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Having selected the key actors for our approach, we can now turn our attention to the set of problems relating to strategies of action pursued by these actors. With regard to the structural model we are developing here, the question arises whether or not the peasant strategies of action exhibit common basic features or logic. This in turn raises the question of peasant rationale of action, which describes basic guidelines or principles involved in the process of harmonising and optimising within strategies of action.

Given the wide-ranging debate over peasant rationale of action, we shall limit ourselves in the following discussion to **two theoretical schools**. This limitation is justifiable not only because these two schools of thought have had the most far-reaching implications relating to development policy and practice, but also because, together with their variants, they cover most aspects of the debate. In the following brief discussion of these theories, we shall concentrate on their **economic variants**, as they illustrate the respective principles of household resource allocation in the simplest terms.¹ These principles can then be generalised to cover an entire peasant strategy of action.

The debate over the economic rationale of peasant action began with the so-called 'Schultzian revolution': In 1964, Schultz put forward the proposition that peasant households are 'efficient but poor'² thereby distancing himself from the prevailing opinion at that time, which held that peasant households in developing countries did not operate in an economically rational way. Schultz suggested that 'there are comparatively few significant inefficiencies in the allocation of factors of production in traditional agriculture'³. This in turn led to an economic formulation known as the theory of the 'profit maximising peasant'. Almost as a counter-reaction, the theory of the 'risk-averse peasant' was subsequently formulated.⁴

The most important hypotheses deriving from these two theoretical positions will be briefly described here. To emphasise their far-reaching and practical importance, reference will also be made to their implications for development policy.⁵

The theory of the profit-maximising peasant and its implications for development policy

In simplified terms, this neo-classical theory states that the profit-maximising peasant is efficient in the sense that no change in either input or output would have an additional positive effect on his net income.⁶ Aside from methodological problems,⁷ empirical attempts to verify the theory of the profit-maximising peasant have led to the need to differentiate between two economic efficiencies: allocative efficiency, which refers to efficient allocation on a specific technological level; and technical efficiency, which is a function of the highest available technical level.⁸ Empirical studies undertaken in the 1960s and 70s⁹ generally came to the conclusion that peasant households are efficient, but only in the allocative sense and not in terms of technical efficiency. This conclusion was expressed in a modified theory of 'constrained profit maximisation'. Constraints identified included the imperfect market, exploitation and subjugation, and competition with other household aims, such as those of the moral economy.

With regard to the aim of transforming peasants into market-oriented family concerns,¹⁰ the theory of constrained profit maximisation had decisive **consequences for development policy**. A technological transformation approach was a logical consequence of the theory. This approach tried to

make the already allocative-efficient peasants also technically efficient - something which, as a consequence of the theory, can be done in principle by making a considerable leap in technology.¹¹ This led, in the 1960s and 70s, to development programmes that were dependent on a high level of technical input, characterised by slogans such as 'green revolution'. With the partial failure of this effort to raise technical levels, the attention of the transformation approach was turned in the 1970s to a consideration of the factors hindering technical efficiency. Given the assumptions of the theory of constrained profit maximisation, efforts to provoke a leap in technological levels therefore shifted from direct intervention to indirect measures and improved boundary conditions. First, these efforts focused primarily on lower prices for agricultural inputs, and on the transfer of technical know-how.¹² From the mid-1980s, approaches were broadened to focus on elimination of the imperfection of markets; consequently, there were also attempts to reduce autocratic and bureaucratic structures.¹³

The theory of the risk-averse peasant and its implications for development policy

The economic variant of the theory of the 'risk-averse peasant' postulates that peasant households, while not efficient in terms of profit maximisation, nevertheless make decisions and take actions that are rational in economic terms: Peasant households face a broad range of high risks associated with uneven harvests, due to the variability of natural resources, as well as risks stemming from uncertainties related to markets and market information, social and legal rules and regulations,¹⁴ and autocracy, bureaucracy and political unrest.¹⁵ The theory argues that the allocation of scarce household resources is therefore based on the principle of 'safety first'.¹⁶ Resources are allocated in such a way that risks - understood as subjective evaluations of probabilities¹⁷ - are minimised, and therefore subjectively expected utility¹⁸ is maximised on balance over a longer period of time.

These basic assumptions about the rationale underlying peasant actions have several important theoretical and developmental implications: **(1)** Resource allocation is below the optimum economic level, in terms of both allocative and technical efficiency.¹⁹ **(2)** Risk will be minimised not only through sub-optimal input in one enterprise, but also by distributing resources among many activities. With regard to the economic variants of the theory, this results in a complex agricultural production mix. The sociological and anthropological variants of the theory²⁰ extend this consequence further and also include the involvement of peasants in the moral economy as part of a comprehensive risk-aversion strategy.²¹ **(3)** In its pure form, a risk-aversion strategy hampers the adoption and diffusion of technical innovations.²² **(4)** The rationale of risk-aversion declines as income increases, since extra income makes it possible to take greater risks. According to the economic variant of the theory, higher incomes could thus result in a switch to a strategy of profit maximisation.

