CHAPTER-II

INTERLINKED MARKETS: ISSUES AND APPROACHES
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2.1 Market, in the standard neo-classical framework is generally defined as an ‘operationalised atomistic realm of impersonal economic exchange of homogeneous goods (and services) carried out by means of voluntary transactions’. It is widely recognized that markets in rural/agrarian context do not conform to this conceptualization. Even within the mainstream neo-classical tradition in economics, it is being increasingly recognized that the relentless pursuit of self-interest by rational individuals cannot meaningfully explain the functioning of the markets, particularly in the contexts of rural societies (Basu, 1997: 10). However, the idea of self-regulating markets along with instrumental rationality provides the basic foundations for methodological individualism (Holton, 1992: 60-63). Alternative theorizations of markets as socially embedded, diverse and complex socio-economic phenomena have offered a radically different paradigm for analyzing market and non-market transactions in varied historical conditions.

Exchange is a ‘surface phenomenon’ of economic life and it rests upon the foundation of the social relations of production (Bhaduri, 1985:1). Bharadwaj (1990) in an insightful formulation has elaborated the socially conditioned nature of the exchange process, by drawing attention to its following aspects:

i. The exchange processes are neither uniform nor equal for all participants; hence a competitive market does not exist. Depending on the parties involved in exchange not only do the quantitative terms and conditions vary, there can also be a qualitative difference in the nature and types of market involvement of individual households.

ii. The exchange depends not only on prices but also on explicit and implicit non-price factors, which mainly rely on personal dominance and power relations.

iii. The nature of exchange involvement as well as the terms and conditions depend largely upon the position of the participating households. There is a rough correspondence between the production (resource) status as a base and the concomitant exchange relations (Bharadwaj, 1990)

Further, if the uneven development and penetration of commodity production is taken into account, the features of exchange relations in any social formation will depend, inter alia, on the level of its historical development.
In the absence or incompleteness of markets in agrarian societies, markets tend to be interlinked ‘not simply by their flows but also by the structure of their control.’ The various theoretical formulations on market interlinkages in developing countries have been selectively reviewed in this chapter in order to formulate a perspective on interlinked transactions in agriculture. In the following section the literature on market interlinkages has been reviewed with special emphasis on the methodological foundations of various approaches and models. An alternative theoretical perspective on interlinkage has been presented in the last section.

2.2 Interlinkage in Agrarian Markets

An interlinked transaction is one in which two or more interdependent exchanges are simultaneously agreed upon. Anthropologists have noted the interconnectedness of economic and non-economic exchanges in the context of primitive and pre-capitalist economic formations. A much-quoted observation by Baily aptly describes the fundamental importance of such transactions: ‘the watershed between traditional and modern society is exactly this distinction between single-interest and multiplex relationships’ (Baily, 1966: 401). The nature of economic transactions in such traditional systems have generated a great deal of debate between those who believe that the wisdom of formal economics was universally valid (the formalists), and those who held that the production-distribution process in primitive and peasant societies operate on totally different principles (the substantivists). It is, however, widely believed that ‘the traditional system of obligatory payments, custom-determined rewards and communal sharing and insurance has been eroded by the steady penetration of market forces’ (Bardhan, 1986: 158).

The vast and growing literature on interlinkage in agrarian economies can be broadly divided into two groups based on their methodological assumptions: those following the basic framework of neo-classical- New Institutional Economics (NIE); and those incorporating the Marxian framework of analysis.

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1 Bardhan (1980) has documented and analysed some of these observations. Polanyi's conception of embedded economy emphasises the multifunctional nature of economic transactions (Polyani, 1944).
2.2.1.a Neo-classical and New Institutional Economics Perspectives

Douglas North, leading exponent of NIE defines institutions as follows:

‘Institutions are humanly devised constraints imposed on human interaction. They consist of formal rules, informal constraints (norms of behaviour, conventions and self-imposed codes of conduct) and their enforcement characteristics’ (North, 1981).

Thus, under the NIE framework, institutions are ‘rules, norms and customs, and their enforcement characteristics, which define the right and obligations in human exchange’ or ‘cluster of behavioural rules governing human actions and relationships in recurrent situations’ (North, 1981, 1993). The role of institutional structures is to harmonise relations among parties, which are involved in exchange.

The NIE theorises institutions as means of reducing uncertainties and minimizing transaction costs, and this framework has been extended to explain the interlinking of markets in agrarian economies (Bardhan, 1980, 1989; Hayami and Kikuchi, 1986; Eswaran and Kotwal, 1985a, Binswanger and Rosenzweig, 1984; Yotopoulos and Floro, 1992). While some theorists have modeled interlinkage as a ‘monitoring device’ used by some agents within the framework of principal-agent models, others have attempted to explain this ‘institution’ as providing insurance to the agents within the presence of uncertainties in the production and payment behaviour of borrowers. While in earlier writings the rationale of such practices followed the lines of standard analysis of imperfect competition, in latter neoclassical writings the monopoly or monopsony of agents is no longer necessary to explain interlinkage which appears as a result of some other imperfections such as uncertainty, information-asymmetry, absent markets and transaction costs (Srivastava, 1989b).

