

UNITED NATIONS
GENERAL
ASSEMBLY



Distr.
GENERAL

A/35/231
16 May 1980

ORIGINAL: ENGLISH

Thirty-fifth session
Item 12 of the preliminary list*

REPORT OF THE ECONOMIC AND SOCIAL COUNCIL

Distribution of income in the nation: rural-urban
differentials

Report of the Secretary-General

CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
I. INTRODUCTION	1 - 7	2
II. RECENT EMPHASIS ON RURAL-URBAN IMBALANCES	8 - 13	4
III. EVIDENCE OF RURAL-URBAN DIFFERENTIALS	14 - 25	6
IV. ELEMENTS IN THE RURAL-URBAN TRANSFER OF RESOURCES	26 - 40	10
V. CONCLUDING REMARKS	41 - 42	18

* A/35/50.

I. INTRODUCTION

1. The General Assembly, in resolution 33/48 of 14 December 1978 on world social development, noted, inter alia, that the social progress of all countries implied, among other things, a just and equitable distribution of income at the national and international levels, and requested the Secretary-General to submit to the Assembly at the thirty-fifth session, through the Economic and Social Council, a report on the conclusions of the study requested in Council resolution 1086 D (XXXIX) of 30 July 1965.
2. In that resolution on distribution of income in the nation, the Council had requested the Secretary-General to convene a small group of experts to review the relationship between the distribution of income and social policy and to formulate, on the basis of the recommendation of the expert group, a programme of work and study for the United Nations with a view to developing guidelines for the formulation of social policy measures that would best promote a more just and equitable distribution of income in the nation.
3. The Council, in resolution 1322 (XLIV) of 31 May 1968, took note of the report of the group of experts (E/CN.5/420/Add.1) and expressed approval of the general lines of the Secretary-General's proposals for a programme of work in this field (E/CN.5/420).
4. The major conclusions and recommendations of the group of experts on social policy and the distribution of income were subsequently reflected in a number of resolutions on socio-economic development and the programme of work was used as a broad framework for Secretariat studies. The 1974 Report on the World Social Situation, related to the medium-term review and appraisal of the Second United Nations Development Decade, included an analysis of economic growth with social justice and a just distribution of national wealth and income. The 1978 Report on the World Social Situation also included an assessment of distribution of income among and within nations and a presentation of trends in patterns of government expenditure for social services. A document on the same subject of public expenditures in social services (E/CN.5/551) had been presented to the Commission for Social Development at its twenty-fifth session, together with the conclusions and recommendations of an expert group on levels of living, equity and distribution of social consumption in developing countries convened in Geneva in 1976 (E/CN.5/539). In response to Economic and Social Council resolution 2074 (LXII) requesting "a report on the findings of various specialized agencies and organs of the United Nations system, relating to the distribution of national income", a report on "Distribution of income: trends and policies" (E/1978/29) was submitted to the Council and the General Assembly in 1978 and to the Commission for Social Development at its twenty-sixth session in 1979.
5. At the same session, the Commission for Social Development provided further guidelines for the implementation of General Assembly resolution 33/48. It adopted a draft resolution which was endorsed by the Economic and Social Council as resolution 1979/24 on social policy and income distribution, in which the Secretary-General was requested "to include in the report requested in General

Assembly resolution 33/48 more factual information about country experiences, in different economic systems, with regard to various instruments and methods of implementation used to achieve a more just income distribution consistent with balanced social and economic development, the removal of rural-urban imbalances and measures for mitigating the adverse effects of inflation and for the benefit of the weaker sections of the population".

6. Given the various studies mentioned above and in view of the difficulties attached to a comprehensive analysis of the multiple facets of the income distribution issue, the present report is focused on rural-urban income differentials in developing countries. This is a major aspect of the search for a balanced pattern of development. Wherever appropriate and possible, some of the other issues mentioned in resolution 1979/24 are touched upon in the course of the main analysis.

7. The present report includes the following four sections:

- (a) Recent emphasis on rural-urban imbalances;
- (b) Evidence of rural-urban differentials;
- (c) Elements in the rural-urban transfer of resources;
- (d) Concluding remarks.

II. RECENT EMPHASIS ON RURAL-URBAN IMBALANCES

8. The issue of distribution of income and welfare between urban and rural populations generates strong feelings, contrasted positions and intense debates. Being at the core of development thinking and practice, it has long provoked efforts by economists and sociologists to define an ideal balance or to justify a temporary imbalance. Policy makers confronted with a lagging agricultural production, a rapid urbanization and a necessary mobilization of resources for industrialization, have to take decisions affecting the spatial and sectoral distribution of income.

