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'Real Markets' in Rural Bangladesh: Institutions, Market Interactions and the Reproduction of Inequality

Abstract

In contrast to the 'ideal-type' markets used in economic literature, 'real markets' are very diverse and complicated, having widely different formal and informal institutions, and economic context, particularly in developing countries like Bangladesh. This paper analyses real markets in Bangladesh and argues that, in an underdeveloped and unequal society, market interactions reproduce and deepen the already existing inequalities through the interactions of various formal and informal institutions. Using the example of paddy-markets in rural Bangladesh, this paper explains how the existence of vertical integration, 'patron-client' types of relationship between market players and the interlocking of different markets, results in greater benefits for those relatively powerful and rich among the market players, through the use of greater bargaining advantage. Also identifying a few institutional gaps, this paper emphasizes a number of policy measures that can contribute towards correcting the real markets in favour of the poor.

Introduction

Markets have been subject to considerable research, not only in neo-classical economics, but in other disciplines in the arena of broader social sciences as well. Particularly in recent times – as development policies in most of the third world countries evolved around market-oriented reforms, mainly imposed by the international financial institutions to 'get prices right' – markets have become subject to even more research and debates by scholars of various disciplines. As De Alcantara (1992) notes, the process of reform has given rise to increasing concerns with regard to the political economy of 'real markets', frequently referred to by a growing number of scholars. Although the reforms have led to a certain degree of economic stabilization, defined in a rather narrow sense, this has almost always had regressive effects on income distribution and general welfare (Ghai, 1991 and Taylor, 1988 as cited in De Alacantara, 1992).

Recent literature on markets can be categorized in terms of three broad trends: 'one is large and imposing, a second is smaller but rapidly gaining influence, and a third barely gains foothold in leading academic publications' (Crow, 2004:15). The first trend, the neo-classical economics view that considers market as homogenous entities and a natural phenomenon separated from the society, tries to analyse the economic interactions of human

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being in terms of demand and supply. The second trend is that of new institutional economics, which challenges the idea of homogeneity of markets and recognises some diversity in the markets. This approach focuses on the costs and risks of transactions and on the distribution of information among those who interact in the market (Bardhan, 1989; Nabli and Nugent, 1989) and it has also been enriched by the work of economic sociologists and anthropologists, alongside that of economists. The third trend, that of heterodox institutional economics, views market as a result of complex interactions between various institutions e.g. individuals, firms, states, social norms; according to the scholars of this trend (De Alcantara, 1992; Harriss-White, 1996; Ledplaideur, 1990; Bharadwaj, 1985). Actually existing markets or 'real markets' are diverse in nature and the nature and scope of transactions in these markets have to be viewed in the wider social and political context. The proponents of this third trend emphasise the impact of informal but deeply embedded socio-political relationships and the distribution of political power in their work on actually existing markets.

The third academic trend in the study of markets discussed above is the theoretical inspiration of this paper on real markets in Bangladesh. Bangladesh, like most other developing countries, has been pursuing market-orientated policy reforms, or rather the policy package of the 'Washington Consensus' since the early 1990s. The economy has been opened up rather quickly at the very early stages of these reforms, and although a good rate of economic growth has been maintained since then, the distributive effects of that growth have apparently been regressive, as reflected in sharply rising inequality over the same period. In this context of growing inequality within freely operating markets, the analysis of 'real markets', which are considered as complex of various formal and informal institutions, is very important.

The focus of this paper is the role of actually existing markets in the context of rural Bangladesh. These are characterized by high a degree of inequality, and the main hypothesis of the paper is that in an unequal society, exchanges or interactions in the market reproduce and deepen the already existing inequality. In other words, when two parties engage in the exchange of any commodity in the market, the market outcome is not equitably distributed between the exchanging parties, and the relatively powerful party benefits more than the weaker one. While arguing in favour of the hypothesis, this paper will highlight the interactions of different kinds of market and, more importantly, of different kinds of institution, that is the interactions between de facto informal and de jure (formal) institutions, somewhat similar to what Acemoglu et al (2004) refer to as de jure political power (derived from political institutions) and de facto political power (derived from distribution of resources). The paper thus tries to argue how the interactions between de jure and de facto institutional arrangements result in the persistence and reproduction of inequality, again similar to Acemoglu and Robinson's (2006: 326) explanation of the persistence of the 'Southern Equilibrium' in the context of the United States in the early twentieth century.

