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Land Reform Issues in Development

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Land Reform Issues in Development*

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The distribution of rights in land relates to the distribution of power, income, social status and incentives. A land reform that changes this distribution is by definition a change that shakes the roots and not the branches of a society. It is a fundamental step, it is not taken very often, but it is the moment of truth in land policy. This is particularly true in developing agrarian societies.

The term land reform is more apt to confuse than to clarify unless we examine briefly the different circumstances in which it is used and the connotations that it has to different people. If a man says to you, "we have had a land reform", you must ask: Did you bring about an improvement in income distribution, did you improve the social status of rural people, did you change the political power structure, have you improved the incentives that persuade farmers to undertake hard and productive work? If the answer is yes, then there has been a land reform.

It is unfortunately true that many political leaders are interested in land reform without a clear understanding of its importance for agricultural development. They often want to use land reform as a tool to achieve political goals that they think are very important. In some development programs, land reform has been used to destroy land ownership aspirations.

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In other political systems, a key goal has been to use land reform to permit farmers to realize land ownership aspirations. The term land reform is used to mean many different things. We cannot praise or condemn it until we know what it was intended to accomplish.

To illustrate the complex nature of these possible goals, we can note that land reform in an agrarian society is often the only way to implement a full employment policy. This is not always a sufficient condition, but it is a necessary condition. The principal sources of non-employment or under-employment arise from defective incentive structures that are related to the land tenure system. Many rural workers cannot increase their hours of work because they have no land. Or they are seasonal workers, and work only when the crop is ripe. They may be peasant farmers who own their land but with holdings so small that even when they work long hours until the marginal productivity of their labor is reduced nearly to zero in terms of physical output, they still cannot earn a decent living. To increase the effectiveness of their work a change is needed in the entire structure of employment opportunities. The function of a land reform is to alter this incentive structure. This is a function of the distribution of rights in land, and that in turn becomes a question of rights in jobs. In an agrarian society, men and land are parts of the same bundle of resources. We cannot separate them into artificial categories called "land" and "labor". When we speak of land reform policies we are speaking in fact about employment policies and the optimum use of human skills. And in the final analysis, this is the resource from which all development must be created.

Another example of the complex nature of the goals of land reform is provided by the desire to increase agricultural productivity. But

we must ask: Productivity of what? In countries just emerging from a history of colonialism, a decline in production of the principal cash crop may be one of the proper goals of land reform. The product mix that had been in existence in the colonial era was in all probability a reflection of the demand for cash crops in the markets of the metropolitan country, or a landlord preference for cash crops that were easier to police and supervise. The product mix was often not in accordance with peasant food requirements. One result is that in a number of countries a successful land reform may result in an initial decline in the availability of food for the cities. If peasants are the majority of the working population and if increased agricultural production is an essential first step in economic development, then the peasants should be the first beneficiaries of land reform. Many people would reverse this judgement. They may say that unless the land reform leads to an increase in the production of a surplus of food for the cities, it is not a success. This may be a valid judgement, but it can also be wrong. If previous tenure relations had so depressed the level of living and diet of the farm population that the result was widespread disease and malnutrition, then a major goal of the reform should be to get more food into the bellies of the farm population. In this sense, a conventional test of the success of a land reform in increasing productivity might be wrong. It could also be wrong if the entire emphasis was placed on production for export. A successful land reform in Brazil might very well be accompanied by a decline in the production of coffee. A successful land reform in Bangladesh might properly involve a decrease in the output of jute. An initial result of the Egyptian land reform of 1952 was a decline in the area sown to cotton, and this was a proper goal.

These issues illustrate the fact that there is great confusion in the evaluation of the effects of land reform on agricultural productivity. Where food is scarce, the success of a land reform is properly measured in terms of output per hectare, whereas most of the economic tests of efficiency in agriculture are expressed in terms of output per man hour. This introduces the question of the desirable size of farms. The case studies of developing countries in the past twenty-five years yield some significant and uniform results. The evidence is conclusive that small farms are productive per hectare, although we must note that there are exceptions. Small farms are also apt to result in lower productivity per man hour of labor. Given the resource endowment of developing countries in which labor is in surplus and land is scarce, the proper goal is to increase output per hectare even if it results in decreased productivity per hour of labor. In the United States and in Western Europe, economic training stresses increased output per man hour as the top priority. As a consequence there is often a debate among technicians over just how successful land reforms have been. Many critics have judged land reforms by the criteria of developed countries, where success is measured in output per unit of input. They have missed the point that the key goal is to create opportunities for employment as long as labor is forced into idleness by defects in the land tenure structure. In this sense, the test of the success of a land reform may involve a drastic reorientation of concepts of success or failure as measured in conventional economic terms.