9. Recently this debate has been dominated by presentations asserting the inequitable treatment of rural people and rural areas. It is said that rural development has been neglected in most development strategies and plans, that poverty has increased in rural areas, that unfair terms of trade have prevailed between the urban and rural sectors. A persuasive thesis has been put forward that "the most important class conflict in the poor countries of the world today is between the rural classes and the urban classes", that "the urban classes have been able to 'win' most of the rounds of the struggle with the countryside", and that "in so doing have made the development process needlessly slow and unfair". ^{1/} The "urban bias" has become such a common concept that the expression rural-urban imbalances is immediately interpreted as meaning solely an unfavourable situation in rural areas. The reverse appears to be excluded.

10. Such a renewed emphasis on rural issues in development thinking is, to some extent, reflected in planned or actual decisions of Governments. An analysis of goals and policies pursued by developing countries for the second half of the 1970s showed that an accent was put in several plans on agricultural production and other rural activities. This has "to an important extent been determined by distributional considerations". ^{2/} At the international level, the report of the recent World Conference on Agrarian Reform and Rural Development states that "past development efforts and programmes have largely failed to reach and adequately to benefit the rural areas and have in many cases contributed to urban-rural imbalance in development, neglected the dynamism and diversity of authentic cultural values of the rural population and led to imbalances within the rural sector". ^{3/}

^{1/} Michael Lipton, Why Poor People Stay Poor (Cambridge, Harvard University Press, 1977), p. 13.

^{2/} Journal of Development Planning, No. 11 (United Nations publication, Sales No. 77 II A 14), p. 24.

^{3/} Report, World Conference on Agrarian Reform and Rural Development, Rome, 12-20 July 1979, Food and Agriculture Organization of the United Nations (WCARRD/REP, July 1979), p. 1. Circulated to members of the General Assembly under the symbol A/34/485.

11. Before considering the facts on rural-urban differentials and factors which may explain them, it may be useful to mention some of the attitudes or ideological biases which play a role in the shaping of current positions on rural-urban imbalances.

12. The dissatisfaction with recent development trends, notably the slow and insufficient economic growth and the persistence of poverty in least developed and other low-income countries, often leads to the search for a leading cause among the many factors which may explain this relative failure. Since agriculture remains the major activity in these countries, in terms of contribution to gross national product and employment, the lack of progress in this sector is seen as the key explanation for over-all economic stagnation. Then rural-urban imbalance is used as a short cut to account for stagnation in agriculture. An explanation which may be valid in some circumstances and some countries is thus transformed into a general criticism of current development strategies.

13. The rapid pace of urbanization in developing countries is also a phenomenon prompting some observers of development trends to deplore rural-urban imbalances. It is not seriously questioned that urbanization is a necessary part of a long process by which rural and agricultural societies at low levels of well-being are transformed into urban and industrial communities at levels of income many times higher. Yet the economic and social problems associated with the growth of cities generate negative reactions. It is said that more attention to rural areas would reduce migration. The literature on development, and more generally the media in industrialized countries, conveys images of cities where a few privileged groups coexist with masses of poor people who would be better off had they stayed in villages characterized by a sense of community and the preservation of traditional values. Urban forms of consumption are presented as unsuitable for societies whose low level of economic development should call for a shared frugality. Cities are shown as exploiting villages and embroiling people in dramatic financial and social problems. In fact, there is a strong implicit or explicit "rural bias" in many comments on the current situation in developing countries. The association of rural areas with the production of food, the expected attachment of peasants to cultural and family traditions, perhaps even the longing for a world of stability and harmony that a cursory reading of history identifies with rural societies, all these and many other subconscious inclinations play a role in the advocacy of a slower urbanization. Here again, the issue of establishing a more balanced pattern of human settlements, recognized in many developing countries as crucial, tends to be transformed into an over-all criticism of present patterns of development.

III. EVIDENCE OF RURAL-URBAN DIFFERENTIALS

14. The commonly used division of rural and urban areas is far from exact or even uniform. The urban character of an area or locality is not determined by one criterion in all countries. Features which are taken to characterize an area as urban are diverse. The predominant criterion is demographic: an urban area has a greater density of population than a rural area. Yet, among the large number of countries which uses this characteristic to demarcate rural from urban, the determining density varies from as few as 500 persons to as much as 10,000 persons. Several countries in Latin America, a region where data show a relatively high level of urbanization, use a minimum density of 1,000 or 1,500 persons to define an urban area. In contrast, several countries in South Asia, a region seen as predominantly rural, use 5,000 as the corresponding figure. A second criterion used to distinguish an urban from a rural area is the predominance of industrial and service activities in the former and of agriculture in the latter. A few countries require the economic activities of an urban area to be predominantly non-agricultural. In other countries, an urban area is defined by the availability of certain facilities such as a network of streets, a protected water supply and a safe means of sewage disposal. Finally, the form of local government authority over a locality is used to define urban and rural areas. In some rough fashion, this criterion encompasses a range of social values and mores which mark an urban population from a rural and are, in a sense, the sum of the consequences of the economic and physical features previously mentioned.

