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DEVELOPMENT, UNEMPLOYMENT, AND MARKETING IN LATIN AMERICA

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Foreword

This paper was presented and discussed at a Workshop on Agricultural Marketing in Developing Countries sponsored by the Agricultural Development Council held at Palo Alto, California, April 13-15, 1972. The workshop participants were researchers from U.S. universities who have been conducting studies related to the workshop topic.

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DEVELOPMENT, UNEMPLOYMENT, AND MARKETING IN LATIN AMERICA*

Introduction

In this paper I will argue that because of (not in spite of, as many believe) unequal income distribution and high unemployment and underemployment levels in Latin America, development planners should begin to examine issues of economic organization and exchange (marketing) in search of opportunities for stimulating development with broader participation by the masses. The traditional approach to development planning has placed great emphasis on increasing aggregate production in the agricultural and industrial sectors. I will argue that a more realistic approach under current conditions in Latin America would be to evaluate effective aggregate demand and then to foment supply of the appropriate mix of goods and services.

It is true that the marketing system serves as an employer of last resort in many developing countries. The same is true of farming. It is also true that under imperfect market conditions, some intermediaries in developing areas are able to reap monopoly profits. Under such circumstances, and viewed statically, public investments that increase productivity in the marketing system may end up increasing monopoly profits of a few intermediaries while simultaneously reducing employment opportunities.

But the baby should not be thrown out with the bath water. There are also many circumstances where adjustments in the micro or macro marketing[1] conditions

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*I am indebted to Michael Weber, Pablo Torrealba, James Shaffer, and Harold Riley for helpful suggestions during the development of this paper.

[1]Marketing will be defined in this paper as including those activities whereby buyers and sellers interact to exchange relevant market information, to establish conditions of exchange, and accomplish legal and physical exchange of ownership. Micro marketing issues are those concerns related to the management of the individual firm's factor procurement and product merchandising and dis-

can yield dramatic reductions in marketing costs, stimulate production, and create new effective demand with positive net employment effects.

I will sketch out the argument in the following steps. First, I will examine current concerns about underemployment of human resources and the related problem of unequal income distribution. I hope to show that development planners, while talking incessantly about the problems of underemployment and poor income distribution, are pouring gasoline on the flames by intensifying the same old programs that have helped to create the problems. Next, I will sketch out an alternative approach to development. Then I will examine more specifically the role of micro and macro marketing reforms in such a development approach -- offering some examples of the relationship between marketing development and employment. In the last section, I will attempt to summarize the argument and offer some conclusions.

Underemployment in Latin America

Most countries in Latin America are currently going through a period of painful reevaluation of past development strategies and disappointing results. There is now widespread concern about planners' traditional use of high rates of GNP growth as the primary and overriding development objective. In many countries of Latin America, high GNP growth rates have not brought significant improvements in economic welfare for the masses and often have been accompanied by a worsening of real per capita incomes for low income families.

Among other development specialists, Dorner [6] has lamented the lack of knowledge in development economics regarding the interrelationships of produc-

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tribution efforts. Micro marketing is concerned primarily with the individual firm's profit maximization goals through efficient factor procurement, final sale, and physical product distribution. Macro marketing issues are those related to the aggregate effect of micro marketing decisions by individual firms, governmental regulations, policies and actions, social customs, and consumption patterns.

tivity increases, employment generation, reduction of poverty, and elimination of income inequities as development progresses. He contends that this gap in knowledge represents a crisis situation in developing countries. Dorner argues for explicit consideration of additional criteria in assessing development and for the need to give a higher priority to the issue of broadening economic and political participation. Similar arguments are put forth by Reynolds [16], Eicher and associates [7], Seers [19], and the International Labour Office report on unemployment in Colombia [12].

Employment Concerns in Historical Perspective

These concerns have been stimulated by the fact that unemployment has been growing and income distribution has not improved, and in some cases has worsened over the past two decades. From 1950 to 1965, open unemployment in Latin America increased from 6.5 percent to 11.1 percent [23] [6]. The problem is even worse considering extensive underemployment of human resources. A study using 1960 data estimated that the unemployment equivalent for those underemployed in Latin America would bring the unemployment rate up to 25.7 percent. Furthermore, the situation since that year appears to have worsened [14]. The employment prospects are quite gloomy. If present trends continue through 1980, the open unemployment rate for Latin America would reach 18.6 percent [14, p. 21].

