



TRADE, EMPLOYMENT AND THE RURAL ECONOMY

Louis Lefebvre
(York University)

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Abstract

It has been universally recognized that "trickle down" has not improved the distribution of income, nor has it increased the welfare and purchasing power of the lowest income groups. As the experience of Mexico and various other Latin American countries demonstrates, the growing globalization of the rural economy has increased rural unemployment and migration to urban areas. The loss of domestic self-sufficiency in basic food production has made the low income consumers highly vulnerable to the effects of devaluation. The productivity of labour employed in the modernized agricultural sectors may have increased, but the workers displaced in the process have mostly remained unemployed. Furthermore, competition from foreign investment has displaced some domestic industrial enterprises producing for the domestic markets. As a consequence, the net gain in overall employment from foreign maqilladora investment and agricultural modernization may well be negative. For social welfare accounting the economic and human costs of maintaining displaced and unemployed labour should be subtracted from the productivity gains in the modernized industrial and agricultural sectors. Improvement of income distribution and broad based provision of purchasing power to the lowest income groups, the *sine-qua-non* of development, require increasing the demand for labour. This, in turn, calls for the reconstruction of the rural economy.

Introduction

International political and economic relationships have undergone fundamental changes in the new global economy. The most problematic aspect of these changes is the interaction of various forces that have resulted in, and continue to produce, a strongly negative impact on employment and self-employment and other work opportunities for the lower income groups. The elimination of these income earning activities has taken place both in the urban and rural areas. Unemployment combined with jobless growth seems to characterise the new global economy.

The forced moves toward marketization and privatization have brought about massive job losses in the public sectors in many countries. At the same time, both the developed and less developed market economies have shown more dynamism in the areas of financial speculation than in the absorption of surplus labour in productive employment. The opening of the semi-industrialized and industrializing economies to large scale foreign investment and the intrusion of international capital with capital intensive methods of production have added to rural and urban unemployment. They also have contributed to, or have accelerated, environmental degradation.

These are general problems that are not confined just to Latin America and the Caribbean. But in what follows, I will attempt to discuss them in the context of some of the Latin American experience.

There is an unresolved conflict between the requirements of structural change promoted by the multilateral agencies and the international financial establishment on the one hand, and the requirements of social welfare on the other hand. The latter, as measured by changes in income distribution, has been lagging even in those developing or industrializing countries that have achieved significant growth in macroeconomic terms. In Chile, the show-case of market based economic growth, the proportion of population subsisting under the poverty line is now about fifty percent higher than twenty three years ago.ⁱ

ⁱ See Collins J. and Lear J., Chile's Free Market Miracle

In Mexico, a member of NAFTA, the percentage of population living in poverty in 1992 was 25.9, and the proportion living in extreme poverty increased from 7.7 in 1980 to 8.2 in 1990.ⁱⁱ

The burden of the international debt has turned many poor regions into capital exporters at great cost to their capacity for growth. At the same time, populations continue to grow and will not stabilize in the foreseeable future. Joblessness, which is much higher than the statistically measured unemployment, is rampant in many countries of the South. The jobless rate has been further aggravated by various local and regional conflicts that have turned masses of people into political and economic refugees. The vast population dislocations in various countries of Central America or Peru in the South provide striking examples.

The recent economic growth in some of the major industrialized countries and certain parts of the South has not generated sufficient increases in the demand for labour for effectively diminishing the rate of joblessness. Enhanced by population growth and labour saving technological change, joblessness may well continue to increase. Unless the trend can be reversed, immeasurable harm will come to the social wellbeing of the populations at large, to the social and political stability of the affected countries and to international relations.

Reversing the trend toward further growth of unemployment and joblessness requires sustained increases in low income purchasing power. The basic needs are there, but in market economies needs are satisfied only if they manifest themselves through market demand. Hence, the growth of broad based low income purchasing power is a prerequisite for motivating investment for the production of

Revisited: A Second Look, (Oakland, CA 1995, Food First). The population under the poverty line has increased from 20 per cent in 1970 to 41 per cent in 1990. The average rate of growth under the Pinochet regime between 1974 and 1989 was 2.6 per cent.

ⁱⁱBurki, S.J., and Edwards, S., Latin America After Mexico: Quickening the Pace, Washington, June 1995, The World Bank.

goods and services for mass consumption by the lowest income groups. This cannot be attained by simplistic measures for transferring income and wealth from the rich to the poor. Land reform and public works, if they are efficiently managed, and health and education services are the only effective direct redistributive measures. Other than these, the primary means for achieving the growth of low income purchasing power is the increase of the demand for labour.ⁱⁱⁱ This, in turn, requires economic growth of a type that increases rural food production and value added of primary products as well as small scale rural industrial activities. Thus, Professor Kuznets' findings to the contrary notwithstanding, economic growth need not contribute to inequality.^{iv} On the other hand, if inequality is accompanied by a lack of purchasing power of the lower income groups, it retards or negates development.^v

ⁱⁱⁱ The lack of effective demand by low income groups is a consequence of labour surplus relative to other resources. It is not a Keynesian phenomenon, which is loss of effective demand caused by market failure in an economy where resource distribution is relatively more balanced. The contemporary phenomenon of surplus labour is more akin to that in classical analysis where labour is employed at subsistence wages, as in Smith, Ricardo and Marx.