15. Given this diversity of approaches at the national level, international statistics on levels of urbanization are extremely fragile. All publications warn that comparisons among countries are unwarranted. Similarly, data on distribution of income or any other variable between urban and rural areas are far from being perfectly reliable.

16. This caveat notwithstanding, there is unquestionably rapid urbanization in developing countries. The annual growth of urban population in these countries was around 3.5 per cent during the 1960s and superior to 4 per cent during the 1970s. At mid-1970s, 42 developing countries had more than 30 per cent of their population living in urban areas, as compared with 28 countries in 1960. Equally significant is the rapid growth of large cities. There were twice as many cities of over 500,000 people in the developing world by the end of the 1970s than in 1960. The proportion of urban population living in these cities was around 40 per cent in 1975, compared to less than 30 per cent in 1960. These same large cities numbered 11 in 1960 and 28 in 1975 in India, 3 and 6 in Indonesia, 2 and 5 in Nigeria, 6 and 12 in Brazil, 1 and 4 in Iran. Yet the capital or largest city still accounts for a majority of the total urban population in a number of developing countries, particularly in Africa and the Caribbean region. In other regions the growth of middle-size and large towns has already led to a relative decline of the capital city.

17. This accelerated urbanization, due partly to natural demographic increase and partly to immigration, is fairly recent; and a majority of the population of developing countries still live in rural areas. In the least developed countries,

the rural population is in the vicinity of 80 per cent. In other developing countries, urban and rural areas share approximately half of the total population. The movement of urbanization will undoubtedly continue and at the same time the absolute number of people living in rural areas will grow further for a number of years because of demographic pressure.

18. The differences in levels of income and well-being between the two "areas" are less easy to demonstrate than the urbanization trend. Spotty evidence points to some income gap between urban and rural areas. According to government estimates the ratio of urban to rural income was recently as follows: 4 to 1 in Algeria in the mid-1970s for average expenditure per family; 1.9 to 1 for average expenditure per capita in Tunisia in the mid-1970s; 5-7 to 1 in Gabon for per capita earnings in labour force by the end of the 1960s; 4 to 1 in the Ivory Coast by 1976 for minimum wages in non-agriculture and agriculture; 12 to 1 in Kenya at mid-1970s for per capita pre-tax individual income; 2 to 1 in the Philippines in the early 1970s for average expenditure per family; 1 to 1 in the Republic of Korea by 1975 for average income per household and 2 to 1 for average income per worker; 1.5 to 1 in India for household consumption by the end of the 1960s; 1.4 to 1 in Sri Lanka for mean monthly household income in 1973; 1.5 to 1 in Egypt for average family expenditure in the mid-1970s; and 5 to 1 in Honduras for per capita pre-tax income at the end of the 1960s.

19. The comparability of these figures among countries is vitiated by differences in the definition both of urban and rural areas and of income or expenditure. But even within countries, there are major difficulties in the measurement of urban and rural incomes which argue against the drawing of any simple conclusions from the data. When derived from tax registration, they are weakened by the greater difficulty to get reliable information on income from the agricultural sector than from the urban sector; and in this event, urban-rural inequality tends to be overstated. Subsistence production is also important in rural areas and difficult to evaluate at market prices. When the very poor people are concentrated in rural areas, this leads again to an overestimation of the real level of living gap between the two areas. Moreover, remittances, which flow mainly from cities to villages, may go unrecorded. Finally, the cost of living is invariably higher and differences in money income in cities overstate differences in real income. Thus, a study on rural and urban income inequalities in five developing countries was conducted a few years ago. When adjusted for price differences the average household expenditure in urban areas was significantly above that in rural areas in only two of the five countries considered. 4/

20. Thus, urban-rural income inequality tends to be overstated, although it clearly exists. In many developing countries, particularly in Africa, the presence of small high-income groups in the urban population still representing a minority in the total population is sufficient to push average urban income above average rural income. More generally, income differentials between urban and rural areas

4/ See Wouter Van Ginneken, Rural and Urban Income Inequalities in Indonesia, Mexico, Pakistan, Tanzania and Tunisia (Geneva, International Labour Organisation, 1976), pp. 19 and 26.

also reflect differences in the occupational structure of the population. People with training and skills who consequently receive higher wages and salaries are, in the earlier phases of the development process, concentrated in modern industrial and service activities, and therefore reside mainly in urban areas.

