Themes in Rural Urbanisation

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by
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and
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Contents **Page**

Abstract

The neat equation of locational site and economic sector such that 'rural' equals 'agricultural' and 'urban' equals 'industrial' is a construct of modern applied economics. Even in the Middle Ages, when locational separation was dramatic and often marked by fortification, agricultural activity (admittedly for the most part of a part time nature) took place within the confines of the ramparts, from where great tracts of land were also controlled, while non agricultural distributive activity could be carried on at market place sites far removed from city walls (Slicher Van Bath, 1963).

The classification of space into rural and urban is always an outcome of historical, political and socio-economic forces and subject to redefinition and challenge. A core set of urban attributes have proved quite resistant to contest, however. Urban sites contain a high density of population. They compress spatial accessibility. They are peculiarly concentrated epicentres of capital and its accumulation, of taxation, of services (including administration), of non-agricultural production, of arts and science, of crime and corruption (Giddens, 1993, p564-591). They are political units and they may also be social units for certain ends, though intra-urban social and spatial differentiation has been marked throughout most of time and space. Although they are mostly concentrated in metropolitan centres, these urban features diffuse and replicate themselves in rural regions. How does social science approach the understanding of these processes, of the urbanisation of rural peasant economies?

This review of the urbanisation of local agrarian economies and of related territories of development policy seeks to define and to contextualise issues which are adaptable for field research in a small rural locality with a single urban settlement. Using this principle, we have encountered six themes in the literature:

i) urban bias

ii) the 'rural non-agricultural' sector

iii) rural-urban linkages

iv) intra-locational, inter-sectoral economic relations

v) the nature of the urban production process

vi) civic services and their politics.

In the following discussion, we explain and offer comments on each of these six themes and on the implications of existing research on these themes for development policy. It will be argued that the embedding of economic relations in institutions expressing two interrelated forces - those of trust and of power - is research likely to prove the most interesting both theoretically and empirically.

1 Urban Bias and Beyond

> " The most important class conflict in the poor countries of the world today is not between labour and capital. Nor is it between foreign and national interests. It is between rural classes and urban classes. The rural sector contains most of the poverty and most of the low-cost sources of potential advance, but the urban sector contains- most of the articulateness, organisation and power. So the urban classes have been able to win most of the rounds of the struggle with the countryside "
>
> (Lipton, 1977, p13).

As Varshney comments in his recent collection of papers (1993), two hypotheses were reasoned out in Lipton's influential treatise on urban bias: first, that economic development is systematically biased against rural locations and activity and second, that this bias is the political expression of the domination of urban interests. Bates' work enables us to add that Lipton's urban bias can be seen as short term rational, and to qualify the interests which Lipton aggregates. For Bates, the developmental bias he observes in Sub-Saharan Africa bias is not so much in favour of an urban class as in favour of a coalition of industrialists and workers upon whose support the state bureaucracy depends. This bias also generates administrative rents not only appropriated privately but also rationed out to create political alliances (Bates, 1981, 1989).

Since its inception, Lipton's thesis has attracted much critical attention (see for example (eds) Harriss and Moore, 1984). Socio-economic differentiation within urban settlements makes Lipton's hypothesis of a coincidence of urban interests implausible. In the same way, agrarian class differences militate against a rural class as a social unit or against any definitive prediction of the distributional effects of price policies. It has also proved remarkably difficult to derive empirically testable economic or political hypotheses from the original statement. Where this has been achieved, as with the somewhat trivial prediction that the 'urban class' will act to preserve its interests, the disadvantaging of urban and rent seeking classes under conditions of structural adjustment has proved awkward to explain.

New critical research, however, focuses on four neglected aspects of the urban bias thesis:

i) its neglect of political institutions even though urban bias is in essence a political theory. Historical evidence does not show that political institutions, even if urban centred, invariably act against the rural interest;

ii) its neglect of technical change in agriculture and of the social and geographical distributions of gains to technical change (by no means all urban);

iii) its neglect of forms of politics (for example: of ethnicity, caste, religion and even class (Rapley, 1993)) which transcend the dichotomisation of space and society but have implications for the location of economic activity;

iv) its neglect of rural-urban boundary problems and the blurring of space through movements of people, products and capital (Gibbon, 1992; (ed) Varshney, 1993).

These 'four neglects' comprise an agenda for further research and theory, parts of which (notably ii) and iv)) will be taken up at length later in this review.

2 The 'Rural' Non-Agricultural Sector

If the rural cannot be equated with the agricultural or the urban with the non-agricultural, if there can be agricultural activity both inside urban boundaries and <u>from</u> inside urban boundaries, there can also be non-agricultural activity in rural areas. Indeed the household production of a range of goods was a feature of peasantry's prior to their contemporary 'agriculturalisation' ((ed) Shanin, 1987). For many writers on the evolution of the rural non farm-economy, small towns are understood as located in rural, agricultural space (Mellor, 1976; Hazell and Ramasamy, 1991). In fact this fortuitous elision of 'non-farm' and 'rural' helps in the recognition of the processes of de-agriculturalisation and diversification which has accompanied the recent supply by agriculture of capital, labour, wage goods and savings to other sectors of the economy (Byres, 1974). One series of models of the non-farm economy is considered here, both as an example of the genre and because of the types of analytical response it has provoked.

2.1 *Inter-sectoral Consumption Linkages, the Rise, Decline and Resurrection of the Non- Farm Economy*

It was in his 1976 book:' The New Economics of Growth' that Mellor upturned classical development theories of industry-led agricultural development (see, for a summary of these, Varshney, 1993, p6-15) with a 'growth linkages' theory of agriculturally-led industrial and commercial development[1]. In it he argued that the question of surplus agricultural labour could only be addressed by technology-led agricultural growth which would both develop the non-farm economy and mop up surplus labour by means of demand for non-farm goods by the direct gainers from technological change. This demand was expressed in the concept of 'consumption linkages' by Mellor. The social distribution of this demand was for Mellow not relevant. But for his lack of attention to this he has been taken to task, both theoretically (Dunham, 1991; Ray, 1993) and empirically (Harriss, 1987; Hart 1987).

Hymer and Resnick (1969) (HR) however had reasoned the reverse in an 'old' economics of growth. From a hypothetical agricultural sector based on household production for subsistence and on the local distribution of non-agricultural goods such as textiles they argued that the development of agriculture under favourable terms of trade will lead **not** to the development, but to the atrophication of the non-farm economy. The grounds were:

i) that agricultural development is inevitably accompanied by the spatial extension of economic markets;

ii) that, as a result, rural non-farm activity would be displaced by products manufactured elsewhere and imported at lower cost (perhaps from metropolitan sites within the national territory);

iii) as agricultural incomes rose, so would demand for new goods produced outside the locality and imported into it;

iv) export agriculture would develop to pay for imported produce and both labour and capital would move away from the non-farm economy and the production of food and into this sector.

1 Mellor's 'new economics of growth' has been superceded by a 'new growth theory' which lays stress on the relationships of infrastructure and human capital development to growth in GDP.

Along with the decline of rural non-farm activity, the HR model predicts an expansion of distributive activity dependent on the development of export agriculture and the import of non-agricultural goods and services.

It is possible to make a few small departures from HR's initial conditions however and to produce a radically different scenario. Ranis and Stewart (RS) (1993) assume :

i) that the rural non-farm sector is not homogeneous but classifiable into a 'traditional' sector making 'simple, low quality goods' and a 'modern' sector producing high quality, complex products manufactured in small factories;

ii) the existence of a local modern urban industrial sector;

iii) that the agricultural sector itself is dualistic, with a 'cash cropping export' sector and a domestic or local food producing sector;

iv) constant terms of trade such that the possible effects of the dualistic agricultural sector on the rural non-farm sector are neutralised.

Departures i) and ii) allow the rural economy to overcome the potential displacement effects from imported non-agricultural goods, since the high productivity, modern, rural non-farm sector (aided by capital and other inputs from local urban industry) is assumed to be of 'equal superiority' and competitiveness to that of manufactured imports. Departure iii) allows the assumed dynamism of the domestic-oriented agricultural sector to develop strong and mutual production and consumption linkages with the rural non agricultural sector.

Under these assumptions, and in contrast to HR, there is no necessity for any sector other than that of 'traditional' rural non-farm activity to be threatened by agricultural commercialisation, and every reason for both the export sector and food production to expand, thereby providing the modern non-farm sector with low cost agro-industrial raw material. Meanwhile the urban industrial sector supplies the modern non-farm sector with domestic, manufactured capital goods, and the modern non-farm sector supplies the urban sector with processed agricultural products. A similar set of linkages can develop with the global economy too. Pressure on land rents will force the urban sector to subcontract appropriate industrial production to the modern non-farm agricultural sector, resulting in a series of production linkages which generate : " a pattern of development that tends to be associated with a high overall rate of growth, a more egalitarian income distribution and a better regional balance " (Ranis and Stewart, 1993, p83-4) in which the modern non-farm sector would be expected to be located in small towns (though the siting of such activity is irrelevant to their model).

This virtuous scenario is 'tested' comparatively with the use of contrasting data from Taiwan and the Philippines. "Taiwan's macro and sectoral policies were favourable to strong rural linkages with good agricultural growth, a relatively egalitarian land and rural distribution of income, the generous provision of rural infrastructure, as well as an export orientation which was substantially rural based" (op. cit. p98). This experience is contrasted with that of the Philippines where government policies were at fault for its lacklustre performance: " the marked differences between the two economies in their rural and overall development performance were associated with differences in initial conditions and policies over time " (op.cit., p99).