The analysis in the following sections of the paper draws heavily on the ESRC Research Group on Wellbeing in Developing Countries (WeD) study, jointly conducted by the University of Bath and the Bangladesh Institute of Development Studies, using the quantitative and qualitative data, and the observations of the researcher during data collection. To keep the discussion focused, the analysis concentrates primarily on paddy-markets[1] in Bangladesh. However, as markets are interlinked, discussion on other markets (e.g. rice markets, inputs markets, credit markets) will also appear.

Abstract Markets and Real Markets

The notion of the market is at the centre of economic literature and is so strong that since the time of Adam Smith,[2] the basic nature of the (economic) market has hardly changed. According to that notion, the traditional market is seen 'as a flexible atomistic realm of impersonal exchange and dispersed competition, characterized by voluntary transactions on an equal basis between autonomous, usually private, entities with material motivations' (White, 1993a: 1).Although there are differences in the definition of markets provided by several economists, the above definition appears to have reflected precisely and successfully the dominant trend of discussion of market in economics. Thus in economics the market is the supreme medium for the expression of individual choice (Hodgson, 1988). In most cases, the market in economic literature is perfectly competitive, though models of monopoly, oligopoly and other forms of distortion have also been discussed comprehensively in the literature.

The notion of the market in economics is an abstract one, where exchange of commodities is in fact a simple process, rather than that which exists in reality. White (1993a:1) notes that: 'this 'ideal-type' market has been elevated to the level of an ideological principle and an ethical ideal, providing a policy panacea which promises efficiency, prosperity and freedom'. Crow (2004:11) argues that 'this appearance of simplicity may be reinforced by our ignorance of market histories and a powerful ideological trend in capitalism which suggests that markets are natural phenomena', but the image of simplicity thus associated with

1. Paddy is the main food crop produced in Bangladesh. After the harvest, paddy is usually sold by the farmers and then it is husked to produce rice which is the staple food of the people of Bangladesh. Often 'paddy' and 'rice' are used to mean the same product, but for the purpose of this paper, the two are distinguished. 'Paddy' will refer to the grain that the farmers get immediately after the harvest and 'rice' will refer to the product which is derived after husking the paddy and is ready for consumption.
2. Adam Smith (1723–90), author of *The Wealth of Nations* (1776), regarded as the fountainhead of current economic thought by virtue of his explanation of how rational self-interest in a free-market economy leads to economic well-being. (See the *Concise Encyclopedia of Economics* – http://www.econlib.org/Library.Enc/Bios/Smith.html).

the notion of the market often fails to capture the realities of existing markets, because markets or market-exchange is, in reality, neither a simple nor natural process. Real markets are very diverse and a complicated socio-economic phenomena, which is why it is difficult to define them (Harriss-White, 1996).

Different academics have defined real markets in different ways. For the purpose of this paper two definitions are used to relate to the context of, and to analyse the characteristics of, real markets in Bangladesh. Harriss-White (1996: 21) has analysed real markets using the definition of Fourie (1991: 43, 48) which describes a real market as 'an economically qualified, purposeful interchange of commodities on the basis of quid pro quo obligations at a mutually agreed upon exchange rate... in a cluster of exchange and rivalry relations.' In analysing this definition, two dimensions of the relationships between buyers and sellers have been discussed. On one hand there is a 'horizontal' and adversarial competition among multiple buyers and sellers and on the other there may be bilateral transactions between a buyer and a seller which are 'vertical', exclusive and mutualistic. This view of interlocking between horizontal competition and vertical transactions is somewhat similar to Acemoglu's analysis of de jure and de facto political institutions, where the former can be seen as analogous to formal institutions and the latter to informal institutions (Acemoglu et al, 2004; Acemoglu and Robinson, 2006). The formal horizontal interactions are often influenced heavily by the informal vertical relationships.

