3. SOME SELECTIONS FROM THE UNITED STATES EXPERIENCE

The selections from United States economic history discussed here illustrate how social system variables and especially marketing rules interact with the physical transformation system variables to affect economic development. This section has two purposes: to present an experiment with our conceptual ideas, demonstrating their utility in organizing and analyzing data on marketing in development, and to impart some historical perspective on contemporary marketing systems and problems.

In the series of selections to follow we shall analyze (1) some of the historical structural shifts in the United States economy, (2) some of the marketing variables suggested in our earlier discussion of approaches to marketing and (3) the interaction between changes in social relationships and changes in the physical transformation relationships in the course of development. The cases are organized into various groups according to several selected characteristics of the participants involved in the marketing transaction.

TRANSACTIONS WITH FOREIGN NATIONS

The rules influencing transactions among nations have been an important factor in the historical development of the United States. One illustration is the marketing rules implemented by various nations at the outbreak of the European War in 1793. The result was the development of profitable re-export and carrying trades. Neutral U.S. ships were the only ones allowed into European ports. Considerable capital was accumulated in the shipping industry as a result. However, the British and French changed their market rules in 1807 and the United States passed the Embargo Act closing down foreign trade.

The European market rules which benefited U.S. shipping extended the market for U.S. products and skills and then narrowed it again. However, the embargo did help to initiate certain kinds of domestic transactions protected by the absence of foreign competition. Capital accumulated in the shipping sector was applied to the development of domestic manufactures, especially textiles, after 1807 as prices rose.53 Market rules gave manufacturers new bargaining powers by restricting the access of domestic consumers to foreign goods. This signalled the later decline of higher cost home manufacture on many farms, as the mills extended their markets and benefited from economies of scale. In 1800

the typical farmer was clothed in homespun, but by 1840 the household textile industry had been largely transferred to the mills.54 In 1791 there was only one cotton mill in the United States, but in 1809 there were 102.55 The value of home manufacture on farms declined throughout the nineteenth century.

**Transactions Between Distant and Unrelated Parties**

While the United States, from colonial times, had an export market sector, some important inputs, such as land, were not exchanged by market processes. In some American colonies, the feudal market rules of primogeniture and entail meant that the particularistic kinship relationship between the parties determined land transfer rather than the universal criteria of the best manager and the highest bidder. New entrepreneurs and capital were often in New England, and the new lands were on the southern and western frontiers. If access to land were to be a matter of birth, production would be limited by the accidental skill and other resources of the eldest son, and land could not be used as collateral for mortgage credit, since the line of exchange was fixed. To initiate and facilitate factor mobility and market expansion, these feudal exchange rules were replaced. By 1786, entail was made illegal in every state but two, and primogeniture disappeared by 1791.56

Even after access to land was generalized, the ability and willingness of the New England owner of capital to transfer his resources to the frontier was influenced by the kind of title which could be obtained and the method of its attainment. To illustrate, let us take the situation which developed in the South after much of the upland areas became more valuable upon the invention of the cotton gin in 1793 and with the growing cotton export demand. In 1795 the Georgia legislature, under fraudulent conditions, granted the Yazoo Land Company the greater part of Alabama and Mississippi at 1½ cents per acre. An indignant new legislature rescinded the grant in 1796, but some of the land had already been sold to innocent third parties. The Supreme Court in 1810 ruled that the rescinding act was unconstitutional and an impairment of the obligation of a contract.57

What was the effect of this court definition of the market contract rules on economic results? At issue was whether any unrelated New England buyer of Georgia land would have to go to the trouble of inquiring as to how the present owner obtained title to the land, the fairness of the price, and the motives of the former owner. To do so would certainly slow exchange and restrict the extent of the market. The rule formulated by the Court limited the exchange relationship to readily observable fac-
tors. The validity of the title was ascertainable by easily observed conformity to certain procedural rules, and the buyer could make further investment plans with confidence that his right of access would not be voided by future legislation. The effect of the Court's decision facilitated exchange and the flow of resources between the various areas and sectors of the economy.

