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1989

JAARLIKSE KONFERENSIE
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VERRIGTINGE/PROCEEDINGS

ANNUAL CONFERENCE
OF THE
AGRICULTURAL ECONOMICS
ASSOCIATION OF SOUTHERN AFRICA

25 - 27 SEPTEMBER 1989

BLOEMFONTEIN

ISBN 0 620 14741 5

RISK AND THE EMERGENCE OF SMALL FARMERS IN SOUTH AFRICA

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Abstract

The paper deals briefly with two broad themes:

- how risk, as experienced by existing white farmers, is contributing to the emergence of a body of actual and potential black, "coloured" and Asian small farmers in South Africa,
- how risk can be expected to constrain the rate of growth of the numbers and output of such farmers.

A broad definition of 'risk' as the 'chance of loss' is adopted.

In the first theme, market forces that are currently acting to make agriculture a comparatively unattractive sector for investment are reviewed, some tentative projections made, and the varying responses of farmers noted.

In the second, the consequences of the risk averse nature of small farmers are discussed, and possible measures for risk reduction/dispersion identified. Some advantages and limitations of tenancy, and in particular of sharecropping, as an institutional means of encouraging small farmers are explored.

Secondary data is used throughout and the emphasis is on identifying issues rather than prescribing solutions.

1. Introduction

Large farming units form the backbone of commercial agriculture in South Africa. They occupy the greater part of what are presently the commercial farming areas and produce the overwhelming bulk of output. These characteristics are well established and are unlikely to change markedly in the coming decades, regardless of changes in the political dispensation.

With the financial pressures on most branches of farming intense, the average size of farming units has grown at an accelerating pace (Viljoen 1988:24) to take advantage of whatever economies of scale exist. Smaller farms, it seems, cannot compete and are likely to continue to decline in importance.

Yet, paradoxically, it is precisely these trends that emphasize the importance of small farms: to provide a continuing

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challenge to the assumed dominance of economics of scale; to lessen the danger of excessive concentration of production; to constitute a bottom rung for the commercial farming ladder (Smith and Odendaal 1980) at a time when capital requirements have expanded to the point of making entry to commercial farming prohibitive (Hattingh and Herzberg 1980); to offer secure employment and residence in rural areas in the face of a rising tide of urbanization and urban unemployment; to broaden the distribution of income in a society notable for its extreme disparity (Hagen 1975), thereby also expanding the size of the domestic market during a period of limited export promotion potential (De Klerk, forthcoming) and - in a changing political climate - to ensure that the opportunities for and fruits of commercial farming are seen to be open to all who have the skills and will to produce at least part of their output for the market. It will not be sufficient simply to do away with laws affecting land access which are based on race.

Small farms should not be seen as the sole alternative to large, privately-owned units. In many areas - particularly the extensive grazing regions - they are probably not an appropriate form of tenure. Their efficiency is debatable and, uncontrolled, they represent a significant conservation hazard.

However, the focus of this article is not on the merits and demerits of small farms per se. Rather, it is on some of the developments in commercial agriculture - in particular risk - which are starting to generate a core of actual and potential black, 'coloured' and Asian small commercial or semi-commercial farmers in South Africa, and on practical means for encouraging the (re-)emergence of such a class, given the risky environment within which farmers operate. The focus is also chiefly on the present 'white rural areas'.

Following Roumasset (1979:15), risk is defined as the chance of income falling below a critical minimum level.

2. The impact of risk on existing commercial farmers

This definition of risk needs some elaboration.

By 'income', it is clear that Roumasset is referring to nett income. Gross income, with no reference to costs, gives little indication of a farmer's ability to survive.

'Critical minimum' (nett income) also needs some interpreting. In any single year, it could reasonably be taken to mean sufficient income not to have to add to existing borrowings. In the longer term, on the other hand, it would need to imply a rate of return on owner's equity adequate to induce the farmer to retain his resources in his existing enterprise - what one might loosely call a 'normal profit'.

