Preface and acknowledgements

This volume has evolved and matured over an extended period of time. The motivation for writing this book was our feeling that the exchange process was not only fundamental to socio-economic development and progress but also influenced by it. Research involvement in, and empirical observations from a large number of developing countries made us aware of the enormous diversity of existing forms of exchange and transactions.

While some transactions occur within markets, others are barter or virtual exchanges within a family and still others take place within firms or organizations, we were particularly impressed by the variety of transactions within each of these categories. We asked ourselves why such a bewildering number of forms of exchange could be observed simultaneously in different settings of the developing world. What seemed even more surprising was the existence of multiple forms of exchange for essentially the same product, such as credit. We gradually realized that economic transactions evoke and reflect structural differences between developing and developed economies; they also help determine the nature, state and pace of development. It is somewhat surprising that most approaches to development economics and policy making do not place more emphasis on the importance of thorough, in-depth analyses of economic transactions.

Why are there so many exchange structures and why do some actors choose, or are contrived, to operate within a specific exchange structure? An answer to this question required us to explore and analyze and dig deeply into the physiology of the exchange process. Since transactions represent the roots and the culmination of any exchange activity, an analytical framework was needed to explain their formation. We realized that transactions occur within what we call exchange configurations. This conceptual framework allows the tracing back of the form and content of transactions to their building blocks or elements of exchange, that is, the *item* exchanged; the *actors* involved in decisions related to the exchange; and the *environment* – physical, social, technological, legal and political – within which the actors operate. Characteristics of these elements, in different combinations, determine distinct types of exchange relations and help explain their operation. We term an entire constellation – consisting of a particular combination of characteristics of elements of exchange, the decision process actors go through, and the resulting transactions – an exchange configuration. Exchange configurations can be thought of as channels through which specific transactions are effectuated. Actors, given their own attributes, the properties of the item transacted and the environment they face, will choose to operate in (or will design) that configuration and corresponding transaction that minimize perceived transaction costs.

In the course of writing this book we realized how much was taken for granted in the analysis of exchange. For example, we found well over a hundred different definitions of 'market' – perhaps the most fundamental concept underlying the exchange process. In studying the evolution of the process of exchange over the last couple of millennia, it became clear that the form taken by exchange configurations and their resulting transactions changed with economic development – gradually away from inter-personal, family or community-based transactions and increasingly towards impersonal market transactions. The dynamics of growth and development cannot be well understood without unveiling the link between exchange and development. We hope that the conceptual framework presented in this volume will encourage and assist further research attempting to bridge exchange and development.

As development economists – involved in research projects in Asia, Latin America and Africa – we had many opportunities to observe various forms of economic exchange in developing countries and the operation of a variety of local markets, such as for domestic food and cash crops in Indonesia, rice exchange in Taiwan, the multiple settings through which rural informal credit is channelled in sub-Saharan Africa, the dealings in black markets of foreign exchange in Turkey and Peru, dealings in a cotton market in Burkina Faso, a market for seasonal labour in Ivory Coast, in primary wheat markets and Islamic banking in Pakistan, to name only a few. It took a special effort to formulate a conceptual framework capable of explaining the bewildering number of distinct exchange configurations and transactions at the heart of the above specific forms of exchange. The same applied with particular force to a closely related matter, namely the behavioural routines of informal actors.

One reason it took a long time for this project to mature into a book is that for most of the time the two authors operated from their home bases, Cornell University and Erasmus University. Another reason is that our insights grew by leaps and bounds, sometimes with considerable time intervals in between. Other research projects in which we were separately engaged gained priority on several occasions. Still, while these projects caused immediate delay, they regularly also helped to improve and widen our understanding of exchange processes.

The list of individuals who inspired, influenced and helped us in the conception of this book is long. We can only mention a few. Erik Thorbecke is most grateful for the many enlightening discussions he has had with Alain de Janvry and Elisabeth Sadoulet on the present theme, starting with the conference they jointly organized at Cornell University in 1993 on 'State, Market, and Civil Organizations: New Theories and New Practices'. Also during the 1990s Erik Thorbecke wrote a couple of monographs with two of his graduate students, under the auspices of the Institute for Policy Reform in Washington DC on, respectively, 'The Evolution of Exchange' with Rimjhim Mehra (now Aggarwal), and 'Rural Informal Credit Configurations' with Stefano Paternostro. Both of these themes are rehearsed and elaborated upon in this volume. As is clearly revealed in the volume, we owe a debt of gratitude to the architects of the 'New Institutional Economics'. While drawing on their contributions we feel that we have added some key insights such as the concept of exchange configuration.

Peter Cornelisse wants to thank all those persons who, sometimes unknowingly, had an impact on the project by offering their insights. The first to be mentioned is Theo van Galen, close collaborator in the Pakistani wheat-marketing project referred to in the main text, who tragically died much too young. Commenting on the Exchange and Development project at a very early stage – when our ideas were only being formed – Theo insisted on the need for a full integration of the time dimension. Justus Veenman (Erasmus University) pointed out a certain degree of correspondence between the exchange-configuration approach and Boudon's theory of social change. On various occasions he also emphasized that economics is a social science and that economic behaviour cannot be understood without taking account of extra-economic aspects, such as cultural and sociological aspects. By the time Wouter Steffelaar and Peter Cornelisse had completed their study of 'Islamic banking in practice: the case of Pakistan', his point had been driven home. John Groenewegen (Technical University Delft) saved us time and energy by introducing us to the recent and most relevant literature on learning processes. And, last but not least, we are most grateful to Elma van de Mortel, who helped us in accessing the vast literature on institutional economics.

We thank all these individuals for their help and interest in our project. But they are not to be blamed if we took wrong turns.

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April, 2010