Agriculture and the "Big Push"

Leonardo A. Lanzona, Jr.

Rural poverty is four times higher than that of the National Capital Region where inequality is also observed to be slightly lower. This suggests that the probability of being poor is more likely in the rural areas than in the urban areas. Recent data also show that real wages in the non-agricultural sectors in the last five are roughly two times higher than the agricultural sectors. These conditions thus explain why the people in the rural areas who are dependent on agriculture for their primary means of livelihood account for almost 70% of the poor.

Moreover, these conditions turn urban migration into an attractive option for many workers. Migration is usually seen as a device for sorting individuals into more productive employment However, any attempt to solve unemployment by increasing the number of jobs in the urban sector is bound to fail. So long as the increase in the demand for urban labor raises the probability of finding an urban job, the higher migration rates towards the cities will persist. The inflow of laborers into the cities will thus aggravate the high level of urban unemployment which is already two times higher than the rural areas. Moreover, it deprives the rural areas of human capital (leading to the so-called brain drain) since the urban migrants are usually the more educated and motivated individuals

Clearly, it is crucial to narrow the positive urban-rural wage differential in order to reduce total unemployment. This however will require a broad strategy to diminish the rural-urban disparities. A "big push" is necessary to expand and modernize the agricultural sector to a degree large enough to discourage the outflows of labor from the rural to the urban areas. Drawing from the idea of Paul Roseinstein-Rodan in 1943, this denotes a coordinated set of investments designed to place a large number of the unemployed into productive work, with wage incomes substantially higher than their previous income. In effect, in order to maximize returns from investments, both private and public investments should not be designed in isolation, but should be accompanied by other investments within and across many sectors.

The recently passed Agriculture and Fisheries Modernization Act provides the mechanisms and strategies for the more efficient use of available funds and emphasizes the primacy of private enterprise in agricultural modernization and growth. This policy is certainly a movement in the right direction. However, the "big push" does not refer only to technological improvements or an increased intensity in the use of agricultural land. Aside from the accumulation of resources and the innovations in technology, it requires institutional transformations as well.

One of the yet inadequately resolved issues in Philippine agricultural development is why dysfunctional institutions persist in the long-run. A classic example of the persistence of inefficient institutions relates to the historical evolution of land rights. The empirical evidence here is that economies of scale in farm production are trifle for most of the crops produced, and that small farms is often the most efficient unit of production. Yet the history of land reform suggests that numerous barriers are being imposed by long-standing vested interests in the course of a more efficient reallocation of land rights. As a result, the land market is especially thin, thus limiting the potential efficiency gains from market transactions. If any, the sales often go to the opposite way, from distressed small farmers to the original landowners or moneylenders. Low household savings and severely imperfect credit markets indicate that the potentially efficient small farmer is incapable of keeping his land and affording the going market price of land.

Clearly, if the focus is to reverse the migratory behavior of workers towards the rural areas, the program must be premised on the exploitation of whatever scale economies that currently exist in the agricultural sector. Borrowing from the concept of technological change, one can see that there are also increasing returns to the adoption of a particular institutional form. The more it is adapted, the more it is attractive or convenient for others to conform to the emerging infrastructural direct and indirect outcomes, learning and coordination effects, and other expectations. Overhauling the present institutions that favor vested interests, perpetuate inequality, and prevent merit (as opposed to simply socio-political power) from being the criterion of social promotion will go a long way towards reducing achieving greater productivity.

Unfortunately, institutions are noted to be dependent on particular paths that are chosen by previous administrators. These initial adopters eventually “lock in” their interests into these systems for a long time, eventually destroying the emerging more appropriate institutions. Hence, high initial inequality creates institutional conditions for self-perpetuation, generating a “lock-in” effect with economic stagnation. The initial economic conditions, especially rural investments, would perform differently if initial inequality were to be altered. In which case, any agricultural development will first require the redistribution of resources and the creation of productive capabilities. Programs, like the recent agribusiness projects, that ignore the initial inequalities and the potential of small farms are bound recreate and enhance existing disparities that have kept the country from developing.

The good news is that egalitarian societies, not plagued by distributional conflicts and ready to transform dysfunctional institutions easily, do exist. As the experience of most East Asian countries indicate, just societies can be forged by a mixture of interrelated policies: opening access to asset-accumulation opportunities in a way that favors the poor (such as the reinforcement of land reform); implementing development strategies that raise the value of the assets of the poor, including their labor; and making assets that complement the assets of the poor (credit and irrigation) more accessible to them. Creating plantation systems is inappropriate and wasteful in this context, and certainly not the only way to generate a “big push” in agriculture.