^{iv} Kuznets, S., "Economic Growth and Income Inequality," American Economic Review, 45, March, 1955, and "Quantitative Aspects of the Economic Growth of Nations," Economic Development and Cultural Change, 11, March, 1963.

^v See Adelman, I. and Morris, C.T., Economic Development and Equity in Developing Countries, Stanford, 1973, and Lefebvre, L., "On the Paradigm for Economic Development," World Development, January 1974. More recently the World Bank's World Development Report, 1991 gave cautious support to the proposition that improvement in income distribution may have a positive effect on development. The point was forcefully stated by Rosemary Thorp in her Challenges for Peace: Towards Sustainable Social Development in

What are the causes and the potential remedies? In reality, our theoretical frameworks are not adequate for finding satisfactory answers. The dominant economic theories are based on assumptions that differ fundamentally from the current demographic, economic and social-political realities. Those production structures that had formed the backbone of North American post-war prosperity within a framework of national welfare-state policies, do not seem to be relevant or able to survive in the new reality.

The inadequacy of our analytical tools is striking. Many of our theoretical and econometric models for evaluating the economic consequences of trade agreements and block formations implicitly assume full employment. Given that the participation rate in the labour force is not independent of work or employment opportunities, we do not even have a way of defining meaningfully the concept of full employment. Our measures of productivity focus on the size of the output produced by employed workers. This is useful for businessmen and foreign investors who calculate profit opportunities with the help of these statistics. But for the measurement of changes in welfare the difference between the latter and the ratio of total output to total potential labour supply, that is, the sum total of the employed and unemployed workers, may be a more relevant way to estimate the extent of the social-economic cost of unemployment.

In turn, the frequently very high wage differentials among apparently homogeneous low skilled labour groups that are employed in sectors of differing productivities indicate the extent of the distortions in resource use. Typically the real returns to unskilled labour in rural activities are significantly lower than in urban industrial and/or modern service employment. Actually, in some countries with ample supplies of unskilled labour the disparity between the earnings in high and low productivity sectors has led to the creation of labour aristocracies, conflicts among groups of labour, regressive competition for employment

Peru, Report of the Pilot Mission on Socio-Economic Reform of the Inter-American Development Bank, 1994.

and potential social and political instability.^{vi}

The evidence indicates that the prevailing market demand for labour and "trickle-down" through market employment do not generate enough broad based low income purchasing power to motivate large scale investment in mass-production for domestic low income consumption.^{vii} Hence, other approaches have to be found for satisfying minimum acceptable living standards. As mentioned above, increasing the demand for labour in productive employment, including self-employment is the primary means for increasing the earning and purchasing power of the lowest income groups. In this agriculture and rural development must have a strategic role.

Obstacles to Rural Development

Employment generating rural development has faced many obstacles. Historically they have caused the impoverishment of the rural areas and mass migration to urban concentrations. First among the obstacles is the belief that development must necessarily consist of urbanization. This is based on a misinterpretation of the western experience. It has been overlooked that the currently industrialized countries developed their urban industrial economies pari passu with agriculture, or grafted them on advanced agricultural production. The consequence of the misreading of history has been a neglect of the rural agricultural and small industrial development in

^{vi} In Chile, for example, labour employed in the mining sector struck against the Allende government as a protest against measures that would have improved the distributional balance between urban and rural areas.

^{vii} Even the World Bank has come to realize that "Improving income distribution and alleviating poverty cannot be left to trickle down consequences of economic growth." Burki and Edwards, 1995, op. cit. Nonetheless, the World Bank is fully committed to its traditional policy approach to structural reform.

favour of urbanization.^{viii} Furthermore, some theorists or policy makers have thrown up their hands about the prospects for rural development and have recommended policies for the encouragement of migration to urban areas.^{ix} But there is also the misunderstanding or misapplication of the Prebisch thesis concerning the potential deterioration of the terms of trade between raw material or staple producing countries and exporters of manufactured goods.^x The misapplication of the argument has powerfully contributed to the neglect of agriculture by pushing import substituting industrialization to detrimental levels. Paradoxically, it was this policy that resulted in an adverse change in the domestic terms of trade for agriculture. The consequent loss of rural income earning opportunities led to a flow of migration that has changed the population distribution in favour of the urban areas. The accumulation of employed and unemployed

^{viii} The sources and consequences of the urban bias are set out in Lefebvre 1974, op. cit., and "Critique of Development Planning in Private Enterprise Economies," Indian Economic Review, October 1974. Michael Lipton in his Why People Stay Poor (Temple Smith, London, 1977) placed the blame for the urban bias on intervention with the market. Of course, the wrong kind of intervention has had a detrimental role. But his faith in the capacity of the unaided power of the pricing mechanism to avoid or to correct the urban bias is at best simplistic.

