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# **THE ROLE OF THE MARKET IN EFFECTING A MORE EQUITABLE DISTRIBUTION OF LAND**

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European settlement in South Africa dates from the occupation of the Cape of Good Hope by the Dutch East India Company in 1652. After the British occupation in 1806, former Dutch colonists established independent Republics which united with the British colonies to form the Union of South Africa in 1910, later to become a Republic in 1961. The greater part of the farmland at the time of the Union was held by Europeans, and the Africans who did not remain to work on European owned farmland were confined to tribal reserves.

Under the Natives' Land Act of 1913, segregation was adopted, and Africans were no longer permitted to be share or cash renters on European farmland, nor could Europeans gain title to land set aside for Africans. The Natives' Trust and Land Act of 1936 provided for a transfer of 6 million hectares of land to Africans to compensate them for their loss of land rights and voting rights based on ownership of property, which were removed in other legislation in the same year.

This paper examines the role that the market could play in alleviating the inequity that may have arisen in land allocation. If institutional constraints are to be removed through the political process, the market may serve as the indicator of the steps that may be taken.

## **Types of Tenure**

The dualistic agricultural sector in South Africa is manifest in five classes of land tenure.

### **Landownership**

The modern sector, mainly occupied by white farmers, is held with full title with nearly 80 percent of all farms being farmed by owners and the balance being leased on a cash basis. Sharecropping as a form of tenure has virtually disappeared. Landownership as part of the tenure system in African areas is of minor importance.

### **Labour Tenancy**

Labourers on white owned farms, in addition to family dwelling sites, have cropping land and a limited right to graze their own livestock. In isolated areas they may be employed for only part of the year.

### **Quitrent Tenure on Trust Land**

Trust land refers to land purchased in terms of the 1936 legislation. Selected tenants pay nominal rentals to the Trust authority which holds the land on behalf of the African tribes for whom it was purchased.

### **Tribal Tenure**

Most African land is held in common under the authority of chiefs and headmen. Dwelling sites and cropping land are allocated to family heads, and grazing land is held in common. Land administration is left to tribal authorities.

## Squatters

In the modern sector, the number of commercial farmers has declined from 106,000 in 1960 to 70,000 at present, and many farms are today occupied by African families without clear relationships with landlords. There are also squatters on Trust land purchased from white owners.

### Development in the Modern and Traditional Sectors

The modern sector accounts for 94 percent of the total output of South African agriculture. The volume of output has increased at 3.3 percent per year versus a population growth rate of 2.8 percent. An active land market permits the exchange of land between entrepreneurs, and an investment in land has been calculated to yield a nominal return of 17.5 percent per year, 5 percent of which is rent, compared with 15 percent on Unit Trust Funds (Nieuwoudt). A remunerative export trade has developed for maize, citrus, deciduous fruit, sugar, and wool. State policy has supported this sector through education, research, extension, controlled marketing, subsidies, and tax incentives.

Political developments in South Africa have demarcated land along ethnic lines with the granting of autonomous government to nine ethnic territories. Land tenure systems and agricultural development are today receiving attention at the local level which was previously lacking from the central government. The comparison in table 1 of the agricultural sectors of the modern (mainly white) sector to the traditional sector now represented by the autonomous states brings out the stark contrast between the two economies.

The traditional sector, with 18 percent of the total farmland, has land of greater potential for cropping because rainfall exceeds 500 mm on 76 percent of the area, with less than 1 percent of the land being semi-arid, although 27 percent of all South African farmland is semi-arid (Zyl). Gross value of output per hectare in the modern sector is 3 times as great as in the traditional sector, and output per gainful employee 14 times as great.

