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**SPRING REVIEW**  
**LAND REFORM**

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**URBANIZATION**  
**AS AN ALTERNATIVE**  
**TO LAND REFORM**

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SPRING REVIEW OF LAND REFORM

URBANIZATION AS AN ALTERNATIVE

to

LAND REFORM

by

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## Summary

The relationship between urbanization and land reform is indirect. Rural areas in most countries, developed and underdeveloped, are over-occupied (40) relative to urban areas. Empirically, this is registered in terms of lower wage rates or labor income to workers of equivalent skill in the rural sectors. As a consequence, most rural sectors experience out-migration. If the out-migration continues sufficiently long, ultimately there will be an absolute reduction of rural families, such that man-land ratios will ameliorate. Very few less developed countries are in this position, however. In most cases, out-migration simply reduces the rate at which man-land ratios deteriorate. High urban birth rates in present-day less developed countries militate for a more drawn out solution in these countries than occurred in Western Europe and the United States.

Paucity of value terms for land values and a tendency to intellectually isolate the farm sector analysis, lead to a sectoral dichotomy in viewing resource allocation and income and wealth distribution. The sectors cannot be isolated within a concept of economic efficiency or of socio-political modernization. For this reason focus of the rural-urban interrelationships is central to our inquiry.

Urbanization is sometimes thought of as directly related to industrialization. Here again, the relationship is not direct. Although much urban growth in the present-day world is associated with factory system,

bureaucratized employment in public administration and commerce antedate the factory system in manufacturing production. Moreover, significant proportions of urban populations consist of dependents outside the labor force. Given high urban birth rates in the less developed world these proportions are higher than comparable ones in Western Europe and the United States.

Empirical evidence relating to the absorption of rural population in urban areas and incomes accruing to such persons is both imprecise and incomplete. However, sufficient data are available to state the following:

(1) Urban unemployment, whether including some concept of underemployment or not, is high and rising in a wide variety of developing countries.

(2) Real wage incomes to agricultural manpower are lower than those to urban workers as an almost universal proposition.

(3) Most urban sectors in less developed countries have segmented labor forces -- employees in the modern, bureaucratized, factory system component and a petite industry, self-employed, and "service" component which includes "the underemployed, the unproductively employed, and persons in precarious employment."

(33, p. 62)

(4) Wage incomes in the "modern" urban component are usually higher ~~than those~~ of urban workers of apparently equivalent skill outside this component.

My analysis of the empirical information, presented graphically in Figure 1, emphasizes labor market imperfections, especially the incapacity of urban labor economies to rely upon the discipline of the market. In socio-political terms, this means the modernizing potentialities of the urban conglomeration are not fulfilled because of the prevalence of ascriptive rather than achievement-oriented norms. Workers of equivalent skill migrating from rural areas cannot directly compete with incumbents and so are not integrated into the "modern" sector. Thus the non-modern urban component, including the unemployed, are discriminees who enter the modern sector only as residual claimants. Rural workers are also discriminees in that their movement into the modern sector is even less probable.

Admission to higher skill levels in the urban sector is largely a function of public educational investment. Such funds are scarce and are administratively allocated. In such allocations, rural sector children are almost universally disadvantaged. This limits possibilities for modernizing the rural sector as well as for a rationalized, modernizing labor force organization. My analysis introduces two concepts relating to labor force investment -- the discriminee's bill and the finder's fee. The concept of the discriminee's bill covers the redress of exports of public investment. More important here is the implication of the finder's fee, which suggests a more efficient means of allocating educational investments by discovering educable youth, especially those in rural areas, so as to maximize returns to human investment.

In the special case in which labor productivities may be below subsistence or in which extended family, clan, or tribal organization in rural areas limit the usefulness of marginal productivity analysis, there exists the serious possibility of foregone agricultural production resulting from a premature out-migration from rural areas, especially because such migration is usually age selective. Particularly in such cases, unwarrantedly great expectations about possible high urban labor incomes may cause serious adjustment problems in both the rural and urban sectors.

Political considerations may have caused development agencies to shy away from forthright and significant land reform activities. For a time, accelerated urbanization has diminished population pressures upon land areas below what they would otherwise have been. In absolute terms, rural populations continue to rise, indicating that the political pressures for land reform are still considerable and probably increasing in most cases. At the same time, the urban political problems stemming from inadequate labor force allocations, already large, are growing. Given the greater political volatility of urban populations, these urban masses constitute a serious political problem. The present choice is not one between a politically difficult rural adjustment and a politically easy urban one; rather it is between two politically difficult ones. In some cases, perhaps land reform is actually simpler. My analysis interrelates the two problems and suggests that basic adjustments are to be made in the factor input markets, especially labor, and particularly

for the right of entry to and right of preparation for more rewarding occupations. Marketing or "organizational" improvements in the commodity or output sectors and in the intermediate goods and services are also important, though, to my mind, of secondary importance. Grasping the nettle of labor market rationalization both within the urban sector and across urban-rural boundaries makes possible the fuller use of available labor resources, and with that permits more effective attention to capital formation, educational investment, and, for our purposes, for a thoroughgoing, economically rational, attack upon the land ownership and land use problems in rural areas.

