INDES WORKING PAPER

Rural Poverty in Latin America

Keith Griffin

Integration and Regional Programs Department
Inter-American Institute for Social Development

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Keith Griffin

University of California,

Riverside

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Rural Poverty in Latin America[i]

Rural poverty no longer is high on the policy agenda in Latin America. International agencies and national governments alike act as if rural poverty no longer matters or at least no longer deserves top priority. The obvious explanation for this neglect is that Latin America has become an urban society and urban issues, for both political and economic reasons, command most of the attention of policy makers and external analysts. The proportion of the population living in urban areas is as high as 92 per cent in Venezuela and in the three largest countries of the region it is between 78 per cent (in Brazil) and 72 per cent (in Colombia), with Mexico in between at 75 per cent. Most people in Latin America live and work in the cities. Moreover, in terms of absolute numbers, most poor people in Latin America now live in urban areas and obtain their livelihood in informal and formal urban sector activities. Thus it is hardly surprising that poverty in Latin America is regarded as largely an urban phenomenon.

Such a judgment, however, may be too hasty. The available data, incomplete as they may be, suggest that rural poverty still is significant in many Latin American countries. In Table 1 we have assembled information on 16 countries which account for 91.7 per cent of the total population of Latin America and the Caribbean. The table contains information on the rural population as a percentage of the total population (column 5), and for various years (indicated in column 1), the percentage of the population below the poverty line in the rural areas (column 2), the cities (column 3) and in the country as a whole (column 4). Finally, (in column 6) we indicate the number of rural poor as a percentage of the total population in poverty. The data are quite interesting.

Table 1. Rural Poverty in Latin America

Country	Percentage of Population Below the Poverty Line				Rural Population as per cent of Total Population	Rural Poverty as per cent of Total Poverty
	Year	Rural	Urban	Country		
Argentina	1986	17	12	13	12	16
Brazil	1990	32.6	13.1	17.4	22	41
Chile	1994	26	24	24	16	17
Colombia	1992	31.2	9.9	18.8	28	46

Costa Rica	1992	25	25	25	51	51
Ecuador	1994	47	25	35	42	56
El Salvador	1992	55.7	43.1	48.3	55	63
Guatemala	1986	75	54	68	59	65
Honduras	1992	46	56	50	57	52
Mexico	1992	46	30	36	25	32
Nicaragua	1993	76.1	31.9	50.3	38	57
Panama	1991	43	34	36	47	56
Paraguay	1991	28.5	19.7	21.8	48	63
Peru	1991	68	50.3	54	28	35
Uruguay	1986	23	14	15	10	15
Venezuela	1992	36	32	33	8	9

Sources: Population below the poverty line: World Bank, World Development Indicators 1997, Washington, D.C.: World Bank 1997 (for Brazil, Colombia, Ecuador, El Salvador, Honduras, Nicaragua, Paraguay and Peru); United Nations Economic Commission for Latin America and the Caribbean, Social Panorama of Latin America 1995, Santiago: ECLAC, 1995 (for Argentina, Chile, Costa Rica, Guatemala, Mexico, Panama, Uruguay and Venezuela). Rural population as per cent of total population: UNDP, Human Development Report 1997, New York: Oxford University Press, 1997. Rural poverty as per cent of total poverty: author's calculations.

Poverty in Table 1 refers to income poverty, i.e., the proportion of the population that has insufficient income in the sense that it falls below the poverty line. It is clear from the table that the relative incidence of poverty is higher in the countryside than in the cities. In Brazil, for example, 32.6 per cent of the rural population lived below the poverty line whereas only 13.1 per cent of the urban population were classified as living in poverty. Indeed only in Honduras is poverty greater in the urban areas; in Costa Rica the incidence of poverty is the same in both sectors; everywhere else, the incidence of poverty is greater in the rural areas. In Latin America as a whole, therefore, it is evident that the likelihood of a family living in poverty is much higher if that family resides in a rural area rather than in a city.

Moreover, as regards the severity of poverty or depth of poverty, it is likely that on average the income of the rural poor falls further below the poverty line than does the income of the urban poor, although data to support this conjecture are absent. It is well known however that average incomes are lower in the rural areas, often much lower, and unless this disadvantage is compensated by a much more equal distribution of income in the rural areas, it follows that the rural poor have a lower income on average than the urban poor. In other words, the poverty gap is greater in the countryside than in the cities.[ii]

Equally significant, in terms of capability poverty, there is no doubt that the rural population lives in greater poverty. Illiteracy rates are higher; access to safe drinking water is lower; malnutrition is higher; access to basic health services and to basic education are lower; and even life expectancy almost certainly is lower. In other words, if the concept of poverty is broadened to include not only insufficient income but also lack of access to the services and institutions necessary for people to function at an acceptable level, it is apparent that the rural areas are at a great disadvantage.

