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AGRARIAN REFORM & ECONOMIC GROWTH IN DEVELOPING COUNTRIES

PAPERS FROM A SEMINAR ON
RESEARCH PERSPECTIVES
AND PROBLEMS

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FLEXIBILITY AND SECURITY IN AGRARIAN REFORM PROGRAMS

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The reason for this paper is the widespread controversy about agrarian reforms and the apparent contradiction between arguments, each of which can seem well founded in one context or another. The general theme of the paper is that the merit of each argument hinges on the proportions and trends of change of demographic and general economic factors. The difference in relative scarcity of labor, capital, and land in different countries may indicate radically different solutions now and in the foreseeable future. The problems presented therefore cannot be given any general solutions that are valid for all countries and at all times. Rather, it should be possible to establish a general theoretical framework within which the best solutions to each concrete case can be found, provided there is enough elementary quantitative information about population, resources, infrastructure, and so forth, and about the trends of change of these factors.

In a general way, the dichotomy of objectives in the agrarian reform complex can be formulated thus: In many countries, the present agrarian structure embodies elements which act as "bottlenecks" or obstacles to development. On the other hand, it is often feared that a reform of the agrarian structure may introduce new elements which in turn may become bottlenecks, if not in the immediate, in the longer range future.

The purpose of this paper is to show that in many instances, such controversy can be resolved in no uncertain manner -- one way or the other -- by considering the quantities and trends involved, even if these are only crudely known. Needless to say, there will also be borderline cases, standing nearly halfway between the contrasting arguments.

It will also be discussed that the two main types of objectives, security (of personal rights, of invested capital, etc.) and flexibility (in the use of both material and human resources), cannot be maximized simultaneously. Only the actual situations can indicate whether it is desirable to maximize one or the other, or how a compromise may be struck.

As examples of such problems, the following points will be treated with both theoretical and empirical arguments:

1. Size of operations in the immediate and in the longer run future.
2. How radical can land redistribution be made?
3. Security of tenure -- how much is too little and how much is too much?
4. Levels of rent, interest, and taxation.
5. Pace of change.

1. Size of operations in the immediate and the longer run future

The trend toward larger farms that is evident in some of the economically most advanced countries, and the attendant scale economies, is often advanced as an argument against land redistribution programs. Recent evidence from the United States and a few other countries is then coupled with the old 19th century argument about the superiority of large-scale operations.

The latter argument forms the theoretical basis for large-scale operating agriculture in the communist countries; the doctrine about economies to scale was applied dogmatically, without asking for any concrete proof as to the degree of its applicability. In other parts of the world, empirical evidence indicates that the returns-to-scale argument is not nearly so strong as the old doctrine assumed and has limits far lower down on the scale of farm sizes than was believed in the age of the steam plow. This is especially true when farm size is defined in terms of number of men employed rather than in terms of number of acres farmed.

Apart from the actual interpretation of farm size data (and their change) in a country like the United States, two basic things must be considered before any doctrine of returns to scale is applied to underdeveloped countries:

a. For agriculture, returns to scale depend on variable proportions rather than on any inherent advantage of large scale as such. Returns to scale come about through economizing with resources which are scarce in one sense or another. Since as these tend to be expensive factors of production, more is to be gained by using them to full capacity than in the case of factors with lower opportunity value.

b. In an underdeveloped country, by definition, labor is abundant and capital is scarce. If this situation exists in an extreme degree, there may be a conflict between the interests of individual large operators and those of the community.

In the account of an individual operator, saving on the hired labor outlay may contribute to maximizing net returns to the operator, because hired labor always has a price, even if often a low one. From the viewpoint of the community at large, saving of labor would in many cases not make much sense if the labor saved remained unused. A system of small family farms is less likely to economize with labor in such a situation. The individual working for himself is more likely to take the risk that some of his labor hours may return very little or nothing at all. Since no cash expense is involved, the financial risk is not increased by maximizing labor input.

When labor is abundant and external capital is scarce (these two situations being corollaries), economizing with the latter would, on the other hand, at any rate affect only a tiny fraction of the total turnover.

The factor to economize on in such a situation is land: maximizing the gross outturn per area unit will then also maximize net benefit to the community. The farm and tenure structures to prefer in such a situation are those which lead to the largest aggregate yield per acre. Until further evidence, there would be no reason to doubt that, in very congested countries, family-scale operation on small holdings is preferable to hired labor operations.