Bardhan has summarized the argument of the NIE school on the raison d’etre of interlinkage in terms of the following arguments: (a) interlinking saves transaction costs; (b) it saves on contract enforcement costs by making possible the discovery of dishonesty or default or shrinking by an agent in one transaction too costly for him in terms of its spill-over effects threatening other transactions; (c) in

Enforcement is carried out by the first party (self-imposed codes of conduct), by the second party (retaliation), and/or by a third party (societal sanctions or coercive enforcement by the state). Institutions affect economic performances by determining (together with technology employed) transaction and transformation (production) costs (North, 1993: 62).
situations of moral hazard with respect to unobserved work-effort, interlinking the transaction may help in internalizing some externalities; (d) interlinked transactions provide a way of partially circumventing incomplete or non-existent markets (Bardhan, 1989: 239). The most widely discussed functions, among all these are the explanations on the basis of monitoring problems and the need for insurance in the face of risks and uncertainties.

In principal-agent models, interlinkage is described as an outcome of the principal’s need to monitor the agent’s activities and the large costs involved in it. The nature of agricultural operations is such that the quality of labour input is a crucial factor influencing the product and the associated supervision costs are very high. Mitra (1983) has argued that in the context of unevenly distributed information arising from the uncertainties associated with agriculture, one of the options before a landlord or an owner cultivator, who is unable to monitor a tenant’s or labourer’s effort-input, is to link a wage-cum-output sharing contract with the provision of consumption credit. Bose (1993) has shown that since the tenant is often required to undertake effort aimed at maintaining and improving the productive stock, a long-term contract, which interlinks tenancy with a credit agreement, is optimal. In equilibrium the tenant obtains credit from the landlord at a rate of interest below the market and remains perpetually indebted to the landlord.

Braverman and Stiglitz (1982) have argued that because of the unobservable work effort of individuals and incomplete specification of work during a contract, agrarian economies are characterized by moral hazard problems. Under such conditions, the landlord can attempt to alter the terms of loans so that the tenants not only borrow more and work harder but also undertake projects, which are more to the landlord’s liking. Where the tenants borrow from the money-lender, externalities exist between these two terms of contract: the landlord determines the probability of default in repayment of the loan, and the extent of tenant’s indebtedness determines the expected earnings of the landlord. Braverman and Stiglitz argue that the existence of such externalities leads to the market solution of interlinking the two markets and internalization of externalities.

There are two distinct kinds of insurance-based models. The first is linked with the seasonality in agricultural operations which creates risks on the part of the employers: of not getting enough labour during peak-seasons. This uncertainty
leads to 'labour-tying' i.e., employer advances loans to labourers during off-seasons and thereby compelling them to work-off their loans during the peak-season, often at predetermined wage rates. Thus tying of labour services with consumption credit, tenancy or any other form of patronage are means to reduce supervision and a variety of production risks by ensuring timely supply of labour (Bardhan, 1979, 1983; Sen, 1981). From the point of view of labourers, the labour contract itself acts as a collateral substitute for easy access to consumption credit.

Another insurance-approach argument is based on the idea of 'potential risk' (Basu, 1983). The apparent contradiction that the highly risky credit transactions in rural economies are characterised by a low rate of default, has been explained by Basu through the notion of 'potential risk' which is minimized by the effective fragmentation of the credit markets – each moneylender provides credit to only a small pool of borrowers over whom he can exercise his control. One category of borrowers within the effective control of the landlord is the tenants and hence interlinkage results. Thus 'though the risk of default does not manifest itself in actual default, it nevertheless plays a significant role in that it is the genesis of interlinkage and market fragmentation' (Basu, 1990: 75). In the presence of isolation, a monopolist moneylender who happen to be also a landowner can increase the surplus extracted from the borrowers by offering them an interlocked deal whereby they could work at a wage below the normal rate and also take credit at a certain rate of interest. Interlinkage, in such cases, is the result of monopoly in one market (Basu, 1987).

Braverman and Srinivasan (1984: 63-81) have constructed a model to show that by choosing the plot-size appropriately, the landlord can force the tenants to a level of 'utility equivalent contracts' (i.e., a utility level which the tenant could have obtained in an alternative occupation) as long as there is a perfectly elastic supply of labour at this 'reservation utility level'. In such cases, it is in the interest of the landlord that he subsidizes credit of his tenants. Thus the tenants chooses the interlinked transaction in credit and land-lease markets, and the landlord is also gainer as it induces the tenants to produce more on the rented plot, as long as the landlord’s opportunity cost of capital is lower than that of the local moneylender. Kotwal (1985) has argued that consumption credit may be a side-payment designed to enable the landlord to absorb the tenant’s risk due to weather uncertainty without weakening his incentive to work. On the other hand, Gangopadhyay
(1997: 130-145) has shown that interlinked markets can eliminate the inherent economic inefficiencies arising due to credit market imperfections.

