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World Development Vol. xx, pp. xxx–xxx, 2016
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http://dx.doi.org/10.1016/j.worlddev.2016.01.019

Agrarian Structures, Urbanization, and Inequality

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Summary. — This study examines the impact of agrarian structures on income inequality over the long run. First, it exhibits the relationship between land and income distribution by developing a theoretical model based on Harris and Todaro (1970) and Lewis (1954). High land inequality increases income Gini coefficients in the urban sector as well as the rural sector, not only by creating congestion in the urban subsistence sector, but also by feeding the growth of the urban reserve army of labor, which pulls down the wages in the urban capitalist sector.

Next, the study investigates the empirical relationship between land inequality, level of urbanization and income inequality using cross-country datasets. The estimation results support the theoretical model and indicate that the level of land inequality has a significant impact on determining the level of urbanization, and urban and overall income inequalities. Moreover, the analysis finds that overurbanization increases income inequality. The empirical analysis controls for institutional factors like education inequality and the level of democracy. The results present a stronger evidence on the land inequality's influence through urbanization than through education and democracy.

These results suggest that policymakers should have a broader view as to the importance of agrarian policies. A progressive land reform or/and subsidies protecting small peasantry can also reduce urban income inequality and poverty over the long run.
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Key words — distribution, urbanization, informality, economic development

1. INTRODUCTION

Land distribution is not only about the welfare of rural dwellers. Indeed, land distribution can partially explain differences in income inequality even in urbanized societies. Land inequality can influence the urban and overall national income distribution through its effects on institutions and labor-bargaining relations within the urban sector. The long-run effects may continue even as the country becomes an urbanized society.

The contribution of this paper is an analysis of the impact of land inequality on class relations and wage bargaining in the urban sector. Consistent with the Harris and Todaro (1970) framework, I assume that the difference between expected urban incomes and rural incomes determines the decision to migrate. The fallback position of the new urban dwellers thus is formed by the previous rural incomes. As in the Lewis (1954) model, rural-to-urban migration suppresses wages in the urban sector. In countries with higher land inequality, more migrants are willing to move to the urban sector for lower wages, and migration process therefore has a more pronounced negative impact on the urban wages.

The wage-bargaining effect of land distribution has been relatively ignored in the existing literature. Indeed, the impact of land inequality on the urban distribution has been examined in several prior studies (Bourguignon & Verdier, 2000; Engerman & Sokoloff, 2002; Engerman & Sokoloff, 2005; Frankema, 2009; Galor & Tsiddon, 1996; Galor & Zeira, 1993; Galor, Moav, & Vollrath, 2009; Wegenast, 2009). Nevertheless, these studies mainly focus on the impact of land inequality focus on institutions, pointing out in particular that greater wealth inequality would lead to institutions that bias education capabilities and policies against the poor. This situation would result in the transmission of land inequality to urban inequality.

The wage-bargaining effect of land distribution is mentioned in a few paragraphs in empirical studies examining the relationship between land and income inequality, in studies whose focus is not on the link between land and urban distribution (Griffin, Khan, & Ickowitz, 2002) and in case studies (Amsden, 1989, 1990; De Janvry, 1981; Harris, 1978; Keyder, 1987) of selected regions. Building on these earlier insights, this study offers a thorough theoretical analysis by developing a model based on the Harris and Todaro (1970) framework as extended by Fields (1975) and Fields (2005). The model is then tested in an empirical analysis that examines whether the wage-bargaining effect is relevant even when we control for the education gap and other institutional variables.

Because land distribution and urban inequality are closely connected, the implications of this paper are also important for understanding long-run development paths. Inequality often creates impediments to long-run growth. Unequal income distribution has been shown to limit educational opportunities for the poor and/or the middle class, elevate credit constraint problems, decrease domestic demand, increase crime rates and corruption, lead to social unrest in society and pull down per capita income and educational attainment through higher rates of fertility (Griffin & Ickowitz, 1998; Voitchovsky, 2011). In addition, inegalitarian agrarian structures can lead to lower land productivity (Vollrath, 2007).[1] A wide range of empirical work (e.g., Alesina & Rodrik, 1994; Deininger & Squire, 1998; Easterly, 2007) confirms that the countries with a historically more egalitarian distribution enjoyed greater rates of growth in the second half of the 20th century. In a world where 48% of the population still lives in rural areas (World Bank, 2012), our results provide support for agrarian policies favoring egalitarian landownership.

The paper proceeds as follows. The next section examines the simple correlation between income inequality and land

*I am grateful to James K. Boyce, James Heintz, Peter Skott, Jose Antonio Ocampo, Bilge Erten, Mwangi wa Githinji, Deepankar Basu, Zoe Sherman, Alper Yağcı and three anonymous referees for their comments and suggestions. Final revision accepted: January 11, 2016.

Please cite this article in press as: Oyvat, C. Agrarian Structures, Urbanization, and Inequality, *World Development* (2016), http://dx.doi.org/10.1016/j.worlddev.2016.01.019

inequality across dozens of countries. The third section develops the theoretical framework that links the two. The fourth section provides a simple model of the relationships among urbanization, income, and land distribution. The fifth section presents an econometric test of the theory, and the last section concludes the paper.

