

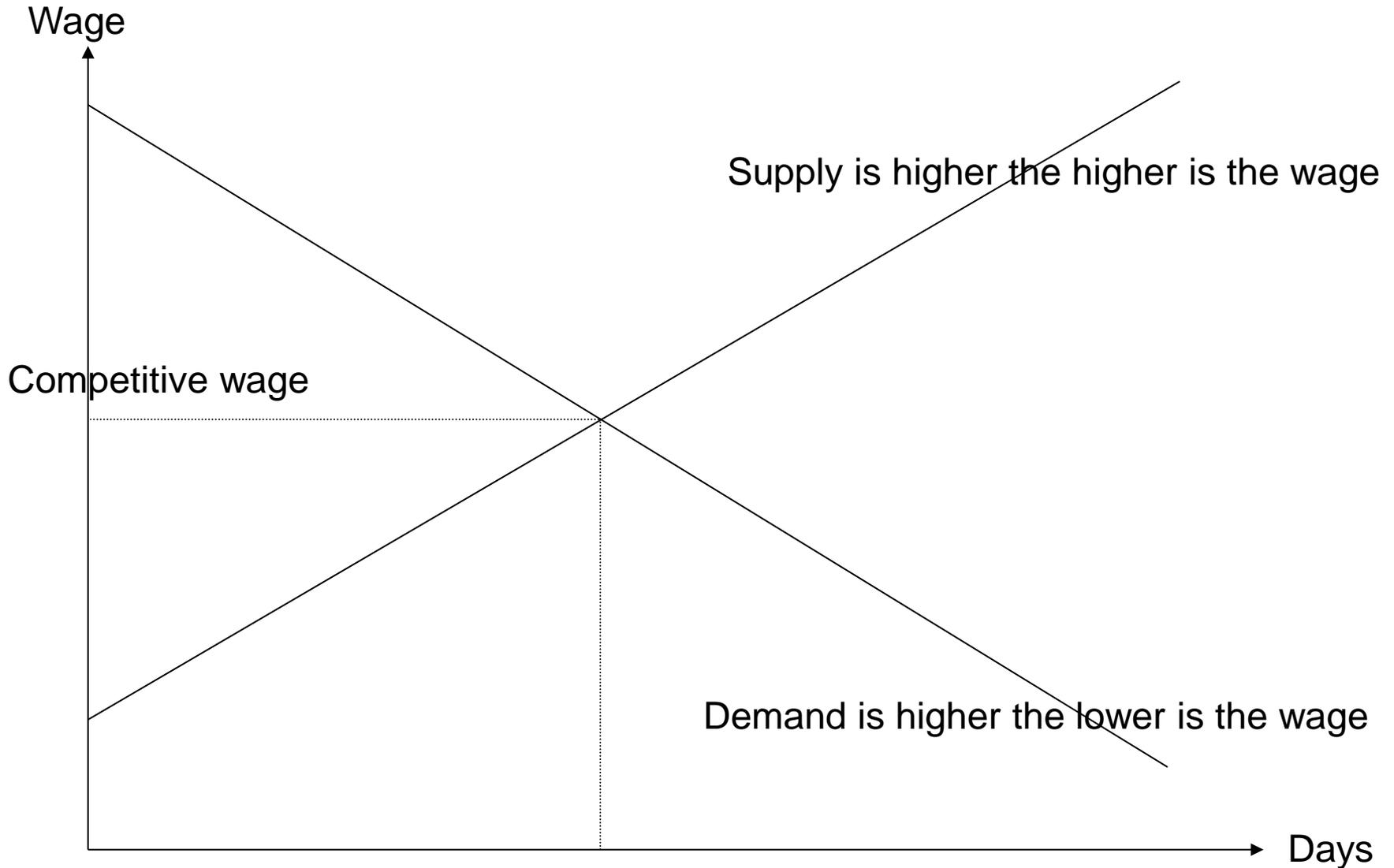
# **Agrarian relations and rural poverty**