## The Interrelationship between Land Reform and Urbanization-- Introductory Aspects

There is a relationship between land reform and urbanization. It is not a direct one. Land reform deals with resources in the rural sector; the urban nature of urbanization is an axiom. The two sectors are bound together economically by transfers of goods and services on both the input and output levels. Even in geographic terms, the boundary between the rural and urban sectors is not fixed in a temporal sense nor is it always precisely determinable. On more abstract economic levels, these boundary circumstances apply with even greater force. The economic bonds are not the only, nor even the determining, ones between the two sectors--political, social, and cultural bonds influence the relationship.

The rural-urban classification is an intellectual construct--a taxonomy, or, more precisely, a dichotomy. Taxonomic classifications can aid or impede our analysis, depending upon how we employ them. My own advocacy is for a flexible use of this and other taxonomies. In this case, I would contend that little is gained by constructing an intellectual "farm fence" around the rural sector.

Land reform normally refers to the rural sector alone. Conceptually, it encompasses two economic categories. The first relates to the allocation and use of resources in production; the second refers to

the distribution of the ownership of the resources used in production, as well as the income derived therefrom, to persons and groups of persons. Put in other words, the first subsumes the functional distribution of income, and the second, the personal distribution of wealth and income. Of the two, the first lends itself to the detached analysis of positive economic theory, the second cannot be detached from normative elements, despite the crucial role that positive economic analysis can play in the understanding of the personal distribution of wealth and income. The latter, however, is precisely the more major concern, and the more politically motivated one, in most of the less developed countries. (36) (38 p63)

The economic and statistical tools employed to examine personal distributions of wealth and income almost invariably involve social concepts, if only the concept of the family. Where one's interest concerns an extended family, a commune, or other group, still more complex social analysis (and consequent economic analysis) must come into play. The ownership problem, moreover, is intergenerational, and dynamic rather than static in nature. The association of land reform goals with social revolutions is an integral fact of both recent and more distant history. The implication here is that the economist, as economist, can deal but gingerly and modestly with the massive problem of land reform. It implies, further, that we must examine the history of scholarly thought, not only in economics, with special attention to the valuations and beliefs of writers and investigators addressing themselves to the problem.

Even in the United States there is a paucity of information with respect to the personal distribution of wealth. In less developed countries the deficiency is even more acute. Economic values for the principal non-human assets in less developed areas, land and appurtenances thereto, do not exist except in special instances. In the absence of such value data, investigators are forced to rely upon physical data, generally land areas. Land, however, exhibits remarkable heterogeneity to the agronomist's trained eye--testifying to the inadequacy of physical data for precise comparisons and allocations. As a refinement, further taxonomy frequently appears--arable or non-arable, irrigated or non-irrigated, agronomic class, and sometimes by soil or climatic classification.

Though useful in examining this enormous and complex land reform problem, these taxonomies are no substitute for value data. A number of lamentable consequences flow from this basic data deficiency. The most lamentable is the tendency to intellectually isolate the problems of the rural people from those of urban people--to conceive of equalitarian measures in a partial rural rather than a global context--inherently compromises equalitarian goals. It has, furthermore, implications for the possibility of efficient and full use of economic resources.

At this point it will be well to make explicit the value premise, which I, myself, share, of an allegiance to equalitarian principles by most investigators of land reform. My own specific concerns are that the framework within which equalitarian principles be applied is sufficiently broad, and, that the relationship equalitarianism to the fullness and efficiency of resource use be understood.

Some writers (20, p. 34-5) regard a thorough-going land reform as a sine qua non for development, giving it, at least implicitly, precedence over urbanization in economic development. Other writers such as Sir William Petty and Colin Clark (See 6, p. 32) observe the process of differing proportions of population and labor force in various industrial sectors and note that proportions in primary industry (including agriculture) decline with historically observed development. In countries of highest per capita income, the absolute number of workers in a given industrial sector is also noted. That this can occur even in countries with great natural and migratory increase in population constitutes a remarkable phenomenon in development.

The implication of the slogan, "Land to the tiller," is the freezing of industrial sector labor force proportions, an apparent inconsistency with the historical development in now-developed countries. Certainly it would be fatuous to suggest that France, for example, could have achieved its present levels of per capita output by maintaining the proportions of agricultural population existing at the time of its revolution. There is, thus, an apparent contradiction between land reform goals and urbanization, especially when viewed in the simpliste terms of political slogans.

