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# Economic well-being of rural farm households in Ghana: A perspective of inequality and polarisation

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## ABSTRACT

This paper investigates economic well-being of rural farm households in Ghana from the perspective of inequality and polarisation, using data from the Ghana Living Standard Survey rounds 5 and 6, and within the framework of disparities in ecological locations, farm size holdings and the main occupation of household heads. It also examines sources of income polarisation and inequality and their implications for poverty distribution among the rural farmers. The results show that distribution of the major crops cultivated generally vary across the farmer categories. Also, biases exist in income distribution among the farmers. The main source of inequality and polarisation is the differences within the individual categories of farmers, however, with respect to the ecological locations, between-group differences is the main source of polarisation. We find that greater proportion of the poorer farmers are found in the savannah zones, as well as among the smallholders and where household heads are engaged in self-employed agricultural activities. Contrarily, large-scale producers, farmers in forest areas, and where farm household heads are in public and private sector jobs are richer. Generally, poverty is concentrated within the farmer categories that incur higher polarisation and inequality indices and have also contributed the greatest to the total inequality and polarisation, whereas the categories that incur the lowest of the indices and have contributed the least to the total indices are wealthier. These findings suggest inequality and polarisation should be mitigated in tandem, and targeting the categories harbouring larger proportions of poorer farmers can reduce poverty more effectively.

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## 1. Introduction

Distribution of economic well-being among households has been a continuous concern to economists (Mishra et al., 2002; Sala-i-Martin, 2006; Wolff and Zacharias, 2009), but progress in resolving the issue has been unimpressive (Clarke et al., 2003), particularly in the rural agricultural sector of the sub-Saharan Africa. Further, reducing inequality as an important factor for converting income growth into poverty alleviation has been a challenge (Fosu, 2011; Iniguez-Montiel, 2014; Ravallion, 1997). Also, polarisation being an impediment to effective distribution of economic well-being and poverty reduction, limits the poor from climbing the income ladder to joining the higher income groups (Motiram and Sarma, 2014). Moreover, it has been difficult lessening poverty among rural farmers in Africa (Barrett et al., 2016), but whether or not, this difficulty could be attributed to inequality

and polarisation in the economic well-being distribution has not been extensively investigated in rural Africa. This paper provides an empirical analysis of economic well-being of rural farm households by drawing on the concepts of inequality and polarisation discourses. It uses the framework of agrarian system in the sub-Saharan Africa, which is characterised by diversity in land distribution (Holden and Otsuka, 2014; Jayne et al., 2003, 2014), varied barriers of entry into earning incomes outside farm production (Barrett et al., 2005; Holden et al., 2004), and dissimilar climatic conditions, determined by the differences in their agro-ecological locations, which in turn, is directly linked with the type crops cultivated (Okonya et al., 2013; Seo et al., 2009; Tittonell and Giller, 2013). How these diverse features of rural agriculture influence the distribution of economic well-being, in terms of income inequality and polarisation, as well as poverty distribution among rural farm households, are the main questions raised in this paper.

Some researchers have examined the distribution of income and wealth in both advanced and developing countries (Brzozowski et al., 2010; Davies et al., 2007; Sala-i-Martin, 2006; Stiglitz, 2016), and most issues investigated include inequality of outcomes e.g. incomes and consumption (Annim et al., 2012; Canagarajah

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et al., 1998; Zanden et al., 2014). On the contrary, other scholars studied income and wealth distribution from the perspective of equality of opportunities, where the individuals are expected to be dedicated to their economic activities freely and fairly devoid of barriers (Roemer, 2014; Roemer and Trannoy, 2016; Tachibanaki, 2009). Equality of opportunities as a measure has varied indicators of circumstances, such as types of education, employment and income earned among others, which remain conceptually debatable, and there is no consensus on how equality of opportunities should be defined (Lefranc et al., 2009). Further, if the target group of individuals have some barriers or deficiencies to earn a given income which lies beyond their responsibilities and efforts, equal opportunity is not granted them, and factors considered as choices for which the individuals should be held responsible are still disputable (Ferreira and Peragine, 2015). In the context of the agricultural sector in the sub-Saharan Africa, the concept of equal opportunity might, therefore, be ambiguous, since there are many barriers beyond the control of the farmers. For instance, most agricultural production is rainfall dependent, such that annual farm activities are subject to erratic patterns of precipitation. This also depends on the locations of farmers in terms of agro-ecological environments, which are characterised by different climatic conditions, endowments, types of crops, markets and technologies among other factors. In addition, farmers' ability to have access to arable lands and the farm sizes cultivated vary for several reasons including land availability, soil fertility, capacities and credits among other constraints (Rigg, 2006). Also, some evidence from Ghana suggests obvious heterogeneity in farm sizes cultivated by farmers, which in turn, depends on agro-ecological locations, access to productive resources and types of crops being produced (Chapoto et al., 2013). As well, seeking complementary incomes from activities outside agriculture has been difficult and transient among rural farmers in Ghana (Dzanku, 2015), because the majority of them are low skilled and therefore face higher barriers of entry into nonfarm employments, which consequentially leads to income inequality (Senadza, 2011). Based on the nature of the rural agrarian system in the sub-Saharan Africa, chances for farmers, as per their economic activities, are not equal, and it is not clear how these characteristics influence income distribution among the rural farmers. Hence, the current study focuses its analyses on inequality of income as an outcome. It measures income inequality as the dispersion in the overall income distribution among the rural farm households. Thus, it investigates whether the gaps between the mean incomes of the individual groups of farm households from the mean income of the entire rural farmer population are significant and whether the contributions of the categories to the overall rural income inequality are also substantial.