Available evidence suggests that during the last two decades, low income families in Latin America have experienced little increase in per capita income [12] [23] [14] [24] [17]. Moreover, in some subsectors and regions, the absolute level of per capita incomes decreased while GNP grew by about 5.2 percent per year for Latin America as a whole [23, pp. 10-14]. Thus experience suggests that even significant growth rates in gross national income may not be transmitted into improvements in general welfare for more than a small percentage of the population.

The problem of limited participation in the growth process is not restricted to Latin America. Abundant references could be cited of similar concerns in other developing areas. After analyzing empirical data from 74 developing nations (most capitalistic or semi-capitalistic economies), Adelman and Morris concluded:

> The present study indicates few opportunities for the increase of economic participation through economic development....The dynamics of the process of economic development tend to work relatively against the poor; the major recipients of the rewards of economic development are consistently the middle class and the highest income groups. [1]

Something about the economic, political, and social forces shaping development in those 74 countries has not been consistent with the objectives of achieving broad participation in the growth process. Adelman and Morris suggest that broader economic participation might be achieved by placing greater reliance on development strategies focused on the exploitation of human resources, as opposed to natural resources and capital, by extending the use of mixed government -- private ventures, worker cooperatives, smaller scale firms, etc., and by reducing dualism by emphasizing rural development in small owner-operated farms.

In Latin America and many other developing areas, the pervasive strategy of development has been that of increasing aggregate production in the agricultural and industrial sectors without great concern for "the market." It has been assumed that demand or "markets" are not the problem. Major development policy efforts have been directed toward increasing production for export (usually for a single commodity, e.g., coffee, sugar, petroleum, copper), expanding agricultural output and substituting domestically produced goods for imports. The "green revolution" is a good example of this strategy applied to the agricultural sector. "Miracle varieties" coupled with input packages have resulted in rapid increases in gross production, but less than "miraculous" changes in human welfare. "Nutritional need" has sometimes been confused with "effective demand." Marketing channels that are costly and fraught with uncertainty have often played cruel tricks on development planners. Consumers that "want" the product are unable to exert effective demand due to limited purchasing power, high prices, or lack of availability of the product to them. The dynamics of the internal market have been ignored. And those producers who have been able to take advantage of the "miracle packages" have, by and large, not been the low income masses but the middle and upper income commercial farmers [13, p. 1]. While many countries have succeeded in achieving high target levels of growth in aggregate production, they have failed in the real objective of development, i.e., improving economic well being for all the people.

Political pressures created by the masses of unemployed and impoverished have forced Latin American governments to at least look like they are doing something about the problem. The result has been a rash of ill-conceived policies and programs such as protective labor laws, infant industry tariffs, price controls, and subsidized credit which have resulted in distorted factor price relationships, institutional rigidities, and other economic distortions that seem to have aggravated the problem rather than provide any long-term solution. On the other hand, extreme conservatism by investors who face political and economic uncertainty results in little investment in the kind of Schumpeterian innovations that produce real dynamic growth.[2]

An Alternative View of Development

I believe the conditions described in the previous section were accurately predicted by Lauchlin Currie in 1966 [5]. In his treatise on development, Currie presented a diagnosis of underdevelopment which has much in common with current

[2] I realize that these are brash statements. I have chosen the terminology carefully and have probably overstated the case in order to emphasize the very real and, I believe, urgent need for development specialists to look realistically at these issues. For that reason, I will use the same style in the remainder of this paper.

writers, showing concern for rising unemployment and deteriorating conditions of income distribution. Alluding to the vicious circle of poverty, he suggests a vicious circle of gross inequality: "small market for mass consumption products -- heavily disguised unemployment -- weakness of the pull element in the mobility of labor-growing inequality." [5] A principal difference is that Currie pointed to the lack of effective demand as the primary problem while most current writers continue to focus on expanding aggregate supply with the implied assumption that supply will create its own effective demand.

Currie's argument has recently been supported by an Organization of American States publication which concluded that development in Latin America is limited not only by the lack of demand for exports but by a lack of effective internal demand [4].

Many development economists have been quick to argue that "pump priming" Keynsian policies are not appropriate in developing countries because of existing strong inflationary pressures. Currie concurs that he does not agree with the conclusion that the basic problem is therefore one of production. He contends, with support from more recent research [17] [21] [22], that considerable excess capacity does exist and that it might be brought into production through Keynsian-type policies, but only if they are accompanied by efforts to deal effectively with the social, political, and economic forces hindering the movement of factors and products to their most economical use.

