



HIGHLIGHTS OF USAID WORKSHOP:
PROMOTING ECONOMIC GROWTH IN A NEW ERA
JUNE 28 – JULY 2 2004

Role of Agriculture in Poverty Reduction and Growth

John W. Mellor, Vice President of Abt Associates Inc., commented on the potential for agriculture to be a driving force to reduce poverty and increase growth in low and middle income countries. In low income countries, agriculture represents a large segment of the economy and is the dominant source of employment. In middle income economies, the agricultural sector is a much smaller employer but is still a central factor for poverty reduction strategies, since most of the poor are in rural areas. Focusing on trade and export is an important element of economic growth but the two most important elements of economic growth should be technology and agricultural research.

Dr. Mellor emphasized the great need to invest in agriculture because of its ability to generate vast employment in rural areas. Rural employment growth reduces poverty, and furthermore rural growth reduces urban poverty, too. However, urban growth—the focus of most development efforts—does not reduce poverty in the rural area. Mellor then focused on three main themes: first, agriculture and its relationship to employment; second, spending on infrastructure (since agricultural growth depends on public goods, public spending on infrastructure such as roads and electricity is necessary for small farmers; and finally, agricultural growth as a means to reducing poverty (when farmers' incomes increase, the demand for relatively crude but locally made goods increases and generates new non-agricultural sector employment in the local communities).

In his concluding remarks, Mellor emphasized that to reduce poverty in low income countries, we need to focus on technological change, agricultural research, improving quality, access to marketing, figuring out demand, cutting the costs of production, and integration into the global economy as critical elements of development. The focus in agricultural development should be on areas with relatively good soil and water availability, where there is a high enough population density to justify the infrastructure investment that will improve productivity and lower the critical transport costs of commercial farmers.

Wall Tyner, Professor of Agricultural Economics at Purdue University, focused on comparing and reconciling differences between two schools of thought: 'the agriculture advocates' who believe agriculture is critical to achieve economic growth and reduce poverty, and the 'CGE school' that emphasizes trade liberalization as a means to stimulate economic growth. The CGE world demonstrates substantial welfare gains from trade liberalization due to improved resource allocation and efficiency gains. These aggregate gains can occur even if economic conditions are worsening in rural areas.

The presenter provided examples of literature from both schools. Examples from the agriculture school include Kanwar (2000), who uses Indian data to establish that growth in agriculture, infrastructure and services are all causally related prior to growth in

manufacturing and construction, but the reverse is not true; Datt and Ravallion (1996), who illustrate that the sectoral composition of economic growth matters to the poor in India; Woden (1999) and Throbecke and Jung (1996), who show that rural growth reduces poverty more than urban growth in the cases of Bangladesh and Indonesia; Gallup et al (1997), who focus on cross-country evidence of the relationship between growth and poverty; and Thirtle et al, who conclude that research-led technical change in agriculture has led to substantial poverty reduction in Asia and Africa.

In contrast to the agriculture advocates, Professor Tyner showed CGE literature that includes scores of studies showing large benefits from trade liberalization. For example, one World Bank study reveals global gains for developing countries from trade liberalization amounting to \$142 billion with fixed productivity and \$390 billion with assumed productivity gains.

In reconciling the difference between the two schools, Tyner noted that the CGE work is comparative static, i.e., by comparing economic welfare with and without the assumed change in policy, technology, or other factors. This is a problem because while the welfare change is often associated with growth, no link is established to other factors. The agriculture school is based on empirical work linking economic growth and poverty reduction to agricultural and manufacturing growth. In his concluding remarks, the presenter emphasized the importance of trade liberalization for both schools while noting that the empirical work on economic growth makes a convincing case for the importance of agricultural productivity gains. There is a need to gain a better understanding of rural factor markets and rural non-agriculture small-scale industries both for CGE work and for implementing development activities.