

# Appendix 14. Mellor Agricultural Growth Thesis

## Structure of Growth and Poverty Reduction

1. There has been for some decades a literature on the strong linkages between growth in agriculture and multipliers in the non-farm sector arising from the expenditure of incremental farm income. The labor intensity of those multipliers has been emphasized; e.g. Mellor and Lele 1972, Mellor 1978, Mellor 1985.
2. Empirical support until recently depended on micro studies (the above, Hazel for Malaysia and Africa, Delgado for Africa.)
3. Around the 1980's, phenomenal reductions in poverty occurred in Asian countries—25 percent in 15 years in India; 1/3 to 1/2 in Southeast Asian countries; similarly in China; the virtual eradication of absolute poverty in Taiwan.
4. In that context, it has become possible to statistically relate poverty not only to growth but to the structure of growth.
5. The results have been startling (only matched by the startling lack of attention to these sterling empirical studies.)
  - Manufacturing growth has essential no effect in reducing poverty (Ravallion and colleagues) or very little (Timmer.)
  - Urban growth reduces the dominant rural poverty not at all and has only modest effect on urban poverty
  - Agricultural growth has an immense effect on poverty.
  - Rural growth reduces rural poverty sharply and reduces urban poverty more than does urban growth.
  - There is a two to three year lag in the effect of agricultural growth on poverty reduction (showing that it is the indirect effects that are most important.)

- Further corroborating that it is the indirect effects, agricultural growth with Latin American levels of inequality in land distribution has little effect in reducing poverty.
  - Growth per se does little to reduce poverty, it is the structure that matters.
6. Growth in income of the middle peasant has a very favorable effect in reducing poverty by making employment for the poor who are so deficient in non labor resources. It is better to get big increases in income for those with resources and let the multipliers carry the effects to those deficient in resources.
7. Empirical evidence is now accumulating that for every job made directly in agriculture from agricultural growth two to three jobs are made in the non-farm sector (see Mellor on Egypt, 1999.)
8. Thus, it is not surprising that manufacturing is far more important than agriculture in generating GDP growth, but that agriculture, through its direct and indirect effects, is far more important than manufacturing in generating employment.
9. In the absence of rising farm incomes, attempts to reduce poverty through direct action in the non-formal (small scale) non-agriculture sector fail. The market for those goods and services is from the prospering agricultural sector.
10. Agricultural benefits immensely from international prices and an open economy; but agricultural growth and multipliers are more inward looking than the export led growth that depends on foreign markets for essentially all of incremental output.
11. Why is agriculture little emphasized for poverty reduction?
- Contemporary low income countries have largely urban oriented governments, as was historically so in Asia.
  - Foreign aid, because of the myriad special interest groups, can no longer have a steady focus on agriculture, further weakening national forces that are rural oriented.
12. What is the optimal policy for poverty reduction?
- Emphasis on formal agricultural growth plans with tight priorities and clear sequences to counter the dispersal inevitable in contemporary foreign aid.
  - Four to six percent growth rates (not the three percent rates feasible in earlier decades) and halving poverty in 15 years, given the far better opportunity for high value agricultural commodities for domestic and foreign markets.
  - Emphasis on resources productivity, particularly fertilizer and pesticides with favorable effects on the environment and on farm incomes.
  - Massive rural infrastructure investments lifting many immediately out of poverty while sharply reducing transaction costs for agriculture.
  - Actions to include women to ensure broad participation, given the tendency for women to be excluded from modern institutions even though dominant in traditional ones.

- Assist the growth of small firms in the context of rising farm incomes, to eventually build connections outside agriculture, per the Taiwan experience.
- Programs for child survival, nutrition, female education, in the context of rising farm incomes that make the jobs and hence high returns to that human capital.

Poverty reduction must start with solving two-thirds of the problem - broad based agricultural growth, rising farm incomes, and hence rising effective demand for the high employment farm driven non-farm sector. Then, the thrusts for GDP growth can go ahead with minimal social tensions and direct action programs to reach the poor can succeed.

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<sup>48</sup> <http://www.worldbank.org/poverty/wdrpoverty/stiglitz/Mellor.pdf>