Magnus Hatlebakk  
CMI, Norway

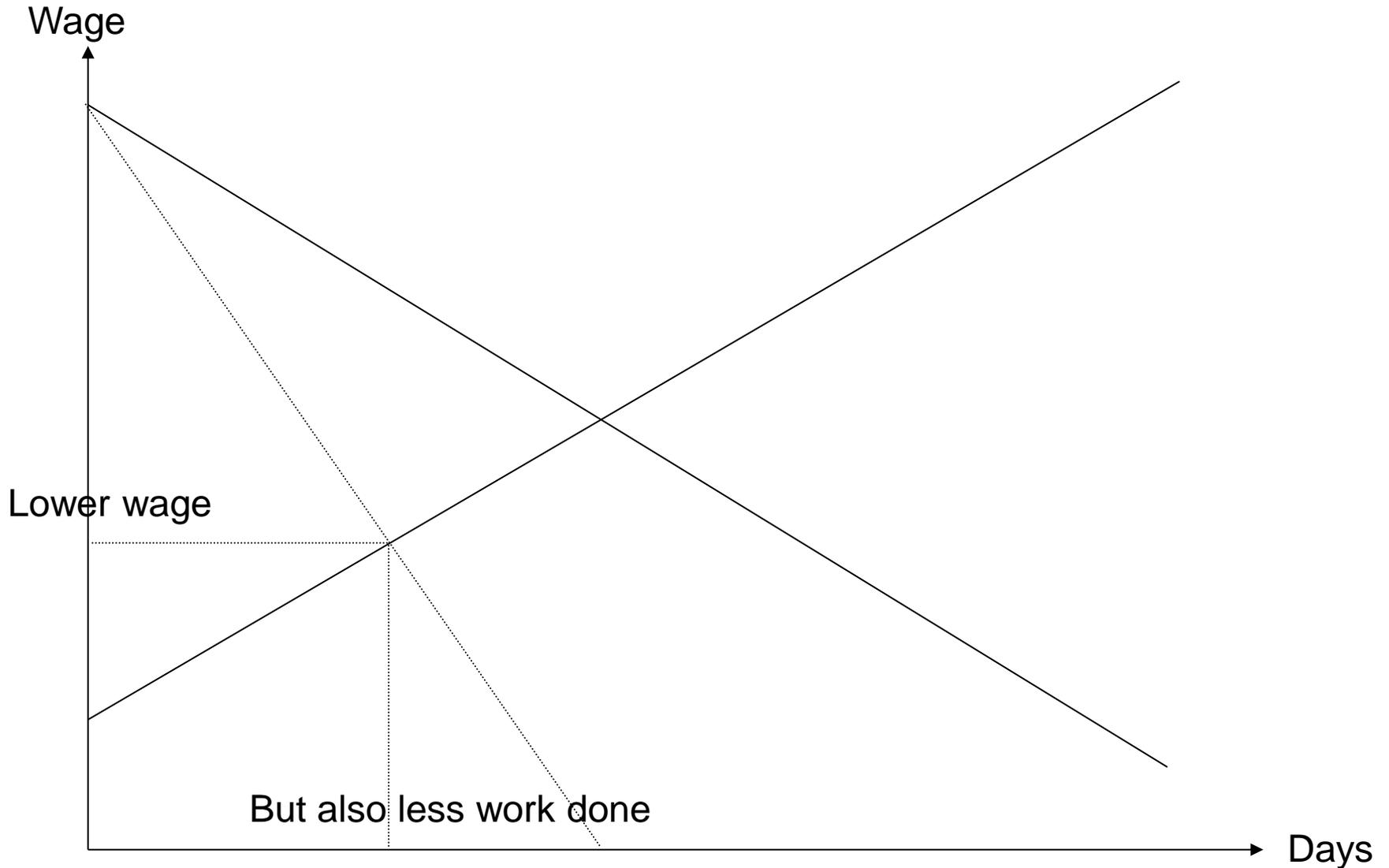
# Feudalism vs capitalism

- Landless people in terai villages have traditionally worked as farm laborers for landlords
- Landlords now have less land and laborers have better opportunities outside agriculture
- We shall expect a switch from feudal attached/bonded labor contracts to competitive labor markets
- What does economic theory and data tell us?