^{ix} See e.g. Lauchlin Currie's policy recommendations for Colombia in Sandilands, R. J., The Life and Political Economy of Lauchlin Currie: New Dealer, Presidential Adviser and Development Economist (Durham, N.C., and London: Duke University Press, 1990) pp.189-90, reviewed by me in Economic Development and Cultural Change, October 1993.

^x Prebisch, R., Economic Survey of Latin America, UNECLA, Santiago, 1949, as well as his The Economic Development of Latin America and Its Principal problems, UN, New York, 1950.

urban labour, the growth of the middle classes and the economic interests associated with urban industrialization and other urban activities have fundamentally changed the balance of economic and political power. Urban interests dominate at the expense of the needs of rural transformation.

Trade, Globalization and Development

As shown by the changes in balance of payments statistics over time, trade relationships have changed over the last two or three decades. The earlier emphasis was on transactions on the current account, and in particular, on the trade account. The primary function of transactions on the capital account was to provide credit and money transfers for trade. More recently, primarily because of changes in the U.S.A.'s economic structure, the relative emphasis has shifted towards international capital movements undertaken for profit or speculative purposes and for satisfying the financial requirements of the globalization of production. Trade continues to play an important role, since the process of globalization could not proceed without continuously increasing access to markets. But the United States' interest in free trade agreements with Mexico and other hemispheric countries is motivated only partly by American producers' desire to sell their products abroad. Part of the interest, and perhaps the dominant part, comes from the desire to create conditions for the free and profitable international movement of American capital.^{xi} Free trade

^{xi} For a comprehensive critique of NAFTA see Grinspun, R. and Cameron, M., (ed.) The Political Economics of North American Free Trade; St.Martin's Press, 1993. The same authors have reviewed twelve recent books on the subject in the Mexican context: "Review essay: The Political Economy of Mexico's External Relations," in Latin American Research Review, August 1995. The Ecuadorian experience is discussed by North, L. and Larrea, C., "Ecuador: Adjustment Policy Impacts on Truncated Development and Democratization," (forthcoming, CERLAC).

insures the duty free importation of the output of American owned productive capital abroad for sale within the United States markets. The limit to globalization is the extent of the market.

The process of globalization or internationalization has extended also to the agricultural sectors. In Mexico this has manifested itself in the modernization of the agricultural production methods, a process that has changed the product mix, has displaced much of the peasantry and, in so doing, has undercut its basic subsistence. Support prices for domestic food crops have been lowered and land used for food production has been transferred to uses for forage and various agro-industrial combinations. The resulting drop in domestic food production has been replaced by imports of beans, wheat and corn from the United States. The modernized agricultural sectors may or may not be subject to direct control by foreign ownership: "The new internationalization of American agriculture implies a domination by trade relations and by the transnational integration of the production process itself, not in the context of empire, but through the medium of the internationalization of productive capital."^{xii} This trend is going to be reinforced by the articles of the World Trade Organization (WTO) which, in addition to free access to agroindustrial interests, will also provide intellectual property rights to producers of new varieties of plant and animal life.^{xiii}

In general, the policies to maintain low prices for urban consumers, and the shift from basic crops to exportables and to production for higher income consumption in the internal markets have resulted in a significant loss of self

^{xii} Sanderson S.E., "The "New" Internationalization of Agriculture in the Americas," in Sanderson ed., The Americas in the New International Division of Labour, New York, London, Holmes and Meier, 1985, p. 47.

^{xiii} See Shiva, V., "Diversity and Intellectual Property Rights," in Nader, R., et al., The Case Against Free Trade: GATT, NAFTA and the Globalization of Corporate Power, Earth Island Press, San Francisco, 1993.

sufficiency in both traditional and newer varieties of basic food products.^{xiv} As a consequence, Mexico has been forced to increase sharply its food imports. This, in turn, has had disastrous consequences for income distribution and the welfare of the low income population.^{xv}

Trade, Welfare and Income Distribution

The theory of comparative advantage is being used to justify free trade and the restructuring of economies to meet the requirements for globalization. It is an intuitively appealing concept which can be given empirical content under certain limited circumstances. But its theoretical underpinning and its direct applicability to development policy raises some important questions.