Against this argument, based on present conditions, stands the futurity argument: if the country does develop economically at all -- as it must in order to survive its own population growth -- then factor scarcities are bound to change, capital will become less scarce, labor less abundant. The price relationships will gradually become more and more favorable to the substitution of capital for labor. A rigid family-farm structure might be an obstacle to this, while hired labor farming could more easily meet the challenge.

The validity of this reasoning is relative and in part doubtful. The dominant family-farm structure in North America and Western Europe was not altogether rigid when the pull of the urban labor markets grew strong enough to attract small-farm people. Nor did it really hinder the use of external capital, when capital became cheap enough; the latter goes also for the dwarf-sized farms of Japan.

At any rate, the degree of flexibility required in the farm structure can be gauged from demographic and general economic data. If the initial position is very unfavorable with respect to efficient use of labor, it will take a long time before agricultural labor may become scarce in any sense. When the agricultural population is a large majority in the country and multiplying at a fast rate, it will go on increasing in absolute size for some time, then stabilize and begin to decline only in a later phase, when the nonagricultural sectors have gathered more size. When the latter sectors are a small fraction of the economy, their growth, however rapid in percentage terms, cannot exercise any strong pull on the agricultural surplus population. In the case of India, for instance, examination of recent trends of growth of population and national income by sectors leads to the conclusion that the day is remote when the density of farm people on the land may lessen. A serious reduction in numbers of Indian farm population can be expected only in the next century. By the same evidence, scarcity of external capital will continue. For several decades to come, the persistent need will be for maximizing aggregate output per acre, and there will also be a need for doing this, as far as possible, by maximizing labor input. External capital will need to be mainly in forms which increase output (such as fertilizers and pesticides), while the labor-saving aspect of capital supply to agriculture will remain of secondary importance.

This argument against large-scale operations in a situation of severe capital scarcity is on the whole also valid against collective farming or cooperative organization of farm production.

Cooperative use of certain items of equipment is partly a different matter. (See below under 2.)

In the case of India, this judgment extends beyond the reasonable limits of even long-range planning. The same type of conclusion would hold for several countries in Asia and northern Africa, and for some of those in Latin America.

One of the best pieces of empirical evidence is in the development of Japan over the last one hundred years. Long before the land reform, Japanese peasants, with very little machinery, had brought the per acre output to an impressive level. The large landowners did not, on the whole, engage in large-scale farming. Then, as now, the Japanese farm industry consisted essentially of a mass of dwarf-sized family farms, with many of the operators paying high rents for the use of the land.

There are other such instances in southern Europe. The most intensively used areas of land in Italy, Spain, and Portugal are husbanded by small-scale operators with very little external capital. The wave of intensification of land use that followed upon the land reform in Greece also underscores the same conclusion.

This point is sometimes obscured by comparisons between per area unit yields of individual crops as between large and small holdings. Such comparisons may be misleading because of differences in the intensity of the whole pattern of land use. A classical case of such misleading information is the land reform debate in Hungary in the twenties. The landlords proved beyond doubt that their yields of wheat were higher than those of small holders. But the landlords planted wheat on their best land and used the less fertile land as pasture. The small holders used their best land for vegetables, vineyards, and other highly intensive uses and planted wheat on the less fertile parts of their land. They thus had a more intensive pattern of land use and also produced a larger aggregate output per area unit.

The futurity argument becomes more convincing in situations where population pressure on the land is less extreme than in India. Such a lesser pressure exists in two essentially different types of situations: either because the urban-industrial sectors have grown sufficiently large for their pull on farm labor to become effective, or because the country has so recently emerged from very primitive conditions that it has not yet had time to become overpopulated by the standards of peasant agriculture.

Among "threshold cases," we may cite Japan and Italy. The present trends of the Japanese economy indicate that we can soon expect a radical reduction in the numbers of farm people in the country. Forty or 30 or even 20 years ago, no such development was in sight. The question is whether or not the new trend is really an argument against the recent land reform. The reform was essentially one of tenure conditions; farm size was very little affected. The average size of farm is 2 1/2 acres. Even reduction of the farm population to one-third or one-fourth of its present numbers, which is what may be achieved in, say, 20 years, will only raise the average to 7 1/2 or 10 acres -- a far cry from any concept of large-scale farming. The latter might require an entirely different type of farming and might even mean considerably less output. Such a radical change could in no case be contemplated for short- or medium-term planning. What is required now is unfreezing the present maximum limit for farm size, which is 7 1/2 acres in most of the country. If it were desired to avoid land speculation and sudden snowballing of large properties, the 7 1/2 acre ceiling could be replaced by a higher one for the time being.