In actuality, urbanization, which occurs by the movement of population out of rural areas into cities, can reduce population pressure upon the land, and thus simplify the land reform problem by reducing the number of persons and families among whom land is to be distributed below what it would be in the absence of migration.

In the less developed countries, generally, urban-induced migration stemming from all motivations, social as well as economic, is not sufficient to reduce the number of people in agricultural areas, even though their proportion to the national total may have been reduced. The absolute reduction of population in agricultural areas occurred historically in other more developed countries at relatively high percapita output levels. The problem is intergenerational in nature and, therefore, depends in part upon demographic factors. Urbanization, then, may ameliorate the land reform problem of less developed countries, but cannot reasonably be a complete alternative to reform in the narrow sense of land area owned by the tiller.

#### Industrialization, Bureaucratization, and Urbanization

Urbanization, although sometimes loosely used as a proxy for industrialization, does not bear a direct relationship with it. A considerable portion of urban agglomeration of population derives from employment in public administration and commercial activities. Historically, some of the earliest cities, developing well before the industrial revolution and the growth of the factory system, grew out of public administration employment--a phenomenon often repeated in today's developing cities. For our analysis, it is important to differentiate this class of relatively large-scale, internally well-organized employment in modern-day, less developed country cities, from employment of other types. This bureaucratically organized employment differs from that portion of city population which is either unemployed, employed in negative or zero-sum

activities such as crime, (16, p. 645) or self-employed in low productivity activities such as garbage scavenging (15), "watching cars," and so on.

Proponents of accelerated urbanization as a development prescription (10) (11) (12) (22) (31), as well as some development models (26) assume that labor entering the urban labor force will automatically become absorbed into the urban labor force. That this is not true is the rather obvious empirical lesson of the present day. (4) (6) (16) (19) (21) (23) (35) (45) (50) Benjamin Higgins states: (31, p. 22) "It is becoming increasingly clear that the major problem of the Second Development Decade will be unemployment."

Urbanization involves agglomerations of population as well as simply agglomerations of labor force. Except for certain short term migratory labor communities, such as those in Africa (7), urbanization implies family movement, or possibly family creation. The concomittant of this is a natural increase. During the development of the United States and at least some European countries, urban areas had differentially lower rates of natural increase than did rural areas. Although definitive evidence is lacking, Table I presenting crude birth rate data shows a number of developing countries with markedly higher rates in urban rather than rural areas. Although to some extent perhaps distorted by relative underreporting of births in rural areas, the birth evidence available suggests that existing demographic factors will stimulate further growth of urban population even without the migration of persons of rural birth to the cities. The implication of this tendency is to limit the use of urban areas as an outlet for rural population pressure. A further

Table I  
Crude Birth Rates

Country	Urban	Rural
Burundi	47.9	46.0
Chad	44.0	45.0
Sierra Leone	41.6	29.6
Dominican Republic	55.1	26.2
El Salvador	48.5	43.5
Mexico	43.9	44.7
Panama	34.8	41.1

Source: (52), rates are for latest reported year.

implication that proposals to enserf the rural population to the rural area (30, p. 127) will not be adequate to resolve the urban unemployment problem in many less developed countries.

The pervasive tendency to rigidly dichotomize rural-urban differences and to view rural manpower adjustments in terms of "removable surpluses" (27) suggests a preconception that development necessarily involves physical and permanent removal of population from rural areas. Such a conception over-relies upon the factory system as a model not only for manufacturing activity but also for the organization of commercial and public administration activities. This closed-mindedness to possibilities of the cottage or "putting out" system, which antedated the factory system in Western Europe, of manpower mobilization programs(9), of part-time farming, and of day-haul agricultural employment out of urban centers constitute some of the alternative options conceptually foregone by such rigidity.

Technological developments, transportation and communication investment, and growing urban influence in the countryside open up greater opportunities and more flexibility than ordinary conceptions suggest. Partially indicative of the need for reconsideration of these conceptions appears in C. Hsieh's comment, "The need for seeking alternatives appears also from the sectoral distribution of planned additional employment in the plans examined." (33, p. 62)

"Removals" of agricultural surplus populations are not irreversible in a voluntary labor market. Although migration to urban centers may be large, it necessarily is the net of two gross flows, out-migration from and in-migration to rural areas. We have little evidence of the magnitude of such flows in less developed countries. Even in the United States, the existence of such data is only of recent origin. Such little information as we do have suggests greater resistance to rural in-migration than exists in the United States. (15) (26, p. 385)

Some writers believe urban growth is now largely a social rather than an economic phenomenon. (4, p. 363) Others believe that urban in-migration reflects a subject evaluation of the probability of finding a job. (23, p. 267)

