methods are applied to the data. A representative budget is constructed to estimate marketing costs for different types of middlemen and to study market margins. Price data are also used to compare intraregional variation at the farmgate level and interregional variation at an urban wholesale level. These analyses can provide an index of efficiency: comparative cost efficiency of different type firms, efficiency of the price mechanism in its distributive and allocative functions, and so forth. However, very little can be said about broader problems such as the distribution of income and the future of the peasant producer. To address these crucial questions, both sociological and economic variables are incorporated into a conceptual model of the dynamics that characterize the short and long run behavior of the market system. This model, elaborated in the first chapter of the dissertation, will be tested against the data collected from Northeast of Brazil.

Finally, it bears repetition that anthropology (especially economic anthropology) and economics share a strong common interest in advancing our understanding of peasant economic behavior, although the latter of the disciplines have dominated in the practical, problem-solving spheres of academic activity. This dissertation has therefore a two-pronged objective: to demonstrate to anthropologists that economic theory can contribute to the study of peasant societies and, more importantly, to draw anthropology into the practical arena of endeavor where the anthropological input is so necessary but lacking.

Chapter 1: A Conceptual Model of Peasant Market Dynamics

Nothwithstanding the quantum advances in agricultural technology during the last few decades, small peasant farmers using traditional, age-proven methods continue to produce much of the world's food supply. The enduring economic importance of the small producer, unmitigated by the spread of agribusinesses and multinational plantations, increasingly attracts the interest of national agricultural planners in developing countries and of social scientists seeking to comprehend the nature of the peasant economy. The persistence of the peasant has confounded many, including those who once held great store in the imminent success of the Green Revolution and those who nervously watch the burgeoning urban populations which the peasant producer supplies. Whether the peasant, then, becomes a crucial question that will undoubtedly affect the destiny of large segments of the world's population.

Unfortunately, the very definition of the peasant has not yet achieved a consensus among students of the subject. Anthropologists, certainly major formulators of the most commonly used descriptors of peasant societies, have presented various criteria in their efforts to identify and specify the peasant type, but none has withstood the test of universality. All peasants are not rural, not all produce at only a subsistence level, not all are fatalistic, although these and other characteristics at one time or another have been advanced as definitive. However, the one feature that most scholars can agree upon is that peasants occupy a marginal position in a broader, dominant society, usually a nation-state. Despite this highly useful structural definition, the anthropological literature has preferred to focus upon clusters of cultural traits, often portraying the peasant as a stolid, tradition-bound member of an essentially homogenous community who dutifully subjects personal goals and aspirations to the interests of the communal good.

This familiar anthropological view of the peasantry emphasizes the continuity and changelessness of the peasant way of life. The individuals in such societies confront the risks and uncertainties of their subsistence existence through an unbending reliance upon time-tested strategies. Consequently, they are change-resistant. Even given the opportunity to adopt advantageous modernties, the argument follows, the peasant will prefer the pursuance of traditional practices which assure a safe albeit low standard of living. When the peasant eventually does incorporate an innovation into the "little tradition", the change occurs long after the dominant society has already assimilated it, thus maintaining the peasant society in relative backwardness, a phenomenon described as "cultural lag". Implicit in this theoretical construct, of course, is the belief that the peasant individual possesses a distinct and unique nature, a "limited-good" weltanschauung which stifles individual initiative and encourages conformity to the dictates of tradition.

Moreover, the anthropological descriptions of the peasant society suggest that the amount of variation within the peasant group is negligible, i.e., that the peasant society is essentially homogenous. Individualistic tendencies having yielded to the set of powerful constraints embodied in social institutions, goals are then defined and stipulated by the society itself. Whatever socio-economic differences which emerge within the group are handled by social mechanisms--such as the wealth-leveling cargo system--which operate to countervail the differentiating tendency and to restore the society to its homogenous equilibrium.

Partly, these interpretations of the peasant and his/her society stem from the functionalist perspective which has dominated much of anthropology, especially economic anthropology. To the anthropologist's trained but practical eye, the function of a given behavioral pattern still constitutes its most effective explication. Thus, the peasant society may appear to be unchanging precisely because the scholar has chosen to investigate how that society holds together and consequently interprets the data toward that functional end. Such an approach inadvertently may may ignore the deep and radical changes which the peasant group is undergoing; in fact, the thesis presented here argues that all peasant societies, by definition, are caught--perhaps involuntarily, but nonetheless irrevocably--in a current of change. The structural relationship between the peasant and the nation-state injects an implicit instability into the former; and in greater or lesser degrees, the relationship is ultimately conflictual rather than functional or symbiotic. Thus, a more dynamic approach to the peasantries--one which focuses upon the marginality of the peasant to the political, economic, and cultural decision-making processes that affect his/her life--should provide a more adequate and universal perspective of the realities of the peasant existence.