In Italy, the land reform has been of limited scope so far as land redistribution is concerned. Despite the overproduction problems, which loom ever larger in Italy as the Common Market becomes effective in the field of agriculture, the reform measures may be defended as being above all aimed at socio-economic rehabilitation of depressed areas. The larger issue of tenancy reform has been left unsettled, with unsatisfactory year-to-year arrangements. As urban pull on rural labor becomes stronger, both the land sale and rental markets are likely to react and to adjust the farm structure, as is already happening in Western Europe.

For countries or regions where the situation with regard to population, capital formation, and general development is intermediate, as between those of India and Japan, for instance, the magnitudes must be studied in order to establish a reasonable hypothesis as to whether a "threshold" case, as in Japan and Italy, may come up soon enough to cause a modification of the land structure model which the present conditions would indicate as most suitable. Even if a case were established to prove that considerably larger farms may become likely or desirable, say 20 years hence, this would still not be an argument against a land redistribution program now if this would have strongly beneficial effects in the near future. What is needed for the

medium-term future is a measure of flexibility of institutions and a mechanism for channeling changes in the desired direction, rather than a blueprint to anticipate a structure that will be suitable at some future date.

In the underpopulated (or not congested) countries of tropical Africa and Latin America (and some in Asia), the futurity of the reformed structure is less of a problem than the reform itself. In most of these countries, as in many of the congested ones, the agricultural population will go on growing for a long time to come, and the difference between the underpopulated countries and the congested ones is that it is less difficult to make the population live on its resources.

When a country of this type is "intermediate," i.e., if it may soon become a "threshold case," the position will allow for more alternative plans to be made. Some of this will be touched upon in the following section.

2. How radical can land redistribution be made?

In a land redistribution program, it is desirable to increase the "distributive equity" in the community, and at the same time raise agricultural productivity. The former may be clearly desirable if the existing distribution of landed wealth is extremely unequal, including a few very rich and a mass of very poor people. There is empirical evidence, e.g., from the Mediterranean countries, to show that such an extreme distribution often acts as a bottleneck to development because it may deprive both the very rich and the very poor of any real incentive to work for higher productivity. As was discussed in the preceding section, subdivision of large holdings into small ones is often favorable to total net factor productivity (in the country as a whole) when external capital is scarce.

There may be a limit to this, however. The advantage of higher labor intensity may cease below certain size limits, which should vary with the type of farming and related circumstances and also with the opportunity value of labor. Ideally, a densely settled agricultural country might favor a dominant farm size which would not only be small enough to be farmed by the farmer and his family without any hired help, but also be small enough for the family to apply a high degree of labor intensity. This would, according to our reasoning above, maximize national productivity.

The futurity argument would be applicable when population pressure is moderate and its lessening clearly in sight in a not-too-remote future. But at the other extreme, there are several cases in which a system of maximum productive farms would lead to a farm number that would not be large enough to absorb all those who previously had their livelihood in agriculture as farm laborers, with or without a small parcel of land of their own. A "rational" redistribution program might then leave many people without any livelihood at all. Is this feasible and, if not, what is the answer to this problem?

There are those who bluntly assume that the surplus people should be employed elsewhere. The state should see to that, e.g., through public works. Placed in this bald form the proposition is entirely impractical in congested, predominantly agricultural countries. The state does not have the organizational apparatus, let alone the capital, to employ the agricultural surplus manpower, nor does it have the financial efficiency needed to make an extensive relief or "public works" payroll system workable.

In such countries, moreover, there is usually a large stratum of unemployed or quasi-employed unskilled workers in the cities, a stratum that is constantly being recruited from the growing agricultural population. As long as this problem -- and the wider one of persistent population increase -- has not been taken care of, the hard core of the agricultural surplus population must continue to be employed, if incompletely, in agriculture. A system must exist whereby unemployment in agriculture is distributed and everyone has a livelihood, such as it can be. Even the Russian kolkhoz is such a system, despite all declarations to the contrary.

The alternatives are: either to maintain in existence so many of the large hired labor holdings that those who get no land of their own can be employed at least part of the year, or else to parcel all of the land out in such a way that each family gets at least a minimum subsistence holding. Needless to say, both solutions may be applied in different parts of the same country if geographical disparities are large and cross-country migrations unlikely.

