

Coasean Development Economics

James Roumasset
University of Hawaii

Fads and Fancies in Development Rhetoric

1950s : Planning; Big Push
1960s and '70s: Pigouvian interventionism
 "Growth with Equity"
Reagan-Bush '80s: Washington Consensus
 "Privitize and get the prices right"
Clinton '90s: Stiglitzian interventionism
 [East-Asian Miracle (1993): "Market-friendly" interventionism]
 vs.
 Government as Facilitator [*Economics of Cooperation* (1992):
 "Pro-market interventionism"]

New Millennium: CDD and Big Plan *ala* Sachs + health projects *ala* Sachs and Gates

Progress in Development Economics?

- **Easterly: 2.3 Trillion in development assistance. What gains? (Africa wallowing)**
- **Band-aid Economics**
- **Lessons?**

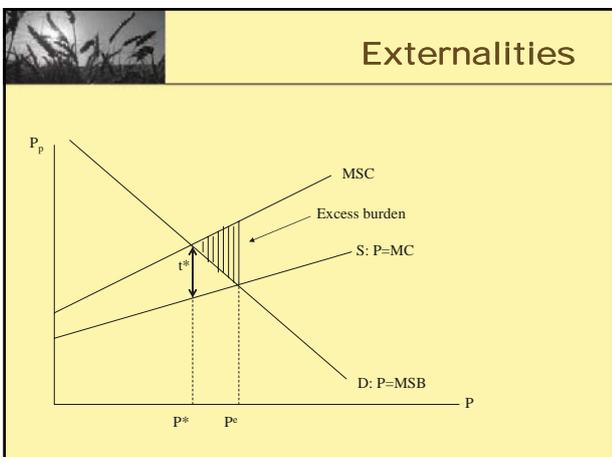
Agricultural Development Strategies

1950s and 60s Moshers Essentials and Mellor-Johnston linkages
'70s
 Pigou (market failures) + Post-Schultz (selective behavioral failures)

1980's
 1. Protectionism unwise (Krueger) and unnecessary (low prices by mid '80's)
 2. "Agriculture is different" (Ag Econ)

Clinton 90's through 9/11
 Stiglitz Rethink plus World Bank Populism

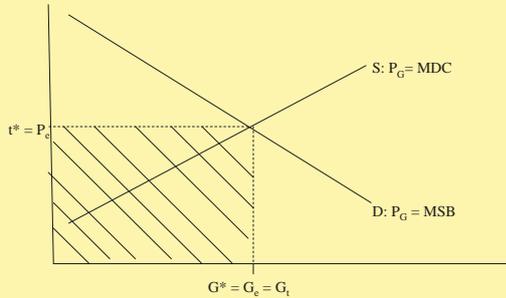
Current challenge
 Rural Development for Security and Poverty Alleviation



Blackboard Economics

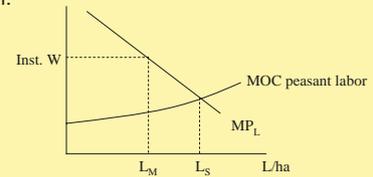
- Should not be taken as a general condemnation of rigor, but rather of equilibrium concepts that embody misplaced exogeneity and abstract from real-world institutions that internalize spillovers and mitigate information problems

Coasean equivalency: correct with taxes, price, or contracts



Anatomy of interventionism

1. Stylized fact: inverse relationship between Y/ha and farm size.
2. Explanation:

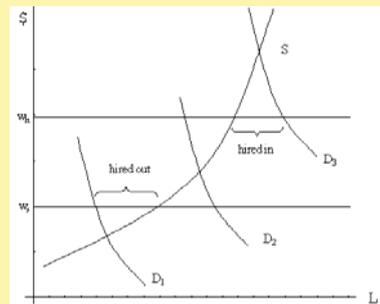


3. Blackboard economics: misplaced exogeneity; failure to look for fundamental explanation

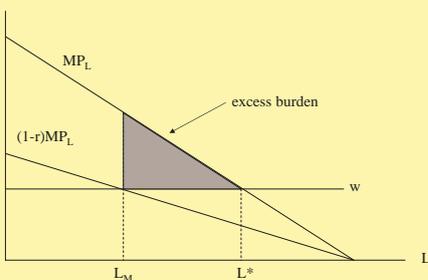
Fundamental explanations

- Landlords divide good land into smaller parcels
- Transaction cost wedge

Transaction cost wedge



Marshallian share tenancy (blackboard econ) vs. Cheung



See also Johansson and Roumasset (2002)