Also, according to Wolfson (1994), studies on income distribution and economic inequality should include measures of polarisation, but many previous studies on inequality ignored polarisation in their analyses. Meanwhile, there are various aspects of polarisation in economic literature. First, it measures the shrinking middle class and considers the spread in income distribution from the centre to the extreme ends (Wolfson, 1994, 1997; Foster and Wolfson, 2010a). The second suggests the appearance of separated groups. Thus, economic polarisation arises when individual groups within a population are getting more homogenous in incomes, but more separated from each other due to gaps in their incomes (Esteban and Ray, 1994a). The analysis in this paper focuses on the latter and argues that disparities in farm sizes, agro-ecological environments and the major occupation of farm household heads, represent the emergence of income groups. Consequently, the paper points to income polarisation as how incomes of different categories of the farmers cluster around their group means, and their inclination of being separated from each other and

the mean of overall population income. The occurrence of income homogeneity within the farmer categories is referred to in the literature as “identification”; and the separations between the incomes of the groups is known as “alienation” (Duclos et al., 2004). The paper, therefore, measures income polarisation as the homogeneity in income distribution among the rural farmers in a given category, and examines separations between the individual group incomes, and tests whether each category contributes significantly to the total income polarisation. It, in addition, explores the distribution of poverty among the rural farmers and indicates which of the categories harbours a sizeable proportion of the poorer and the richer farmers.

Available studies have shown that majority of the poor reside in rural areas of developing countries (Adjasi and Osei, 2007; Rodríguez-Pose and Hardy, 2015; Thirtle et al., 2003) and that most of the rural poor are into agriculture (Rigg, 2006). In the sub-Saharan Africa, existing literature suggests that, though poverty level declines over the years, it is still prevalent among rural farmers (Minten and Barrett, 2008). In Ghana, poverty has also declined drastically over the past two decades, but it still persists in rural areas (Ghana Statistical Service, 2008, 2014). Also, the country is currently faced with rising inequality among various sects of the population (Coulombe and Wodon, 2007), which exerts a significant effect on household poverty (Annim et al., 2012). According to some researchers, inequality exists in Ghana due to regional imbalances, gender and education differentials, as well as differences between urban and rural, southern and northern areas, and intra-household differences (Aryeetey et al., 2009; Canagarajah et al., 2001; DFID, 2005; Senadza, 2012). Similarly, evidence suggests that the rates of income gaps between the poorest and the wealthiest have been increasing since 2006 and that inequality between the poor and the rich has also increased in Ghana (Cooke et al., 2016), which is a sign of emerging polarisation than inequality. It is therefore obvious that issues of income distribution in Ghana have gained eminence among researchers, however, related studies specific to the rural agricultural sector, where poverty is dominant, are scarce. Meanwhile, exploiting the sources of income polarisation and inequality, as well as the patterns of poverty distribution among rural farmers can be an effective way of identifying mechanisms to reducing poverty among rural farmers. However, income polarisation and inequality have not yet been examined empirically with respect to the rural farm sector in Ghana.

The objective of this paper is to examine economic well-being of rural farm households from the perspective of income polarisation and inequality. The analyses importantly explain sources of income polarisation and inequality and their implication for poverty distribution among rural farmers, using the Ghana Living Standard Surveys (GLSS) rounds 5 and 6 data. The paper shows how the different population subgroups of the rural farmers contribute to inequality and polarisation, which in turn reflect biases in income distribution among them, given the heterogeneity in their farm sizes, the ecological environments and the employment types of their household heads. Also, in the context of the sub-Saharan Africa how crops cultivated influence income contribution is complicated, since most farm households engage in multiple crops production in diverse scales, under different cultural practices and ecological conditions (Addai and Owusu, 2014; Alemu et al., 2009). We, therefore, hypothesise that the composition of major crops produced by the rural farm households varies across ecological zones, farm sizes holdings and the main occupation of household heads. A farm household as defined in this study is a household within which at least a member is a farmer (Ghana Statistical Service, 2008, 2014). Even though the major occupation of some household heads might not be farming, they are perceived to

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