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RURAL ENDOGENOUS DEVELOPMENT: A STRATEGY FOR THE POST-EMU EUROPEAN AGRICULTURE

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Abstract

The implementation of the new Common Agricultural Policy (CAP) in the European Union (EU) in early nineties has brought about far-reaching consequences for rural development. Among others, the farmer, liberating himself from his one and only role of producer, can profit from the opportunities offered by other activities that are complementary and alternative to agriculture: Thus the farmer has an essential role in the valorization of endogenous resources of the area where he carries his activities on.

This phenomenon has been analyzed mainly within the so-called «endogenous development» (ED) paradigm. ED patterns are founded mainly, though not exclusively, on locally available resources, such as the potentialities of the local environment, labor force, knowledge, and local patterns for linking production to consumption, etc. While ED is still not a well defined paradigm, it seems to have some nice explanatory categories which could be worth to discuss. This is the main purpose of such a research, i.e. how the idea of ED has emerged and what it is.

It should be stressed, however, that ED is an emerging field of interest that merges different disciplines (like economics, sociology, anthropology, etc.), and, as such, presents several characteristics of the parental disciplines: This means that it has no clearly identifiable theoretical roots, at least in the discipline of economics. In this situation, not all the economists are in favor of this new research topic, simply arguing that ED has nothing to do with economics: Therefore the question should be asked whether economic theory to date has largely failed to identify certain important features of development, encapsulated in the term "endogenous development", or whether "endogenous development" is an illusion, rooted in responses towards the perceived failure of many past development strategies. This calls for a careful scrutiny of theoretical roots of the concept.

Finally, a third fundamental question will be addressed: how major changes of the institutional setting in the EU – i.e. the European Monetary Union (EMU), future Eastward enlargement of the EU, as well as the incoming WTO talks – can modify constraints and opportunities for ED practices and, broadly speaking, for agriculture.

The establishing of a single currency (the Euro) in 11 out of 15 EU countries brings about fundamental changes in what has been so-far the economic and institutional framework for farmers (among others, the dismantling of agrimonetary mechanisms, which have ensured high internal prices of agricultural products as compared to international prices), and consumers as well. Moreover, the eastward enlargement of EU (foreseen for 2003) and the likely outcomes of the next World Trade Organization (WTO) talks (among others, the reduction of EU protection barriers) have brought about in the current debate the need for a deep rethinking of the EU model of agricultural as well as rural development policies.

> «Diversity is one of the main feature of European agriculture. It is also becoming one of the keywords in the debates on Common Agricultural Policy. Any European perspective on rural development must be grounded on the recognition of such diversity and must necessarily build upon it in order to maintain the *agriculture required by Europe's people»*
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> Ann Long and Jan Douwe van der Ploeg, 1994

Introduction

The implementation of the new Common Agricultural Policy (CAP) in the European Union (EU) in early nineties has brought about far-reaching consequences for rural development. Among others, the farmer, liberating himself from his one and only role of producer, can profit from the opportunities and synergies offered by other activities that are complementary and alternative to agriculture: Thus the farmer has an essential role in the valorization of endogenous resources of the area where he carries his activities on. Since 1975, the European Community has financed programs which have increasingly taken into account the rural development dimension in research activities linked to agriculture. From these researches emerges that the main feature of European agriculture (and of European rural development patterns) is diversity. This is not a chance phenomenon: Diversity is due not only to differences in factors, such as climate, soil, physical distance from markets, historically created land-use patterns, etc., but above all, to the basic fact that agriculture is a social construction. The strategies used by the actors involved in it, the ways in which they link their practices to markets and to technological developments, the specific interaction between farming activities and regional, national and supranational policies and interventions – are all crucial elements in the complex process that makes agricultural practice what it is – a highly diversified whole.

All these researches are based on the focal concept of «endogenous development» (ED). ED patterns are founded mainly, though not exclusively, on locally available

resources, such as the potentialities of the local environment, labor force, knowledge, and local patterns for linking production to consumption, etc. As it is argued in several contributions (see, for example, Long and van der Ploeg, 1994; van der Ploeg and van Dijk, 1995), ED can revitalize and dynamize these local resources, which otherwise might decline or become superfluous. Furthermore, ED practices tend to materialize as self-centered processes of growth: That is, relatively large parts of the total value generated through this type of development are re-allocated in the locality itself. While ED is still not a well defined paradigm, it seems to have some nice explanatory categories which could be worth to discuss. This is the main purpose of such a research, i.e. how the idea of ED has emerged and what it is.

It should be stressed, however, that ED is an emerging field of interest that merges different disciplines (like economics, sociology, anthropology, etc.), and, as such, presents several characteristics of the parental disciplines: This means that it has no clearly identifiable theoretical roots, at least in the discipline of economics. In this situation, not all the economists are in favor of this new research topic, simply arguing that ED has nothing to do with economics: Therefore the question should be asked whether economic theory to date has largely failed to identify certain important features of development, encapsulated in the term "endogenous development", or whether "endogenous development" is an illusion, rooted in bourgeois liberal responses towards the perceived failure of many past development strategies. This calls for a careful scrutiny of theoretical roots of the concept.

Finally, a third fundamental question should be addressed: how major changes of the institutional setting in the EU – i.e. the European Monetary Union (EMU), future Eastward enlargement of the EU, as well as the incoming WTO talks – can modify constraints and opportunities for ED practices and, broadly speaking, for agriculture. The establishing of a single currency (the Euro) in 11 out of 15 EU countries brings about fundamental changes in what has been so-far the economic and institutional framework for farmers (among others, the dismantling of agrimonetary mechanisms, which have ensured high internal prices of agricultural products as compared to international prices), and consumers as well. Moreover, the eastward enlargement of EU and the likely outcomes of the next World Trade Organization (WTO) talks (among others, the reduction of EU protection barriers) have brought about in the current debate the need for a deep rethinking of the EU model of agricultural as well as rural development policies.

It seems that time is come for a general and deep rethinking about the above-mentioned three issues. Such issues represent the core questions around which the research is structured.

What is endogenous (rural) development?

How does the ED idea come from?[1]

The recent interest in ED may be surprising; however, for those being familiar with the so-called "modernization" of agriculture, this interest will come as no surprise. In fact, modernization of agriculture has become increasingly seen as originating from and driven by actors and institutions external to the agricultural sector itself. This specific focus was consolidated by a concept of modernization which stressed an essential rupture with existing practices and types of discourse of the countryside: implicitly agriculture was considered a stagnant sector[2]. Correspondingly, those farmers who were more able than others to participate in the modernization projects, were classified as those most open to outside information, messages and innovations, an attitude which was perceived as being identical to an orientation towards urban dynamism. This dominant focus fitted well with mainstream economics, which perceived agricultural development as essentially a (re)adaptation of farming practices to (changes in) global markets and technology (Hayami and Ruttan, 1985).

Accordingly, the practice of modernization was (and still is) shaped by sets of external interventions, mostly centralized in state-agencies aiming to introduce new organizational models for farming, new interlinkages between farming, markets and market-agencies, new technological innovations meant to replace existing techniques and knowledge, new forms of socialization and techno-economic training, etc. The deliberate effort to create an integrated policy (and model) for these interventions, implied several consequences:

a) the degree of discontinuity vis-a-vis existing practices, relationships and role definitions increased considerably (i.e. strong reorganization of labor and production processes happened);
b) modernization not only reproduced existing differences, but increasingly generated its own differences and inequalities, because of its selectiveness, i.e. under certain conditions, in particular places and at specific moments it proved to be much easier to apply, adopt or implement modernization projects than at other times or places[3];
c) dependency became internalized into the structure and mechanisms of growth and development, since the practice of modernization revolved around the introduction of exogenous elements into the farming sector;

[1] This section draws heavily on Long and van der Ploeg (1994).
[2] «Getting agriculture moving» and «transforming traditional agriculture» were some of the telling slogans of the 1960s that reflected this specific and still persistent view.
[3] In this way modernization resulted in growth as well as underdevelopment and marginalization. Consequently, the simple "repetition" of the growth model typical for growth poles, or so-called «center economies», became within the less favored areas an ever less convincing policy proposal.

d) the emphasis on exogenous development produced a particular bias in our knowledge of the nature, scope and mechanisms of agricultural development[4].

As a matter of fact, however, the heterogeneity of European agriculture reflects a wide range of development patterns that is impossible to ascribe to one dominant set of "driving forces" located in markets, agrarian policy and technology development. Rural development is never a simple derivative of the latter: Understanding the dynamics of agrarian development implies a careful analysis of the social relations of production, that not only determine the way farming is related to markets, technology and policy, but also imply a frequent negotiation, adaptation and/or transformation of the goals, instruments, tendencies, directives and rationale contained in markets, technology, and policy. From the researches carried out in Europe in the last decade emerges that one of the criteria for the analysis of this diversity is the degree of autonomy or dependency vis-a-vis global markets and the supply of technology. As stressed by Long and van der Ploeg, this is not to say that

> «[D]evelopment patterns can be defined in ideal-typical terms as exclusively founded upon local resources, nor as only entailing external elements. What empirical research indicates is that they contain a specific balance of "internal" and "external" elements. What turns out decisive, for those who follow the exogenous development pattern, is that it is the outside or external elements that compose the conceptual model from which the eventual utility of local resources is judged. If the latter *"fit" with the former, they are integrated according to the rationale of* the established model . If not, they will increasingly be considered as *"outdated", "worthless", or as a "hindrance" to change. In endogenous* development patterns, on the other hand, a different balance is encountered: It is local resources, as combined and developed in local styles of farming, that figure as the starting point as well as the yardstick *for the evaluation of the eventual utility of "external" elements. If the* latter can be used to strengthen both the specificity and the vitality of local farming styles, then they will be internalized (often after a careful *"*deconstruction*" and "*recomposition*" so as to guarantee the maximum fit with local conditions, perspectives and interests). If no "fit" can be* created, then the external elements will remain what they are, that is, *"outside" elements» (Long and van der Ploeg, 1994: 4, emphasis added).*

The main conclusions of these researches can be summarized as follows:

a) empirical heterogeneity is neither a random nor an insignificant phenomenon: it reflects frequently a wide array of local farming styles[5];

[4] Considerable knowledge now exists on how to design and implement projects for exogenous development. However, on how to conceptualize and analyze ED patterns, and of their impact and their potential, there is remarkable ignorance, expressing itself, for instance, in the widely shared belief that if such ED patterns are relevant at all, their significance for resolving actual problems is minimal.

