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EQUITY AND PRODUCTIVITY OBJECTIVES IN AGRARIAN REFORM LEGISLATION: PERSPECTIVES ON THE NEW PHILIPPINE LAND REFORM CODE*

VERNON W. RUTTAN**

This paper (a) reviews the evolution of political and equity objectives in agrarian reform legislation, and (b) analyses the role of equity and productivity objectives in the 1963 Philippine land reform legislation. The growing concern with land reform in countries characterized by high population density and high population growth rates places a unique emphasis on the importance of simultaneous achievement of both the productivity and equity objectives. Weakness of factor and product market institutions represents a substantial limitation on ability to achieve productivity goals. The new Philippine land reform legislation is particularly noteworthy in the emphasis placed on the improvement of agricultural productivity. Its major impact will be achieved by (a) replacing the existing share tenancy system with a fixed rent leasehold system; (b) increased security of tenure for the tenant; and (c) simultaneous efforts to develop effective supply, product, credit and extension institutions. The programme will be implemented in stages rather than on a nation-wide basis. Crops traditionally grown under a plantation system are excluded from the provisions of the Act. Deficiencies in the expropriation provisions of the Act will, however, limit the effectiveness of provisions to transfer ownership of land to tenants.


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AGRARIAN REFORM LEGISLATION IN THE PHILIPPINES

The relative emphasis placed on political, equity and productivity objectives in land reform has varied widely among countries and over time. In general, political and equity objectives occupied a central role in the land reform movements of the nineteenth and first half of the twentieth centuries. In recent years, these "classical" objectives have been increasingly complemented by a productivity objective.¹ The Philippine Agricultural Land Reform Code of 1963 (RA No. 3844) is particularly noteworthy in the emphasis placed on the improvement of agricultural productivity. In this paper I would like to (a) review the evolution of political and productivity objectives in agrarian reform legislation, and (b) analyse the role of equity and productivity objectives in the 1963 Philippine land reform legislation.

I. LAND REFORM OBJECTIVES

The Liberal-Jeffersonian Tradition

In the United States, political and equity considerations have traditionally represented the dominant themes in agrarian reform. The confiscation of loyalist estates during and following the Revolution was primarily motivated by equity considerations.² Jefferson's political philosophy, which regarded the family farm, owned and operated by the cultivator, as the only sound foundation of social equality and political stability, provided the intellectual foundation for the major U.S. agrarian reform legislation of the nineteenth century and remains an important theme in current agricultural policy discussion.³ Only in recent years has productivity emerged as an important theme in U.S. agrarian legislation.

Other land reforms which appear to have been conceived primarily in an equilibrarian frame of reference include the reforms which spread across continental Western Europe beginning with the French Revolution; the Latin American land reform movements beginning with the Mexican Revolution of 1910; and the Japanese, Korean and Taiwan land reforms following the end of World War II.


² "In the years prior to the American Revolution, there was much agitation against large landholdings.... Sometimes the form of struggle was an anti-rent controversy; sometimes a striving for more secure tenure; and, in some cases, a 'levelling' movement seeking the division of great estates for the benefit of the poor tenants." Irving Mark: Agrarian Conflicts in Colonial New York, 1711-1775, Columbian University Press, New York, 1940, p. 16.


Agrarian reform legislation during the nineteenth century conceived in the spirit of Jefferson's agrarian democracy includes: (a) the Pre-emption Law (1841) which legalized squatting on unsurveyed public domain with the right to purchase up to 160 acres at the minimum price after survey; (b) the Homestead Act (1862) which conveyed free title to 160 acres of land after residing on and cultivating the tract for five years. These laws were reinforced by other legislations designed to insure the economic success of the family farm; (a) the Morrill Act (1862) establishing the land grant agricultural colleges; (b) the Hatch Act (1877) providing federal support for the state agricultural experiment stations; and, (c) the Smith-Lever Act (1914) creating a federal-state agricultural extension service. Griswold; *Ibid.*, pp. 139-147.
The reforms of continental Western Europe stemmed from the same flowering of Western liberal philosophy and equalitarian drives that contributed to the Jeffersonian philosophy of agrarian democracy.4

The Mexican reforms reflected an interaction of this same liberal political philosophy with peasant discontent and an emerging nationalism which attempted to rediscover a national origin by returning to pre-Spanish forms of social organization.5 Similar motives seem to have been important in the Bolivian and Guatemalan land reforms of the early 1950's. The result in Mexico was the creation of a dual land tenure system based in part on communal ownership and in part on private ownership.6 It is still too early to evaluate the accomplishments of the Bolivian reform and the Guatemalan reform was aborted soon after its initiation.