Measuring what a farmer considers to be his actual rate of return is not easy: if the current trading profit were all that mattered, many farmers would long since have moved into other economic sectors. The presence of a range of imputed returns - from unrealized capital appreciation to lifestyle- is clearly also taken into account, making the accurate calculation of both the actual and the critical minimum nett income nearly impossible.

One therefore needs to look to less direct indicators. Perhaps the best proxy is - crudely - the total level of factor inputs applied on farms. At its simplest, a falling total level of inputs, in the absence of a falling input: output ratio, suggests failure to obtain the desired minimum income, and the consequent withdrawal of resources. An additional indicator of relevance would be the proportion of those resources owned by farmers: a fall in this proportion, *ceteris paribus*, reflects an unwillingness or an inability on the part of the farmers to supply the necessary inputs. In either case, a sub-minimum level of income is implied.

Of the various factors, entrepreneurial input cannot readily be measured; the total land input varies relatively little; and employment in agriculture fell erratically from the late 60's to the early 80's, since when it seems to have remained more or less on a plateau. This brings one to the capital stock.

Accurate measurement of the nominal capital stock is not easy, and is complicated in South Africa by the inclusion of land in official estimates of the value of capital assets in agriculture. Accurate measurement of the real capital stock is still more difficult. Detailed discussion of these issues is beyond the scope of this paper. Elsewhere, I have argued that it appears, after adjustments, that the real capital stock in agriculture has remained substantially the same for most of the past two decades (De Klerk, forthcoming).

To maintain the capital stock at this level, however, farmers in the 80's have come to rely on a much greater input of borrowed funds. Whereas in 1975 debt constituted 11,8 percent of the value of farming assets, by 1986 this had risen to 27,1 percent. Though part of this increase should be discounted because of the relative undervaluation of capital in the 1980's, the escalating dependence on loans from outside parties is clear. Farmers have become either unwilling or unable to retain the proportion of the capital stock that they owned in previous years.

The stagnation or decline in the real nett worth of farmers resulting from the combination of these trends suggests that nett collective income was less than the critical minimum needed to retain farmers' capital inputs at previous levels. Risk - defined as the probability of achieving that critical

minimum level - can therefore be seen to have increased for commercial farmers in South Africa, at least in the 1980's.

More concretely, rising levels of debt bring with them a rise in what for any firm is the ultimate risk, that is, insolvency and liquidation. On the basis of the broad rule of thumb applied by the SA Agricultural Union - that total debt should not exceed half of the value of total assets (1984:72) - the overall position of the agricultural sector still appears sound, even with the average debt burden (debt/assets) at about 27 percent as in 1986 and 1987. But the average conceals considerably variance and as far back as 1983, when the average debt burden was considerably lower (about 19 percent), it can be estimated from SA Agricultural Union data that more than 10 percent of farmers were probably in immediate danger of insolvency in terms of the '50 percent criterion'.

Moreover, as the level of debt grows, it becomes increasingly difficult for farmers to cover their interest payments and repay loan capital, particularly in times of high nominal interest rates. Beyond a certain point - usually much lower than the 50 percent just referred to - it is reckoned to become effectively impossible to farm without a progressive increase in debt. Of course, what is critical at any moment depends not only on the burden of debt itself, but also on the rate of interest, expected crop yields, input and output prices, asset structure and so on. In the circumstances prevailing in 1983, the standards adopted by the SA Agricultural Union were that farmers in the summer crop and meat subsectors with a debt burden in excess of 20 percent, should be regarded as financially unsound, and that for all other producers the critical burden should be 30 percent (1984:58).

Against these criteria, no fewer than 15 200 farmers - 22,4 percent of the total - concentrated chiefly in the Transvaal and Orange Free State, were assessed to be financially unsound in 1983, since when the position appears to have deteriorated. Confirmation of these trends is to be found in court records. Though relatively few farms that change hands under financial duress are actually sold on sequestration, the number of farmers sequestered for insolvency has risen sharply in recent years: whereas between 1980 and 1984, the average number of agricultural sequestrations per year was 75, between 1985 and 1987 the average jumped to 232. In 1987, it was 313 (Central Statistical Services 1986:15,23; 1988:10,67), and it goes without saying that the number in all years would have been much greater were it not for extensive state aid.