Crow (2004) on the other hand has used the definition provided by Mackintosh (1990: 43–53) in analysing real markets. 'Real markets... have widely varying institutions and economic contexts, they operate on limited information, they involve and help to create a variety of social classes, power relations, and complex patterns of needs and responses.' Thus in reality markets are diverse and the transactions in the markets have to be viewed in the context of wider socio-economic processes.

The above definition of Mackintosh (1990) highlights power relations as an important issue in analysing real markets. In fact, although power has often been rather ignored in traditional economic literature (White 1993b), different scholars and researchers have, at different times, discussed the influence of power or political processes in markets. For example, according to Weber (1978), 'money prices are the product of conflicts of interest and of compromises; they just result from power constellations'. Besides, in the context of agrarian rural social systems, many other scholars have related markets with power and politics (e.g. Bharadwaj, 1985; Bhaduri, 1983; Evans, 1993; Harriss-White, 1993; Cawson, 1993; Elmekki and Barker, 1993; Janakarajan, 1993; Olsen, 1993). Elmekki and Barker (1993) used the case of Sudan's agricultural system to show that each of the essential agricultural markets (such as land, labour, inputs, crop and consumables) has a strong political dimension.

In light of the above discussions and analyses, the market for staple crops – in this case, paddy-markets in rural Bangladesh – are characterized by the following features.

- Paddy markets (and the nature of exchange in them) are wide and diverse; there are diversities in the forms of various relationships among market players, types of produce, different systems of production and marketing, seasonality and regional variations.
- The market players are not only buyers and sellers, rather they have various social and political (power) relations among them that influence the process and outcomes of market interactions.
- The paddy markets are linked very closely a number of other markets such as rice markets, labour markets, input markets and credit markets.
- The socio-economic status of the market players is unequal and discriminatory.

Markets and inequality: Experiences from rural Bangladesh

It is evident from the above discussion that there are inequalities among those who participate in market exchange in terms of the differences in their wealth, socio-economic status and political power and influence. As stated earlier, the main focus of this paper is the process of reproduction of that inequality through market interactions in such unequal societies. Specifically, this paper will concentrate on the paddy-markets currently operating in two villages in Dinajpur, a northern district in Bangladesh, which is one of the major paddy-producing districts in the country. Before examining how the unequal socio-economic status of the villagers is reproduced through market interactions among them, it is important to introduce the two villages.

The two villages are Telkupigaon (almost 15 kilometres away from the district town) and Shantipur (about 4 kilometres away).[3] Although both the villages are agricultural, the lives and livelihood of the people of Telkupigaon depend relatively heavily on agricultural activities – the majority (53%) of the 507 households in the village depends directly on agriculture, with half of these households living on agricultural wage labour. The other half consists of the farmers, including those who cultivate their own land, and the sharecroppers.[4] The influence of these farmers rests largely on how much paddy they produce, which is in turn determined by the amount of land owned by them. The distribution of land in the village also reflects sharp inequalities: about two thirds (64%) of the households do not have any cultivable land and of the remaining 36%, only a little over 3% (17 out of 507 households) have more than five acres of cultivable land each. About 11% of the households have cultivable land between

3. According to the ethical statement of WeD research, fictitous names of the villages are used.
4. Source: the census of households conducted as part of the WeD research in 2004.

one and five acres and 22% of the households have less than one acre of cultivable land. There are two paddy harvests in the village: during the wet season, various high yielding varieties of paddy are cultivated alongside the traditional local variety called aman; and during dry season it is only the high yielding varieties which are cultivated all over the village.

Relatively speaking, there are fewer people directly engaged in agriculture in Shantipur, since the village is located near the district town. However, a significant number of people are engaged in the business of agricultural produce: more than one third (36%) of the 750 households in Shantipur are directly engaged in agricultural activities and half of these households earn their livelihoods through day labour while the remaining half consists of the farmers or producers of agricultural produce. The extent of landlessness is also very high, with more than 60% of the households not having any cultivable land. Although the distribution of land is unequal in this village, the inequality is relatively less than that in Telkupigaon. Only one household has more than five acres of land and, of the remaining 92 households, 12% have cultivable land between one and five acres, with 198 households (26%) having less than one acre each. Although two major harvesting seasons are followed in this village as well, immediately after the cultivation of the high yielding variety (IRRI) in the dry season, there is another minor harvest known as 'late IRRI'. Apart from paddy, potato is also another important crop in this village.