The following review of current literature on the conditions of underdevelopment seems to confirm that view. The development problem is too complex to be viewed simply as a deficiency of either effective demand or supply. But I will later argue that more attention now should be given to discovering the limitations of demand and particularly those associated with the organization and operation of markets (both micro and macro marketing).

A Summary Diagnosis of the Current Development Dilemma in Latin America

One might formulate a long list of characteristics of underdevelopment. My purpose is to survey the literature and summarize those which have received greatest attention as causal factors of underdevelopment and underemployment of resources. I will divide the list into four major groups: (1) population growth, population distribution, and employment; (2) economic organization; (3) monetary and fiscal factors; and (4) factor and product price distortions.

Much has been written about the rapid rate of population growth in developing countries and its effect on development efforts. In most Latin American countries, the annual rate of population growth is around 3 percent. This rate of growth has been sustained over the past several years, resulting in a high percentage of unemployables and heavy pressures on the economy to create new jobs for the large numbers of new workers entering the labor force each year. In most Latin American countries, over 50 percent of the population is employed in agriculture though a significantly lower percentage (30 to 40 percent) of the gross national product is generated in agriculture.

Rapid migration to the cities has been underway for several years. Annual growth rates of 7 percent have been common in the major cities of Latin America. This migration appears to result from several factors including both push and pull elements. Among the factors pulling workers toward urban areas are: government policies to stimulate industrial development and employment; artificially high negotiated union wage rates in urban areas; protective labor and social security laws for industrial employees as opposed to rural workers or self-employed farmers; better social and educational services in urban areas; a greater variety of consumer goods and entertainment alternatives for urban consumers; and the safety valve of informal and sometimes illegal income opportunities in urban areas (e.g., petty retailing, part-time work, personal services, begging, borrowing, stealing, prostitution, extortion). The principal factors tending to push individuals out of rural areas are: improvements in agricultural productivity associated with commercialization of agriculture, mechanization, and technification in situations where there is a lack of effective demand resulting in low prices and low returns to labor; poor social services; lack of non-farm employment opportunities in rural areas; and limited availability of consumer goods and entertainment.

The problems of rising unemployment and underemployment have already been cited. Migration pressures have created special problems in certain cities of Latin America where the industrial base is minimal and investment generation capabilities are limited. Job creation is limited by the subsidized importation of capital intensive production equipment reflecting factor price relations in foreign developed countries. There are simply not enough job potentials for the mass of untrained, uneducated migrants. For example, based on population projections, it was estimated that the labor force in Cali, Colombia, would increase by nearly 70 percent in the next decade. The gravity of the problem is made clear when we note that unemployment at the time of that projection already amounted to about 20 percent of the existing labor force [17].

The second group of characteristics of Latin American economies is associated with existing economic organization. In that category, I include those characteristics of economic organization of firms and industries and their behavior. Perhaps the most pervasive element of economic organization in most Latin economies is the duality which exists throughout, i.e., commercial versus traditional agriculture, modern heavily capitalized versus traditional shops and cottage industry, and modern commercial and service firms (e.g., Sears stores, supermarkets, IBM accounting service) versus traditional intermediaries and service people. A second and closely related element of economic organization is the inequality in the distribution of wealth (i.e., land, capital goods, durable consumer goods) income and economic opportunity. The negative impact on the marginal efficiency of capital, resource use, reinvestment of profits, and economic innovations have been widely recognized. A third feature of economic organization in Latin economies is the prevalence of market imperfections and monopolistic tendencies. Imperfections are a fact of life in any market economy but limited information, poor transportation, and concentration of economic wealth in Latin American countries create special problems of monopoly power. The reaction by government is often to accept and regulate the monopoly (while complaining bitterly) rather than to eliminate the imperfections and stimulate competition in order to make the industry regulate itself. Finally, there is extensive overlap among political and economic elites. Special interest groups essentially maintain effective political and economic control. Consequently, government policies are often demagogical and paternalistic and frequently have negative long-run development effects.

The third major group of factors contributing to high rates of unemployment in Latin American countries fall under what I will call monetary and fiscal problems. Here one must list a closely interrelated set of problems including balance of payment shortages, inflation, antiquated tax laws, evation of taxes, and fiscal-monetary policy rigidities arising from concerns related to political stability. Political and economic conditions often force Latin American governments to deal with monetary and fiscal problems on a short-term piece-meal basis. Consequently, unemployment and poverty problems may not get full consideration. Effective treatment of unemployment and poverty problems using some combination of fiscal-monetary policies, new laws, governmental reorganization, and other means are limited by the difficulty of obtaining parliamentary or political support for them.