[5] For a definition of farming styles, see the next section.

b) the European array of different farming styles contains both those reflecting ED processes, and others expressing a predominantly exogenous development trend;
c) it is in the careful exploration of the more endogenous styles and associated development patterns, that specific clues are encountered, which could strengthen ED processes[6].

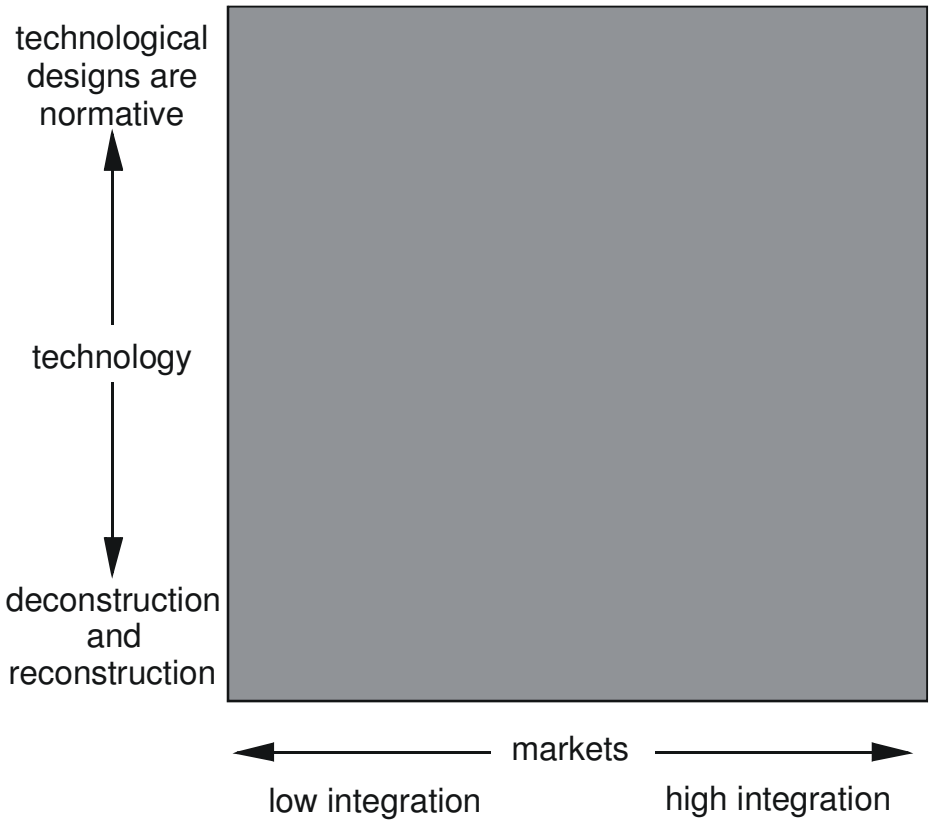
What is ED?[7]

ED is a "model" of what could happen in the transition from a situation of underdevelopment to another of development in rural areas. It was developed, and is particularly suitable, for the analysis of transition in European marginal rural areas, where it is possible to recognize some characteristics – like the production of high quality products, the combination of agricultural activities with extra-agricultural activities (i.e. pluri-activity), the structuration of a complex network of socio-economic relations at local level, the presence of many small and medium enterprises as main components of such a network, etc. – which constitute the essence of interesting examples of sustainable (from both an economic and environmental point of view) and self-centered development patterns in rural areas, to whom the EU is paying an increasingly attention within the CAP reform. The main feature of such patterns is that the farmer, and at a broader level the rural inhabitant, has an active role as economic and social actor, i.e. the agriculture and the rural environment are social constructs.

Agriculture, as all others production processes, involves the mobilization and reproduction of resources in order to convert them into specific values. A particular feature of agriculture is that the required resources entail nature and that the subsequent conversion entails, in part, the management of biological processes, that is "natural cycles". «Simple commodity production» (Friedmann, 1986), the now widely dominant although not exclusive organizational form in Western European farming, is just a specific expression of this general formula: The values produced are mainly (but not exclusively) exchange-values, i.e. commodities; and the resources from which such commodities are produced are mobilized partly via markets, and partly through non-commodity-circuits[8]. Both the mobilization of resources and their subsequent conversion into commodities and/or use-values, imply relations between actors and institutions external to the farm enterprise itself. These relations, which from a theoretical point of view are highly variable, and which constitute, in praxis, specific social relations of production, might be discussed using Figure 1.

[6] In other words perspectives on ED arise through the comparative analysis of heterogeneity and associated styles of farming.
[7] This section draws heavily on van der Ploeg (1994).
[8] The latter applies in particular to the labor force recruited within the family and therefore not subject to wage-labor relations.

The horizontal axis refers to the mobilization of resources, which might be mobilized on the various markets: a growing number of empirical studies have demonstrated that along this horizontal axis there is considerable empirical diversity, both between and within regions (see, among others, van der Ploeg, 1990). In synthesis, farmers relate their farm enterprises in quite different ways to markets, and although markets might increasingly represent one and the same set of external parameters for farming, the way in which farming is linked to this set of parameters is highly variable. The vertical axis of Figure 1 represents the conversion of resources into values, which implies a particular technique of combining resources in order to produce the required outputs. Farm production processes are normally structured along the lines designed by science and agribusiness, but technological designs might be also deconstructed. Particular elements of the designs are then reconstituted and combined with elements already existing to provide the most appropriate methods for conversion methods that differ, sometimes considerably, from the original technological designs: craftsmanship replaces external technological design as an ordering principle for organizing the production process, i.e. the conversion of resources into values.



Source: van der Ploeg, 1994: Diagram 1

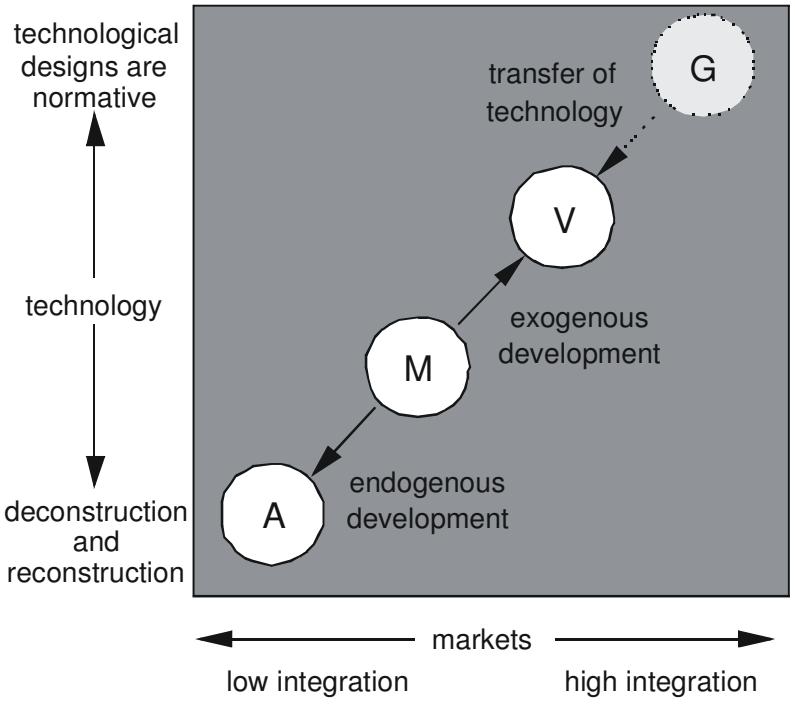
Fig. 1. Farming room for manoeuvre

Markets and technology thus do not determine how farming will be carried out, but provide the context in which different positions are possible. Together, they constitute «room for maneuver» (Long 1984). In other words,

> «[F]armers themselves, as social actors, are able to define and influence the way they relate their farming activity to markets and technology. Distantiation from and/or integration into markets and technology is of course not a matter for capricious decision. It is the object of strategic reasoning embedded in local history, ecology and prevailing politico-economic relations. Simultaneously, it is through such strategic reasoning that particular positions are created, that specific social relations of production are produced and reproduced, and that future developments and decisions become conditioned» (van der Ploeg, 1994: 9).

We can now use the diagram depicted in Figure 1 to discuss the issues of heterogeneity and different development trends in rural areas. We can imagine that the starting position is one of undeveloped agriculture in a "marginal" area[9] (or «lagging behind in development», as official EU phraseology puts it). This is illustrated in Figure 2, where M represents the typical position of agriculture in a marginal area, vis-a-vis markets and technology in such areas: Farming, in one way or another, «lags behind» in the adoption of technology.

[9] One can argue that, broadly speaking, "marginal" areas are less market-dependent and less organized along the lines of the newest technological designs than is the case for so-called growth poles. Within the forms of development discourse now dominant, these features (in other words low market-integration and technological backwardness) are currently used as indicators of an "underdeveloped" status. It is self-evident that such a definition only makes sense in a strictly "unilinear" model in which development in the «areas lagging behind» is seen as an imitation of the developmental pattern that has already been realized in the growth poles: the validity of such a unilinear model is, however, highly doubtful, both theoretically and empirically (Meeus et al., 1988; van der Ploeg, 1994).