The theory has alternate versions of varying degrees of sophistication. However, it is its vulgar version that is most commonly invoked to justify export oriented industrialization based on foreign investment. Even though resource allocation according to comparative advantage is claimed to represent common sense, it rests literally on a mass of

^{xiv} According to USDA data, the Mexican balance in agricultural trade with the U.S.A. during the decade of the 1980th has been significantly negative (U.S.-Mexico Trade; Impact of Liberalization in the Agricultural Sector, Report to the Committee on Agriculture, House of Representatives, Washington, GAO, 1991). See also Rama, R., "The Mexican Agricultural Crisis," in Sanders, op.cit.

^{xv}The distribution of poverty between urban and rural areas is indicative of the consequences of the changes in agricultural policies and production structures. In 1992 the over all poverty level in Mexico, as cited above, was 25.9 per cent. This breaks down into urban poverty 22.4 per cent and rural poverty 31 per cent. Burki and Edwards, 1995, op.cit.

abstract assumptions that are not only irrelevant but contradictory to the process of development. These relate mostly to static equilibrium conditions, continuity, endowments, tastes, classical pure competition, the nature of technologies, natural and unnatural trade barriers, and total limitation of factor movements across international frontiers. If all these conditions are met, it is assumed that a market determined partial specialisation on labour intensive products brings benefits to a relatively labour abundant economy, such as Mexico.

In reality, the conditions are not met. There is no need to go into a detailed review of the reasons for the irrelevance of the underlying assumptions.^{xvi} Here it is sufficient to point out that productive factors do move across frontiers. In particular, with free international capital movements and the resulting globalization of production, there is no reason to assume that the resulting structural changes bring about increased labour intensive resource use. Capital moves to low labour cost areas, but it is employed in a broad range of production that--as the Mexican example indicates--also includes sectors of relatively high capital intensity. Furthermore, as discussed below, the relative advantage of foreign owned high technology enterprises has displaced much domestic production for the domestic markets and trade related changes in agricultural production have displaced the peasantry. The overall effect of trade on labour intensity and rate of employment may very well turn out to be negative.

In any case, trade related changes in the structure of production can cause--again as in Mexico--considerable social and personal dislocation, loss of income and even pauperization and, as a consequence, large adverse shifts in the distribution of income. Advocates of the comparative advantage doctrine are not unaware of these, but write them off with the argument that as long as the losers can be compensated from the gains, the benefits

^{xvi} I discussed the argument in considerable detail in my "What Remains of Development Economics?" The Indian Economic Review, Special Number, 1992.

from free trade are there. Since there are neither political nor institutional means to implement this "compensation principle," this is a specious claim.

There is, however, another equally important qualification: the risk and welfare consequences of exchange rate fluctuations. This too is well illustrated by the case of Mexico. Specifically, if a country is dependent on imports for satisfying a part of its basic food and other consumption requirements, the domestic prices of these basic commodities will be affected by the exchange rates. Devaluation of the domestic currency affects the consumer price index according to the relative importance of the basic commodity in the composition of the statistical market basket, and has a corresponding effect on the purchasing power and welfare of the "average consumer." The latter is an urban wage earner whose market basket may not have an excessively large basic goods component; nonetheless, the effect of a large devaluation, as the recent one in Mexico, makes a noticeable dent in the purchasing power. But the effect on the poor, whose basic consumption may make up as much as 80 per cent or more of the family income, is devastating.

There is no way to compensate for such losses, particularly since a devaluation, to bring about exchange rate stability and improvement in the trade account, must be accompanied by wage and price restraints. In Mexico the limit on wage increases after the recent devaluation has been set at ten per cent, leaving the working population with a real income loss of about 40 per cent.

This is one of the most critical arguments against unqualified free trade. An economy that gives up its self-sufficiency in basic commodity production for subsistence exposes its population to tremendous risks of welfare loss. This is not an argument against trade, which can be beneficial to development and social welfare. It is an argument against reckless trade policy. As demonstrated by the Mexican experience, the sector of agriculture that produces wage goods, or basic food for domestic consumers needs to be protected or even exempted from commercial treaty

limitations.^{xvii} This argument is further reinforced by the fact that exchange rate fluctuations are not randomly distributed, so that changes in social costs and benefits would not balance out even in the long run. In development the rate fluctuations are demonstrably biased in the direction of devaluation. As long as this bias holds, the market determined domestic cost of basic consumer goods naturally continues to increase over time.

Employment Consequences of Trade Related Restructuring

Low wage employment has significantly increased in some of the trade related sectors in Mexico. These are mostly foreign owned maquiladora enterprises that produce primarily, though not exclusively, for the United States markets. The employment they create is to a large degree the consequence of transferring capacity from high wage United States or Canadian production facilities to Mexico. However, at an economy-wide level this increase does not signify a net addition to the totality of Mexico's low wage employment. This is because some of these enterprises also compete with domestic producers selling in Mexican markets, and in so doing they have displaced a not insignificant part of the domestically owned industries. But even more importantly, the modernization of the agricultural sectors for export and/or domestic

^{xvii} In a different context, that is, in monetary theory, the risk of incurring the costs of insolvency is incorporated into the treatment of the demand for money. The risk of incurring the social costs of price increases of basic consumption goods caused by devaluation is analogous to the case in monetary theory. Incidentally, hedging against the risk of the adverse effects of trade on domestic basic food production need not be confined to economically less developed countries. It may be a justifiable policy in Japan where rice imports may adversely affect rural welfare and domestic rice production.

higher income consumption has displaced a large proportion of the self-employed and wage worker peasant farmers. In the process the apparent productivity of farm work may have gone up, but if--as suggested earlier--productivity were to be recalculated as the sum of the employed and the displaced workers who remain unemployed, the social productivity would show a decided change for the worse.