The fourth category of factors contributing to underemployment of resources has been labeled factor and product price distortions. In a perfectly competitive system, factor and product prices are determined by supply and demand. All factors of production are used optimally and fully to satisfy revealed consumer wants at the lowest possible cost. All consumer wants are not satisfied, but variable product prices permit each consumer to optimally allocate his income according to his own preferences. There are no price distortions. But perfect competition does not and cannot exist in any economy and even if it could, there is no guarantee that the result would be socially and politically acceptable.

Government policies of three types are, therefore, commonly used to cope with market imperfections and to reflect social and political realities. There are a group of policies designed to help the economy function more "perfectly." Examples are anti-trust laws, laws establishing standard weights, measures and grades, public price information, education, research and dissemination of information on changing technologies, etc. The second set of policies are those designed to purposely manipulate the imperfect economy in an effort to bring about the same desirable conditions which would have prevailed under perfect competition. Since man's knowledge of current conditions is never perfect and since he is almost totally ignorant as to the future, the outcome of such policies is often (and understandably so) disastrous. Policies designed to have a positive effect often, because of changing conditions and sometimes because of poor formulation, will produce the opposite result. Some examples of this type of policies are credit and tax subsidies, price controls, and taxing policies. The third set of policies are those designed explicitly to alter the distribution of economic benefits in response to social and political pressures. Examples are minimum wages, social security, public welfare to the poor, and again taxing policies.

If one examines the conditions in almost any Latin American country, he will discover literally thousands of laws, policies, or programs falling into one of these three categories. They form a political and legal legacy that may stifle the economy with contradictions and conflict -- yielding inefficient use of resources and worse still blocking progress toward more optimal allocation of productive capacities [17]. Programs and policies once implemented because of their positive impact on one segment of the economy can have unforeseen negative effects on other variables. Or, because of changing conditions over time, they may become harmful even to the segment they were designed to benefit. Unfortunately government programs and laws become institutionalized and are difficult to change or eliminate. It is commonly recognized that factor and product price distortions arise from such conditions. For example, labor legislation arising from the pressures of urban oriented labor unions raise industrial wage rates far above rural and cottage industry wage levels; subsidized credit directed largely at borrowers with good collateral may perpetuate conditions of capital intensive production; price controls may prevent prices from reflecting real supply and demand conditions and preclude adjustments needed to bring about optimum resource allocation.

A historical legacy of contradictory laws and policies is bad enough but the problem is complicated even further by the tendency of socio-political systems toward what Forrester has called "counter-intuitive behavior." This is a situation in which the complexity of the organizational system (in this case, an economy) with multiple sub-parts each focusing on its own objectives derived from broader societal objectives somehow produces a negative aggregate result. "There are orderly processes at work in the creation of human judgement and intuition that frequently lead people to wrong decisions when faced with complex and highly interacting systems." [9]

A Dynamic View of the Development Process

Economic development in this discussion will be defined as the dynamic process whereby changes in social, political, and economic forces bring about improvements in per capita income that are distributed to some degree (though not necessarily equally) among all segments of the population. Rogers defines economic development as a sub-part of a greater process of "social change - the process by which alteration occurs in the structure and function of a social system." [18] He notes that social change is composed of three steps: "(1) invention - the process by which new ideas are originated or developed; (2) diffusion - the process by which these new ideas are communicated throughout a social system; and (3) consequence - the sum of the changes occurring within the system as a result of the adoption or rejection of innovations." [18]

Under the above definition it would be possible to achieve economic development in a totally subsistence economy if ways could be found for the subsistents to increase their productivity. But classical economic theory as well as historical evidence suggests that meaningful economic development is normally brought about by increasing specialization and economic exchange. Individuals begin to specialize in the production of one or a limited line of products while depending on other specialists for the production of their remaining needs. As specialization advances, the need for effective exchange becomes more critical. Innovations in production methods, organizational forms, legal-political environment, organization and use of labor, and social customs interact dynamically with the process of specialization to sustain social change and economic development. Labor may be embodied in capital goods that make new gains in labor productivity possible.[3] This process of economic development through specialization and industrialization is normally stimulated by economies of larger scale production.