This dissertation departs from a much less mystical but perhaps more complicated view of the peasant. As a most fundamental assumption, the individual in peasant society strives for the betterment of self and family as intensely and creatively as any other human being might, and, in so doing, explores and exploits alternative opportunities as they become available for incorporation into his/her behavioral strategies. If one can accept this basic assertion, then the resistances to change identified in peasant society derives not from the selfless attachment to a demanding socio-cultural tradition, but rather from the lack of practical opportunities in the socio-economic environment, which is often the case in peasant societies. Beneath the placid appearance depicted by many scholars, the peasant society in reality demonstrates a tremendous dynamism in the sense that individuals constantly test their behavioral strategies over the short run and in the sense that specific evolution occurs over longer periods of time.

From one society to another the nature of the relationship that ties the peasant to a braoder nation-state varies; however, in each case this relationship structures the socio-economic environment and defines the available opportunities therein. The influence of the nation-state, which can either constrain peasant opportunities or expand them, may operate through private entrepreneurs or through governmental efforts in the region. Moreover, different spheres of peasant life--the social, cultural, economic, etc.--may be differentially affected, at least initially, by the particular characteristics of peasant marginality. As an example, a pattern of religious beliefs may remain relatively untouched by nation-state domination in the economic and political spheres. Each individual peasant group, therefore, must be analyzed with respect to the characteristics of its integration with the encompassing society, since this factor determines the peasant opportunities and sets the course of peasant dynamics.

The structural definition of peasant society holds further implications for the validity of a socio-economic analysis: namely that the peasantry accommodates much more variation--both inter- and intrasocietal--than is usually depicted in the literature. As individuals strive to achieve their goals and objectives, success is differentially afforded and socially defined formal or informal status differences will reflect this fact. As the dominant society increases the alternatives available in the socio-economic environment, these differences are either altered or become exacerbated, especially if the opportunities attract non-peasant intrusion. Therefore, the intereaction of individuals with a given set of opportunities makes for a heterogeneous society and it tends to become more so to the extent that nation state involvement increases and intensifies.

Scholars generally agree that the most pervasive mechanism which integrates peasant society to its nation-state is the market. The market creates a dependence both at the consumption end, as small producers develop a need for manufactured items and the necessary purchasing power to acquire them; and at the production end, as the producer reorganizes his/her production strategies to find a salable crop. In this situation, the peasant quickly becomes dependent upon product and factor markets, supply and demand situations, price variations, etc., all of which appear alien to the immediate peasant world. On the other hand, the penetration of markets into the peasant region affects the opportunities in the socio-economic environment, usually in a fashion that expands economic activity. Who benefits and who suffers within the altered environment will depend ultimately upon the distribution of access to the means of production and upon the strategies which the individual peasants develop.

The market system, in its institutional role of distributing products, factors, and consumer goods, follows its own internal dynamics, as over a short run, market mechanisms adjust to the variations of supply and demand; and, over a longer run, as the market evolves. In either case, these dynamics are predicated upon individual participants acting and reacting, organizing and reorganizing in their attempts to better their positions.

Especially with regard to the product market, to which the peasant producer responds most immediately, the evolution of the market will greatly influence the direction taken by the peasant economy as a whole. The distributional channels which connect producer and consumer act to transmit information back and forth through price and other means, thus alerting the producer as to what should be planted and when. The efficiency with which these messages are sent, received, and responded to determine the success of the peasant's commercial venture. More importantly and at another level, the long term tendencies of the market --decipherable through an understanding of internal market dynamics --will gradually determine the outcome of the peasant producer as a class: do the producers become more integrated into the market system or even more marginal to it? Is the wealth generated by the commercial crop distributed equally among the class? Over the long run will the class improve its socio-economic position in relation to the dominant society? These questions--critical to a discussion of the future of the peasantry--imply that market dynamics can be studied as microcosmic insights into the dynamics of the peasantry itself.

As markets develop within agricultural societies, through the introduction of a wider range of manufactured goods and through a shift toward cash crops, the nature of the structural relationship which defines the peasant society changes. In a strict sense, it can be hypothesized that the markets pave the way for capitalist exploitation of the region, since the market serves as a mechanism for capital accumulation. The heightened economic activity which accompanies the new product market opens new opportunities within the socio-economic environment and individuals tend to attempt new alternatives, if preceding conditions do not act as a constraint. The competition already existent within the society will thus be directed toward these opportunities, resulting in a period of rapid change. Whether these individuals are peasants or outsiders once again depends upon such initial factors as the control over the means of production, the entrepreneurial abilities of the individuals, the size of the reward expected, and so forth. Regardless of which stratum of society produces the new "capitalists", the changes reverberate throughout the peasant society as a whole altering the relations of production, redistributing wealth and, in general, redefining the society.

