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ANNEXURE TO INVITED PAPERS**

LAND REFORM AND FOOD CONSUMER RISK

Wilson F¹

This is a time of change in South Africa. A major restructuring of our political economy is being called for and why is that? Well, some may think it's just because perestroika is in the air. Restructuring everybody's talking, perestroika if one must be keeping up with the time and yes, that may be part of the reason, but it does seem to me that that is more a coincidence than anything else, that it should be both in the Soviet Union, eastern Europe and in deep China itself despite Tiananmen square, there is this whole movement and I suppose that part of what lies behind it is the sense that people are refusing to be dominated and controlled. So perhaps there is some connection between perestroika in Russia and perestroika in South Africa. There is a sense that there has to be an opening out. So, that is part of the sign of our times. But I want to trace two major sources inside South Africa. First of all, there is the political pressure for change, and that political pressure arises very obviously from the fact that it is not possible in a modern industrial society to keep three quarters of the population permanently disenfranchised, excluded even from the constitution. I mean it is fact, is it not, that we have a constitution in South Africa which effectively says that three quarters of the population are not members of the economy, not members of the political economy. And that is not possible. One cannot run a modern society on that basis. But there is not just a political pressure for change although we tend to be reading in the papers only about the political pressures. There is a fundamental economic pressure for change in the society which as I see it, arises from the degree of inequality, material inequality in the society. I have been involved with about four hundred other people over the last 8 or 9 years, so the information I'm coming up with, is by no means mine, but there was a study done as part of the Carnegie inquiry into poverty, done at the University of Stellenbosch which was looking at the statistics of income distribution around the world. The figures are for 1978, so they're ten years out of date, but they still give us some idea of what is going on. And of the 57 countries in the world for which we have the information the highest Gini coefficient (which is the measure of inequality), is the South African one.

Now there are two important points to make about that. First of all, that there may be other countries that are not in that 57, for which we do not have the statistics, whose degrees of inequalities were greater and it may be that since 1978 we (South Africa) have gotten better or maybe one or two other countries like Chili got worse. It does not really matter whether we are number 1, 2 or 3: the point is we are right up

1. Director, SA Labour & Development Research Unit,
University of Cape Town

at the top when it comes to measurement of inequality. And that is extremely important for a number of reasons. It is really not viable in the long run. You cannot run a modern society with that kind of inequality. Raymond Aron, French philosopher, said that human community is impossible when there is too great a degree of inequality.

The point I am trying to make is that even if we were all the same shade of blue with pink spots in the same places, there would be a huge political problem in South Africa because of the degree of inequality.

That kind of inequality implies real poverty for those at the bottom end. And that is very inefficient in economic terms. Let us not get into sort of soft-nosed "langharige betogers". Liberalism, Vrystaters think comes from the Cape but let us simply talk about the harder economic issues. Hungry children cannot study. If you spend a lot of your resources on education and the kids are hungry, you are wasting your resources - it is an inefficient investment. Secondly, hungry adults cannot be fully productive. If you have hired a man and have trained him well (or a woman and have trained her well) and if he or she is occupying an important position in the industry, if that person is hungry, well that person can keep going at 11 o'clock or so, maybe until midday, but after that the person's stamina fades right away. It is again highly inefficient. So that purely as an investment if you like, one cannot have a hungry population, or part of the population hungry. The third element of inefficiency is that, when there is a large number of people in a society very poor, then there is a structure of demand where society will not produce the goods and services needed. Perhaps masses of bicycles in the society are needed for people to get work, but if they are too poor to buy the bicycle, well they're stuck and it also means no employment in bicycle manufacturing. I do not wish to labour this point, it is obvious. What I am saying is simply that at a macro level, the demand is created by the consumers and if the consumers have no money, there is no demand, if nothing is going to be produced, then there are not going to be any jobs. So the inequality of a society which means that a large portion of the population are not able to demand even the basic needs which they require, means that those basic needs are not going to be produced and we are going to have a very lopsided production process in the society.

If we can tie together, the politics and the economics, there is a revolution of rising expectations in the society. I think we have underestimated the demonstration effect of TV. For the last 10 to 15 years we have seen beaming into many, many homes of people who are poor but who managed to get hold of a TV (or at least to see one), the advertising pictures of the affluent society which, assuming that they have got access to that society consider the "disfunction", between the TV with them every night in their homes and the reality of the poverty they endure. This tension creates the political and the economic

frustration which seems to be part of what is underlined, the problems in our society at the moment.