#### Empirical Evidence of Unemployment

Truly precise measurements of urban unemployment for less developed countries are difficult to find, particularly in terms which would be comparable to United States non-agricultural employment

figures. Where available, such rates usually show rates above 5 percent ranging at least to 20 percent. (18, Appendix A) Where some concept of underemployment is included, as by H. W. Singer (45, p. 1) who refers to "clear underemployment, but excluding a good deal of disguised unemployment in the form of productive labour" a "true unemployment rate" of 25 percent appears. Higgins states (33, p. 22), "In developing countries open unemployment and underemployment average around twenty-five percent of the labour forces." "Add seasonal unemployment and low-productivity employment ("disguised unemployment"), and of course the aggregate figures could go much higher." Singer's calculation yields a "staggering total of approximately 250 million unemployed persons in the developing world."

Singer (45, p. 1) also provides evidence of the increase of unemployment in the less developed world in a quotation of Professor H. A. Turner of the University of Sussex, who found "in a group of 14 less developed countries for which there are usable unemployment series going back to the late 1950's, the total of known unemployed has since been growing on the average of  $8\frac{1}{2}$  per cent per year--about three times their population growth rate." Professor Turner's extrapolation of this trend yields unemployment rates of more than 50 per cent by 1980. (45, p. 2) Although Turner's precise definition of unemployment is not included in the quotations, there can be little doubt of the high rates of urban unemployment in most less developed countries, the large number of persons involved and the likelihood of continued and rapid rates of increase of the level of unemployment in developing countries.

To some extent employment in the services category of economically active population, particularly those categories designated "other services" and "unspecified activities," reflects significant underemployment. A. Gunder Frank emphasizes the growth of Latin American industrial output without a concomitant growth of employment. (29, p. 45) C. R. Frank, Jr. observes, (23, p. 263) ". . . any advocacy of wage restraint as an employment-stimulating device must take into account the social and institutional factors which accompany the wage determination process in Africa. In the modern sector, the central government usually sets the pace in one way or another."-- an emphasis upon publicly administered wage rates.

Evidence with respect to differential levels of unemployment by degree of skill is also difficult to find. Fishlowitz, in 1959, found for Brazil (19, p. 406) "The large surplus of unskilled man power coincides with considerable shortages of workers in the semi-skilled and most of all--the highly skilled grades." Other evidence for India refers to the unemployment of intellectuals, especially lawyers. In general, limited available evidence suggests that the pattern of relative unemployment rates in less developed countries is not unlike the pattern in the United States--generally, an inverse relationship to degree of skill.

#### Empirical Evidence of Wage Rates and Labor Incomes

There is absolutely no evidence that common labor wage rates or annual wage incomes in rural areas ever are higher than average

common labor wage rates in urban areas. In some local cases in the United States, property incomes to rural residents in small agricultural areas may create a higher level in total personal income to rural persons, but these instances are unknown in less developed areas. On the national level, and adhering to a labor income concept exclusive of property income, this relative difference appears to be one of the empirical universals.

Wage rates in the bureaucratized and factory urban sector appear to be higher than in self-employed, and "service" sector of the economy. Singer (45, p. 2) quotes African data from E. J. Berg to the effect the urban wages in Africa are 3 to 4 times the wages of a subsistence farmer there. Gunder Frank (29, p. 45) observes of Latin America, "In other words, the literally unproductive service sectors absorbed 30 percent of the growth in the labour force from 1925 to 1950, 40 per cent of the growth in the 1950's, and nearly half of the growth of the labor force since 1960, of these more than half again went into the other service and unspecified activities."

The literature is replete with references to the urban worker not incorporated into the "modern" industrial and service sector and their low earnings. (4) (9) (16) (19) (23) (26) (30) (32) (33) (50) A single dispassionate statement by Hsieh (33, p. 62) will suffice to reemphasize. "A disturbing feature is the treatment of the services sector as a main provider of additional employment opportunities. In most developing countries the services sector is already overcrowded with the underemployed, the unproductively employed, and persons in precarious employment."

H. A. Turner emphasizes (51, p. 15) the wide spread of wages and salaries in underdeveloped countries. He finds some of this attributable to wider skill differentials than those found in the more developed world (51, p. 16), "Typical rates for skilled men in Western type industrial economies are 15 to 40 percent above those of labourers. In Africa and Latin America the typical skill differential appears to be from 50 to 150 percent, even when no racial element is also involved in the differential. Furthermore, he finds (p. 17), "Some of these non-skill differentials exist in apparent defiance of labour market circumstances." " . . . it is hard to see why the differential should go on widening-- as it probably has in both Africa and Latin America--in face of substantial and growing urban unemployment. " He also emphasizes (p. 17) the dispersion of wage rates in a particular classification, ". . . a factor which seems of major importance is the dispersion of wages in undeveloped countries is a very large random or accidental element in wage-differences." He offers a partial interpretation of this phenomenon (p. 17), "Local labour markets, however, are often highly imperfect--with limited labour mobility and circulation of information among workers about wage-rates and job opportunities, so that individual rates may vary widely on either side of the 'norm'."