**Table 1. Comparison of Modern and Traditional Agricultural Sectors in South Africa, Approximately 1977**

Item	:	Modern	:	Traditional
	:		:	
Farmland area (1,000 ha)	:	85,719	:	15,722
Area cultivated (1,000 ha)	:	12,105	:	2,484
Area cultivated (percent)	:	14	:	16
Persons gainfully employed (1,000)	:	1,350	:	1,132
Gross value of agricultural and forestry production (*R1,000,000)	:	3,660	:	225
Gross value per ha (R)*	:	43	:	16
Gross value per person gainfully employed (R)*	:	2,711	:	220
	:		:	

\* (R = 1 Rand = \$1.15)

The poverty of the traditional agricultural sector is due to a number of causes. Over time, population density has been increasing as a result of control of the flow of population to urban areas, and out-migration from white owned farms. Simkins has estimated that the production of food as a percentage of requirements declined over time to 26 percent in 1967. The greater portion of family incomes is earned from wage remittances from migrants. The small subsistence cropping areas do not offer sufficient employment for able bodied

men who are able to earn greater incomes in wage employment. Women are unable to give sufficient attention to agricultural work beyond shouldering the burden of raising families alone. Despite the small farms, Lenta has found that the major reason why much arable land is not cultivated lies in a lack of finance to hire oxen or tractors or to purchase seeds or fertilizer. Subsistence plots are not negotiable either as security for loans or for exchange with other farmers who have greater incentives to farm diligently or productively.

Lack of education in the agricultural sector points to an absence of investment in human capital. In 1960, 80 percent of gainfully employed African workers in agriculture had no schooling, but educational levels are rising. In a study of farms on Trust land, Redelinghuys showed that 31 percent of a sample of 119 quitrent tenants who operate their own land had 7 years schooling or more, although 40 percent had not been to school. The South African Government and all homeland governments have now accepted the principle of compulsory schooling for all children.

A lack of infrastructure and marketing outlets inhibits development. Roads are poor, and farms are isolated from markets. Technical advice may not be of high quality, nor would the occupiers be receptive to instruction because of the low levels of education.

### **Slow Pace of Reform**

By the end of 1979, 90 percent of the 6 million hectares of land allocated in terms of the 1936 legislation had been purchased. Expropriation from landowners is at market prices and the funds come from an annual vote by Parliament. Latterly, part of the payments has been in government stocks. Negotiations are protracted because commercial farmers are reluctant to sell.

Once acquired by the South African Development Trust, land may be planned in terms of economic units with selected tenants allocated land rights on larger arable areas than are normally available to tribal families. Grazing is still in common but rents are paid for grazing rights. Land productivity is greater than in the tribal situation because of better extension guidance, but in areas where squatters have moved on the land, the land use situation may be no better than on tribal land.

Quitrents are determined at infrequent intervals and announced by proclamation. Current rates were proclaimed in 1968 and bear no relation to the market value of commercial farming land of similar quality, being much lower than market determined rentals. Planned land that becomes available is advertised, and the selection process considers the assets, qualifications, and experience in farming of prospective tenants. Land is in this way passing into the hands of potentially successful farmers who are likely to produce a marketable surplus.

The former landowner, in receipt of his compensation, retains the value of his assets, but there is an apparent social loss where land does not stay in as productive use as previously, and where the rents do not represent a market rate of return on the capital outlay that was incurred.

### **Developing A Land Market**

Parsons has traced the evolution of an institutional basis of an agricultural market economy from the emergence of feudalism to the development of common law, individual freedom, and democracy. He sees the first kind of market participation as that of sale of surplus farm products. The second is the purchase of "produced goods to be used in further production in agriculture," the capital inputs. The third entails the market procedures for allocating the use of land through the emergence of a land market, where land becomes a saleable commodity, alienable (usually within limits), and subject to mortgage.

Black tribal agriculture in South Africa barely meets the first criterion of a market economy, and without a surplus of products for sale, land cannot acquire a value to be exchanged in the market for commercial farming purposes. To meet the second criterion, sufficient credit facilities are needed where homeland farming shows commercial possibilities. Study of the marginal productivity of resources in a homeland context (for example, that by Bates) indicates that the marginal productivity of capital resources such as fertilizer is high, and investments of this nature are likely to produce a surplus.

