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Rural and Urban Dynamics and Poverty

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Abstract :

The rural and urban sectors of an economy are interconnected economically, financially, and socially. Ideally, resources such as capital and labor should move freely between these two sectors. In an undistorted economy, marginal returns to production factors should be equal. As a result, labor productivity and consequently per capita income should be the same. Many have argued that there should not be any distinction between rural and urban sectors. Indeed, there has been a growing interest in the development literature on the linkages between rural and urban development

However, the relationship between urban and rural sectors in many developing countries is still characterized by an economic dualism, in other words, by the coexistence of a modern urban sector and a traditional rural sector. This duality arose because many developing countries, including China and India, pursued a heavy industrialization development strategy based on the transfer of resources and labor surpluses from the traditional (or rural) sector to the modern (or urban) sector. This development strategy largely favored the development and growth of the urban sector at the expense of rural areas. China initiated its reform in agriculture in the late 1970s and India began its macroeconomic reforms in the early 1990s. In both countries, these reform policies

have corrected the urban bias to some extent. But the urban bias still persists. Whether measured in terms of income, literacy, or access to social services, a large gap is present between the rural and urban areas.

Key words: urban-rural linkages, poverty,

Introduction :

Rural and urban areas are inter dependent in many ways. A growing body of literature argues that rural and urban areas should not be treated as two distinct entities because the livelihood of many households includes both rural and urban components. Nonetheless, many developing countries have done exactly that. Development strategies in many countries have concentrated resources in the urban sector and consequently increased the development gap between rural and urban areas. Labor productivity and income per capita in rural areas have lagged behind that in urban areas, increasing the concentration of poverty among the rural population. In particular, India each followed a development path where policies treated rural and urban areas separately. Development strategies relied heavily on industrialization, which was viewed as a symbol of modernization and as a way to catch up with the higher-income Western countries. India adopted a similar model after its independence in 1947. Economic rents and surpluses were transferred from rural to urban sectors through various explicit and implicit interventions, such as state pricing and procurement of agricultural products, fiscal transfers and investment, and restrictions on labor movement. These policy biases continued for decades.

Definition :

The development literature has exhibited a growing interest in the linkages between rural and urban development. These linkages matter because rural and urban livelihoods are interconnected economically, financially, and socially. From a rural perspective, most farmers depend on urban markets to secure their livelihoods. Rural households also depend on urban centers or small towns for various services (e.g., hospitals, banks, and government offices) and for the provision of various private and public goods. Moreover, the rural sector benefits from remittances sent by urban-based family members.

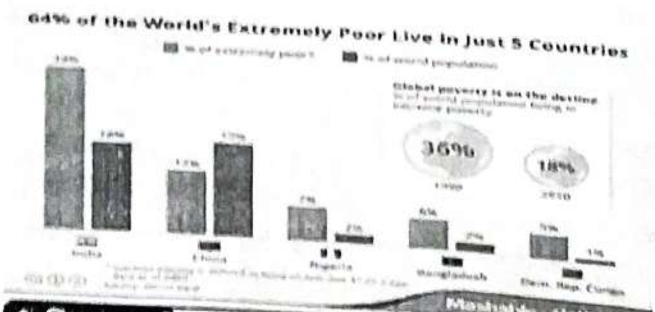
Development policies that facilitate these rural-urban linkages can promote economic growth and poverty reduction. But how does this balancing and synergistic relationship work? Economic theory suggests that resources should move freely so that marginal returns are equalized between sectors and regions. An increase in agricultural productivity may precede the growth of urban settlements. But as new innovations take place in the urban sector, urban labor productivity and wages rise, making migration from the rural to urban sector attractive. In the meantime, urban development may also improve access to capital, inducing further mechanization or other innovations relevant to agricultural production. As a result, agricultural productivity grows, narrowing the productivity and income gaps between rural and urban areas. When innovations take place again in the urban sector, the gap in productivity and income widens between thetwo sectors. Rural labor begins to migrate to the urban sector, and capital moves to rural areas. A new equilibrium emerges.

Rural-Urban Dynamics: A Historical Perspective in India

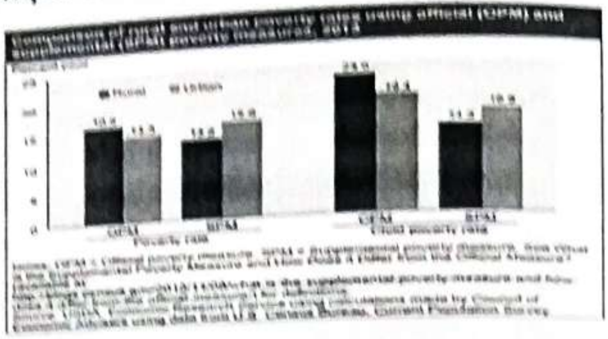
India has followed a somewhat similar path. During the first three Five-Year Plan periods (1951-1966), the newly independent India emphasized self-reliance and gave priority to rapid industrialization. This development strategy required a substantial amount of investment in urban industries from the state at the expense of the agricultural sector (Teitelbaum 2004). The first Five-Year Plan (1951-56) allocated 31 percent of the budget to the agricultural sector (Chandra, M. Mukherjee, and A. Mukherjee 2000). Rural outlays, however, decreased thereafter to 20-25 percent as India formally adopted the socialist strategy of heavy industrialization during the Second Five Year Plan (1956-61). Under this strategy, agricultural policy was infused with a pro-urban bias. In order to provide cheap food and cheap basic inputs for industrial development, farm prices were kept artificially low and agricultural exports were curtailed through quantitative restrictions and an overvalued exchange rate. Moreover, basic food products were made available at subsidized prices in urban areas and food deficit regions. The government concerned itself with controlling the price of foodgrains because the relative price of foodgrains was thought to be an important determinant of savings and investment rates.