Source: van der Ploeg, 1994: Diagram 3

Fig. 2 Different patterns of development

From theoretical, as well as empirical point of view, it is possible to identify at least two different position as agricultural and rural development starts moving, the V and A positions of Figure 2, where V stands for «Vanguard» farming, for the endeavor to create, within the global marginal conditions, a systematic effort to apply prevailing technologies and at the same time to enter into a more systematic and more tightened set of relations with the markets. It is, in synthesis, an endeavor to apply, in the marginal areas, the development model of the growth poles (G): Transfer of technology then becomes strategic, and development will materialize along the lines of the exogenous growth model. Outside elements (such as technologies, organizational forms, capital) and intervention (heavy subsidizing so as to create the required conditions for modernization, technical assistance and control to secure the correct application of the designed model) compose the crucial features of such an exogenous approach to growth and development[10]. This is the standard intervention strategy of the EU. As a matter of fact, notwithstanding the strong institutional support for exogenous growth, the results of such a strategy are rather poor for:

[10] The presence of this kind of growth model in marginal areas is not to be underestimated. Marginal areas increasingly offer what are becoming structural constraints in the so-called growth poles: space to expand production (through the acquisition of relatively cheap land, as well as additional space as far as quota, etc. are concerned) and clean resources, i.e. not yet contaminated air, water and land, which can increasingly be used to obtain additional value on the urban markets, now rapidly turning to "sound" food.

a) it turns out to be quite difficult to create the institutional conditions necessary for the maintenance, i.e. the reproduction over time, of this growth model: In practice, after the "big leaps forward", a lot of the farmers are obliged to take "steps backward";
b) it is becoming increasingly obvious that although this particular model might alleviate or even change some aspects of the global marginality of a given region (for instance, output at farm level), it simultaneously deepens other aspects (like rural employment, landscape preservation, environment conservation, intra-sectoral interlinkages, possibilities for tourism, etc.)

A third position might be encountered – indicated by position A for "alternative" in Figure 2 – which implies two features that differ noticeably from those in the positions already described: farming based mainly on non-commoditized processes of reproduction (on resources reproduced within the farm and/or obtained through socially regulated exchange), and in which an optimal conversion (not based on a straightforward application of exogenous technological models, but grounded on quality and quantity of farm labor[11]) is simultaneously realized. Farming in this case is built on an active and goal-oriented moving of the labor and production processes from both markets and technology: In this position, a relatively autonomous and historically guaranteed scheme of reproduction and craftsmanship are the typical constructions that characterize the mobilization of resources and their consequent conversion into the required social values and commodities.

The specific empirical expressions of such a "model" are far from being fully explored. But some indications can be derived from the little we do know in order to highlight a preliminary identification of «styles of farming[12]» (van der Ploeg, 1994: 16-24) that possibly embody endogenous development patterns:

a) the identification of high quality products that allow for a relatively high value-added per unit of end product[13];

[11] It is useful to remind that technological designs are nearly always oriented towards a reduction of both quantity and quality of labor.

[12] Styles of farming is the pivotal category of analysis of endogenous development, at least from a sociological point of view. It represents the underlying patterns of farming in terms of strategically organized flow of activities through time. It differs from farming system, as known in the so-called farming system research, because the latter, being mere descriptions of variables as manifested at a specific point in time, are more instable in time, complex (and confusing) whilst the underlying pattern might easily be missed, and not capturing the "logic of farming" (i.e. being based on particular crops, it might easily obscure the different patterns used in the production of the same crop). In other words, a style of farming is the complex but integrated set of notions, norms, knowledge elements, experiences etc., held by a group of farmers in a specific region, that describes the way farming praxis should be carried out.

[13] The particular labor process and dependency on local resources that are often strategic for producing such commodities (and the associated social value) inhibit a high degree of incorporation into supply markets and - simultaneously - exclude a straightforward application of current technological models: craftsmanship remains essential. In other words, particular and presently

b) the identification of low external input agriculture[14] that together with a high technical efficiency founded on the quantity and quality of labor, allows for additional room to achieve a reasonable income even under adverse conditions[15];
c) the identification of specific organizational patterns that allow for alternatives to current modernization schemes[16];
d) the identification of specific combinations of extra-agricultural activities, which give a particular dynamic to the agrarian process of production[17];
e) the local recognition and knowledge of styles of farming, their inter-linkages with markets and technology, their potential and their limits[18].

Those are the main features of ED patterns: They are mostly descriptive because of the lack of a well-developed theoretical background, at least from the economic point of view. This will be the research task carried out in the next section. By now, it is important to stress that such features fit nicely for the analysis of transition in European marginal rural areas, where it is possible to recognize some characteristics – like the production of high quality products, the combination of agricultural activities with extra-agricultural activities (i.e. pluri-activity), the structuration of a complex network of socio-economic relations at local level, the presence of many small and medium enterprises as main components of such a network, etc. – which constitute the essence of interesting examples of sustainable (from both an economic and environmental point of view) and self-centered development patterns in rural areas, to whom the EU is paying an increasingly attention within the CAP reform.

The main feature of such patterns is that the farmer, and at a broader level the rural inhabitant, has an active role as economic and social actor, i.e. the agriculture and the rural environment are social constructs. Therefore, "locality" seems to play a key

expanding niches in the markets, not only allow for, but assume and require a position such as the A position.

[14] This does not mean, however, that the level of total inputs is necessarily low: mostly it is labor that replaces the use of external inputs.

[15] This applies not only to high quality ecological products, but also to the production of current commodities.

[16] Both the mobilization of resources and the conversion of resources in to end-products (whatever their nature) imply specific (and highly variable) patterns in the social division of labor, of co-operation, of contradictions, etc. To be more precise, both exogenous and endogenous growth models imply specific and quite contrasting organizational patterns.

[17] The expression "extra" here is somewhat misleading in so far as it suggests that these activities are external or only additional to farming. "Pluri-activity" is, of course, more often than not, strategic for the specific way farming is organized. Hence, the interlinkages, fusion and synergy of agricultural and extra-agricultural activities within one and the same economic unit (currently the family) are central for understanding the particular A type position.

[18] It goes without saying that the potential suitability of this methodological approach is largely dependent on the specific culture, the patterns of communication etc., as they are encountered in each particular region.

role[19] in ED patterns, but this must not to be misunderstood. Although one can acknowledge with the claim that rural localities might be able to play to their strengths, it must also be recognized that the meaning of locality was largely de-activated and deconstructed during the epoch of modernization and that it has only recently been reconstituted. At the same time, it must be recognized that locality as such contains no guarantee whatsoever. One could even argue that more often than not ED is blocked not by global factors but by locality itself. Again we see that there is no general scheme for ED. It is only the careful and detailed exploration of farming styles and other local elements as embedded in particular frames of interaction with outside factors, that can render insights into the prospects for (or the impossibility of) ED.

Searching for (economic) theoretical roots of ED

Any discussion on the theoretical relations between ED and economics must analyze how ED fits into the branch of economics that deals explicitly with development, and namely it must take into account what is the role that economic theory assigns to agriculture in the development process. This analysis will be performed first summarizing the evolution of main concepts in development economics from the World War II, second contrasting ED with the so-called «endogenous growth» paradigm, which could have some resemblance with ED and, finally, stressing the important role that institutions (and institutional analysis) can play in the analysis of ED.

On the evolution of development concepts from World War II

Modern development economics is a composite research field which entails several theoretical constructions and different value judgments, which refer to analytical positions that often are very distant from each other. The theories of economic development appeared in last fifty years can be summarized as five main paradigms[20] (see, for example, Todaro, 1993):

[19] It indeed is possible to summarize ED patterns as ones having a number of distinguishing characteristics as follows: (i) the local determination of development options, (ii) the local control over the development process, and (iii) the retention of the benefits of development within the locale. But, rather than constituting a model of development with clearly identified theoretical roots, ED is more readily characterized as an idealized descriptive contrast to frequently observed patterns and processes of development. ED is locally determined, exogenous development is transplanted into particular locales and externally determined: ED tends to lead to high levels of retained benefits within local economies, exogenous development tends to export the proceeds of development from the region; ED respects local values, exogenous development tends to trample over them.

[20] It goes without saying that such a classification and the subsequent critical remarks on the main features of each paradigm suffer of the obvious limitations and oversimplifications, due to a necessary schematic representation of a thought history which is, on the contrary, extremely rich and complex.

a) "linear-stage" theory, which intends development as an accelerated aggregate economic growth, following an historical pattern of stages of growth common to all nations: among others[21], belong to this first paradigm the Rostow's growth theory (Rostow, 1960) and the Harrod-Domar growth model (Harrod, 1939; Domar, 1946);

b) "structural change" models, which focus on the structural changes which take place in traditional economies moving from underdevelopment to development and entail, among others, dualistic models of development (Lewis, 1954; Fei and Ranis, 1964; Harris e Todaro, 1970) and so-called "patterns of development" models (Chenery and Syrquin, 1975; Chenery, 1979);

c) "international dependence" revolution, which is more radical and political oriented (i.e. neo-marxist) and stresses that underdevelopment is the outcome of power relationships between the center and the periphery of the world, and of institutional and structural rigidities within the underdeveloped world (Prebisch, 1950; Baran, 1957; Gunder-Frank, 1967; Emmanuel, 1972; Amin, 1976; Furtado, 1976; Palma, 1978; Cardoso and Faletto, 1979);

d) "neoclassical counterrevolution", which, building on the neoclassical growth model proposed in the fifties (Solow, 1956; 1957; 1962), stresses the beneficial role of free trade, free market, laissez-faire economic policy (Bauer and Yamey, 1957; Bauer, 1972; Little, 1982; Lal, 1985; Balassa, 1978; Bhagwati, 1978, 1982; Krueger, 1974);

e) "endogenous growth" (or new growth) theory, which, though steeped in the neoclassical tradition, modifies and expands the assumptions of traditional growth theory (it admits the possibility of learning by doing, it relaxes the hypothesis of diminishing return on capital, etc.) to help explain the observed pattern of growth among nations (Romer, 1986, 1990; Lucas, 1988; Barro, 1990, 1991; Barro and Sala i Martin, 1995).

All those models present some common characteristics and crucial differences. We can summarize the evolution of concepts in the last fifty years, focusing on four important issues, which are relevant in the analysis of ED (Table 1): the definition of dependent variable in such models, the independent variables and their meaning, the role of the State in promoting economic development, and the explanation of the growth/development process.

First of all, it is worth stressing that the whole set of paradigms can be partitioned in two subsets: in the first one we can find the linear-stage, neoclassical and endogenous growth models, which are characterized by a higher level of formalization, and by focusing mainly on the economic dimension of development; in the second one are considered the structural change and international dependence paradigms, which present the opposite features, i.e. a lower level of formalization and the focus on socio-institutional characteristics too.