Some comments are in order. The time series data needed to <u>test</u> the RS model is conventionally rejected in favour of highly selected cross-sectional evidence which <u>verifies</u> it. The role of inflation is ignored both in the model and in its testing, whereas inflation will sabotage the assumed multiplier effects. Inflation will reduce competitiveness and increase leakages. The assumption of given and constant terms of trade is an unwarrantedly strong one. Key policy variables involve :

i) initial conditions, especially the land distribution and interventions ensuring an egalitarian income distribution and infrastructure. Under a more equal income distribution, income expansion is argued to generate a stronger demand for locally produced goods, whereas unequal income distribution is argued to turn demand towards imports, payment for which introduces 'leakages' which in turn reduce income and employment multipliers.

ii) the absence of discrimination in the terms of trade either by location or by sector so that resources shift to the most 'productive' economic sectors and spatial locations unhindered by distortions of government to the market-incentive price system.

RS proceed from agriculture to industry and from rural to urban assuming neo-classical markets and leaving unexamined the institutional forms taken by trade and the attitudinal attributes necessary for trade (Gulab, 1993), which is why a discussion of the creation and active promotion of marketing systems to link the various sectors is crucially missing from their policy discussion (c.f. Taori and

Singh, 1991; Aneja, 1993). One of the implications of this omission is that the role of institutions and conventions in containing uncertainty and opportunism, in coping with either the absence or the superabundance of information and in enabling the correction of mistaken decisions is completely ignored. The implication of this omission is that the analysis might be confounded and that the income and employment multiplier effects of a modern rural non-agricultural sector might be seriously reduced. In practice any rigorous empirical testing is hampered by the RS model's reduction of space to sharply differentiated economic sectors. The formalism of all three models considered here (Mellor's, HR's and RS's) does not allow for an evaluation of (or normative speculation about) the varied social organisations and institutions through which growth, intersectoral and rural-urban resource transfers may take place (Amariglio, 1990; Hodgson, 1988 p 173-194).

2.2 Distress Diversification

A radically different hypothesis departs from modernisation theories involving production and consumption linkages from agriculture. The non-farm economy is considered to be motored by unemployment in agriculture (whether caused by demographic pressure, by net labour displacing technological change or by land dispossession (Shukla, 1992)). Rural non-farm activity is thus a : "residual or sponge sector fed by the secular pauperisation of the rural population" and characteristed by low incomes, low productivity and an incidence which fluctuates, and fluctuates inversely with rainfall and with employment in agriculture (Bhaduri et al , 1986; Vaidyanathan, 1986).

It may be added that when household reproductive activities are prior necessities and are strongly gendered and female, then not only is female supply to the labour market or to non-valorised, productive occupation constrained but so also is spatial mobility. One prediction would be that if increasing rural non-farm activity is accompanied by the very pauperisation that is mitigated by 'distress diversification' then the gendering of activities according to location would be observable.

Unni (1991) in a review of poverty-induced non-farm economic development points out that empirical investigation of this 'residual sector hypothesis' is crude and difficult, while it is perfectly possible that both the virtuous and the vicious processes of development of the non-farm economy might operate in a differentiated and institutionally inflexible society. Unni tested both virtuous and vicious hypotheses of the development of the non farm economy through regression analysis using NSS (National Sample Survey) data for 56 relatively homogeneous agro-climatic regions for 1977-78. Such data is of necessity a snapshot and unable to reveal dynamic processes affecting rural non-farm employment. Data was classified at two levels: i) agricultural regions disaggregated into more developed and less developed and ii) rural non-farm employment disaggregated into various industry groups i.e. mining and quarrying; manufacture; electricity; gas and water; construction; trade, hotels and restaurants; storage, transport and communications; finance, insurance and real estate and personal services.

Unni found that the hypothesis linking agricultural prosperity and rural non-farm employment was partly substantiated by a positive relationship between non-farm employment and agricultural productivity. At the diseggregated level this relationship holds for all industries (except for utilities) in both well and less developed regions. To test the hypothesis that the prime movers of the rural non-farm sector were backward and forward production linkages, a proxy variable was used to capture the impact on the growth of rural non-farm employment from outside agriculture - an urbanisation variable. This indeed had a positive impact on male rural non-farm employment. At the disaggregated level, urbanisation was positively associated with many non-agricultural activities.

In trying to test the residual sector hypothesis the results were less clear cut. Although a positive relationship between the unemployment rate and the proportion of men employed in rural non-farm activity was found, when the regions were disaggregated by developmental status, the positive relationship was not found in the less developed regions. It held well for developed regions. This would suggest that generalised distress conditions do not necessarily lead to the growth of rural non-farm activities.

The residual sector hypothesis supports the prediction that, under acute distress conditions of excess labour and unemployment, rural non-agricultural wages would be lower than agricultural wages. In the 56 regions studied, however, there was no correlation between the proportion of male workers in the rural non-farm economy and the non-farm/agricultural wage ratio. So the hypothesis that rural non-agricultural workers are those extruded from agriculture is not well substantiated (Unni, 1991,p 117). Unni points out however, that it was difficult to capture distress diversification because of the ambiguous nature of the proxies. Distress diversification may also be a temporary phenomenon:

> "while in the early stages of agricultural development, the labour intensity in agriculture may increase, leading to greater absorption

of labour, in later stages labour intensity may decline, leading to lower rates of absorption of labour in agriculture. In the later phase there could be a spill over of rural labour into rural non-agricultural activities often of the residual variety. However, a high level of agricultural productivity could also facilitate the growth of rural non-agricultural employment by generating surplus and diversifying demand for non agricultural goods and services...The concentration of land in the hands of a few households can facilitate the growth of rural non-agricultural employment if the surplus generated from agriculture is invested in rural non-agricultural activities in rural areas. On the other hand, the concentration of land in a few household may imply more landlessness and the predominance of small land holdings. The non availability of agricultural work to landless and small cultivator households can result in a distress diversification to rural non-agricultual activity "

(Unni, 1991 pp 115-116).

Several other studies (Jeyaraj, 1989a 1989b; Basu and Kashyap, 1992; Shukla, 1992 and Ranis and Stewart, 1993) testify to the difficulty of carrying out econometric exercises to test the nature of the rural non-farm sector. Problems include definitions, the ambiguous nature of variables and lack of appropriate proxies, the level and nature of aggregation of data, lack of up to date information, hypothesis formation seriously limited by the absence of data, particularly time series data. The use of secondary data has not been successful so far.

Just as Shanin (1987) warns against theoretical dualism accompanied by a one sided empirical process of model verification in studies of peasant household mobility, so here with the rural non-farm economy, the question of the 'virtue or vice' relating agriculture to the non-farm economy needs reconstituting in such a way that the questions for research are the nature and mix between the two types of process and an expectation is that other relationships may also exist which are not currently theorised. For these, secondary data does not exist.

3 Rural-Urban Linkages

From the last section, it is clearly not enough to distinguish two units of analysis, one in rural space-time and another in urban space-time in the hope of telling a story since this betrays little about the nature of, and reasons for, the relations between them. The links between rural and urban space have been addressed in two kinds of way. On the one hand linkages across space and time and flows of resources are seen as economic and market mediated, where the state intervenes as a distorter (Evans, 1992). On the other hand these economic linkages are regarded as the outcome of social relations not only 'shaped by' institutions but also embedded in relations of power and also of trust or reputation. The second approach considers social institutions as necessary though not sufficient conditions for linkages and flows to emerge (Dasgupta, 1992; INFRAS, 1993). The two approaches have had distinctive methodologies, units of analysis and systems of classification.

3.1 The Markets Paradigm

Within the markets paradigm, four dominant models explain resource linkages. They differ mainly with respect to their unit of analysis.

3.1.1 Macro-scale, demand-centred explanations are based on reasoning that regional resources are allocated so as to meet local, national and international demand, growing more complex as the spatial field of demand expands. Harriss (1989) has revealed how a rural district in South India has developed from producing subsistence and basic wage goods for the local economy to supplying local and non-local urban and metropolitan centres and international markets with intermediate and agro-processed goods, and to receiving income-elastic metropolitan consumer goods as the nature of demand has shifted.

3.1.2 Most widely known, virtuous circle models of 'generative urbanism' explain the development of small towns and rural hinterlands in terms of mutually reinforcing linkages - demand-led but considering both supply and demand. This formulation resembles the argument about agricultural growth linkages of Mellor (1976). It differs from Mellor first in being centrally concerned with space (which for Mellor is incidental) and second in arguing that the rural non-farm sector is a consequence of urban growth rather than, as Mellor had it, a cause of local level urbanisation. Small towns are argued to have a positive impact on rural hinterlands by developing markets for inputs and by supplying extension and production credit all of which lead to a rise in productivity. Increased income generates demand for urban manufactured and urban marketed consumer goods as the goods and services constituting rural demand become 'urbanised'. This then increases urban demand for labour which is met by rural-urban migration. The rise in urban income leads in turn to rising demand for superior and income elastic consumer goods, which are supplied by the rural sector as it diversifies into rural non-farm activity (Rondinelli, 1983; 1984). Small towns then integrate their flows of trade and money with national markets which they supply with agroprocessed goods and industrial manufactures and from which they import capital.