The exchange mechanism may be governed by open bargaining where the producer must negotiate his own exchange price; by custom whereby social customs set the conditions of exchange; or by administrative fiat whereby the exchange conditions

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[3] For an interesting and informative analysis of capital intensive versus labor intensive technologies see Robert Solo, "Capital and Labor Intensive Technology in Developing Countries," Journal of Economic Issues (December, 1969), p. 96.

are subject to political control. In all cases the decision to continue specialized production of a given product is dependent on expected net return to production efforts. This implies some information about current and expected conditions of supply and demand. When specialized producers are uncertain of market outlets and prices, they will attempt to minimize economic risks by avoiding further specialization, by ignoring opportunities to innovate, and by delaying or abandoning opportunities to achieve greater economies of scale.

Economic development requires that economic participants sustain a constant and reasonably successful search for unexploited economic opportunities. The process of specialization and innovation can easily be sidetracked. Lack of effective demand, poor information, high marketing costs, and many other market related factors can stagnate the development process as can social and political factors.

Effective coordination of the market for labor is especially crucial. Drastic changes in work roles for a large percentage of the population are an integral part of the transition from a subsistence to a specialized and industrialized economy. Shaffer concludes that "in the absence of programs and policies to facilitate labor mobility, expand effective demand and otherwise create employment opportunities, unemployment and underemployment exist." [20] Many crucial development problems are a direct result of poor labor market coordination or ineffective and sometimes harmful policies for dealing with that problem.

In the partially or totally industrialized economy, the exchange process (the market) also becomes the mechanism for distributing the fruits of the economy. Price relationships reflect income relationships. If there are price distortions caused by limited market information, factor and product mobility, or other imperfections, the economically, politically, and socially more powerful individuals can be expected to have relatively greater knowledge and to take advantage of it to improve their own wealth at the expense of others. Shaffer has summarized the expected results very well.

> Experience indicates that the distribution of the increased productivity associated with the transition from traditional agriculture are usually shared very unequally. Large numbers of rural people are left behind in the transition. The potential exists for land and other resources to become even more concentrated as those with an initial advantage increase their ability to bid for land and other inputs. The results can be increased numbers of landless unemployed people in both the city and rural areas. The social and political costs of this result can be very high. Positive policies in the design of food production-distribution systems, policies designed to increase labor mobility and monetary-fiscal policies designed to expand employment opportunities are an essential input to the development process. [20]

Historical evidence suggests that where development policies do effectively stimulate labor mobility and economic specialization, the commercial and service sectors will occupy a rising percentage of the population. In the late 40s and early 50s, Colin Clark and A. G. B. Fisher formulated what came to be called the Clark-Fisher thesis. The essence of the thesis was that the process of the development was marked by an increase in the relative importance of secondary and then tertiary activities as sources of income and employment. They postulated that rising GNP levels would be associated with larger percentages of the population employed in commerce and services [2] [8]. The Clark-Fisher thesis was challenged by others, but the argument ended rather inconclusively.

More recently, Lee Preston has examined the relationship of GNP and percentage of the population employed in commercial and service activities for 74 countries of the world [15]. Using regression analysis to relate GNP to the percentage of the population employed first in commercial activities and then in all tertiary activities, he found that about 50 percent of the variability could be explained by changes in GNP. This is sufficient to suggest a "fundamental relationship but one which is either relatively weak or badly obscured by non-comparabilities among the observations." [15] He therefore plotted the data and found that leaving aside three countries which are more accurately described as cities (Hong Kong, West Berlin, and Luxembourg), four "new world" wealthy countries (United States, Canada, Australia, and New Zealand), and several low income poor countries with unexplainably high rates of commercial employment, "a continuous functional relationship may serve as a fairly accurate describer of the remaining collection of observations." [15] In general, his analysis supports the hypothesis that as GNP increases, the percentage of the population employed in commercial and other tertiary activities can be expected to increase. This conclusion was supported and taken a step further by Galenson who concluded in a study of 25 countries that "an efficient manufacturing sector may be an extremely dynamic factor in the generation of new employment in the service sectors of developing economies." [10]

In summary, economic development requires increasing specialization and exchange and is fueled by the productivity gains made possible through a constant and pervasive search by economic units for unexploited economic opportunities (innovations). Such change is always accompanied by uncertainty and it can be slowed or stopped if the social and economic costs of uncertainty become too great. The market is the mechanism that coordinates exchange. It is also the mechanism for distributing the fruits of the economy. When product and factor markets are poorly coordinated and costly, the impact on the development process can be serious, the processes of specialization and innovation are slowed, incentives toward changing work roles are eliminated, and income and wealth distributions become increasingly unequal.

