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PANEL 10: LABOUR IN AGRICULTURE – DIVERSIFICATION OF THE
RURAL ECONOMY, RURAL NON-FARM EMPLOYMENT,
URBANIZATION AND MIGRATION CHALLENGES

ORGANIZER, RAPPORTEUR AND CHAIRPERSON

Alberto Valdés (World Bank)*

PANEL DISCUSSANTS

Rural Employment in Industrialized Countries *Ray Bollman (Canada) and
John Bryden (University of Aberdeen, UK)*

Labour Absorption in the Rural Economy in Transition Economics *Ulrich
Koester (University of Kiel, Germany)*

The Rural Non-farm Sector: An Update *Jean Lanjouw (USA) and Peter
Lanjouw (World Bank)*

Rural Poverty in Latin America: Issues, New Evidence and Policy *Ramon
Lopez (University of Maryland, USA) and Alberto Valdés (World Bank)*

The four discussants presented recent findings relating to employment and poverty issues affecting the rural farm and non-farm sectors. While widely recognized as having great potential in absorbing rural labour and facilitating agricultural structural adjustment, the rural non-farm sector is poorly understood in both developed and less developed countries. In part, this is due, not only to the sector's great heterogeneity, but also to inadequate attention at the conceptual and empirical level. This topic was the focal point of the presentations by Bollman and Bryden, on OECD countries, and Lanjouw and Lanjouw, on developing countries. The paper by Koester focused on labour absorption in transition economies, while Lopez and Valdés addressed the question of rural poverty in Latin America.

Recent rural development trends in OECD countries

On the basis of a comparative study on industrial countries prepared for the OECD, Bollman and Bryden examined three issues: (1) the changing context for rural development in industrial countries, (2) the trends in rural employment between 1980 and 1990, and (3) explanation of rural employment trends.

The main issue addressed is the type of strategy that should be employed to foster an active rural non-agricultural economy. They observe that employment in services and industrial activities is becoming more predominant in rural areas (although a substantial range of situations is observed), while there is a steady and long-term decline in agricultural employment. In many OECD countries, employment in tourism has been increasing and is now exceeding that in agriculture, but the experience with employment in other services (retailing and personal services, public services including health and education) is mixed.

The authors focus on two main groups of explanations for changes in rural employment, namely the impact of globalization and restructuring, and the new consumption functions of the countryside in OECD countries. The former include the 'shrinking of distance', influenced by lower transport costs, trade liberalization, improvements in information technology and the changing role of the nation state. The latter examines how the movement of people into rural areas is determined not only by the availability of work and other economic opportunities but also by the new values placed on rural space – clean environment, community life, space for leisure, pleasant landscape, healthy lifestyles and so on – as well as, in some cases, by the availability of redundant buildings and lower-cost housing. The more rapid growth of rural employment includes a broad range of 'non-tradable' activities, including access to education and training. In discussing the policy implications, the authors concluded that rural employment problems will never be solved by agricultural policies.

The role of the non-farm sector in poverty alleviation in developing countries

On the basis of empirical analysis in many developing countries, Lanjouw and Lanjouw examined the characteristics of the non-farm sector and its role in poverty alleviation. Typically, the distinction between rural and urban employment is based on the place of residence, so that those who commute to a job in a nearby urban centre are still considered to be rural workers. 'Rural' is most often defined to include settlements of about 5000 or fewer inhabitants, but in the national statistics the authors find a wide range of definitions, such as under 10 000 in Mauritania, with Taiwan only excluding cities over 250 000. Recognizing the great heterogeneity of the rural non-farm sector, the authors suggest a distinction between two types of occupations: low labour productivity activities serving as a residual source of employment (a safety net) and the high labour productivity (and hence income) activities.

In considering policy implications, Lanjouw and Lanjouw asked what role there might be for government intervention in the non-farm sector. Historically, projects rather than policies have been the primary method of encouraging the development of small-scale rural enterprises, either through selective credit programmes (the most common) or through the creation of special enterprise zones such as in China and India; however, the record with such projects is very mixed. The authors also highlighted the importance of education, subcontracting and infrastructure (roads, electricity) in the growth of the rural non-farm sector.

Unemployment in rural areas of transition countries

In his analysis of labour absorption in transition countries, Koester provided empirical evidence on the problem of unemployment in rural regions, showing that the agricultural labour force declined significantly more than farm output. Disguised unemployment in collective farm under the previous socialist regime was high (30 per cent of the labour force in East Germany) and surpasses the absorption capacity of the new emerging private sector. Considering the magnitude and abrupt nature of the changes, and the downward rigidity in the market price of labour, Koester suggested that private market employment growth should be complemented by significant investment in 'public and merit goods' in the form of infrastructure, state-financed social security, the provision of information and investment in human capital and, for some regions, consideration of resettlement programmes. Koester makes a distinction between FSU countries (excluding the Baltics) and Central and Eastern European countries. He thought that the problem is more serious in the FSU. In addition to the broad guidelines mentioned above, his policy recommendations to promote rural employment included output and factor market liberalization, abolishing privileges granted to large-scale farms, and flexible labour markets.

Determinants of rural poverty in Latin America

Lopez and Valdés discussed preliminary findings of a study on determinants of rural poverty in Latin America. According to an econometric analysis based on recent household surveys in six countries, their findings suggest that (1) the impact of schooling on farm output and income per capita in agriculture is generally small, the higher returns to education are captured by those who migrate to urban areas; (2) there is a powerful negative effect of family size and dependency ratio on per capita income; (3) in some of the countries the per capita income of the landless is not significantly different from that of small farmers; (4) legal reforms of labour contracts providing greater job security may have slowed down employment creation in commercial farms; and (5) the contribution of land to per capita income (that is, elasticity) is small and, although land redistribution to small farmers may contribute to increasing farm output, it may have only a limited impact on household income.

Floor discussion: policy implications

In the discussion some participants argued that, given the great heterogeneity of situations in rural areas, the strategy to follow should be highly decentralized and participatory, looking at local specificity and adjusting to local capacities. By contrast, others argued that focusing too much on the heterogeneity could only cause great despair – and that we should learn from the successful cases. Regarding decentralization, some stated that certain policies have to be taken at a higher centralized level recognizing multiple goals; thus decentralization is not always the best option. One example is policies to deal

with the so-called 'neighbourhood effect'. The question is to define what needs to be decentralized rather than requiring a regional and more centralized view.

There was an argument on the need to pay more attention to the rural non-farm sector, examining what kind of support is more efficient. The issue of who pays and how this effort is financed came up repeatedly. Rural unemployment will never be solved by agricultural support policies. For example, in Europe, education has been an important means of access to jobs, while subsidized selective credit policies have failed. Also in Europe, it was stated that agricultural policies have been a major generator of negative externalities on the amenity environment, leading some to argue in favour of less agricultural support and more capacity to support the rural non-farm sector. The most discussed issue regarding the rural poverty analysis for Latin America was related to education and whether the low returns in agriculture should be attributed to the absence of complementary investments in other assets such as infrastructure and research, or to the poor quality of the education offered.