[21] See, also, Rosenstein-Rodan (1943), Nurkse (1953), Geschenkron (1962).

This means that in the paradigms belonging to the first subset the dependent variable has not changed over the whole period, i.e. the growth rate of the economy, though criticisms on that point were well known at least since Gunnar Myrdal works[22]. There are many motivations for that: during the fifties and sixties the choice of this variable was the simple transposition into the modeling realm of what was the predominant idea in the political arena, i.e. development was practically synonymous of economic growth; in the following decades this variable was maintained as a proxy for development, because easier than the multidimensional (and slippery) concept of development[23] in econometric applications. How this has been deleterious for the explanation of the development process, it is self-evident. Structural change and international dependence models have paid more attention to a richer and realistic representation of dependent variable (i.e. the purpose of development), even though this has meant a lower degree of econometric formalization.

Tab. 1. Synopsis of ideas evolution in development theories

Paradigms	Period	Dependent variable	Independent variables	Role of State	Explanation of development
Linear-stage	50-60	econ. growth	Economic	High	Exogenous
Structural change	70	econ. growth, development	Economic, socio-institutional	High	Exogenous
International dependence	70	econ. growth, development	Economic, socio-institutional	Revolution	Exogenous
Neoclassical	80	econ. growth	Economic	Low	Exogenous
Endogenous growth	90	econ. growth	Economic	High	Endogenous

On the side of independent variables, also, there are strong similarities among the models belonging to the first subset: some variables indeed have maintained a crucial role since the Harrod-Domar model (for instance, net investments, capital stock, savings rate, etc.). However, time passing, other variables appeared, for instance technological progress in the Solow model, and became increasingly more important. Shortly, we can say that the leit motiv of the evolution of the modelization is the search for a more "endogenous" explanation of economic growth, whose fundamental steps are the endogenization of physical capital productivity in the Solow model (where, however, it depends on the changes of a level variable, i.e.

[22] On this point see, also, Clower (1966), Seers (1969), Goulet (1971).

[23] Development is «[A] multidimensional process involving major changes in social structures, popular attitudes, and national intistutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty» (Todaro, 1993: 16).

technological progress, which is exogenous to the model) and the subsequent endogenization (at least partly) of technical progress, which takes place in the more recent endogenous growth models. Again, the models belonging to second subset (i.e. structural change and international dependence models) did not restrict themselves to strictly economic variables, but explicitly took into account also sociological, institutional and political variables.

Finally, models differ widely on the emphasis they put on the role of the State in development process. Broadly speaking, we can say that first models (linear-stage and structural change models) seem to assign a great deal of trust on the possibility of positive effects from State intervention. On the contrary, dependency models with their emphasis on needed fundamental economic, political, and institutional reforms, both domestic and worldwide, suggest that no positive role can be assigned to the State, at least if it is not deeply restructured. Neoclassical models, with their thaumaturgical trust on the role of the market, are very suspicious on the consequences of State intervention, and explicitly suggest that the lesser the State intervenes, the better. In last years, endogenous growth models restored a significant role for government policy (complementary investments in human capital, infrastructure and research and development) in promoting long-run growth and development.

The conclusion is that the array of theories and models that have sought to illuminate economic aspects of the process of development are largely devoid of reference to endogenous development or related concepts. Only endogenous growth models try explicitly to highlight and explain a self-sustained mechanism of growth, and we will turn soon to it in order to verify if they were suitable for the analysis of ED. Before that, however, it is important to say something on the role of agriculture in development theories (Table 2).

Tab. 2. Agriculture in development theories

Paradigms	Period	Explicit consideration of agriculture	Development strategy based on	Model of agricultural development
Linear-stage	50-60	NO	Industry	Exogenous
Structural change	70	YES	Industry	Exogenous
International dependence	70	YES	Industry	Exogenous
Neoclassical	80	NO	Industry	Exogenous
Endogenous growth	90	NO	Industry	Exogenous

A first observation is that there are very few paradigms that explicitly take into account agriculture, namely structural change and dependency models. Such models are typically premised on the assumption that, in a variety of ways, agriculture nurtures the process of development (see, for example, Kuznets, 1961; Johnston and

Mellor, 1961). The agricultural sector is seen as a provider of food at non-inflationary prices; as a source of increased purchasing power to fuel sales in the industrial sector, as a source of investment capital for the industrial sector; or as a potential source of foreign exchange earnings to support the development process.

Most models postulate a dynamic relationship between a modern industrial sector and a traditional sector. Dual economy models are a typical example of this approach: Lewis (1954) postulated a process of labor shedding from a traditional sector, replete with surplus labor to the urban industrial sector. He envisaged successive rounds of capital investment in the industrial sector drawing more and more of the surplus labor out of the rural sector until the commercialization of agriculture is triggered. The significance of this model for the discussion we are interested in lies not in its explanatory power, but in its clear identification of the process of agricultural and rural development as being exogenously determined by the capitalistic industrial sector.

Within the broad array of dependency thought, rural areas are also viewed as largely incapable of endogenous development. The pre-capitalistic rural economy is characterized by an inward looking self-sufficiency, i.e. rural communities are viewed as enslaved beneath traditional rules, living an undignified, stagnatory and vegetative life. Outside the early industrialized capitalist economies, the transformation effected by capitalistic development on rural areas leads to the replacement of self-sufficiency with export-oriented crop production and the substitution of locally produced craft products for imported mass-produced goods. These changes again stress the exogenous nature of the development process[24].

Both approaches reinforce the conception of rural development as "dependent" development. Within the non-marxist paradigm much attention is given to the means by which modernization can be speeded up. Thus, emphasis is placed on the provision of capital and finance in the rural sector (to get around the problems of exorbitant interest rates charged by local lenders), the introduction of new technology (to overcome the disadvantages of customary practice and primitive technology), and the provision of infrastructure (to link the area more effectively to the external world). Such changes are all likely to increase the extent of external control and incorporate rural areas more fully into national and international markets. Within the neo-marxist approaches the predominance of external concentration of power will ensure that exogenous forces prescribe the nature of development[25].

[24]Indeed the whole terminology of Marxist thinking on development is replete with references to the subservience of rural areas to the capitalist core. Colonial relationships between center and periphery directly imply an exogenous set of forces operating on the region (see Baran, 1957; Gunder-Frank 1969).

[25]More precisely, de Janvry (1981) argues that a combination of land reform, that breaks the alliance between the national industrial capitalists and the traditional landed elite, and technical change, resulting in the generation of new income streams in rural areas, could result in the incorporation of

Endogenous development vs. endogenous growth

Although endogenous growth theory (EG) has some semantic resemblance with the concept of ED, it is, however, not suitable for an explanation of ED phenomena (Romano, 1996). First of all, ED is characterized by the local determination of development options, the local control over the development process, and the retention of the benefits of development within the locale. This focus on the "local" dimension of development process is a first, crucial, feature that differs ED as compared as EG models (Table 3), where the latter feature an analytical level which is aggregate, i.e. macroeconomic[26]. On empirical terms this means that EG models are not suitable for the analysis of specific local case studies.

Tab. 3. Comparison between Endogenous Growth and Endogenous Development

Categories of analysis	EG	ED
Objective function	Uni-dimesional: economic growth	Multi-dimensional: development
Analytical level	Macro	Micro, Meso
Explanation of growth/development	Endogenous	Endogenous
Determinism of growth/development path	High: uni-linear	Low: diversity
Sustainability of growth/development path	Economic: high Technological: medium Environmental: low	Economic: high Technological: high Environmental: high

A common feature of the two approaches is the attempt of an endogenous explanation of development. There is, however, a significant difference in the meaning the two approaches give to the term "endogenous": in EG models the growth mechanism seems be restricted to «learning by doing» and «learning by using» phenomena, while there is no room of maneuver for «deconstruction/ reconstruction» of production techniques, which play, instead, a pivotal role in local development processes. This is very important, because in this case the degree of external technological dependence decreases and the degree of adaptation of such techniques to a given situation will be improved. Again, EG models say nothing on how exogenous technology could be adopted and adapted to a given situation: paraphrasing Machlup (1967), we can say that the local development system in those models is nothing but a «theoretical link», a technological black box. Therefore, from

marginal classes as more active participants in the national economic and political system. Again, this development process is driven by external (to rural areas) forces.

[26] This statement could be surprising, since, formally, the EG functions are microeconomic functions: Under this respect, the EG models are similar to the neoclassical models, which strictly speaking do not utilize individual functions, but just percapita functions, obtained subdividing the aggregate function by the relevant population.

the point of view of technical change explanation, the ED paradigm seems to be more suitable than EG models.

My personal feeling is that EG models are in a situation of "comparative disadvantage" as compared as ED, because, despite the fact that they have a more powerful explanatory power than neoclassical models, they are still rooted in the neoclassical paradigm. In other words, since the dependent variable is still mere economic growth, and the presumption to be able to explain with a single model all possible development paths, pose insuperable constraints over EG models: They are not able to take into account fundamental dimensions of adoption/adaptation of techniques process, like the institutional set-up, the social relations of production, the articulation of economic system at micro level, etc.

In conclusion, putting aside the semantic assonance between EG and ED, the two approaches seem to be fundamentally different. All the issues we dealt with so far seem to derive from a fundamental lack of EG models: They miss the institutional dimension of development. On the contrary, this allows the ED approach to take explicitly into account the possibility of several development paths, which are the outcomes of dynamic responses given by economic agents to changes in the operational environment. Development paths can be only partly predetermined: Development is full of uncertainties and its inner meaning can be grasped only if the theoretical framework we use is suitable for the analysis of adaptive behavior to such pervasive uncertainty[27](Romano, 1995). As we shall see, the response will depend on the prevailing institutional set-up: a demand for an institutional change will be explicited whenever this setting will no longer be consistent with the prevailing economic and social conditions.

Changes in traditional thinking on development

The conventional wisdom on development has been substantially modified by both theorists and practitioners in last decades. From both the liberal and the Marxist approaches new ideas have emerged which offer new perspectives on the contribution of endogenous factors to development processes. Within the liberal approaches a number of different strands of thinking have developed. Three particular strands seem important for the discussion at hand: The potential for spread effects to diffuse outwards from the initial locus of development, the extent to which local culture can be seen as a modifying influence on development processes, and the contribution of practicing development agents.

