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Land Tenure and Development: The Need for Safety Nets

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Abstract: Recent literature on land tenure suggests that tenancy can be an efficient contractual arrangement and that small farms—but not necessarily owner-operated farms—facilitate a more rapid and labour-intensive development. Such conclusions argue for policies that prevent price distortions and emphasize income-generating activities such as agricultural research. On the other hand, they implicitly oppose reformist policies. This paper is concerned with the anti-reformist, anti-interventionist position. The problem arises because most economists conceptualize a dichotomy between policies that promote general welfare and policies that accommodate “rent seeking” attempts by special interests. But when some groups in rural society take advantage of new opportunities, they not only increase efficiency in resource allocation but often throw the burden of adjustment on other, frequently weaker, groups. In the transition, safety nets, provided by older agrarian structures, disappear. In the history of western developed countries, farm people responded to those changes with struggles to create their own organizations and to influence government policy. In the Third World, the problems of transition would seem to be even greater. This paper is a plea for attention to these issues by economists.

Three Propositions

This paper is concerned with clarifying the issues that emerge out of different recent approaches to the analysis of land tenure. The issues can be stated in the form of three propositions.

Proposition 1—*Tenancy is an efficient contractual arrangement.* This conclusion emerges from a large body of literature following an article by Cheung (1968), although Johnson (1950) wrote a precursor article. This literature argues with the earlier conclusions about the allocative inefficiency of share tenancy, which go back to John Stuart Mill. The current literature focuses on factor market alternatives available to the parties in tenure arrangements. Share tenancy is seen as only one of the tenurial possibilities for organizing a farm firm, with cash tenancy, purchase of farm land, use of wage labour, and opportunities outside agriculture presenting other relevant alternatives. When thus formulated, any of the alternatives can be efficient, and the theoretical question becomes: What are the conditions under which a particular arrangement will be used? The literature even reaches the conclusion that share tenancy has some additional advantages: “Such contracts may act as insurance devices or they may allow people to make better use of their unique capabilities or endowments in otherwise inadequate markets.” (Binswanger and Rosenzweig, 1981, p. 53.)

Proposition 2—*An agricultural development strategy based on small operating units has advantages, and the size of the operating unit, not the size of the ownership unit or the rate of tenancy, is what matters. Such a development strategy will provide greater employment opportunities to tenants, small owners, and wage workers to earn labour incomes, but, given the factor endowments in less developed countries, increase in rates of return will accrue primarily to owners of land, with much less increase in return per unit of labour.* This position is accompanied by statements that land reforms transferring ownership to former tenants might be preferable but, given the political obstacles to such reforms, concentrating on development strategies that are conducive to generating a structure of small operating units in agriculture is important. Proposition 2 is a restatement of positions reached by Bruce Johnston in several publications (Johnston and Kilby, 1975; Johnston and Clark, 1982; and Johnston and Tomich, 1984). It argues for a labour-intensive approach to agricultural development. In Johnston’s formulation, such a “unimodal” pattern of development is likely to result from factor (and product) prices that reflect factor endowments, and from research that generates new technologies appropriate to factor endowments. However, in many countries, interventionist policies usually result in lowering the cost of capital relative to wages, often as an outcome of the “import substitution” model of development, worsened even further by the manner in which governments attempt to mitigate shortages and price distortions resulting from this model. The common results are inflation and uneconomically low interest rates, overvalued exchange rates, and rationing of both credit and foreign exchange. These kinds of policies encourage “rent seeking” activities by the more powerful groups in society.

Proposition 3—*A labour-intensive unimodal approach to development depends heavily on appropriate policies that avoid distortions in factor prices and contribute to income generation by promoting agricultural research, education, and investments in infrastructure.*

Implications for Third World Development Policies

What are the implications of these three propositions for land tenure and land reform policies in the Third World? The propositions represent useful insights from advances in economic analysis. They may represent a necessary counterweight to excessive optimism about the efficacy of land reforms that have been beneficial in Japan and Taiwan in the 1940s and 1950s but that do not have a clear record of economic success in the Third World.