21. The real question is the interpretation to place on the inequality of incomes. First, it may be fairly said that in the developing world as a whole, rural-urban imbalances in this regard are not as great as appears to be asserted. Secondly, it needs to be borne in mind that such imbalances are an intrinsic part of the commonly accepted process of economic modernization. Migration from rural to urban areas and from agriculture to other sectors of activities reflects this process. Thirdly, it should be recognized that the concept of rural-urban imbalance is often a way of expressing concern about rural poverty. But the differences in average income levels given above reveal nothing about the relative extent and degree of poverty in rural and urban areas. In many developing countries the poor are certainly more numerous in rural areas because of the spatial distribution of the population. In other countries, already fairly urbanized, the proportion of poor people may well be as great in urban as in rural areas. Likewise, it is questionable whether the acuteness or degree of poverty arising from inadequate income in the two areas is noticeably different.

22. Perhaps far more significant than income differentials are the imbalances in various other aspects of welfare which are not strictly related to individual income. The concentration of physicians and health facilities in urban centres is a well-documented fact which has prompted a number of countries and the World Health Organization to develop alternative strategies based on networks of primary health care centres. The concentration of modern medical facilities in Abidjan in the Ivory Coast, 5/ Jos and Ibadan in two states of Nigeria, 6/ and Bangkok in Thailand 7/ are not isolated examples. In Brazil in 1973, population per physician varied 492 in the state capital, to 2,032 in the "countryside". 8/ It is also estimated that, in 1978, 60 per cent of physicians in Indonesia worked in urban areas. In fact, mortality and morbidity rates are generally higher in rural than in urban areas. 9/ In recent years, however, infant mortality tended to

5/ Josef Gugler and William G. Flanagan, Urbanization and Social Change in West Africa (Cambridge, University of Cambridge Press, 1978), p. 42.

6/ Akin L. Mabogunje, "The urban situation in Nigeria", in Sidney Goldstein and D. F. Sly (eds.), Patterns of Urbanization: Comparative Country Studies, vol. 2, Fodina edition (Dolhain, Belgium, 1977), p. 615.

7/ Fourth National Economic and Social Development Plan (1977-1981) (Bangkok, Government of Thailand, 1977), p. 17.

8/ H. A. Sayeg, "Correlacoes minimicas entre medicos e outros profissionais de nivel superior", Revista de Administracao Publica, vol. XI, no. 3 (1977), p. 120.

9/ In a number of industrialized countries (for instance, Denmark, Netherlands, Norway, and the United Kingdom), crude death rates are lower in rural than in urban areas. Differences in the age composition of the two populations (urban and rural) do not provide an explanation for this recent phenomenon.

increase in some urban centres while continuing its long-term decline in the countryside.

23. Disparities are perhaps less severe in education, because of efforts made to develop primary education widely. Yet education facilities are also relatively scarce in rural areas. In Northern Nigeria, educational institutions at all levels are concentrated in cities; rural areas have very few schools and teacher-training colleges are located in major cities. 10/ Illiteracy in developing countries is rarely above 60 per cent in urban areas and rarely below 75 per cent in rural areas.

24. Fragmentary evidence concerning housing conditions, sanitary facilities, and access to potable water indicates roughly similar differences. 11/ The isolation of rural people, because of distance and lack of roads and transport facilities, is another aspect of their welfare.

25. This summary of available evidence on rural-urban differentials is inconclusive. Crude and limited data are difficult to interpret. Rather than compare average incomes of rural and urban populations, it would be more relevant to analyse incomes of different socio-economic groups such as small farmers, landowners, landless labour, unskilled workers, civil servants and others. The poor are generally more numerous in rural than in urban areas, but there is no evidence that they are poorer. On the other hand, differences in welfare and in opportunities are large. Though due to numerous factors, migration from rural to urban areas reflects this gap in welfare and in hope for a better life.

10/ Akin L. Mabogunje, op. cit., p. 615.

11/ In Colombia in 1975, 86 per cent of the urban population had access to safe drinking water compared to 33 per cent in rural areas (3 per cent of the urban population were served with sewerage facilities compared to 13 per cent in rural). In Indonesia in 1975/76, in a survey of 15,600 villages with 42 million people, 6 per cent reported drinking water from a protected source; only 20 per cent had the use of latrines.

IV. ELEMENTS IN THE RURAL-URBAN TRANSFER OF RESOURCES

26. There is a common view that, through various mechanisms, some part of income originating in rural areas tends to fall into the hands of urban groups, including government, which use it to enhance levels of consumption or investment in urban areas. Moreover, as an additional element in this process, a part of rural savings tends to get diverted into investment in other sectors.