Braverman and Gausch (1984: 359-74) have examined the rationale of interlinking tenancy and credit contracts in the context of production loans. Using a monopolistically competitive market structure, they point out that in the presence of heterogeneous tenants with some observable attributes and numerous landlords with limited supply of land interlinking of tenancy and credit contracts serves landlords as a self-selection screening device to identify and allocate tenants according to their ability i.e., high-ability tenants are subsidized for larger purchases of capital.

On the whole the reasons for interlinkage as envisaged in NIE are for saving on transaction costs, effective contractual control in the face of moral hazard, effective screening devices and enhanced enforcement of agents by the principal. The crux of the neo-classical argument has been well summarized by Stiglitz: since interlinkage of market emerges only in the presence of imperfections, asymmetry of information etc., ‘interlinkage is motivated by the desire for economic efficiency, not necessarily by the desire for further exploitation of the worker’ (Stiglitz, 1986: 256).

2.2.1.b What the NIE and Neo-Classical Models Fail to Explain?

The NIE approach towards interlinkage as an institution has attracted criticism from diverse standpoints. Most of this concentrate upon the methodological limitations of the framework itself. The NIE, by endogenising all institutional parameters runs the risk of yielding tautological propositions. By referring to appropriate kind of transaction costs it can rationalize any institutional or contractual arrangements that it is supposed to explain. The concept of transaction cost is too broad and it is difficult to observe or measure the transaction costs, particularly in the context of agrarian economies. Hence, any observed institutional phenomena could be explained by restoring to actual or imaginary transaction costs.

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3 Several of these models have cautioned against interventions in a single market, as they may be counter-productive in some cases (Braverman and Srinivasan, 1984; Braverman and Gausch, 1984; Gangopadhyaya, 1997).
The methodological implications of endogenising institutions have also attracted a lot of attention. It has been argued that some rules or variables like the non-economic ones must be taken as parametrically given while constructing models of economic phenomena (Field, 1981). There is however, 'no reason why non-economic variables should always be exempted from endogenization' (Basu et al, 1987). Again, in any given situation there exists a hierarchy of institutional arrangements. In explaining one kind of institution, it is both unnecessary and unrealistic to assume that all institutions would be determined simultaneously (Dutta et al., 1996).

The NIE, like traditional neo-classical theory often proceeds with a static allocation objective in mind and provides a set of analytical tools to explain the optimal properties in a narrow static sense (Longlois, 1986: 15). Efficiency is not an absolute concept that can be defined independently of the institutional structure. The NIE often claims that all existing institutions are optimal. Interlinkage is usually justified in terms of its micro-economic rationale as an ‘optimal’ arrangement. To claim optimality of social institutions in the restricted framework of pareto-optimality or the biological analogy of natural selection in the survival of fittest institutions, ‘entails a trespass which needs much greater justification than is provided by the protagonists of the NIE’ (Basu et al, 1987). The thin line of distinction between understanding an institution and justifying it is often blurred (Bardhan, 1989).

Any institutional theory is expected to explain the origin and persistence of given institutions. It has been argued that NIE has not given due attention to the former and has been only partially successful in dealing with the later. It has been observed that individual rationality alone cannot explain the persistence of institutions, as there are institutions, which benefit no one. There may be socially harmful or purposeless institutional arrangements as well. The role of legitimation process in sustaining such institutional arrangements has not been discussed at all.

Although NIE claims to have corrected the limitations of neo-classical economics, which used to treat institutions as ‘black boxes’, its own treatment of institutions has been criticized for its lack of dynamic analysis – both in the structural and historical dimensions. The ‘designers’ of economic institutions, also, operate under a canopy of historically evolved norms and habit-patterns (Sangera, 1992 cited in Hariss–White, 1996). Such a framework of analysis
wrenches institutions from their contexts of property distributions and power (Rao, 1995)\(^4\).

2.2.2 Interlinked Modes of Surplus Extraction: Marxian Analysis

The fundamental disagreement of Marxist scholars with such notions of ‘undifferentiated peasantry’ starts from the recognition that ‘there is not one representative type of the producing and consuming unit called “the peasant”, but rather very different types defined by varying effective resource endowments per head’ (Patnaik, 1990: 156; Bharadwaj, 1985). Although the concept of peasantry is retained, it is argued that the peasantry did constitute a class in the estate sense of feudal society. But it ceases to constitute a class in all contemporary ‘transition-to-capitalism’ societies, where the process of differentiation through the ‘classes’ of capitalist society has made the notion of homogeneous peasantry highly unrealistic. The continuing disintegration of ‘peasant economy’ is due as much to economic stagnation as to growth (Brass, 1995: 266). The process of peasant differentiation and class formation has remained a central question in the ‘mode of production’ debate and subsequent investigations (Patnaik, 1990: Chakravorty, 1998).