CREDIT TRANSACTIONS

The rules influencing transactions between lenders and debtors were another point of leverage in United States development, as is shown in the following illustrations. Whether planned or not, the imposition of taxes payable in money was a factor in attracting people to the market economy. However, as the proportion of market transactions increased, farmers were exposed to unfamiliar forces. Price changes beyond their individual control affected the exchange value of their property and threatened the solvency of debtors. Inflation was a corollary of the Revolutionary War, but afterwards prices fell. The wholesale price index was 225 in 1780 and only 90 in 1786. Debts contracted during the period of high prices and taxes, imposed to retire the Revolutionary War debt, could not be paid in the face of declining prices. The market rules specified that debtors be imprisoned for nonpayment. The magnitude of this price change was not predictable, and many honest farmers, who were doing just as good a job of farming as before, now found themselves in jail for reasons they could not wholly perceive.

The farmers attempted to change the market rules in several ways. One was to foster policies that encouraged inflation of the currency, another was to stay mortgage foreclosures, and a third was to return to pre-market conditions of barter, where debt could be paid in kind at some fixed price level. Mass rebellions occurred before changes were made. It was in this atmosphere that the federal Constitutional Convention met in 1787.

Various attempts were made to give strong protection to property. As the Constitution emerged, it contained only one such clause—Art. 1, Sec. 10: "No State shall . . . pass any . . . ex post facto law, or laws impairing the obligation of contracts."

The Convention delegates may have thought they had dealt with the problem of debtors created by the growth of the market economy when they prohibited the coining of money by the states. However, widespread financial disaster followed the embargo of 1807 and the War of 1812. In 1809, the New York jails were not large enough to hold the 1300 men imprisoned for debt. State legislatures tried to change the
market rules but the Supreme Court, in 1819, rejected a statute which applied retroactively to contracts made prior to its passage.\textsuperscript{61} Rule changes finally accepted in 1827 provided for bankruptcy procedures if such bankruptcy laws were in effect at the time a debt transaction was made; they did not impair contract obligations.\textsuperscript{62} These rules governing "competitive methods" made all credit transactions subject to bankruptcy procedures, regardless of the bargaining power of the parties involved.

The market rules of bankruptcy were important for economic development because they provided a means whereby farmers and other debtors could be saved from irrevocable ruin due to unpredictable circumstances, and salvaged as entrepreneurs who might again contribute to society.

An inventory of society's productive assets would include numbers of skilled people. Yet, depending on the rules of exchange, some of these skilled people might be in jail labeled "debt failures," and thus denied future access to resources only because of unpredictable violent market price swings. The availability and realization of productive assets is a matter of social organization and is reflected in physical production relationships.

**Corporate Transactions**

In order to extend the market and achieve economies of scale, it is necessary to have human relationships which make it possible to aggregate and organize capital, human energy and other resources. This often requires units larger than individual proprietorships or partnerships. Corporate activity was often used in the colonies to build bridges, roads, canals, colleges, and other items of social overhead capital. The organizational forms devised for these purposes later became the models out of which our modern industrial corporations grew. Social organization and its subpart, exchange organization, played two major roles in the development of this corporate activity.

First, the procedural rules gave the holders of positions of corporate management access to power not available to the individual acting alone. On the positive side they gave the power of indefinite life, the power of limited liability, and the power to speak for and make binding contracts in the name of the unit under specified conditions. The access to these powers was increasingly through meeting universal standards rather than through personal grants of the legislature. On the negative side the procedural rules gave those in management positions freedom within certain limits from the acts of others including both individuals and government.
These rules have significant implications for the economies of scale and specialization that can be realized. They make possible the coordination of various production and distribution activities in a single large-scale decision-making unit through administrative commands rather than bargaining at each point between individuals in the market. This affects cost structures and the characteristics of the inputs used. While one trend was toward including more kinds of resources and products in market bargaining processes, there was also a trend toward administrative non-bargaining processes.