3.1.3 Vicious circle models of 'parasitic urbanism' (Chattopadhyay, 1968; Harvey, 1973; Adalemo, 1984) see no deterministic relationship between urbanisation and agricultural productivity. Depending upon agrarian structure, rural class relations and spatial aspects of accumulation and of depeasantisation, urban centres can be sinks of consumption of capital based on surplus extraction from (a stagnant) agriculture and sites of concentration of immiserised un- and under-employed labour. Harriss and Harriss (1984) show how a given town may have elements of both parasitic and generative urbanism. Ranis and Stewart (1993) stress the role of the state in countering parasitic urbanism through equitable provisioning and services.

3.1.4 Lastly, attention has been directed towards the micro-level spatial adaptations made by households for the purposes of maximising productive capacity (and/ or minimising of risks) across sectors and locations (Evans and Ngau, 1991). Far from ' agriculturalising' or growing increasingly specialised in agricultural production over time, both peasant and capitalist households may diversify into non-farm activity, and branches of a household, still configured as a single economic unit, may relocate in urban areas (Gibbon, 1992). Epstein calls this a 'share family'. Under such circumstances, urban households can and do have direct interests in agricultural production, migrating seasonally at times of peak labour demand. (They can also have indirect interests in agriculture through the out-renting of land and/or land management via paid supervisors or via shares in agricultural estates)(Mkandawire, 1992). It is clear that such household forms could as well characterise generative as parasitic urbanism. It is also clear that such households blur and transcend the rural-urban divide.

Policy territory in the markets paradigm involves suggestions to engender high regional income and employment multipliers by reducing spatio-economic 'leakages' (Mellor, 1976; Bagachwa and Stewart 1989; Evans, 1992; Ranis and Stewart 1990; 1993). It is usually concluded that deregulation and/or state action to 'undistort' markets will remove barriers, overcome constraints and lead to:

i) labour intensive rural non-farm activity;

ii) small scale industrial and agricultural enterprises;

iii) improved communications and lowered transactions costs in transport and communication;

iv) a reduction in the social and spatial compartmentalisation of credit systems ;

v) increasingly equitable income distributions.

Measures proposed include:

i) cessation of import substitution strategies to stop inefficient resource allocations;

ii) reform of tax systems favouring investment in large scale, capital intensive, capital biased industry;

iii) progressive taxation discouraging the consumption of imported and/or elite products;

iv) reallocation of Federal and State budget expenditure to rural infrastructure;

v) technological assistance for small and medium scale industry;

vi) decentralised policy-making bodies and 'participation';

vii) strategies to decentralise credit institutions to lend to agriculture, rural non-farm activity and small scale industry in rural areas and in small towns.

However the markets paradigm makes such policy recommendations assuming in cavalier fashion a black box capacity to 'undistort' imperfect markets. For example:

> "We start from the notion that the local economy in a developing region is typically a set of fragmented, overlapping, but poorly integrated markets struggling to overcome constraints and barriers. The principle task for the planner, therefore, is to improve the operation of these separate markets, to increase the level of interaction between them and to facilitate the allocation of available resources to the most productive uses ... The flow of goods and services between rural and urban areas is often constricted by a variety of official rules and regulations governing production, trade

and transport... While such policies may be driven by valid concerns for public order and safety, they effectively restrict activities"

(Evans, 1992, p26-7)

Yet were it not for the non-contractual elements derived from social institutions and regulatory rules, economic transactions would not emerge because such institutions serve to reduce to tractability the uncertainties of the social, economic and political environments (Hodgson, 1988, pp 156-60;182-194). Ranis, Stewart and Angeles-Reyes (1990) acknowledge that ' more empirical work would be useful in order to obtain a firmer idea of the nature of the processes at work and their orders of magnitude' (p79).

The markets paradigm suffers the further indignity that data bases from which income and employment multiplier effects could be calculated are severely lacking. Such effects are theorised to arise from a variety of linkages and are apparently manipulable via a plethora of policy options. Herculean effort has resulted in crude regional social accounting matrices in a few instances (Bell, Hazell and Slade, 1983; Hazell and Ramasamy 1991), some of whose empirical conclusions and policy prescriptions have sustained radical reinterpretations (Hazell and Roell, 1984; Harriss 1987; Hart 1989). Problems of data precision, of uncertainty and of spatially exogenous structural and policy changes are either analytically exogenised or treated as leakages. Time is wound backwards and forwards as though other things were always equal which they never are. In response to criticism by Hayek and Robertson on Keynes's ceteris paribus concept of time in his 'General Theory of Employment, Interest and Money'(1936), the latter re-evaluated time as follows: " the practice of calmness and immobility , of certainty and security, suddenly breaks down. New hopes will, without warning, take charge of human conduct. The forces of disillusion may suddenly impose a new conventional basis of valuation. All these pretty, polite techniques, made for a well panelled Board Room and a nicely regulated market, are liable to collapse. At all times the vague panic fears and equally vague and unreasoned hopes are not really lulled and lie but a little way below the surface" (1937, p215). Time as a process does not run smoothly. In this, Keynes anticipated the insight brought to social science more insistently from chaos theory that contingency and small perturbations in otherwise similar initial conditions may result in radically different outcomes (Ormerod, 1994)[2].

2 This we have already encountered in a comparison of the HR and RS models in section 2.

The market paradigm also offers no explanations for the mechanisms creating and establishing linkages, since neither 'utilitarian calculus' nor 'the dialectic of class relations' require empirical specification at the level of abstraction commonly deployed in theoretical discourse.

3.2 The Social Institutional Paradigm

The institutional paradigm by contrast offers insights into social processes involved in rural urbanisation and opens up a policy territory concerned with the institutional environment for growth (Luhmann, 1979, p24-31). Uncertainty and bounded rationality prevent the formulation of a full system of knowledge. Yet people require confidence in order for social and contractual interaction to be made possible. Where self interest, competitive behaviour, opportunism and jealousy may motivate, at least in uncertain part, the contractual interactions of market exchange then trust is equally essential to contractual adherence (Granovetter, 1984; Basu, 1991 p169-181).

Thus economic linkages between rural and urban 'sectors' reduce (or expand) to contracts between parties, scattered, spore-like over space and through society, and these micro level foundations are always deeply settled in historical, social habitual institutions characterised by trust, routine and stability (Young and Wilkinson, 1989; Casson, 1990; Sanghera, 1992). In all forms of power relation save the openly coercive, legitimacy is required for the power-holder and trust is needed both by the subordinate party or parties and by those who dominate (Fay 1985). Furthermore trust is always necessary (though not sufficient) to the risk taking needed to develop new linkages or to change the nature and dynamics of resource flows. As Hodgson writes: " exchange is always in part a leap into the unknown, it is a 'death leap'. The argument is not simply to recognise the world of uncertainty in which such a leap exists. For such a dangerous act to become commonplace it must be enforced to a large degree by routine and guided by a good measure of trust. How else would we make frequent and vulnerable transactions if we were not to assume away many of the volatilities of an uncertain world, or act, on habit, as if they did not exist? The key point is that the rationalistic, utilitarian calculus is limited and constrained within everyday acts of exchange " (1988, p167).

This essential but neglected element in rural-urban relations is well highlighted in the INFRAS (1993) study of the role of confidence and trust in fruit, vegetable and metal trades in Nepal and in migration flows between Nepal and the occupational niches of the urban, night-time economy in Southern India where Nepalese find work as watchmen.

INFRAS stress the importance of trust and the consequences of its lack when Nepalese villagers interact with urban dwellers:

> "The difficulties of farmers relate to adjusting to new measuring scales. They do not know how to use them. "(So they reason that) " if they have to be cheated they would rather be cheated once in Butwal than twice in Tansen and Butwal. This points to the necessity for confidence building by middlemen before farmers will trust them with their crops. This is also a factor contributing to the natural lag in making a transition from an informal subsistence economy to a market economy "
>
> (1993, p71-2)

INFRAS document case studies where villagers were unwilling or unable to move resources to urban areas because of there being insufficient trust or confidence in the intermediary institution (e.g. wholesalers) which is crucial to connecting the rural and urban economies.

Lack of information (about prices, alternative marketplaces etc) was also shown to result in lack of trust which in turn restricted spatial mobility. Lack of familiarity with rules and regulations also bolstered exploitation by corrupt officials which had a similar impact on trust and on spatial mobility and led to risk-averse motivations. Financial ruin (after rural people had co-operated with a flawed joint development venture between an NGO and the state for which no compensation was returned) resulted in a risk-averse, obdurate preference for an uninnovative, subsistence agricultural production technology. INFRAS also found from research on migration that just as trust is a 'prior' to commodity trade by rural Nepalis so trust is required by urban employers in South India. This requirement is satisfied by the networks and routines patterning employment contracts. Social relations of kin, friendship and historical reputation are valuable resources for Nepalese migrants to South India (op.cit., p102).

In this context, in conditions where trustworthy intermediary institutions are absent, then rural-urban financial and commodity linkages need the security to be found in stable social institutions.

> "Ethnic groups not blessed with kinship relations in urban areas have not had the security of credit insurance and have thus not been able to take advantage of the market in urban areas, either to sell vegetables or metal products"
>
> (op. cit. p120).