The risks not merely of not achieving a critical minimum income level in any single year, but, cardinally, of slipping gradually into insolvency, have therefore become significantly greater during the 1980's. To describe the period which commercial agriculture has entered as a 'crisis' does not seem to be an overstatement. In the remainder of this section brief

attention will be given, first to the causes and predominantly structural nature of the crisis, and second, to a particular set of implications, namely, those for the emergence of small farmers.

The roots of the crisis can be traced, on the one hand, to factors which have induced uneconomically high levels of investment in the past, notably state agricultural input and output pricing policies, monetary policy in the form of negative real interest rates over extended periods, and banks' leading policies. In varying degrees, all three now seem to be changing, constituting less of an inducement to invest than before. On the other hand, a distinct but not unrelated group of factors - drought, the high nominal interest rates accompanying high levels of inflation, and the prolonged adverse trend in agriculture's terms of trade (Economic Advisory Council of the State President 1986) - has made further investment more difficult by distending the burden of debt carried by farmers.

What is most noteworthy about the second group of factors is that, with the exception of drought, there is reason to believe that they are less cyclical than structural. Interest rates in the foreseeable future are likely to remain higher both because of the phased withdrawal of most forms of state interest subsidy and because of a re-assessment of the consequences of negative real interest rates. And the terms of trade will probably continue to deteriorate gradually - short term improvements notwithstanding - ultimately because, on an international scale, one can expect supply in the medium term to continue to grow rather faster than demand. It remains to be seen whether the GATT Uruguay Round will be able to alter this relationship noticeably.

The prognosis is, therefore, that commercial agriculture will remain a comparatively risky and unrewarding area of investment. In nett terms, capital is unlikely to accumulate in or flow into agriculture in significant quantities for some years, though there will always be sub-sectional expectations, such as timber at present.

For the economy as a whole, the most important projected trends are the continued decline in the relative contribution of agriculture to the gross domestic product and to foreign exchange earnings and an unstemmed flow of rural workseekers and their families into urban areas. More positively, the prices of foodstuffs ought to rise less rapidly, reducing the pressure on urban incomes and assisting urban employment growth.

For the rural economy, some of the relevant consequences are likely to be a slower rate of growth of agricultural output, the further consolidation of large farming units and the gradual transfer of marginal arable land to pastoral production

- all of which will tend to reduce employment and keep real wages from rising on farms and in small towns. On smaller farms, the increase in the number of part-time operators can be expected to continue (Viljoen 1988:27).

However, this overlooks what is really the most relevant set of consequences in this context. These are little more than nascent as present, but have the potential in the long run to bring about far-reaching changes in production structures and the composition of the farming population. The same market forces which are making agricultural production less attractive to many existing white farmers are already, or can be expected soon to start generating a core of actual or potential black 'coloured' and Asian commercial or semi-commercial farmers, through a number of distinct channels.

In the sugar industry, large vertically-integrated producers with substantial processing and marketing capacity are encouraging small black producers to take over a share of the relatively high risk, low return operation of cane farming. The farmers' share of each Rand spent by consumers on sugar is lower - 26,8 percent in 1987 - than for any other major category of agricultural goods produced in South Africa - not much more than half of the average (47,9 percent) for agricultural goods as a whole (RSA Department of Agricultural Economics and Marketing 1989:99). The devolution has been remarkably successful and there are now several thousand such small producers in KwaZulu and Natal who produce a more-than-negligible proportion of the cane crop (Fairall 1988).

In other subsectors, where the unique geographical, production and marketing structure of the sugar industry are not to be found, farmers' responses to unfavourable circumstances have been different. Many marginal farmers have turned to part-time farming to spread risk and generate additional cash flow - a pattern that is firmly established even in more developed economies. In the United States, 70 percent of the income of farm families is now derived from off-farm sources, and in the European Community one third of all farmers are part time (Reeves 1987:401). The SA Agricultural Union estimated that 15 percent of commercial farmers were part-timers in 1983 - about 9 000 (1984:33) - while other commentators have put the figure at about 20 000 more recently (Harrison 1987). The consequence which is of most interest here is that responsibility for day-to-day production activities are in many instances being taken over by what are effectively black farm managers. Higher levels of skills are being transferred, though as yet these probably do not include all-important financial know-how.

