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Conceptualising Rural-Urban Dynamics

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Modern economic theory begins in 1776, with the publication of Adam Smith's *Wealth of Nations*. This period also coincides with the Industrial Revolution, which took place in large parts of Europe. In his book, Smith gives reasons for promoting manufacturing sector. He posits that this sector enjoys possibilities of unlimited division of labour, which would contribute to raising both production as well as productivity. Subsequent economists formulated theories, which neglected the role of agriculture, as a crucial sector in economic growth. However, once we take a look at the works of authors who wrote before Smith, we notice that the process of urbanisation did not take place without any strong dissent whatsoever. One such strong dissent came from a group of French economists known as 'Physiocrats', of whom, Francois Quesnay was the leader and the most prominent. An inquiry into their work attains significance, for modern economic theory does not know how to accommodate dichotomies in an economy, such as the rural-urban divide or the formal-informal separation, in a comprehensive manner. Therefore, this article tries to clarify the distinct yet interrelated roles both the rural areas and the urban areas play in economic growth by revisiting the two major pre-Smithian economists – Richard Cantillon and Francois Quesnay.

Richard Cantillon, writing around the 1730s, systematically analysed the emergence and role of villages, market towns and cities. This account survives in his only work – *Essai*

sur la Nature du Commerce en General – which was published posthumously in 1755. His economic analysis is tethered to the concept of *social surplus*, which refers to the produce that is left over after necessary costs (of cultivation) are deducted. An increase in quantity and/or quality of land or an increase in quantity and/or quality of labour would increase the social surplus. Alternatively, a reduction in the costs would also lead to a rise in the social surplus. Another perspective, which Cantillon provides, is that of *social division of labour*. He points out that the entire population in a country is socially divided between villages (rural) and towns (urban). Largely, the rural population engaged in agricultural activities and the urban population involved in manufacturing activities.

As long as adequate land and labour was available, agricultural production would go unhindered. Also, an increase in agricultural surplus meant that there was more raw materials available for the manufacturing sector. That is, it is the agricultural surplus which sustained the output of the manufacturing sector. More importantly, it is the agricultural sector which provides food for the entire populace of a country, assuming that imports of food is a negligible amount. In addition, an increase in agricultural surplus also contributed to an increase in the *extent of the market* (to borrow Adam Smith's term), of both agricultural products as well as manufactured items. For, an increase in agricultural surplus meant that the incomes of the agricultural labour, who mainly resided in rural areas, rose, which was spent on consumption. Similarly, the increased production of manufactured items facilitated by an increase in agricultural surplus, would provide additional incomes to the labour in the urban areas which also would be spent on consumption. In this manner, an increase in agricultural surplus would foster economic growth via increases in income and consumption, which would motivate an increase of production (of both agricultural and manufactured

articles) in the following period. In short, the presence of a sizable agricultural surplus was necessary for market towns and cities to grow, i.e. for urbanisation. However, it will be shown below that the presence of agricultural surplus alone is not sufficient for growth to take place in the rural areas. Next, we briefly go over Quesnay's political economy.

When Quesnay was writing (1756 to 1767), French agriculture was in a state of ruin. This was due to rapid urbanisation which was orchestrated by government policies. Consequently, it led to large scale migration of people from the countryside to the towns. In fact, as the historian, Fernand Braudel reminds us, the interaction between the villages and towns signify one of the “oldest and most revolutionary division of labour: the fields on one hand and the activities described as urban on the other” (Braudel 1974, 373). Such migration of people and the disproportionate attention received by the towns led to a drain of wealth from the countryside to the towns. This policy measure was based on the state's notion of a peasant. As Quesnay writes, “The peasant is looked upon as a slave of the state. Rural life is made out to be the hardest, most troublesome and contemptible possible because rural dwellers are reserved for work only fit for animals. When a peasant tills the soil himself, it is a token of his poverty and his usefulness (Quesnay 1756, 22). Because of such a negative view the state had of rural dwellers/agriculture, Quesnay argued that “of all the occupations by which gain is secured, none is better than agriculture, none more profitable, none more delightful...” (Quesnay 1759, 15). In fact, the primary objective of Quesnay, was to demonstrate the importance of agriculture as an important sector in economic growth.