And political instability itself prevents economic growth. If we are to get economic growth that we need in the society, there has to be political stability. Because when there is political instability the investors will not invest. Forget about the foreign investors, we talk about local investors. They won't invest either. So there has to be that stability. Now, arising from this, the pressure for change in South Africa, I want to focus this morning on the land question.

I focus on the land question, first of all because of the fundamental inequality of ownership in South Africa. We have to face these facts because of conquest. Conquest in which my people were intimately involved (we "Engelssprekendes" are just as bad as everybody else). We have a situation culminating, after nearly three hundred years of conquest, in the Land Act of 1913 (with subsequent legislation of 1936), aside 13,7% of the land for 74% of the population and the other 76% of the land including the minerals and most of the wealthy farm land on top of it, is still in the hands of 15%-16% of the population. Now that is a fundamental inequality of ownership in this society, which is a basic political economic fact that we must not ignore.

Secondly, that this land question is a measure of the process of impoverishment for many black South Africans. You need only to read Sol Plaatje's harrowing account of travelling through the Free State in the winter of 1913 and watching the Land Act actively dispossesses black South Africans from their lands or from where they were to work on the lands with their cattle, with their horses and so on and to see the process of impoverishment that took place.

Thirdly, it is a symbol of oppression in the society, a symbol of conquest if you like, of chessboard politics, of resettlement. The Magopa villagers in the Western Transvaal where people had bought a farm before the 1913 Land Act, were actively pushed off that farm before my own eyes, I saw it, in the early 1980's. And I think if we are concerned about political stability in this country, we cannot ignore, much as we could wish we could, the land question. It is right at the center.

We also see that in South Africa more and more land is getting into fewer and fewer hands. In the farms of the western Transvaal, (and I am using Mike de Klerk's figures), between 1968 and 1981 the average farm increased about 75% in area, from 660 ha to over 1 100 ha. And in Hanover "skaap" country down there in the Cape, between 1963 and 1983 (according to Archer and Meyer) land increased in area - an average farm increased by 50% - more than 50%: 53% from 4 600 to 7 000 ha. So the land is getting into fewer and fewer hands.

Given the background that I started with, there are huge pressures for land reform building up in South Africa. What then is the responses to these pressures? Now I oversimplify greatly but for white South Africans/land owners (if I can put us together in brackets), there is a great sense of unease, fear of agricultural breakdown, fear for loss of land, of food insecurity. For black South Africans, on the other hand, (all those without land, by and large for those who have got some land, but not very much, within the homelands/reserves/Black National States), the pressure for change conveys a sense of hope. Not a sense of unease, but rather the first rays of dawn. There is a possibility of the restitution of historic rights. The end of poverty.

There are two quite different perceptions in this country now about the pressures that are building up in the area of land reform. What contribution can an economist make in this historic context? Are the hopes realistic? Are the fears justified? Is the creative transformation of agriculture possible. If so, how? I want to start with the questions for black South Africans. The sense of hope. Yes, the time has come to end the racist allocation of land in South Africa. The days of the 1913 Land Act, the 1936 Act are numbered, but like the Pass Laws they will not go without pressure. So those, at one level, are the first rays of dawn.

What about the restoration of historic rights? Let us pause for one moment to think about land rights, because in our history land was a right in the sense that there was enough land for everybody to have some. The old tribal societies, and you can define a tribal society, if you like, as that community of people that has access to and has rights to a particular block of land. Now in those days, when you did not have population pressure on the land, land could be a right: it was effectively a free good. But today one cannot see it as a right in that sense. So, I would say land is a right, or should be a right, in the sense of everybody having the right to purchase it. But it cannot be a right in the sense of everybody having the right to free ownership of a Free State Farm. That cannot be. And one of the functions of economists is to point out that resources are scarce, that they have to be allocated; that choices have to be made. Land is a scarce commodity, so a mechanism of allocation is required. I would argue, together with probably most people in this room, that the market is better than any other alternative way of allocating that scarce resource. Better than rationing, better than political patronage, better than corruption, better than anything else we can think of. So clearly, when we come to the allocation of land, we will be trying to find a way of the market operating. Will the re-allocation of land in the society mean the end of poverty? I would argue that it is a necessary condition, it is part of the condition of ending poverty in the society, but it is not a sufficient condition. In other words, you can end the 1913 Land Act, you can redistribute the land, but that will not necessarily imply that

poverty will be ended. However it is a condition that we have to ensure in order to make it possible.

