AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

DALE W. ADAMS*

THE ECONOMICS OF LAND REFORM

For a number of years I have followed with interest Dr. Warriner's writings on the topics of rural poverty and land reform (*25*; *26*; *27*; *28*; *29*). Her historical as well as multi-country perspective allows her an overview of these matters which few can match. She has consistently directed our attention toward the rural poor and recognized their skills and willingness to change if profitable alternatives were made available. She has stressed income distribution in developmental planning, and has insisted that the term "land reform" be used in a narrow sense to mean a change in property ownership in favor of the poor. She has rightly pointed out that land reform is no cure-all, but that it may, in some cases, be the only alternative available for making significant inroads on rural poverty. Few in the development profession can match her dedication to these issues.

My comments will be largely supplemental to the points made in her paper. I attempt to do two things: (1) state what I think is the state-of-the-art regarding five major economic issues related to land reform, and (2) briefly review the role which economists and aid agencies have played, and the part they will likely play in land reform during the next couple of decades.

FIVE ECONOMIC ISSUES

Production and Land Reform

The relationship between land reform and short-term production has received a good deal of attention. Several approaches have been used by economists to address this question. Warriner and others have emphasized country reviews (e.g., *4*; *5*; *7*; *10*; *11*; *21*; *29*). A similar approach was used by the Agency for International Development (AID) in its 1970 *Spring Review of Land Reform* programs covering approximately 30 countries (*24*). Additional studies have been aimed at determining land reform's impact on production at the project level (e.g., *2*; *17*; *23*). Still other economists have mainly stressed economic logic plus some empirical information to deduce the production effects of land reform (*6*; *8*).

Aside from the Iraq case, the country reviews support the conclusion that land reform has a neutral to positive impact on production. Project-level studies appear to verify the same conclusion. Exercising economic theory, Steven Cheung,

* Professor of Agricultural Economics, The Ohio State University.

on the other hand, argues that land reform carried out among share-tenants will have a neutral impact on production (*6*). He concludes that highly competitive land-leasing markets, at least in Asia, have eliminated most inefficiencies in farm-level input use. It is unclear, however, if land-leasing markets in Africa, Latin America, and the Middle East meet the same competitive standard. To the extent they do, his conclusions also would lead one to expect little increase in output among share-tenants who become owner-operators. W. P. Cline comes to a different conclusion in his analysis of Brazil (*8*). He argues that land reform which includes breaking up of large landholdings will significantly increase ouput. He bases his argument mainly on the elimination of (1) labor-market dualisms, (2) the holding of land as a store-of-value, (3) land-market imperfections, and (4) monopsony powers in the rural labor markets. Following E. J. Long's earlier findings, he also concludes that the economies-of-scale argument against land reform has little merit (*18*).

In many respects the 1970 AID *Spring Review of Land Reform* gave the benediction to the "land reform decreases production" issue. The consenus of that *Review* agreed with Warriner's general conclusion: almost never does land reform decrease production, occasionally it has a neutral effect, most often it has a positive impact.

Capital Formation and Land Reform

Less conclusive evidence is available on how land reform relates to changes in rural productive capacity. Said another way, does land reform affect rural capital formation and the ability to increase long-term output?

Some information on this point can be gleaned from the studies already mentioned. But, to the best of my knowledge, Raup's article is one of the few studies specifically aimed at this question (*20*). Drawing upon fragmentary country studies and economic logic, he concludes that land reform will have a positive impact on farm-level as well as nonfarm rural capital formation. I have the same impression after visiting rural areas affected by land reform in Japan, Taiwan, Colombia, Venezuela, Ecuador, and Brazil. I have seen no evidence which indicates that incentives to create additional rural productive capacity were stifled by land reform; participants are willing to, and in fact are investing in capital if returns are attractive. Small farmers' investments in power tillers in Taiwan and Japan, low-lift pumps in Vietnam, tubewells in the Punjab of India, and land clearing in Southern Brazil and Ecuador are further evidence on this point.

In their papers for this conference, Cline and S. R. Lewis both raise an important collateral question (*9*; *16*): Do participants in land reform have lower marginal propensities to save than the original landowners, and would parcelization therefore decrease aggregate savings? Research which we at the Ohio State University have underway in Southern Brazil, in the Indian Punjab, and in Taiwan, is leading us to a different conclusion. Average and marginal propensities to save among Taiwanese farmers, many of whom were beneficiaries of land reform, were remarkably high (19). Where some growth in real income is occurring, and where profitable alternatives to consumption are present, small-farm operators are willing to defer consumption. They must, however, have profitable on-farm investment opportunities, have access to credit in order to

finance part of these investments, and be provided with positive real interest rates on institutional savings. In many cases there are no profitable investments open to the small farmer; he is denied access to bank credit, and he is offered zero or negative real rates of interest on financial savings. Most of us would choose to consume additional output if faced with similar alternatives. Land reform will not transform the rural capital base overnight. Some evidence is available to suggest, nevertheless, that it along with other appropriate policies can help accelerate the accretionary capital formation process.