The effects of a land reform are also long term effects. One of the worst errors is to judge a land reform on the basis of a two-, three-, or five-year performance record. The minimum time unit of observation should probably be a farm generation, or perhaps 25 to 30 years. There should be

one complete turnover in land tenure rights through inheritance before judging the consequences. And yet we have an extensive literature offering instant evaluations of land reforms, written only a few years after the event, and purporting to condemn them or praise them on the basis of short run consequences. The time frame for the evaluation of land reform is long run.

We turn now to some more explicit economic tests by which we can judge a land reform. First is the impact on capital formation in the private sector, second is the impact on capital formation in the public sector, third is its impact on innovation and technological advance, and fourth is the impact on market size and the composition of demand. A major consequence of a land reform is that it substitutes more carrot for less stick. The stick in the past was represented by the landlord, or by government, or by the compulsion to continue export crop production to meet foreign exchange demands and avoid a balance of payments crisis. The carrot is represented by the hope of personal improvement, a better diet, and capital accumulation in the form of livestock, farm buildings and farm land holdings.

An understanding of the nature of the capital formation process in agriculture is fundamental in evaluating a land reform. The processes of agricultural capital formation that are most important are accretionary. They are seldom achieved by dramatic, one-time investments, but are the result of small, plodding steps, minute by minute and day by day. The time sequence is long and biological processes are dominant. Because time is a key variable, the processes by which the quality of capital in agriculture is improved are slow and require an incentive structure in continuous operation. Agriculture does not lend itself to shock brigade

tactics. To provide for this kind of capital formation the key step is to alter the incentives that affect decisions to invest labor time. Investing otherwise wasted labor offers the biggest potential for advance in a developing country, and especially in its agricultural sector. The principal limitation to growth is inability to invest farm labor productively over the whole year. Agriculture requires a commitment of labor to the production process that is competent to make frequent, small decisions that are crucial to the long run success of the firm. Success in capital formation is a function of the incentives that encourage the farmer to invest his own labor at critical moments when his relationship to the outcome is direct. If it succeeds it is his success. If it fails it is his failure. The tenure system that succeeds in accumulating capital in the agricultural sector is one that guarantees that these day to day decisions will be high quality. The tenure system that fails is one that injects too many interruptions in the decision making process to permit good or timely decisions.

This points up the typical defect of big plantations, big estates, or collective farms. They are characterized by routinized production decision making. The bulk of the labor force is performing repetitive tasks. Efficiency can be achieved by big firms that can reduce decision making by their workers to a minimum. But what does this do to the growth of the worker? Does it promote his education? Does it promote his intellectual curiosity? Does it improve him as a decision maker? Will his children be better managers than he was? These are the crucial questions by which we must test an incentive structure.

This illustrates the problem of capital formation in agricultural economies dominated by big farms or plantations. There is no reward to the worker for making a decision to postpone consumption. There is no direct

association between cost and benefit. The information flow that results from layers of supervision is progressively more defective as you go up the chain of command. The quality of information deteriorates in hierarchical organizations. This is a simple fact that is very significant for land tenure policy. Attempts to organize agricultural production in large scale units have repeatedly failed because of this deterioration of the information flow. The feedback loop is too long. There are too many transfer points. And the quality of information deteriorates rapidly at the transfer points. More important than quality deterioration is the lack of timeliness in response. Decisions are not made in time to be effective. This has been a key defect of large scale organizations in agriculture.

We turn now to the impact of land reform on capital formation in the public sector. The ultimate test of a land reform should not be measured in output per hectare, or in food supplied, or calories per capita. The final test should be in terms of the quality of the farm population. The big impact of defective tenure systems has been most readily seen in under-investments in schools, in low levels of literacy in the farm population, and in a general failure to develop the potentials of human beings. This reflects a general failure to invest in public capital. There are no decent schools. There are no decent roads. The total social infrastructure is deficient at the local level. And the most serious deficiency is education. These are the traditional defects that call for a land reform.