This dissertation attempts to delineate the dynamics of a peasant market in a well-defined region of Northeast Brazil. The effort there is to first relate the short-run dynamics to the evolution of the market and then to demonstrate the effects of the long-run changes upon the peasant economy overall. A model of this evolution will be presented along with the argument that under conditions specified by the model, similar processes will occur in other peasant economies. However, to establish the theoretical significance of this study, a highly summarized review of the market literature in anthropology and, to some extent, in economics is necessary.

Although no single overriding theme has characterized an anthropological approach to marketing systems, a selective consideration of several studies does permit some generalization. Concerned with a cross-cultural formulation of market processes, certain anthropologists (Bohannon and Dalton, 1962; Cook and Diskin, 1976) have collected detailed case studies of peasant and "primitive" markets, on the basis of which the applicability of the standard Western market moden can be evaluated. Other scholars have concentrated their focus upon particular elements of the market system (Mintz 1961, 1964; Oritz, 1973; Tax, 1953) such as the market intermediaries, for the purpose of elucidating individual behavioral strategies under varying forms of socio-economic constraints. Carol Smith's pioneering work, on the other hand, has contributed significantly to an understanding of the effects upon regional market systems of political and economic dominance by the nation-state. Her use of a locational model provides an excellent tool for the comparison of distinct regional systems, although at a certain sacrifice with regard to the dynamics of such markets (Smith, 1972, 1976, in Halpern, 1977).

Economists have generally adopted the structure-conduct-performance paradigm (Bain, 1959) and applied it to the study of peasant markets. Under this theoretical approach, the structure of a given market system directly influences the behavioral patterns of the participants (conduct) the consequences of which comprise the performance of that market. The crucial variables then are structure (buyers, sellers, and the relationships between them) and the performance (prices, profits, and other market results) with conduct occupying a somewhat ambiguous position (Pritchard, 1969). Applying this model to problem-oriented research, economists have evaluated the performance--in terms of efficiency criteria--of both large regional markets (for tropical Africa, Jones, 1972; for India, Lele, 1971) and smaller local markets (e.g., Shwedel's (1977) analysis of potato marketing in Costa Rica). These and most other economic studies have an explicit commitment to policy problems in the marketing sector, and the evaluation of market performance is usually followed by a set of recommendations for government consideration.

The wide methodological range of market studies that bridge anthropology and economics--from descriptive ethnographies that question the existence of market principles to finely-detailed, problem oriented economic studies that evaluate the efficiency of a specific marketing system--leaves much room for cross-pollenization, and this dissertation attempts to eclectically combine the two perspectives in a mutually rewarding fashion. The question asked here concerns market dynamics and both anthropology and economics possess the methodological tools to contribute to this problem.

It is generally agreed that price does influence economic decisions in peasant societies, although such price information may be distorted by deficient channels or interested parties. At this level of analysis, therefore, the application of standard economic methods will discern if prices is allocating factors of production and commodities produced in an efficient manner. The degree of competition and middleman margins can also be evaluated within the theoretical bounds of the economic model. On the other hand, these analyses--dependent as they are upon quantifiable data--lack the depth that the holistic anthropological methodology can provide. Anthropologists contextualize economic behavior within the social environment of the participants and concentrate their focus upon the minutiae of human behavior. From this vantage point, the anthropological perspective provides the basis for a more accurate interpretation of price information, middleman margins, and the structure of competition. Furthermore, the anthropologist, through the detailed analysis of socio-economic strategies, can inform upon the distributional effects of market dynamics.

From the anthropologists, as evidenced in the work of Smith, comes a concern with the constraints which a socio-economic and political system imposes upon a peasant market and its participants. Mintz portrays the incredible resourcefulness of Haitian marketers, demonstrating how social relationships are formed to enhance the success of their economic activities. From the economists comes the well-bounded, problematic approach, a set of methodological tools, and an emphasis upon evaluating the consequence of behavioral strategies. These perspectives, complementary rather than opposed, will be incorporated here into a model of market dynamics that constitutes the theoretical contribution of this dissertation.