Two further channels can be identified, which are hard to trace on the ground, but which the logic of current circumstances suggest should be happening. The first is that some marginal and sub-marginal commercial farmland is probably being rented covertly to black tenants, though this would probably involve

little or no production for the market at present. Where land cannot be used profitably for fully commercial production and is unattractive to tenants for the same purpose, but the owner does not wish to sell, tenancies of other kinds are the sole income-earning alternative. It may be no accident that there is pressure in certain quarters for more stringent rural anti-squatter legislation.

And second, farmers who have cash-flow problems - typical where annual crops predominate - are likely to want to pay a smaller proportion of wages in cash.

When the emphasis is on output rather than on efficiency, the opportunity cost of offering access to land in lieu of wages is high. But when the reverse is the case, as it is at present, then the opportunity cost falls and, particularly for marginal farmers, it may well be cheaper to revert to this traditional form of payment. Workers whose remuneration package includes land access are, of course, partly labour tenants. As with anti-squatter calls, it may be no accident - in this instance of oversight - that the provisions of the 1936 Land Act which prohibited labour tenancy were repealed in 1986 along with others that made up the machinery of influx control.

What is perhaps most significant about these processes is that they are all being driven by market rather than political forces. And, as was argued earlier, the essential direction of these forces appears to likely to remain the same in the foreseeable future. The core of actual and potential black, 'coloured' and Asian commercial farmers can therefore be expected to continue to grow. In the absence of the repeal of the Land Acts and the Group Areas Act, this will constitute the cutting edge of deracialization in agriculture.

If it is not out of order to speculate a little, one might suggest that, realizing the need for the emergence of a black commercial farming class but mindful of the conservative attitude of most white commercial farmers, the present government will - as in urban areas - probably retain the main body of legislation which presently defines rights of access to land in racial terms, but seek ways of accommodating the market forces which are carrying forward the process of deracialization - what one might call a policy of 'managing the shift of the black-white frontier'.

The next section considers some practical aspects of formulating policy to encourage the emergence of such farmers - particularly those related to risk - that the present or any other government would need to bear in mind. The focus on the existing 'white rural areas' is merely to confirm the discussion.

3. Some implications of risk for emergent small farmers

The risks which determine the probability of a farmer's receiving more than a critical minimum income are, of course, multiple, concerning every aspect of input and output prices and quantities (Ritson 1980:89). Policies designed to deal with the undesirable consequences of risk aversion are equally wide-ranging (Binswanger 1979:394). Bearing in mind the changing political environment of agriculture in South Africa and the need to foster a class of small farmers outlined in Section 1, the argument here discusses a small number of risk reducing or spreading policies which address this need, given the particular resources and constraints of this changing environment. For the most part, the focus is on institutional reform, specifically the various forms of tenancy.

3.1 Key characteristics of the status quo and the case for re-examining tenance

Any policy of reform starts from the status quo, the characteristics of which constitute both the resources and the constraints of the reform process. Amongst the most relevant characteristics the present state of agriculture in South Africa are:

- that 'the country feeds itself' and earns a significant income from agricultural exports. Though this is done at the cost of substantial subsidies and protection leaving a good deal of room for improvements in efficiency, this capacity is one which any government would want to maintain. As has already been noted, the overwhelming bulk of this output is produced on relatively small 'core' of farms (Hattingh 1986:12),
- that the average capital requirement for commercial farming units, including the value of land, is in excess of R700 000 (RSA Dept of Agricultural Economics and Marketing 1989:6,81),
- that only about 10 percent of agricultural land is productively and sustainably arable and that only a small fraction of this, in turn, is suitable for intensive small-scale farming,
- that access to agricultural resources outside the present 'independent' and 'self-governing black states' and the 'coloured rural areas' is almost completely exclusive to whites,
- that a demand for agricultural land is articulated at many levels by the black community - from expressions of 'land hunger' by residents of black rural areas especially those who own livestock, to those of individual communities dispossessed by some form of state action in the not-so-

distant past, to the broad political demands laid out in the Freedom Charter,

- but that, given current and projected risks and returns, agriculture cannot be seen as easy way to make a living, particularly for resource-poor people.