In Table 2 an attempt is made to illustrate this proposition by providing data on the relative access of people in rural areas to health services (1985-95), safe water and sanitation (in both cases 1990-95). The numbers in the table should be interpreted as probabilities, namely, the probability that a person living in the countryside will have access to a particular service compared to the probability that a person living in a city will have access to the same service. For instance, in El Salvador, 78 per cent of the urban population have access to safe water compared to only 38 per cent of the rural population. Hence a rural person is only 49 per cent as likely (38/78=0.487) as an urban resident to have access to safe water.

Table 2. Indicators of Capability Poverty in Rural Areas

	Relative Access to Services		
	Health	**Safe Water**	**Sanitation**
Argentina	26	38	51
Brazil	n.a.	n.a.	n.a.
Chile	n.a.	39	6
Colombia	n.a.	76	43
Costa Rica	63	116	94
Ecuador	29	67	68
El Salvador	50	49	71
Guatemala	53	47	72
Honduras	70	65	64
Mexico	75	68	24
Nicaragua	60	28	44
Panama	67	n.a.	74
Paraguay	42	48	120
Peru	n.a.	32	43
Uruguay	n.a.	6	108
Venezuela	n.a.	94	47

Source: UNDP, Human Development Report 1996, New York: Oxford University Press, 1996, pp. 152-3.

It can be seen at a glance that in all ten countries for which we have data, the rural population is less likely than the urban to have access to health services. In 13 out of 14 countries (Costa Rica is the exception) the rural population is less likely than the urban to have access to safe water; and in 13 out of 15 countries (Paraguay and Uruguay are the exceptions) the rural population is less likely than the urban to have access to sanitation services. In many instances the rural areas are at a severe disadvantage. Indeed in 17 out of 39 cases a rural resident is less than half as likely as an urban resident to have access to the three basic services listed in the table.

Thus it is clear that the incidence and severity of income poverty and capability poverty are higher in the countryside than in the cities. Finally, as can be seen in column 6 of Table 1, in eight out of the 16 countries, rural poverty accounts for more than half of the total population suffering income poverty, although without exception the eight countries are relatively small. In Brazil (the largest country) and in Colombia (the third largest) rural poverty accounts for more than 40 per cent of total poverty. Considering the 16 countries as a group, about 38 per cent of all the poor live and work in rural areas.[iii] Thus despite the high degree of urbanization in Latin America, rural poverty remains a serious problem.

The System of Labor Controls

Given that poverty is pervasive in the rural areas and that rural poverty continues to account for a significant proportion of all the poor in Latin America, it is essential to have a clear understanding of the fundamental causes of rural poverty. The point of departure is recognition, contrary to popular belief, that labor is scarce in the countryside and always has been. Natural capital, i.e., agricultural land, mineral resources and forests, is abundant and the problem facing any employer is how to ensure that scarce labor can be made available so that the region's natural capital can be exploited profitably. The problem of labor scarcity has been overcome historically by devising a system of labor controls, which varies from one country to another and from one historical period to another.[iv]

At the time of the Spanish conquest the dominant system of labor control was the encomienda. This was a system of taxation that compelled the indigenous population to enter the labor market and work for Europeans so that an income could be earned with which to pay taxes. The effect of the tax system on the indigenous people of the countryside was to shift the supply curve of labor to the right and lower real incomes. The encomienda system had to be abandoned however when the population began to decline sharply: labor scarcity became acute and more radical measures to control labor became necessary.

In some regions forced labor (the mita) was introduced. In other regions, notably in Brazil and the Caribbean islands, labor was imported from Africa and slavery became widespread. In still other regions, concertaje, a form of serfdom or debt peonage, emerged. Finally, sharecropping and other forms of insecure tenancy arrangements became common in the 19th and 20th centuries (e.g., huasipungo in Ecuador and inquilinaje in Chile).