In Japan, Korea and Taiwan, the agrarian reforms were imposed by external sources in deliberate attempts to capitalize on the equalitarian drive of the peasantry in order to achieve political and social stability.7

The agrarian reform movements which have looked to the liberal-Jeffersonian political philosophy for their intellectual orientation have typically shown little concern with the potential contribution which land reform might make to the growth of agricultural output or to national economic growth. Indeed, leaders of reforms based on this tradition have often argued that the political and equalitarian objectives were sufficiently important that any disruption of output which might occur as a result of the reforms should be ignored.8

4. Commenting on the agrarian legislation of the French Revolution, Griswold points out that "In one sense these laws were the practical application of the natural rights philosophy inherited from Locke by the French philosophers and passed on by them with the added prestige of the American example, to the leaders of the Revolution. In a more concrete sense they were a rationalization of the existing system of agriculture, stripped of its feudal privileges." p. 98. Griswold, Ibid. For further discussion, see pp. 88-127. See also C. C. von Dietze, "Land Tenure Issues in Western Europe Since the French Revolution" in K. H. Parsons, et al. (eds) : Land Tenure, University of Wisconsin Press, Madison, 1956, pp. 374-383.


6. "The political constitution (of Mexico) orders the destruction of the old latifundios and the creation of only two land tenure systems, namely, the communal lands of the villages, called ejidos, and the small private land-holdings whose area can be no greater than 100 hectares of irrigated land, two hundred hectares of non-irrigated land, or the equivalent decreed by law in some other type of land.... The ejido is made up of several parts : cultivated land, pasture lands, mountains, uncultivated lands, etc., and the so-called "fundo legal," or the site where the town owning those lands is located..... The ejido lands have the peculiar characteristic that they do not constitute an absolute, but rather a limited property right, since they are subject to the legal conditions of being unalienable, imprescriptible, and unseizable." M.A. Duran, "Agricultural Co-operation in Mexico in Relation to Small Landholdings, in K. H. Parsons et al., Ibid., pp. 310-311. For an interesting case study of the productivity differences among the Mexican tenure forms which emerged after the revolution, see D. K. Freehaim, "Relative Production Efficiency Between Tenure Classes in the Yaqui Valley, Sonora, Mexico," Journal of Farm Economics, Vol. 45, No. 5, December 1963, pp. 1150-1160.


In the United States, Western Europe and Japan, this lack of concern with the productivity objective reflected the relatively favourable man-land ratios and/or the relatively advanced technology which prevailed at the time of the reform. In Mexico, Bolivia, Korea and Taiwan, where the reforms took place under less favourable technical and economic conditions, the equalitarian orientation of the reforms was used to obtain farmer or peasant loyalty for the national government while development goals in other sectors of the economy were being achieved.9

The Productivity Objective

British experience has contributed to the development of a second tradition of land reform which places major emphasis on the achievement of productivity and efficiency in the agricultural sector. Despite the seminal role which Locke's political philosophy played in the thinking of Jefferson and of continental reformers, the owner- cultivator was never regarded, in Britain, as the primary foundation on which to build democratic institutions. The British did not share Jefferson's fears of commerce and industry and they did not identify democracy with the agrarian way of life. Equity considerations centred around the evolution of more precise definitions of landlord and tenant rights and duties than on transfer of ownership to the cultivator.10

The two most striking illustrations of the drive for agricultural productivity as a basis for English agrarian policy are the enclosure movement of the late eighteenth and early nineteenth centuries and the repeal of the Corn Laws in 1846. The enclosure movement completed the process, begun several centuries earlier, of consolidating the open fields and commons in compact holdings under individual ownership and management and stimulated the first real advances in agricultural practices in Britain since the thirteenth century. The repeal of the Corn Laws represented the triumph of urban interests, both industry and labour, over the same landed classes that had benefited from the enclosure movement and committed Britain to a tradition of free trade in food supplies.11 The continuing strength of this tradition, which has emphasized efficiency in food production rather than protection for the farm, has been a major obstacle to the entry of the United Kingdom into the European Common Market.

Marxian agrarian policy represents an important heresy, perhaps mutation would be a more appropriate term, of the English tradition.12 Despite its equali-


11. "The English industrial expansion which made possible an increase in real income for a vastly increased population might never have occurred if there had been a strong adherence to family farming and high tariff duties on incoming foodstuffs. Thus we may contrast this English system... with the French system in which family farming as a way of life was preserved at the expense of the farmers' real income and at the expense of the rest of the nation which paid high prices for food." Marburg, Op. cit., p. 49.

tarian thrust, the peasantry has, until very recently, remained outside the direct concern of both Marxian theorists and policy makers. The breaking up of large estates is primarily regarded as a step to reduce the political power of the landowning class preparatory to the "rationalization" of agricultural production in large-scale units.\textsuperscript{13}

Indian land reform legislation appears to represent a second mutation of the productivity tradition plus an attempt to seek a non-western ideological basis for agrarian social organization.\textsuperscript{14} Indian land reform policy is further complicated by the persistence of an intellectual tradition which assumes that small-scale peasant proprietorship is incapable of achieving the productivity levels that will be required to meet the development objectives of the Indian economy.\textsuperscript{15}

Although the increased emphasis given to the productivity objective in recent land reform policy has strong roots in English experience and Marxian development theory, it also has a strong empirical foundation in the economic environment which most under-developed countries face in the 1960's. The social and political unrest on the part of the consumers which accompanies rising food prices represents at least as important a source of political instability as inequities in the distribution of land ownership and income in rural areas.\textsuperscript{16} In areas characterized by low productivity and rapid population growth, achievement of productivity objectives appears to be a pre-requisite for both socio-political stability and equalitarian justice.