Administrative Transactions

A number of instances can be cited of exchange rules which allowed occupants of governmental positions through administrative processes to directly transfer rights to resources and make them accessible to individuals and corporations. Among the rules used were those granting exemption from taxation and from the government's power of eminent domain for certain enterprises. Another was grants of land to homesteaders and to the railroads, and direct subsidies based on the government's taxing power. Still another was grants of monopoly power (in a sense, a form of private taxing power) which enabled selected enterprises to raise capital by high and secure prices. These rules affecting resource mobilization were especially important in attracting attention to and initiating investment in high-risk areas with extended early periods of relatively low payoff.

Many of the investments that the legislatures wanted to encourage were related to extension of the market, and the factor of external effects was important. A case involving transportation will illustrate the use of monopoly grants. In 1798, Robert R. Livingston secured from the New York legislature an exclusive 20-year grant to navigate the waters of the state by steam if he could build within one year a boat which would make four miles per hour upstream on the Hudson. In 1802, Livingston entered into an agreement with Robert Fulton, advancing him money to build an experimental boat.

The monopoly grant was extended for Livingston and Fulton at various times. It is difficult to appraise the role that the monopoly grant and the promise of great profits played in the motivation of Fulton and the channeling of funds for his use. Under monopoly protection Fulton devoted his energies to apply several basic scientific discoveries to the development of the steamboat. He offered a share of his exclusive rights in return for money needed at a critical moment in its construction. On the other hand, being a man of many interests, he delayed his work to accept a lucrative contract to develop torpedoes for the British
Navy. Furthermore, it is true that other people who did not have monopoly protection were applying their energies to steamboat development; John Stevens successfully built a steamboat that made a trial run one month after Fulton's successful New York-to-Albany test in 1807. Perhaps the lesson of this case is that there is no one way to channel human energy and other resources. These early monopoly grants no doubt played some role, but other kinds of human relationships could and did contribute to the same results.

The security and flexibility of marketing rules can play a role in development. Consider the following cases of the formation of rules which govern how other rules may be changed. Earlier we referred to the security of contract rules as applied to land transactions. This principle was further expanded in 1819 to formulate rules which determined when the government could withdraw any of the powers it had formerly given to corporate management. The Supreme Court in the famed Dartmouth case created the rule that a corporate charter was a contract which could not be impaired by the legislature. This meant that the relationship between the corporate management and the government was to be limited to the terms of the original charter even if unforeseen changes transpired. The rule clearly defined the area of discretionary action and administrative power in which management could exercise its creative abilities with security. The alternative was a more diffuse relationship, in which the powers under corporate control would have been subject to unpredictable change.

This rule played a part in the motivation of corporate managers and in the release of their creative skills. It was also an encouragement to investment in corporate enterprise. Carl Swisher summed up the importance of this rule:

It gave stability to the rights of corporations which could not have been achieved in any other way. The decision preceded the time when the laws and traditions of corporate enterprise made it possible for corporations to engage safely in large-scale enterprise and when participation of the federal government in the management of internal improvements was still being discussed.

However, the rule raised the danger that corrupt legislatures could irrevocably grant privileges contrary to the public interest. It also meant that, as unforeseen changes occurred, the legislature could not adapt the terms of a charter. This strict interpretation of contracts was to prevail in the early part of the 19th century.

While the market rule of the Dartmouth case seems unequivocally secure, there were contrasting elements in other rules of the time. The
role of grants of monopoly power in the development of the steamboat
has already been discussed. The grant was made by the New York legis-
lature. Because past extensions of the market had created interdepend-
encies, a New York rule could affect the exchange value of property in
other states. Thus the New York steamboat monopoly brought retali-
tory legislation which threatened interstate commerce. In 1824 a new
market rule was established which invalidated the power of any state
to create monopolies in river transportation. This had the effect of
maintaining market extensions already attained and was related to the
changing regional patterns of production.