In the light of these characteristics, the need to foster a class of small farmers can be reformulated more specifically as the need to develop institutions:

- which guarantee security of tenure at least for an extended period and at least to producers on 'core farms' (though, in practice, this may mean guaranteeing the 'willing buyer, willing seller' basis of all land transactions),
- but which provide routes of access to white- or state-owned land to black, 'coloured' or Asian farmers who wish to climb onto a rung of the farming ladder,
- which help reduce or spread farming risks, in particular those attached to initial capital and minimum household income requirements,
- and which interpret the economic viability of farm sizes flexibly, but without increasing the likelihood of destructive land use.

Clearly, it will not be easy for any single institutional form to be first best at meeting all of these needs simultaneously, making compromise almost inevitable. The category of tenure arrangements which, *prima facie*, appears most likely to offer an acceptable compromise, is tenancy in its many forms. Despite the unfavourable image that it has acquired in South Africa (see section 3.2.1), arguably there are now strong grounds for opening a re-examination of the potential and limitations of tenancy.

3.2 The performance of tenance

A number of informal criteria have just been laid out. What evidence is there to assess the performance of tenancy - past, present or possible future - against these and other relevant criteria?

3.2.1 Historical

Tenancy currently has an unfavourable image in South Africa, amongst both whites and blacks. Various commentators (Joubert and Groenewald 1974-75; Hattingh and Hertzberg 1980; Viljoen 1988) have analyzed the reasons for the comparative insignificance of leasing among white commercial farmers. (The percentage of agricultural land leased stabilized at about 18

in the 1970's, when last estimated (Viljoen 1988:26). In essence: existing legislation appears to be prejudicial, particularly to lessee's security and to the incentive to maintain and develop land. The latter derives partly from the lack of an entrenched guarantee of adequate compensation for improvements undertaken at the lessee's expense, unless specifically contracted for (Joubert and Groenewald 1974:16), and partly from the fact that the capital appreciation of land - which is often what differentiates between an acceptable and an unacceptable all-inclusive rate of return on farming (see section 2) - accrues solely to the lessor while the lessee generally bears most if not all of the costs of maintenance. Viljoen (1988:26) discusses these and some other factors involved.

Amongst blacks, all three basic forms of tenancy - cash tenancy, share-farming and labour tenancy - were common in the earlier years of this century. However, more often than not, the relationship was weighted heavily in favour of landlords, with tenants having little option but to accept, if they wished to retain their status as farmers, rather than become wage employees (Keegan 1983). Of the three, only labour tenancy appears now to be legal - though this has not yet been tested in court - and the position of those labour tenants that survive is precarious (Transvaal Rural Action Committee 1988).

If tenancy is to become an effective vehicle for reform, it will need to hold more positive incentives for tenants than it presently does, without creating an opposite imbalance. Detailed consideration of policy options (see Joubert and Groenewald 1975) is beyond the scope of this paper, but one preliminary observation is in order. This is that openings in the present racially-exclusive system of land access (in 'white rural areas') will need to be made if tenancy of the nature envisaged is to become possible at all. For a government that is reluctant to dismantle existing restrictions in a single step, various less direct intermediate measures are possible, two which immediately present themselves are:

- to offer greater security to existing black tenants (Transvaal Rural Action Committee 1988:31). Since labour tenants are regarded in law as employees, not tenants, this could be done by amendments to labour relations legislation. This might also give impetus to the re-inclusion of land access rights as part of the remuneration package of 'bone fide farmworkers', which, in turn, might facilitate the re-introduction of the other forms of tenancy. Under a different government, an obligation could be placed on agricultural employers to include access to land as part of the overall wage, where requested by employees.