However, it is equally possible for exchange to be conducted under 'distress' contracts where neither trust nor choice on the part of a subordinate party is present (Olsen, 1993). It is equally possible to interpret South Indian employers' choices of rural Nepalese migrants as urban guards in terms of the former's capacity to exploit the latter, the risks of opportunistic behaviour being low (because the private costs of penalties for misdemeanour at such a distance from natal society are sufficiently high to deter opportunism). Thus trust does not only solve the functional problem of uncertainty and opportunism, it also <u>critically</u> serves the interests of particular groups and enhances their power. The wholesale trade in ginger in Nepal further exemplifies <u>the interdependence of trust and power</u>. Highly seasonal trade in perishable ginger in the E. Palpa region of Nepal is controlled by a single family capable (through the manipulation of prices and of critical information) of fending off the entry of competitors. Harriss (1981b; 1991b; 1993) and Crow and Murshid (1994) show how credit relations tie trade and fend off competition in north east and south east India and the <u>char</u> region of Bangladesh. Even when parties to a transaction do not trust one another, the subordinate party may have no alternative, the transaction having unsymmetrical elements of involuntarism, even co-ercion and economic crime (Janakarajan, 1993; INFRAS, 1993, p59,p68) .

Power relations between institutions comprising the state and those of 'markets' can also both restrict and facilitate spatial and temporal resource flows. On the one hand :

> "intercity commerce is governed by unclear regulations; and police at checkpoints in Dumre or Butwal can and do stop innocent villagers and confiscate their products. This procedure is more commonly applied to the poorer and the more ignorant"
>
> (INFRAS, 1993, p59)

Harriss (1984) has documented the nexus of mercantile and bureaucratic interests in the promotion of interventions which increase market price distortions (and therefore returns to illicit trade) and create opportunities for private bureaucratic enrichment through bribery. On the other hand, in INFRAS' research on Nepal, the use of patronage by traders towards bureaucratic officials in the economic relations of social reproduction (for example, favourable terms of purchase of food by bureaucrats) was intended to lead to redefined eligibility for state services (for example, privileged access by such traders to imported chemical fertiliser either for their own production or for resale) and for information (INFRAS, 1993, p45). Hence, 'reliability' and 'reputation' co-exist with restricted and unequal control over money, information, technology and access to the state. And Smart (1993) shows how Hong Kong entrepreneurs construct and utilise social ties with the political bureaucracy in mainland China in order to expedite investment and establish enterprises. This strategy of reliance upon social rather than legal guarantees is concluded to go some way to explain the success of Hong Kong capital in China. Gifts are used to reduce transactions costs.

> "Gift exchange here is not in any way fundamentally opposed to the logic of capitalism and commodity exchange; rather, relationships constructed and strengthened through gift exchange help to establish and maintain capitalist investment in a socialist society that operates on principles significantly different from those in the aggressively capitalist Hong Kong economy. In a situation where there is pervasive distrust and where great gaps exist in the legal and societal infrastructure necessary for capitalism, the consolidation of social relationships built on gift exchange provides a substitute form of trust that can improve the risk of arbitrary bureaucratic interference that is not in the interests of the investors"
>
> (1993, p398).

Trust in intermediary institutions is crucial both to the commercialisation of agriculture and to the development of rural non-farm activity. The mechanisms whereby trust is not broken and power not abused become central issues for a radically redefined 'policy agenda' from that emanating from orthodox economics. INFRAS note (1993, p141) that the Nepalese government has to tackle the problem of trust in designing and implementing development policies: " where people are not confident of the social institutions (state agencies, government owned banks etc) they refuse to put up money even for the repair and maintenance of already existing infrastructure (roads, irrigation canals) "This example highlights the practical implications of Luhmann's theoretical distinction between individualised trust derived from personal knowledge and the impersonal systemic trust derived from both law and custom which permits confidence in deals with strangers (Luhmann, 1979, p39-61).

The power relations with which markets are suffused act as barriers to factor mobility in the sphere of distribution. Such rigidities are commonly the targets for the policy advocacy of neo-classical analysts which takes the form of calls for the removal of rigidities or imperfections. Not only is the mechanism by which distortions are removed ignored or taken for granted in such approaches, but also the power relations giving institutional shape to 'imperfections' and 'rigidities' (which can reasonably be assumed to resist interventions whose objectives include curbing their power) are made invisible.

The social institutional paradigm offers no quick fix for policy. This is because the approach requires that the power relations involved in the process of policy formulation and implementation be integrated into any analysis of market forms and relations ((eds) Clay and Schaffer, 1984). Rather than call for the removal of distortions, the emphasis would be on the identification of the factors shaping power- and trust-embedded relationships, and on their compatibility with specific development objectives.

Policy formulation and implementation has also to be integrated with political analysis without which there can be no understanding of how the state manages the economy. By means of market ideology and discourse, the state constructs economic territories for intervention and for non-intervention. Torfing (1991) writes:

> "(S)tate and economy should be analysed as open-ended discursive formations with a varying degree of institutional sedimentation. As discursive formations they compromise various sites of hegemonic struggle which should always be evaluated in their conjunctional specificity. 'The state' and 'the economy' only exist as continuously renegotiated political projects articulating numerous resources, specialised knowledge, political strategies, disciplinary mechanisms and normalising practices in relatively coherent discursive formations" (p65).

4 Intra-Locational Economic Relations

Within urban space just as between rural and urban space, the relationships between sectors can be analysed using the market and the social institutional paradigms. While the former focuses on multiplier effects, the latter lays stress on the specifics of space, time and society.

4.1 The Market Paradigm

Though the market paradigm has been used to date to investigate intra-locational economic transfers with respect to rural locations, the method is as applicable to urban sites. Two types of frameworks have been developed.

The first involves the physical system of production in which a sector is embedded and the central but still abstract concepts of backward and forward production and consumption linkages. The framework is used to address questions about the 'strength' of such linkages, about income and employment multiplier effects and about the scope of government intervention. Results are highly sensitive to location. Consumption linkages from agriculture have been found more important in generating rural non-farm activity in some circumstances in Asia (Bell, Hazell and Slade, 1983) and Africa (Bagachwa and Stewart, 1989) and forward production linkages in others (Harriss, 1989). Although the market paradigm places the idea of systemic links centre stage, such links are supposed to operate through abstract, timeless, spaceless neo-classical principles of supply and demand. Policy pronouncements tend to be normative and not location-specific, stressing the importance of rurally located consumer goods production under conditions of small scale, local location and labour intensity (Bagachwa and Stewart, 1989; Ranis and Stewart, 1993). However Harriss (1989) notes the residual nature of such policy advocacy and the unexamined assumptions about the process of policy implementation.

The second framework for intrasectoral relations is a response to the theoretical and empirical inadequacies of neo-classical concepts of market by relocating intrasectoral linkages in systems form. 'Markets' are treated as multiple and interdependent sequences of industrial and trading activities, decisions, transfers of ownership and price formation (Shaffer, 1980). Much applied research on intrasectoral linkages in France has profited from this broad methodological framework addressed to what are known as 'filieres' (Leplaideur, 1992). A filiere is a chain or a sequence. A sequence of technical activities forms the 'skeleton' of such systemic analyses. This 'skeleton' is fleshed out in three ways:

i) studies of costs and margins

ii) the spatial flows of commodities;

iii) the social relations of trade (including those internal to firms) to identify key points of assets concentration and other power (Pujo , 1993).

But filieres are bounded theoretical entities and it has proved hard in what are actually open systems empirically to distinguish structural and relational elements (evinced by contrasting treatments of money resulting from its character as a stock and as a flow) and between exogenous and endogenous sources of dynamism (the state being peculiarly difficult to locate). The analytical project is always constrained by its commodity selectivity. Firms do not behave neatly inside filieres, for a niche in one is frequently part of a portfolio diversified across several filieres. In this circumstance, returns to one activity cannot be isolated from total returns to that firm. The differences in competitive conditions within the system are hard to research. Power is treated in a reductionist fashion using 'assets concentration' as a proxy (Pujo, 1992). Lastly policy more often than not, is confined to an assessment of the costs and benefits of technical change. Apart from these theoretical objections, however, there are no compelling reasons why either of these frameworks may not be deployed critically for analyses of i) the types and strengths of linkages between economic sectors within urban areas and ii) the complex sequence of activities within a single sector.

4.2 The Social Institutional Paradigm

By contrast the social institutional paradigm provides a theoretical framework where the problems of action, transaction and relation among individuals, institutions and social systems in concrete instances are the formal objects of analysis. Giddens (1990) rightly argues that the development of a 'market' economy requires the : " bracketing of time and space by social systems and social institutions, so allowing social relations to be lifted out from their local contexts and restructured across indefinite time and space "Disembedded institutions and systems allow local actors to be linked up with other actors across time and space, in order to carry out economic activities. Without disembedded mechanisms, local actors will doubt the wisdom of their extensions in an uncertain and risky environment. Yet local actors have to trust the capacity of disembedded institutions and systems to be 'reembedded' in local conditions of time and space in order for resources to flow in uncertain, risky and opportunistic environments.

Giddens' analysis is primarily theoretical, referring illustratively to examples of disembedded mechanisms such as money, and legal and administrative systems. But INFRAS (1993) make the same point from an empirical study with their stress on the importance for market exchange of 'disembedded' infrastructure (roads, electricity, and a formally decentralised political system) in Nepal. It is suggested that a generalised trust in the state and the market are essential precursors to rural-urban exchange.