Utsa Patnaik has attempted to operationalise the concept of agrarian classes developed by Lenin and Mao, through the labour-use criterion. The three criteria identified as the basis of class demarcation are (i) exploitation of labour, (ii) possession of the means of production, specially cultivated land and (iii) marketable surplus of the product. As an approximation to the analytical concept of economic class, she formulated an E-ratio, defined as the net use of outside labour through hire or lease expressed as a ratio of the extent of self-employment (Patnaik, 1987). She identifies six classes – landlord, rich peasant, middle peasant, small peasant, poor peasant and the landless labourer – based on her index of labour use.

Alternative approaches towards the study of peasant differentiation, within the broad Marxian political economy framework, include those by Roemer (1982), Bardhan (1982), Rudra (1988) and Athreya et al. (1990). Byres has pointed out

\(^4\) Kaushik Basu argues that ‘not to speak about power does not necessarily employ a denial of its role’ and cites the case of principal-agent models where one aspect of power asymmetry between agents has been built into the framework (Basu, 1998: 320-23). This, however, is a highly simplistic treatment of power relations in agrarian contexts.
that, emphasis upon ‘class-in-itself’ as the ‘hardcore class’ concentrates one’s attention on the structural formation, but it is equally important to include ‘class-for-itself’ which entails a perception of interests, and a willingness and a capacity to pursue them through organized collective activity. The ‘crucial mediating element between ‘class-in-itself’ and a ‘class-for-itself’ is class consciousness’ (Byres, 1981). Numerous studies on political mobilization in the Indian countryside have noted the complexities associated with the mediating processes between the two.

In the Marxian framework of analysis, the interlinking of agrarian markets is seen in a specific social, historical context and its implications are analysed with explicit reference to the production and exchange relations in differentiated peasantry. Notwithstanding the differences in the conceptualization of agrarian classes, most of the Marxist scholars agree that exchange is a ‘surface phenomenon of economic life, reflecting the underlying economic and social organisation of production’ (Bhaduri, 1983b: 1). The function of exchange is not to clear the markets in some cases, but simply to give advantage to one party at the cost of another. ‘Exchange relations, under these circumstances are better understood as mechanisms for surplus extraction’ (Bhaduri, 1986: 208).

Interlinkage, involving multiple and mutually reinforcing methods of surplus extraction, has been associated with the pre-capitalist relations of production and marks a transition from feudalism to capitalism. It is seen as a mechanism which helps in sustaining the pre-capitalist relations or in bringing about its dissolution. During the transitional phase, when the political and social sanctions underlying the pre-existing organisation of production along with the organisation itself starts weakening, interlocking may serve an important function in the overall design of surplus appropriators. In the reconstitution phase, which ‘may or may not take place concurrently with the dissolution of pre-capitalist relations’, interlocked markets are used to organize or structure absent or nearly absent markets and orient those towards incipient capitalist production (Srivastava, 1989b).

Bhaduri’s model of semi-feudalism is based on unequal power relations among the landlords and share-croppers in an isolated rural community

\footnote{The following discussions are broadly in the lines of Srivastava (1989b).}
characterized by share-cropping, perpetual indebtedness of small tenants, concentration of two modes of exploitation – usury and landownership – in the hands of the same class, and, lack of accessibility of the small tenants to the markets. In such a context, when transaction in one market, gets contractually interlocked with transaction in others, the general mechanism through which credit assumes its critical role in interlocking transactions is based on ‘the treatment of collaterals’. As the collaterals offered by the poor peasants are not accepted in the organized credit market, the lenders in the informal markets undervalue them substantially. Thus the risk of default gets transferred from the lender to the borrower and such transactions are qualitatively different than the normal transactions in the organized market (Bhaduri, 1986: 268). Market for credit gets interlocked with other markets such as the product, land-lease or labour through the nature of collateral offered. The undervaluation of the collateral, usually coupled with high interest rates, in explicit or implicit forms, ensures that the borrowing peasant is caught in a nexus of ‘forced commerce’. Trading in one market, often induced by a threat to survival, leads to involuntary participation in exchange in some other markets and the implication of such ‘forced’ transactions is the asymmetry of economic power between the trading partners (Bhaduri, ibid).