The former solution was the one chosen in Italy, Spain, and Egypt. In Italy, and in Spain to a lesser degree, this may be justified because a lessening of population pressure is in sight; climatic reasons are also advanced in favor of large-scale farming in dry areas, although this argument is not necessarily convincing. In Egypt, neither of these reasons holds, but the whole situation, with extreme overcrowding, is very vulnerable to the effects of sudden changes.

When congestion is judged to be persistent for a long time to come, it is logical to favor a structure of very small family farms if there are sizable gains to be made in the intensity patterns and in the aggregate yield per acre unit. In such a case, the extremely small farms which will be the consequence of parceling out the land to all who depend on agriculture for a livelihood may be virtually all "undersized," even by the modest standards of efficiency that prevail in the area. The success of the land reform in Greece, by way of the very large production increases that have been achieved in this country, testifies to the validity of this reasoning. The same principle was followed in Yugoslavia and in eastern Europe generally, but the Communist policies have obscured the issue under treatment here so that the corresponding condition does not emerge clearly.

The "undersized" peasant farms will be too small to own certain large capital items. This drawback is, of course, not confined to the undersized farms, only it is more marked on these farms. For instance, the Indian draft-power system, with two bullocks before the plow, can only function through hiring, loan, or cooperation among neighbors. If farms become even more uniformly small than they already are, even more cooperation will be needed, and still more in the future if bullocks become bigger and more efficient. This is far from requiring cooperative tillage, however; and Japanese and European experience with small machinery has been even more favorable to the continued existence of even very small farms.

If an underdeveloped country is not congested, the whole starting point may be very different. If there is enough land to go around for every family in the agricultural population to obtain a holding that will keep them fully employed with present techniques, then this means, at the same time, that the futurity of such a system is doubtful, because the country might become industrialized soon enough to be able to reduce its farm population and increase the size of its farms within a not-very-remote future. Even so, a system of family farms may be judged as more productive, and socially more desirable, than a system of large estates with numerous hired workers. A solution to this kind of problem was tried in the Baltic republics in the 1920's, although it was never allowed to come to the test. The land was divided up into farms large enough to employ two families with the technology and equipment available. This led to a situation where half of the agricultural population were farmers and the other half were farmworkers, mostly employed on a full-time basis. With increasing industrialization, the farmworkers would have been induced to seek nonfarm employment; the same situation would also have increased the supply of capital to enable the farmers to substitute machinery for labor.

Solutions of this type may be feasible in a few countries. In most of the underdeveloped world, no such system could work because the reform farms would be too small to permit hiring any labor.

3. Security of tenure -- how much is too little and how much is too much?

Insecurity of tenure is frequently pointed to as a major evil in many tenure situations. If ownership by the operators is regarded as a good thing (as it has been in most writings on tenure reform), then this has been in no small measure because the maximum security of tenure is assumed to give the cultivators the best possible incentive to invest in durable improvements on the land.

Put in this simple form, the theory may still be valid in many underdeveloped countries. Before this can be asserted, however, it will be necessary to discuss some arguments in favor of limited-term tenancy, which have gained support in some of the developed countries, particularly England.

In some versions of this theory, the nonoperating landlord is the main source of both capital and economic wisdom. Experience from England and other European countries is often quoted in favor of this interpretation. Much of the best-farmed land in France, the Netherlands, and northern Italy is tenant operated. Even in Western Germany, where tenancy is more restricted, it is most widespread in the best agricultural regions.

Recent legislation in European countries has been aimed at protecting the tenants. In some countries, this has increased their security of tenure to a degree which resembles ownership. Landlords have been reduced to little more than rent receivers, much as though they were holders of a mortgage in the property.

This degree of security for tenants has been criticized as favoring misallocation of resources. If the landlord is to fulfill his role in the agricultural economy as an active partner, he should enjoy security for his investment, which may require mobility of other resources. This in turn may require a lesser degree of security for tenants. The lack of opportunity for landlords to make alternative arrangements, and the low level at which rents have been fixed, tend to depress the land market, render land a less expensive factor of production (for operators) than it would otherwise be, and thus encourage a more intensive kind of farming than market conditions would warrant.