And Davis argues against the invariable necessity for generalised trust for exchange to take place on the empirical grounds that there is a multitude of types of exchange among which market exchange is but one gaining in importance. Further, an array of types of exchange exist not only in underdeveloped societies but also in what, for want of a better word, he calls OECD economies (Davis, 1992).

This argument finds echoes in Platteau (1993), according to whom : " the market mechanism can function more or less smoothly only if it is embedded into an appropriate social structure "Among conditions for the latter he emphasises i) abstract and impersonal relations of agents defined in law as equal in rights and duties and ii) the existence of generalised moral norms and behaviour such that agents must not behave opportunistically in their selfish short-term interest at whatever cost to others. Platteau recognises that information is actually imperfect and that some agents may be opportunistic such that in the absence of general trust maintaining institutions, market exchange may not be ' freely transferable', ' The social fabric of a society is not to be thought of as a malleable structure that may easily evolve or adjust to accommodate the market' (1993). To this, Moore (1993) counters that even in OECD countries, the process of law plays only a limited role in regulating commercial transactions and is an incomplete protection against violation. It is furthermore necessary to distinguish types of trust institution (which we began to discuss in section 3). Moore classifies according to social aggregation: personal reputation mechanisms relying on the individual; business reputation mechanisms resting on firms and institutional reputation mechanisms based in the social system.

As a result, 'modern' rural-urban intermediary institutions such as commercial wholesalers, banks, state and quasi-state bureaucracies and a range of 'middlemen' performing mediatory activity cannot *a priori* be considered as socially unembedded and ruled by commercial logic alone (pace INFRAS, 1993; Polanyi, 1957/85). However, though not all exchanges may be based on generalised 'system' trust in either OECD or developing countries, the competitive pursuit of the accumulation of capital requires exchange to become increasingly disembedded so as to enable transactions between strangers seeking profit maximisation. In this process, a naive trust ('my kinsman first and last') may be replaced by a calculating trust in a competitive capitalist urban economy. De Glopper's study of a small town in Taiwan showed that business relations were embedded not only in relations of kin and of neighbourhood but also in price and cost criteria (de Glopper, 1972, pp319-20). Clearly also there can be two types of market embeddedness: one in macro structures (Polanyi, (1957/1985) and the other in micro level institutions (Granovetter, 1985).

It is important to distinguish the analytical level at which theoretical discourse is operating. At the abstract and simple level, the market mechanism, uneven development etc are important tools for analysis. But to understand and explain concrete and complex events, it is necessary to know how social actors are affected by social-embedded market relationships (behaviour which is open to market logic and also to non market considerations), as well as to move from a restrictive conceptual analysis to a wider one. All too frequently, analysts move from abstract to concrete, from simple to complex without taking into account the ways in which concepts and theory changes. Sayer argues that discussion about markets is plagued by such imprecision and slippages between different levels, concepts and types of theories. But the word 'market' masks these differences:

> "(t)here are differences between economic and sociological or anthropological treatments of markets. Some concepts of market are abstract, some more concrete; some are restrictive, dealing with exchange, others inclusive, extending beyond exchange; some are concerned with latent or imaginary markets rather than actual ones; all vary according to the wider theoretical frameworks within which they are set "(p2-3).

On the linked question of the origin and evolution of socially embedded economic institutions, Hodgson distinguishes two issues: explanations of existence and explanations of efficiency. He suggests that a particular form of social institution originates for reasons of control, vested interests and power, but that its persistence, consequent to its establishment, depends on the routinisation within the social institution of its decisions and actions (1988 ,p 214-5). The social institution being established has to be trust-embedded if it is to interact with other social institutions, given an uncertain environment where information is incomplete and actors are opportunistic and cognitively limited. Failure to be trust embedded means that the social institution will not reproduce itself since other social institutions will not risk interacting with a distrusted social institution.

> "Some forms of routine behaviour can be discontinued as confidence in their efficacy or worth is shaken by changes in economic conditions or expectations "
>
> (Hodgson, op. cit., p143).

Yet the relationships between the social institutions will also be power-embedded, given their historical origins.

> "The situation of today shapes the institutions of tomorrow through a selective, coercive process, by acting upon men's habitual view of things or a mental attitude handed down from the past "
>
> (Veblen, 1899, p190).

In stressing the importance and functional character of habits and routine, it should not be overlooked that conscious choices and purposive actions are involved as well. Thus the 'selective, coercive process is not confined to a fixed groove' and disrupts, and conflicts with, the routinisation of decisions and actions leading to conflict and crisis between institutional stability and structural breaks (Hodgson, 1988, p139).

North (1990) also points out that the existence of a social institution or an economic organisation does not mean its efficiency, nor does a social institution's efficiency necessitate its existence. We would argue further that the efficiency of a particular form of institution or organisation is a relative phenomenon for there is no deinstitutionalised alternative by which efficiency can be compared. Efficiency needs to be analysed comparatively not only in relation to alternative forms of social institution but also in relation to its environment - economic, political and legal. Even if this environment were to change, a given form of social institution can continue to exist even though (in some comparative sense) it is inefficient because the routinisation of decisions and actions prevents adjustment.

Dasgupta (1992) pursues the dual embeddedness of institutions in trust and power in her study of petty traders in Calcutta. With reference to the functional nature of trustworthiness or credibility :

"as in large trading or in any exchange activity, it is also essential for the petty trader to establish his credibility. Credibility outside the petty trading sector refers to credit worthiness for bank loans and is established by the collateral that is offered. Credibility in this ' (petty)' sector refers to whether the trader can get goods on overnight credit or for a longer period which in turn determines the kind of goods he has access to. Hence levels of credibility refer to the period for which the petty trader has received the goods. Since he has no collateral or in most cases not even an address, (such ties) acquire great significance ... in helping the trader establish his vertical linkages " (p166-7).

At the same time Dasgupta also shows the exploitive nature of trust/credibility :

"With capital being the scarce commodity most of the traders buy their goods on credit. The bulk of them buy from middlemen, large retailers or wholesalers generally referred to as the mahajan. The mahajan determines the rate and duration of the credit and directly affects the profit rate and the actual turnover of the petty trader. The relationship is dominated by the mahajan because of the petty trader's low bargaining power and credibility and makes the petty trader totally dependent on the mahajan " (p 206).

Mahajans can not only determine petty traders' backward linkages by dictating the length of credit duration and the type of goods accessible, but can also determine petty traders' forward linkages by dictating traders' selling location i.e. the marketplace site.

Credibility with mahajans has furthermore to be justified and reproduced daily, so that the petty trader has to establish his 'business credibility' as a trader in order to obtain (more) credit, get (greater) access to goods and have (better) selling locations. Convincing mahajans of their 'business credibility' allows petty traders to make more of their own decisions, be less monitored, controlled and supervised and less exploited.

"Having established a 'business credibility' the traders maximise the advantage of their backward linkages, that is, direct access to prime locations and lucrative categories of goods which give them a higher daily sale " (Dasgupta, 1992, p251-2).

Trust-embedded, socio-ethnic links with other traders and mahajans improve a new entrant's accessibility to credit networks just as they do that of established traders. New entrants are introduced to mahajans by friends, relatives or traders of the same socio-ethnic group. Not only does sharing a particular socio-ethnic network establish economic links and so create artificial barriers to the entry of other socio-ethnic groups, but also it helps the traders to establish their own credibility thus simultaneously revealing both the critical and the functional nature of credibility (Dasgupta, 1992 p295; INFRAS, 1993 , p102).

For traders without ethnic links with the commercial sector, the process of establishing their credibility with mahajans is long and slow. Dasgupta (1992) notes that as a result, these traders have relied on and trusted the unions to facilitate and protect their entry. They even use union bodies to approach commercial banks for loans. Trust-embedded horizontal links are crucial in an informal and illegal sector, as traders band together to ensure the reproduction of their sector in the face of police harassment and political manoeuvres. Some examples of trust-embedded activity in Calcutta include i) payments from unions to the local police, ii) a network of informants to warn traders of possible police raids, iii) assistance to traders to recover goods from police custody in the wake of raids, iv) union mediation to establish creditworthiness with the formal banking system.

While it is argued that both trust and power mould rural-urban and intra-urban economic linkages, it is both difficult and important to distinguish the two. The balance according to Dasgupta, depends on combinations of financial, informational, geographical and contractual independence. It is fundamentally indeterminate. Dependence and clientelisation may reduce decision making power but also reduce risk, increase inventory and information availability, improve access to sites and credit leading to institutional parodies of vertical integration. By the same token, independence may signify lack of reliability or great power.

> "The commercial capital of the capitalist mode of production ensures that [petty trading] can operate lucratively only under highly exploitive relations. Weaker links mean low returns. Thus the scope for stabilisation and accumulation lies in improving these links. Only a small proportion of petty traders are highly integrated as commission agents, indicating that the bulk of the (traders) are

tied by exploitative but less lucrative links. Yet most of these relations allow the (traders) to reproduce their existing situation, which they were unable to do in earlier attempts to earn a living.... their access to other factors of well-being is extremely limited "

(Dasgupta, 1992, p288).