An important element of India's food policy and food security system is the Public Distribution System (PDS), which started as a rationing system in the 1940s. The PDS aimed at "protecting low-income groups from increases in retail prices by purchasing grain from farmers (at the support price) and selling it to consumers at subsidized prices" (Persaud and Rosen 2003). But the urban sector profited most from the PDS. Suryanarayana (1995), for example, observed that the relatively more urbanized states of India, such as West Bengal, Maharashtra, and Tamil Nadu, benefited largely from the PDS allocation. Likewise, Gulati, Sharma, and Kahkonen (1996) indicated that the PDS was biased in favor of the urban sector and found that the quantities of foodgrains purchased through the PDS were higher in urban than in rural areas. Similarly, Suryanarayana (1985), Pinstrup-Andersen (1988), and Tyagi (1990) also found that the PDS favored mostly the urban sector.

64% of the world's extremely poor live in just 5 countries



Comparison of rural and urban poverty :



How to Promote Better Rural-Urban Linkages for Poverty Reduction

1) In India, poverty is concentrated in the rural sector where the majority of the population resides. The results from our econometric analysis indicate that agricultural growth has a significant impact on rural poverty reduction, and can also, in the case of China, have an effect on reducing urban poverty. Therefore, policies that increase growth in agriculture and promote rural-urban linkages have the potential to reduce poverty.

2) Increasing public investment in rural areas is therefore crucial in order to achieve greater poverty reduction. Adequate provision of infrastructure such as transportation and communication, for example, is essential for achieving better rural-urban linkages as this would facilitate mobility and therefore access to markets, employment, and services for the rural population. In addition, promoting nonfarm employment, rural-to-urban migration, and the development of rural towns can also lead to much stronger rural/urban links and greater synergies between thetwo sectors.

3) Based on the results of this study and on previous research findings, we recommend the following policies to help correct urban bias, strengthen the links between rural and urban sectors, and promote growth and poverty reduction.

Develop the Rural Nonfarm Sector

The rural nonfarm sector is important for the growth of the rural economy as well as for poverty reduction. It also provides opportunities for livelihood diversification for poor rural households. Hazell and Haggblade (1993) showed that the share of household nonagricultural income is inversely related to farm size, with landless and near-landless workers deriving between a third and two-thirds of their income from off-farm sources. In India, Dev (1986) indicated the bulk of the poor are landless or live on small farms with inadequate land for their own food needs. Consequently they depend heavily on earnings from supplying unskilled wage labor to other farms or to nonfarm enterprises. Public investment in physical infrastructure (road, transportation, communi cation) as well as in education and health is crucial for the small farms to establish their own business and to access nonfarm jobs in the rural nonfarm sector.

Develop Small Rural Towns

The proximity and accessibility to small rural towns and urban centers by rural residents is crucial for the rural economy, especially for the development of the rural nonfarm sector and for livelihood diversification (Bhalla 1997; Shukla 1992; Jayaraj 1994; Eapen 1995). These linkages are well discussed in Wandschneider (2004), who studied the impact of small rural towns in local economic development in Madhya Pradesh and Orissa, two poor states of India. The author found that small rural towns and nearby villages are strongly linked through consumption, production, employment, and financial linkages, and various types of economic and social service provision. While villages benefit strongly from small towns through these linkages, the reverse is also true. Small towns and urban centers depend and benefit from labor, inputs, and markets of nearby villages.

Conclusions :

A) Like many developing countries, India followed development strategies biased in favor of the urban sector over the last several decades. These development schemes have led to overall efficiency losses due to misallocation of resources among rural and urban sectors. It also led to large income gaps between rural and urban areas. The urban bias was greater in India. Indeed, official data show that both the income gap and the difference in poverty rates between rural and urban areas are much larger in India.

B) Indiahave corrected the rural-urban divide to some extent as part of reform processes. But the bias still exists. Other studies also support the idea presented here that correcting this imbalance will not only contribute to higher rural growth, but also secure future urban growth. More important, correcting the urban bias will lead to larger reductions in poverty as well as more balanced growth across sectors and regions.

C) Correcting a government's bias towards investment in urban areas is one of the most important policies to pursue. In particular, more investment in education, infrastructure, and agricultural research and development have proved to be both progrowth and pro-poor. Facilitating the mobility of productive factors, such as labor, is another means to correct any bias. In particular, providing health, education, housing, and pension services for rural migrants in urban areas is essential to promoting human capital movement from rural to urban areas or to the industrial sector. Promoting the development of the rural nonfarm economy and rural small towns is another effective way to correct rural/urban bias and to create significant synergies between the two sectors.

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