What about the second set of questions, those that whites are asking? The loss of assets, will this whole process of land reform mean a loss of white assets? Not necessarily. We look at Zimbabwe where there has been some redistribution on a willing-buyer, willing-seller process. There can be and maybe there will have to be (but this is part of the political debate still to come), the expropriation of absentee landlords, whereby they are compelled to sell their lands. To sell it, not to give it back. There may have to be, a restriction on individual ownership; so that one cannot own an entire magisterial district. The sheer amount of land that can be owned by one individual may have to be curtailed. That all seems to be up for debate. It doesn't seem to me however, that it necessarily implies a huge loss of assets for those who have land. There can be a whole process here of enabling a redistribution without those who really want to use that land losing it if the experience of farmers in Zimbabwe is anything to go by.

What about the fear that Whites have of agriculture breakdown? We have to recognise and face squarely that breakdown is possible. But only if proper preparation is not made. It seems to me that when one sees breakdown in times of political transition, it is very often because those who could see the signs coming, refuse to see those signs, refuse to do anything about it, refuse to prepare, refuse to train and so the breakdown comes. Thus we have to ask ourselves who is responsible if there should be a breakdown? Those who suddenly find themselves faced with decisions for which there has been no training, no structured creative anticipation. Or those who failed to organize the training? How do we even now prepare for that change so that things bend but do not break? We must not refuse to see; we must not refuse to prepare; we must not refuse to train as happened in Mozambique and happened in Angola.

The third question is the food insecurity question. Does the process of land reform mean food insecurity? We have to break this question down into two parts. A macro part and a micro part. The macro part is where we imagine South Africa moving from becoming a food exporter (as we are currently one of the few in the world) to becoming absolutely dependent, like Lesotho, on imports from an outside world that we do not control. That is one form of food insecurity - the macro one. But there is also a micro food insecurity which is that of individual households which do not have enough food and do not know where they are going to get enough food. That is not something we have to fear in the future, that is a present reality. There is no food security even now for hundreds of thousands of South Africans. In the report of the Carnegie inquiry we have evidence of this from all around the country. There is not time to go into this today, but we need to be

aware simply of the degree of insecurity, with regard to basic food, facing hundreds of thousands of South African households. For example, in the early 1980's it was estimated that there was under the age of 15, a hundred and thirty six thousand children who weighed less than 65% of the expected weight for age and so in grave danger of infection and death. That excluded those inside the homelands where more than 50% of black South Africans live and where there is greater poverty. So we can confidently say that there are several hundred thousands black South African children who are seriously at risk of infection and death because they do not have enough to eat. And it is not only youngsters, we also have evidence around the country of old people particularly those at pensionable age, scraping their empty pots trying to claw food out of empty pots. That is part of the food insecurity of present South Africa, not the fear of the future.

So, our third set of questions is: Is a creative transformation of agriculture possible? And if so, how? One must reply that it is possible, it is not inevitable, but it is possible. There is, as Clem Sunter was arguing this morning so eloquently a high road and a low road and we have to choose. So what can be done? At the macro level, it seems to me that we have first of all to accept the possibility, indeed the necessity, of reform. We need to look at places like Japan, Korea, Zimbabwe and to see how they organize their land reform. We need to re-examine the interaction between the private and the public sector. Surely the State has to step in, in order to find a way of breaking up some big estates, perhaps buying them up or whatever it may be, to then make the land available for small farmers to be able to settle that land. And then to help them to do so. And we are not arguing here for an ending of the market system at all. We are argueing for a more efficient market process. One cannot expect - but this is a controversial point - to use the State, or rather the barrel of the gun, for 300 years to ensure that all the land ends up in white hands, and then at the end of that process argue that the market alone is enough to redistribute. We have to be asking about the kind of structures we are going to set up in order to recreate a fair market. Jeffrey Sacks, one of the brightest young American economists currently advising governments in Latin America and Eastern Europe, says that one cannot underestimate the importance of land reform in Korea, Taiwan and Japan, after the second world war in creating political stability; thus making it possible for rapid economic growth to follow. In other words, land reform in itself is a prerequisite for the kind of political stability we need for the kind of economic growth that Clem Sunter was talking about this morning.