The 'policy implications' of such an analysis lie in empowering classes of subordinate traders, increasing choices and control over decisions. Unfortunately Dasgupta simply calls, as Ranis and Stewart do, for the state ' to correct the skewed access to resources and break the nexus between small scale activities and low levels of living' (1992, p299-300). In a study of agricultural trade nearby it was possible to more specific and to justify inclusive licensing, reforms to the eligibility criteria for directed credit schemes so as to include small scale trade and alterations to technology policy to render small scale technology legal. However, reasons for the low priority accorded to such detail of market reform need analysis too, and these were grounded , unsurprisingly, in the economic accommodation between the state and mercantile magnates (Harriss, 1993).

4.3 Flexible Specialisation and the Industrial District

Within the institutional literature, that on flexible specialisation (eds Rasmussen et al, 1992) and the industrial district has rediscovered the long-standing association between spatial and sectoral clustering on the one hand and between such clusters and trust and power embedded production and marketing networks on the other. The occupational and spatial markers of caste have historically created highly clustered development within Indian towns. Clusters have been argued to be the basis of 'collective efficiency' gains (internal and external economies of scale). Evidence has been found to suggest that such clusters are a characteristic of most recent global capitalist development, that they are resilient in recession and that they have thrived in the absence of deliberate state urban planning (Schmitz, 1992; Humphrey, 1993).

Nadvi (1992) - from which key ideas relevant to our current objective will be plundered - teases out some of the economic relations between firms expressed in geographical proximity, sectoral specialisation and social networks:

i) ease of information exchange, though information may be of two types - general information available to all within the cluster and particular information restricted to those groups within the cluster where more extensive production networking and interactive relations are to be found.

We would want to add that agglomeration economies of both general and particular information also reduce search costs for customers;

ii) subcontracting arrangements within the cluster leading to process specialisation;

iii) an evolutionary time bound process of incremental technological innovation through multiple levels of user-producer interactions;

iv) leading to collective efficiency (1992, p16).

We would add some social or public sector advantages:

v) infrastructural economies for public provisioning

and

vi) reductions in the administrative costs of regulation.

In the main these are 'virtues' of clustering. There are also 'vices':

vii) operationally small and split units masking concentrations of ownership, a diasporic form whose objective may be a cost and welfare minimising response to implemented formal sector factories law. Collective efficiency may mask collective power;

viii) the dependence of many small firms on a few powerful controlling enterprises for information, contracts and facilities or derived markets such as credit, transport, processing and storage i.e. not free not to be clustered.

That firms do not have to be linked through information, process specialisation or structures of control for them to gain from clustering is evident when we consider the economics of consumption as well as those of production. Each firm in a group benefits from custom attracted by others. The more each can attract, then the greater the pool upon which the rest can draw - a basic principle defining central business districts.

In the production processes of such clusters inside urbanising settlements, relations between owners (capitalists) or managers and labour are thought by Nadvi not to be of central importance . This is because firms are for the most part petty in size and consist of family labour, or of a mix of family and wage labour where the latter is less numerically important than the former. Hence production relations are more appropriately classified into those between:

i) large and small firms;

ii) small and small firms;

iii) producers and traders.

Variations in trust embeddedness determine the level and form of interfirm collaboration in clusters every bit as much as do material relations of supply and demand. Such inter-firm collaboration is shown by historical evidence to be capable of triggering collective efficiency and dynamic gains. Although in an opportunistic environment, trust is fragile and always open to threat, it also tends to be cumulative.

What we are calling here 'trust-embeddedness' is referred to by Nadvi as part of the 'social milieu'. The 'social milieu' is a core aspect of industrial districts in that it provides the basis for trust relations which consolidate interpersonal and collaborative interfirm production linkages within the cluster. It includes concrete and particular social institutions and social norms which aid inter-firm relations, innovation and entrepreneurship and effectively minimise transactions costs within the cluster by regulating its functioning, by mediating between potentially divisive aspects of competition and co-operation, and by enforcing sanctions upon those who contravene socially defined 'rules' of behaviour. The ultimate sanction, that of exclusion from the social and economic space of the community, can be sufficient deterrent to breaking trust relations if it results in high 'exit costs' (1992, p28-29). Common social identities, however, may not necessarily reinforce interfirm co-operation. Yet a process of social differentiation tends to undermine rather than strengthen existing social networks, since it calls into question trust relationships. Such questioning is most commonly manifested in antagonistic relations between owners and wage workers. At best a common social identity can engender dynamism in the cluster, but normally the 'social milieu' allows for more modest functions of codified knowledge and of relations between people upon and through which production relations are arranged, information exchanged, skills transferred and capital allocated.

The 'social milieu' is a broad term also reflecting the ambivalence between relations of trust and those of power.

The social milieu may also restrict the accessibility to the urbanising economy of certain socio-ethnic groups within the cluster and/or coop them up in less collaborative production relations, to networks where less particular information is exchanged, to jobs where poorer skills are transferred and occupations where capital inefficiencies obtain so as to reproduce the domination of other socio-ethnic groups within the cluster (and the town).

The fusion of the functional and exploitive roles of trust embedded institutions is clearly pointed out by Nadvi (1992, p42):

> "(w)hereas sectoral bodies are clearly important in representing the felt needs of a cluster, they also reflect existing power structures within that cluster or industry".

Thus, institutions embedded both in trust and in vested interest may coexist with intra-sectoral linkages embedded in trust and in vested interests. Conditions inevitably arise where the vested interests served by a given set of intra-sectoral linkages clash with the collective interests of the mass of small firms thereby stunting their dynamic development.

In asserting the relevance of social-embeddedness and functions of social linkages and social institutions, it is important not to lose sight of the structural nature of networks and macro-forces operating upon social actors. All forms of networks are socially-embedded but their competitive strength and reproduction will depend on their capability to take advantage of material contingencies.

Turning to policy, 'shopping lists' of credit to small enterprises, vocational training centres, marketing services, assistance with R and D, improvements to communication and transport infrastructure have the merit of being clear and non normative responses to 'distortions'. But they still stand as codas to analytical research, perhaps in this instance residualised because government policy has either avoided the urban marketing and industrial sector, or failed to affect it, or had negligible impact upon it, or because the outcomes of macro economic policy were unintended and their mechanisms (political sabotage; simple incompetence) not understood. The distinguishing feature of most existing clusters in third world towns is that they have achieved existing levels of development in the <u>absence</u> of direct state support. Private collective associational institutions have been more influential in shaping collaborative alliances, confronting and negotiating with the state and other parts of organised civil society, minimising risk, reducing transactions costs, regulating production and marketing and forming services centres providing informational and technical support, physical security. However, as both Harriss (1993) and Nadvi (1992) note, such institutions are not to be assumed efficient, with many becoming the preserve of powerful elements capable of preventing entry, colluding in market practices and sabotaging regulatory efforts of other bodies.

5 The Nature of Urban Production Processes

An understanding of the way in which, and the reasons because of which, individual urban production units develop, is a precondition for the identification of replicable patterns of rural-urbanisation.

5.1 Evolutionary Models

Liedholm (1989) has assisted in this process by attempting to build an evolutionary model of firm size and structure. As aggregate per capita income increases, the size of firms increases and their commodity mix changes. Firms engage increasingly in the manufacture of modern consumer and intermediate goods. They gravitate to larger urban localities. Static economic efficiency indicators such as total factor productivity and economic rates of return are deployed by Liedholm to show how the economic efficiency of firms increases as they get larger, operate further away from home, in larger localities and are involved in newer product lines.

Rejecting the notion of the 'representative firm', Liedholm addresses the issues of differentiation, perpetuation and life cycle of firms and their families. For India, he suggests that 70-83 per cent of new firms are micro enterprises (with 1-9 workers) the rest falling into the category of 10-49. The mortality (or riskiness) of enterprises is negatively related to their size, is greater for rurally located firms, varies with sectors and is greater during the infancy of firms. Liedholm finds evidence that growth is slowest for the smallest enterprises. The issue unresolved in the literature inspiring Liedholm's model concerns the relationships between modern small and medium enterprises and this micro sector. Are micro enterprises the seed bed for future larger and dynamic firms? Or do firms not graduate but is their stratification perpetuated?

From a set of developing countries, India is found to have the highest 'graduation rate' from micro to small and medium scale. In machine tools, printing and shoes industries over 70 per cent of the modern small and medium firms emerged from the micro seed bed while in the powerloom, iron castings and soap industries, the balance between graduating and already existing firms was approximately equal. More research is needed to define the sectoral determinants of growth patterns and to identify the characteristics of specific sectors that stimulate or stifle growth (Liedholm, 1989, p32).

Liedholm calls in entirely orthodox fashion for appropriate demand and supply side government policies so as to facilitate the expansion of dynamically efficient micro enterprises and small firms. Governments are called to do away with 'policy distortions' which subsidise large scale enterprises and penalise the small. They are also encouraged to provide a nurturing infrastructural environment.

Weaknesses in this approach include i) lack of, or outdated, data and untested hypotheses supporting Liedholm's framework, ii) an undertheorised causality behind dynamic trajectories and a paradigmatic externalisation of the central features of institutions (informational asymmetry, bounded rationality, opportunism and undertainty); iii) the treatment of micro level evidence merely as a lower order of aggregation. In fact micro-level evidence is qualitatively different data derived from significantly different research methods.

5.2 Political Economy of Uncertainty

The central problem of uncertainty facing a production unit is difficult but not impossible to research, though our trawl of literature caught examples from agriculture. Mutatis mutandis the methods and questions of this small corpus of research is transferable from agriculture to urban locations and non-farm activity.