It also seems clear that a land reform policy which fails to take advantage of the equalitarian drive of the rural population fails to provide sufficient motivation to achieve the productivity and growth objectives. The failure of the productivity oriented Marxian agrarian policies to achieve their productivity objectives appears to stem from both a lack of confidence in the peasant proprietor's capacity to react rationally when provided with adequate technical information and market incentives and strong reliance on ideological rather than pragmatic considerations in the organization of economic activity.


\textsuperscript{14} "... the felt requirements of the food situation, of economic growth, and social justice, ideological commitments to Gandhism and socialism and the reports of Chinese achievements have all combined to strengthen the belief of intellectuals in the necessity of joint farming." Raj Krishna, "Some Aspects of Land Reform and Economic Development," in Walter Froehlich, Op. cit., p. 234. See also pp. 214-254. For further discussion of Indian land reform, see the series of papers on "Land Reform Legislation and its Implementation in Different States," Indian Journal of Agricultural Economics, Vol. XVII No. 1, Jan.—March 1962, pp. 114-195. A.M. Khushro reports in "Summary of Group Discussion," Ibid., pp. 189-195, on an interesting argument among Indian economists as to whether Indian land reform has been primarily productivity or equity oriented.


\textsuperscript{16} Urban pressures appear to be a major obstacle to rationalization of rice price and marketing programmes in both the rice exporting and rice importing countries of Southeast Asia. In the rice exporting countries, rice is typically under-valued in relation to export prices. And in the rice importing countries, prices paid to farmers frequently exceed import prices while rice is made available to at least part of the urban population at subsidized prices.
The Objectives of Philippine Land Reform

Previous Philippine land reform legislation has been primarily directed to equity objectives. The Magsaysay land reform legislation of the mid 1950's, for example, was clearly directed toward the restoration of peace in the areas of agrarian unrest rather than toward improvements in agricultural productivity.17

The new Philippine Agricultural Land Reform Code of 1963 departs sharply from earlier legislative intent and places important emphasis on all three objectives—political, equity, and productivity. The specific objectives are (Sec. 2):

1. "To establish owner-cultivatorship and the economic family-size farm as the basis of Philippine agriculture and, as a consequence, divert landlord capital in agriculture to industrial development;  
2. To achieve a dignified existence for the small farmers free from pernicious institutional restraints and practices;  
3. To create a truly viable social and economic structure in agriculture conducive to greater productivity and higher farm incomes;  
4. To apply all labour laws equally and without discrimination to both industrial and agricultural wage earners;  
5. To provide a more vigorous and systematic land resettlement programme and public land distribution; and,  
6. To make the small farmers more independent, self-reliant, and responsible citizens, and a source of genuine strength in our democratic society."  

II. THE PROGRAMME INSTRUMENTS AND CONSTRAINTS

The impact of land reform legislation is conditioned both by (a) the policy instruments available to the land reform agency, and (b) the constraints or conditions associated with the general level of development of the Philippine economy and the forces which influence its future growth.10 I will now discuss the implications of both the policy instruments and the constraints on the productivity and equity objectives of the Philippine Agricultural Land Reform Code of 1963.


18. References are the sections in Agricultural Land Reform C-de (Republic Act No. 3844), Manila, Bureau of Printing, 1963.

Land reform, by itself, does not directly affect the growth of agricultural output. Changes in agricultural output are derived from changes in inputs and changes in the efficiency of input-output linkages (Figure. 1). The policy instruments and constraints must be evaluated in terms of the effectiveness with which they facilitate such changes.

Forces Conditioning the Development of Philippine Agriculture

Among the major forces or constraints which will condition the economic environment in which the administrators of the Philippine land reform will have to operate, at least four appear significant.

1. The opening of new lands cannot, in the future, be expected to continue to absorb population growth to the same extent that it has in the past. This does not mean that there will not be substantial opportunities for resettlement and investment in new land areas. It does mean that the opening of new lands will probably be more capital intensive and less labour intensive than in the past. 20

2. World demand for the output of Philippine commercial (plantation) crop production has risen recently as a result of political developments in Cuba and elsewhere. The exchange decontrol has also contributed to growth of demand for raw materials produced in the Philippines. Even under relatively favourable demand conditions, however, it appears that the traditional commercial sectors of Philippine agriculture will absorb a smaller share of a growing labour force than in the past. 21

3. Availability of new technology in the form of purchased inputs, such as fertilizer, insecticides, and improved varieties, when combined with greater managerial skill and appropriate income incentives, will permit the achievement of substantially higher yields than have been feasible in the past. 22 Realization of these higher potentials will become even more dependent than in the past on input, credit and product market policy as well as general economic development policy.

