AGRICULTURAL GROWTH AND UBANIZATION

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Executive Summary

Central to economic growth and development is the transformation of an economy from predominantly low income, agricultural, and rural to dominantly high income, service and manufacturing, and urban. Jane Jacobs had it right about civilization. At the poles are exploiting agriculture to maximize the immediate draw of resources to foster rapid growth of large scale industry and large cities (the Russian model) and investing in accelerated growth of agriculture to provide larger transfer of resources in the long run and a dispersed pattern of urbanization (the Taiwan model.) I dwell on the latter.

First a relationship: "The faster agriculture grows the faster its relative importance declines" - spotlighting the positive role of agriculture in the economic transformation. Second, an example, the Ethiopian vision to become middle income in 20 years. The strategy – Agricultural Development Led Industrialization (ADLI.) It is working, meeting its targets.

How does rapid agricultural growth foster urbanization? Agricultural output growth comes from small commercial farmers (SCF.) In Ethiopia they are not poor, about five million, 40 percent of the rural population, one to five hectares in size, producing over 75 percent of incremental output. Agricultural growth must be faster than population growth. SAADC for Africa seeks six percent. Ethiopia exceeds that. Those farmers spend half of their incremental income in the labor intensive, non-tradable, low income, rural non-farm sector. Provision of those goods and services gradually migrates to the market towns which become bustling expanding places absorbing the locally underemployed and even migration from other areas (Dorosh and Mellor, 2013,Mellor and Ranade 2010.) Direct employment in agriculture declines relatively. Employment in market towns booms. Large urban centers grow fastest of all, driven by factors exogenous to agriculture.

What if agriculture grows slowly – e.g. three percent? The employment multipliers do not work. In a low income country GDP and employment growth slow. In a middle income country the reduction in GDP growth is modest but employment growth plummets. Urbanization concentrates in the major city, particularly if it is a port, with large scale economies in services for industrial growth. Exports will drive the sector if growth is rapid. Urban unemployment will be large and growing, even as employment grows, due to growing urban to rural wage differentials e.g. Nigeria and Lagos.

What are the investment implications of balanced growth? Agricultural growth is private sector but requires large investment in public goods - rural roads, education, research, extension, finance, institutions for rural women's participation. Urban industrialization and services require an open trading regime, simplified rules favorable to new business and urban infrastructure of roads and communications. To be minimized are military and urban social welfare that exacerbates rural urban wage (welfare) differentials which are inevitably large and create a large urban unemployment pool queuing for the highly desirable urban jobs.