This criticism of protected tenancy is somewhat (although not entirely) in line with an earlier discussion, also of England and Western Europe, in which the owner-farmer tenure system was considered far from ideal from the viewpoint of the farming industry as a whole. Owner farmers might be too interested in acquiring more land for themselves and their families to sink their savings in farm improvements. This exaggerated interest in owning land might both inflate the land market and tend to put land to more intensive use than the commodity markets warrant. In some of the least fertile areas of Western Europe (such as Norway and the mountains of central France) where the peasants have acquired and maintained ownership of land, the tendency has been to farm the land long after any reasonable relation between input and output shows that it should have ceased to be rentable. Such situations have a parallel in the United States in the mixed farming areas of the Ozarks and the southern Appalachians.

The apparent contrast between this reasoning, on the one hand, and the classical doctrine placing owner operatorship as the best tenure form on the other, can be dissolved if it is remembered that the latter doctrine's emphasis on security for the cultivators stemmed from an interest in maximizing output. This interest in maximizing output is above all connected with scarcity situations. It has little relevance to the present situation in the United States or in most countries of Western Europe. Whenever there is a threat of surplus production at high cost, the policymaker has a reason to be wary of the argument in favor of tenure security which says that it increases output.

It is probably significant that, in both the United States and Western Europe, tenancy is most widespread in areas where field crops for cash disposal dominate. This is the situation in which it is easiest to make year-to-year decisions. Consequently, the flexibility and quick reaction to conditions on the commodity markets, which should belong to the advantages of short-term tenancy, can most easily be applied in such areas. Contrariwise, permanent crops and some forms of animal husbandry, such as dairy farming, require a long planning horizon and a commensurate measure of security against sudden changes. This is also reflected on the tenure map both in the United States and Europe and elsewhere. In Europe, owner-operators dominate not only in mountains and other areas marginal to farming, but also in the highly intensive horticultural areas on the Mediterranean littoral. At the very low end of poverty and backwardness, Iraq (before the land reform) had a tenure situation where most of the grainland was owned by sheikhs and farmed by sharecroppers on precarious terms and against high rents. But the date groves and the fruit orchards were mainly in owner-operated small holdings.

In North America and Western Europe, the argument in favor of nonowning farmers may gain even more strength in the future as the total capital requirement for a full-scale, rentable operation goes up. Even so, this argument will have its greatest strength in areas of annual cash crops because here the requirement for external capital is relatively low. Consequently, the residual to capitalize into land values will be high and a large part of the equity requirement will be in land value. When much has to be invested in livestock, tree crops, and other assets of slow circulation requiring a measure of stability and long-range planning, the value of land itself is less likely to rise in such a way as to become the main component of the farm capital.

Whatever the outcome of these various factors in the developed countries, the problem remains essentially different in the underdeveloped ones. Acute shortage of capital makes it less desirable that wealthy people regard agricultural land as a safe investment. One of the beneficial effects of the land reform in Mexico and Egypt has been to force capital away from agriculture and induce it to go into the riskier, but nationally more essential tasks of industrialization. There may have been a similar effect in Italy, although on a smaller scale, and possibly also in Japan.

Shortage of capital in underdeveloped countries dictates that as much as possible of the available capital should go into the development of other sectors of the economy. Agriculture should be given only as much external capital as will do the job of developing agriculture to meet the community's requirements for farm products. As much as possible of all investment in agriculture should then be through increased use of agricultural surplus labor. This would undoubtedly seem to call for increased security as an inducement to work more.

Application of this reasoning will require careful attention to local culture and psychology. It is true that landlords in underdeveloped countries often are poor counterparts of those in England. Lack of entrepreneurship and excessive wealth often make the landlords in underdeveloped countries mere parasites. But the peasants may also react paradoxically to increased security as well as to lower rent if their outlook is geared to some relatively rigid level of "target demand." Contrariwise, the insecure tenure of a large part of the Japanese peasants before the land reform did not prevent them from developing a highly productive kind of farming; but again this was in a type of farming with heavy emphasis on food grains.

The mentality of both landlords and peasants may raise powerful obstacles against improvement, but both are subject to change, and land reform is among the factors that can prompt such change. The strongest reason to prefer owner farming as a purpose of tenure reform in underdeveloped countries is perhaps in the need to make new relationships simple. A system of carefully balanced division of rights and duties between landlord and tenant may take too much time to make workable under primitive conditions, and may also have less substance under conditions where external capital is exceedingly scarce.