4. Non-agricultural employment, while continuing to expand at a moderately rapid rate, will not be sufficient to absorb all new entrants to the labour force. The number of workers who will be forced to depend on agriculture for employment during the next several decades will continue to rise. The net effect

20. The area planted to rice in the Philippines increased at an average annual rate of 2.5 per cent from 1939 to 1959. In recent years most of the expansion in acreage has come from upland rice. Between 1953 and 1959 the area planted to lowland rice expanded only 90,000 hectares while the area planted to upland rice expanded by about 236,000 hectares. The Philippines: Long-term Projection of Supply of and Demand for Selected Agricultural Products, U.S. Department of Agriculture, Washington, ERS-Foreign-34 (prepared by Robot Statistics Division, Mercantile Incorporated, Manila). Recent discussion by PIA, NEC, and the RCA has stressed the importance of consolidating rice production in areas with the highest response to new technological inputs.


Fig. 1. Sources of Agricultural Output Growth
is that the man-land ratio will continue to rise even in the areas of intensive cultivation.\textsuperscript{23}

Under these conditions, simultaneous achievement of the political, equity, and growth objectives of the Code will not be an easy task. Whether they can be simultaneously achieved at any given time in a particular economy depends upon the level of development already achieved—"while some land reforms are essential for economic development, economic development is essential for the success of many land reforms."\textsuperscript{24} This observation appears to be particularly pertinent to the achievement of the growth objectives but, as the recent experience with Indian land reform indicates, it applies with some force to the political and equity objectives as well.\textsuperscript{25}

The real difficulty of simultaneously achieving the political, equity, and productivity objectives of land reform policy at the present stage of Philippine development can be illustrated by two apparently inconsistent empirical generalizations drawn from land tenure experience in Asia. The recent experience of Japan and Taiwan supports the generalization that an agrarian structure consisting of extremely small owner-cultivator family farms can be viable, reasonably efficient, and capable of sustaining rapid increases in agricultural productivity and output.\textsuperscript{26}

On the other hand, there is considerable empirical evidence to support the generalization that small tenant operated farms obtain higher yields per hectare

\begin{figure}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
 & Metropolitan & Chartered & Poblaciones & Barrios & Total \\
 & Manila & Cities & & & \\
 & & & Provincial & & \\
 & & & Capitals & & \\
 & & (in thousand) & & & \\
\hline
1960 (Feb.) & 2,131 & 3,818 & 4,107 & 17,400 & 27,456 \\
1975 (Mid-year) & 3,889 & 6,449 & 6,480 & 27,680 & 44,506 \\
\hline
\end{tabular}
\end{figure}

\textsuperscript{23} In \textit{The Philippines: Long-term Projection of Supply of and Demand for Selected Agricultural Products, \textit{Op. cit.}, p. 45, the following population projections are presented:}


\textsuperscript{25} "...tenancy reform in India has failed, by and large, in reducing tenancy, in stopping evictions, and in reducing effective rent. An outstanding effect of tenancy legislation, surprising to the legislators, has been the eviction of tenants on a large, almost unprecedented scale, in the years preceding and following its enactment." Raj Krishna, \textit{Op. cit.}, pp. 220-221. Also, "Though since 1947 India has enacted perhaps more land reform legislation than any other country in the world, it has not succeeded in changing in any essentials the power pattern, the deep economic disparities, nor the traditional hierarchical nature of inter-group relations which govern the economic life of village society." Kusum Nair: \textit{Blossoms in the Dust}, Praeger, New York, 1962, p. 196. For a more optimistic view, see J. P. Lewis: \textit{Quiet Crisis in India}, Brookings Institution, Washington, 1962. "Only when one views rural India as an area teeming with people who have an old habit of helping themselves, who have been making considerable progress during the past decade, and who have much greater productive capacities than are presently being tapped, can there be much fundamental optimism about the near term prospects for rural development." p. 142.

than small owner operated farms, particularly in the production of food crops such as rice. \(^{27}\) Under a share rental system, this implies that small tenant operated units also maximize the landlord's return and contribute to a larger marketable surplus per hectare of land cultivated than a system of owner operation.

On closer examination, the apparent inconsistency between these two generalizations tends to disappear. In situations characterized by static technology, static standards and level of living, and low literacy and income levels, both total agricultural output and total marketable surplus can be maximized by a tenure system which forces the cultivator to produce beyond the level which satisfies his family consumption requirements. In this situation, share tenancy does not limit output but rather forces agricultural output above the level that would be achieved under a system of owner operation.