One of the major conclusions that the perceptive reader draws from a consideration of the literature on marketing systems is that the gloss "peasant market" has no accurate meaning. There exists no set of unique and qualitatively different characteristics that might be presented as the definitive criteria of a peasant market (see Leeds, in Halperin, 1977). In fact, much of the scholarly effort has been directed toward demonstrating the erroneousness of such commonly-held features of the peasant market as inefficient, atomistic, small-volume turnover, structurally simple transactions, etc. Economists have proven contrary to usual assumptions that many peasant systems in diverse regions of the world are essentially efficient distributors of factors and commodities as well as highly sensitive to changes in the economic environment (Garcia, 1978; Pinthong, 1977; Jones, 1972; Lele, 1974). Often times peasants do not even participate in the marketing of their produce, as Smith has argued for the dendritic regional marketing system (1977). To those who would posit a simple-complex distinction between peasant and modern markets, there stands in opposition the evidence from the Costa Rican potato market and even the Oaxacan market system, both of which are multi-structured and complex.

It seems, therefore, that the reality described and analyzed as a peasant marketing system can best be conceptualized in terms of its own dynamics, as a market "in transit", reflecting perhaps a transitory society. The argument offered here--and against the perspective that advances the dominance of "tradition" in peasant socio-economic behavior--is that peasant markets eclectically combine elements of an economy where subsistence needs are regionally met, production and marketing decisions are affected by relatively predictable factors, and market exchanges perform a minor role in the organization of economic behavior (Polanyi, 1957; Sahlins, 1972), with elements of an economy where subsistence needs demand nationally and internationally manufactured goods, production and marketing decisions are influenced by uncontrollable and, at times, unknowable factors, and market exchanges dominate economic behavior. The particular mix of elements that describes a specific marketing system will depend entirely upon the relationship of that society with the encompassing nation-state and upon the economic alternatives open to peasant individuals; whatever the combination, however, the elements do not peacefully coexist but compete. Hence the inherent instability that underpins the peasant existence.

This dissertation confronts the problem of translating the dynamics of the peasant market system into patterns of human economic behavior. Given that participants in a market situation pursue goals, create and rearrange organizational strategies aimed at diminishing risks and uncertainties, patterned behaviors which constitute the short-run dynamics of the system begin to emerge. Since competing behavioral patterns exist within the same system --including those labeled "traditional" and those labeled "modern" --the market displays a heterogeneity of structure. The same commodity may pass through different marketing channels on its way toward the consumer, or different commodities may enter distinct spheres of the market, as Bohannon has described for the Tiv of Nigeria (1962). In either instance, the consequences for market participants vary with the behavioral pattern adopted.

Through time, the long-run patterns of the system begin to crystallize. Competing strategies eventually sort out the successful from the inefficient participant and a definite system-level pattern becomes discernible. Until this point, however, the peasant market can only be interpreted as a highly fluid and highly differentiated system. It is argued here that an understanding of the short-run dynamics provides the necessary information to make the long-run trend predictable. What follows therefore is a conceptual model of market behavior over the short-run under a set of given conditions that fit the structural position of the peasantry in Northeast Brazil and, one might suspect, in a good deal of Latin American economies and elsewhere.

As reiterated above, peasant economies vary considerably according to the relationship of a specific society with the dominant nation-state. This relationship generally defines what economic opportunities are available to whom. Changes in land tenure patterns, the introduction of an intensively cultivated cahs crop, the establishment of a minimum price policy, and other extraneous occurrences alter the socio-economic environment in such a way that alternatives become either restricted or expanded for either local peasants or outsiders. Thus it is imperative that the conditions for a model of market behavior be incorporated into the model itself.

Peasant Market Dynamics: A Conceptual Model

The short-run dynamics of peasant markets refer here to the daily movement of merchandise from the area of production to the points of consumption and includes all the necessary activities. Following the terminology accepted in the literature, dynamics over the short run concern the assembling, pricing, grading, packaging, transportation, resale, debulking, and consumption of a commodity or set of commodities. The strategies by which participants manipulate their socio-economic environment establish the dynamic nature of these activities. Long run dynamics, on the other hand, determine structural consequences of the competition between organizational strategies, that is, the evolution of a specific marketing system.

The model presented here predicts market behavior under a given set of structural circumstances that defines a peasant economy's position within a larger and dominant society. Wherever these conditions obtain, the model can be applied with validity.

1) The initial condition of this model requires a well-defined rural peasant class for which off-farm alternatives are virtually non-existant and for which there is little access to money resources. The scarcity of money reflects principally the poor income generating power and the extremely low opportunity cost of subsistence agriculture. The inadequacy of the educational structure limits succeeding generations of peasant almost exclusively to a career in agriculture. Thus in societies characterized by high rates of temporary or seasonal out-migration, peasant workers receive only the unskilled and poorly remunerated positions and, consequently, the problem of cash scarcity remains unsolved even if temporarily alleviated. In most peasant economies, this condition easily obtains: the peasant

producer is inescapably tied to the land both economically insofar as non-agricultural employment possibilities are negligible, and culturally in that a strong land attachment value discourages the permanent departure from one's homestead and home region.