Uncertainty takes a number of forms which have consequences for institutional responses: i) uncertainty of supplies due to seasonal variability and year to year variations in physical production conditions ; ii) variability in quality not the least due to underdeveloped specifications and product types at variance with consumer preferences; iii) high and variable levels of physical loss and wastage; iv) unreliability of suppliers (when the capacity to screen-out has to be traded off against social support from inclusive networks) v) opportunism and corruption. These affect raw materials prices and the reliability of supply (Sinha and Sinha, 1992 drawing on evidence from Indian horticulture).

These uncertainties can be reduced by three forms of industry-agriculture (or industry-industry) linkages:

i) contract farming - or put more generally - a contractual form where a large scale processing unit enters into a purchasing agreement with many small scale suppliers;

ii) captive farming - or more generally - raw materials production under the direct control of a processing enterprise to specific quantity and quality specifications;

iii) service co-operatives where small producers combine for production and marketing while further processing enterprises buy the co-operative product as their raw material (ibid.).

Thus contract production can be seen to be an efficiency response: both risk-averting and reducing the transactions costs of transfers of property rights. But it would be a mistake to assume transactions costs efficiency from the existence of such contracts. This is because contract production can equally well be understood as one of a set of mechanisms of control over labour, as a strategy of accumulation in the face of competition and sometimes as a means by which to evade the law. Cawthorne's study of the effects of contracting out on the labour process within the cotton knitwear industry in Tiruppur, Tamil Nadu, shows how interactive networks between firms (subcontracting) and interactive networks within firm (inside contracting) work unsymmetrically to the advantage of the contractors-out (1992). This 'jobworking' allows the larger firms to accumulate capital by 'vertically disintegrating' the production process. In this way the firm evades labour supervision costs common in centralised production units and minimises capital investment. Simultaneously, it retains control of the finished product and (by offloading risk onto jobworkers) retains the capacity for flexible production under conditions of variable demand. This internal splitting of firms she terms 'amoebic capitalism'.

At the very least, the Sinhas' list of contractual 'solutions' faces limitations arising from uncertainty. Contract production is associated with high supervision costs and can only be policed via quality standards. The latter contain further elements of uncertainty to both contractual parties and generate further problems of adherence. Co-operatives have high mortality rates since, without effective government intervention, they frequently lack management leadership, capital resources and trust without which those producers whose marketed surplus is scattered in space and through time are not brought together into an operational network for production and marketing. Captive farming is an internalising response to low trust and uncertainty but faces high legal and political costs associated with the transfer of land or other means of production to industrial-commercial enterprises. Economic linkages across sector, time and space will reap efficiency gains only if confidence is created, communicated and accumulated so as to overcome problems of uncertainty, informational complexity and opportunism (Rowe, 1989, p93-101).

In the event of a failure to secure trust-embedded 'solutions' within the boundaries of existing political and legal systems, then a redefinition of property relations is sought to secure access to resources, as is evinced in captive production. But such redefinitions may be achieved by means of changes other than those legitimated by the formal legal system. On this Watts notes:

> "contractual infringements.... erode company profitability and raise the vexed question of contract enforcement and grower loyalty. Legal and property rights are difficult to police and enforce in many third world settings where local autonomy is strong and juridical apparatuses lack power and sanction. It is not unusual for companies to suspend any faith in formal legal institutions and rely instead on painstakingly constructed relations of trust, patronage and traditional reciprocities - a moral economy of sorts - rather than the word of the law "
>
> (1992, pPE94).

It is then necessary to distinguish between contracts embedded in power and those in trust. Is an apparently power-embedded contract not simply one form of a trust-embedded contract whose purpose is to ensure access to resources in the face of uncertainty, or is that same contract actually a trust-embedded form of a power-embedded contract to appropriate surpluses in the face of claims from conflicting groups or classes: does a contract represent entrusted power or coerced trust? The institutional literature on share rents, interlocked contracts and labour recruitment splits on this issue between theories of risk (see for example Binswanger and Rosensweig (1984)) and those of power (see for example Bhaduri (1986)). Watts (1992) is apparently clear where he stands: " In the final analysis the capacity to evict, fine or discipline, the legitimacy of company claims and the political space of growers resistance is fundamentally shaped by the class and juridical power of the state ", citing instances of threat and struggle (collective resistance to capital and/or state on one hand and to the household labour process on another) to back his claim (op.cit. p PE94). Yet Watts also notes the importance of trust in any power struggle using contracts:

> "Agribusiness concludes contracts only after a careful selection and screening process which privileges capitalised growers and small scale agricultural businesses"
>
> (op.cit. p PE 92)

Since both power and trust are non-contractual elements in market exchange, the primacy of power or trust relations is an empirical question.

Further research is required to sort out how embedded contracts are legitimised in non-contractual forms to ensure contract-adherence. Watts writes:

> "Over the last 30 years, the numbers of commodities grown under contract , and the social forms of integration have proliferated through the entire third world"
>
> (op.cit. pPE 90)

The analytical terrain has shifted towards understanding the nature of the different social forms taken by this integration and their consequences for rural and urban development.

6 Civic Services and the Politics of Governance

Urban utilities (electricity, water, drainage, sewerage, garbage disposal) public hygiene and physical security are fundamental to the functioning of any urban economy. So also are certain 'basic needs': shelter, health, education and food. Together, these civic services and basic needs shape not only the public health environment, but also the capital and transactions costs of the business economy. Research as far apart as Nairobi (Werna , 1993) and Los Angeles (Davis, 1990) has confirmed not only the existence of extreme social and spatial differentials in urban peoples' access to civic services and basic needs, but also the differentials in the roles of public sector, market and community in supplying such services.

It is generally assumed that demand for such civic services and basic needs exceeds the capacity to meet them so that rationing is inevitable (Muraleedharan, 1993, p1296). In many third world urban settlements, rationing is also associated with highly specific and considerable needs arising from environmental pollution, the close proximity of hazardous waste to residential areas, and inadequate and ageing infrastructure (Appasamy, 1993, p203-8). Given resource constraints, three interrelated empirical questions arise which, if rephrased normatively become central issues for urban policy:

i) what services are citizens entitled to?

ii) who are entitled to these services?

iii) how are they provided?

The literature reviewed here focuses on the last of these questions and the state is central to any attempt at an answer. Civic services and basic needs may be provided by the state, 'the market' and 'the community'. The form taken by state provision , particularly its degree of decentralisation tells eloquently about the state's accumulation process. Market provision is generally a hybrid form with the state playing a significant regulatory role. Voluntary provision through NGOs, user groups or community development also is thought to have to be accountable - by regulation and inspection - to the state (Werna, 1993).

6.1 Planned Provision

The planned provision of civic services and basic urban needs faces extreme problems of uncertainty, monitoring and information.

> "We simply do not know enough to be able to allocate land efficiently. It is difficult to substitute the decisions of thousands of people as they live, work and play in a city, by the decisions of a planning authority"
>
> (Mohan, 1992).

It is unsurprising then that one characteristic of urban public provisioning is great variation. Kundu (1991) documents wide variation in the public provision of water and sanitation to the urban poor by local authorities across India. There are two features: i) local variation in - ii) lack of access to - these civic services. Kundu conflates the two in attributing poor provision to poor residents somewhat reductively to class bias.

Like information, the finance of services is another significant problem for local authorities. Bagchi (1992) shows that in the Calcutta Metropolitan Development Area, the budget constraint arising from free riding curtailed the type and extent of services that could be provided. Local urban governments have then to obtain state and central government funds. Yet such budgets are in turn constrained not only by the structure of taxation, not only by considerations of municipal political loyalty and patronage but also increasingly by conditions on expenditure prescribed by Bretton Woods institutions. Kothari and Kothari (1993) write:

> "The IMF-World Bank (insistence) on increasing government efficiency by cutting spending is of particular concern... (since) countries under SAP conditionalities invariably end up chopping allocations for those social or 'soft' sectors which cannot show immediate tangible returns " (p465).

The danger is then that the weakest and neediest sections of urban society are deprived of services (see Banerji, 1993 for evidence pertaining to health) while the most powerful sections of society are provided with (or capture) appropriate civic services in the most effective institutional form.

6.2 Market Provision

The issues found in the literature on housing are of general relevance to market provision. With respect to the market based finance of the private construction of shelter, Mehta and Mehta note that existing institutions (banks, housing finance and public housing agencies) depend on collateral and are therefore biased against the urban poor (1991, p1108). Collateral is required to tide institutional lenders over an uncertain period during which private housing developers require money to obtain urban land and clearance and while lenders require clear title and permissions. Institutional partnerships between (public) financiers and (private) builders are said not yet to have been tried (op. cit., p1113). Further lenders' risks arise with working capital. When builders are contracted to housing co-operatives or a non-trading corporation such as a house owners' association, the ownership of land or property is not easily established. Thus

> "working capital is available only to established builders who generally operate in the up-market segment"
>
> (Mehta and Mehta, 1991, p1113)

And private developers catering for down-market and non trading institutions are unable to accumulate the creditworthiness to obtain loans.