As developmental forces modify the technical and institutional structure of traditional agriculture, the feudal pattern of share tenancy begins to restrain rather than stimulate agricultural output growth. As possibilities for the use of \(\text{(a) new technical inputs}\) which must be purchased from the market sector such as new crop varieties, fertilizer, insecticides, and mechanical equipment, and \(\text{(b) improved farm management systems}\) which place greater emphasis on the exercise of skill and judgement, the traditional tenure system must be modified to provide market incentives if the economy is to realize the full output potential inherent in the new technology.

A basic criterion for efficiency in production is that inputs should be used to the point where changes in the value of production are matched by equal changes in production costs. If market incentives, in contrast to traditional motives of reciprocity or the pressures of unequal bargaining power, are to guide farm output to this level under a system of share tenancy, both the tenant and the landlord must share the cost of each input and each product in the same ratio.

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\(^{27}\) Data on yield classified by both farm size and tenure are, however, surprisingly difficult to find. Typically, one finds one-way classifications which indicate either that yield per unit area is inversely related to size and/or that tenants operate smaller size farms than owner operators. See, for example, Erwin J. Long, "The Economic Basis of Land Reform in Under-developed Areas," \(\text{Land Economics, Vol. 37, No. 2, May 1961, pp. 113-123}\); and Horst and Judith von Oppenfeld, J. C. Sta. Iglesia and P. R. Sandoval: \(\text{Farm Management, Land Use and Tenancy in the Philippines, Central Experiment Station Bulletin 1, UPCA, College, Los Banos, Laguna, pp. 23, 80-82}\). It has, however, been possible to obtain the following data classified by both size and tenure from a study in the province of Laguna, Philippines.

#### RELATION OF FARM SIZE AND TENURE TO PRODUCTION PER HECTARE OF LOWLAND RICE, LAGUNA, PHILIPPINES, 1962 (WET SEASON)

<table>
<thead>
<tr>
<th>Farm Size (in hectares)</th>
<th>Tenant</th>
<th>Part-Owner</th>
<th>Lessee</th>
<th>Owner-Operator</th>
<th>All Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>cavans per hectare</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 2</td>
<td>50.15</td>
<td>54.73</td>
<td>54.65</td>
<td>44.90</td>
<td>50.49</td>
</tr>
<tr>
<td>2 &amp; above</td>
<td>50.474</td>
<td>51.59</td>
<td>50.45</td>
<td>51.10</td>
<td>50.70</td>
</tr>
</tbody>
</table>

*Source*: An Economic Study of Laguna Province—A project in progress in the Department of Agricultural Economics, U. P. College of Agriculture, Los Banos, Laguna.
Consider, for example, the optimum level of fertilizer application on *palay*. Under a 50-50 product sharing arrangement, the optimum fertilizer application and the optimum yield/hectare will be achieved only if the direct fertilizer costs and the other cost increments associated with fertilizer use are shared equally (or equivalently are deducted before the product is shared). If the tenant (or the landlord) bears the full cost of the fertilizer, the incremental income gain will equal the incremental cost of the fertilizer to the tenant (or the landlord) at below the optimum fertilizer input and *palay* (rough rice) output level for the farm if it were operated under either a fixed cash rental or owner operatorship system. For some inputs, the tenant’s labour for example, there is no effective way of sharing costs.

The equilibrium level of labour inputs and of output for a farm operated under share tenancy will be lower than under a leasehold system with fixed cash rentals or a system of owner operatorship except in situations where (a) the tenant can be forced, either by social custom or economic pressure, to use his labour to the point where the value of an incremental unit of labour is substantially below the prevailing wage rate or opportunity cost, or (b) imperfections in factor and product markets prevent the leaseholder or the owner-operator from achieving optimum factor and/or product combinations and levels. Thus, the persistence of higher returns per hectare on farms of comparable size and fertility under conditions of share tenancy than under cash leasehold or owner operatorship serves as evidence of inadequate development of credit, supply or product markets and of public services in the agricultural sector. Where such markets and services are under-developed, achievement of the productivity objectives of land reform could be expected.

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31. This pattern may persist until rather late in the development process. Cotton yields were higher on multiple unit farms, typically operated on a share tenancy basis, in the U.S. cotton belt until very recently. See W. H. Nicholls, “Multiple-Unit Operations and Gross Labour Productivity Within the Old Cotton Belt,” *Journal of Farm Economics*, Vol. 34, No. 4, Nov., 1952, pp. 463-481.
legislation also will require simultaneous efforts to improve market performance and develop effective public services for the agricultural sector.\footnote{This discussion has focused on the changes required in efficient tenure systems during the early stages of development when agriculture is shifting from situations characterized by static technology and subsistence consumption to a situation characterized by small-scale commercial farming. At this stage, labour and land comprise a very high proportion of the inputs used in agriculture. The tenure modifications consistent with the productivity objective as agriculture shifts from an intensive small-scale to an extensive large-scale commercial pattern of production in which capital equipment and purchased inputs occupy a much larger share of total inputs are not discussed in this article. For an interesting discussion of this second problem, see J. O. Bray, “Farm Tenancy and Productivity in Agriculture: the Case of the United States,” Food Research Institute Studies, Vol. 4, No. 1, 1963, pp. 25-38. V. M. Dandekar, “Economic Theory and Agrarian Reform,” Oxford Economic Papers (New Series), Vol. 14, No. 1, 1962, pp. 69-80, argues that in over-populated societies land reforms leading to a system of small-scale owner operatorship system of farming should be avoided since once established it acts as an obstacle to the later development of larger scale commercial farming. He argues that the solution to agrarian problems in over-populated societies has to be found in “organization of the agrarian sector in large units of land and population, feudal in theory, modern in technology and oriented to a socialist purpose.” p. 79. F. Dovring, “Flexibility and Security in Agrarian Reform Programmes,” in Agrarian Reform and Economic Growth in Developing Countries, Op. cit., pp 30-40, argues for an evolutionary approach to tenure reform in which tenure policies are modified to conform to the level and pace of economic development in the total economy.}