Undoubtedly, in neoclassical or free market economics the inclusion of the displacement of workers into productivity measurements would be unacceptable. And, arguably, it would be wrong to do so if within a reasonably short time period the displaced worker were to be reabsorbed into productive employment in another sector. Neoclassical economics implicitly assumes that this would be the case.

But real life experience is different in Latin America, as well as in all countries and regions with substantial unemployment or underemployment. Workers displaced by modernization through whatever means--for example, increasing capital intensity, incorporation into agribusiness, scale economies, and so forth--migrate to major city centres in the hope of finding alternative means for living. Some manage to do so, but many do not: they join the ranks of the unemployed or underemployed. They then become dwellers of shanty towns, charity cases, or wards of the state or, as in some instances, criminals preying on the rest of the population. In all these cases there are social costs associated with sustaining the displaced workers and maintaining public safety. These are measurable costs.^{xviii} From the social point of view they represent a subtraction from the productivity gains. But in the formulation of economic policies for free market development only the privately realized returns are taken into account. The differences between private and social returns are ignored.

The defenders of free trade and the

^{xviii} The pain of dislocation and impoverishment suffered by the displaced person is additional to these measurable social costs. These are not irrelevant but not readily quantifiable.

promoters of marketization and globalization argue that these are the necessary short run costs and pains of restructuring. They are compensated by long run benefits which also accrue to low income consumers. This too is a specious argument. By now even the World Bank has acknowledged that trickle-down does not seem to work. But, more than that, in economics the difference between the short run and the long run is not a matter of identifiable time spans, but the constancy or variability of particular states. If the social, institutional and political frameworks in which the Latin American economies function are rigid and slow to change, the short run may have a duration of indefinite length.

Be that as it may, advocates of restructuring have not recognized that there must be a balance between current and future welfare and their associated burdens. What this balance is, or what it should be, cannot be universally stipulated, but it is clearly demonstrable that policies for growth maximization that place their entire burden on the present generation cannot be justified by the promise of higher future benefits. Even in the absence of risk and uncertainty, such policies do not conform to the requirements of intertemporal social justice.^{xix} This is so because when wages are at or below subsistence, the market allocation of resources treats wage consumption not as a welfare producing activity but rather as an intermediate good for generating growth. This is like oats for a horse or fuel for a tractor. No welfare argument could support such a regime, even if the returns to capital were to be reinvested and thereby the conditions for growth maximization approximated. In reality they are not. A significant part of the profits and other returns generated in Mexico and various other Latin American countries has been taken abroad as capital flight or as profit transfers by foreign owners.^{xx}

^{xix} This point is demonstrated in my paper entitled "Planning in a Surplus Labour Economy," American Economic Review, June 1968. Others, notably A.K. Sen and S.M. Marglin, also provided proofs.

^{xx} The size of the capital flights from Latin America is enormous.

Externalities

Evidently, something is wrong about the way in which progress in development is being assessed. As is well known, our basic statistical tools, that is, the national income and other related accounts, do not take into consideration the social benefits and costs of policies. The statistics are based on the private market valuation of investments, production and productivity; hence, they overstate the level of social welfare. Their interpretation of the statistics as socially relevant macroeconomic indicators gives a biased image of the free market economy.^{xxi}

The theory underlying the accounts is based on the concept of Pareto optimality, that is, on a system in which production and pricing are assumed to be determined by purely competitive markets from which monopoly and externality elements are excluded. And even though in certain socialist planning theories central plans are implemented by managers who

According to some estimates as much as three fourths of the loans obtained after 1973 may have been moved abroad. See Kuczinski, P.-P., Latin American Debt, Johns Hopkins University Press, Baltimore, 1988, and Miller, M., Coping is Not Enough, Oxford University Press, 1983.