Bharadwaj has argued that interlocked transactions create room for extra maneuverability on the part of stronger section to exploit, particularly if there is a limit on exploitation due to convention, tradition or the ‘sheer minimum survival needs of the exploited party’ in any single market (Bharadwaj, 1974, 1979, 1985; Bharadwaj and Das, 1975). Conjoint exploitation enables the dominant agents not only to increase the amount of surplus appropriated, but also to extend exploitation to cover different activities over time or to widen it to include other members of the weaker agent’s family. So far as the weaker agent is concerned, interlocked transactions result in a simultaneous shrinkage in his feasible choice, as ‘transactions in any one market limit the feasible choices in another’. In understanding the undergoing changes, Bharadwaj argues, ‘it is important not only to know what decisions are observed to be taken by households but what options have been forgone’ (Bharadwaj, 1994). It has also been pointed out that interlocking leads to segmentation and ‘underformation’ of markets (Bharadwaj 1985).
While Breman (1974) has emphasised the 'patronage' element in such interlocked transactions, Bhaduri has pointed out that 'the advantage of patronage may arise not so much from controlling the labour process of those being directly patronized, but through indirectly intensifying the exploitation of others not being patronized (Bhaduri, 1986).

A lot of empirical investigation has gone into the details of the semi-feudalism thesis and the interlinkage of factor markets, particularly with respect to the credit markets. Prasad’s investigation, by and large, supports Bhaduri’s semi-feudalism thesis where interlinked and exploitative agrarian relations are seen as an obstacle to innovation (Prasad, 1973). Bardhan and Rudra, on the basis of an extensive field study conducted in the states of West Bengal, Bihar, Uttar Pradesh and Orissa argue that Bhaduri’s description of the landlord-cum-moneylender is far from truth. The credit market is not, generally, dominated by the rich landlords. Whenever, they are providing loans, a considerable portion of such loans are interest-free loans. Most landowners, as reported by tenants, are primarily owner-cultivators and the phenomena of agrarian stagnation under semi-feudalism cannot be found in reality (Bardhan and Rudra, 1978). The non-existence of interlinkage of credit with tenancy has also been reported in a number of other case studies (Newaj and Rudra, 1975; Khasnobis, 1994).

Bharadwaj and Das, in their study of Orissa agriculture have reported that in a few cases credit was advanced by the landlords to the tenants (Bharadwaj and Das, 1975). Chattopadhyay and Ghosh (1983) from their field work of the Terai region of West Bengal have noted that the credit market was dominated by the landlords, but no extra-economic coercion has been noted. In his field study from Uttar Pradesh, Srivastava (1989b) has reported a variety of interlocked relations of exploitation and have also analysed their dynamics under different conditions of production. Sarap (1991b) in a detailed study of Sambalpur district, in Orissa found the existence of land-credit interlinkages and noted interlinked tenants were charged higher interest rates. In another recent study on Orissa agriculture, it has been found that incidence of interlocking of factor market was higher in the irrigated villages than in un-irrigated ones. While land-credit interlocking was on the verge of disappearance, land-labour interlocking was higher compared to other forms of interlocking (Mohapatra, 1994). Swain (1998, 1999, 2000) in her study found interlinkages of factor markets to be more frequent in irrigated areas than in
non-irrigated areas. She also noted that the modality and mechanism of such contacts were exploitative rather than symbiotic and concluded that the Marxist approach is more appropriate than the neo-classical in explaining the occurrence of interlinkage.

There have also been evidences to support the existence of other forms of interlinked contractual arrangements in agrarian economies. Historically, the arrangements like *dadaan* through which traders and moneylenders advanced tied loans to poor peasants on the condition that the later grew particular crop(s) and sold the output to the lender, enabled the introduction of crops like indigo, jute and sugarcane into many parts of India (Bhaduri, 1976). In her detailed investigations into the trading practices in Coimbatore district, Hariss-White notes that although commercial moneylender does not point in a general way to relations of domination over production via interlocked money and commodity markets, for certain crops (like cotton), a well developed network of private banker’s credit operates in the country-side. ‘The practice of interlocking credit and commodity trade with the objective of guaranteeing supplies is an enduring type of exchange relation in cotton and tobacco marketing’ (Hariss-White, 1999:204). Advancement of loans to labourers in order to ensure labour supply in peak-seasons, to reduce the cost of recruitment, moral hazard and incentive problem and to exercise social control has been widely noticed in most of the studies on Indian labour market (Sarap, 1991a, 1991b).

Thus, a variety of interlinked arrangements has already been noticed and analysed in the literature, including (a) tenancy-credit interlinkage; (b) the labour-credit interlinkage; (c) output-credit interlinkage; and (d) triangular arrangements between the shopkeeper/moneylender, landlord and the tenants/labourers.