#### Economic Interpretation of the Unemployment and Labor Income Data

The most significant and overriding interpretation of the facts presented above is that less developed countries are not making full use of their available resources. Stated otherwise, this means that

most of the underdeveloped countries are situated on an interior rather than a frontier position on their production possibilities curve or surface. This fact must carry the highest priority for most developing countries.

Although Keynesian prescriptions for achieving full use of resources are not applicable to most less developed countries because of the absence of idle plant capacity, we must recognize that even in the developed economies, employment in investment goods industries constitutes an important component for achieving full resource use. Therefore, creation of tools for achieving full resource use so as to use available labor supplies and achieve higher rates of capital formation, including human capital formation, depends upon the development of appropriate organizational forms. Vernon Ruttan (43, p. 355) puts his finger upon the cruciality of the organizing principal in the form of marketing and financial intermediaries. I believe, however, that the general principle must be broadened and generalized to include the organizing and allocative principles behind the factor as well as the commodity markets. It is for this reason that the organization of the labor market to achieve full use of labor resources both for the production of goods and services for current consumption and for real investment commands high priority. Even indirect methods such as manpower mobilization schemes (9) can be used to generate fuller use of labor resources and to create significant capital investment. Significantly in the Tunisian case (9, p. 17) the bulk of the real capital creation took place in agricultural areas.