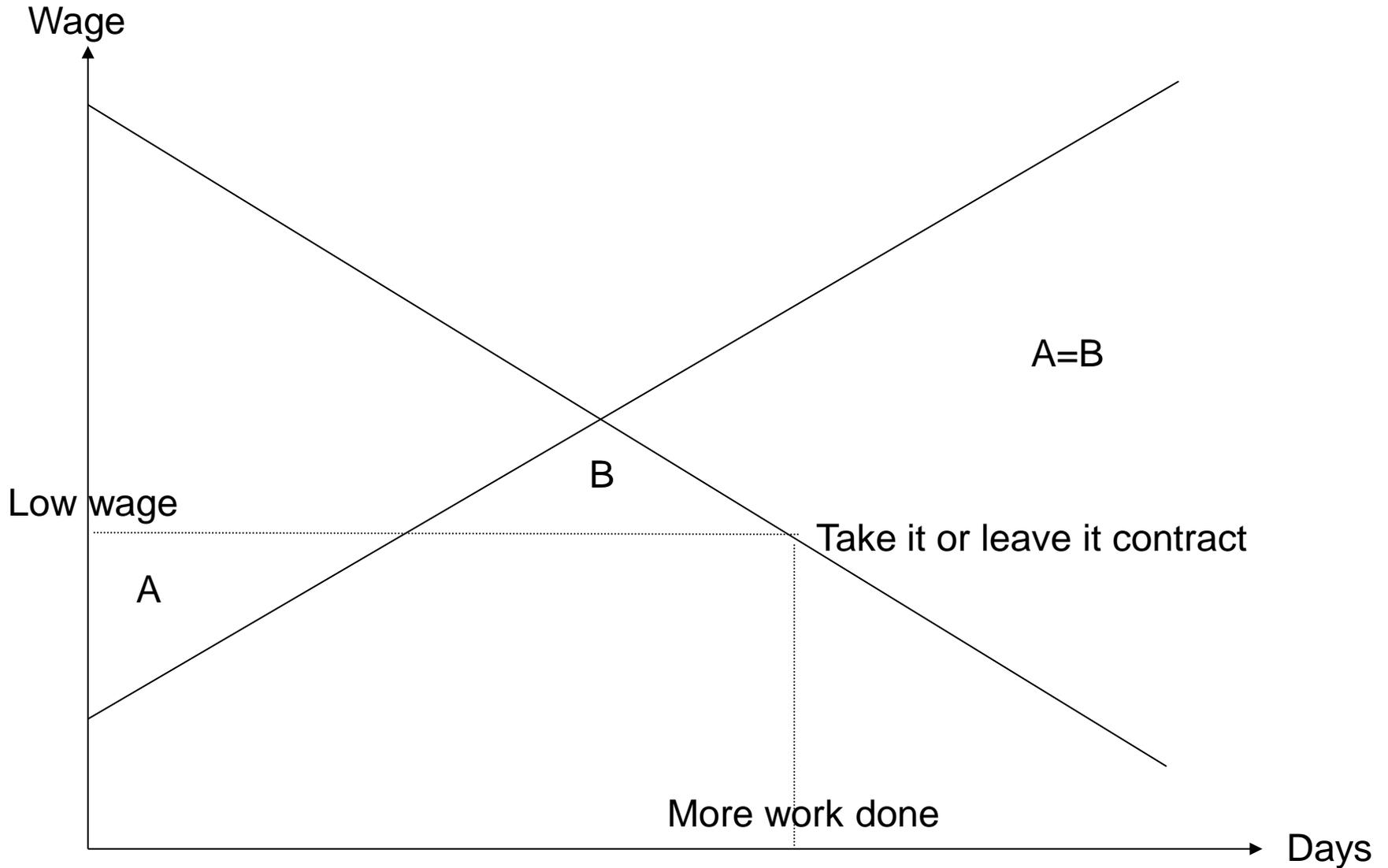
# Competitive village labor market



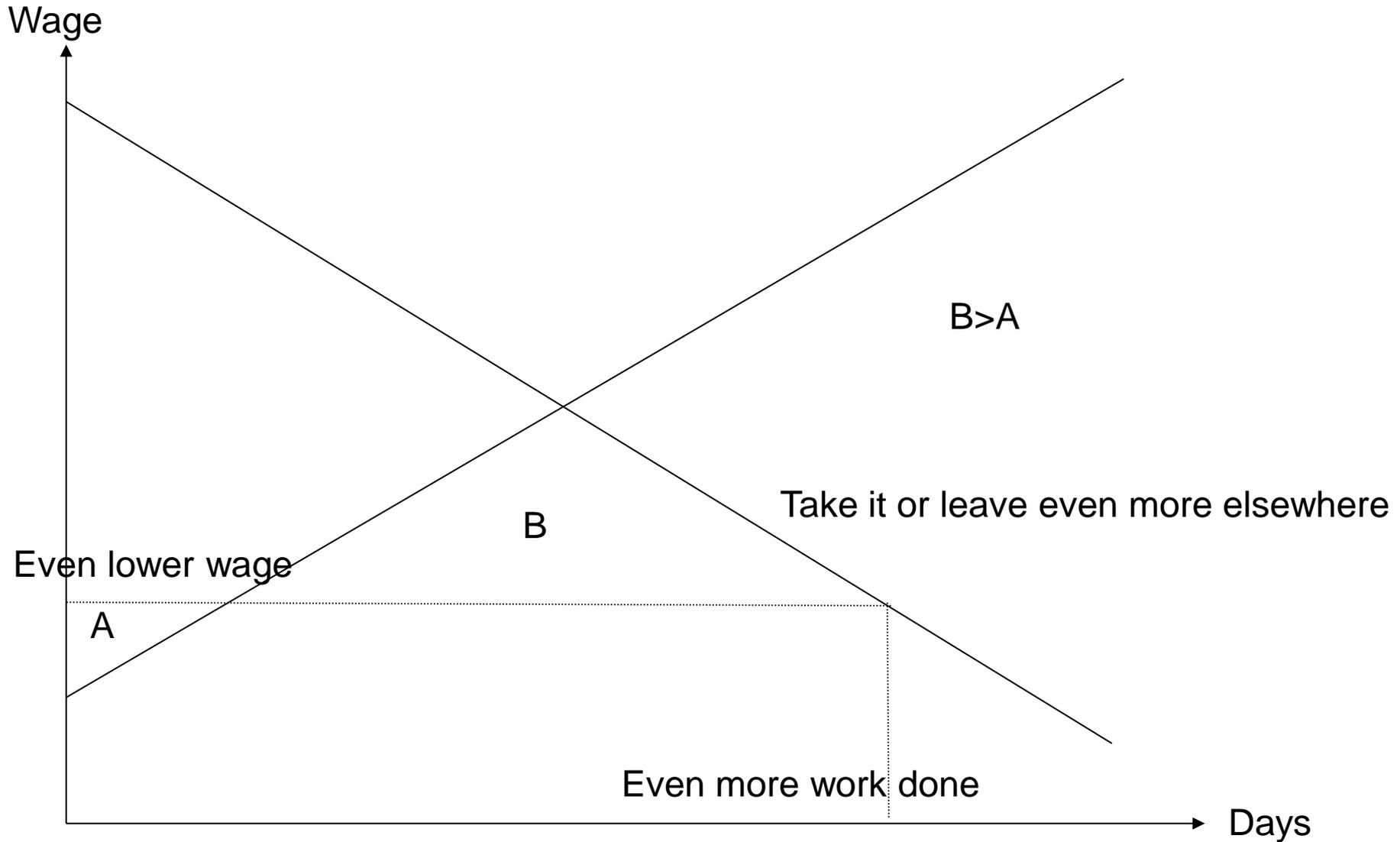
# Monopsony village labor market



# Feudal labor market



# Exploitative labor market



# Why exploitation?

- Why does a laborer accept the loss of  $B > A$ ?
  - He may receive other benefits
    - Access to loans and money in times of need
    - Access to grassing land, houseplot, drinking water
  - He may be forced to accept
    - Due to loans
    - Threat of losing houseplot
  - As we can see there is no clear distinction between force and benefits
  - What perspective is correct?

# Factors that influence the degree of exploitation

- Bargaining power of laborers
  - Organization of laborers
  - Pure force (Maoist, labor unions etc)
  - The threat of permanent shift to another occupation/workplace (temporary migration already included in the supply curve)
- Number of landlords and their bargaining power
  - Land size of each landlord
  - The landlord's control over other powerful people

# Empirical investigation

- Hatlebakk (2011), JDS
- Data: NLSS-1995
- Agrarian daily wages (including in-kind)
- Indicators of landlords' bargaining power
  - Exploitative model:
    - Workers living near the landlord (in the village market area) are under the landlord's control
    - This control will be stronger the fewer are the landlords
  - Monopsony (oligopsony):
    - The number of landlords (only) matters

# Findings

- The feudal model had support in the terai
  - Workers earn less if they live in the market area
  - Workers at the outskirts of the village earn more
  - Latter effect is stronger in villages with more landlords
  - Landless workers earn the same as landed, maybe because most workers are landless
  - Terai Dalits and Janajatis seem to earn less
- The oligopsony model had support in the hills
  - Wage is lower in villages with few landlords
  - Wages are higher than in terai