An exclusive emphasis on ‘efficiency’ and ‘microeconomic rationale’ of interlinked transactions by the neo-classical and NIE theorists tends to ignore the dynamics of social control and domination in agrarian economies. On the other hand, the Marxian analysis has not paid due attention to the survival strategies of deficit households along with the strategies of surplus extraction and accumulation by the strong partners in these arrangements. Although the changing nature of interlinked contracts under transition from backward agriculture to a more intensive, commercialized cultivation has been treated in a few of the case studies,
the specific conditions of emergence, persistence, transformation or decline of particular types of interlinkages are yet to be investigated and theorized properly.

In spite of the explicit recognition of unequal power relations and a differentiated peasantry, most of the analyses within the Marxian tradition are based on simplistic stereotypes of rich landlords and powerless tenants. The role of norms, traditions and ideology in sustaining the exploitative relations has not received adequate attention as well. The sense of belongingness to a collectivity other than ‘class’, the range of feasible survival strategies in the face of degradation of common property resources, ecological stress, and the continuing influence of the moral framework of the ‘community’ – all these questions which influence the nature of interlinked transactions need to be incorporated into the analysis with all their subtleties. In subsequent sections we have explored the possibility of linking interlinked transactions to the diverse forms of informal contracts in a village community.

2.2.3 Power, Customs and Triadic Relations

It is increasingly being recognized, even within the mainstream economics, that the relentless pursuit of self-interest by individuals cannot explain the functioning of markets and society, particularly in the agrarian contexts (Basu, 1997:10). The Marxian political economy perspective, by recognizing the structured interdependence between different socio-economic processes, has a greater explanatory potential in analysing the nature and purpose of interlinked transactions. An aspect that needs special emphasis in such a framework is the diverse form of power asymmetry that characterizes rural societies. While research in economic anthropology has made it amply clear that exchanges in pre-capitalist economic formations, serve a wide range of functions, the role of gender relations, caste ethnic divisions on inter-linked transactions are yet to be properly investigated and theorized.

Although it has been widely recognized that the asymmetric power relations in rural India decisively influence the nature and outcomes of interlinked transactions, there exists a serious problem of conceptualizing power in the context of an agrarian economy. If power is the capacity to impose one’s will upon another, it can be exercised through social institutions and ideologies at the stage of socialization when a will is being created. It is not an individualized capacity
either, because capacity or its threat can be ingrained in the social norms (Basu, 1984). It may not be possible to locate power directly in the behaviour of individuals, except in some extreme cases, but it can be measured in terms of the economic structures giving rise to its practice: in terms of inequalities in assets, information, organizational capacities rooted in the ownership of means of production etc. The concentration of ownership of means of production often determines the capacity to bear risk, hold stock, control decisions, differences in fall back positions and hence bargaining strength and also access to state (Bardhan, 1989).

As an attempt to capture the impact of power asymmetry within the neo-classical framework, Basu’s conceptualization of ‘triadic’ economic transactions can be discussed. In such transactions, the relationship between two persons is contingent upon the relationship with an uninvolved third party. For example, in the triangular case of landlord, a labourer and a merchant, the landlord can force the labourer to accept an inferior package (in relation to alternative choices), under the threat that if he does not accept the package, the landlord will make sure that a third person will refuse to have any transactions with him. Thus, the question of ‘unfreedom’ becomes an integral part of the analysis of interlinked transactions. The framework of triadic transactions can be extended to the cases where transactions are quadrangular and, more generally, ‘polygamous’ (Basu 1998: 312). Such an attempt, no doubt, is an important starting point towards endogenising the role of social customs, structural inequalities and institutional arrangements in economic transactions, but it is doubtful if the complex nature of social relations of power and dominance can be meaningfully analysed in the restricted framework of neo-classical economics.

The analytical framework of multiple modes of power formulated by Partha Chatterjee on the basis of Marx’s treatment of pre-capitalist economic formations can also be used to understand the role of power in rural contexts given the wide diversities in the Indian countryside. Chatterjee (1982) has argued that three modes of power – the communal, the feudal and the bourgeois – can exist or can even co-exist in a specified state formation. These different modes are distinguished on the basis of specification of “property” connection (the relation of production) in the ordered and repeated performance of social objectives, i.e. particular pattern of allocation of rights of entitlement over material objects with a
definite system of social production’ (Chatterjee, 1983). In case of the communal mode of power, the authority resides in the community as a whole and individual or sectional rights, entitled over material objects and identities are derived from the authority of the entire society collectively, i.e., the community. The feudal mode of power is characterized by a relationship of domination by seer superiority of physical force. The direct physical control over the life processes of the producers is the crucial feature of this mode. In the bourgeois mode of power, unlike in the feudal, the domination of non-producers, i.e., capitalists over the producers, (wage labourers), is secured ‘by complete control over the labour process secured by rights of property in the means of production and in the product and by the impersonal operation of the market’ (Chatterjee, 1983). Once we recognize the multi-linearity of the transition process to capitalism, it is possible to argue that in conditions of backward agriculture all these three modes of power exercise control over the economic processes.