^{xxii}Recent efforts to create welfare measures that include public goods and services that are provided outside the market represent a move in the right direction. See, e.g., the UNDP's annual Human Development Report. But many of the indices refer to stock concepts, while the income accounts register flows. Furthermore, the costs and benefits of technical externalities, such as climatic changes from forestation and deforestation, and so forth, are not available, even though some attempts have been made by Professor Tobin of Yale university and others. But even these efforts do not consider the social costs of creating unemployment through modernization.

are instructed to "play the game of competition," in neoclassical theory the economic actors are decentralized and independently acting "rational" profit maximizing private entrepreneurs and "rational" utility maximizing consumers. The justice of income distribution, costs and benefits, and pain and pleasure that come from sources other than what is being sold or purchased in the markets are of no concern to the independently acting participants. In the attempt to quantify theories that represent, as it were, scientific reductionism for explaining certain limited aspects of economic interaction, the statistics also have been used for the moral justification of individual market behaviour and free market policies. This is patently inadmissible.

These arguments may appear to be abstractions, but they are directly relevant to the evaluation of the type of development policies that have been introduced and enforced by free market ideologues and supported by the international financial institutions, the U.S. State Department and NAFTA. And they are particularly relevant to the consideration of problems that have rural origins and have brought about migration to, and overcrowding of, urban areas.

Policies for Rural Development

The motive force for rural development is agriculture. Hence, policies for agricultural development play a critical role. The argument is not against the use of the market in policy design and implementation. Instead, the question is how can the market be utilized in such a way that it contributes to the attainment of social desiderata with respect to income distribution and social welfare.

It should be clear that a more equal distribution of wealth is not inconsistent with a market economy. The best examples are the impressive growth of the East Asian economies. In the agricultural context wealth distribution is land reform. If efficiently executed, it provides the beneficiaries with incomes that correspond to the owner cultivators' wages for working the land and the rent that accrued earlier to the pre-

reform landowners. It is well established that in addition to adequate technical and financial support, there must be floor pricing for the output that is high enough to cover costs of production, interest and an acceptable minimum profit. In this connection one must once again refer to the potentially adverse effects of modernization and trade on prices and conditions of marketing. Last, but not least, the potential beneficiaries of the reform must be protected against all forms of intimidation by actual or former land owners.

Land reform, if properly executed, increases the work opportunities for rural labour. The experience is that the labour intensity of cultivation is inversely related to the land size.^{xxii} An increase in the labour intensity is clearly desirable under conditions of relative land scarcity. However, in the process the participation rate in the labour force may increase due to the use of previously unemployed family members in cultivation.^{xxiii} Hence land reform may have to be accompanied by the creation of additional rural work opportunities.

In a labour surplus economy this may in any case be necessary. The sizes of the land allotments may have to be limited to family subsistence requirements which, in turn, may have to be supplemented with work outside the family farm.^{xxiv} Furthermore, the availability of

^{xxii} See, e.g., Sen, A.K., "Size of Holdings and Productivity," Economic Weekly, v. 16, 1964.

^{xxiii} This was the case, for example, in the land reform in the Altiplano of Bolivia. On the other hand, if family income increases due to land reform or other local work opportunities, the participation rate may very well decrease, because children may be sent to school and some women may stay home to take care of the family. This "backward bending supply curve" phenomenon is discussed in Rocha, M.C., The Market For Unskilled Labour in Brazil; A Computable Multi-Sectoral Model, Doctoral Dissertation, York University, 1987.

^{xxiv} For example, small scale tomato and pepper growers in Yucatan supplement their income from

land may not be sufficient to include the entire peasantry or landless workers in the reform programme. In the absence of other rural employment opportunities, and as an alternative to outmigration, rural public works have to provide the means for absorbing the surplus labour.

But public works of what kind? In the context of development the public purse cannot be additionally burdened with the cost of make-work projects. Rural public works must pay for themselves through increasing the productivity of farming, particularly in basic food and fibre production. That way the cost of labour employed in the public works, and the associated increase in the demand for basic products are covered by the growth of productivity and output. The socially most profitable public works are water control, that is, irrigation and drainage. They enhance farm productivity and can be constructed with essentially labour intensive methods. But rural transportation and communication projects can have similar positive productivity effects.

Conclusions

Concentration on the rural sector and the policies for increasing the earning opportunities of rural labour requires the reorientation of the development effort. The protection of domestic food and basic goods production against the intrusion of imports is in itself a very difficult political process. Furthermore, even though resource reallocation need not be a zero-sum game, some of the resources earmarked for urban projects would have to be redirected to the rural sectors. A reorientation of the effort need not imply the abandonment of urban interests; nonetheless, its politics may represent a very difficult problem.

cultivation with work as wage labour in agriculture, salt extraction and the service sector. See Humphries, S., Modernizing Mayan Agriculture; A Case Study of Peasant Entrepreneurship in Northern Yucatan, Doctoral Dissertation, York University, 1989.

Undoubtedly, both urban business and industry, that is, employers and labour jointly, have a stake in maintaining an urban bias in resource use and would resist any effort to change the status quo. In this they are further supported by landowners who are naturally against land redistribution and policies that alleviate the subordinate position of rural labour.^{xxv} The combined opposition cannot be overcome without determined political will. If governments are elected and maintained in power by primarily urban and landed interests that are, in turn, supported by foreign and international political and institutional influence, the prospects for change are slim. And they are even slimmer if the range of policy options are limited by international treaties, such as NAFTA.