It should be added that spreading ownership among peasants does not necessarily safeguard their security. Debts and high interest rates may again dispossess them, particularly if an entirely free land market allows new concentration of landownership to build up rapidly. This is where ceilings on landholding have their reason for being, by restricting the farmland market to the farming population. Needless to say, a ceiling provision may help or hinder depending on how low or how high it is. Rendering land altogether inalienable would both remove an incentive to improvement and restrict the use of credit with land as collateral.

The problem of excessive security is perhaps the most negative aspect of collective farming, especially in its compulsory forms. When a member of the collective has a right to a share in the farm's output, even if his labor contribution is of low quality, there will be no inducement for the least desirable workers to leave the farm, and the overload of unskilled labor thus becomes more chronic than in any other tenure system.

4. Level of rent, interest, and taxation

Programs of agrarian reform often include "equitable" rents and the provision of "low-interest" loans as measures intended to improve the situation of tenants and farmers in general and to increase the incentive for more modern and intensive types of farming.

Equitable rents and low-interest loans are qualitative expressions which can take on very different meanings in a different context of economic facts. Whatever they mean in a given case, the easing of burdens on the peasants in an underdeveloped country cannot remove or solve the problems of how to finance the beginning buildup of capital in other sectors of the economy. When these sectors are small and weak and the country needs them to grow rapidly, part of the capital must come from surplus agricultural production, which must be mobilized one way or the other. When a country is poor, its agriculture cannot be subsidized in any real sense; on the contrary, it not only must pay (somehow) for its own improvement, but must also contribute actively to the buildup of capital in other sectors.

This is in substance less exploitation of the agricultural population than may appear on the surface. In the typical situation of an underdeveloped country, agriculture is crowded with people who are increasing rapidly. If this situation is not to deteriorate into a completely incurable "rural slum" condition, capital must be formed in other sectors of the economy to employ some of the rural surplus populations, generate purchasing power for a growing urban demand for food and fiber, and produce the physical and intellectual requisites (capital and skill) without which agriculture itself cannot develop.

Typically, the starting capital for urban industries came from agriculture in early phases of development in the now industrialized countries. In some countries of recent

settlement, such as the United States, this could be done relatively easily when population was sparse enough for land to appear plentiful so that a surplus production of considerable size could be disposed of without creating physical hardships. In Western Europe, the USSR, and Japan, the starting situation at the eve of modern development was much more crowded, and the margin of surplus agricultural production that could be commanded to form urban capital was much thinner. In these countries, this was done partly through land rents and partly through taxation of one kind or another. The lowering of rents in Europe and Japan has come only when agriculture was definitely a minor sector of the economy. The recent lessening of the state's tight grip on farm output in the USSR also belongs in a similar context.

In both Western Europe and Japan, the landlord class was sufficiently entrepreneur-minded to use its rents (or at least a large share of them) for capital formation. The real disadvantage about agricultural rents in underdeveloped countries is not so much that they are high, but rather that they are too often used up for luxury consumption and too seldom invested in new productive ventures. Especially when the luxuries have a high import content, or rely to a high degree on traditional handicrafts and service occupations in the home country, they largely fail to set off progressive capital accumulation.

Curbing or abolishing landlords' rents in such a case may not render the situation much worse from the viewpoint of economic development, but it will not make it much better either if no other provision is made for the flow of funds out of agriculture to build up capital in other sectors. This was the big problem of the USSR in the 1920's, before the start of collectivization; and the latter was above all a taxation device to siphon off a large part of agriculture's value-added to serve as a basis for industrialization. Peasant liberation in Turkey, for instance, left that country with very scarce means for its development when the large majority -- the peasants -- paid no taxes.

A similar reasoning applies to the use of low interest on loans to farmers for the development of agriculture. There are cases when it may be desirable, as in developing particularly valuable export crops. But, on the whole, it would have a twofold undesirable effect: to allocate too much of the nation's scarce funds to agriculture and to return too little direct revenue in exchange. Especially in situations where "target demand" among the agricultural population causes backslapping supply functions, cheap loans may backfire on both counts.

The latter point indicates price policy as one means of eliciting a surplus from agriculture. The trouble about this is that the same country may contain areas of "target demand" and of more normally elastic demand at the same time, and the limits between such areas may be unclear and floating with economic and social change. It would then be necessary to use two kinds of price policy at the same time.