The assertion that spread effects will arise as a result of development in a particular location is implicit or explicit in most liberal formulations of the development process. These spread effects can arise either naturally, as in the Myrdalian

[27] That is, only if the theory allows for "closed loop strategies", as is well known from game theory.

conception, or can be contrived through the location of growth poles in regions where it is intended to stimulate development artificially. It might also be asserted that an alternative form of spread effect arises as a result of remittances being sent back to rural areas, or of reverse migration where the primary motive is not financial: Rather than the agricultural sector being a source of capital for the developing urban sector, it may become a destination for capital and wages earned in other sectors. The significance of this process is twofold: First, it implies a reversal of the normal direction of capital flows and the introduction of capital to support "traditional" ways of life; second, it is recognized that the reconstituted rural community can modify development pressures and mediate the development process.

A second set of modifications of normal development models can be found in the work of anthropologists and ethnographers, who argue that local culture mediates the development process, even within an apparently homogenous culture. Furthermore, local culture is seen not as a residue or as an anachronism, but «the persistent "production" of culture and attribution of value becomes an essential bulwark against the cultural imperialism of the political and economic centers, and thus provides fundamental means by (sic) keeping the communities alive and fruitful» (Cohen, 1982: 6). If economists ignore the enormous significance with which people invest their cultural distinctiveness, they will fail to fully understand patterns of development: Not only can development occur where neither market forces nor policy instruments have directed it, but the characteristics of development can take on specific forms (Long, 1984; Strathen, 1984).

The third modification of traditional liberal thinking comes from the largely a-theoretical observations of development activists and practitioners. Perhaps the clearest statement of this is found in the work of Chambers (1983), who, highly sensitive to the failings of both liberal and Marxist agendas for development, offers a set of practical proposals and guidelines to enable development intervention to operate more effectively. Chambers «balanced pluralist approach» suggests that development agents should engage in a dialogue and learn from the intended beneficiaries of development. Chambers' solution is "bottom-up" development, a challenge to established procedures, breaking out of top-downwards thinking, participating in decision making with the poorest, helping them to articulate their demands for services and rights and learning by acting on the ground in development actions with those that most need help. Here is evidence not so much of endogenous development but of local values being considered as a desirable ingredient in the development process: The change agent is still external, the development process still exogenous, but development is not so much imposed as negotiated.

The Marxist approaches have been modified in three ways that might impinge on the question of endogenous development: It has been argued that there is no "iron law" that compels capitalist agricultural development to take precisely the same course in

other settings; the assertion that family units comprise a transitional class has been subjected to considerable debate, which has implications on the nature of development in certain regions; the debate about capitalist restructuring and the capacity for rural regions to be affected by this spatial restructuring also has implications for theorizing about development.

The suggestion that the commonly described Marxist model of agrarian development should operate uniformly has been challenged by Carter (1979). Elaborating on case studies, he argues that, while it is possible to use Marxist analysis to explain the extraordinarily rapid agrarian development of a region, it is unreasonable to expect that the development of capitalistic agriculture will always take the same form: It can be asserted that local factors mediate and differentiate the development process, and models and theories which fail to identify this may offer weak explanations of observable patterns of development.

The extent to which peasants and small family farms have survived the ingress of capitalism into the rural economy has led to much debate about the status of family farms where the functions of management and ownership of capital and provision of labor are carried out by the farmer and his family. Farming is by no means a unique example of a small enterprise with family labor. Indeed many rural businesses are of this kind. Tourist buninesses, other service businesses, some food manufacturers are characterized by their imperfect fit with the idealized Marxist model of mature capitalism. Within the mode of production described by Friedmann (1986) as «simple commodity production», the small firm can be linked into more advanced capitalism in all ways except its use of labor. Although some (Winter, 1984) have asserted that the peculiar nature of land explains this "incomplete" form of capitalism, this fails to explain why other sectors of the economy, operating without land as an organic input, possess similar structural features[28]. As matter of fact, the existence of large numbers of simple commodity producers is one of the main features of the least advantaged sectors and regions, and to the extent that such decisions are made within the (farm) household, they are endogenous, although it is probable that many small family businesses are locked into wider circuits of capital (by credit arrangements etc.).

The third elaboration of Marxist thinking concerns the spatial manifestations of mature capitalism (Urry, 1984; Allen and Massey, 1988). The struggle for profit forces firms to exploit labor pools that have hitherto been unexploited and thus it is possible that areas remote from the capitalist core can be economically activated by

[28] The failure of normal capitalist structures to develop in these sectors may reflect the limited or uncertain returns to particular forms of economic activity, and the utility of this "incomplete" mode of production to mature capitalism. Thus, in rural tourism the part-time tourist provider offers accommodation in economic space that is unexploitable by normal capitalistic firms. This occurs because, in a period of economic difficulty, the family unit can partially disengage from the market, or reduce its rewards for labor to levels that would not be tolerated by hired labor.

decisions made literally thousands of miles away. In the struggle to keep production costs down, rural economic space is increasingly used in many countries. Where development proceeds by this route (by creating new employment opportunities and increasing economic activity in rural areas) it cannot be regarded as endogenous development. This branch-plant approach to regional development has often been criticized for ignoring the needs of the locale and for failing to establish economic activity which has a local entrepreneurial base. Firms associated with this type of economic activity are likely to be footloose and be all too ready to exit the region during recessions (Firn, 1975).

There are parallels and contrasts in the liberal and Marxist reformulations. Both acknowledge the existence of a bundle of factors that influence the course of development. However, the extent to which endogenous development can be postulated is restricted to its identification as a cultural variable within the liberal formulation or a local effect within the Marxist formulation. Within simple commodity production it is possible to postulate a degree of endogenous development, although this mode of production still operates in association with other more normal capitalistic forms. Chambers' liberal plea for bottom-up development represents a crie de coer on behalf of the least advantaged, which tends to reaffirm the contention that exogenously controlled development often ignores the interests of the least advantaged. Endogenous development thus hovers in the shadows of some of these reformulations but rarely occupies a position of prominence. Again, endogenous development is not so much a concept with clearly defined theoretical roots, but more a perspective on rural development, strongly underpinned by value judgments about desirable forms of development.

The principal question facing economists is to explain how a concept which has been so marginal to mainstream thinking in economics should have acquired such centrality in the activities of development practitioners. Several explanations can be offered. First, it can be argued that endogenous approaches to development are rooted in the responses of marginalized groups to pressures for their assimilation into wider social and economic structures. Second, it might be asserted that endogenous development has become a tactic in effecting the economic subordination of particular groups or regions. Third, and more important, endogenous development is a means of achieving more effective development of a conventional type.

The difficulties of creating enduring benefits to regions that operate under significant handicaps of peripherality have long been recognized. Development agencies have been established to aid the development process. Often in the past the development agencies operated with very top-downwards styles, encouraging at times a significant amount of inward investment, but not a great deal of locally-based entrepreneurship. The subsequent metamorphosis of the agencies' strategy for development to one which was more focused on the support of endogenous entrepreneurship may have been

influenced by the bitter experience of bad debt arising from major projects associated with external investors. Many agencies now have a much better understanding of the factors that inhibit endogenous development and are prepared to act in ways to reduce such factors by providing a variety of business and community support services.

Development agencies have thus adapted their modus operandi, without altering their fundamental aims and objectives. They have recognized that long-run development gains are likely to be secured more effectively by encouraging local entrepreneurship than by inducing footloose branch-plants into the area. The same packages of infrastructure development, grant-aid, loan finance and business and community support services are still in evidence, but the agencies have learned to adapt these elements to the local social and cultural context. In addition to recognizing the need for a development dialogue with the recipient community, it has also become apparent that proliferating agencies must interact effectively amongst themselves (Parker, 1989). A further strategy which has been pursued by many agencies is the use of animateurs and networkers. These individuals usually operate over a relatively restricted area, often have networking responsibilities in that they try to achieve collaborative action by agencies, and endeavor to maximize the amount of indigenous activity. They provide communities with a conduit to external support services and aim to catalyze development by helping communities to recognize the options confronting them.

It would be erroneous to describe these changes in development practice as a substitution of endogenous development for exogenous development. Both are examples of dependent development, although endogenous development strategies may provide rather more opportunities for locally-based social, economic and cultural circumstances to shape the development processes. The significant differences in development strategies pursued offer opportunities not so much to refine development theory but instead to apply known economic techniques to assess the effects of the different strategies. Comprehensive audits of development projects are to be preferred to intuitive appraisals, ideally embracing cultural, social and environmental effects as well as the economic dimension. The potential contribution of economists is considerable. The local, regional and national multiplier effects of projects can be estimated, the cost-effectiveness of different agency strategies can be explored, and the distributional consequences of particular actions can be assessed. Intuitively it might be expected that “bottom-up” endogenous development strategies would perform favorably under the scrutiny of economists. Unfortunately, the evidence to date is still too fragmentary to be able to offer any generalizations.

The role of institutions and institutional analysis

In section 3.2 I argued that institutions play a great role in determining ED. Here I will elaborate on this idea, trying to answer the following two question: Why do

institutions matter, and where do they come from? This will also offer the opportunity for some critical remarks on the kind of economic analysis we need, in order to take into account properly the institutional dimension of development.

Institutions can be defined as «[C]ollective rules that define socially acceptable individual and group behavior» (Bromley, 1989: 44), i.e. they are a set of conventions and norms that define the society's «working rules» (Commons, 1968: 6). This means that any institutional set-up has its own «normative content», i.e. any given institutional structure defines what is a cost (or a benefit) and for whom, by means of shaping choice sets from which economic agents (individuals, firms, households, and other decision-making units) choose courses of action. The economy as a set of ordered relations obtains its structure and operational character from institutions: It is the institutional set-up which gives meaning to economic concepts like efficiency and optimality. Institutions exist because, as ordered relations, they reduce uncertainty within social and economic systems, or, as Ford Runge (1984: 162) has put it, institutions «[O]rganize, process, and store the essential information required to coordinate human behavior».