The plural forms of domination, authority and collective action that characterize the agrarian reality in India can be better understood in such a framework of interconnected modes of power. The surplus extraction and survival strategies of households which act as the basis of different types of interlinked transactions can be analysed in relation to the positionality of households and individuals in these multiple structures of power relations. What follows is basically an attempt to conceptualise the role of informal contracts in a peasant community and its role in explaining the interlinked transactions.

2.3 Interlinked Transactions as Social Relations

The structured hierarchical social context of agrarian societies gets manifested through differentiation of peasantry, the unequal relations of power and systematic control of various dominant strata, although there exists a great degree of variability across space and time. The rural scene, far from being static, is getting transformed in complex ways and the extent and directions of such transitions also exhibit a great deal of variability. In such a context, class location, patriarchy and the caste/ethnic hierarchy can be viewed as interactive elements defining and differentiating the condition of individuals and households (K. Bardhan, 1993).
The exchange process in such a differentiated socio-economic formation reflects the underlying relations of production. Given the unequal distribution of resources and hierarchical relations of power, exchange processes do not necessarily operate on the basis of voluntary contracts between independent agents. Bharadwaj (1985) has pointed out that the exchange process is neither uniform nor equal for all participants. Not only do the quantitative terms and conditions vary, depending upon the parties to the exchange, but there can also be qualitative differences in types of exchange and the market involvement of individual households; (ii) secondly, the 'non-price' factors – explicit or implicit which mainly depend upon the relations of power and dominance, also exert an influence on the nature of exchange; (iii) thirdly, the nature of exchange involvement as well as the terms and conditions depends largely upon the position of the participating households within the resource status categories (Bharadwaj, 1985: 7-25). To establish the correspondence between the production status as a base and concomitant exchange relations underlying the agrarian structure, the nature and extent of polarization within the process of differentiation as well as the specific resource-base of participating households needs to be taken into consideration in analysing the role and rationale of micro-institutional arrangements like interlinked transactions.

Thus, the specific location of the individual in the structure of ownership of resources, caste/gender/ethnic hierarchies and relations of power act as the constitutive context of involvement in various markets, linked or isolated. It is the general bilateral contracts, which capture the essence of interlinked transactions among individuals, and looking at these transactions in isolation may obscure their real nature. While it is true that in such contracts risks are dispersed, resources are pooled and transaction costs are reduced, some of the households, particularly the deficit ones, may enter into the contracts only when they find that the only alternative to such interlinked contracts is to lose access to various resources which are crucial for their survival. The mere acceptance of such contracts by the weaker partners cannot be taken as the outcome of voluntary negotiations unless it is clearly known that the range of feasible alternatives that were available for them contained at least one option that was equally good in all respects. Even when the agricultural labour knows that terms of interlinked transactions in labour and credit market is unfair for him, he may still prefer it, because by accepting it he may get
secure access to some opportunities crucial for his survival and all these opportunities may not necessarily be derived from economic assets. The survival of households may, for example, be crucially conditioned upon its access to village commons like pasture, which in turn is linked with its status as a cultivating household. Sometimes intangible assets like status-as-perceived by others, self-esteem and connections with the influential people may also influence the decisions of weaker partners to enter into contracts which otherwise they would have rejected.

Most of the existing literature on interlinked transactions has been modeled on the lines of a general contract between two individuals with different resource-endowment positions. However, the implication of general multilateral contracts on interlinked transactions also needs deeper investigation, particularly because there can be multiple layers of general multilateral contracts given the stratification and discrimination based on class, caste and gender, even within the same geographical and moral boundaries of a village community. As most of the existing literature on interlinked markets are based on the basis of neo-classical framework of constrained optimization by individual agents, the inclusion of the role of collectivities, not merely as given conditions of influencing individual choices but also as evolutionary phenomena intrinsic to the process of social economy, in the analysis can expand the explanatory possibilities in relation to a range of observed behavioural patterns that are treated as given or left unexplained. Similarly, the analysis of interlinked transactions as interlinked modes of exploitation, because of its emphasis on the surplus extraction process and the class location of individual households, sometimes tend to ignore the effects of norms, belief systems and sense of belongingness to a non-class collectivity on the behaviour of individuals on the economic and political spheres.

Interlinked transactions in labour and credit markets can exist in all the three types of contracts: simple bilateral, general bilateral and simple multilateral. From the point of view of the deficit households, recurrent transactions of the simple bilateral kind with the same employee, multiple layers of contract as a farm servant or collective bargaining as a group - all are means of creation of social assets, which can be translated into credit worthiness during the periods of acute shortage of earnings. The motivation for entering into such contracts, given the low opportunity cost of labour, may be better wages, security or the temporal
distribution of the earnings and access to tangible and intangible resources that are crucial for the survival of the household. It is through these contracts of various kinds, alternative informal property rights are being formed which in turn can be used by the poor labourer households as a form of collateral for credit or other forms of earnings.