- to manage an initial shift of the black-white frontier (see section 2) by circumscribing areas of tenancy for black small farmers. One of a number of ways in which this could be done is for the state to purchase the land concerned and implement a leasing scheme directly - as is done on some irrigation schemes already. This raises a host of practical issues, such as unit size, some of which are dealt with below.

3.2.2 Efficiency and equity

As was pointed out in section 3.1, the gradual restructuring of agriculture will take place against the background of two overarching, opposing issues: historical dispossession, on the one hand, and food security on the other. Of the two, the latter is likely to dominate, since it will involve the means of existence not only of a section of the rural population, but of the nation as a whole, the majority of whom are already urbanized. Security of tenure for (the majority of) existing commercial farmers will therefore remain paramount but cannot remain exclusively so. To the extent that it does, the demands for land from the dispossessed will grow in stridency, and the probability of rash action by the state to accommodate these demands will increase. There has got to be some form of compromise. This will be seen by many as the most fundamental manifestation of the trade-off between equity and efficiency, though one should be careful to avoid identifying efficiency too closely with large farmers and equity too closely with small. In principle, by mobilizing white- and state-owned land for use by blacks, tenancy appears to offer a constructive compromise.

This raises the question of the productive efficiency of tenancy in its various forms, on which the literature is vast (see, for example, Hayami and Ruttan 1971:259-264; Otsuka and Hayami 1988). Suffice it to say that what was until 20 or 30 years ago the conventional view - that "there is no substitute, from the standpoint of sheer productivity, and irrespective of sociological considerations, for an owner-operated agricultural system" (Drake 1952:549) - is no longer accepted. In particular, previous models of share-tenancy, deducing its unambiguous inefficiency, have been shown to be inadequate (Reid 1976; Newbery and Stiglitz 1979). Both theoretical and empirical reappraisal suggest that there is no single optimum tenure system from the point of view of efficiency (Hayami and Ruttan 1971:261). The White Paper on the Agricultural Policy of the Republic of South Africa appears to accept this (1984:6).

It is beyond the scope of this paper to investigate the efficiency of the various forms of tenure with any rigour. And it is potentially misleading to try to do so in the abstract, in any event. As Newbery and Stiglitz point out: "markets and institutions cannot be analyzed in isolation. One cannot (for

example) understand share tenancy without at the same time considering the market for wage labour and the rental market for land ..." (1979:312). Reid concludes that the reason why share tenancy was for so long regarded as inefficient was "the exclusive focus of traditional analysis on the interests of tenants to the exclusion of the interests of landlords" (1976:553-4).

The subsection below discusses some of the potential advantages and shortcomings of tenancy in the context of risk, in lieu of a more thorough analysis of efficiency.

3.2.3 Tenancy and risk

For convenience, agricultural risks are divided here into two broad categories: production risks and conservation risks. The first covers all of the risks related to prices and quantities of inputs and outputs - and therefore to income - for owners and users of the various factor inputs. These risks are primarily private. The second arises out of the externalities of resource use, in particular the use or misuse of land. These risks are primarily social.

3.2.3.1 Production risks

"The financial outcome of a particular production decision (in agriculture) cannot be predicted with complete accuracy, first because the relevant production function will not be perfectly known, second because the quantities applied of some biological and climatic inputs lie outside the control of the decisionmaker, and third because the prices paid for inputs and received for products vary through time" (Ritson 1980:89). Arguably, all three sets of unknowns tend to vary more in agriculture than in most other economic sectors. Farming is a more than usually risky business, particularly for small, resource-poor farmers with few reserves, who are therefore generally assumed to be particularly risk averse. Tenancy provides a number of means for reducing or spreading production risks, though these are not all exclusive to tenancy.

First, it reduces the minimum capital requirement enormously, land being well over half the total value of assets on most commercial farms. The reduction in gearing lowers risks for both farmers and lending institutions.

