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Ashwani Saith. *The Rural Non-Farm Economy: Processes and Policies* (Geneva, ILO), 1993

Introduction

The study examines the likely impact of rural, non-farm economy (RNFE) growth on rural inequalities and agrarian differentiation processes; possible demand constraints; and the success or failure of specially targeted rural, non-farm programmes (for example, Grameen Bank in Bangladesh, the People's Commune in pre-1978 rural China and IRDP interventions in India). The author establishes economic conditions and institutional environment that would enable the RNFE to grow, with a decisive impact on rural poverty.

The study, intended to be a precursor to a full-length study of the rural, non-farm economy (RNFE) in developing economies, runs into five chapters. Chapter 1 is the introduction, chapters 2 contains the different inferences and analysis on the likely impact of farm expansions, while chapter 3 discusses demand-side issues. Chapter 4 presents the supply-side interventions; and chapter 5 summarizes and concludes with a few valuable observations.

Summary of Study

Chapter 1 introduces an extremely crucial component of the book in defence of RNFE and rural industrialization, steers through definitional and conceptional ambiguities and briefly unfolds the historical processes through which rural industry graduated itself to a modern flourishing sector or faced a steady decay in individual countries under diverse socio-economic and institutional environments. In a sense, this chapter lays down the general analytical framework under which the subsequent chapters proceed. The author rightly points out that bitten by the relative failure of industrialization-oriented development strategy in recent years, rural industrialization has become a "fast-moving bandwagon" on which most developing countries wish to hitch a cheap ride to rural development and poverty alleviation. The reasons for this policy switch-over are nicely summarized by Saith (pp. 5-8). Besides the case for rural industrialization does stand on its own (pp. 9-10). A special caution is sounded against presuming "automaticity" in such a difficult area of policy intervention. The author makes the point that the objectives of launching rural industrialization must be set out clearly in the very first instance but without "too heavy an emphasis on the employment generation objective to the exclusion of other concomitant conditions," especially the dynamics of its self-sustaining growth (pp. 10-11).

From the viewpoint of location and the prospect of the benefits accruing to rural residents, non-farm activities can fall into four location-linkage combines: rural located, rural linked; rural located, urban linked; urban located, rural linked; and urban located, urban linked. The author rightly relies on a linkage criterion and adopts a wider working definition under which all types of non-farm employments are considered for the rural, households, irrespective of their location. In as much as the definition goes beyond "rural non-farm employment for rural people" its underlying stress is on rural people rather than rural areas. From a policy point of view, this is more readily acceptable since insistence on rural locale of non-farm activities is difficult to achieve under many activities.

Chapter 2 conjectures on the likely impact of farm expansions on agrarian differentiation and rural inequality. Data are marshalled from diverse sources to understand the relationship between farm size and non-farm employment/incomes. Highly jumbled patterns are observable across regions and countries for varying points of time and against varying levels of socio-economic development. It is a "U" type relationship in some cases, a positive relationship in others and a negative one in still others: self-and wage-paid components of non-farm employment throw up equally contrasting patterns. This cross-country empirical overview prompts the author to conceive a multi-stage stylisation of the behaviour of non-farm employment and its components.

That non-farm activities could steadily graduate themselves as in East Asia from purely rural and distress-based, ad hoc self-employing supplementations, often involving the total family labour, to full-fledged, urban-based modern enterprises entailing more and more of wage-employment, and their failure in Africa to reach this culmination, suggests that socio-institutional specificities of each case cannot be glossed over. Putting it differently, it is erroneous to gauge the income distribution and agrarian differentiation effects of non-farm expansions through sketchy, single-point information. It is, however, very likely" that the expanding of the RNFE, despite its negative effect on rural inequality and agrarian differentiation, is nevertheless likely to lower the observed incidence of absolute rural poverty" (p.44). The RNFE expansion is thus inescapable for the developing world.

Chapter 3 discusses the demand-side issues. The author is right that treating all non-farm activities as a single lump conceals more than it reveals. Conceptually, non-farm activities can be put into many divisions and subdivisions (for example, auxiliary agricultural, industrial and services; modern or traditional, serving final consumer demand or intermediate production needs or agro-processing, and so on).

In practice, such fine classifications are difficult to adhere to, primarily because data are not available. But then, the case of those non-farm activities (especially those in the secondary sector) which through technology, marketing and other institutional intervention, can graduate to expanding modern enterprises, ostensibly

with urban locale (proto-industrialisation type) must be seen differently from those which are traditionally embedded in village economic life. It is this structural distinction that puts the efficacy of diverse policy measures such as:

- (i) the protection of rural industrial sector against the more powerful indigenous modern sector or imports,
- (ii) vertical industrial integration through ancillarisation and collaboration,
- (iii) fiscal concessions, import subsidies and price advantages, etc. into a proper perspective.