2) A second conditions states that the peasant society is part of a well-defined regional economy organized by the money-based exchange of commodities. Both individual farmers and marketing agents depend overwhelmingly upon the production and sale of these commodities. Although subsistence activities may in fact still constitute an important component of peasant survival, the necessity for cash makes production for sale an accepted economic fact of life. As a corollary, the market price for commodities --while perhaps in some instances not a strong factor in the individual peasant's production decisions--undoubtedly affects the producer's livelihood in a critical manner. Once again, most peasant economies meet this condition readily (see especially Dewey's (1962) account of the Javanese market).

3) The third condition demands that the dominant society exert a strong influence upon the peasant class, principally through the spread of a capitalist mode of production. Internally, the peasant sector may be organized along pre-capitalistic lines in the sense that landlord absenteeism and sharecropper production still prevail. At the same time, however, external relations with the dominant society have developed a capitalist merchant

class responsible for the distribution of manufactured goods which peasant consumers perceive of as necessities of life. Furthermore, the government as well as private sources intervene in the economic system, the former in pursuance of development policy (creating an infrastructure, implanting credit systems, investing in extension and research, etc.) and the latter in the search for profit opportunities. Of course, political decisions emanate from sources outside the peasant society, although the effects of these decisions trickle down through an informal peasant leadership. In effect, while the traditional peasant structure and peasant strategies remain at the disposal of the individual producer, increasingly peasant livelihood depends upon outside forces.

4) The final condition stipulates a stratified peasant society. By stratification it is here meant a set of empirically verifiable socio-economic positions that are defined by some combination of economic, social, or political criteria and recognized either formally or informally by the society itself. It is further assumed that no individual can be precluded from participation in economic activities because of class position, a situation which may occur in caste or multi-ethnic societies. In most Latin American groups, the stratification of the peasantry is determined by the distribution of wealth, especially land. As Deere and de Janvry (1979) have quite clearly demonstrated for a Mexican region, the economic stratification of the peasantry can be very complicated.

The socio-economic environment which the foregoing set of conditions establishes is one in which the individual peasant--burdened with a significant and often urgent need for monetary resources--faces a very limited horizon of off-farm opportunities. Since the traditional structure of subsistence enjoys very little income generating potential, the peasant producer endures a chronic insufficiency of cash. The means of production, especially land and working capital, are not equally distributed and this inequality helps define the socio-economic stratification of the peasant group. Finally, traditional forms of economic organization co-exist with a more recent but important capitalist mode of production and the economic system reflects this structural diversity. This increasing integration with the nation-state through a capitalist mode represents a shift of economic and political decision-making centers outside of the region.

Within this socio-economic environment a relatively stable internal marketing system can and probably does exist, its function being to regulate intraregional exchange. Products from distinct ecological zones meet in regular marketplaces or are channeled to areas of consumer demand by a network of traditional middlemen. Since trade does not surpass the regional boundaries, a certain amount of stability characterizes the traditional system: middlemen and farmers know each other personally, the fluctuation of prices can be predicted within reasonable limits, and the degree of market risk and uncertainty is relatively low. Also, distribution networks within the region do not require large assembly and debulking market agents, since the region demand is not concentrated in large urban centers, and a single middleman can perform the majority of market functions for his/her particular supply area.

However, as demand becomes concentrated in large urban centers outside of the production hinterland, a qualitatively different system emerges from that of regional exchange. This situation accompanies a change in production emphasis as either peasants experiment with new crops in hopes of solving the problem of cash scarcity or government efforts encourage the introduction of a new crop. Suddenly the socio-economic environment undergoes a radical change in that new opportunities become available not only for the local peasant producers and market agents but also for outside capital sources.

With the emphasis upon a cash crop whose demand lies in large urban centers, producers find themselves tied to product and factor markets whose behavior is determined as much by extra-regional conditions as by the local situation. In the case where the new cash crop entails the use of a more sophisticated technology, peasants become subject to oscillations in the prices of fertilizers, pesticides, improved seed, and other inputs. Moreover, the new producing region may enter a competitive market the total supply of which comes from several competing areas or, in the case of export crops, from several parts of the world. Thus, the change in production patterns, while promising a solution to the problem of money availability, also injects an unprecedented amount of instability into the system.

As an immediate effect, the cash crop pattern intensifies economic activity in the region and increases the flow of money circulating throughout the system. The change in the amount of money income constitutes one of the major modifications of the socio-economic environment, although the distribution of the increased resource cannot be immediately predicted. Certainly, total income generated by the new crop accrues to both the productive and distributive sectors and within each sector to the individual participants in the system. Peasant producers observant of their neighbors' success--assuming that production and marketing costs are not prohibitive-will begin to change to the new production pattern, especially during the early stages when the greater income opportunity appears highly attractive. The increased production in turn stimulates more activity within the marketing system, and thus in a mutual feedback fashion the economy based upon the new crops grows.