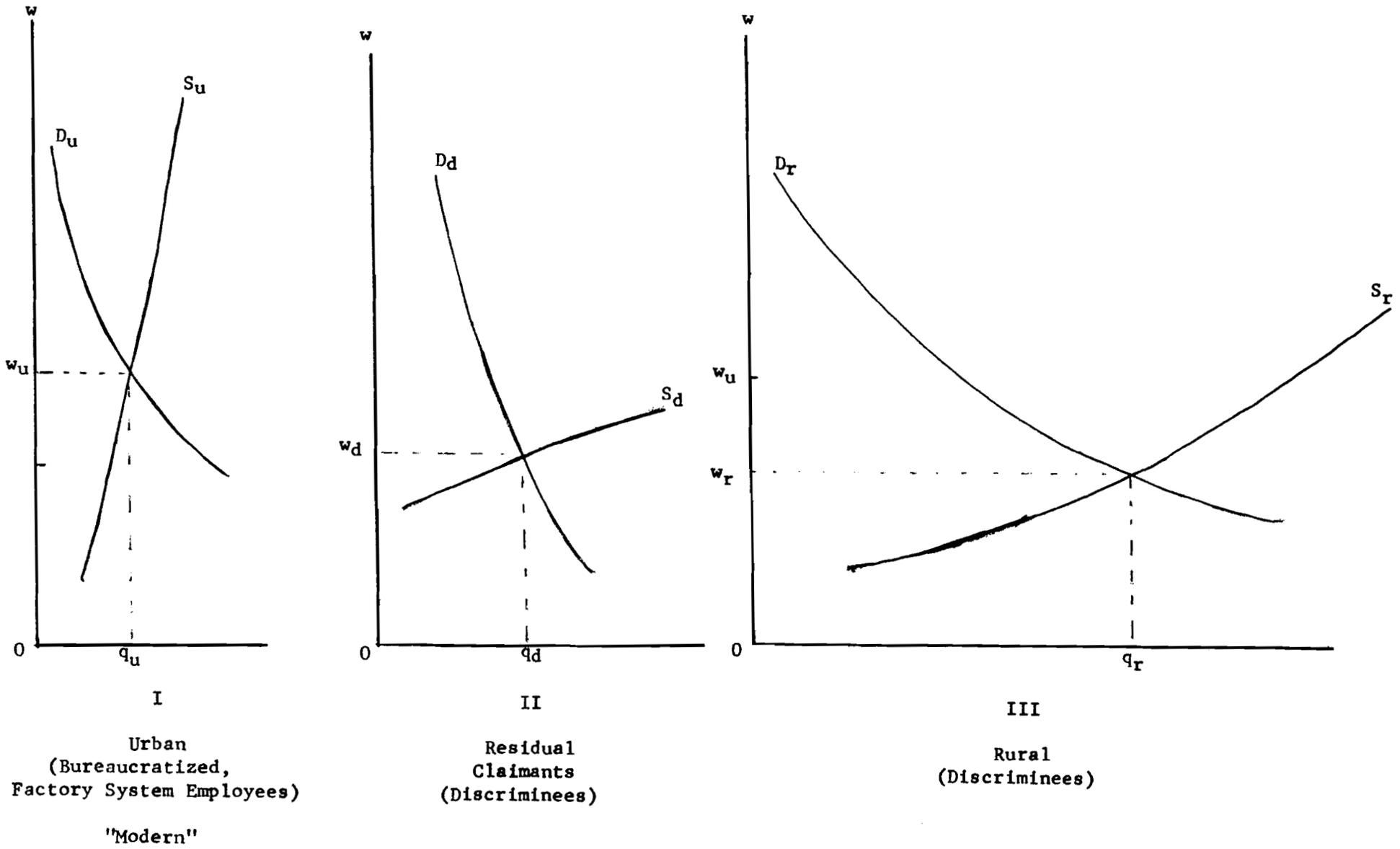


Figure 1

Hypothetical Demand and Supply Curves for Common Labor in Various Sectors

Figure 1 presents the basic case for the explanation of differences in wage incomes in the rural and urban areas, as well as for the non-bureaucratized, high unemployment sector which I denominate Residual Claimants. The analysis explicitly recognizes the failure of less developed countries to achieve or create labor markets which are truly open and competitive.

Wage rates in the public administration component are usually "administered." Often these administered wage rates form the basis of the wage structure in commercial and strategic service industry as well as in factory and mine employment, particularly when these are controlled by expatriates. (Cf. 23, p. 263) This wage structure may be reinforced by politically determined minimum wage rates as well as by automatic, proportional money wage increases, also politically determined, in inflationary conditions. The effective supply curve for labor in this category ( $S_U$ ) is inelastic, with a relatively small quantity of the common labor force ( $Oq_U$ ) employed within it. Changes over time such as these cited by Gunder Frank (29, p. 45) suggest that it does not move appreciably and that increases in output may not shift the derived demand curve of labor ( $D_U$ ) appreciably. The interrelationship of the derived demand and the effective supply curve yields a high effect wage rate ( $w_U$ ) to workers in this category--the "modern" sector of bureaucratized, factory system employees.

Let us now look at the diagram entitled Rural (Discriminee). (See (5)) This diagram demonstrates a large quantity of labor employed at equilibrium ( $Oq_R$ ), a relatively elastic supply curve ( $S_R$ ), and a

relatively elastic derived demand curve ( $D_r$ ). The intersection of the two curves yields a wage rate ( $w_r$ ) far below that of the Urban (Bureaucratized, Factory System) employees. The difference ( $w_u - w_r$ ) may be written  $\bar{w}$ . A similar notation used by Todaro (50, p. 384) is based upon income rather than wage rates. The inclusion of property income from the ownership of land and other assets such as livestock and implements, would not substantially affect our analysis here, and is relevant to migratory choice by workers. At this juncture, however, I wish to stipulate that  $w_r$  is above "subsistence." Over time, the supply curve ( $S_r$ ) will shift to the right, given the expectation of some retention of rural natural increase for countries at this level of development and with high proportions of total labor force in agriculture. (17, p. 173). Persons represented by this diagram are discriminees in the sense that they do not have freedom of entry to the preferred positions held by workers of equal skill represented in the first diagram. If they move out of agriculture, their alternative is to move into a situation represented by II in which they become residual claimants to the better paying jobs and assume an intermediate position in the petite industry, self-employed, make-work activities. They can claim access to employment represented in I only after seniority claims, provision for the employment/<sup>of</sup> children and relatives of incumbents, and other ascriptive claims, have been satisfied. In some cases, such as stevedoring in Peru and Brazil, the holder of the job right might not actually perform the labor himself. He, or his agent, may collect the official "wage", pocket much of it as a rent, and pay a wage considerably below the official one to the actual worker.

Diagram II is less determinate than either I or III. It represents an average of wage rates, which are viewed here in annual terms. The expected range of wage rates or actual self employed earnings average over the urban unemployed. The demand curve ( $D_d$ ) must be regarded as one which differs in position and shape according to local conditions. The supply ( $S_d$ ) is relatively elastic, given the reliance of in-migrants upon imperfect information, and a subjective evaluation of the possibility of moving into the modern part of the urban sector shown in I. Those who continue to reside in the urban sector may even gain less than they would have in the rural area, and are buoyed by their subjective expectations about possibilities of modern sector employment. On the average the "equilibrium" wage rate ( $w_d$ ) appears to be intermediate between  $w_u$  and  $w_r$  in the developing countries. Over time the supply curve ( $S_d$ ) will shift downward, and the "equilibrium" quantity ( $Oq_d$ ) increase with continuing urbanization.