This leaves taxation as the most logical instrument for collecting a surplus for investment if the landlord class cannot be made sufficiently entrepreneur-minded. The difficulties of administering income taxes in underdeveloped countries are well known. A device based on the same principle as the traditional tithe may be the most viable system of direct taxation of peasant farmers. If landlords are left in undisturbed possession of part of their rents, some convenient fraction of these could be levied as tax. Any such system would function only to the extent that local public administration can be made to hold its own against the pressures of either the landlords or the peasants or both.

It remains clear, however, that not all facets of agrarian reform can bring immediate and apparent relief to a burdened peasant population. A new structure that promotes economic growth is more essential than a lowering of rents in the immediate future.

5. Pace of change

The dilemma about the desirable pace of change is that the most urgent problems usually exist in countries which are least capable of handling them. This is why the problems have become urgent. Overcrowding of the countryside and a lopsided, ill-organized production structure usually exist together with lack of technical and administrative personnel and weak public finances. Countries with the strength and organization needed for an orderly reform, such as Italy and Japan, are also, ironically, those where the value of a large-scale land reform is most in doubt.

In underdeveloped countries, some kind of compromise has to be struck to avoid the extremes of chaos through hasty reform and stagnation because of no reform at all.

The choice is even more puzzling because a very sudden change may remain on the surface only, as merely a new name for old things. At the other end of the scale, the idea of "pilot projects" as a means of finding the best way of bringing about change sometimes becomes a way of postponing any reform. It is all too easy for a reactionary government to arrange such projects in a way that will deter any full-scale reform.

In either case, precious time may be lost and population pressure may worsen still further before a fresh approach can be formulated and attempted.

Empirically, a slow, gradual transition from one type of structure to another one can be very successful in a country where population pressure is moderate. Such was the case in Denmark, where the subdivision of estates into peasant farms took decades to achieve and the conversion into owner farms even longer.

Similar reforms in the Baltic republics went much faster, apparently without any great disturbance to the economy of these countries. At any rate, a very gradual change of structure, with careful planning of each phase, may be practical in countries of low density and not too fast increase of their agricultural population.

On the other hand, the rapid approach has been successful in a number of countries. The Baltic republics were just mentioned. Land reform in Greece did not, on the whole, extend over a very long period despite the complications caused by the necessity to settle numerous refugees. The very handsome increases in production that have followed indicate that more was gained than lost through the speed of the reform.

The case of Mexico looked less favorable in the beginning, but here too the reform has been followed by some of the most impressive increases in agricultural production on record in recent times. The case is complicated; but the positive role of land reform is beyond doubt.

This discussion about pace of change hinges very much on two things: whether there is sufficient informed discontent among the peasantry to render the shock effect of sudden change a positive experience, spurring on to constructive efforts, and whether the economy is in a position to take the risks attendant upon temporary disruptions of agricultural production and trade in agricultural products.

The latter concern is likely to have contributed to the partial approach used in Egypt, where the whole economy is too tightly organized and the margin of food supply too thin to allow taking the risk of a drop in output. It may lead to a similar approach elsewhere, even in less tight situations. Minimum supply to the cities might be safeguarded by retaining part of the existing farm system as it is, while carrying out the reform in areas which may not be so strategic at the moment. The flaw about such an approach is, of course, that it is illogical in the public's mind and may be misunderstood to mean that the spared areas will be reformed later. That could make the "spared" landlords lose confidence in the futurity of their position. A qualitative criterion, such as exemption (from subdivision) of very well-run large farms, could be the answer to this problem. This is the solution attempted in Italy and Spain.

Misgivings about the "rapid" approach are often based on the belief that too sudden a change will remain superficial, leaving realities "at depth" rather unchanged or leaving the landlord class with too much opportunity of sabotaging the reform.

The latter risk is very real, as was shown in both Japan and Italy and elsewhere. It poses a challenge to the effectiveness of government, but of course, there is no general or theoretical answer.

The former argument is only relatively valid. It is true, for instance, that the sudden abolition of serfdom in Russia in 1861 was followed by a period when many peasants continued to be subject to landlord discipline. But this quasi-serfdom faded out, and we have no reason to believe that anything would have been gained by making the reform of legal status more gradual. On the contrary, the existence of a new legal status must have speeded up the creation of the new social reality.

The dilemma of speedy versus slow progress is less clear than some of the issues treated in the preceding paragraphs. The answer is to be found mainly in the existing sociopsychological climate. Economic realities come in as subsidiary arguments, being coercive only in extreme cases. This type of issue, therefore, requires even more study of the country in question.

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