27. Income originating in rural areas may be transferred to urban areas, or vice versa through three main kinds of mechanisms: the transfer of factor payments to the owners, taxes, subsidies, public expenditure and other transfer payments, and price and exchange rate policies. These three main kinds of mechanisms are considered briefly below.

28. Land being the most important factor of production in rural areas, an automatic transfer occurs when income from land rent is appropriated by landlords who reside in urban areas. This phenomenon had considerable social and political consequences in many parts of the world. At present, there is some evidence of its persistence in several countries in Latin America including Brazil, Ecuador, Guatemala and Uruguay. ^{12/} In economic terms, for the developing world as a whole, the appropriation of rural income by landlords residing in urban areas does not appear to be great. Another drain of resources away from the rural area takes place where plantations are owned by foreigners and remittances out of their profits flow entirely out of the country. Here again, the social and political importance of this transfer seems to be greater than its economic impact. It is clear, however, that factors of production used in urban areas are seldom owned by "rentiers" living in rural areas. Whatever rural income is transferred by landlords and foreigners is not compensated by a reverse flow of the same nature.

29. Other payments from income in rural areas to urban areas, or conversely, occur through taxes, subsidies and expenditure out of public revenues on services and through private remittances.

30. Government fiscal operations are a direct means of transferring resources between the two areas. Net benefits flow to that area whose burden of taxation is less than the flow of government funds. It is often argued that development strategies involve a deliberate use of rural income for an urban-centred process of modernization and that the extent of that transfer depends, *inter alia*, on the relative size of agriculture, its capacity to produce a surplus, and the ability to tax this surplus. The actual assessment of losses and gains is beset with severe problems both in methodology and in the availability of information, and rough methods of estimation bring out a diversity of experience. In some developing countries, such as Colombia, Jamaica, Kenya, Nigeria, Sri Lanka and Thailand, where a substantial proportion of rural output is exported, the rural

^{12/} See Ernest Feder, The Rape of the Peasantry, Latin America's Landholding System (New York, Anchor Books, 1971), p. 85, and Keith B. Griffin, Land Concentration and Rural Poverty, (London, MacMillan, 1976), p. 160.

area contributes substantially to government revenue. These contributions may come in the form of taxes on export commodities and taxes on the income earned by individuals and companies that own and operate the enterprises. In contrast, in countries where rural production is mainly for the domestic market and the enterprise is characteristically a family farm, there is little contribution from rural incomes to government revenue. The experience in India is probably the clearest example of this instance. Direct tax receipts from agriculture in 1978 constituted about 1 per cent of the net domestic product of agriculture. Further, those in agriculture face a lighter burden of commodity taxation than people in urban areas. 13/ In the case of Pakistan, total direct agricultural taxes as a percentage of agricultural income are reported to have fallen from 1.7 in 1959-1960 to 1.0 in 1969-1970. In both the Philippines and Sri Lanka, recent experience suggests that the higher incomes earned consequent upon technological innovations in food production for local consumption have gone largely untaxed. 14/

31. It is even more difficult to assess the amount of income given back by Governments to rural areas through subsidies and public expenditures on various services. Most prominent are programmes for agricultural extension, transport and irrigation, for which both capital and maintenance costs are generally provided by the Government. In India, in 1977-1978, transfers to farmers through irrigation programmes were estimated to be about Rs. 3,000 million. In the same country, total outlays on agriculture (including irrigation) sum to 25.3 per cent of total planned outlay for 1978-1983, and the corresponding proportion on rural development is 44 per cent. The difference is made up of expenditure on several items including fertilizers, pesticides, power, roads, water supply, education and housing. Other subsidies include support prices for commodities, price reduction up to 50 per cent of the cost of fertilizers and substantially lower prices on equipment such as tractors, extension and plant protection services. 15/ On balance, in India, it has been judged that between 1950-1951 to 1960-1961, subsidies and government expenditures on economic services in rural areas were longer than the income drawn from agriculture through taxes. 16/

13/ Government of India, Draft Five-Year Plan, 1978-83, p. 60.

14/ Keith Griffin, "Policy options for rural development", Oxford Bulletin of Economics and Statistics, vol. 34, No. 4 (November 1973), p. 248, and John W. Mellor, "Accelerated growth in agricultural production and the intersectoral transfer of resources", Economic Development and Cultural Change, vol. 2, No. 1 (October 1973). In contrast, see Michael Lipton, Why Do Poor People Stay Poor, op. cit., p. 270 et seq. where he seems convinced that "agriculture and the rural sector are overtaxed".

15/ See Keith Griffin, ibid., p. 248, and Sri Lanka, Annual Report of the Monetary Board to the Minister of Finance, 1975 (Colombo, Central Bank of Ceylon).