Despite the numerous modifications that have taken place over time, labor controls are an enduring feature of the human landscape of rural Latin America. The economic function of these controls is to alter the terms on which labor is acquired by employers and to ensure a captive work force for landowners. The combined effect of the system of labor controls is to produce poverty, by reducing real wages and the standard of living of campesinos below what they otherwise would have been.

The modern system of labor controls can be divided into three sub-systems, namely, social controls, environmental controls and institutional controls. These control mechanisms influence the dimensions of the labor market and the relative bargaining strength of the participants and hence the context in which the ordinary forces of supply and demand operate.

Social controls

Let us begin with social controls. These consist essentially of cultural barriers to the occupational mobility of labor. Their effect is to differentiate labor, to enable employers to discriminate between workers and, when carried to an extreme, to create non-competing groups. Social controls lead to segmentation of the rural labor market on the basis, for example, of "race" or ethnicity, language, dress or sex. The effect of labor market segmentation is to shift the supply curve of low skilled labor to the right and thereby reduce wages below what they otherwise would have been. That is, social controls keep campesinos in their "place" at the lowest stratum of the rural work force.

In Andean America, for instance, language acts as a social control. Campesinos who speak Quechua in Ecuador, Peru and Bolivia encounter barriers to occupational mobility. Indeed the practical definition of an "Indian" in Andean America is based on language; it certainly is not based on purity of blood. The language barrier helps to keep the indigenous population in the Sierra or the Altiplano where they are available to potential employers. The effect of this barrier on reducing the wage rate is illustrated in Figure 1.

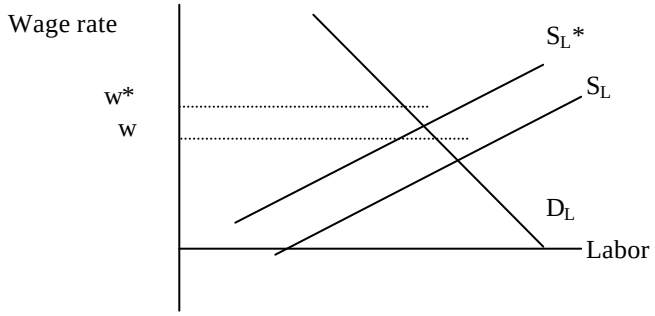


Figure 1: Effect of social controls on the labor market for low skilled rural workers

Actual labor market conditions are represented by the demand curve for labor (D_L) and the supply curve (S_L). These supply and demand conditions produce a wage rate equal to w. Labor supply, however, is "artificially" increased -- surplus labor is created -- by the social control over language: Quechua speakers suffer from reduced job choices and occupational mobility. In the absence of a language barrier, the supply

curve of labor would be S_L* and the resulting wage rate (w*) would be higher than the actual wage (w). In other words, cultural phenomena such as language barriers, "racial" differences and ethnic distinctions have economic consequences. Social controls are not historical accidents or cultural artifacts; they are part of a larger system of labor controls whose purpose is to overcome the problem of labor scarcity in the countryside.

Environmental controls

Social controls are re-enforced by environmental controls, which further reduce occupational mobility and, more important, reduce the geographical mobility of labor. That is, environmental controls lead to the spatial fragmentation of the labor market: what might otherwise be a unified, integrated rural labor market is broken up into a myriad of small, local, fragmented labor markets. Illiteracy, a poor general education, lack of training facilities and inadequate means of transmitting information in rural areas strengthen linguistic and other social controls. The campesino is kept in ignorance. The lack of investment in human capital helps to keep the rural population in their "place," i.e., ignorance and lack of schooling are functional.

The campesino also is kept in isolation. There was a time when the rural labor force almost literally was enclosed within the hacienda. Today, geographical and physical isolation are results of poor transport and communications systems rather than restraints exercised by landowners over their "Indians". The scarcity of secondary roads and of vehicles, particularly in some of the more remote regions, has resulted in a spatial fragmentation of the labor market which sometimes is overlooked by analysts who focus on the extensive rural-to-urban migration of labor. Bolivia, for example,

> "is a vast country of 1.1 million square km, yet it has only 37,600 km of roads. Approximately 10,000 km consists of the principal highway connecting Santa Cruz, Cochabamba and La Paz with international routes. Of this, only 1500 km are paved. Another 4000 km are passable year round; 1490 km are passable in the dry season and the rest are usually impassable. The state of the remaining 26,600 km of roads defies description."[v]

In a situation such as this, it makes little sense to talk in general terms about "the" rural labor market. There is a multiplicity of specific markets, segregated by language, sex, distance and ignorance, and coincident with the village, the hacienda or the "Indian" community. These environmental controls, like the social controls, depress rural incomes.