But assuming that there is political will, the revitalizing of the rural economy requires adequate institutions.^{xxvi} The success of land reform itself depends on the adequacy of, among other things, technical services, market information, supervised credit and price and crop insurance. And the effective management of rural public works requires considerable organizational capacity combined with local knowledge.

The institutions must support rural development and have the capacity for correcting detrimental forms of market and non-market externalities.^{xxvii} Even if the market is reasonably free of monopoly power and adverse externalities, the national government and those

^{xxv} See my "La distribución espacial de la población: Desarrollo Urbano y rural," in Alberts J. and Villa M. (eds), Redistribución Espacial de la Población en América Latina, CELADE, Santiago, 1988. An English version is in Lefeber. L. and North L., Democracy and Development in Latin America, CERLAC/LARU, Toronto, 1980.

^{xxvi} Thorp, *op. cit.* 1994, gives an excellent discussion of the need for institution building in Peru for sustainable social development.

^{xxvii} For an exhaustive treatment of the subject see Papandreou A., Externality and Institutions, Clarendon Press, Oxford, 1994.

private sector agencies that control it may be motivated by interests other than what is compatible with rural transformation. The same may be the case with regional and local governments. They most often intervene in the markets according to the demands of the dominant regional and local interests, which are not the same as those of the peasantry. The recent national and regional moves in Mexico to eliminate the egido system in favour of private land ownership--a new form of the eighteenth century British enclosures--demonstrate the detrimental forms of intervention in the rural economy. They act against the requirements for improving income distribution and the reestablishment of domestic food production for home consumption.

There is a moral principle involved, but in addition, also a technical one. It is rare to find instances where moral and technical requirements coincide. This is one of those instances. There is no development without the creation of domestic low income purchasing power and its protection against detrimental trade effects.

Notes

1. See Collins J. and Lear J., Chile's Free Market Miracle Revisited: A Second Look, (Oakland, CA 1995, Food First). The population under the poverty line has increased from 20 per cent in 1970 to 41 per cent in 1990. The average rate of growth under the Pinochet regime between 1974 and 1989 was 2.6 per cent.

2. Burki, S.J., and Edwards, S., Latin America After Mexico: Quickening the Pace, Washington, June 1995, The World Bank.

3. The lack of effective demand by low income groups is a consequence of labour surplus relative to other resources. It is not a Keynesian phenomenon, which is loss of effective demand caused by market failure in an economy where resource distribution is relatively more balanced. The contemporary phenomenon of surplus labour is more akin to that in classical analysis where labour is employed at subsistence wages, as in Smith, Ricardo and Marx.

4. Kuznets, S., "Economic Growth and Income Inequality," American Economic Review, 45, March, 1955, and "Quantitative Aspects of the Economic Growth of Nations," Economic Development and Cultural Change, 11, March, 1963.

5. See Adelman, I. and Morris, C.T., Economic Development and Equity in Developing Countries, Stanford, 1973, and Lefebvre, L., "On the Paradigm for Economic Development," World Development, January 1974.

More recently the World Bank's World Development Report, 1991 gave cautious support to the proposition that improvement in income distribution may have a positive effect on development. The point was forcefully stated by Rosemary Thorp in her Challenges for Peace: Towards Sustainable Social Development in Peru, Report of the Pilot Mission on Socio-Economic Reform of the Inter-American Development Bank, 1994.

6. In Chile, for example, labour employed in the mining sector struck against the Allende government as a protest against measures that would have improved the distributional balance between urban and rural areas.

7. Even the World Bank has come to realize that "Improving income distribution and alleviating poverty cannot be left to trickle down consequences of economic growth." Burki and Edwards, 1995, op. cit. Nonetheless, the World Bank is fully committed to its traditional policy approach to structural reform.

8. The sources and consequences of the urban bias are set out in Lefebvre 1974, op.cit. and "Critique of Development Planning in Private Enterprise Economies," Indian Economic Review, October 1974. Michael Lipton in his Why People Stay Poor (Temple Smith, London, 1977) placed the blame for the urban bias on intervention with the market. Of course, the wrong kind of intervention has had a detrimental role. But his faith in the capacity of the unaided power of the pricing mechanism to avoid or to correct the urban bias is at best simplistic.

9. See e.g. Lauchlin Currie's policy recommendations for Colombia in Sandilands, R. J., The Life and Political Economy of Lauchlin Currie: New Dealer, Presidential Adviser and Development Economist (Durham, N.C., and London: Duke University Press, 1990) pp.189-90, reviewed by me in Economic Development and Cultural Change, October 1993.

10. Prebisch, R., Economic Survey of Latin America, UNECLA, Santiago, 1949, as well as his The Economic Development of Latin America and Its Principal problems, UN, New York, 1950.