Programme Instruments for Land Reform

The combination of programme instruments outlined in the Philippine Agricultural Land Reform Code appear to reflect a conviction that in the developing Philippine economy the traditional forms of share tenancy in food crop production are beginning to restrain the growth of agricultural productivity and output. Other provisions reflect a valid recognition (a) that a substantial number of the nation’s share tenants possess only limited technical information and managerial skill, and (b) that the transition toward a fully market oriented farm economy operating within an efficient system of privately operated supply, credit and product markets has yet to be achieved.

I will now characterize several of the major policy instruments included in the land reform legislation in terms of their potential effectiveness in achieving the productivity objectives of the Code.

1. \underline{Leasehold provisions:} Under the Code existing share tenancy contracts are abolished and replaced by leasehold contracts (Sec. 4). Rental rates under the leasehold contracts are limited to 25 per cent of the average normal harvest during the three agricultural years preceding the date the leasehold was established after deducting the amount used for seeds and the cost of harvesting, threshing, loading, hauling and processing (Sec. 34).

The leasehold provisions of the Code are directed at all three objectives—political, equity, and productivity. The political and equity objectives are served by greater security of tenure and reduced rental rates. The productivity objective is facilitated by the conversion from share tenancy to a leasehold system based on a fixed rental. All increments in output resulting from increments in inputs provided by the tenant accrue to the tenant. The result should be an increased incentive to use of purchased inputs and fuller utilization of the labour of the operator and his family.
2. Expropriation: Following declaration of a particular area as a Land Reform District, expropriation proceedings for the acquisition of agricultural lands owned by private individuals and worked by lessees in excess of 75 hectares can be initiated on petition of one-third of the lessees (Sec. 53). In determining just compensation, the annual lease rental income authorized by law capitalized at six per cent per annum shall be considered, without prejudice to considering other factors (Sec. 56). Limitations on transfer rights are imposed to 10 years beyond the repayment date (Sec. 62). In sub-dividing estates, priority will be given in the following order: (1) to members of the immediate family of the farm owner, . . . ; (2) to actual occupants personally cultivating the land; (3) to actual cultivators who are cultivating uneconomic-size farms; and, (4) to owner-operators of uneconomic-size farms (Sec. 128). No restriction on sub-division of estates among family members or others prior to the petition for expropriation by the tenants is contained in the legislation.

Failure to specify the date of the enactment of the Code, or an even earlier date, as the effective date for determination of size of holdings can be expected to reduce sharply the number of holdings that will be subject to expropriation. Requirement that expropriation proceedings be initiated by petition of the tenants rather than a provision for automatic transfer of title to tenants will further restrict or delay expropriation. Lack of precision in the specification of valuation procedures can be expected to make ownership less attractive than leasehold tenancy in many situations. The restrictions on sub-division of land obtained by expropriation are consistent with the efficiency objective while the restrictions on resale will limit recombination into economic size units.

3. Landlord compensation: Landlords whose properties are expropriated shall be compensated ten per cent in cash and the balance in six per cent tax-free, redeemable bonds (Sec. 80). The bonds can be used to purchase from the government undeveloped land in the public domain or shares of stock in government owned or controlled corporations (Sec. 85).

This provision is consistent with the efficiency objective of the Act although somewhat greater flexibility in investment alternatives would probably be desirable. It reflects a shift in the position of the Philippine government from a policy of use of the public domain for resettlement in small units to use of the public domain for the production of commercial or food crops which can be grown efficiently under a plantation type of organization. The shift is a result of the high financial cost and lack of economic viability of previous resettlement efforts. In the absence of undue inflation, this pattern of compensation would be far less confiscatory, even if the suggestion that valuation be based on capitalization of annual lease rental income is strictly adhered to, than has been typical in many other countries that have experience of land reform in recent years.35