Iinstitutional controls

Finally, there are the institutional controls. These comprise the innumerable organizations (church, trade unions, landowners' associations), codes of law and instruments of coercion which affect resource allocation and individual behavior. Above all, however, is the concentration of land ownership and the latifundia system, because in an agrarian economy, control of the land ipso facto gives landowners control over the labor force. That is, the effect of land concentration is to give landowners monopsony power in the local labor market. This lowers the wage rate below what it would have been in a competitive labor market and has analogous effects in the land market on crop sharing contracts and fixed rental contracts.

The effect of the interacting systems of social, environmental and institutional controls is to atomise the rural labor force into highly vulnerable groups of workers confronted by landowners who, in the specific localities in which they operate, have a monopoly of the material means of production. This local monopoly of productive resources, and the accompanying monopoly of sources of employment, gives the landowner a partial monopsony of labor as well. This inevitably has deleterious consequences for the level of employment and standard of living of the campesino, and for the distribution of income, the utilization of land and the volume of agricultural production. Indeed it can readily be shown that the overall effects of this system of labor controls are (i) to reduce total agricultural output, (ii) to create inefficiency in the use of resources, (iii) to lower total rural incomes, (iv) to reduce agricultural employment and create "surplus" labor, (v) to create a highly unequal distribution of income between landowners and campesinos, (vi) to raise the absolute income of landowners and (vii) to reduce the incomes of campesinos absolutely and thereby create rural poverty.

The Market for Landless Wage Workers

Let us start with an analysis of the rural labor market for wage workers. The problem faced by the large landowner (or latifundista) is that he has land and needs labor to cultivate it. This labor can be obtained in several ways: by hiring workers for a money wage, by employing a tenant for a share of the crop, or by hiring out land to tenants for a fixed rent. These "pure" contracts can be combined in various ways and in addition payments can be made in cash, in kind, in exchange for labor services, in exchange for the right of workers to use a parcel of land for their own purposes, etc. The choice of contractual arrangement will be influenced by several factors, including attitudes toward risk, cost of managerial supervision, importance of economies of scale in production and marketing, provisions of land tenure legislation, and so on. These are matters of considerable practical importance, but they do not alter a fundamental proposition, namely, that the latifundista will adjust the terms of the contract with workers such that the net income of campesinos will be roughly the same whether they work as wage laborers, sharecroppers or fixed rent tenants. The key issue is whether or not the landowner can exercise monopsony power.

Consider Figure 2, a monopsonistic market for rural wage workers. The supply curve of wage workers in the local labor market is represented by S_L. Remember that this supply curve will already have been shifted

to the right by the social and environmental controls discussed earlier and hence the campesinos enter the labor market at a considerable disadvantage. Be that as it may, in the absence of monopsony power, the "competitive" level of employment will be E_c and the "competitive" market determined wage will be w_c, as determined by the intersection of the demand curve (D_L) with the supply curve at point C.

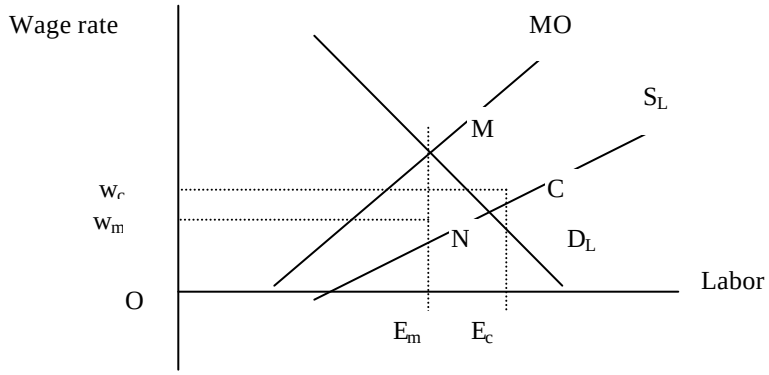
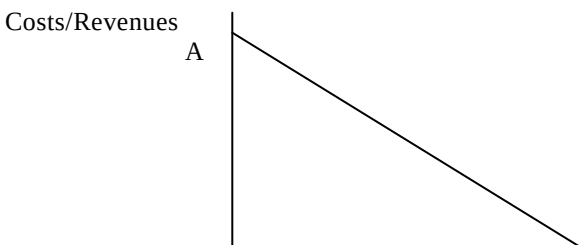