16/ John W. Mellor, The New Economics of Growth (Ithaca, Cornell University Press, 1976), p. 145. See also M. L. Dantwala, "Agricultural policy in India since independence", Indian Journal of Agricultural Economics, December 1976, pp. 31-53.

32. Government expenditures on social services benefiting the rural population do reflect an urban bias more clearly than other transfer payments. Examples of concentration of services in urban areas have been given above. There are many reasons for such disparities which are still apparent also in industrialized countries having achieved a fairly high level of rural-urban integration. One reason is the concentration of decision-making power in the capital and major cities. Political clienteles, organized groups who can perceive immediately the benefits of governmental action, are primarily urban. A distribution of scarce resources, financial and human, in favour of the cities, often coincides with the political interest of the ruling elites and also with a conception of progress as a state of welfare which should be gradually granted to the various strata of the population. For instance, in the more developed of the developing countries, a major reason for the disparity in health protection is the demand pull for medical services created by social security systems installed for the benefit of those in regular paid employment in urban areas. In Brazil in 1977, 90 per cent of the population in urban areas were covered by medical insurance schemes financed by payroll taxes earmarked for the purpose. Consequently, per capita expenditure on medical services was seven times higher in urban than in rural areas. Parallel advantages are enjoyed by urban workers in Peru. In Indonesia in 1976, expenditure out of the health insurance scheme for government employees, mostly urban, amounted to about 20 per cent of the total government expenditure on health services.

33. In many developing countries the concentration of educational and medical facilities in urban areas represents a sequence in the development of these services, adopted with the full knowledge of a resulting temporary imbalance. In countries where modern educational and medical facilities are being introduced, it makes for the economic use of resources to locate them in a place of easy access to as many persons as possible. In large countries where transport facilities are yet to be developed, policy makers may have little option but to locate the facilities in urban centres. A more intense concentration of these facilities in urban areas is to be expected in countries that are yet to lay down a network of roads to provide access to the countryside. A systematic examination of those countries which are known to have spread their medical and educational services broadly, such as the Republic of Korea and Sri Lanka, is likely to bring out the fundamental importance of an adequate network of communications prior to any successful policy of spreading medical and educational institutions from the urban to the rural areas. The diseconomies of attempting the alternative policy might be demonstrated with the need for maintaining boarding schools for primary students in rural Sudan. Even at the higher secondary level, at which there are schools in urban areas only, some 50 per cent of all students entered boarding school. 17/

34. In addition to the question of easy access there may be a need for a group of minimum size assembled in a teaching institution to undertake the tasks of training successive waves of students. Similarly, the presence of a reasonably

17/ Growth, Employment and Equity, a Comprehensive Strategy for the Sudan
(Geneva, International Labour Organisation, 1976), p. 128.

large group of medical personnel competent in the principles of scientific medicine and its practice would be critically necessary in any attempt to spread these facilities to the remoter rural areas. Those countries that do not yet possess the professionals in these quantities may run into unexpected difficulties, even to implement a primary health care strategy. The alternative means of providing these professionals may be the work of charitable organizations, and the import of trainees from abroad. The work of charitable organizations is likely to be spread very thinly and imports can be prohibitively expensive except on a minuscule scale.

35. The concentration of trained personnel in urban areas need not be more than a temporary phenomenon, if their function were to teach successive generations of students who would spread their services within the country from a central city. However, when the rural areas of a country continue to be poorly served with medical facilities while 10 to 15 per cent of its stock of doctors migrate abroad, it is evident that such a country has passed the stage of a new nation trying to build up its professional manpower by concentrating a core of trainers in one or more urban locations. Factors that account for their concentration in urban areas need to be sought elsewhere. In addition to the political forces mentioned above, one of these factors is the very backwardness of rural areas and inadequacies in housing, water supply, educational facilities for children and communication systems.

36. In addition to taxes, subsidies and public expenditure, remittances constitute the last main means for transfers of income between the two areas. Income is remitted by recent or temporary urban immigrants to their village of origin, and these remittances appear to be quite important in a number of developing countries. In Ghana, it has been estimated that approximately one-third of all rural households were receiving some money from urban residents and that around one-tenth of all income earned in Accra was remitted in some form to the countryside. In Kenya, a survey showed that more than 80 per cent of low- and middle-income earners in Nairobi were sending about 20 per cent of their earnings to their village of origin. Comparable observations were made in Malawi, Nigeria and the United Republic of Tanzania, as well as in India, Pakistan and Thailand. In many countries, remittances are the dominant sources of non-agricultural income in rural areas. It is also well known that remittances from emigrants who went abroad are significant. The impact of these monetary flows on the development of rural areas is difficult to ascertain, but their influence on the income of rural families is sizable. 18/

37. Price and exchange rate policies provide a powerful and direct means of transferring income between urban and rural areas. There is a considerable diversity among countries in their price policies relating to rural areas, depending on their over-all economic strategy, their capacity to control the economy effectively and their degree of participation in international trade.