Initially the distributive needs created by the new production pattern are met by the traditional exchange system. The greater amounts of money in circulation attracts middlemen who previously traded in the traditional regional markets, but who now adjust their enterprise to accommodate the new crop. As the market grows, some of the excess labor from the productive sector or from small commercial operations will be absorbed into the distributive sector as small volume middlemen with scanty capital resources. Moreover, the lure of profit will also draw larger amounts of capital from other occupations (truckers, larger farmers, merchants, etc.), and these middlemen tend to bring a more developed entrepreneurial talent into the system. Consequently, the market during its formative period acquires a complex structure composed of traditional and most likely undercapitalized elements and larger middlemen who have channeled some of their substantial resources in the market system in expectation of increased profits.

The composite market system which emerges with the introduction of a product destined for urban consumption or export faces a series of crucial problems. Since the factors which influence the market derive at least partially from situations outside of the region, such as supply and demand forces within the urban centers, and since these factors may change on a daily basis (this being especially true for perishable items), market information channels tend to be inefficient, even when considerable government intervention has attempted to improve information networks. At best market news arrives in the production area "cold", after a lag period which could seriously distort its utility. The common pattern of widespread peasant minifundia further compromises efforts to propagate market information among rural marketers and peasants alike. Finally, the dependence upon segments of the market chain which exist in the urban centers can place rural marketers in positions of disadvantage. Often urban wholesale markets can dominate the entire system because of their reduced numbers, the rural marketers lack of knowledge, or other such factors.

The major consequence of these problems is a marketing system characterized by high levels of risk and uncertainty. Both peasant producers and rural middlemen find it difficult to make basic production and marketing decisions or to predict market behavior even over the short run. For the farmer, the principal risks derive from the variation of price or cf yield in the face of a high factor investment. A radical decrease in production due to disease or insect damage, although an immediate threat, can be avoided through a judicious use of available technology. However, the peasant producer, even more so in cases of relative isolation, feels particularly helpless to confront a falling price in the market and frequently points to middleman exploitation as a principal source of his/her troubles.

The middleman, on the other hand, perceives a wider range of risks which the market enterprise must counteract. Despite its obvious importance, the dictum to "buy low and sell high" simplifies the formula for success. First, the middleman must find supply sources which guarantee produce for resale over extended periods of time. The ability to secure a steady supply depends upon the location of and the access to the supplier and the competitive situation of the market. Secondly, the rural intermediary requires a buyer in the urban center, and since urban wholesalers generally possess better market information, the rural middleman needs a buyer of trust and confidence. Thirdly, the intermediary has to transport the produce according to the rigorous market schedules, and the failure to arrive at the marketplace on time--due to a breakdown of transportation or an accident--could result in the loss of the product. Finally, these risks are compounded by the ever-present possibility that the middleman may misjudge the market situation and discover a lower than anticipated price for the merchandise. In this case, precious capital reserves are lost and, if serious enough, the viability of the enterprise is threatened.

Market participants--creative individuals that they are--develop organizational strategies to defend themselves against the risks and uncertainties of marketing. Although some of the potential hazards of marketing appear unmanageable, in which case chance plays an important role, other risks can be minimized by improvements in organization. The rearrangement of human and material resources can help to eliminate certain unknowns in the marketing process, in particular those that involve buyer-seller and seller-seller relationships. One of the primary examples of such organizational strategies common to modern marketing systems is the vertical integration of production and marketing activities. Whereas vertical integration may permit a reduced cost structure, as an organizational strategy, it constitutes a response to supply risks, that is, an attempt to assure a smooth flow of product from supply areas.

In a peasant market there exist many organizational patterns meant to countervail the inherent problems of marketing, including vertical integration. As the fruits of individual efforts to cope with risks and uncertainties, these strategies emerge initially as ad-hoc responses to problems, but then are tested, modified, and refined to the point that they become accepted marketing behaviors adopted by others beyond the originating individuals. If one adheres to a rules approach to market structure (see Schaffer, 1979), then a valid argument can be made that these behavioral patterns have become "structuralized". In the case, naturally, that a given strategy does not provide the response that an individual expected, or if that strategy appears rigid and inflexible, then it will eventually be supplanted or abandoned.