Application of Cheung's Theory

- Good quality land: landlord share = 1/2
- Medium quality land: landlord share = 1/3
- Marginal land: landlord share = 0 (owner-operated)
- Coconuts: 2/3
- Abaca: 1/3

Share tenancy inefficient (summary)

Pigouvian interventionism: Marshallian diagram (blackboard economics)
-rendered defunct by Cheung (1969)

New interventionism: Stiglitz (1974, 1993, 2002)
Sharecropping compromises labor shirking and risk bearing "tantamount to a 50% income tax"

Critique (DeWeaver):

Assumptions: share tenancy is partnership, not labor contract

Not shown that increased RA => increased tenant's share

Philippine simulation:

Cannot account for share < .80

High RA causes increase in tenant's share

Share tenancy II (Stiglitz)

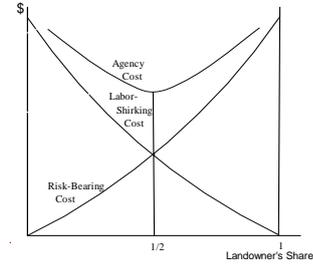
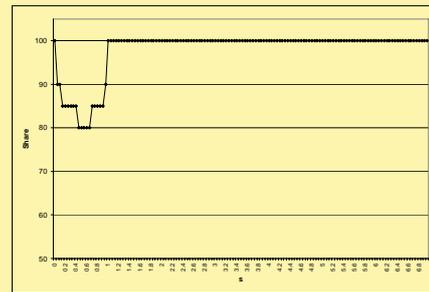


Figure 7.3: The Emergence of Pure Share Tenancy as the Result of Symmetrical Labor-Shirking and Risk-Bearing Costs

Logical fallacy

- Higher tenant risk aversion implies lower tenant share
- Risk averse tenants invest more labor in risk management, e.g. pest control

Empirical fallacy



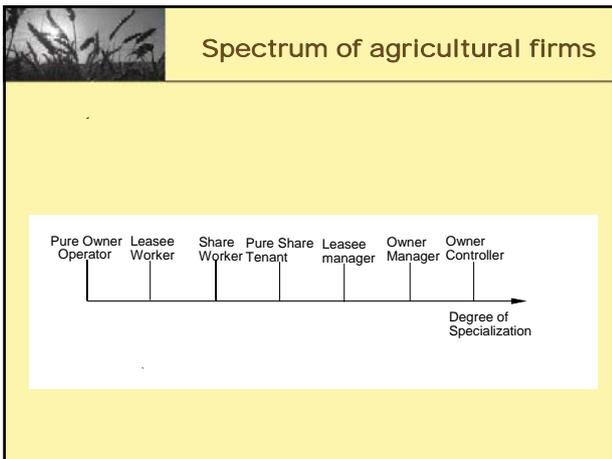
DeWeaver and Roumasset (2002)

Misplaced Exogeneity

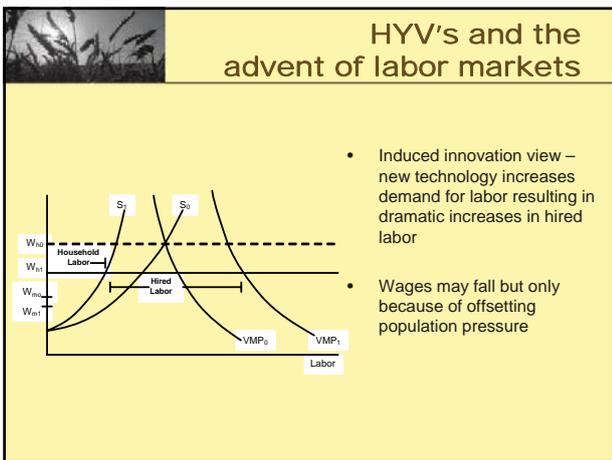
- Structure-Conduct-Performance paradigm: defunct in Industrial Organization; alive and well in Development Economics.
- Coasean remedy: characterize actual nature and seek fundamental causes of organizational forms. Matching of parcels to agents; intensity of cultivation; choice of agricultural firm; agricultural contracts