On the basis of what must be considered empiricism of a casual sort, W. A. Lewis recommends a difference of 30 percent above a subsistence level rural wage rate ( $w_r$ ) to compensate the migrant from the countryside for the additional cost or other disadvantages of living in the town. This spread he has recently increased to 50 percent. (35, p. 5) Given the high rates of urban in-migration under current circumstances this constitutes a difficult position to justify. (51, p. 17) Berg (45, p. 2-3) makes an arbitrary assumption that unemployment income deficiencies are averaged out among all members of the urban labor force, a position which seems unlikely and which deny the existence of important ascription within the urban sector.

Proposals by Harris and Todaro (30, p. 127) and Higgins (32, p. 35) to enserf incumbent rural labor force to the rural area together with their offspring, would, if effected, increase the rate of downward shift of  $S_r$ , the rural labor supply curve, and reduce the rate of downward shift of  $S_d$ , the supply curve of residual claimants. This would constitute further discrimination against rural workers and would protect the urban residual claimant from further competition by rural in-migrants. It would not, however, raise them to first class citizenship status held by those represented in Diagram I.

The situation sketched in Figure 1 is one which induces socially demoralizing discrimination with religious, racial, ethnic, linguistic overtones, is truly unjust according to our ethical criteria but one which is encouraged by the inability to use market discipline to allocate these human resources in the production process. Even if ~~these~~ ascriptive criteria do not apply, the discrimination against relatively new arrivals from rural areas compromises ethical standards to which we subscribe. From the economic point of view, these labor market segmentations impede the best allocation of manpower in production and condemn the country which uses them to an inefficient use of its available resources. In other words, labor resources in less developed countries are not fully employed, and those that are employed are often not employed efficiently, that is, in a manner such as to maximize output.

#### Educated Manpower and Educational Investment

The foregoing analysis deals only indirectly with the skill level. For a more detailed analysis, subsidiary and disaggregated portions of

each of the labor markets could be devised. Those in the "modern" sector would encompass a wider range of wage rates or of labor incomes inasmuch as they would include labor returns to professional and other highly skilled persons. Turner (51, p. 18) presents ratios of pay rates for six Latin American countries. For the ratio of Bank Teller to Labourer, he finds a range of from 1.5 (Costa Rica) to 11.6 (Guatemala). These highly increased labor returns primarily awarded for literacy, verify the great returns to education in the less developed world. Rates for professional workers with skills salable in the developed world, such as Argentine engineers and Iranian physicians are undoubtedly higher.

Available information suggest the continued value of education for most categories of skilled and professional employment in the developing world. Educational investments, flowing largely from public funds are, however, limited.

Almost universally, children and youths in the rural areas are disadvantaged in their access to educational opportunities. (44) To me, this represents a form of discrimination and a failure to allocate educational budgets optimally. (5) An analysis of this problem made in a "brain drainage" context presents two justifications for the compensation of an internationally migrant professional educated at the public expense, the discriminee's bill, and the finder's fee. (5, p. 433) The concept of the discriminee's bill is obvious, and in this context, suggests that uneducated rural and residual claimants neglected in the educational process present their "bill" for the public investment being exported by the migrant. Either the migrant himself or the foreign employer may compensate the discriminees.

The concept of the finder's fee, however, has greater significance for educational investment policy. It rests upon the proposition that the native equipment and educability needed to educate a child are not known at the time he begins his education and that educability is randomly distributed in the urban, residual claimant and rural families. Rather than use total budgets to educate at public expense the children of those families already well situated, resources devoted to the discovery of children best adapted to educational achievement promise to create even greater returns than those simply for minimum standard, say fourth grade, education for every one, and higher education for urban, middle and upper class families. In making this search for talent, a country's public administrators make a genuine economic contribution in two ways, 1) in finding persons of potentially higher productivity than those currently receiving the benefits of public investment and 2) by helping rationalize the wage differentials by skills, leading to a more efficient allocation of labor inputs.

#### The Calvary of Market Discipline

Nicholas Georgescu-Roegen (24) develops an analysis of low productivity agriculture with particular potential value to those less developed nations often described as over populated. Quite possibly it has a more general applicability to those countries in which extended family, communal, and tribal organization are significant in a nation's agriculture. Georgescu's emphasis is upon agricultural enterprises in which marginal

productivity is below subsistence, that is to say, when the intersection of supply and curves in Diagram III of Figure 1 would intersect at a less than subsistence level, that is, where  $w_r$  would reflect marginal returns of lower than subsistence. Under such circumstances, resource allocation depends upon the calculation of returns on a non-marginal basis, involving two types of "transfers": 1) the transfer of property incomes, that is, returns to land and capital not owned by the worker, and possibly, 2) the transfer of labor incomes from more productive members of the community to less productive ones. Even though these transfers may be mandatory for the continuing social existence of the agricultural production unit, they may persist in a developing economy even when marginal productivities to many agricultural workers may be higher than subsistence. Empirical verification of this phenomenon is difficult.