Figure 2: A monopsonistic rural labor market

If the landowner enjoys monopsony power, however, he will take into account the fact that he can obtain more labor only by offering a higher wage. That is, he will maximize his profit by equating his marginal outlay or expenditure on labor (represented by the MO curve) with the marginal revenue product of labor (represented by the demand curve). This occurs at point M and implies that the landowner maximizes his income by employing only Em workers (instead of E_c) and paying them a wage rate of w_m (instead of the higher wage, w_c). The wage workers thus are doubly harmed: they have fewer days of employment (equivalent to E_c-E_m) and they are paid a lower daily wage rate (equivalent to w_c-w_m). Their total income falls from the area Ow_cCE_c to Ow_mNE_m. That is, they are reduced to poverty.

Sharecropping and Fixed Rental Contracts Under Competitive Conditions

Imagine next that instead of seeking wage employment a campesino decides to hire land at a fixed rent from a landowner. Will he be any better off? The answer is "no" and the reason can be explained with the use of Figure 3. As before, the quantity of labor is measured on the horizontal axis and costs and revenues on the vertical axis.



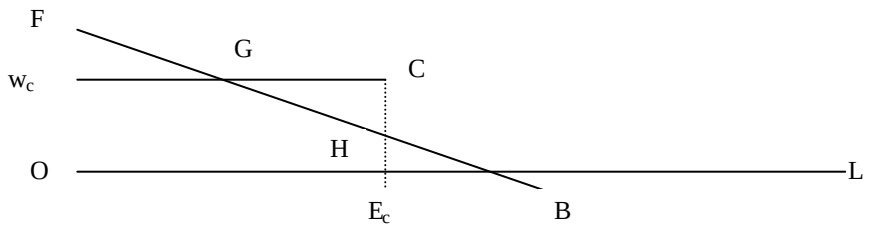


Figure 3: Fixed rent and sharecropping contracts under competitive conditions

The line AB is the marginal revenue product line of labor (analogous to the demand curve for labor in Figure 2) corresponding to a land holding of a given size. It indicates that as employment on the land increases, the marginal product of labor decreases. If the landowner faces competitive conditions in the labor market he can cultivate the land with hired labor, paying the going wage w_c and employing E_c amount of labour. The total value of output will be $OACE_c$, of which Ow_cCE_c (as in Figure 2) will be payments to labor and the residual w_cAC will be the landowner's profits. Alternatively, he can hire out the land at a fixed rent equal to w_cAC. His tenant will then have an incentive, given the opportunity cost of his labor of w_c, to apply E_c amount of labor to his rented farm, and consequently total output and the division of output between the tenant and landowner will be the same as before. It makes no difference whether the land is cultivated with hired labor or turned over to a tenant for a fixed rent.

Similarly, it makes no difference whether the land is turned over to a tenant in return for a share of the output. There are merely two things the landowner must do. First, he must find a "good" tenant, i.e., one who will supply at least E_c amount of labor. The landowner can ensure that this amount of labor is indeed forthcoming by threatening to evict a tenant if he turns out to be "bad". It is in fact precisely for this reason that sharecropping contracts and insecure leases are so closely associated. Insecurity makes the threat of dismissal credible and that, in turn, gives the tenant a strong incentive to work hard and provide E_c amount of labor.

Second, the landowner must offer the tenant a share of the crop so that the tenant can earn at least as much as he could as a hired laborer or a fixed rent tenant. This condition is satisfied in Figure 3 by offering the tenant a share of OF/OA.

Given that the labor input is OE_c regardless of the contractual arrangement, total output will be the same. Under the sharecropping system the tenant's income will be $OFHE_c$. This area is equal to Ow_cCE_c, since $w_cG=GC$; and hence the sharecropper, wage worker and fixed rent tenant all receive the same income. Similarly, the landowner's share of net output is FACH, and this is equal to w_cAC, his income under a

fixed rental or hired worker system. In other words, the tenure system as such has no effect on the distribution of income.

Tenure Contracts Under Monopsony Conditions

If the landowner is faced by labor scarcity, and hence a rising supply curve of labor, he will take this into account when entering into a sharecropping or fixed rental contract with a tenant. That is, monopsony power in the labor market will be reflected not only in the wage paid to agricultural workers but also in the division of output between the landowner and his tenants and in the rental rate of land. This can be seen in Figure 4 below.