1. Why do institutions matter?

If we agree with the statement that any institutional structure has its own normative content, then it is clear why institutions matter in development processes: Both efficiency and distributional outcomes of development are determined by institutions. And, of course, there could be institutional set-up that are more conducive than others to development. As a matter of fact, an institutional set-up which is "born from within" (i.e. which is not juxtaposed from outside) offers more guarantees to be successful: this is the experience of the most part of the rural development projects in the Third World (see section 3.3), and is also the experience of the Italian industrialization model, based on small and medium enterprises, organized in industrial districts (Becattini, 1987, 1989). It could be interesting to analyze a bit deeper the latter example, because it is a nice case study which has several feature that can shade light on the issue of ED; furthermore, the same analytical category (i.e. district) has been recently proposed as an example of ED pattern in rural areas (Iacoponi et al., 1995).

An industrial district (as well as an agricultural or an agro-industrial district) is a local development system where takes place a «strengthening of industrial relations, which is lasting over time and creates a complex network of positive and negative externalities, as well as of historical heritage». What is important in the Italian experience is that the diffusion of industrial districts overlaps the diffusion (until early post-World War II years) of a particular institutional structure, where sharecropping ("mezzadria") was the predominant agricultural contract arrangement. Here, we are not saying that sharecroppers and landlords mechanically turned themselves into workers and/or entrepreneurs: It is just important to point out the

statistical correlation between diffusion of mezzadria and diffusion of industrial districts: Economic historians have explained that with the fact that the mezzadria contract was based on farm management sharing, it was conducive to a culture of firm management sharing, which has been the fertile environment where industrial districts were born.

From an economic point of view, Iacoponi (1994) proposed a new-institutional analysis of the industrial district, arguing that it modifies the firms' economic space: The local system of firms is a "quasi-market system", where firms have to decide whether "buy" of "make", on the base of economic comparisons on production, transport and transaction costs. However, this decision is not only an economic decision, since, as pointed out by Becattini,

> «[T]he advantage of local products as compared as those coming from outside is not a mere advantage in terms of transport costs, but relies upon an array of other factors, which call for spatial proximity and the belonging to a human group which is historically and culturally identified» (Becattini, 1989: 13).

In other terms, what Becattini and Iacoponi stressed, is that the different position with reference to the firm's "efficient boundary" has impacts not only in terms of commodities production, but also in terms of social reproduction of the local system[29]:

> «[T]he local milieu is the end-tail of a natural and human history, that provides the production organization of some essential inputs, like labor, entrepreneurship, material and immaterial infrastructures, social culture and institutional organization. (...) Production is not only the transformation of a (given) set of inputs into an output according to given technical processes, but it means also the reproduction of material and human requirements on which the production process is built. (...) Commodity production entails the social reproduction of productive organism: a truly productive process should co-produce not only commodities, but also values, knowledge, institutions and the natural environment that perpetuate it» (Becattini e Rullani, 1993: 28).

Another important assertion[30] in explaining why institutions do matter, is that any institutional setting is also an "authority system" able to ensure that the expectations

[29] It is also worth noting, in relation to this, how close are the findings of Italian industrial economists to those of some political scientists, like Ostrom (1990 and 1993) and Putnam (1993) which stress the importance of both institutional incentives and the role of local communities for the success of development strategies. For an economic analysis which moves from the same premises, see Baland and Platteau (1996) and Platteau (1999).

[30] Often forgotten in economic analysis.

of right holders are met: «[C]ompliance, protected and reinforced by an authority system, is a necessary condition for the viability of any property regime» (Bromley, 1991: 27). The more consistent to the values diffused in the polity, the better the operationally effectiveness of the institutional set-up. This statement is well-known and proved in many case studies, mainly in LDC, where indigenous property rights structures (mainly based on common property regime) have been substituted by colonial (i.e. private or State) property regimes that undermined and delegitimized the original one, being not able to establish the implicit and explicit legal foundations of an economy and society. Again, the juxtaposition of an alien (i.e. not accepted) institutional set-up has served worse than the endogenous one. Using Bromley's words for depicting such a situation, in these countries

> «[M]ost economic activity is plagued by strategic uncertainty – a situation in which economic actors are precluded from maximization by the ever-*changing nature of the "rules of the game". This fluid condition, what Myrdal called the soft state,* means that the family and the village become the primary unit for economic exchange. (...) With the institutional foundations of the economy being ineffective in providing a secure basis of economic calculation over space and time, we also find that social sanctions and conventions regarding land and natural resource use are either absent or contradictory. This situation can be thought of as arising from an institutional vacuum, or from institutional dissonance. In either case, independent economic agents are, for the most part, left to their own wile and creativity to assure survival.» (Bromley, 1991: 105).

Those examples should be clear enough on why institutions matter on an empirical ground. However, this recognition has implications also on theoretical ground: An economic theory that is aimed to the explanation of development cannot avoid to take into account the institutional dimension of development process. This means that the received theoretical apparatus (i.e. mainstream economics) must be expanded to include not only the mere exchange of commodities, but also the definition of individual and collective choice sets, i.e. the institutional change (Commons, 1961). Such an expanded view undermines the conventional wisdom[31] of economic efficiency as the driving force for institutional change, because recognizes that efficiency, however defined, is dependent upon the institutional structure that gives meaning to costs and benefits, and that determines the incidence of those costs and benefits. Therefore, a model of institutional change that is driven by the quest of

[31] See, for example, the so-called «property rights» theory (Coase, 1937, 1960; Demsetz, 1967; Alchian and Demsetz, 1973), the «induced institutional change» model (Hayami and Ruttan, 1985), and the North (North and Thomas, 1970) model of institutional change. For a critical assessment of those models, see Bromley (1989).

economic efficiency is circular, or, using Bromley's expression, it is «largely tautological». This calls for a theoretical model of institutional change that offers a legitimate rationale for institutional change, other than that of narrowly construed economic gain.

2. Where do institutions come from?

There are basically two views of institutions and their birth in economic theory:

a) in the first, which Schotter (1986: 117) calls the «school of social institutions», they are seen as sets of rules that constrain individual behavior and define social outcomes that result from individual action (see, among others, Buchanan e Tullock, 1962; Tideman e Tullock, 1971; Dasgupta et al., 1979; Nabli e Nugent, 1989). Throughout this literature, social institutions are planned and designed mechanisms given exogenously to or imposed upon a society of agents. Institutional change is a process of social engineering that takes place through the manipulation of the rules;

b) the other view, called by Schotter (1986: 118) the «behavioral view» (see, among others, Menger, 1883; Hayek, 1973; Williamson, 1975; Schotter 1981), looks at social institutions not as sets of predesigned rules, but rather as unplanned and unintended regularities of social behavior that emerge «organically» (to use Menger's term). What changes is the view of how these institutions are created – they emerge or evolve spontaneously from individual maximizing or satisfying behavior, instead of being designed by a social planner.

Though both approaches are appealing, it is the second view of institutional change that seems relevant for ED[32]. New-institutional economics has given important contributions on how institutions can emerge[33], so I won't deal with these topics here. Instead, it seems worth stressing a "truly" institutionalist explanation of institutional change. If one accepts the hypothesis that institutions can influence economic outcomes, it is straightforward to accept also deliberate actions, aimed to change the institutional set-up, by economic agents. In other words, economic behavior is more than exchange of goods and services, it is also about the definition and delimitation of individual and group choice sets: individuals are interested not only in «commodity transactions», but also in «institutional transactions». As suggested by Bromley,

[32] This doesn't mean, obviously, that the first view of institutions has no relevance. Examples of important questions that can be raised under this view could be: Which role for Public interventions in ED processes? How can the degree of endogenity of exogenous institutions be augmented? Etc.

[33] Focusing on transaction costs (Coase, 1937, 1960; Simon, 1955, 1959; Williamson, 1975), on property rights (Coase, 1937, 1960; Demsetz, 1967; Alchian e Demsetz, 1973), and on asymmetric information (Stiglitz, 1985). Since those approaches are widely applied in agricultural economics (see, among others, Nabli e Nugent, 1989; Bardhan, 1989; Hoff et al., 1993).

> «[W]hen economic and social conditions change, then the existing institutional structure may no longer be appropriate. In response to these new conditions, members of society will undertake efforts to modify the institutional arrangements (...) so as to bring them in line with the new scarcities, the new technological opportunities, new distributions of income and wealth, or the new tastes and preferences. Those activities undertaken in response to new economic conditions, with the intent of establishing new institutional arrangements, are called institutional transactions. Those activities undertaken within a given institutional structure are referred to as commodity transactions» (Bromley, 1989: 110).

Therefore, it can be envisioned a process of circular causation between economic conditions and institutional structure (Figure 3).

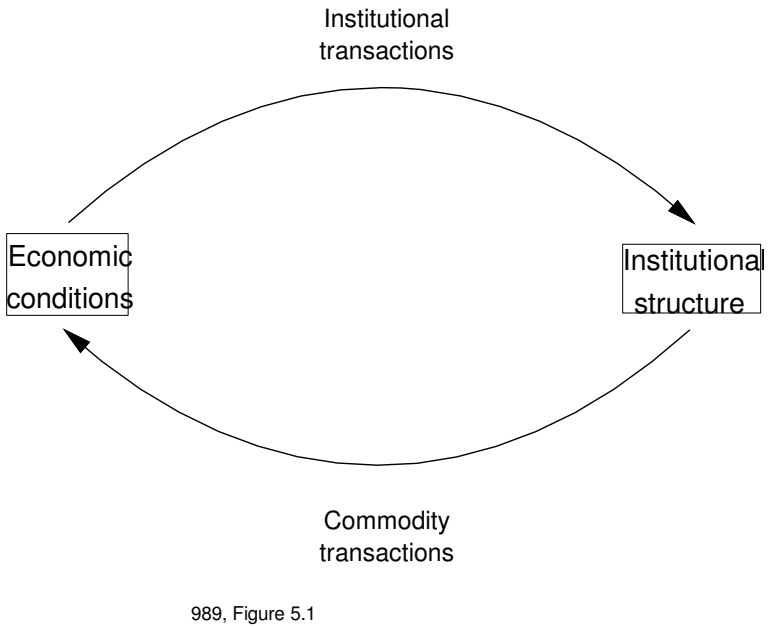


Fig. 3. Institutional and commodity transactions (Source Bromley, 1989)

It is such an iterative mechanism that is innovative, as compared as to both neoclassical and new-institutional models: It explains, in a truly endogenously way, institutional change. Such a model of institutional change explicitly recognizes that any decision-making unit has its own preferences, which find an expression in interests, which then show up as claims against the prevailing institutional structure. The intent of such claims is, in the final analysis, to modify existing institutional arrangements, in order to provide a new different structure of conventions and entitlements. The analytical relevance of this approach for ED is its capability to take into account endogenous institutional changes: It can be a framework for the

economic analysis of such a change, by means of economic explanatory categories (i.e. institutional transactions that increase productive efficiency, that redistribute income, that reallocate economic opportunities, and that redistribute economic advantage) which allows for a "fine tuning" on rural ED (see Romano, 1995).