The demand advantages enjoyed by a wide array of RNFE activities in Japan, Taiwan and China, and difficulties faced by their counterparts in the developing world are brought out in bold relief. The farm-non-farm linkages, whether under production impulses of Mellorian Agricultural First strategy, or through the more comprehensive forward-cum-backward linkages, remain the central theme on the demand side. The nature of linkages differs from country to country. The supply-side interventions, largely to promote non-farm employment towards poverty alleviation are examined in chapter 4, with data on diverse programme orientations from many developing countries. First, the rationale, content and employment outcome of rural public works (for example, IBRD, FFW, NREP, RLEGS, EGS, CSRE, etc., in India) are discussed. Similar to many earlier studies, the author too discovers a very limited all-round impact of such programmes, especially because of targeting leakages, rendering these programmes very expensive as a means of reaching the poor and because of short-term and fickle motivation "seeking mass popularity through giveaways usually prior to some popular political test" (p.98). It is also true that "such programmes generally lack the power to tax the richer beneficiaries to any significant extent; and they are more than reluctant to invest even limited ownership titles to the new infrastructure in the rural landless groups who create them and who form the official *raison d'etre* in the first place" (p.98).

Secondly, in contrast to the experience of rural public works described above, the nature of wage payment and distributional accounting system in China was such that building of rural infrastructure through nationwide "productive labour accumulation" was bound to succeed and become self-financing. Moreover, its distributional impact was highly egalitarian and this is what leads many China analysts to suggest that the spadework for the phenomenal growth of non-farm enterprises in post-1978 rural China was accomplished way back during the days of the Cultural Revolution. Thirdly, the inherent weaknesses of the NGO approach, especially the heavy overhead costs involved and fairly low prospects for its wide replication, are laid bare, through specific country experiences.

Finally, chapter 5 highlights a few valuable observations. To comprehend the respective roles of "policy" and "circumstance", the rural, non-farm development experiences can be encapsulated into two groups: one of the large, agrarian; largely inward-looking Asian economies, exemplified by India and China and the other of

the smaller, east Asian economies, exemplified by Japan, Korea and Taiwan. While the first group attempted planned industrialization, largely based on the strength of domestic market, the latter used external markets as a springboard for their industrialization.

Both groups have their relative failures (for example, India and Korea, respectively) and successes. The author carries the reader through the broad strands of policy changes in both groups and one is led back to the villain of policy faltering in the failure cases. He observed the weaknesses of respective development strategies, especially the costly neglect of an "Agriculture First" approach, pursued by big countries, such as India. The highly analytical account of the seven incarnations of "Agriculture First" strategy, including the Bukharin version of the 1920s, Lipton-Mellor exposition of farm-non-farm linkages, Adelman's Agricultural-Demand-Led Industrialization, World Bank's Structural Adjustment Package, Structuralists' view on the self financing role of the rural, non-farm economy, etc., need to be read with care by development economists and administrators. Underlying most of these strategies is the crucial role of rural infrastructure. But then, the impact of infrastructural development has its own time and space specificities: occasionally, labour displacement may follow (for example, labour-intensive dhenki rice-processing technology being replaced after electrification of rural Bangladesh).

The study suggests that while the potential contributions may be recognised within a suitable strategic and institutional environment, the rural, non-farm sector must not be viewed as a panacea for the fundamental problems of rural development and poverty alleviation. The problem of development is a problem of the whole; it cannot be solved by tinkering with a single little part.

Comments and Conclusion

The study is very comprehensive and informative. In my view, the present study is different from its predecessors in many ways. First, unlike most previous RNFE studies straight jacketed within an overly supply-side approach, demand-side constraints are duly looked into. Second, the role that agrarian background and rural institutions can play in fostering an enduring RNFE growth, guided specifically by the successful experiences of Japan, China and Taiwan, is convincingly argued for. Third, the linkages between RNFE growth and the macroeconomic environment, usually kept tacit by studies on rural diversification, are explicitly visited and their implications explored. The author's strong analytical core and the masterly use of rich country insights for answering specific questions need to be underlined. He thinks profoundly, especially in laying the outline of theoretical arguments. For many aspects, his data base is scanty but his inferences are unassailable. The study is useful alike to interested researchers and policy administrators for likely answers to specific questions.

The quality of this precursor study notwithstanding, I will like to highlight the following observations. First, on the whole, the writing is rather difficult for average readers in general; only a highly knowledgeable and determined reader can get along with the author. Second, we discover in the full-length study not only fresh and up-to-date data but an empirical testing of a few hypotheses which are lying stored as conjectures. For example, Hart's hour-glass hypothesis with its implications for rural income distribution, and Vaidyanathan's residual sector hypothesis, with its implications for long-term sustainability of non-farm growth belong to this genre. Third, the question of farm-non-farm balances, especially the issues of resource depletion, ecological degradation, overheated economies, etc. need to be addressed more squarely. The post-1978 Chinese experience is handy to be drawn upon.

Fourth, the exigency of data availability apart, the question of locale, and more generally, the employment, earnings and welfare implications of "rural industrialisation" contrasted to "industrialisation for the rural areas" need to be thrown bare. Fifth, the question of inter-regional disparities, especially in big populous countries such as China, India, Indonesia, is assuming extreme significance. Admittedly, inter-regional disparities in a country are a far more serious problem than the inter-country disparities.

In conclusion, it is now evident that in peasant economies, farm employment alone, even though fairly remunerative in the stage of the most progressive agriculture, cannot provide an enduring solution to the problem of rural underemployment and poverty. As a long-term strategy, non-farm avenues of employment and earnings for the rural households are a must. The changing world economic scenario throws up fresh challenges as well as opportunities for rural economies in the developing world.

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