As in the case of the profit-maximising approach, the theory of the risk-averse peasant has important **consequences for development policy**: The primary concern associated with this theory is the reduction of objective and subjective risks.²³ Application of the theory within the framework of the 'green revolution' consequently concentrated on the reduction of natural production risks, for example through irrigation projects and the development of resistant crop varieties. Beginning in the 1970s, greater attention was given to market risks, with emphasis on measures designed to stabilise prices²⁴ and on improved market and technical information. Primarily on the basis of the broader variants of the theory (see above), attempts were also made to enforce the risk reduction strategy which results from peasants' dual involvement in both the market and the moral economy, by promoting self-help groups and co-operatives.²⁵ In relation to the concern of strengthening local communities, development approaches which were based on dependency theories and risk-aversion theories began - prior to approaches based on modernisation theory - to include reduction of risks arising from the autocratic policies of newly independent nations and their relation to geopolitical balance of power.²⁶

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¹ This description follows in particular that of Ellis, 1993.

² Schultz, 1964, quoted in Ellis, 1993.

³ Schultz, 1964, quoted in Ellis, 1993.

⁴ The concept of risk aversion has older roots in anthropology but was formulated in economic terms by Lipton, 1968, quoted in Ellis, 1993.

⁵ This should again suggest the importance, as mentioned in Wiesmann (1998) or the document 'The relevance of an actor-oriented perspective on regional development' (GLOPP lesson 'Actor Orientations 1'), of the selection criteria used to establish the theoretical framework. The choice of the theory to be drawn from can, as in the cases discussed here, influence entire generations of development experts, in both North and South - who then determine and selectively guide development projects and funding, by implicitly referring to these theories.

⁶ For a single production function, this means the point at which the marginal factor cost equals the marginal product value. For several resources (inputs) and enterprises (outputs), efficient farm production would mean that the marginal value of product per unit of outlay on inputs should be equal for all resources in all enterprises. See Ellis, 1993.

⁷ It is difficult, for example, to attribute prices to inputs and outputs due to a partial integration into the market and due to the moral economy.

⁸ A higher technical level is expressed in a raised production function.

⁹ Most of these studies were concerned with Asia, especially India, while only a few referred to Africa (e.g. Norman, 1974). However, research undertaken in the 1980s raised questions about some of the conclusions reached by these earlier studies.

¹⁰ This goal is more or less implicit in the theory of the profit-maximising peasant and reflects a modernisation theory position that views peasantry as a transitional phenomenon.

¹¹ This conclusion was described by the 'doctrine of revolutionary pessimism', which holds that on the basis of the allocative efficiency of peasants no potential exists for low-cost adjustments that could lead to increased output and income (see Lipton, 1968).

¹² The continued use of the phrase 'extension service' to describe one of the basic points of contact between development agents and peasants underlines again the persistent influence of theoretical concepts on practical application.

¹³ The structural adjustment requirements of the World Bank, and the demand for good governance and democratisation derive from positions of modernisation theory and are based on the efficiency assumption for peasants.

¹⁴ An example of an important aspect to this is the certainty respectively uncertainty of the availability of access to land and other resources (see e.g. Wachter & North, 1996)

¹⁵ It may here be somewhat cynically observed that the inputs from development projects are also a factor of uncertainty: Due to the social orientation of development actors in national hierarchies and in societies of

the North, development projects are carried out in such a manner that they often appear to peasants to be composed of accidental and/or erratic inputs. See also Dirmoser, et al., 1991.

¹⁶ For a further discussion and application of this principle, see among others Roumasset, 1976, or Parikh & Bernard, 1988.

¹⁷ See e.g. Ellis, 1993, Walker & Jodha, 1986, or Lipton, 1968.

¹⁸ For a further discussion of the 'expected utility approach' see Dillon & Hardaker, 1980 or Anderson, et al., 1977

¹⁹ This is based on the fact that production takes place at the input level, which corresponds to the production function under bad conditions (e.g. dry years). This results in inefficient allocation on the mean anticipated production function (this is the function that lies between the production functions of good and bad conditions and that results from subjective probability assessment of these conditions). This means that both input (e.g. technical measures) and output (production) lie below the efficiency level. But the advantage is that losses in bad seasons are lower than on the efficiency level (see Ellis, 1993).

²⁰ See, among others, Seiferle & Müller-Herold, 1996, Stern & Oskamp, 1991, Hyden, 1980, Scott, 1976. On perception of risks see also Renn, 1995.

²¹ This extension of the theory is important to an understanding of the economic strategy of the peasant. It suggests that the involvement in both the market economy as well as the moral economy is rational (also in economic terms). Therefore, this double involvement can no longer be considered as simply a transitional phenomenon how it is assumed by modernisation theory positions.

²² This is a result of sub-optimal output (see above) and, on the other hand, of the increased risk involved in innovation.

²³ In contrast to profit maximisation which clearly relates to modernisation theories, the theory of risk-aversion is more related to dependency theories. The main political consequence of the theory of risk-aversion of development having to reduce risk, however, leaves it open, whether peasantry is to be viewed as a transitional phenomenon or whether it is to be considered a persisting alternative, whose capacities for self-development should be supported.

²⁴ The discussion concerning 'fair world market prices' for agricultural products can be seen as an expression of this development approach.

²⁵ See, among many others, Nett, 1996, Hanisch (ed.), 1983, and - with reference to Kenya - Wacker, 1996, Maina, 1996, Neubert, 1990, Thomas, 1988, Holmquist, 1984.

²⁶ It is interesting to note that both of these briefly described major theoretical schools underwent a similar development in that they were both initially concerned with direct application to the agricultural production of peasants. In view of limited success, both theories then extended their application continuously to the boundary conditions of peasantry. The persistent lack of success of this process of encircling search for approaches may be one of the causes of the current crisis in development strategy and a reason for currently fashionable concepts which promise general solutions, such as 'good governance' or 'sustainable development'.