18/ For these data and remarks on remittances, see H. Rempel and R. A. Lobdell, "The role of urban to rural remittances in rural development", The Journal of Development Studies, vol. 14, no. 3, April 1978.

Some countries pursue price policies and exchange rate policies to secure part of rural income and use this "surplus" for consumption or investment in urban or rural areas. A well-known instrument for this strategy is the marketing boards which set the prices for agricultural products, buy them from the producers and sell them at a profit, generally to the international market. This method has been used in several West African countries having specialized in the export of a few agricultural commodities. Other countries manipulate exchange rates to benefit importers or exporters of rural products. A particular fixed rate of exchange may penalize exporters by reducing local currency receipts or it may penalize domestic production by reducing the local currency prices of imports. When a policy of overvaluation is coupled with the selective restriction of imports, the local prices of exports and imports, principally manufactured commodities, may change so as to move the terms of trade against the rural areas. Rough estimates for Pakistan in the 1950s show that approximately 6 per cent of agricultural output was transferred to the rest of the economy because of a combination of policies of this nature. 19/

38. In many countries wishing to keep down the prices of agricultural products for urban consumers, imports of food and price controls on food commonly play a part in turning the terms of trade against rural areas. Imports of food to satisfy demand at lower prices and a public distribution to maintain a price level not feasible in an open market, or some combination of these two instruments, are often used to maintain low prices. Policy instruments of this nature have been widely used, particularly in several Latin American countries. 20/ Low food prices maintained by a public distribution system may be an almost entirely urban phenomenon. 21/ These low prices are welcomed by owners of industry as a means of keeping down wage costs and by wage earners as a means of eking out their low incomes. In many instances, however, the beneficiaries of low food prices are not simply organized labour in urban areas. 22/ Subsistence farmers are, by definition, not affected but wage earners so benefiting include agricultural labour and other net purchasers

19/ Keith Griffin and A. R. Khan, Growth and Inequality in Pakistan, (London, MacMillan Press, 1972), p. 126. See also Henry J. Bruton, "Industrialization policy and income distribution" in (eds.) Charles Frank and Richard C. Webb, Income Distribution and Growth in Less Developed Countries (Washington, D.C., The Brookings Institution, 1977), pp. 97-149.

20/ Food and Agriculture Organization of the United Nations. The State of Food and Agriculture, 1977 (Rome, 1978), pp. 2-30.

21/ See Rehman Sobhan, "Politics of food and famine in Bangladesh", Economic and Political Weekly, 1 December 1979, pp. 1973-1978. When 77 per cent of the urban population is estimated to be at or below a poverty line, as in this instance, it is somewhat hard to cavil at the scheme even on equity grounds.

22/ See R. C. Webb, Government Policy and the Distribution of Income in Peru, 1963-1973 (Cambridge, Mass., Harvard University Press, 1977).

of food material in rural areas. In some cases, the main beneficiaries of high food prices would be only those who produce food for the market. It has been estimated that in India in 1970-1971, 25 per cent of all food grains was produced by less than 1 per cent of all holdings. 23/ When the benefits of controlled low prices are available nationwide, the burden of mobilizing these financial resources, as in Sri Lanka in the years previous to 1977, may weigh too heavily on the fiscal effort. More seriously, unremunerative prices to agriculture can act as a break on the growth of agricultural output and in several important ways stand in the way of the expansion of output in the economy as a whole.

39. The critical importance of price and exchange rate policies is by now widely recognized. Past and recent experiences suggest that countries having adopted a price policy favourable to rural producers have often managed to promote both agricultural and industrial development. A balanced system of terms of trade between urban and rural areas appears to be one of the conditions for development. The following table contains figures for two countries, India and the Philippines, which have been commonly held out as those with urban bias in their development policies. Price movements in recent years do not seem to bear out this premise. Several countries in Latin America, including Argentina, Brazil, Chile, Ecuador and Venezuela, have also, within the last five to six years, altered the relative price in favour of agriculture, with the objective of producing larger proportions of their food requirements domestically. 24/

40. A more complete assessment of the forces and mechanisms involved in the alleged transfer of resources from rural areas would require, in addition to income transfers, an analysis of the institutions and operations through which savings are also made available for urban use. A traditional view is that financial intermediaries, in contrast with fiscal authorities, probably work as a conduit for the net transfer of resources from rural to urban areas. In Pakistan, the Credit Inquiry Committee in 1959 observed a "sizeable transfer of savings ... through the rural branches of commercial banks to urban centres". 25/ In Zambia, it was reported that existing rural branch banks channelled money to urban centres, as they lent locally only a quite small proportion of local deposits. 26/ A part of the explanation for this phenomenon is that commercial banks are native urban institutions, which function at ease in an urban milieu but find themselves in strange circumstances when required to lend to small-scale producers who have little acceptable collateral to offer and are themselves not too familiar with these institutions. 27/ Yet, besides commercial banks, a number of institutions

23/ M. S. Vyas, "The mainsprings of agricultural growth in India", Social Action, vol. 28, No. 1 (1978), p. 12.