Not to belabor an obvious deduction from the foregoing argument, market strategies are not identical, rather they vary according to the entrepreneurial and material resources of the market participants, as well as the type of commodity traded. Moreover, since individuals market agents compete for both suppliers and for buyers, their organizational patterns can be seen as competitive, that is, dynamic. As accepted stategies can be equated with the concept of market structure, the dynamic essence of market systems in peasant economies becomes apparent. Different structural arrangements vie for the marketable product, in the sence that a given commodity may be channeled through a series of rural assemblers or, in the example of vertical integration, put directly onto the urban wholesaler's truck. In a more profound sense, however, the structural competition occurs as individuals accept or reject different strategies, thus creating or eliminating new structural alternatives. It is precisely this competitive pressure, the short run dynamics of the market system, which determines the longer tendencies.

Within the process of competition, rewards in the form of wealth or profits are distributed according to organizational efficiency. To the extent that a specific strategy can reduce the risks and uncertainties associated with the market enterprise, average profits and, consequently, average income will tend to higher. In effect, efficiency becomes the major selection force in the system, favoring those with the organizational werewithal and marginalizing those whose organization is deficient.

The relationship between greater organizational efficiency and bigger profits may not be entirely obvious. Most patently, strategies which improve the flow of market information will allow the middleman to better estimate buying and selling prices, thus increasing overall profits. Other strategies, however, produce more intangible and less immediate results. When, for example, a constant and secure supply of a particular commodity attracts a steady customer at the resale end, middleman income will tend to be more stable and, through time, higher. Consequently, the structures which derive from adopted strategies accommodate the necessary market functions with differential success.

The peasant market system which this model describes allows for different levels of analysis which can result in seemingly conflictual conclusions. As argued above, competition between organizational schemes introduces an inherent instability into the market as individuals attempt to secure, transport, and sell their product at a profit. These organizational strategies--being constantly tested and refined--emerge as structural relationships within the market system. On an empirical level, however, a structural analysis might lead to an interpretation of the system as rigid and inflexible, since the very dynamic strategies are aimed at enhancing the stability of the market. Thus the observable phenomena of the market--middleman domination of market channels, producer dependence upon the middleman for factor inputs, <u>pratik</u> relations, and many other elements of "traditional" markets--reflect the dynamic response to professional demands, although empirically the observed features of the market may actually camuflage the internal dynamics.

At this crucial point of the model, structural changes resulting from the competition of organizational strategies modify buyer-seller and seller-seller relationships. As individual firms that possess greater capital resources and entrepreneurial skills increase the scale of their operation both horizontally and vertically, smaller and less-equipped enterprises will either drop out of the market or occupy less competitive market niches. Thus, there evolves a hierarchy of market structures with large firms dominating both supplier and urban outlet markets while the small firms content themselves with secondary markets.

The terms of producer-middleman interaction also undergo an important shift under the logic of the model. The ratio of effective buyers to producers will significantly drop thus creating the conditions for the oligopsonistic control of supply. With fewer buyers available, farmers will tend to enter into longlasting buying agreements with individual middlemen, especially where feeder road networks and the communication system remain undeveloped. Consequently, the market hierarchy is reinforced as entry into the market by new firms becomes increasingly difficult.

By way of summary, the model of the short-run market dynamics presented here specifies a three stage process: initially, a burgeoning urban demand promotes the development of a cash crop production in a money-scarce peasant region. During the second stage, a complex market system accommodates the distribution of the cash crop by drawing upon traditional marketing elements and attracting more heavily capitalized resources from within and without the region. These different components of the marketing system develop organizational strategies to the point that they become accepted behavioral patterns or elements of a heterogeneous market structure. In the third stage, the set of market structures compete dynamically for control of product and urban markets, and those which display more organizational efficiency tend to eliminate the less efficient.

At the present level of discussion, the individual efficiency of the marketing firms has been identified as the principal selective force structuring the system. However, individual efficiency may not necessarily imply optimum system efficiency. This problem raises broader questions concerning the performance of the market system conceptualized in this model, and these questions can be formulated in terms of the hypotheses which the model itself generates.

The first set of hypotheses addresses the issue of market evolution, that is, the behavior of the market over the long run:

i) Eventually the market system will come to be dominated by large middlemen, astute entrepreneurs with large capital resources, who are able to vertically integrate production, assembly, and wholesale operations.

ii) As the market evolves, the small producer suffers from an increasingly disadvantageous bargaining position vis a vis the large intermediary. As the vertically integrated firms gain greater control over the structure of production, the increased scale of the producing unit is encouraged insofar as farmers attempt to reduce production costs and marketers seek to minimize assembly costs. This hypothesis has been advanced for Northeast Brazil by Forman and Riegelhaupt (1970), who maintain that the increased "rationalization" of the marketing system has pressured a commensurate rationalization of the pattern of production. Consequently, the small producing peasant faces a bleak future in terms of his agricultural prospectives and will gradually be forced into a wage-earning category as a member of the "rural proletariat".

iii) Although the producer does not gain from the increased scale of the market enterprise, the consumer in the urban center does benefit insofar as reduced marketing costs can be transferred toward the end of the marketing chain.