The failure to invest in public capital results from a situation in which the tax structure is so distorted and so defective that it is meaningless to talk about new taxes or better taxes in agriculture. The typical country in need of a land reform cannot enforce existing taxes in the agricultural sector. In theory, it has seemed easier to collect public revenues

by taxing export crops, or by tariffs on imports. In practice, it turns out that the best way for a developing country to raise public revenue for local development is to tax a population of many small land owners. History is quite clear on this point. The distribution of land through a land reform is defective if it is not associated with a tax reform that increases the tax burden on those who receive land. Unfortunately, many governments attempting a land reform have said to the peasants: We will give you land, and forgive you taxes. This is a contradiction in policies. The very reason for giving them land is to improve their capacity to pay taxes. This is not because the government wants to exploit them, but because the new landowners can identify the payment of taxes with benefits received. When people see that their tax money is used locally for investments in public capital, they may continue to complain about taxes but they can be persuaded to pay taxes honestly. Fiscal morality can be generated by the land tenure system. A defective land tenure system can also generate fiscal immorality. The moral structure of a people can be destroyed by making tax cheats out of everybody. If a land reform can make honest taxpayers out of people by making them willing taxpayers, then some of the value of a land reform must certainly be measured in moral terms and not alone in quantity of output.

A third test of a land reform is in terms of the leadership role played by peasant associations, and by professional seed breeding associations, livestock breeding associations, land improvement associations, and similar non-governmental supporting agencies. A basic reason for the failure of land reform in India has been the lack of a structure of peasant associations to support it. A major contribution to the success of land reforms in Taiwan and in Japan was the existence of peasant associations to

back up the government. There were non-governmental interest groups in the field to enforce the implementation of land reform policies. These organizations played key roles in promoting technological advances in agriculture. They insured that the implementation of land reform would reflect the need for variations to adapt to local conditions. In turn, they were strengthened by land reform that created an opportunity for the exercise of local initiative.

A fourth test of a land reform relates to its effect on the composition of the internal market for manufactured goods. Where rural populations dominate the labor force they also offer the greatest potential for expansion of domestic markets. One of the greatest handicaps to development in many countries is the thinness or narrowness of the internal market. If the market sector is dominated by a relatively small urban population, their demands for goods will distort the evolution of the structure of non-farm production. The solution is to expand the size of the internal market. A land reform that can make small entrepreneurs out of farm laborers offers the greatest opportunity for this expansion.

The market expansion that is needed in developing countries is not only for consumer goods, nor even for simple tools or producer goods, but also for the productive investment of capital. It is the capital market that is often most defective in a developing country. Poor countries, and poor regions in rich countries, are typically capital exporters. If their own residents have funds to invest they typically do not invest in their own underdeveloped regions. Above all things, they fear insecurity. This is especially the case with private sector investments in long run land improvement measures. The two greatest threats to land improvement are insecurity of land tenure rights, and fear of inflation.

It is in this sense that the repeated threat of a land reform that is never carried out can create the worst possible basis for increases in agricultural output:

- a) Existing landowners fear their lands may be expropriated and quit making long run investments.
- b) Tenants may be less responsive to supervision by their landlords and the quality of farming suffers.

An even more unfavorable situation can be created by the threat of land nationalization. In industry, banking or trading, a threat of nationalization may scare away foreign capital. But when the proposal is to nationalize land, it typically scares away domestic capital. With the exception of sugar, rubber and a limited number of specialty crops, foreign capital is rarely invested in agricultural land. This is especially the case with the land that produces the bulk of the domestic food supply in developing countries.

Threats to socialize or nationalize farm land thus have a heavy impact on domestic investment in food producing lands whose products enter domestic consumption. If the productivity of these lands is to be improved, it must be done with investments from the domestic private sector. The majority of developing countries cannot replace private sector farm capital investments with public sector investments, because they are too poor. Their opportunity lies in their potential for the creation of an incentive structure that will encourage this investment by their own people. Capital is made at home. In an agrarian society, it must be made on the farm. It involves land, but above all, it involves people. And so it is that the final test of a land reform lies in the quality of the people it produces.