35. In Japan the confiscation was accomplished by the very low post-war yields used as a base for establishing land values and by rapid inflation following the land reform. In Taiwan instalment payments and taxes are only slightly more than one-third as high as the rental payments. See J. L. Buck, "Progress of Land Reform in Asian Countries," in Walter Froelich: Op. cit., pp. 81-93. An earlier draft of the new Philippine legislation included an addition to the land tax designed to drive down the price of land. This form of confiscation was apparently not acceptable to the Philippine legislature.
4. **Exemptions:** Lands planted to permanent crops under labour (i.e., plantation type) administration are exempted from expropriation (Sec. 51). Lands planted to citrus, coconuts, cocoa, coffee, durian, and other permanent trees at the time the Code is implemented are exempted from the leasehold provisions (Sec. 35). Furthermore, the leasehold provisions of the Act can be modified (in a manner not specified in the Code) to assure efficient management in production and processing of all crops subject to marketing allotments (Sec. 4). The minimum wage for hired labour is raised to P 3.50/day (Sec. 42).

These provisions are consistent with the efficiency criteria. In effect, the leasehold and expropriation provisions apply primarily to those situations where production is currently organized on a small-scale share tenantry basis. The increase in the minimum wage is a reflection of the equity objective of the Code.

5. **Credit:** The Agricultural Credit and Co-operative Finance Administration (ACCF) has been reorganized into the Agricultural Credit Administration (ACA) and its functions oriented to service the land reform programme (Sec. 101). Production loans for the purchase of work animals, tillage equipment, seeds, fertilizer, poultry, livestock feeds, and other similar items may be extended to small farmers with the production of the borrower serving as the collateral (Sec. 106). Total charges, including interest and insurance fees, shall not be more than eight per cent per year (Sec. 110). Funds for ACA for loans to service co-operatives are also provided for (Sec. 108).

The credit provisions of the Act have both productivity and equity objectives. On the productivity side, the credit provisions represent a clear recognition that rural credit institutions are not yet adequately developed to assume the role of the landlord as a credit intermediary.³⁴ It appears likely that promulgation of the leasehold and expropriation provisions of the Act will reduce the incentive of the landlord to continue this function. Implementation of the Code could be frustrated if landlord credit is not supplemented with adequate private or public credit from other sources.

The low interest rate, presumably imposed for equity purposes, represents a potential source of conflict between equity and efficiency objectives. As administrative costs on small loans are notoriously high, even in countries in which capital is relatively abundant, this provision may result in erosion of the capital assets of the ACA.

6. **Public services to agriculture:** The Bureau of Agricultural Extension has been transferred from the Department of Agriculture and Natural Resources (DANR), renamed the Agricultural Productivity Commission (APC), and its Chairman designated one of the members of the National Land Reform Council (Secs. 119, 126). The work of the APC will be intensified and a new emphasis placed on farm management in the Land Reform Districts (Sec. 124).

These provisions of the Code are directed primarily to the productivity objective. It reflects a recognition that a substantial portion of the nation's share tenants require more technical knowledge and managerial skill to shift successfully from a share tenancy to a leasehold or owner operatorship system of operation. If public agencies are seriously deficient in providing the technical and managerial guidance formerly provided by the landlord or his agents, the prospects for successful transition from share tenancy would be seriously weakened and agricultural output growth impaired.

The importance of an intimate association between agricultural research and rural adult education for the vitality of both organizations is widely recognized. Special effort to achieve effective working relationships between the APC and the research bureaus of the DANR will be necessary to achieve effective interaction between agricultural research and education.

III. SOCIAL VALUES AND PUBLIC ADMINISTRATION

An empirical evaluation of the consequences of the new land reform code is clearly premature at this time. As of September 1, 1964 only four land reform districts have been declared in the heavily tenanted areas of Central Luzon (Pilaridel, Bulacan; San Luis, Pampanga; Gapan, Nueva Ecija; Concepcion, Tarlac). It is possible, however, to identify several forces which will condition the effectiveness with which the programme is administered.

The objectives of the Agricultural Land Reform Code and the choice of policy instruments available to the National Land Reform Council to implement the Code were arrived at through the complex process of interaction between the Executive and Legislative branches by which public policy decisions emerged in a democratic society. The relative weights given to political, equity, and productivity objectives clearly reflect the interaction between executive and legislative value judgements about how the rural economy should be organized; what means should be used to implement the Code; and judgements regarding the effectiveness of alternative programme instruments and constraints.35 To the extent that landlords, tenants, programme officials, and technicians do not share the value orientation reflected in the Code, programmes, procedures, and results may differ from executive and legislative intent.36

A thorough evaluation of the impact of the values held by different segments of Philippine society on the Agricultural Land Reform Code and its implementation is clearly beyond my capacity. I will refer, however, to four examples which appear to reflect the impact of values on the passage and implementation of the Code.

35. The question is frequently raised as to why both values and programme objectives are included in the policy analysis system used in this paper. Values are conceived as normative propositions by which human beings determine what is desirable. Specific policy goals, on the other hand, reflect the interaction of values and what is known or believed about programme variables, constraints, and relationships. For further discussion, see P.E. Jacob and J. J. Flink, "Values and Their Function in Decision-making," The American Behavioral Scientist, Vol. 4, No. 9, May 1962 (Supplement), pp. 7-32. Also, Iowa State University Centre for Agricultural and Economic Adjustment, Goals and Values in Agricultural Policy, Iowa State University, Ames, 1961.