2. A COMPARATIVE PERSPECTIVE

A comparative examination of development experiences in different regions suggests a positive relationship between land ownership inequality and income inequality. Historically, Latin America and parts of Sub-Saharan Africa are associated with a high degree of concentration of land. In much of Latin America, the agrarian structure is characterized by the coexistence of large plantation-type structures and extremely small family farms, called latifundios and minifundios, respectively (Furtado, 1976). The landlords holding latifundios mostly hire wage labor to cultivate their land. These landlords wield not only economic but also political influence over labor and institutions. Power inequality secures the existence of the inegalitarian agrarian structure (De Janvry, 1981). Similar structures are observed in some regions of sub-Saharan Africa (Frankema, 2010).

In contrast, the agrarian structure in Asia tends to be associated with a greater prevalence of owner-cultivators and tenants. Among the East Asian countries, Korea and Taiwan experienced progressive land reforms that led to agrarian structures in which small- and medium-scale family farms dominate. In South Asian and Middle Eastern countries, even without significant land redistribution, the land inequalities are lower than in Latin America, and the proportion of landless labor in the rural population is smaller (see Appendix A).

Although agrarian structures may be an important factor underlying interregional differences between levels of income inequality, this does not mean that the regions are entirely dominated by a single agrarian structure. Both tenant farming and medium-scale family farms are common in parts of Latin America (Bertola & Ocampo, 2012; Barraclough & Domike, 1966; Furtado, 1976), while in Asia many peasants work under a wage labor relationship (Bardhan, 1984; Boratav, 1989). In addition, even countries with similar agrarian structures may exhibit dissimilar levels of land inequality. Therefore, the national land Gini coefficient is a more accurate measure for land inequality than crude regional dummies.

Prior empirical studies have documented a positive relationship between land and income Gini coefficients (Carter, 2000) and shown that a greater share of land owned by small and medium (Bourguignon & Morrisson, 1998) and/or family farms (Easterly, 2007) reduces overall income inequality. Figure 1, constructed for this study, displays a positive relationship between early land inequality and later overall income inequality for 51 countries. The horizontal axis on the figure is the value of land inequality for years in and around the 1960s, here taken as a measure of pre-urbanization land distribution. A large dataset for land Gini coefficients is not available for earlier years, and the massive flows of rural-to-urban migration in the developing world began after the 1950s (Araghi, 1995). The figure's vertical axis is the most recently measured income Gini coefficient for each country.[2] The Pearson correlation coefficient between the income and land Gini coefficients is 0.47.

The Southern African countries (Botswana, Lesotho, Malawi, South Africa, Swaziland and Zambia) have very high income inequality values compared to their initial land inequalities and appear as outliers in Figure 1.[3]

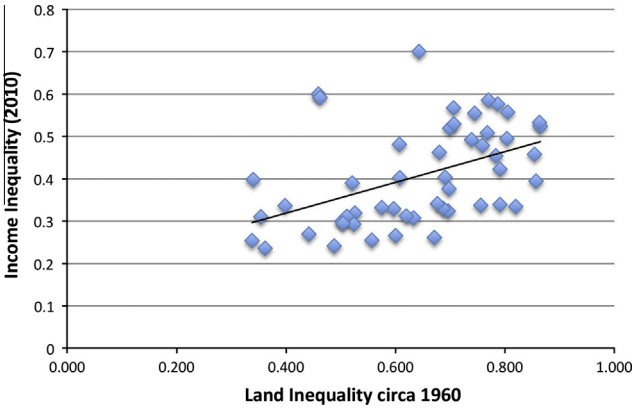

Figure 1. *Relationship between land inequality in the 1960s and income inequality in 2010 (Gini coefficients for 51 countries, corr = 0.47). Note: See Appendix A for the data sources.*

One possible explanation is Southern African countries' high degree of dependence on incomes from minerals, which tend to be very unequally distributed.[4] Interracial income gaps are also an important factor increasing income inequality in some Southern African countries (Özler, 2007). In Figure 2, I exclude the Southern African countries from the sample. Figure 2 presents a clearer positive relationship and the Pearson correlation coefficient increases to 0.57. In summary, the figures suggest that the initial conditions of land distribution matter for determining national income inequality in the long run.

3. THEORETICAL FRAMEWORK

There are two groups of arguments that explain the close relationship between income and land inequalities. Figure 3 presents a schematic picture of both arguments. The institutional mechanism is drawn in blue dashed, the bargaining mechanism in red dotted lines. This study's emphasis is on bargaining. Nevertheless, I will begin with a brief summary of the institutionalist arguments, and I will control for institutional variables in the regression analysis.

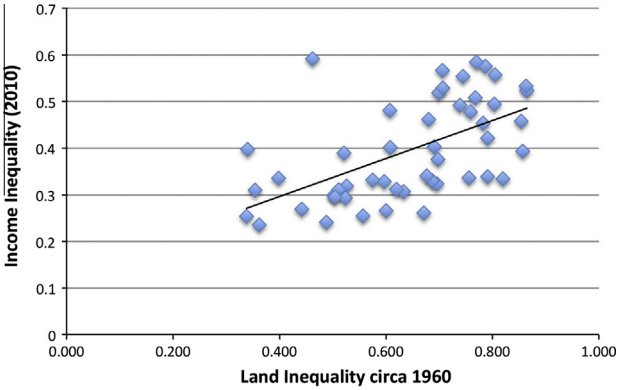

Figure 2. *Relationship between land inequality in the 1960s and income inequality in 2010—Southern African countries excluded (Gini coefficients for 49 countries, corr = 0.58). Note: See Appendix A for the data sources.*

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