Income Redistribution, Effective Demand, and Land Reform

Warriner and Cline both assign land reform a role in creating a broadly based demand for the products of society. W. C. Thiesenhusen has also argued this point (*22*). He suggests that most of the industrial base in Latin America is underutilized because of the lack of internal effective demand. In Colombia only about 40 to 50 percent of the industrial productive capacity is currently utilized. Unless peasants and landless workers have access to additional income they cannot buy toothbrushes, aspirin, shoes, and shovels. I am always impressed after periodically visiting rural areas of Taiwan and Japan how rapidly mass consumer markets have extended into areas where land reform has been carried out. The presence in rural Taiwan of radios, sewing machines, television sets, bicycles, power tillers, and motorbikes has mushroomed over the 13 years I have known the country. Peasant consumer purchases in Northeast Brazil, Guatemala, El Salvador, and Colombia, on the other hand, are static. How much of this difference is due to the status of landownership distribution has not been quantified. Further research on this issue might provide some additional arguments for adjusting the way social income is distributed.

Employment and Land Reform

Surprisingly few studies have been done on the employment effects of land reform. Warriner, T. H. Lee (*15*), and a few other authors have hinted that employment increases somewhat with land reform. Aside from a few secondary employment effects due to more income being spent in rural areas, there is probably little employment impact, as Cheung points out, from switching tenants to landowners. Settling landless workers on underutilized land in places like Northeast Brazil, the north coast of Colombia, and the highlands of Guatemala will, however, likely have a strong positive impact on rural employment.

One parcelization project which I studied in the tobacco region of Colombia indicated that employment can be substantially increased through land reform (*2*). The project only included 1,500 acres, but over 850 people were making a very satisfactory living from the land six years after parcelization. This was up sharply from about 70 people who lived there prior to division. A similar-sized traditional hacienda with some cattle and tobacco share-croppers located nearby, but with much better land, provided a living for only 230 people.

We clearly need more research on the employment coefficients of land-reform expenditures. How do they compare with those for additional credit, expenditures on new technology, and irrigation investments? Can land reform be useful in helping to retard and modify the rural-to-urban migration flood? Will it create

an environment within which individuals can be more highly capitalized before moving into the cities?

Structure, Technology, and Land Reform

Ruttan and Hayami have made a frontal attack on the structuralists, institutionalists, and land reformists (*13*). In their recent book they argue that new technology creates a new economic environment which in turn induces almost automatic adjustments in the structure of the economy. A Gotsch, Beckford, Flores, Thiesenhusen, Jacoby, Dorner, Carroll, or Barraclough, on the other hand, would argue that in many cases structure must be changed before satisfactory development can occur. Warriner appears to take an intermediate position. She sees a mutual relationship among technology, development, and structure.

I would hypothesize that all three positions are correct. Ruttan and Hayami have mainly focused on those countries which have had a reasonably equitable distribution of access to land (e.g., Japan, Taiwan, and the United States). Or, to use the terminology of Peter Kilby and B. F. Johnston (*14*), they have focused on relatively unimodal societies. Moreover, their time frame of analysis is quite extended. The structuralists, on the other hand, base their arguments on experience in bimodal societies which have had highly concentrated landownership patterns (e.g., Peru, West Pakistan, Chile, Mexico, Brazil, Ethiopia, Colombia, and Guatemala). Their analyses have much shorter time frames. Warriner has mainly focused on countries going through structural transformation and her time frame is intermediate in length.

I suggest, therefore, that the conclusions of Ruttan and Hayami are probably not valid for countries where structure is a serious problem. Introducing highly profitable new technology into areas like the Northeast of Brazil where 120 families own almost all of the high-quality land will do relatively little to ease the poverty and employment problems which exist among the millions of landless. The best of all worlds would be to couple technological change to land reform. We need a good deal more research on the linkages between technology and structure, especially in countries where landownership concentration is severe.

THE ROLE OF ECONOMISTS AND AID AGENCIES IN LAND REFORM

Dr. Warriner has rightly argued that traditional economic considerations are not of primary importance in land reform decisions. I heartily concur. It really does not matter much if the production effects are shown to be neutral or slightly positive, whether or not land reform stimulates capital formation, if effective demand and employment are increased or decreased by parcelization, or whether it can be shown that tenure systems decay over the decades when submerged in a changing economic environment. Edmundo Flores is correct: land reform is principally social and political surgery. It is a value-laden policy issue, the likes of which only political economists of Ricardo's and Marx's breadth of interest were prepared to wrestle with. Marshallian economists are poorly equipped to treat questions of who *ought* to own land, and who *ought* to be allowed to claim the economic rent from land. Our professional impotency on

these topics has forced economists into a largely defensive role in the wings of the land reform stage. I see no reason why this role will change during the 1970s unless at least some reincarnated political economists appear on the scene.

I am almost as pessimistic with regard to what aid establishments such as the Food and Agriculture Organization, the International Bank for Reconstruction and Development, International Development Bank, and United States agencies such as AID will do in land reform in the next couple of decades. Aside from a few FAO technicians interested in land reform and a few million dollars of miscellaneous assistance to land reform activities in Latin America, aid agencies have been unable and/or unwilling to support land reform during the past two decades.[1] I see no reason why this will change in the future.