Here we can see how vested interests, power relations and lack of trust or reputation combine to constrain and compartmentalise the development of urban low cost housing and to appropriate urban space for the non poor. The question arises whether that 'lack of trust' is derived from knowledge of risk or experience of uncertainty and in some sense 'real' or whether it is an excuse to prop up repeated financial transactions by a set of vested interests? These are two kinds of trust with widely different implications for public action. Unjustified trust is legitimised but not legitimate, and deployed so as to ensure that vested interests have access to resources and networks. It is exclusive. Real trust is justified. If trust (or its lack as in this case) is functional, then governments have a role in providing services or providing 'the market' with safety net regulations. If trust (or its lack) is an excuse, then governments might coerce institutions to alter their repeated and interested behaviour.

Either way, those who benefit privately from market provision may be expected to espouse forms of politics seeking the private appropriation of benefits of infrastructure, to avoid the negative externalities of market based provision and to minimise contributions to local public sector resource bases (Davis, 1990).

6.3 Community and Household Provision

Both Kothari and Kothari (1993) and Appasamy (1993) argue that the management of resources ought to be organised on a decentralised level because this will ensure greater distributional equity:

> "the true alternative to the economic crisis lies in getting away from both an over centralised system , which has been the case since (Indian) Independence, and an excessively privatised one, which is looming on the horizon. Community management of resources needs to be revived, with a clear set of rights and obligations for local communities, governmental agencies and voluntary organisations"
>
> (Kothari and Kothari, 1993, p476).

However, these polemicists neglect four important issues : i) the indeterminacy for equity of decentralised revenue raising and the relationship between institutions of revenue and expenditure; ii) the class specificity of community managed space and the tendency towards 'group privatisation' under conditions of state failure. Physical security for example is frequently accompanied by a politics of 'radical conservatism' (radical because organised at the grass roots and rejecting conventional political expression but conservative because confined to reactionary ('NIMBY'[3]) values or easily 'winnable' issues); iii) lack of an explanation for the superior equity outcomes of community management contrasted with alternative forms, particularly under conditions of great inequality; iv) the creation of institutional authority.

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3 NIMBY: 'not in my back yard'.

Kumar and Mukherjee (1993) see the last two emerging from a more powerful engagement of voluntary organisations in the participative monitoring of both public sector and market provisioning.

6.4 Institutional Combinations

It is clear that the public sector is not essential for all civic services throughout urban society (e.g. in Nairobi while it is important for sewerage and water even for economic elites, it is less so for health and garbage (Werna, 1993)). Public provision is least controversial for clear public goods where provision has to be on a large scale and where both positive and negative externalities are high and visible (Batley, 1992). In practice in third world urban conditions, composite combinations of institutional provision are very common. The extent to which composite provision is coordinated seems an entirely separate issue. In Nairobi, health services are most pluralist (involving a variety of public sector institutions, private, voluntary and 'traditional' non modern health care not always supplied on the basis of market exchange). This complementary system is poorly co-ordinated however, such that composite systems of service provision can co-exist with underutilisation of capacity. With respect to drinking water and sewerage there is institutional substitution but the different types of provision are better co-ordinated. Baru (1993) for India reveals the wide spatial variation of health provision furnished by combinations of the public, private and voluntary sectors. His evidence suggested that there is a positive association between economic development, market provision, public provision and voluntary provision; that the three modes of provision are synergistic complements not substitutes. If this is generally the case, then interregional differences in the quantity and quality of provision of civic services can be predicted to increase (Baru, op.cit., p966-67).

It has been suggested in the context of structural adjustment i) that both intraservice co-ordination of service provision between state and market and interservice co-ordination within state and market can be improved, (though the mechanisms by which increased co-ordination might take place are unexplored) and ii) that the state can play a facilitating role to the private system of provision in conditions where the state has been forced out or has been unable to contain private provision which in turn allows limited access (though the mechanism by which a weak interventionist state can turn into a strong regulating state is not specified)(Werna, 1993).

6.5 *Public Action*

While revenue constraints have pitched many third world local municipalities into the arms of central government grants and subventions to maintain minimal services, the Municipality of Barrackpore in Calcutta has succeeded in doubling its revenues over an 11 year period due to property tax changes which raised charges to residents without sacrificing a popular political mandate. Bagchi comments: 'It would be simplistic to explain the behaviour of Barrackpore residents in terms of rational 'public choice' given the universal 'free rider' instinct of tax payers and the deep distrust of politicians so prevalent in this part of the world. Apparently what counts.... is the ability of those in charge of the civic body to overcome that distrust and to persuade their constituencies to take their word that they meant business and that they could be counted upon to deliver what they had promised... This was no mean task..' (1992, p 1779). One of the mechanisms by means of which trust was won was through residents' noting immediate tangible changes in their urban environment as 'effective control of the utilities staff' by local elected councillors ensured better public hygiene and garbage removal. Another mechanism was the use of example. Residents saw councillors taking a lead by raising the rateable values of their own properties and by paying promptly.

Yet more fundamental policy questions are raised by this account: the means whereby the overseers are supervised; the conditions and the process i) by which a civic body builds relations of confidence with taxpayer-residents so that free riding does not constrain the nature and extent of civic service provision; ii) by which a public ethic of equity can be developed so as to guarantee rights and claims; iii) by which market based provision of civic services and basic needs to the urban poor may be developed through long term finance under common conditions of unclear property rights and iv) the means by which decentralised communitarian institutions have the authority to ensure equitable outcomes. In fact, as Kumar and Mukherjee argue, the distinctions between institutional means of provisioning may have diverted analytical and political attention from much more important and 'prior' problems of the public ethical foundation on which both institutional innovation and institutional incentives depend. Thus Kumar and Mukherjee (1993) on public health provision (1993, p774):

> "In the field of public health services there is a lack of incentive for efficient provisioning of public health services. Improvements in management and administration .. are essential .. (but so also are

the) ethics of management.. There is a need for a new consciousness among public service managers ... not only to encourage improved public provisioning but also to monitor performance and ensure accountability".

But, as they do **not** argue, this 'needed' secular public ethic has to emerge from an ethical nutrient base where the physical work ensuring 'public health', at least in India, is for the most part the polluting occupational preserve of those religiously outcast, and out-caste.

There is a world of difference between on the one hand taking systemic trust as an exogenous given, within which public bodies, firms and individuals operate and on the other viewing trust as endogenous and manipulable. Kumar and Mukherjee clearly adhere to the second view. But the relationship between this 'active' and changeable trust and resistance to, or facilitation of, capital accumulation is practically unresearched in the context of rural-urbanisation in developing economies.

7 Conclusions for Local Level Research

Certain conclusions soar from this review. They call for empirical research at the micro-level. Formal models have been shown to be highly sensitive to initial conditions. Their testing is constrained not only by the abstract and often arbitrary nature of the conditions supplying the relations to be modelled but also by the serious unavailability of appropriate data. If the implications of the uniqueness of time, space, society and uncertainty are to be taken into account then it is research on social institutions which is required. Taking our six themes in turn:

i) Urban Bias:

- the degree to which urban settlements distinguish themselves not only as epicentres of accumulation but also as entities for politics;
- the roles in urban development of other forms of politics (e.g. those based on caste/ethnicity/ religion, on class, on occupation, (and from theme four) on neighbourhood and cluster) and their implications for economic activity;
- rural and urban technical change and economic diversification under conditions of social differentiation (notably of caste, class and gender)

and the social distribution of gains (polarised in the literature here as accumulation vs survival);

- small town labour: the emergence of labour markets from family or petty production; the politics of labour.

ii) Rural Non-Farm Economy:

- (technical change, as with 'urban bias', plus) the development of social institutions permitting non-local commodity exchange: the long distance links of the non-farm economy and the mediating role played by local urban commercial institutions.

iii) Rural-Urban Linkages:

- the institutional manifestations of rural-urban commercial links in flows of labour, money and commodities;
- the balance between the polarised processes of generative and parasitic urbanism.

iv) Intra-Urban Economic Relations:

- the evolution of sequences of production, trading and intermediary activity comprising production and consumption linkages of components of the urban economic base;
- the social embeddedness of economic markets: institutional preconditions for market exchange particularly those of trust (naive vs calculating; personal vs systemic), of power (choice constraining, resource extracting, resource controlling); the relative efficiency of these institutions;
- the extent of unembeddedness of the local state
- the role of extra-legal, non-state regulatory norms and enforcement mechanisms under conditions where formal law does not serve its formal purpose;
- types of spatial association within urban settlements (neighbourhoods and clusters)
- inter-firm/ inter-household links within clusters or neighbourhoods
- social norms and the internal organisation of firms.

v) Urban Production:

- the stability and mobility of firms - life cycle and differentiation;
- contractual choices as mechanisms of accumulation, as responses to uncertainty;
- extra-contractual obligations and their evolution.

vi) Civic services and the Politics of Urban Governance:

- the definition and scope of civic services and 'basic needs'
- the social distribution of entitlement of households and firms
- finance and taxation for public provisioning
- the finance of private provision
- pluralistic provision and social exclusion.

With regard to a policy discourse overwhelmed by calls to remove distortions to market exchange assumed to be state-induced, we have suggested with justification here that the most crucial need for research concerns the mechanisms engendering confidence in the relationships between state and civil society which must exist prior to exercises of technical choice and prior to the prioritisation of policy options and/or interventionist alternatives.

Once the basis and extent of such confidence (or its lack) and the relative power of the major interests involved are understood, then 'policy' may be reconceptualised as the institutional modifications required to achieve stated developmental goals.

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