The propositions also have an approximate fit to the historical experience of Western Europe and North America. In those regions, successful development of agriculture depended primarily on government support for appropriate agricultural research and on relatively rapid development of the whole economy and the beneficial impacts of that development on the agricultural sector. Employment opportunities outside agriculture made decreases in agricultural employment possible and enabled the labour force remaining in agriculture to increase its productivity and income by using mechanization and research-generated, yield-increasing technology. With growth of the overall economy originating spontaneously in the private sector, factor price distortions were probably more limited than is the case today in the Third World. By contrast, Third World countries (after they became independent) opted for more interventionist policies. They faced the problem of achieving more rapid growth rates than those that prevailed during their colonial past. They seemingly could not rely on development originating spontaneously from the private sector, and, very soon after independence, they were faced with population growth rates much higher than either those of their recent past or those that prevailed in western countries.

Can the policy prescriptions of the three propositions be applied directly and without modification to Third World conditions? The emphasis on avoiding price distortions and their adverse consequences is very important. The need for labour-intensive policies is generally accepted. Is more interventionism needed than implied by the three propositions, and what is the nature of the needed interventions?

Western patterns of development did not rely only on relatively undistorted prices or only on policies that primarily fostered income generation. The stresses of adjusting to structural transformations accompanying economic development gave rise to continuous attempts at reform in the areas of organizing cooperatives, limiting foreign competition, obtaining price and income supports, obtaining government-provided credit, and seeking regulation of banks, warehouses, railways, and trucks. Also, the unimodal structure of agriculture in western economies (the dominant role of relatively small family-operated farms) was achieved by 19th century land reforms in Western Europe and by the abundance of land, favourable land disposal policies, and relatively high wages in North America. Also, the much greater rates of population growth in Third World economies raise an additional question of whether policies confined primarily to supporting research or fostering appropriate factor prices are sufficient under the conditions of the Third World.

Is it realistic to expect rural people to undergo the structural transformations of economic development without attempting to contain the burdens of adjustment by organizations of their own (like cooperatives) or by political pressure; or, in terms of current political terminology, will rural people not seek safety nets in facing the stresses and adjustments that development brings? To raise this question is not to deny that policy interventions often adversely affect rates of economic growth and do not necessarily achieve even the objectives of the interest groups that pushed for the policies. But economists are misled when they conceptualize a dichotomy between policies that promote general welfare and policies that accommodate "rent seeking" attempts by special interest groups. Economists reach that position from their assumption that markets are frictionless and that people displaced from one set of economic activities find alternative opportunities with no transaction cost. That leads economists to minimize the stresses of adjustment and to deny the legitimacy of attempts to reduce the costs of development for some groups.

Theoretically, the issue can be clarified by noting that efficiency-seeking activities of some groups can be interpreted as "rent seeking" at the expense of adversely-affected groups. A good example is the change in labour arrangements for harvesting rice in Java in the 1970s (Collier, 1977). In the traditional, pre-Green Revolution system, any member of the village community, at his or her own discretion, could participate in the harvest and receive in exchange one out of eight or nine bundles harvested by that worker. This was being replaced by a system in which the cultivator sells the standing rice crop to a middleperson who in turn selects and hires harvest workers limited to the

number required to do the job; in the latter system, the number of harvest workers is much smaller, although the earnings per worker are higher (Collier, 1977, pp. 12-16).

Before World War II, a rice cultivator who attempted to reduce the number of harvest workers would be ostracized in his or her village (Collier, 1977, p. 20). In the previous labour arrangements under the customary procedures and sanctions, landless members of the village community thus possessed the right to participate in the harvest, while cultivators had no discretion to select harvest workers; under the new system, the rights of the landless disappeared and the cultivators acquired the right to determine the terms under which rice would be harvested. Under that interpretation, landless members of the village community had previously held a property right that disappeared under the new system, while the cultivators enlarged their property rights by acquiring greater discretion. The important thing is that the gain of the cultivators is not just increased efficiency in resource allocation but also a means of throwing the burden of adjustment on others, and can be interpreted as "rent seeking" at the expense of landless harvest workers.