Ed after the EMU: constraints and opportunities

The turn of this century is marking a deep reshaping of the institutional set-up in EU. It is interesting, therefore, to try to anticipate how institutional changes will affect rural development patterns and agriculture performances in the EU.

The importance of agriculture has been big within the EU, and the impact of the EMU on the sector can have serious political and economic ramifications. The issue is particularly complicated, and the reluctance of the literature to approach it is testimony to the proposition. Among the reasons that make the question intractable is that European agriculture is in a flux: Its previous huge importance within the EU is being purposefully diminished in order to facilitate eastward enlargement; the reform of the CAP, in process since 1992, and the conclusion of the Uruguay round and the WTO in 1994, make clear that the old structure will be coming down, but the skyline of the new has only in last months begun to emerge.

The analysis is also severely constrained by the lack of data which could link the changes in the institutional and economic environment after the EMU and the agricultural sector. Therefore, we will carry out only a qualitative analysis of possible effects of establishing the EMU on agriculture and agro-food industry, stressing that the perspective of analysis is the one of a Southern European country, like Italy, that is the one of a country characterized by a relatively weak currency and a mediterranean agricultural production. Therefore, first we will try to explain what if a country like Italy would have being left out the EMU and then we will ask what could be the likely consequences of being in the EMU. Here is where the previous discussion about ED patterns come back into the picture: what will ED performances be vis-a-vis the ones of other agricultures, taking into account that agriculture competitiveness will be under pressure not only because of EMU, but also because of EU eastward enlargement and, more important, the incoming Millennium talk of WTO.

The two-speed Europe scenario

EU countries have striven for being members of the EMU since its inception[34], and now we can say that they largely succeeded. This is good, since it reduces the risk of the so-called "two-speed Europe". If this were the case, we should have expected

[34] This is an indirect sign of the fact that the EMU will bring about net benefits looking at the economy as a whole. For a detailed analysis of this point, see Baldwin (1991) and EU Commission (1991); for a more skeptical view see De Grauwe (1997).

exchange rate instability between the Euro and the Outs, because of the asymmetry in the demands for a reserve currency like the Euro and the soft currencies of the Outs (Yotopoulos, 1996; Yotopoulos and Josling, 1997). Further flexibility of the currencies of the Outs, let alone systematic devaluations, could have precipitated a throwback into the future: the need of an agri-monetary system (AMS, also called green-money system), an important part of which are the so-called "monetary compensatory accounts[35]" (MCA).

The establishment of the EMU, with uniform pricing (in the same currency) and the complete integration of the internal market, should have permanently delegated the MCAs to the dustbin of historical curiosa (see next section). While this is correct for the In-countries, the situation of the Outs is a replay of the French devaluation of 1969 that calls for the re-invention of the MCAs, with a vengeance. Systematically weakening currencies for the Outs not only pose the risk of inflationary pressures, but also make their imports from the Ins more expensive (Yotopoulos and Josling, 1997). A return to the MCA system with its import-subsidy element would theoretically solve the problem, but subsidies would require action at the internal borders of the weak-currency countries, and these borders have been abolished. Should they be re-erected, this would represent regression from the single internal market (established in 1993).

The Outs could of course explore the possibility of unilateral action through "competitive liberalization. The country wishing to offset the negative impact of higher import prices could simply reduce the protection at the border, importing cheaper goods from outside the Union. This would fly in the face of the Common External Tariff of the EU and the concept of a uniform external border. As such it would be even more politically difficult to gain agreement from other member states, which would certainly fear a spread of the "renationalisation" of trade policies to other areas. It would also imply the reintroduction of borders within the EU, at least around the core countries, and eventually risks of a breakdown of the EU. Such action, besides being politically divisive, could also exacerbate the adjustment problems for the Outs.

[35]An exchange rate realignment of the French Franc and the Deutsche Mark in 1969 enriched the CAP with the appendage of the MCAs. Given the objective of uniform CAP price of intervention commodities, MCAs taxed (at the border) the "cheap" exports of weak currency countries and subsidized their "expensive" imports, while symmetrically subsidizing the exports and taxing the imports of strong currency countries. In time the usefulness of the MCAs became dubious as they became the most important distortionary element of intra-EU agricultural trade, in the sense that their effects went well beyond the off-setting of arbitrage and inflationary impacts of exchange rate movements between weak and strong EU currencies, penalizing too much the former and subsidizing too much the latter countries. Finally, and after 25 years of operation the system became obsolete when the borders, as a collection point for MCAs collapsed with the completion of the single internal market (established on January 1st 1993).

In other words, the issue of competitive prices and of the price-cost reverse escalator would still be the "farm problem" that had bedeviled EU agriculture in the last decades. From a national point of view, we could say that not having succeeded in joining the EMU, would have affected negatively Italian consumers, since Italy has a huge agro-food trade deficit and, being systematic devaluation of Italian lira versus the Euro a self-fulfilling prophecy, Italian agricultural imports from Ins countries – which are, indeed, the largest part of Italian agricultural imports – would have been relatively more expensive. On the other hand, being an Out country, would in principle have granted Italian producers because of beneficial short run devaluation effects on Italian agricultural exports. However, this statement is incorrect in the long run as shown by the literature on macroeconomic linkage (Romano, 1997), which proves that the long term effects on the agricultural sector of competitive devaluations are eventually negative. Besides that, if MCA would have been again operating within EU in order to avoid arbitrage and inflationary pressures between Ins and Outs, the alleged positive effects of competitive devaluation would have been much less pronounced or even more than counterbalanced, as it used to be under the AMS.

Consequences for Ins countries

1. Dismantling the agri-monetary system

A first important consequence of EMU is the dismantling of the agri-monetary system (AMS). In fact the news of the death of AMS in 1993 was greatly exaggerated: the system survived its "abolition" in various forms (Ritson and Swinbank, 1997) until the adoption of the single currency put intra-EMU exchange rates out of business, thus dealing a fatal blow to the main cause of divergence of farm prices among the Ins. In theory, at least, one advantage of the euro is that it heralded an after-AMS life that helps concentrate the mind of Euroland's farmers on competitiveness. In practice this brave new world represents a gain for the farmers who are competitive. It represents a loss for all growers of "intervention[36]" commodities, whether they are competitive or not – at least to the extent that the "compensatory payments" of the CAP reform do not fully offset the (lost) benefits of the AMS.

The advent of the euro freed the Ins of the tyranny of exchange rates in a second way also, which potentially has vast implications for competitiveness in Euroland: Cross-border trade that was previously settled in foreign exchange is now being settled in domestic currency, the Euro. As pointed out by Yotopoulos (1999),

[36] That is, commodities whose price was set institutionally by the EU, using a mix of trade instruments (external tariffs and, more generally speaking, protection barriers) and/or market subsidies, which eventually guaranteed higher withi-EU prices as compared to international market prices.

> «[T]he transition to the euro is a significant economic event for the countries with softer currencies, who had their imports denominated in foreign exchange – say the DM, the FF, the BP or for that matter the US $ – and had to settle their current account overruns also in foreign exchange. Since Portugal could not pay for imports of French wheat in escudos, it could import only as long as it could shift resources from nontradables (or rather "nontradeds") to tradables ("tradeds") – which in turn could be exported to procure the FF to pay for the wheat. In a world where the shift from nontradeds to tradeds is not costless, a gap in the balance of payments can become binding. This is no more the case in Euroland. Effectively Portugal can pay for French wheat by the proceeds of producing more haircuts for the domestic market, since both Portuguese haircuts and French wheat trade in euros. The EMU makes in effect the current account balances among the Ins irrelevant. The situation is equivalent with the state of the world that Arkansas and California face in the USA. The former is a poor state, the latter is rich. But Arkansas enjoys a tremendous advantage in not having to produce "exports" to pay for *importing pentium chips from California's Intel Corporation.* Similarly, by joining the EMU the 11 Ins have made all their outputs, from haircuts to computer chips, exchangeable in "home" trade and in domestic currency. Another way of putting this is that tradability has been redefined in the EMU, by shifting things that were imported and exported previously from the tradable column to the nontradable column of the ledger. Only trade conducted with non-Euroland partners is international trade post-EMU, which means that self-sufficiency has increased and the share of trade in GDP has shrunk» (Yotopoulos, 1999: 3-4).

The real implications of this process are that the abolition of the internal foreign exchange borders in Euroland had a profound effect in decreasing trade with the outside world – which is increasing self-sufficiency of the Ins. Self-sufficiency has a negative ring to it, since it evokes images of trade diversion. In this case self-sufficiency is an unmitigated blessing, since «it is not based on closing-in but on opening-out» (Yotopoulos, 1999: 6). It means that the same goods and services that were paid previously in foreign exchange are now obtained from the very same sources in domestic currency. The benefits of the euro that derive from dispensing of current account balances for the Ins accrued mostly to the countries with the weakest currencies that faced, as a result, a binding foreign exchange constraint. The choice of paying in domestic currency or in foreign exchange becomes irrelevant for the strong-currency countries - and a fortiori for the reserve-currency country.