Another hypothesis involves the role of the market in the development of peasant agriculture: namely, that the market system acts as a mechanism of capital accumulation in peasant economies. Assuming, as the model does, the difficulty of obtaining significant amounts of cash, particularly from an agricultural subsistence pattern, marketing activities provide a major opportunity for the building of capital funds. If this hypothesis can be supported by the data, then the question turns to whether the capital accumulated is being reinvested in the peasant region in ways that would promote agricultural development.

A final set of hypotheses concerns broader performance problems. The agricultural transformation to an urban-directed cash crop expands the flow of income in the peasant region, and it is relevant to investigate the effect of the marketing system upon the distribution of that increased wealth. Hence the following hypotheses:

i) The marketing sector--through middleman exploitation of the peasant producer--corners an inordinate share of the income generated by the cash crop production. This hypothesis in fact has two related facets. First, marketing participation in the final price paid by the consumer may be high because farmers suffer from inferior terms of trade which the middleman can readily exploit to his own advantage. In a related vein, the various marketing agents incur costs in the performance of necessary marketing functions. In this case, market margins may be high, but not because of middleman exploitation, but rather due to inefficiencies in the system: poor roads, high assembly costs, deficient communications, or other factors.

ii) Within the marketing sector itself, the larger firms secure an ever increasing share of the income generated by the cash crop. This hypothesis also requires a certain explication. The larger and smaller firms which compete horizontally in the producing region tend to divide the wealth disproportionately as the smaller firms drop out of the market in the face of mounting competition, or since the small-volume market agents seem satisfied to perform the necessary market functions for less. Accordingly, during the process of market dynamics described by the model, the flow of wealth turns increasingly toward the larger firm. In terms of vertical transactions, urban-based wholesalers will tend to appropriate a larger share of the generated wealth than the local middlemen who supply the urban market. Thus much of the locally produced wealth actually flows out of the peasant region, while what remains tends to become concentrated in the hands of the larger enterprises.

None of the above hypotheses can be supported or discounted a priori; each has to be tested against the data from the actual market systems which meet the conditions of the model, since it it through this process of hypothesis-testing tha the model itself is refined and adjusted. However, should an examination of the data result in an acceptance of these hypotheses, then several serious implications must be carefully considered.

Most critically, these hypotheses suggest that the modernization of the peasant market can damage the small peasant producer and the small market middleman, even though the consumer may be eventually benefitted. In broader development terms, the introduction of the cash crop may result in even greater marginalization of the peasant if the marketing system pressures the restructuring of the producing unit along the lines drawn by the hypotheses. In the face of this possibility, public policy in the marketing sector faces an important challenge in its development efforts to bolster the position of the small producer.

Government programs have often sought to intervene in the marketing system in favor of maintaining the structure of the small production unit. Frequently, such action has been aimed at eliminating the inefficient middleman, the traditional scapegoat for the producers' marketing problems. The argument advanced here portrays the middleman within a functional context, that is, in the light of the services which the middleman provides. The question which must be empirically decided id whether the cost efficiencies gained by increasing the scale of the firms or vertically integrating the market chain outweigh the social costs of a greater concentration of income and the declining terms of trade for the small producer.

If, indeed, the preceding scenario represents the socio-economic trade-off which public officials must consider, then perhaps government intervention might most profitably be directed toward the strengthening of the traditional element in the market system or providing the peasant producer with a countervailing power mechanism. This problems will be discussed in greater detail in the final chapter of this dissertation.

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Agenda for Workshop on Small Farmer Marketing Systems in Developing Countries

Monday April 14

9:00 a.m.	Opening remarks
9:10 a.m.	Chairman's remarks
9:30 a.m. - 12:45 p.m.	
9:30 a.m.	Scarlett Epstein
10:00 a.m.	Weber Finan Fox
11:00 - 11:15 a.m.	Break
11:15 a.m.	Appelby
11:45 a.m.	Schwimmer
12:15 p.m.	Comments of discussant: Argento
12:45 - 2:00 p.m.	Lunch Break
2:00 - 4:00 p.m.	
2:00 p.m.	Lewis
2:30 p.m.	Trager
3:00 p.m.	Narendran
3:30 p.m.	Comments of discussant: Benedict

Tuesday April 15

9:00 a.m.	Case study Thailand
10:00 a.m.	Guatemala
11:00 a.m.	Cameroon
12:00 a.m.	Discussion
1:00 - 4:00 p.m.	
2:00 p.m.	PID review
4:00 p.m.	Chairman's closing statements