First of all, passage of the 1963 Agricultural Land Reform Code reflects a major change in the relative weight given to equity and productivity objectives by leaders of the agrarian reform movement in the Philippines. Previous attempts to secure land reform legislation, primarily oriented toward equity objectives, have not succeeded in passing effective land reform legislation. The intellectual architects of the 1963 Code clearly visualized the new legislation as a mechanism for achieving a new pattern of rural organization that would provide the necessary incentives and supporting institutions to permit Philippine farmers to meet national production goals. Without this broader appeal which the productivity orientation gave to the legislation, it is doubtful whether sufficient intellectual and political strength could have been mobilized to assure passage of the Code in a National legislature in which the interests of rural landowners are strongly represented.

The expropriation and landlord compensation provisions of the Code provide another example. These provisions seem to reflect a compromise between objective efficiency in achieving the equity objectives of the Code and value judgements with respect to the means which should be employed to achieve these objectives. The lack of precision of the provisions dealing with expropriation and compensation indicates that even the rather sophisticated type of confiscation of landlord property values by lowering land prices through an imposition of higher land taxes or arriving at land valuation by capitalization of reduced leasehold rental rates at six per cent represents an unacceptable means of achieving the equity objectives stated in the legislation.

As a third example of the role of values on the choice of programme instruments, one might cite the highly centralized pattern of administration outlined in the Code. The Code is to be administered by a National Land Reform Council. At the national level, membership of the National Land Reform Council is highly integrated with the membership of the recently established Rice and Corn Authority. At the regional and local level, programme implementation is entirely under the direction of agency personnel. There is no provision for the involvement of local governmental units or farmers’ committees in the administration of the legislation. Thus, administration of the Code relies heavily on the technical competence of agency personnel rather than on the processes usually recognized as necessary to achieve consensus and action at the local level. It should be pointed out that these limitations in the Act are clearly recognized by agency personnel and efforts are being made to structure the operations of the first land reform district under the Code to overcome some of the limitations.

Finally, effective implementation of the Code will require close co-operation among (a) the agencies “incorporated” under the National Land Reform Council, and (b) the several un-incorporated agencies of the Department of Agriculture and Natural Resources, the Department of Public Works and Communications,

38. In Japan the land reform programme was carried out by local land committees in the villages, towns, and cities which were comprised of members elected publicly with membership allotted to persons according to tenure status: five persons representing tenants, three persons representing the landlords, and two persons representing the owner-cultivators. Masaru Kajita: Land Reform in Japan, Agricultural, Forestry and Fisheries Productivity Conference, Tokyo, Japan, April 1959, pp. 30-31.
and others. A pattern of "institutional fragmentation" which characterizes much of Philippine public administration represents an important potential barrier to such co-operation and to achievement of the land reform objectives. This institutional fragmentation stems from a tendency to place a high value on power conservation or enhancement in relation to the value placed on programme mission or objectives in activities involving inter-agency co-operation. 39

IV. SUMMARY AND IMPLICATIONS

The theses of this paper can be summarized as follows:

1. The "classical" political and equity objectives which dominated the liberal land reform movements of the nineteenth century and first half of the twentieth century have gradually been complemented by a third objective—higher agricultural productivity.

2. Under present-day conditions, achievement of the productivity objective appears to be a pre-requisite to attainment of political and equity objectives. This is particularly true in countries characterized by low per capita incomes, high man-land ratios, and rapidly rising urban populations.

3. Simultaneous achievement of political, equity, and productivity objectives is least difficult in situations characterized by well-developed farm supply, credit and product markets, and an educated rural population. Where these conditions do not prevail, achievement of the productivity objective requires public intervention to speed market development and to provide farmers with technical and managerial advice and services.

4. The Philippine Agricultural Land Reform Code is particularly significant in recognizing the importance of the productivity objective in modern land reform. It appears, however, that the reforms contemplated under RA No. 3844 will be only partially successful in achieving the objectives of establishing "owner-cultivatorship and economic family-size farm as the basis of Philippine agriculture" (Sec. 2).

In summary, it appears that RA No. 3844 is the most significant step yet taken in the evolution of agrarian reform legislation in the Philippines. It also appears unlikely that the 1963 Agricultural Land Reform Code will represent the final step in this evolution. As the Philippine economy continues to develop, it seems reasonable to expect that additional pressures will arise to convert the leasehold tenancy system now being established into a system of owner cultivatorship. The rapid rate of population growth, rising per capita income, and foreign exchange needs will maintain a continuing pressure to increase the rate of growth of farm output. This will place an increasingly high premium on the achievement of a tenure system that is consistent with the rapid adoption of new technology and the rapid growth of agricultural output.