The rule of security of contract contained in the Dartmouth case
was also modified by the concept of Jacksonian democracy, popular
sovereignty through the ballot box, and other political organization
changes. A changed balance in market rules was struck by Supreme
Court Justice Taney in 1837 in the face of economic and social changes,
including new technologies in transportation. Massachusetts had granted
the Charles River Bridge Company the right to build a toll bridge be-
tween Boston and Charlestown. Some two generations later, in 1828,
one bridge could not serve the needs of the growing cities, and the state
authorized a competing bridge. The holders of the original charter
claimed that the granting of an additional charter was a violation of im-
plied contract obligations. Though the new bridge would certainly re-
duce the exchange value of the old bridge company’s assets, the Court
in 1837 refused to sustain the monopoly. This rule was of tremendous
importance to market expansion and the liberation of new creative en-
ergies. It meant that new means of transportation such as the infant rail-
roads could not be strangled by old bridge, canal, and turnpike monopo-
lies. Eastern railroad expansion was rapid in the 1840’s and marked the
period of economic “take off,” as denoted by Rostow. This rule did not mean that thereafter all legislative grants of monop-
oly power ceased; it only meant that the balance of power was changed.
Monopoly power was granted in such a way as to preserve some ele-
ment of flexibility. For example, the states learned that one way to pro-
tect against uncertainty was to insert reservation clauses in corporate
charters by which they retained repeal and modification powers within
certain reasonable limits.

If any generalization is possible, it is that neither outright monopolies
and fixed areas of discretion nor complete flexibility are preconditions
of market extension. Neither can it be generalized that market extension
means a one-way trend toward bargained market transactions and away
from administrative transactions. Rather we must search out the ef-
fects of various combinations of exchange organization variables as they act in particular circumstances.

TRANSACTIONS BETWEEN UNEQUALS IN AN EXCHANGE ECONOMY

The previous examples illustrate how exchange rules may influence the extent of the market and certain market performance results such as new inventions and capital accumulation. The very success in extending the market and hastening the decline of self-sufficient production creates new problems in turn if certain types of economic activity are to be maintained.

As a society develops from a self-sufficient economy (producing use values) to an exchange economy (producing exchange values), the marketing rules which protect the freedom to use physical objects are no longer sufficient to maintain motivation based on assurance of the fruits of economic activity. The fact that one's material production cannot be physically taken away is little consolation if this production cannot be used directly and if one is not allowed access to the market so that exchange value can be realized.

After the Civil War, personal incomes were increasingly obtained by production for exchange. A man's welfare was increasingly subject to the effects of others' actions and less subject to his personal, independent control. For one specific illustration of the decline of self-sufficiency, consider the structural shifts in regional wheat production. The main sections of the nation were agriculturally self-sufficient in 1800. By 1859, there were marketable surpluses produced in the North Central and Western states at the same time that the North Atlantic and Southern states imported wheat. In 1890, the North Atlantic region produced only 36 percent of its estimated wheat consumption. These trends, together with the growing industrialization, raised new questions concerning the use of market power. The distribution of power to affect the livelihood of others was influenced not only by the action of government in creating monopolies and direct access to resources but also by the growth and organization of private firms at strategic points. Examples of both cases are cited below.

In an exchange economy a monopoly has far-reaching effects on the exchange values of others. In 1872, a rule was formulated ignoring these interdependent effects. The rule was created in a Supreme Court case involving a legislative grant of a slaughterhouse monopoly. Butchers could not slaughter on their own premises but only at specified slaughterhouses with regulated charges. The butchers charged that the monopoly granted to slaughterhouse owners deprived them of their property and
liberty. This challenged a general rule that had been created in 1868 with the 14th Amendment to the Constitution, which prohibited a state from depriving any person of life, liberty and property without due process of law. This raised the question of what was going to be the meaning of property in a marketing context. In this case the Court interpreted property to mean only the value of physical things held for one's own use. The monopoly law did not deprive the butchers of the use value of their shops (that is, title and physical possession). But since they were producing for exchange, the act did lessen the exchange value of their property and labor by preventing their access to a certain line or location of work.

The minority of the Court argued, in effect, that property meant the exchange value of one's possessions and labor and the right to realize that value in the market. In their view property was thus denied without due process under the 14th Amendment; the state legislation was consequently subject to judicial review.