The Market as an Educational Tool in the Development Process

In the previous section, I stressed the general role of the market in the transition from an agrarian to a scientifically industrialized economy. Here I hope to show more specifically how the market can serve as a focal point for changing attitudes and behavior in order to permit and encourage individuals to make the work role changes required for development.

Much has been written about the need for "modernization" among peasants in traditional societies as a prerequisite to development. Rogers defines modernization as "the process by which individuals change from a traditional way of life to a more complex, technologically advanced and rapidly changing style of life." [18] By this rather hazy definition he seems to be implying the same kind of process of economic specialization and work role change described in the previous section. Through modernization, individuals accept and even begin to search for more specialized, technologically advanced and market oriented work roles as a way of increasing their productivity.

Rogers has provided a good analysis of the characteristics of the subculture of rural peasantry. The peasant is characterized by "(1) mutual distrust in interpersonal relations; (2) perceived limited good; (3) dependence on and hostility toward government authority; (4) familism; (5) lack of innovativeness; (6) fatalism; (7) limited aspiration; (8) lack of deferred gratification; (9) limited view of the world; (10) low empathy." [18] The peasant's reluctance to enter the market economy or participate more fully in the industrialization process can be traced directly to the above attitudes. While Rogers limits his observations only to peasant farmers, there is evidence suggesting that the same characteristics apply to peasant artisans, peasant traders, and to recently arrived urban laborers [11] [22] [26].

It seems reasonable to conclude that more unspecialized or agrarian the society the larger the number of peasants who fit Rogers' description. Sustained economic development requires that those characteristics be altered for more and more of the population. But he who would engineer such changes cannot compel -- he must persuade.

That persuasion can be accomplished in several ways. Formal education has historically been relied upon to bring about such attitude changes -- though we seem to be realizing now that it may be a very inefficient method of accomplishing the objective. Some have argued that effective use of mass communication is a better way. More recently there has been strong interest in non-formal education as a more efficient combination drawing on some aspects of formal education, mass communication, and interpersonal social exchange.

I would add another variable -- the market -- to those that can be used to induce "modernization." Experience shows that the incentives of the market place can be very effective persuaders. We have already noted that the conditions of the market have a great deal to do with the individuals willingness to specialize, innovate, and migrate to new social settings. It therefore seems reasonable that well organized and coordinated markets can serve as effective stimulators of complete social change.

The process of economic development viewed as a part of the larger process of social change can be summarized as follows: specialization, technification, and exchange produce development; industrialization requires extensive adjustments in behavior of the masses (especially in terms of changing work roles and adoption of new ideas); behavior changes are hampered by traditional attitudes; such attitudes can be changed through some combination of education, communication exposure, and economic incentives. By working with individuals and groups of farmers, traders, and consumers in an effort to improve their performance in the market, one begins to help them understand the complex new industrial system into which each must be integrated if development is to be sustained. If indeed the market does perform better, the resulting economic rewards will reinforce the peasant's learning experience and induce attitudinal change. Simultaneously, if attention is paid both in micro and macro market considerations, the market should be more effectively coordinated resulting in greater effective demand, less uncertainty, and a new thrust toward specialization and innovation.

The Economic Origins of Improvements in Marketing Performance

Many people seem confused about the sources of improvements in marketing efficiency. Most people tend to think of marketing improvements in terms of large North American type supermarkets. There is a general feeling that all sources of productivity gains in marketing must be directly related to drastic reductions in employment. Or more generally, it is assumed that marketing improvements require large investments in market facilities, e.g., storage, refrigeration, supermarkets, wholesale markets, processing facilities, etc. Such investments may indeed be quite capital intensive especially where the technology is imported from developed countries. The strong desire to "modernize" or westernize markets can blind individual firms and governments to the real economic costs and benefits of such investments. But it does not necessarily follow that all marketing system improvements will have negative employment effects.

Let's examine the most important sources of improvements in marketing coordination and performance for developing countries. I will draw on experience in three different Latin American countries [17] [21] [22]. I believe there are three closely related sources of improvements in the performance of marketing systems -- technological change, institutional (or environmental) change, and organizational-managerial change. The corresponding improvements may be referred to as changes in physical efficiency, facilitative efficiency, and managerial efficiency. A fourth serendipitous effect deriving from the interaction of the three might be called coordination efficiency. It is this latter which probably offers the greatest contribution to development. But it can only be defined (at least by this writer) as serendipity.