The Financial Aid Fund of the South African Sugar Association was created in 1972 in order to assist small scale farmers on tribal land. The growing of the crop is financed and the KwaZulu Government matches the investment with infrastructural features such as access roads, bridges, contours, and loading zones. The credit is easy to administer because sugarcane is a low risk crop, and all cane is sold through mills which recover the loans before payments are made to farmers. A secondary multiplier effect has been the emergence of tractor and transport contractors who augment their farm incomes. The area of land under sugarcane, which yields a higher income per hectare than any other crop, has trebled. Benefits are observable in greater business activity in local shops and in an improved standard of housing. Growers are awarded quotas which are transferable, and some have become full-time farmers.

Production requisites are obtainable outside the sugar areas from a burgeoning co-operative movement, and in 1979 there were 116 such supply co-operatives. Local trading stores are undoubtedly a source of credit, but no information is available on the extent to which farmers use this source.

The Corporation for Economic Development is fulfilling a major role in financing development projects (Zyl). These include: the production, processing, and marketing of crops (such as tea, sugar, or cotton on a project or agency basis); development of irrigation schemes; provision of loans to co-operatives; and management and maintenance of some of the farms bought by the South African Development Trust. The agricultural division of the Corporation aims to increase agricultural production and development opportunities to train for and to promote commercial farming, and to finance vertical integration and growth centres.

One criterion of farm size that has been used has been the unskilled urban wage, and various estimates of the appropriate size of farms have been derived. For the production of dryland maize, I consider that 25 hectares are necessary in KwaZulu. An acceptable net income of R2,500 (\$2,875) per year (Zyl) would require 10 hectares of irrigated cotton, 40 hectares of dryland maize, and 4 hectares of citrus.

A paradox exists in this arbitrary choice of net income level because labour flows into towns are restricted, resulting in a wide gap between the urban wage and the subsistence tribal income. Consequently, any application of size of farm based on the urban wage would itself transfer the urban-rural inequality into the rural areas. The migrant labour system is in itself a source of inequity. The subsistence plot and rural dwelling site contributes to family security, but security could also be achieved by wives joining husbands in towns with opportunities for housing and social security that could substitute for an impoverished rural situation.

The Select Committee on Land Tenure (KwaZulu Government Service) recommended a change from the traditional system of land tenure to a system of individual freehold tenure. Transition would be through the introduction of a leasehold system of land rights, leading to freehold title to sections of land and to utilization rights to natural resources which cannot be subdivided for individual use such as grazing land, water, sand, stone, and other building material.

If 34 hectares of land is regarded as an economic unit, only one fifth of the rural population could be settled as farmers, and the Committee's proposals

would at first apply only to Trust land. The transition to full-time farming should proceed at the same rate as employment opportunities are developed for those who relinquish farming. A deeds registry and an accurate survey of the land would be necessary. Because a market for land would be created, rental rates would be determined on the basis of land prices.

### Conclusion

Historically, agricultural land in South Africa has been divided along ethnic lines. The modern, mainly white owned, farm sector has developed a strong market economy. Transfer of land from the modern sector through expropriation has been slow over a period of 45 years, and the development of a commercially viable agriculture by the traditional sector on the newly acquired land has so far been only partially successful. Shortage of credit appears to be a major constraint.

The rapid decline in the number of white farmers in the modern sector is leaving areas of farmland unoccupied by entrepreneurs. Since labourers already have rights to some of the land as labour tenants, raising their status to that of cash tenants on unoccupied land would be consistent with development of a market economy that would be more readily accessible to all. Priority in transfer of more land to the traditional sector should perhaps be given to land that is not at present being utilized by its present owners, and the wider availability of credit to prospective African farmers would help to promote development.

### Note

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