# Developments after 1995

- Indications of decline in feudal contracts
  - We shall expect agricultural wages to increase
  - And become more equal between regions
  - And become more equal to non-farm wages
- Data seems to support these hypotheses
  - Methodological issue:
    - The prices used by NLSS for 2010 seem to be too high, so I use rice-prices only

# Wages

	Agri-wage			Non-agri-wage		
	1995	1995	2010	1995	1995	2010
	Nominal	Real		Nominal	Real	
Terai-eastern	35	88	165	67	168	220
Terai-western	41	103	167	58	146	231

- In 1995 the agri wage in eastern terai (where we have many landless farmworkers) was half of the non-farm wage
- In 2010 the agri wage in eastern terai has doubled and is closer to the non-farm wage

# More details

- In 1995 the most common wage was 30 rupees
- Adjusted for higher rice prices this will be a wage of 75 rupees in 2010
- In 2010 the most common was 150 rupees
- And very few had a wage below 75 rupees
- In sum it appears that feudal labor contracts have disappeared most places
- But more systematic analysis is needed
- There may still be villages or individuals that have attached labor contracts (haliya, haruwa, kamlari)

# Why decline in feudal contracts?

- Labor migration seems to be the main explanation
- This leads to lack of labor at home
- And demand for labor, in particular in construction
- Lack of labor and more demand imply an improved bargaining position for the workers
- The result seems to be a competitive labor market where workers earn almost the same everywhere (150 rupees in 2010)

# Implications

- No more feudal contracts, and the improvements in the competitive labor market explain the decline in poverty
- From 42% in 1995 to 25% in 2010
- A household with two regular unskilled wage-earners will normally cross the poverty line
- Households with many children will tend to be below the poverty line
- The same may be the case for marginal farmers in the hills without non-farm incomes

# Implications for research

- Will more systematic analysis lead to the same conclusion of decline in feudal contracts?
- Are there still pockets of feudal power left?
  - Remote terai villages?
  - Particular castes/ethnic groups?
- Will a reversal happen if labor migration declines?
  - Maybe returning migrants will become the new landlords?
- Similar development elsewhere in South-Asia?
- Developments in other markets (credit, land)

# The informal credit market

- There is evidence of declining feudal power also in moneylending
  - In 1995 it was common in terai to charge 5% interest per month
  - In 2010 the normal rate in this high-paying segment is down to 3% per month most places
- This development has implications for how we judge competing theories of the credit market

# Explaining the credit market

- Oligopoly pricing (Hatilebakk, 2009, RDE)
  - Interest rates vary between segments with consumption loans among Madhesi Dalits having the highest rates
  - Moneylenders collude on high rates, and this is made easier by limited funds available for lending
- Cost pricing
  - Interest rates are high due to defaulting borrowers and high costs of identifying non-defaulters
  - I find no support for cost pricing
    - Limited default
    - No effect of collateral and loan size

# How can we explain the decline in interest rates?

- Decline in the costs of identifying non-defaulters?
  - Probably not as people migrate more and work outside the village, so local moneylenders are probably less informed now
- Decline in defaults?
  - Default on a 60% loan normally meant that they paid less or paid in terms of labor
  - So a 36% rate today may be similar to a 60% rate
  - But fewer people will get into a poverty trap in terms of payments in labor
  - But de-facto defaults have always been few

# Interest rates in oligopoly

- The high priced segment of consumption loans have disappeared due to higher incomes among in particular Madhesi Dalits
- There are more funds available for lending
  - Micro-credit
  - Economic growth
  - Remittances

# Further research on credit

- Analysis of the informal credit market is essential to understand the effect of micro-credit
  - If there are default and information costs, then increased access to micro credit may imply that more risky borrowers get loans
  - If oligopoly then more micro credit means a decline in informal interest rates
  - And it is essential to target poor people with consumption loans, rather than production loans
- We need studies of default

# General conclusions

- Feudal agrarian relations seem to have been replaced by capitalist market relations
- The poor has benefitted both from income possibilities outside agriculture and from more capitalistic agrarian relations
- But wages are still low in Nepal
- I believe poverty will still decline, but basically because of continued labor migration
- Improved physical (electricity, roads) and social (subsidized hospitals) infrastructure will help