By technological change in the marketing system, I am referring to those opportunities to economically employ new handling, storage, and processing facilities. One frequently encounters situations in Latin America where inadequate storage and transport facilities prevent the maintenance of rational flows of products to market. Processing and storage facilities are often insufficient to permit product price stabilization. Inadequate primary assembly market facilities hamper buyers and sellers in their efforts to economically accumulate market information and consumate trades. These kinds of marketing improvements require sizable investments. They also tend to make marketing activities more capital intensive. Unfortunately such capital improvements generally dominate the thinking of most development planners and international agencies because they can be justified as project loans for tangible physical facilities. Such projects seemingly are more easily evaluated in terms of internal rates of return and benefit-cost analysis.

The second source of improvements in marketing performance -- institutional change -- is related to the legal and institutional environment created by public actions. Included here are the highly intangible benefits of facilitative public actions such as grading standards, market information, and standard weights and measures. Also included would be legal sanctions to protect contracts, to set sanitary and health regulations, and to facilitate public storage. Finally, public actions may be needed to stimulate or regulate competition, to stabilize prices, or under extreme circumstances to take over certain marketing functions. While the potential benefits of institutional change are great, we must recognize that ill-conceived and ineffective schemes are often instituted in the name of institutional reform, leaving the marketing system worse off.

The third and perhaps most important source of improvement in market performance is achieved by changing the day-to-day organization and behavior of existing marketing firms or by creating new and innovative intermediaries. Better market coordination and lower marketing costs can only be effected through innovative organizational forms and management practices. In terms of the United States' experience, innovative organizational forms in food marketing have included independent country elevators linked to large terminal market facilities, cash and futures commodity markets, marketing cooperatives, livestock auctions, corporate food chains combining wholesaling and retailing, and voluntary food chains. Both physical efficiency and pricing efficiency may be improved considerably through innovative management practices in existing marketing firms. Improvements in management skill permit the marketing firm to achieve greater efficiency in the use of existing storage space, transportation, facilities, credit, handling equipment, and market information. In addition, there are opportunities for improving work methods, reducing inventory costs, reducing procurement costs, stabilizing buyer-seller relations, expanding product sales per unit of marketing effort, and reducing buying costs by standardizing products (even in the absence of official grades). These kinds of managerial changes will produce some improvements in labor productivity and may have some negative effect on overall employment in a static sense. But in a dynamic setting, the positive benefits of greater market stability (with fewer market uncertainties), improved market coordination, lower prices, and resulting stimulation of effective demand can be expected to easily offset short-term disemployment effects.

Market performance improvements brought about by all three types of innovations may either create or reduce direct employment in the short run. If one views capital as nothing more than embodied labor, such market innovations may bring about a substitution of one type of labor (that embodied in capital goods) for another. Thus, over the longer run market innovations yielding greater productivity are likely to be a factor contributing to expanded employment. Still we must be sensitive to avoid creating situations where short-term unemployment and adjustment problems will create unacceptable hardships.

Of the three types of market innovations, the physical facilities and handling innovations favored by development planners appear to be more closely related to the labor factor. They are also more likely to be "copied" or purchased from more developed countries where factor price relationships place a premium on labor saving facilities and technologies. But they are not necessarily the ones that offer the greatest potential for improving the performance of the market.

While it is convenient to identify the three sources of improvements in marketing system performance and evaluate their potential relative impact on employment, we must recognize that experience suggests that most often significant improvements in the performance of a marketing system are produced only by a combination of technological, institutional, and organizational-managerial innovations. One may then attempt to arbitrarily sort out the benefits accruing to each source of performance gains. But invariably one is struck by the fact that "the whole is much greater than the sum of its parts." I have chosen to call the added increment coordinative efficiency. It seems to derive from the fact that progressive marketing systems (i.e., those where the three types of market innovation are interacting) are more stable organisms with fewer costly uncertainties and fewer obstructions to continued innovation and social change.

The problem of identifying the combination of marketing system changes that will induce the beneficial serendipity described above while avoiding negative effects on employment is crucial. But we should keep in mind that output per man hour must be increased if greater incomes are to be achieved. Unfortunately few definite guidelines can be offered. Practically everything depends on the particular situation being considered. That technological marketing innovations are more labor sensitive than institutional or organizational-managerial changes seems generally, though certainly not universally, true. Experience tempered with specific knowledge of the economic system being evaluated must serve as the basis for such decisions.