With the aid of *Tableau Economique*, which is considered to be the prototype of an input-output table, Quesnay was able to convincingly show the demerits of a growth policy

which favours a particular class – in this case, it was the urban manufacturers. One of the primary contributions of Quesnay to economic theory, was his depiction of the *economy as a circular flow*. This implied that the economy was an interconnected system. Therefore, a disproportionate flow of wealth in one sector at the cost of the other sectors would ultimately result in economic ruin. As Braudel highlights, the “town-country confrontation is the first and longest class struggle history has known” (Braudel 1974, 373). Hence, Quesnay maintained that it was essential for wealth, contained in the urban or manufacturing sector, to flow back into agriculture, so that production of food and raw materials could take place in the following period of production. By highlighting the interdependence in an economy, specifically in the production process, Quesnay was able to show that, the neglect of rural sectors/agriculture would prove detrimental to the entire economy in the long run. In fact, as even Smith notes, “The inhabitants of a city, it is true, must always ultimately derive their subsistence, and the whole materials and means of their industry from the country” (Smith 1776, 405).

From the preceding discussion, it becomes clear that agricultural surplus, which arises mainly from the rural sector, is a necessary condition for overall economic growth and prosperity. However, Quesnay points out that sustained growth can only take place if the social surplus which is produced by the agricultural sector, in the form of landlords' rents and entrepreneurs' profits, flow back to the rural areas. However, as pointed out earlier, the presence of a large agricultural surplus is not sufficient to attain, what is now known as “inclusive growth”. From the works of Cantillon and Quesnay, it becomes clear that we need to examine the channels through which the rising incomes of the urban populace flow into the rural sector. In other words, it calls for a detailed study of the way in which the commodities

as well as the people circulate between the rural and urban sector – the location of markets, the availability of good infrastructure, the number of intermediaries, the nature of production undertaken, the structure of earnings, the employment situation – which has been attempted at through the concept of the inter-sectoral terms of trade. However, this interaction or “struggle” between the rural and urban areas is much more complex that it calls for a far richer analysis.

In contrast to the economics of Cantillon, Quesnay and even Smith, who had pointed out the interdependence in the production structure of an economy, the prevalent economic theory divides the economy into smaller parts, and studies them in isolation. That is, agricultural economics, industrial economics, urban economics, etc are considered to be legitimate areas of independent inquiry. This is one cause for concern. Another cause for concern is that the mainstream neoclassical/marginalist theory ascribes undue importance to the sphere of exchange, at the cost of almost a complete neglect of production structures and conditions. Whereas, only a study of production will throw light on the actual producers, their relation to the employer, the conditions of work, the compulsion to work, their incomes, etc. Production structure, in mainstream economic theory, pertains to market structure. Issues pertaining to property rights, role of gender, role of caste, environment, common property resources, technological change, unorganised markets, etc are not incorporated in the core study of microeconomics and macroeconomics; instead, these extremely significant aspects of economies are extensively taught and researched separately – law and economics, feminist economics, social exclusion, environmental economics, growth theory, etc. Basically, the crucial element of interdependence present in an economy, at various levels, have been neglected by mainstream economic theory. Owing to such misguided tools, it becomes

extremely difficult to *understand* an economy where around 60% of the population is employed in agricultural activities and where around 90% of the economy falls under the unorganised sector, let alone *frame* policies!

So, what is the way forward? The major change has to occur in the way economics is taught across India. A narrow focus on microeconomics and macroeconomics does not aid in making sense of the changes nor does it help in understanding the structure of the Indian economy. First, the curriculum should be tailored in such a way that non-mainstream approaches to economics are included. Secondly, research should adjust to the problems thrown up by the Indian society and economy at large; for, India cannot afford to do research which merely copies the West. Third, economics education should pay more attention to tools such as village studies and case studies, which aid in understanding the production process and consumption structure in a context-dependent manner. Last of all, it must be remembered that economic theory is and should ultimately be a servant of economic policy.

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