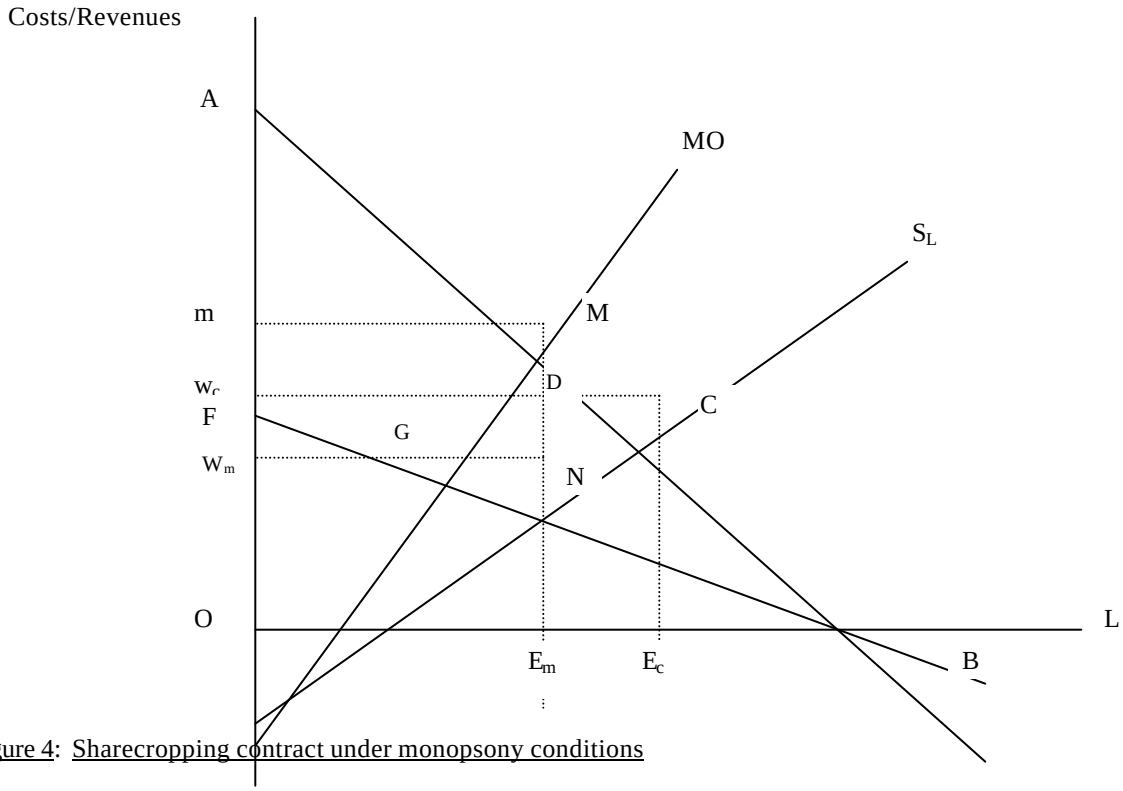


Figure 4: Sharecropping contract under monopsony conditions

If the landowner wishes to adopt a wage payment system, he will hire OE_m workers at a wage Ow_m, as we saw when discussing Figure 2. The total wage bill will be Ow_mNE_m. Compared to competitive conditions, total value of output under monopsony will decline by E_mMCE_c, and in this sense land concentration results in allocative inefficiency. The landowner's income, however, will increase by the difference between w_mw_cDN (formerly received by the workers) and DMC (the landowner's dead-weight loss). That is, the landowner's income or profit under a wage payment system will be the area w_mAMN.

Notice that the marginal cost of labor as perceived by the landowner (m) is substantially higher than the wage he pays (w_m) and somewhat higher than the social opportunity cost of labor as measured by the competitive wage (w_c). We thus have a set of inequalities, $w_m<w_c<m$, which reflect the fact that the incentive system resulting from land concentration induces the landowner to use techniques of production which economize excessively on labor ($w_c<m$), while the actual wage is below the opportunity cost of labor ($w_m<w_c$).