The socio-economic inequality in the two villages, as evident above, is reproduced through the market interactions among the villagers who have unequal socio-economic backgrounds. Some of the processes that facilitate the reproduction of inequality are as follows.

- Market price of paddy

The market price of paddy does not remain the same over the entire year. The price goes down to its lowest immediately after harvest when the markets are flooded with newly harvested paddy, rising gradually until it reaches its peak just before the next harvest. Crow (2004) used his research findings on South Asian countries including Bangladesh, to show that poor farmers sell their crops immediately after harvest when the price is usually the lowest, whereas rich farmers can afford to wait and sell their crop just before the next harvest and, as 'a result, there is a statistically significant relation between class and grain sale-price. The rich get the best price and the poor get the worst' (Crow 2004: 25).

The marginal and poor farmers in the two villages are compelled to sell their paddy immediately after the harvest mainly for three reasons. First, as the only main income of these farmers is the one from the sale of paddy, they sell whatever they produce immediately after harvest to meet the rudimentary needs of the household. Second, most of the poor farmers have to borrow for bearing the costs of input during cultivation and often to meet the daily necessities of their households during lean season. In most of the cases, they have to borrow from money lenders at a very high interest rate and the compulsion of debt repayment compels the farmers to sell the harvested paddy as soon as it is possible for them. For example, Abdus Sattar, an agricultural labourer-cum-small-sharecropper living in Telkupigaon, has to spend a substantial amount of the money he receives from selling whatever little he produces on repaying the loan that he has to take on to cultivate each crop. He usually takes the loan at an interest of 120%, with compulsory repayment within 6 months. He often finds that, with the amount he has to pay as interest, his borrowing results in loss considering the quantity of paddy he harvests against the costs he incurs.[5] In and around Shantipur there are quite a few paddy-husking mills where farmers often get loans without interest from the mill owners, resulting in the compulsion on the farmers to sell their paddy to the same mills, immediately after harvesting, and thus receiving a very low price for their produce. Thirdly, the marginal and poor farmers do not usually have storage facilities to retain some of the paddy they harvest; therefore, even if there are other options for these farmers to retain their harvested paddy, they have to sell in absence of storage facilities.

- Market Price of rice

Small farmers are not only sellers of paddy; they are buyers of rice as well. Crow (2004) in his research on food grain markets in Bangladesh shows that food consumption of the rich and medium farmers is almost totally independent of market – they hardly have to buy the staple (rice) from market. On the other hand, poor farmers have to buy rice from the market and thus incur the highest mean prices. Most of the small farmers in Telkupigaon and Saidpur can produce only a minor portion of their household demand. Moreover, since they have to sell a major portion, if not the whole, of their produce immediately after the harvest, they have to start purchasing paddy for consumption within a short time after harvest, and during the lean season in October and November they have to pay a high price for purchasing their staple. In contrast, the rich and small farmers who meet their consumption need from their own production in fact pay the lowest price for rice. Since they get rice from their own paddy, the real price they pay for rice is considerably lower than the market price. Thus through the differential control of the large and small farmers on the price of rice for consumption, the distribution of market benefits between the farmers becomes unequal.

5. Source: survey done in WeD research in 2005.

• Vertical integration

As discussed above, in the analysis of Fourie (1991), with the 'horizontal' relationship between buyers and sellers, there exist 'vertical' exchanges between them as well, the result of which can be 'that exchange rates mutually agreed upon may not be mutually beneficial, that vertical contractual arrangements may prevail over horizontal competition, and that purposeful bargaining and the obligations resulting from it may rest on and reinforce a highly unequal base or fall-back position'. (Harriss-White 1996: 21). In other words, the outcomes of the de jure institutional interactions (exchange rates) are influenced by the de facto institutions (bilateral vertical integration). An obvious example of this is the relationship between the landlord and sharecropper in Telkupigaon. In most cases the sharecropper is engaged with the landlord well beyond simply giving the latter a share of the produce. He is also engaged in multiple exchange relationships by taking on loans, input supplies and other benefits from the landlord. In such cases the exchange usually takes place at a pre-determined rate and in kind (paddy) rather than in cash, thus depriving the sharecropper from getting the true market price of paddy. The largest landlord in Telkupigaon says that he gives loans only to his sharecroppers and none outside them and that the sharecroppers repay the loans in kind after harvest at a fixed rate (i.e. predetermined quantity of paddy). H also provides supplies of inputs to his sharecroppers when they require them and that is also given as loan which is repaid in kind in the same manner.[6]