The overall expected employment effect of marketing system innovations may be drastically altered by the specific combination of changes put into effect, and by any number of social, political, and economic variables. Thus an almost infinite list of possible outcomes might be formulated. And previous experiences can only be regarded as indicative of a given set of relationships. But this is largely true of most development phenomena.

An analysis of results from specific situations, however, can give some indications as to the possible expected relationship between marketing system innovation and employment. Historical evidence suggests that under conditions existing in Puerto Rico after 1950, fairly sizable investments were made in large scale retail-wholesale distribution outlets, seaport and storage facilities, and transportation facilities. These were coupled with simultaneous improvements in managerial and institutional arrangements. The resulting changes in the marketing system yielded little negative impact on employment levels [26]. Labor productivity gains in marketing were offset by rising demands for marketing services brought on by population growth and rising income. Similar results were predicted for hypothesized marketing reform programs in Recife, Brazil, and Cali, Colombia [17] [22].

There is no conclusive evidence to support the opinion of many development specialists that market system improvements will drastically increase unemployment. After overcoming the traditional bias toward new physical facilities and handling equipment that has led to some horrible examples of labor displacement, it is possible to visualize efforts to improve marketing system performance that will have neutral or even positive effects on aggregate employment. Management training designed to help marketing firms improve store and warehouse layout, improve traditional handling methods, reduce procurement uncertainties, etc., may have a significant impact on their economic performance without reducing employment. Changes in laws, public policies, public institutions, and public facilitative actions can have the same beneficial effect. It is possible to continue to use relatively labor intensive management and handling methods while achieving substantial improvements in market system performance. And evidence suggests that improvements in market system performance can help in the effort to achieve more equitable distribution of wealth. The reason is simply that low income families spend a large proportion of their incomes for food and are thus benefited most by reductions in food costs arising from improved performance in the food system.

In summary, market system performance can be improved through technological, institutional, and organizational-managerial innovations yielding three corresponding types of performance gains plus a fourth serendipitous effect which I have called coordinative efficiency. In the short run, such changes may have either positive or negative effects on employment but in the longer run in a reasonably dynamic economy the employment effect should be positive. There is little empirical evidence to document the short and long term employment effects of changes in market performance. And I doubt that much will be available in the near future for three reasons: (1) There is a definite lack of "living laboratories" where development policies have focused on the three types of marketing system changes described above. (2) It is extremely difficult, if not impossible, to sort out the effects of one factor or another in a serendipitous relationship. (3) It is most difficult to compare market related variables through time. Each innovation in the marketing system has the effect of altering the nature of the product (for example, a dozen eggs sold at the same price but delivered directly to the retailer in cartons and graded is not the same product as a dozen unpackaged and ungraded eggs arriving at the retail store through a channel of three intermediaries).

Conclusions

What then are the conclusions regarding possible public expenditures aimed at improving performance of the market? The historical response has been that marketing problems will take care of themselves [3]. The recent concern for high levels of underemployment of human resources and inequitable economic participation have, for many, reinforced that conclusion since marketing improvements are viewed as having no other impact than to increase productivity by substituting capital for labor. With such a narrow conception of the impact of improved markets, one can easily conclude that such public investments will aggravate unemployment problems and should be avoided or, at a minimum, carefully evaluated.

I have attempted to show that improvements in the market can have a far greater impact on the development process. First, the market can be used as an educational tool for integrating individuals more effectively into the process of scientific industrialization. The long-term benefits are difficult to evaluate but this issue seems to be crucial to development and social change. Second, improvements in the coordination of the market, while accomplishing the aforementioned educational task, simultaneously produce economic benefits in terms of lower marketing costs arising from gains in physical facilitative, and managerial efficiency. But the benefits do not end there -- producers are encouraged to innovate as a result of better markets, consumers are encouraged to buy more, and the greater effective demand stimulates a new wave of innovation.[4] I readily admit that the argument presented herein appears as a panecea to all the world's development problems. That is not my belief. I have simply found it imperative to focus only on one set of variables at a time. Clearly, land reform, credit allocation, monetary and fiscal concerns, agricultural research and extension, and many other factors must remain an integral part of the development "bag of tricks." I am simply suggesting that a new "trick" be recognized and used where appropriate.

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[4]For a detailed explanation of this process using quantitative research results see [22].

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