So we have to accept the possibility of change. We have to do research into the economic potential for change. Which areas could be resettled? What sizes of farms could we have? Peter Moll has been doing research in Oxford into the economies of scale with regard to maize and wheat farming and the evidence

seems to suggest that the farms could actually be one quarter of their present sizes and still operate efficiently. Now what we need to do, is a great deal more research into the whole economics of scale in agriculture; alternative means of marketing; of credit; of extension services; that will enable us to have more people settled on the land, because that is really needed in South Africa: more jobs and more people owning land. We have to find ways of ensuring that in an economic way. Yet it is staggering, how little serious thinking or research we economists have done about these matters in South Africa. We need to explore other parts of the world wherever it may be, Zimbabwe, the far East, to see what has been done there; to pick up ideas. Not only for the micro chip technology, important though that is, but for the structures of agriculture. What can we learn from other parts of the world? We have to train our farmers, our potential farmers. What black South Africans have had any training in agriculture in the last 200 or 300 years? Not many. And yet, farming is a highly professional, very complicated, difficult task. We have to get our act together with regard to that.

We need to be thinking about what sort of extension services are appropriate for small farmers. The kind of experiments that have been going on in the Natal on the small-scale sugar farms. How do we do more of that through the whole country? We have to be thinking about credit, credit to enable people to buy land, credit to enable people to buy seed and fertilizer. What kinds of organizations will be of real assistance to small farmers? One of the most interesting things about the process of transformation in Zimbabwe is how the new government was able to help their small-scale peasant farmers on the tribal trust land that was reformed to become effective and efficient market farmers in a very short space of time. So that in Zimbabwe where before independence virtually all the maize was produced by the large white farmers, now it is much less than that, because there has been a vast increase in production by the small-scale farmers as Zimbabwe managed to get extension services at the right place and the right time to get it going. We have to look at possibilities within our own homelands or reserves. One point I would just throw out as an idea is one that Norman Reynolds has been floating for ten years or more. He is doing a lot of work in Zimbabwe now with what are called village communal land companies under this arrangement. Everybody gets an equal portion of shares of the land and the land is held in common. Thus suppose there is enough land to graze one hundred cattle and ten adults with claims to that land. Then one could issue ten grazing shares to each person and they could then buy and trade those shares which gives them rights to grazing and so one ensures a market process for the running of that land, but without turning it into private ownership. From the experiments that are going on in Zimbabwe this seems to be a much more creative action certainly as far as the old "tribal trust land" is concerned.

Whether it is the best option for the Free State farms, we need to explore, but we have not really begun to ask the question let alone to answer it. There needs also, in my view, to be a special focus on the urban periphery that is the agricultural land that lies around the major metropolitan areas. Because the evidence that seems to be coming from Latin America and elsewhere is that it's there above all that a tremendous amount of job creation can be done with very small patches of land and people growing vegetables, pink carnations or something else that they can sell. And yet, most of these areas are simply locked up as far as black South Africans are concerned. They cannot get anywhere near them and we need to be asking how can we use those urban peripherics in a way that enables people to produce, enables them to create jobs. We also have to do research on getting prices right. Because if the prices of food are held low because there is more power in the urban areas and urban people exert political pressure to keep prices down then there will not be the production. One of the things the Zimbabweans did was to get their maize price right in paying the farmers, the small farmers, to produce their maize. All of this of course needs comparative research and putting together ideas from around the world.

What about at a micro level? Families above all need jobs and need income and then the food will come right. Families can be trusted to look after their own interests in that regard. But until that is the case, until every family has a job, until every family has adequate income, something has to be done about the fact that they are not getting the food that they need and I would ask you, if we need to look at a food stamp program for South Africa. For those who are destitute and needy this is a good way of investing in people, so that they can then begin to become independant agents. Hopefully that food stamp program will in due course pay for itself as the society become wealthier. Whether that will actually happen, is not certain because the United States has a mammoth food stamp program, also because of a failure of their market, and there are still many poor and destitute people in the United States. But this is a whole area which I cannot develop this morning but I would argue is part of the whole process of land reform and food security in South Africa.

To conclude: the debate is not primarily about capitalism or socialism. What we are looking for is a pragmatic, eclectic, way through thinking out ideas from around the world, realistically stating the changes that have to come and then watching for them so that there may be a better life for all South Africans.

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