The majority interpretation, however, left unsolved the question of how far regulation of economic affairs could go in the hands of the legislatures. In the past the Court had placed judicial limits on the legislative power of eminent domain by insisting on just compensation. In this case, however, police power affected not use value, but rather exchange value, and the Court was not yet ready to afford it judicial protection.

In the Slaughterhouse case, the Court was concerned with how far a state could go in creating an artificial monopoly. A later case, Munn v. Illinois, was to involve the extent of a state's ability to regulate a privately created monopoly.

After the Civil War farmers were beginning to feel the economic effect of large-scale business on both their input costs and product prices. One source of economic power was the growth of terminal elevator and storage facilities in such cities as Chicago, which collected the grain from the farms for the interregional markets. In 1874, there were 14 warehouses in Chicago, through which much of the production of seven Western states passed on its way to the seaboard population centers. The Granger movement succeeded in getting legislative relief in some areas of the distributive sector. For example, the Illinois legislature passed a marketing rule regulating grain elevator rates and prohibiting price discrimination. In Munn v. Illinois, in 1876, the Court upheld this rule regulating competitive methods in keeping with the economics of the Slaughterhouse case, and said it was not a deprivation of property. The Court noted that business affected with a public interest may be regulated
for the protection of the public. Though exchange value might be affected, it was not regarded as property, and the Court allowed no constitutional impediment to legislative regulation, except the need to find if the business was affected with the public interest.

Commons pointed out that "The decision on Munn v. Illinois recognized for the first time the economic power of property, or power to withhold, growing out of economic conditions, as distinguished from the physical power of sovereignty, or power to compel. . . ." The history of the evolution of property in Western Europe indicates a series of battles against the direct use of power and political privilege deriving from feudalism. However, while the direct use of power over individuals had been curtailed, the indirect power of property had been growing with the expansion of the market.

Prior to the Munn case, the Court had recognized the use of police power to restrain an owner in the use of his property if it affected the health and life of others. The Court also recognized the common law of nuisance which protects the use value of property against smell, noise, etc., of others' use. But the common law was not well developed to protect the exchange value of property against the unequal market bargaining power of another. Thus, the need arose for expansion of the police power to redress the balance of power.

The growth of the exchange economy made it possible to affect others not only through the use of property, but also through the withholding of property. This withholding did not affect such items as the health of others but rather the value in exchange of the property they owned. For example, if someone puts a pigsty next to another's property and it prevents that property's use as a dwelling, the harmed party is protected by the common law of nuisance or, if statutory law exists, by the police power. If someone destroys the value of property by charging very high grain elevator and storage rates because of a natural monopoly of shipping points, the property is not protected by nuisance law, which protects only physical use. A Chicago elevator doesn't prevent a farmer from using his land to grow wheat, but it can destroy the value of his land and wheat in an exchange economy. This market power could inhere in certain property as a result of economic changes as well as through a grant of the state. Such a grant had previously been recognized as carrying with it the power to regulate. This economic power inhere in certain property because of such things as natural occurrences and economies of scale. It was not a new phenomenon, but the growth of the exchange economy had increased its occurrence.

The movement from a self-sufficient economy to an exchange econ-
omy made it possible for an individual to expand his control over others from "holding things for one's own use to withholding things from other's use, protected, in either case by the physical power of the sovereign." Before, one had only physical power while now one has economic power to withhold from others. In the former case one expanded his power by expanding his capacity to use his personal faculties or by sharing in special grants of sovereignty; property had no value separate from the owner's manual, mental, and managerial faculties. In the latter case the mere withholding of property produces value through the power to extract things in exchange from others (i.e., a power of property, per se). The pattern of human relationships creates a structure of opportunities, and in a market economy the regulation of access to market becomes an important determinant of value. An important factor in market access is the private bargaining power of others. Expanded police power could control the unreasonable use of economic power to increase the value of one person's assets at the expense of another and perhaps also at the expense of economic growth and national wealth.

Just how was the expansion of state control of economic activity in the Munn case related to economic growth? This discussion can only indicate a hypothesis for testing. Further research would be needed to show the effects of various storage and transportation rates on the development of Midwestern agriculture during this period.