The importance of general multilateral contract in a village economy has been noticed by anthropologists and economists alike. ‘Because of tradition, kinship, locational affinity and need for cooperation for the sake of minimum security and survival, a high degree of social interactions characterize the village community’ (Hayami, 1981: 9). Clear expectations on the mutual observance of reciprocal rights and duties developed from close social interactions are important for mutual help and long enduring patron-client relationships. The village economy is often modeled by moral economists and others as a single cohesive community organisation. In explaining the lack of inter-village mobility of agricultural labourers and the wage differentials across villages, it is argued that the network of general multilateral relations results in great information externalities. Along with this, the frequent social interaction and reciprocity acts as a kind of collective insurance, so that socialization externalities are generated which discourages the villagers to leave the village (Jagannathan, 1987). This has some important implications for the interlinked transactions. But before that it is important to note that the village community, in India at least, is characterized by hierarchical caste structures, ethnic divisions and multiple layers of identities based on different affinities. The nature of general multilateral contracts among the members of different intra-village communities has not received adequate attention. There are other forms of collective action by groups, which operate within the informal organizational framework of the village communities. The micro level political economy of the village community involves ‘cooperative bargaining’ not only between individuals but also between such collectivities of diverse types.

As another example of general multilateral contracts affecting the interlinked transactions, we can take the case of a group of migrant workers who have come to work under a piece-rate system in another village. In most cases they either belong to a village and/or specified castes. Their repeated multilateral interactions not only result in pooling of resources (taking care of aged parents, females and children who are left in the village), in minimizing the risk of being
cheated in an unfamiliar environment (Shop-keeper may charge them a higher price), in getting a collective insurance against unforeseen hazards at the workplace and in minimizing the risk of cultural unfamiliarity, but also in getting excess to informal property right like collective collateral offered by the group against interlinked transactions in the credit market.

We can also consider the formation of informal property rights by the village elites as another illustration. Through multilateral informal contracts the upper castes, traders, landowners and influential persons can achieve the control over a range of political, social and cultural institutions and resources. They can restrict entry of others into these and effectively earn a rent because of this control. They can earn extra incomes through the formation of an intangible property right over the material and non-material resources crucial to the life and livelihood of a majority of people. Exploitative interlinked transactions may work in such a situation because coercion is effective and the range of feasible alternatives is narrowed down. The foundations of such interlinked transactions lie not just in their optimality, but in the mutual interdependence and interconnectedness of a whole range of political, economic and socio-cultural institutions which are felt to be essential for survival by the poor and exploited sections. Class, caste, patriarchal control, and access to ‘modern’ amenities like education and political connections act as mutually reinforcing forms of dominance and control in such a situation. The transactions are not just interlinked in the sense that transaction in two or three markets are decided at a time, it is also interlinked with the non-material/ideological/socio-cultural modes of authority and power.

The central proposition that has been argued here is that by endogenising the informal property right formations, a wide range of behavioural pattern underlying the collective and individual actions in economic sphere can be brought into the analysis of complex, informal transactions. Analysing the interlinked transactions in the framework of informal contracts in a social context characterised by multiple stratifications may help in expanding the explanatory potentials of the theoretical constructs. However, a formal treatment of power relations with the moral/ideological framework of a traditional but changing community is a prerequisite for such an attempt. Unlike the NIE analysis, such alternative theorizations need not emphasise the real or imagined efficiencies of existing institutional arrangements. On the other hand, the influences of
collectivities other than class, which have not received adequate attention of the Marxian literature on interlinked transactions, can be treated more explicitly by recognizing the legitimation process of traditionalist orders\textsuperscript{6}.

The approach that we have followed in this micro-study is to investigate the extent and types of interlinkage through the comparative method. Instead of analyzing market interlinkages through concentrating on specific markets, the study makes an attempt here to focus upon the households as economic units participating in various market and non-market transactions, under two different perceived agrarian production systems. After identifying the participation of these households in interlinked transactions of one form or the other, an attempt has been made here to analyse their participation in such transactions with respect to their specific socio-economic status, resource endowment position and survival strategies.

\textsuperscript{6} The study does not undermine the relative primacy of class positionality in understanding the dynamics of agrarian relations, but it is also important to recognize the plural forms of oppression in rural India. Capitalist exploitation harnesses the existing sexual, caste or ethnic oppressions and the hierarchic relations within the family, and those within and between caste and ethnic communities 'mutate and adapt, instead of withering away', with technological modernization in agriculture (Bardhan, 1994: 148). Caste identity, for example, which is a form of belongingness to one 'community', may not be antithetical to capitalist relations. Under capitalist relations in agricultural production, 'new forms of wage labour fit into the old grid of caste divisions' (Chatterjee, 1993: 198).