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WORKING PAPER NO. 578

PEASANT HOUSEHOLD BEHAVIOR WITH MISSING MARKETS:
SOME PARADOXES EXPLAINED

by

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PEASANT HOUSEHOLD BEHAVIOR WITH MISSING MARKETS:
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PEASANT HOUSEHOLD BEHAVIOR WITH MISSING MARKETS:
SOME PARADOXES EXPLAINED

[A model of peasant household behavior, under varying degrees of household-specific food and labor market failures, is constructed to show that these structural features can explain several well known patterns of peasant response which have often been attributed to peculiar motives, presumed specific to peasants. The model explains sluggish response to cash crops prices and high instability in perceived food and labor scarcities; the key role of manufactured consumer goods prices in stimulating peasants' effort in cash crops production; the effectiveness of taxation as opposed to incentives in stimulating cash crops production; and the key role of technological change in food production to enhance cash crop production. Results are obtained analytically in the case of one market failure and by numerical simulation with more than one.]

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PEASANT HOUSEHOLD BEHAVIOR WITH MISSING MARKETS:

SOME PARADOXES EXPLAINED

I. PEASANT BEHAVIOR OBSERVED: INTERNAL INSTABILITY, EXTERNAL SLUGGISHNESS

Two recurrent complaints are commonly heard in societies with large peasantries, one among peasant households and the other among governments when the economy depends on peasants for foreign exchange earnings and for the supply of food or labor. The first is that peasants invariably complain that every year is a bad year to them: it is characterized either by labor bottlenecks if the weather is good or by food scarcity if it is bad. Product and factor price changes, imposition of a monetary tax, and uneven technological progress between cash and food crops also destabilize their perceived scarcities of labor and food and make them scramble to compensate internally by adjusting their workload and food consumption levels.

✓ The second is that governments complain that peasants are not responsive to price incentives and to opportunities to adopt new technologies for cash crop production. The result is frustrated policies of incentives and modernization that lead governments to try, instead, coercive measures of tax and labor draft. These two leitmotifs together motivate this paper: Why, if peasants are always pressed by labor or food shortages, and consequently lead a life of great instability in work and consumption, do they appear to governments as sluggish and unresponsive to incentives and modernization opportunities?

In the literature on peasants, explanations of peasant behavior have often been sought in the specificity of their motives, postulating that peasants are not utility maximizers, by difference with other households, but are motivated instead by the satisfaction of needs or by the desire to insure "simple reproduction" (Vergopoulos, 1978). The "substantivist" school in economic anthropology (Polanyi, 1944; Dalton, 1961) thus rejected the use of formal economic analysis based on optimization behavior. Even when markets exist, such as in Malinowsky's celebrated analysis of the Kula exchange among Trobriand islanders in New Guinea, this was seen as a ritual process, not an economic activity (Malinowski, 1921). The

"formalist" response (Firth, 1946; Forman, 1975; Tax, 1953) rejected the "obsolete 'anti-market' mentality" (Cook, 1966) of the substantivists and proceeded to apply formal economic calculus to the analysis of peasant behavior under the postulate of existent markets. Cancian, for instance, described the pure formalist position as one saying "that most societies by now participate in active 'market' economies, and that therefore any significance the substantivist position may have for the study of 'non-market' economies is of little importance as a guide to present field research" (Cancian, 1966).

Like the formalists, we reject the motivationist interpretation of peasants that flies in the face of even casual observation of the extraordinary ingenuity and assiduity they exercise in struggling, both individually and collectively, to find ways of improving their lots. While using formal economic analysis to conceptualize peasant behavior in terms of utility maximization, we do not however follow the pure formalist approach of postulating the existence of markets for all the choice variables in the hands of the peasant household, labor and food most particularly. We consequently offer, as an alternative, a structuralist explanation according to which selective market failures for labor and/or food severely constrain peasants' abilities to respond to price incentives and other external shocks and force them to shift the burden of adjustment on the nontraded product (food) and factor (labor) which the household controls. In certain situations, the necessary internal adjustments can result in not only minimal external response but eventually apparent perverse behavior.

We proceed to first provide a general interpretation of the meaning of market failure as a feature that is household and not commodity specific. We then develop a model of peasant household behavior under various conditions of market failure for labor and food. Analytical solutions are derived for the simpler cases of a single market failure and empirical simulations are performed for the more complex cases where several markets fail. Simulations allow to predict the household's response to changes in the price and productivity of cash crops, changes in the price of manufactured consumption goods, the levying of a monetary head tax,