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## HANS P. BINSWANGER

### *Section Summary\**

The overall impression of the sessions was the overriding impact which macroeconomic conditions and policy distortions have in influencing land, markets, prices and the agrarian structure. They are therefore discussed first.

#### *Macroeconomic variables*

For the United States since 1973, Just and Miranowski conclude that changes in macroeconomic variables (that is, the interest rate and the rate of inflation) have had a much more powerful effect on land prices than changes in the returns to agriculture. For Brazil, Brandão and Rezende reach similar conclusions on the powerful impact of changes in inflation.

#### *Returns to agriculture*

These returns are not only governed by international agricultural prices, domestic price policy and technological change but also by the exchange rate, another macroeconomic variable. The Just-Miranowski conclusion thus would imply that exchange rate changes experienced since 1973 were more important in affecting agricultural trade and income than the land price. Unlike the US paper, the Brazil paper separates the returns to agriculture into its components and finds that increases, yields, domestic prices and rents for agricultural land tend to increase land prices.

#### *Distortions*

Brandão and Rezende confirm the powerful effects which changes in the volume of highly subsidized credit have on land prices. On the other hand, Miranowski and Just are not able to show a large impact of credit rationing by banks on land prices in an environment where credit is not heavily subsidized. Binswanger and Elgin point out that distortions in the tax code which convert agriculture into a tax shelter also are capitalized into land prices. Nonagricultural income streams such as credit subsidies, tax preferences or inflationary expectations are capitalized

\*This summary largely reflects my own interpretation of the sessions.

into land prices. Since small farmers and the landless are unable to take advantage of these policies they cannot buy land even if granted credit. The reason is that, under these circumstances, agricultural profits are insufficient to pay the interest on the capital invested in land. Thus in a distorted environment land sales markets are unable to distribute land to efficient small farms, and the distortions lead to a tendency for land to accumulate in large holdings. Apart from their efficiency costs, the distortions thus have adverse consequences for the agrarian structure. Thus, to further quantify the effects of tax policy and interest rates on land prices must remain high on the policy agenda. The Just-Miranowski model should lend itself easily to these extensions.

### *Evolution of land rights and land titling*

Noronha's paper describes the evolution of African land rights systems towards greater private appropriation of land. This tendency is driven by population growth and access to external markets, which increase the return to agriculture. Colonial powers and many of the independent governments have pursued land policies intended to slow down or stop this evolution. Ideology often stands in the way of recognizing the reality that, despite what the law says, land is frequently sold, rented out and pledged. Even where governments have tried to assist the process with land titling, as in Kenya, they have imposed constraints on sellers and buyers who then prefer not to register many transactions, thus undermining the usefulness of the titling system. Elsewhere usufruct or ownership title are provided to those who seek them rather than to all, providing the more powerful, literate and well connected with means to consolidate their claims on land at the expense of poorer groups. In contrast, Feder's paper on Thailand shows how a well managed land titling programme within a free land market can be of widespread benefit. Interestingly the benefits do not appear to arise from increased security of land ownership, which appears to be highly secure in the traditional systems of Thailand and Africa. Instead it derives from the ability to gain access to the formal credit system by using land as a collateral.

### *Tenancy regulation*

The paper by Walker, Singh and Ballabh on South India shows that yields and input levels are substantially lower on the sharecropped plots of farmers than on their own plots. On the other hand, sharecropping is shown to move land from less efficient to more efficient farmers, thus compensating partly for the observed incentive losses. Other investigations and theoretical considerations summarized by Binswanger and Elgin lead to an interpretation of tenancy and sharecropping as a benign utility-enhancing system for both owners and tenants. Nevertheless, tenancy is often highly regulated, supposedly in the interest of tenants. In the Indian villages the only effect of these regulations is to shorten the length of tenancy contracts and shroud them in secrecy. In Brazil the regulations have led to the elimination of tenancy on large estates which have been

mechanized or converted to ranches. The laws have only perverse effects on the welfare of tenants and should be abolished.

### *Land consolidation*

In the South Indian villages land sales over the past 40 years have increased equality of ownership holdings with very large holdings losing ground. The number of fragments per holdings has not increased and fragmentation is not perceived as a serious problem by farmers. Benefits from consolidation would be marginal.

### *Land reform*

Binswanger and Elgin show that large landlord systems – where ownership rights could be transferred to existing tenants who had farming skills and implements – have largely disappeared. The large farms of Brazil, Guatemala and Zimbabwe would have to be distributed in conjunction with settlement programmes as they now operate with very few tenants or workers. A review of the farm size-productivity issues shows that the economic case for redistributing large ownership holdings is compelling on both efficiency and equity grounds. Despite this strong economic case the outlook for land reform is bleak, because of the large costs of compensating owners for the market value of their land. This cost is especially large where tax benefits of owning land, credit subsidies and inflationary expectations are capitalized into land values, as discussed above. Land reform can then not stimulate a land market where the poor would repay credit used to purchase the land. Taxpayers or foreign donors have to finance the reform via grants to the beneficiaries or the owners have to be expropriated explicitly or surreptitiously by providing them with land reform bonds whose real value will erode over time. Neither taxpayers, donors or owners are likely to accept these costs. Benefiting the poor in agriculture thus requires alternative means. They include the elimination of the distortions and inflation which excessively raise land prices, and the elimination of subsidies to machines. Perverse tenancy regulations should be abolished, public lands can be distributed to the poor, providing greater access to agricultural self employment opportunities. Land titles can improve access to credit and small farmer development projects can assist with technology transfer and investment.

Rapporteurs for the above sessions of the Conference were:

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Participants in the discussions included:

M. Petit, E. Tollens, T. Fenyés, Y. B. Choc, A. Brandão, W. Heinrichmeyer, C. Sere, C. van der Meer, P. Hopcroft, K. Otsuka, T. Haque, and S. Mukhopadhyay.