Starting over: Nature of share tenancy

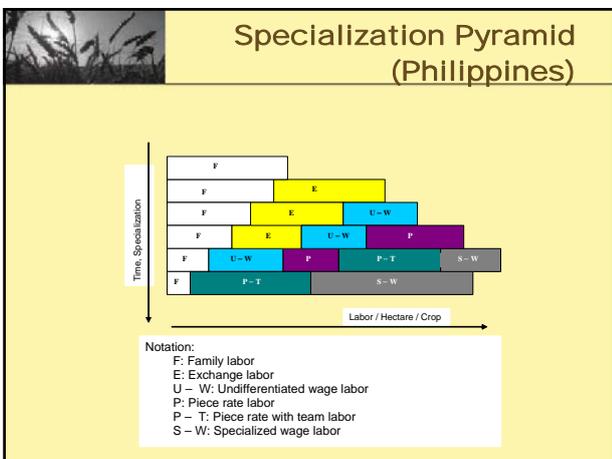
- Long-term partnership; not a labor contract. (Reid, 1976; Murrel, 1983; Eswaran-Kotwal, 1986; Roumasset, 1995)
- Supportive vs. non-supportive
- Tenant's defining role is farm operator.
- Management enhanced through learning-by-doing.
- Share tenants specialize in management-intensive tasks (fertilizer application) and labor supervision
- Hired labor specializes in arduous and routine tasks such as weeding and harvesting
- Tenant's compensation includes concessionary loans, assistance with modern sector transactions, emergencies (Roumasset, 1976; Sadoulet et. al., 1997).



- ### Modernization triad: population, industrialization, technological change
- Stylized fact: wages fell and unemployment increased after HYV's introduced in South and SE Asia
 - Explanation: MV's => help large and credit abundant farms
 - Hurt small credit poor farmers
 - Polarization of peasantry
 - Commercialization further augments problem resulting in "sheep-eating men" (Marx/Engels)



- ### World Bank's land policy: "market-friendly" intervention
- Deininger/Otsuka:
 - Large commercial farms at a "transaction cost disadvantage"
 - Coasean response:
 - Farm size and hired labor are endogenous. Hired labor partly chosen for the specialization that it facilitates. Learning by doing => productivity ↑ .
 - Moreover, commercial farms have transaction cost advantage in credit market



- ### Marketing Institutions
- **Stereotype: exploitative and inefficient, e.g. "Chinese middlemen"**
 - – the exploitation stereotype "has not held up under empirical tests"
 [Hayami and Kawagoe (1993)]
 [further confirmation of Bauer (1964), Lele (1971), Jones (1972), Mears (1981), Unnevehr (1984), Timmer (1987)]
 - **Rather inefficiency is induced by price regulations and government parastatals, which suppress entry, entrepreneurship, and the natural evolution of efficient institutions.**
 - Marketing revolution: Dramatic improvements in communication and falling unit transportation costs have lead to direct coordination between producers and big-box retailers/supermarkets (Reardon et. at., 2003).
 - Partially displaces traditional marketing layers and inventories and advantages large, commercial farms. High failure rate for marketing coops and group farming experiments (Roumasset, 2003).



Rural credit

- Ohio School: directed credit = ceilings + subsidies => small farmers worse off
- Hoff-Stiglitz, Dasgupta-Ray, Bose: subsidize formal sector, informal sector expands to higher risks: welfare down
- Blackboard economics, e.g. one rate (credit is not wheat)



Policy Failures

- **Prescribing policy reforms based on the premise that politicians, bureaucrats, and academics can socially-engineer institutions superior to those shaped, tested, and improved in the crucible of evolution is a recipe for government failure.**
- Outlawing of share tenancy: removes efficient institutional niche (inferior substitute, e.g. permanent workers)
- Directed credit subsidies and band-aid programs stifle market-deepening and co-evolution of formal/informal sectors and selection/monitoring mechanisms
- Grain STE's: monopolize trade, bad storage and transportation investments drive out good



Perspectives on the East Asian Miracle

- Government picks winners, replaces markets (MSI)
- Government gets out of the way (PGTPR)
- Government gives "prizes" (MSII)
- Government facilitates cooperation: solve investment coordination problem with cooperation (e.g., deliberative councils)



What does government do well?

- Infrastructure
- Research and development
 - Returns to public investment in agricultural research 20-50%
- Facilitate specialization



Replace misplaced exogeneity with fundamental explanations

- Structure=>Conduct=>Performance paradigm: defunct in Industrial Organization; alive and well in Development Economics
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Stop, Push, Facilitate

- **Stop:** subsidizing "winners" and top-down control of prices, institutions (fragments economy)
- **Push:** Pro-poor growth, e.g., with agricultural R&D and infrastructure
- **Facilitate:** economic cooperation
 - Market deepening
 - Incentives in public investments
 - Growth elasticity of poverty reduction of 3 to 4 possible