24/ See State of Food and Agriculture, 1977, op. cit., pp. 2-28.

25/ Cited in Growth and Inequality in Pakistan, op. cit., p. 43.

26/ Charles Harvey, "Rural credit in Zambia: access and exit", Development and Change, vol. 6, No. 2 (April 1965), p. 91.

27/ The experience in some Asian countries is summarized in Rural Development, the Small Farmer and Institutional Reform, Growth Studies Series No. 13 (Bangkok, Economic and Social Commission for Asia and the Pacific, 1976), pp. 129-133.

Table. Internal terms of trade between rural and urban areas in the Philippines and India

<u>Philippines</u>		<u>India</u>	
<u>Year</u>	<u>Terms of trade a/ (1965 = 100)</u>	<u>Year</u>	<u>Terms of trade b/ (1960-1961 = 100)</u>
1966	100.5	1965-1966	114.0
1967	105.4	1970-1971	127.0
1968	110.2	1971-1972	120.0
1969	117.1	1972-1973	119.0
1970	119.0	1973-1974	137.0
1971	132.1	1974-1975	134.0
1972	138.0		
1973	135.5		

Source: For the Philippines, Gerry Rogers, Mike Hopkins and Rene Wery, Population, Employment and Inequality (Geneva, International Labour Organisation, 1978), p. 279; for India, M. L. Dantwala, "Agricultural policy in India since independence", Indian Journal of Agricultural Economics, vol. 31, No. 4 (December 1976), p. 36.

a/ Price index of net value added at factor costs in agriculture, forestry and fishing relative to price index of value added in other sectors.

b/ Net barter terms of trade of all agricultural products purchased by non-agriculture sector relative to all non-agricultural products purchased by the agricultural sector.

geared towards investment in rural areas have been developed in recent decades. They include co-operative development banks, rural development banks, savings banks, credit unions, which in many developing countries play an increasing role in rural development and the modernization of rural areas. These institutions operate in and for rural areas and provide loans at favourable conditions. Their interest rates are generally far below those which would prevail in competitive markets for agricultural credit. Small farmers are often given preferential treatment with low interest rates and no commissions or other charges. In periods of high inflation, real interest rates are in fact negative and farmers borrowing money for investment are actually subsidized by public authorities. This is not to say that small farmers always benefit from the operations of these institutions. In many developing countries subsidized agricultural credit appears to be mostly captured by large farmers. The point is rather that a net flow of savings from urban to rural areas is at present not exceptional in developing countries. Even commercial banks are involved in efforts to revitalize rural areas. It has been noted that in India, in a first stage and in the absence of efforts to develop credit absorption capacity of the local community, there was a tendency for the banks "to act however unconsciously as channels for flow of funds from rural to urban areas". At present, District Credit Plans are under implementation to "integrate the deposit and lending side of the banking business" and to promote integrated rural development as catalyst for savings. 28/

28/ See Tenaluru Varadachary, "Problems involved in the mobilization of savings of inhabitants of rural areas and of low-income urban groups in India", paper prepared for the United Nations International Symposium on The Mobilization of Personal Savings in Developing Countries, Kingston, Jamaica, 4-9 February 1980.

V. CONCLUDING REMARKS

41. Rural-urban imbalances are often overstated. Inequalities among social groups and poverty, in both rural and urban areas, appear to be more significant problems in many countries. From the viewpoint of equity, what matters is the distribution of welfare among persons and social groups, wherever they reside.

42. The perception of imbalances between rural and urban areas has to be placed in a comprehensive and longer-term perspective. Modern economic development comprises a set of interrelated processes that transforms essentially rural, agricultural societies into more urban, industrialized nations. To achieve such development is quite clearly the objective of most developing countries. From this viewpoint, what matters is the creation of dynamic and efficient activities throughout the economy. Industrialization, urbanization and the migration of population to urban areas form one part of this process. Steadily improving productivity in agriculture and the progressive integration of rural communities into modern economic activity constitute another part. Thus, the challenge for development policy is not so much to devise measures which will maintain a static balance in levels of income and welfare between rural and urban areas; it is rather to generate a pattern of growth in which there is a close integration of urban growth and rural modernization.