In Shantipur, the absence of any big landlord means that, as in Telkupigaon, the vertical integration between landlord and sharecroppers is not as visible. However, a similar type of relationship exists between rice (husking) mill owners and small farmers. The farmers take loans from the mill owners to meet the cultivation costs, which they have to repay in terms of a fixed quantity of paddy after the harvest. Thus the small farmers in Shantipur are also deprived of the true market price of paddy. In contrast, the landlords in Telkupigaon and the mill owners in Shantipur pay rather lower than the market price in purchasing the paddy due to their greater bargaining advantage, which they enjoy through the process described above. This unequal distribution of market benefits (exchange outcomes) is even more uneven in the case of contract cropping in which the small farmers take land (for a season of the year or for the entire year) for cultivation in a fixed contract and pays the share of the landlord at a pre-determined amount of money, which often has to be paid in advance. Accordingly the landlord stays free from any risk during cultivation (e.g. crisis in input supply, unexpected bad price, poor harvest etc.) and enjoys an advantageous price from the contracted farmer. Crow (2004: 25) argues that 'interlinked transactions can transfer risks to the more vulnerable party in the transaction, and... non-monetized forms of exchange, such as sharecropping and kind payments, may give landlords and rich peasants the benefits of market integration.'

6. Source: WeD survey 2003–2005.

• Power relations

It is evident from the above discussion that there clearly exists a 'patron-client' type of relationship between the landlords and sharecroppers in Telkupigaon, and between mill owners and small farmers in Shantipur, which has a definite impact on the exchanges in local paddy market. This type of relationship (de facto) gives additional advantages to the more powerful players in the market (Harriss-White 1996). The landlords in Telkupigaon give the sharecroppers many more 'benefits' apart from the land, for example, if the sharecropper is unable to purchase fertilizer, seeds and other inputs, the landlords provide these as loans that are repayable after the harvest. However, the price of inputs and the quantity of paddy or the amount of cash is fixed by the landlord and it is notable that in such cases the landlords can utilise their 'bargaining advantage' in fixing the price of not only the paddy but also the inputs Likewise, the mill owners in Shantipur use their 'bargaining advantage' in a similar way. The social power of the landlords and mill owners is also reflected in the 'bargaining advantage' that they enjoy over the small farmers. The uneven distribution of power often leads to 'forced commerce' (Bhaduri, 1983; Bharadwaj, 1985) when poor farmers have to sell to their money lenders or hand over crops to their landlord.

• Interlocked markets in rural Bangladesh

Several other markets are interlocked with the paddy market, with one good example being the credit market. From the above discussion it is evident how interlocked markets distort the benefits from exchange or market interaction in favour of the more powerful players. According to Harriss-White (1996): 'In interlocked markets the dominant party links terms of contract in more than one type of market, and thereby enhance their power to appropriate surplus. The weaker party loses its freedom to choose in the markets which have been lined in this way and may have no alternative to an interlocked contract in the first place.'

Interlocking of markets is obvious in the two villages discussed above, particularly in the interlocking of paddy market with the credit and labour markets where, in most cases, the money lenders are the landlords. This is why it is easy to have interlocking between sharecropping (or contract cropping) and credit. The result is that the money lenders get extra benefit from both forms of interlocking, which is also true for the mill owners in Shantipur. Moreover, the small farmers often need to sell their physical labour as well so that they are deprived of benefits due to interlocking with the paddy market. Often the sharecroppers sell (or are compelled to sell) their labour to their landlords, but have little influence on fixing the wage rate; and even, at times, the price of sold labour is paid from the share of paddy of the landlord. Cases of repaying loans by selling physical labour are common in both of the villages and so the interactions of unequal parties in the interlocked markets often results in further inequality and discrimination between them.