To the extent that communal and extend<sup>ed</sup>/family productive arrangement may be important in national agricultural production, out-migration based solely upon the actual marginal or even the anticipated marginal productivity in urban centers may reduce agricultural output. Given the age selectivity of urbanward migrants in almost all countries, and given the greater productivity of youth in labor intensive work, communities hitherto dependent upon its more youthful members for the support of its low productivity elders and children, may be hard pressed to maintain prior production. Under such circumstances, Georgescu applies the term "Calvary of Capitalism", probably derived from Socialist literature, to describe the consequences. Following Georgescu, however, this really constitutes a Calvary of Market Discipline. The

implications of our analysis emphasize the risks involved in premature urbanization and off-farm migration, especially as they are reflected in sectoral differences in wage rates or labor income. Not only is the  $w_u - w_r$  difference (Figure 1) important, but also the  $w_d - w_r$  difference. Administrative widening of these labor income differences, or the persistence of misinformation about urban work opportunities may in such cases have a negative effect upon production.

Inasmuch as the Green Revolution (47) is currently having a significant influence in Asian countries where there is greatest likelihood that marginal productivities may be below subsistence, the time is now propitious for the study of labor force adaptations to this technological benefit. Coupled with frequently required new capital investment to utilize the new grain varieties (53), and potentialities for both labor and capital intensive investment in rural areas, there is the distinct possibility that growth maximization may come from agricultural rather than non-agricultural capital formation.

#### Political Options in the Land Reform-Urbanization Alternative

Implicit in the reluctance of development advisors and agencies to deal directly with the land reform problem is an evaluation of the political risks involved. Urbanization seemed to provide a political low-risk development priority and conformed with stereotypes of the developed nations. It corroborated notions of Fascination with Industry. It engendered policies of agriculturally adverse import substitution.

Urbanization, however, possesses political thorns of its own. Greater political volatility in urban areas, the possibilities of anomic disturbances, and high levels of material expectation led to policies protective of politically more powerful groups. High rates of natural increase of urban families, including those of high income and high hereditary status, led to reduced vertical mobility and the creation of an urban class of residual claimants, who, though possessed of equivalent native equipment, were limited in their access to the development of that equipment, and in their entry to the preferred, higher wage employment. This class is now growing, and growing rapidly in a wide range of developing countries. At the same time, although urbanization may have indeed reduced population pressure upon the land below what it would otherwise have been, failure to accept the political risks of the discipline of the market meant that production possibilities were not realized in either the urban nor the rural sector. The potentially ameliorative effect upon the rural area through the relative reduction of population pressure, through rural capital formation, and education of rural youth was not maximized. The high and rapidly growing rates of urban unemployment across a wide range of nations in the less developed countries, now suggests that the moment of truth is at hand--that there is no politically innocuous alternative available.

Political pressures in both rural and urban areas will undoubtedly increase rather than diminish in both sectors. Land reform activities would be enhanced by a more accurate knowledge of urban income alternatives confronting prospective migrants to cities. To the extent that the

wage policies have generated unrealistic expectations for urban work, resources continue to be misallocated. The rationalization of urban wage levels thus constitutes one of the highest order requirements of reordered development programs. These adjustments can be furthered by the proper selection and education of the nation's youth including rural and lower class urban youth.

#### Conclusions and Recommendations

My analysis has neglected some aspects of the way in which urbanization can impinge upon land reform efforts. In particular, it has neglected output or commodity markets and problems related to import substitution programs. (1, pp. 17-20) These problems including analysis of demand for agricultural commodities are of great importance. My judgment, however, is that adjustments in the factor input sector, particularly the labor market, are of greater importance at the present time, and it is for this reason that I have devoted so much of this paper to that aspect of the overall problem.

To the extent that urbanization is a socially modernizing nucleus, containing centers of public administration, there are a number of activities in which urban initiatives can assist agricultural production and land reform. Amelioration of commodity marketing procedures across the whole range of marketing--provision of price information, improvement of communication and transportation facilities, and storage--constitute a crucial production-organizing opportunity at the output level. Urban based activities of an intermediate nature can also be great value, in particular, I mention the establishment of institutionalized

financial intermediaries in rural and small town areas to provide banking and credit services, and the possibilities of rural electrification in areas adjacent to power production centers. At the factor level, it will do no harm to reiterate the importance of educational investment and having done that, to stress the importance of technological developments geared to problems specific to the rural areas of given countries through investment in agricultural research.

Land reform can assist in the solution to the unemployment problem, not through the enserfing of agricultural families and their children, but by making income alternatives in rural areas higher relative to those in cities. Simultaneously, the rationalization of urban labor markets, and possible intermediate endeavors such as manpower mobilization programs provide a basis for greater investment in both rural and urban areas.

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