As in the case of competitive conditions, the introduction of alternative ways of acquiring labor does not alter the results. If the landowner wishes to adopt a sharecropping system, for instance, the landowner would require the tenant to supply OE_m inputs of labor (using the threat of dismissal to enforce the requirement) and in return offer the tenant a share in net income equal to FO/AO. Notice that the tenant's share under the monopsony conditions described in Figure 4 is much lower than the tenant's share under the competitive conditions described in Figure 3. Indeed the total income of campesinos working under monopsony conditions would be the same whether they are sharecroppers or wage laborers, since $w_mG=GN$.

In summary, rural poverty in Latin America is a product of the system of labor controls and in particular of the monopsonistic control of the labour force exercised by large landowners in small, fragmented local markets. The large proportion of unutilized and poorly utilized land and the consequent low volume of production are the inevitable products of a system in which landowners do not exploit their land fully in order to be able to obtain cheap labor. Paradoxically, however, the low wages and incomes of campesinos are associated with a low labor intensity of production on the large farms. Indeed, it is the contrived reduction in the demand for labor that causes wages and the share of output received by tenants to be low and the degree of inequality in the distribution of income to be great. Finally, despite the low wages and crop shares, the marginal cost of labor to large landowners is high, and this reduces the incentive of large landowners to invest in agriculture, thereby reducing the rate of growth of agricultural output below what it otherwise would have been.

Policy Implications

The most obvious policy implication of the preceding analysis is that rural poverty in Latin America can best be reduced by destroying or weakening the system of labor controls by attacking each of the three sub-systems, namely, social controls, environmental controls and institutional controls. In many countries the lynch-pin of the entire system is the concentration of land ownership and hence redistributive land reforms merit serious consideration. Indeed land redistribution is almost certainly the easiest and quickest way to reduce the monopsony power of landowners in rural labor markets. A highly unequal distribution of land has been a source of conflict in Latin America for centuries and in recent years has led to civil war in parts of Central America (El Salvador, Guatemala and Nicaragua), violence in Andean America (especially in

Colombia and Peru), major disturbances in southern Mexico (notably in Chiapas) and political agitation in Brazil. The land reform issue simply will not go away.

In countries where land reform is politically impossible at present, alternative options can be explored. A progressive land tax, for example, would give large landowners an incentive to sell some of their land and this could lead to a gradual reduction in the concentration of land ownership. A land tax also could create an incentive for landowners to cultivate their land more intensively and this would increase the demand for labor, raise rural wage rates and help to reduce poverty.

Any measure that raises the demand for labor will help to alleviate poverty. Labor intensive public works projects can be particularly attractive because they raise the demand for labor directly and also create productive physical assets that raise the productivity of labor permanently. Investment in secondary roads, for instance, have the added advantage of weakening environmental controls, reducing the physical isolation of campesinos and increasing the mobility of labor. Anything that increases average rural wages for low skilled workers will not only reduce rural poverty, it will also increase the "reservation wage" of potential rural migrants and thereby set a wage floor in urban areas. This, in turn, will help to reduce urban poverty and improve the distribution of income in urban areas.

In other words, rural and urban poverty are closely connected. One linkage is through migration of labor: rural poverty can lead to an exodus of labor to the cities notwithstanding environmental controls which limit geographical and occupational mobility. Another linkage is through wage rates and income levels: low rural incomes are reflected in low urban incomes, particularly in the urban informal sector and in domestic service employment. It follows from this that urban poverty can best be tackled by addressing the root of the problem in rural areas. In fact if the rural areas are neglected and policy efforts are concentrated on reducing urban poverty, the effect may simply be to encourage the rural poor to relocate to the cities.[vi]

There are windows of opportunity that can be exploited by policy makers concerned with rural poverty. For example, it is increasingly recognized in Latin America that the role of the state in providing infrastructure needs to be strengthened. Less emphasis today is placed on shrinking the state than was recently the case and more emphasis is placed on reforming the state so that it allocates resources more efficiently and more equitably. Similarly, as regards investment in infrastructure, in some countries, perhaps a growing number, advocacy of privatization has been tempered by recognition of the need for the state to provide transport, communications and electric power, particularly in the countryside. This new perception of the role of the state provides a justification for public works programs that can benefit the rural poor.

A second window of opportunity arises from the fact that it is now widely recognized that credit markets are highly imperfect, often failing to allocate capital to projects with high social rates of return.[vii] Poor people in particular do not have access to formal sector capital markets and hence are denied opportunities to create alternative sources of livelihood within the rural sector. Yet experience in Bolivia with the Banco Solidario, in Bangladesh with the Grameen Bank and in many other developing countries shows that lending programs can be designed to reach the poor, that the poor have good repayment records and that socially profitable projects can be identified and implemented by the poor. There are thus good reasons for the state and non-governmental organizations to give priority to lending to the rural poor. Employment created by micro-credit schemes will weaken monopsony power in the labor market and undermine the system of labor controls.