- Cost of production

The link between production costs and marketing of the produce is direct. In the light of the reality of the two villages it can be said that the small and poor farmers incur higher production costs compared to rich farmers. There are several reasons for this. First, as in most of the cases, the poor farmers manage the costs of production with money borrowed at high interest rates, so the real price (including interest) that they pay for the capital inputs is in fact substantially higher than what the rich farmers pay. Second, the poor farmers have to pay a fixed market rate for hiring machinery and irrigation for cultivation, with the larger farmers incurring lower costs for these purposes as they usually have these facilities of their own. Finally, the small farmers have to purchase wage labour when they require it (e.g. during harvest) at a competitive market price, whereas the rich farmers (e.g. landlords) can often afford to purchase wage labour at a lower price due to other contracts with the labourers. Thus the uneven market benefit between the two types of farmers is also notable in the costs of production.

Policy Implications: the Need for Institutional Measures

Given the diverse and complex nature of real markets in rural Bangladesh, it is really difficult to come up with appropriate policy measures to correct these markets in favour of the poor, even if there is a strong political will to do so. However, some institutional gaps can be identified in the light of the above discussion and based on which appropriate institutional measures can be undertaken.

• Understanding real markets

It is obvious that there is a clear lack in understanding and notable ignorance among policy makers about the complexities of real markets. Rather, obsession about the utopian conception of 'the market' or the so called 'free market' has been the key driving factor in policy formulation. This obsession has led to adoption of a policy of so called 'open market economy' by the government of Bangladesh since the early 1990s, which has grossly neglected the diversity and complexities of real markets in rural Bangladesh, particularly the agricultural markets. Sensitization of policy makers to the structural and institutional diversity of real markets and the complex political processes that shape and underpin them is very important. White (1993b: 10) observes, 'any one sided or economistic definition of market 'distortion'… runs the risk of coming up with simplistic policy conclusions which mis-specify the problem and underestimate the possibilities of change.' What is required by the policy makers is to have 'knowledge of context and variation and of the complex social, political and institutional dimensions of real markets' (White 1993b: 10).

• Institutionalizing rural credit markets

Bangladesh has a successful record in the field of micro-credit, which has been able to provide the poor with access to institutional credit. Yet, as evident in the above discussion, the presence and dominance of the money lenders providing informal credit, mainly using the interlocking of markets, is still widespread. This form of money lending at high interest rates operates under no legal mechanism or monitoring and uses the complex structure of real markets toy discriminate heavily in the interests of the money lenders. Bringing these money lending activities within the scope of institutional mechanisms is, of course, a big challenge for any policy regime.

• Policy for sharecropping

The sharecropping system in Bangladesh also operates outside any legal or institutional structure; the system is an old one which has not been adjusted in line with the move of rural agricultural markets towards commercialization and a relatively advanced capitalistic mode. Indeed, whatever adjustment is occurring is going against the poorer farmers (sharecroppers). For example, contract cropping, which disfavours the poor farmers even more, is replacing the traditional sharecropping in the villages of Bangladesh as discussed above. To bring these arrangements under an institutional and legal framework requires strong political will and a proper understanding of real markets as discussed in this paper.

Conclusion

The main objective of this paper has been to discuss the role of markets in the life of rural people in Bangladesh. The discussion has been kept limited within a theoretical framework and based on the data and experiences of two villages in Bangladesh, and it has been argued that with the existing inequality, market interactions in the current mode result in greater benefits for the relatively well off and powerful people and thus reproduce inequality. It has also been explained how the interactions of formal and informal institutions related to the 'real markets' result in the persistence and reproduction of inequality. However, to strengthen the arguments in favour of this hypothesis, comprehensive empirical research and data are required which is unfortunately not easily available in the context of Bangladesh, as research with a particular focus on real markets have not been undertaken so far, with the one bright exception in the work of Crow and Murshid (1991). Therefore it will be appropriate to conclude this paper with a quotation from Crow (2004: 12). He writes: '... the structure of grain and finance markets assists accumulation by the rich and the dispossession of the poor. Rich peasants and poor peasants face contrasting market conditions which contribute to the process of class formation.'

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