As pointed out earlier, all market rules may be stated as reciprocals. Limitations placed on the use of market power, however attained, while expanding the powers of those benefited may, if carried too far, actually result in confiscation of the regulated property. This may affect initiative and inhibit further market transactions. The balance of power between parties influenced by the exchange rules is thus a point of leverage in economic change.

In 1890 a new rule was formulated which recognized property as exchange value and brought it under the 14th Amendment. The definition of property thus changed from physical things to exchange value of things. Prior to this, the legislature had the power of eminent domain, which takes title and possession. Obviously, this kind of taking involved the concept of property as specified in the Constitution, and the Court was the final arbiter of just compensation. If exchange value was regarded as property, then the courts could decide whether rate regulation was reasonable or confiscatory.

The Court, in a railroad rate case, noted that mere ownership and possession were empty if the owner were not free to establish its price. The picture was further elaborated in 1897, when the Court noted that
exchange value did not exist without free access to markets. The Court stated that "the privilege of pursuing an ordinary calling or trade, and of acquiring, holding and selling property is an essential part of liberty and property as guaranteed by the Fourteenth Amendment."80

In the Munn case, the Court recognized the effect of the private market power of the warehouse owners on farmers' exchange values and consequently on the farmers' motivation and investment initiative, but largely ignored the fact that warehouse rate regulation in turn affected the exchange value of the warehouse owners and their motivation and investment initiatives.

To find the combination of exchange rules which will relate the bargaining power of all parties in such a way as to stimulate growth and maintain or expand the extent of the market is a major issue in development.

In this discussion, we have seen how some of the marketing rules of today evolved and how they responded to, as well as stimulated, development. We have also noted the interaction between marketing exchange rules which affect human relationships and the physical transformation processes. These were examined in the context of intersectoral shifts, specialization, the aggregation of resources, coordination of sectoral activities, and other variables involved in development and growth. There is evidence that no one exchange organization variable, such as security of contract, monopoly power or flexibility of market rules, can by itself be said to be a precondition for development. All play a role depending upon the environment, and combinations of other variables can often offset the lack of any one. Still, a conceptualization of the linkages between physical system variables and social system variables can be a useful starting place for the marketing analyst working in a particular development problem context.

Summary

We opened the chapter by reviewing the present state of knowledge about economic growth and development in order to introduce the study of marketing in development. We concluded that there is no single or unique path to successful economic development even within a given environment or country, but rather that there are important substitution possibilities between many, if not most, of the causally associated factors of growth. Economic development cannot be adequately explained or predicted within the context of economic factors alone: rather it is necessary to include some range of social organizational characteristics for adequate definition of the relationship. With these conclusions as a
background, we reviewed research and marketing improvement programs and indicated that economists examining marketing in development have focused on cost and efficiency (changes in marketing facilities) and interrelationships between production, distribution, and consumption in development. In addition, market structure analysis also has devoted attention to structure, behavior, and performance of markets.

In Section 2 we advanced a conceptualization of some of the linkage between physical and social systems for the study of marketing in development. In particular, it was designed to gain better understanding of the interrelationship among cost and efficiency variables; production, distribution and consumption; market structure variables; and other social variables influencing human relationships involved in marketing. While there are obvious operational problems in empirical analysis, it is our judgment that increased attention needs to be given to socio-physical interrelationships if we are to understand the development process better and know how to plan and implement effective marketing improvement programs in advanced and underdeveloped countries.

In Section 3 we used this conceptualization to make a step in this direction by analyzing selections from the United States experience of marketing in development.

The analysis presented in this chapter is designed to provide the basis for looking at the interaction between the various systems and subsystems involved in development. As we have previously indicated, economists in the past have been largely concerned with the interaction between elements of the physical system, and have verbalized this in terms of preconditions for development and in terms of lead and lag sectors. Our emphasis has been on the interactions between social variables (exchange rules) and physical variables that lead to economic growth and development. Though we limited ourselves here to a discussion of a few broad examples of this interaction, in the remainder of the book there are other illustrations which might be analyzed within the conceptualization presented here.
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