A third window of opportunity arises from the fact that it is now agreed that investment in human capital, notably in education and health, can produce a rate of return as high as investment in physical capital.[viii] Moreover it has been shown that the returns on human capital increase as one moves from the top to the bottom of the expenditure pyramid. That is, within education, say, the returns to expenditure on primary education are higher than the returns on secondary education, and the returns to expenditure on secondary education are higher than the returns on tertiary education.[ix] Policy makers would therefore be justified on efficiency grounds alone in reallocating public expenditure on health and education to favor the rural poor. Such a reallocation of government spending to expand rural education, basic health services and other forms of "human capital formation" could have the additional advantages of helping the poor meet their basic needs, increasing human development generally and undermining some of the environmental controls that create and perpetuate poverty.

Many international organizations and outside analysts as well as some policy makers advocate greater government decentralization and a devolution of authority to the local level. Unless the distribution of political power is changed, however, it is doubtful that decentralization as such would do much to help the poor. The movement to strengthen local government does however create an opportunity for those concerned about poverty to link administrative reform to the strengthening of democratic institutions at the local level. The poor should have the right to organize themselves in institutions of their choice and their civil rights should be protected in law and by those responsible for enforcing the law. These changes would help to reduce poverty by weakening some institutional controls and by creating a more equal balance of bargaining power.

It was once thought that measures to reduce poverty and inequality would have a cost in terms of a slower rate of growth. Modern research however has shown that a more equal distribution of income and wealth, and the reduction in poverty that greater equality would permit, are more likely than not to increase the flow of savings, the level of investment and the rate of growth of output.[x] There is, in fact, no "trade-off"

between growth and equity; the two go hand-in-hand. In other words, one of the arguments used to oppose anti-poverty programs has been shown to be false and once this becomes widely known it should be easier to build alliances and coalitions to support policies that favor the poor.

The poor however are heterogeneous; they are not a homogeneous class. And they are poorly organized to influence policy. This is true of poor people in general and of the rural poor as well. Because of this heterogeneity, several types of state intervention will be necessary to eradicate rural poverty. There is no single solution. Action will have to occur on a broad front, addressing each component of the system of labor controls. This will require coordination by the state, a task which is far from simple. The prospect, however, is that if a well designed set of complementary measures can be implemented, efficiency and equity should increase and poverty should decrease dramatically.

NOTES

[i] I am grateful to Steven Helfand for helpful comments on an earlier draft of this paper.

[ii] It is conceivable that the prices of goods and services consumed by the poor are lower in the countryside than in the cities and hence the real incomes of the rural poor may be higher than is suggested by their relatively low money incomes.

[iii] It is of course possible that some people live in urban areas (e.g. small towns) and work in rural areas, and vice versa. The conditions as regards poverty and inequality may be quite different in small cities and towns from what they are in the large metropolitan areas. Hence for some purposes it would be desirable to disaggregate urban areas into small towns and metropolitan cities.

[iv] This argument was first advanced in the context of Ecuador in Keith Griffin, Land Concentration and Rural Poverty, London: Macmillan 1976, Ch. 5.

[v] Keith Griffin, Studies in Globalization and Economic Transitions, London: Macmillan, 1996, p. 197.

[vi] This is the important insight of J. Harris and M. Todaro, "Migration, Unemployment and Development: A Two Sector Analysis, "American Economic Review, March 1970.

[vii] Incomplete information and the failure of credit markets to allocate capital efficiently has been emphasized by Joseph Stiglitz. See, for example, his "The New Development Economics," World Development, February 1986.

[viii] This is the great insight of T.W. Schultz in his "Capital Formation by Education," Journal of Political Economy , December 1960.

[ix] See, for example, Keith Griffin and Terry McKinley, Implementing a Human Development Strategy, London: Macmillan, 1994, Ch. 3.

[x] See, for example, Keith Griffin and Amy Ickowitz, "The Distribution of Wealth and the Pace of Development," in Terry McKinley, ed., Macroeconomic Policy, Employment and Poverty Reduction, London: Macmillan, forthcoming.