Whether the above illustration means that property rights have been lost or harvest workers never had them makes no difference. The illustration could be interpreted as a dissolution of patron-client relations associated with a loss of legitimacy by patrons (Scott and Kerkvliet, 1973; and Scott, 1976). Under all these interpretations, a safety net previously available has disappeared, and the burden of adjustment has been thrown on weaker members of rural society.

The issue is not confined to labour arrangements in the rice harvest in Java but is present in relations among social groups in many countries in the process of commercialization of agriculture and introduction of improved technology. Another major occurrence is the dismissal of tenants by landlords in order to capture a greater portion of benefits and higher yields by direct management of land rather than by leasing. That occurrence is a loss of rights by groups in rural societies in which, under customary procedures, the landowners were entitled to a share of the crop or labour services from those who worked the land but did not have the right to pick and choose tenants or to take land into their own direct management.

The cited illustrations are of rigid social systems and shared rights in which any of the participants in such systems has difficulty exercising initiative and taking advantage of new economic opportunities. Also, difficult adjustments to rapidly growing populations are necessary in Third World countries where, even with economic growth, increases in per capita income will be slow and distributed largely to those who own scarce resources.

Hayami (1986) describes three situations that differ in equity-oriented policy reforms and in development opportunities. One is his first village in West Java with stagnant agricultural technology in which real wages declined while rents increased. The decline in real wages was accomplished by changing the shares paid to harvest workers, reducing the share somewhat, and limiting employment in the harvest to those who would transplant, weed, and harrow rice without pay. In his second village, improvements in irrigation and in availability of high yielding varieties increased employment and wages. The third example is Japan where very low ceilings on rent payments and protection of tenants instituted by postwar land reforms have prevented farm enlargement and prevented a decrease in farm employment, even though such changes would have increased efficiency.

The first village is used as an example where a reformist intervention designed to prevent "exploitation" of harvest workers by the new method of harvest payments would have been undesirable. Given the stagnant technology, the modification of payment terms at least prevents decreases in employment, whereas the prohibition of change might have led to adoption of labour-saving practices. Japan illustrates how land tenure regulations prevent adjustment when conditions have changed from the original situation in which land reform was desirable. The second village, with its rapid increase in productivity, illustrates the desirability of improving "underlying economic forces" as the means for increasing employment and incomes.

But a more appropriate tenurial change for the first village would have been a more equal distribution of landownership rather than a prohibition against changing harvest shares. More equal ownership would still have resulted in decreased incomes, given population growth and stagnant yields. But landownership would have allowed a minimal foothold for poor families that they could have used to secure some employment for themselves and their children as long as such meagre opportunities were superior to off-farm alternatives. Japan, on the other hand, shows that the barriers to tenancy in an economy with expanding nonfarm employment are no longer necessary. Under the typical conditions of the early stages of development (where rapid population growth exceeds the increases in nonfarm employment) is precisely where wider distribution of landownership

is desirable. But increases in productivity are crucial, and, without them, widespread landownership will only increase security in access to income. Nevertheless, no reason exists why land tenure need be an obstacle to resource adjustments under conditions of more rapid growth.

In the early states of development, the dangers to rural people are from their landlords and employers who might eliminate their access to income as tenants or hired workers. In later stages, as in Hayami's description of Japan, the major diversities of interests are between farmers and other economic sectors, over price supports, protectionism against imports, and budgetary burdens of agricultural programmes. Japan's price support policies may be as big an obstacle to resource allocation efficiency as the anti-tenancy provisions. But the costs of agricultural programmes in wealthier societies have proved to be an acceptable burden. Without agricultural support programmes, the burdens of agricultural adjustments would have been shouldered mainly by the agricultural population. With support programmes, the burden is thrown on urban consumers (who accept them) and even more on exporting countries, both in the developed world (where governments can afford to offer some protection to their farmers) and in the Third World where they cannot. This result is at least in part due to the absence of more appropriate safety nets (that would not throw a disproportionate share of the adjustment costs on imperilled groups), to the inequality of power between developed and less developed countries, and to the limited scope of international institutions where decisions responsive to worldwide consequences of solutions can be made.

Note

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