11. For a comprehensive critique of NAFTA see Grinspun, R. and Cameron, M., (ed.) The Political Economics of North American Free Trade; St.Martin's Press, 1993. The same authors have reviewed twelve recent books on the subject in the Mexican context: "Review essay: The Political Economy of Mexico's External Relations," in Latin American Research Review, August 1995. The Ecuadorian experience is discussed by North, L. and Larrea, C., "Ecuador: Adjustment Policy Impacts on Truncated Development and Democratization," (forthcoming, CERLAC).

12. Sanderson S.E., "The "New" Internationalization of Agriculture in the Americas," in Sanderson ed., The Americas in the New International Division of Labour, New York, London, Holmes and Meier, 1985, p. 47.

13. See Shiva, V., "Diversity and Intellectual Property Rights," in Nader, R., et al., The Case Against Free Trade: GATT, NAFTA and the Globalization of Corporate Power, Earth Island Press, San Francisco, 1993.

14. According to USDA data, the Mexican balance in agricultural trade with the U.S.A. during the decade of the 1980th has been significantly negative (U.S.-Mexico Trade: Impact of Liberalization in the Agricultural Sector, Report to the Committee on Agriculture, House of Representatives, Washington, GAO, 1991). See also Rama, R., "The Mexican Agricultural Crisis," in Sanders, op.cit.

15. The distribution of poverty between urban and rural areas is indicative of the consequences of the changes in agricultural policies and production structures. In 1992 the over all poverty level in Mexico, as cited above, was 25.9 per cent. This breaks down into urban poverty 22.4 per cent and rural poverty 31 per cent. Burki and Edwards, 1995, op.cit.

16. I discussed the argument in considerable detail in my "What Remains of Development Economics?" The Indian Economic Review, Special Number, 1992.

17. In a different context, that is, in monetary theory, the risk of incurring the costs of insolvency is incorporated into the treatment of the demand for money. The risk of incurring the social costs of price increases of basic consumption goods caused by devaluation is analogous to the case in monetary theory. Incidentally, hedging against the risk of the adverse effects of trade on domestic basic food production need not be confined to economically less developed countries. It may be a justifiable policy in Japan where rice imports may adversely affect rural welfare and domestic rice production.

18. The pain of dislocation and impoverishment suffered by the displaced person is additional to these measurable social costs. These are not irrelevant but not readily quantifiable.

19. This point is demonstrated in my paper entitled "Planning in a Surplus Labour Economy," American Economic Review, June 1968. Others, notably A.K. Sen and S.M. Marglin, also provided proofs.

20. The size of the capital flights from Latin America is enormous. According to some estimates as much as three fourths of the loans obtained after 1973 may have been moved abroad. See Kuczynski, P.-P., Latin American Debt, Johns Hopkins University Press, Baltimore, 1988, and Miller, M., Coping is Not Enough, Oxford University Press, 1983.

21. Recent efforts to create welfare measures that include public goods and services that are provided outside the market represent a move in

the right direction. See, e.g., the UNDP's annual Human Development Report. But many of the indices refer to stock concepts, while the income accounts register flows. Furthermore, the costs and benefits of technical externalities, such as climatic changes from forestation and deforestation, and so forth, are not available, even though some attempts have been made by Professor Tobin of Yale university and others. But even these efforts do not consider the social costs of creating unemployment through modernization.

22. See, e.g., Sen, A.K., "Size of Holdings and Productivity," Economic Weekly, v. 16, 1964.

23. This was the case, for example, in the land reform in the Altiplano of Bolivia. On the other hand, if family income increases due to land reform or other local work opportunities, the participation rate may very well decrease, because children may be sent to school and some women may stay home to take care of the family. This "backward bending supply curve" phenomenon is discussed in Rocha, M.C., The Market For Unskilled Labour in Brazil; A Computable Multi-Sectoral Model, Doctoral Dissertation, York University, 1987.

24. For example, small scale tomato and pepper growers in Yucatan supplement their income from cultivation with work as wage labour in agriculture, salt extraction and the service sector. See Humphries, S., Modernizing Mayan Agriculture; A Case Study of Peasant Entrepreneurship in Northern Yucatan, Doctoral Dissertation, York University, 1989.

25. See my "La distribución espacial de la población: Desarrollo Urbano y rural," in Alberts J. and Villa M. (eds), Redistribución Espacial de la Población en América Latina, CELADE, Santiago, 1988. An English version is in Lefebvre, L. and North L., Democracy and Development in Latin America, CERLAC/LARU, Toronto, 1980.

26. Thorp, op. cit. 1994, gives an excellent discussion of the need for institution building in Peru for sustainable social development.

27. For an exhaustive treatment of the subject see Papandreou A., Externality and Institutions, Clarendon Press, Oxford, 1994.