I feel certain that land reform will be carried out in countries like South Vietnam, in portions of the Philippines, in Nepal, in West Pakistan, in Northeast Brazil, in Colombia, in the Dominican Republic, in El Salvador, and in Guatemala independently of what economists say or do, and largely without the assistance of aid agencies. It will not be part of development strategy. The forces of nationalism, population growth, rising expectations, socialist thought, and widespread education are setting an irreversible course in these countries. There is no other alternative open to these societies which could have a similar impact on rural poverty.

Those of us like Warriner who have interests in easing rural poverty will continue to be reporters of the economic effects of land reform, and will make some after-the-fact input of economics into land reform programs. We will not be in the first string of players. With our value hang-ups we might find more professional satisfaction by helping to adjust traditional economic tools like exchange rates, pricing policy, credit, taxes, and technology to realize more equitable results from these techniques.

CITATIONS

1 D. W. Adams, "Aid Agencies and Land Reform in Latin America: A Suggested Change in Policy," *Land Economics*, Nov. 1970.

2 D. W. Adams and L. Eduardo Montero, "Land Parcelization in Agrarian Reform: A Colombian Example," *Inter-American Economic Affairs*, Winter 1965.

3 Sidney Baldwin, *Poverty and Politics: The Rise and Decline of the Farm Security Administration* (Chapel Hill, N.C., 1968).

4 G. Barbero, *Land Reform in Italy: Achievements and Perspectives* (FAO, Rome, 1961).

5 Cheung Chen, *Land Reform in Taiwan* (Taipei, 1961).

6 Steven Cheung, *The Theory of Share Tenancy* (Chicago, 1969).

7 R. J. Clark, "Land Reform and Peasant Market Participation in the North Highlands of Bolivia," *Land Economics*, May 1968.

8 W. P. Cline, *Economic Consequences of a Land Reform in Brazil* (Amsterdam, 1970).

9 ———, "Interrelationships Between Agricultural Strategy and Rural Income Distribution," *Food Res. Inst. Studies*, XII, 3, in press.

10 R. P. Dore, *Land Reform in Japan* (London, 1959).

11 Folke Dovring, "Land Reform and Productivity in Mexico," *Land Economics*, Aug. 1970.

[1] United States support of land reform in Japan and Taiwan appears to have been unique. In neither case was U.S.-owned land involved.

12 Antonio Gayoso, "Land Reform in Guatemala," in AID *Spring Review of Land Reform* (U.S. Agency for Intl. Dev.), June 1970.

13 Yujiro Hayami and V. W. Ruttan, *Agricultural Development: An International Perspective* (Baltimore, Md., 1971).

14 Peter Kilby and B. F. Johnston, "The Choice of Agricultural Strategy and the Development of Manufacturing," *Food Res. Inst. Studies*, XI, 2, 1972.

15 T. H. Lee, "Impact of Land Reform on Agricultural Development and Rural Employment in Taiwan" (Sino-American Joint Comm. for Rural Reconstr., Taipei, n.d., mimeo. paper 63-RED-M-176).

16 S. R. Lewis, Jr., "Agricultural Taxation and Intersectoral Resource Transfers," *Food Res. Inst. Studies*, XII, 2, 1973.

17 Q. W. Lindsey, "Budabari Panchayat: The Second Year After Reform," in *Land Reform in Nepal* (Nepal, Land Reform Dept., May 1966).

18 E. J. Long, "The Economic Basis of Land Reform in Underdeveloped Economies," *Land Economics*, May 1961.

19 Marcia Min-ron Lee Ong, "Changes in Farm Level Savings and Consumption in Taiwan" (unpub. Ph.D. diss., Dept. of Agr. Econ. & Rur. Sociol., Ohio State Univ., 1972).

20 P. M. Raup, "Land Reform and Agricultural Development," in *Agricultural Development and Economic Growth*, by H. M. Southworth and B. F. Johnston, eds. (Ithaca, N.Y., 1967).

21 G. S. Saab, *The Egyptian Agrarian Reform, 1952–1962* (London, 1967).

22 W. C. Thiesenhusen, "A Suggested Policy for Industrial Reinvigoration in Latin America" (unpub. paper, Land Tenure Ctr., Univ. of Wis., Sept. 1970).

23 ———, *Chile's Experiments in Agrarian Reform* (Madison, Wis., 1966).

24 U.S. Dept. of State, Agency for International Development (AID), various papers prepared for the *Spring Review of Land Reform*, June 1970.

25 Doreen Warriner, *Agrarian Reform and Community Development in the United Arab Republic* (Cairo, 1961).

26 ———, *Economics of Peasant Farming*, 2nd ed. (London, 1964).

27 ———, *Land and Poverty in the Middle East* (Royal Inst. of Intl. Affairs, London, 1948).

28 ———, *Land Reform and Development in the Middle East: A Study of Egypt, Syria, and Iraq*, 2nd. ed. (London, 1962).

29 ———, *Land Reform in Principle and Practice* (London, 1969).