From the Italian point of view, we could say that AMS dismantling coupled with the joining of the EMU, which means the adoption of the Euro which is a stronger

currency as compared to the Italian lira, would have positive effects on Italian consumers (since Italy has a huge agro-food deficit and a weak currency) and in principle would benefit Italian producers as a whole[37] also, because of the distortionary effect that the AMS had played against Italian productions in intra-EU trade.

2. Effects on competitiveness

From the above, we can conclude that the establishing of EMU stimulates efficiency mechanisms and, therefore, can have significant impacts on competitiveness. Those trends are reinforced by the so-called Agenda 2000 (EU Commission, 1997) and by the likely outcomes of the incoming WTO Millennium talk[38].

Tough international competitiveness seems to be a plain and measurable concept, when we deal with sectoral and country international competitiveness the concept definition is more tricky. Recent research efforts have tried to clarify different dimensions of such a concept. A first group of variable refers to ex-ante international competitiveness, whose elements are the traditional production costs and firm productivity, especially if coupled with the signaling value of export performances, import shares in domestic markets, unit values of imports and exports, terms of trades, etc. A second group of variables refers to technical progress and innovative capabilities, as signaled by R&D investments, number of patents, human capital characteristics, etc. When quality[39] is at stake, unit production costs represent only one component of competitiveness: in this case product differentiation, market segmentation and market structure become important. Those aspects are gaining increasing importance as witnessed by EU trade, which is mainly intra-industry trade of goods belonging to the same commodity category but differentiated according to the final demand requirements.

This means that international competitiveness is a multi-dimensional concept[40]. When applied to agriculture and agro-food industry this means that the competition

[37] This does not mean, however, that some categories of producers - namely the ones subsidized by means of intervention prices under the AMS - would not be worse off after AMS dismantling.

[38] Agenda 2000 is the long run budget document who plans political and economic objectives for the EU in the next decade: among others, a special emphasis is given to the efficiency improvement objective, on the basis that more efficiency is required to compete in an even more open and interdependent world. This take explicitly into account the current mood, which recognize the need for a more open international trade, upon which the next WTO talk will be rooted: the likely outcome of such a talk will be the reduction, if not the dismantling, of residual barriers to free trade at international level. Again, this calls for higher competition among firms and systems of firms, which in turn calls for more efficiency.

[39] Quality is a complex concepts which involves the quality of raw material content, product reliability, product performance, final consumption differentiation, etc.

[40] Acknowledging such a multi-dimensional character of competitiveness is essential to understand some performances both at national (e.g. Italian textile and fashion goods) and international (e.g. German export as a whole) level: despite higher unit production costs, export performances are dominated by “quality leader” countries (EU Commission, 1996).

push caused by the EMU can have different impacts for different component of these sectors.

2.1 Agriculture

Though with some approximation, we can identify two broad agricultural typologies within the European agriculture – and especially within the Italian agriculture – which can be differently qualified with reference to competitiveness:

> agricultural systems often localized in marginal areas, very important for environmental and landscape conservation, characterized by highly differentiated quality productions: those systems correspond to what we have called *"endogenous"* development patterns in section 2 and are more widespread in mediterranean regions as well as hilly and mountainous areas;
>
> agricultural systems producing agricultural commodities, i.e. bulk and largely undifferentiated goods like cereals, feed grains, meat, etc., whose market is virtually the whole international market: those agricultural systems coincide with what we have called *"modernization" development patterns, typically involving "continental" agricultural products which were* – and largely still are – *also "intervention" good under the CAP.*

As Polidori and Romano have put it,

> «The production of the latter does not require the use of resources with particular qualitative characteristics and they are exchanged on markets where competition is virtually global: this implies a weak link of production practices with its territorial basis. In terms of products characteristics, agricultural commodities are subject to standardization according to technical requirements of processing industry.
> On the other hand, in the case of high quality products, it is the final consumption which commands for the standardization of their qualitative characteristics: however in this case standardization *doesn't mean homogeneity among categories of products, but* homogeneity within each category of products, i.e. differentiation of products niches» (Polidori and Romano, 1999).

Competitiveness necessarily entails different elements in the two types of agriculture: while agricultural commodities competition is played mainly as cost competition (i.e. production costs and farm productivity are the most important variables), agricultural quality products play a different game, namely non-price competition based on quality concerns, market segmentation and exploitation of quasi-rents stemming out from such a segmentation.

Now, how the EMU and other institutional changes will affect this two "agricultures"? The current institutional environment is characterized by the transition toward decoupled intervention under the reformed CAP (which means less subsidies for what used-to-be intervention commodities), reduction of trade protection as a likely result the incoming WTO talks, and the adoption of Euro, which will be a strong currency, if not a reserve currency. All those changes will put under further competitive pressure the agricultural systems focusing on commodities production, such as cereals and animal products (Romano, 1997). On the other hand, this will increase the comparative advantages of agricultural systems that enjoy natural advantages and engage in "niche" agricultural (and agro-industrial) production, especially if their processes happen also to create positive environmental externalities (Romano, 1998): these agricultural subsectors are likely to successfully fend off the pressures of competitive pricing.

Of course, the above mentioned competitive advantages are only "potential" advantages. In order to be fully exploited some preconditions and economic behaviors need to be fulfilled[41]. The two most important preconditions are the existence of:

a) a high per capita income (and cultural level), which let the consumer to have access to and appreciate high quality products typical of ED patterns, that is the increase of per capita income triggers, through the action of the Engel's law, the consumption of high quality goods, that are normally exchanged at higher prices (niche-products);
b) an institutional set-up that safeguards and valorizes typical high quality productions. In fact, the institutional support to the production and valorization of a quality product – via labeling, marks, and tipicity denominations – allows for market segmentation, higher prices, and potentially higher added value deriving from the production of that goods.

In conclusion, ED patterns products seem to be in a better shape as compared to agricultural commodities. And the establishing of the EMU does reinforce those dynamics.

2.2 Agro-food industry

The EMU can induce increasing convergence and similarities among the Ins economies, mainly in terms of macroeconomic fundamentals. However, at sectoral level we could expect a further push toward regional specialization. The Italian agro-food industry is characterized by low technical and organization concentration rates: this means there will be room for further concentration processes aimed at exploiting potential scale economies and, hence, at pursuing strategies of efficiency improvement (production costs and firm productivity).

[41] See Polidori and Romano (1999) for an analysis of such conditions, with an empirical application to the case of Chianti Classico wine.

On the other hand we should recognize that the low concentration in the sector depends on the highly variety of Italian agro-food productions, on its craftsmanship character and on small and medium size of its firms, which are organized in production systems similar to industrial districts (Becattini, 1987). This means that it can be pursued industrial and marketing strategies based on the exploitation of agro-food products quality.

The sector dynamics in the last decade confirms the importance of both strategies: the Italian agro-food sector has been the first one in terms of merges and buys and one of the most important in terms of foreign direct investments. While market penetration motivations cannot be ruled out[42], it is also clear that at least part of such strategies were aimed at exploiting so-called "ownership advantages" (Dunning and Narula, 1996), that is acquiring trade marks, exclusive innovations, products specificity, and therefore the exploitation of such assets by multinational firms.

The EMU impact on the agro-food industry competitiveness does not seem to be negative. Indeed the sector is mainly characterized by intra-EU trade, and this means that the sector performances will be influenced mainly by the overall competitiveness of each country as a whole (infrastructure, degree of innovation, human capital, etc.). On the other side extra-EU international competitiveness, even in the case of a strong Euro, will be the resultant of off-setting forces: if it is true that agro-food firms would be hurt in terms of exports because they will sell relatively more expensive products, they could be helped by buying relatively cheaper raw materials in international markets. Even more important is the possibility that these firms have in terms of mark-up pricing, due to the fact that agro-food products are highly differentiated, markets are segmented and their structure let these firms to exploit market power and rents appropriation.

Conclusions

The analysis carried out in this paper has reached no definitive conclusions: The issue of ED needs more researches in order to highlight its internal mechanism and to try any generalization on such a mechanism. However, some intermediate conclusions, based on what we do know so far, are the following:

ED doesn't fit with any development economics model: The model appeared so far in the literature focus on mere economic growth and/or are rooted in an idea of development as an exogenously driven process. However, the practice of development practioneers, in Third World as well as in developed countries, has shown how important is an approach that puts the people first, building on local

[42] That is, in order to penetrate the EMU market, it is relatively easier to buy Italian firms, which are usually characterized by a small and medium size and by a highly market fragmentation, than do this in France or Germany.

communities and strengthening the existing network of relations at local level. This is why

ED is closer to a sociological and development practitioners perspective, rather than an economic perspective. This is unfortunate, because usually economists tend to reject theoretical constructs that don't have the "flavor" of economics. However, if economists ignore the significance of ED patterns, they will fail to fully understand a great deal of development experiences, in both underdeveloped and developed world: Not only can development occur where neither market forces nor policy instruments have directed it, but the characteristics of development can take on specific forms. This redirects our attention to the

crucial role of institutions. By now there is a huge amount of experience which witnesses that development will be more effective if based on locally tailored institutions. But this must not to be misunderstood: Although one can acknowledge with the claim that rural localities might be able to play to their strengths, it must also be recognized that "locality" as such contains no guarantee whatsoever, sometime it works, other times it doesn't. It is important to analyze why does this happen. There therefore is a need for an institutional analysis of ED. It is only the careful and detailed exploration of farming styles and other local elements as embedded in particular frames of interaction with outside factors, that can render insights into the prospects for (or the impossibility of) ED. This, also, is probably the only way to carry out an economic assessment of ED phenomena, as shown recently by Ostrom's works (Ostrom, 1990, 1994; see, also, Bromley, 1992, and Runge, 1995).

Finally, the importance of agriculture has been big within the EU, and the impact of the EMU on the sector can have serious political and economic ramifications. The agricultural enterprises that produce bulk and undifferentiated products, such as cereals and animal products, will come under further competitive pressure. This will increase the relative importance of the enterprises that enjoy natural advantages and engage in "niche" agricultural and agro-food processing production, especially if their processes happen also to create positive environmental externalities. These agricultural processes, which belong to agricultural systems usually characterized by ED patterns and are more widespread in mediterranean regions as well as hilly and mountainous areas, seem to be better equipped to successfully fend off the pressures of competitive pricing.

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