Second, share tenancy distributes production risks between tenant and landlord. Cash and labour tenancy, by contrast, place all risk on the tenant. Share tenants' access to resources other than land is also likely to be greater: landlords have more incentive to make available their expertise and equipment, while credit institutions may use share contracts as an indication of the creditworthiness of tenants.

From the landlord's point of view, although share tenancy represents an increase in risk over cash or labour tenancy, it also represents a decrease in risk in relation to the payment of a fixed wage, especially where supervision of labour is a problem (Newbery and Stiglitz 1979:318-319). This would apply particularly to part-time farmers. As they stand, the Land Acts and the Group Areas Act make formal share tenancy between white farmers and black, 'coloured' or Asian employees impossible (short of special ministerial dispensation), though some form of profit-sharing arrangement could be an adequate substitute. With these restrictions removed and with part-time farming expected to grow in importance, the economic climate could become conducive to the gradual re-emergence of share cropping in South Africa. Opinions in the literature suggest there could be some disagreement about this (Otsuka and Hayami 1988:56; Reid 1976:570-572; Newbery and Stiglitz 1979:318-319).

Also from the landlord's point of view, it is worth recalling one other advantage of tenancy, that is, the retention by the landlord of any appreciation in the value of land, though for reasons both economic and political, this might become less important in the years ahead.

Of the many potential ways for farmers to reduce or spread production risks, two that seem to stand out for small, resource-poor farmers in a South African context - tenants or not - are part-time wage employment and the extended rural-urban family relationship. Both provide a major source of non-farming income, in the first instance, probably from continued employment on the (large) 'farm of origin' of the small farmer; in the second place from migrants' remittances. The first also offers existing (large) farmers a way of retaining the services of their most able employees, who are also the most likely to want to (re-)commence independent production.

One policy implication of fundamental importance that follows from this is that an 'economically viable farm size' can be interpreted much more flexibly than it often has been. Given the relatively high risks and low returns of farming, the shortage of arable land, the desirability of establishing a farming ladder and the need to enable more than just a minuscule number of farmers to climb onto the lower rungs of such a ladder, it is neither necessary nor sensible to define an economically viable farm as one from which a family could expect to earn its entire income. While this may have been appropriate for whites who were seeking to earn all or the greatest part of their income from farming - and who were therefore prone to overutilize their land - it is much less appropriate for blacks for whom the traditions of wage employment on farms and reliance on migrant income - for reasons good and bad - are far stronger.

This brings one to the second major category of farming risks.

3.2.3.2 Conservation risks

There are grounds for arguing that small farms, in particular small tenants' farms, increase the risk of over- or underutilization of land. The Subdivision of Agricultural Land Act was passed precisely to prevent the poor farming methods associated with uncontrolled subdividing by white families, on the one hand. And, on the other, there is a high degree of underutilization of land on small farming units in black rural areas. Tenants, furthermore, tend to have a poor record of maintaining the land (Hattingh and Herzberg 1980:6). In the circumstances that would prevail if it became policy to encourage small farming, partly through tenancy, in the present white rural areas, what could one anticipate in this respect?

It is quite possible that some small farmers would wish to overutilize land, especially by overstocking it, just as many large farmers do. Legal conservation measures do exist, but far more (budgetary) emphasis would need to be given to enforcing them. A more effective method would be for landlords to do the policing, through writing explicit provisions into leases and through personal inspection. Perhaps the most effective method would be for leases to be made long enough for tenants to have an incentive to maintain the land. Casual evidence suggests that only a relatively small premium is placed on well-conserved land when it comes to land purchases and sales, making some landowners reluctant to bother about conservation. But for tenants, who reap none of the benefits of capital appreciation and whose income is derived solely from production, maintaining the carrying capacity of the land should be of cardinal importance, provided that the rental is fixed and that the lease is long enough. Against this, a danger of long leases is that they make it more difficult to evict unconservation-minded tenants.

Perhaps a greater danger is that small 'farmers' might find it more profitable to underutilize land for farming purposes and overutilize it for residential purposes, either for their own (extended) families or for subletting to others. There is ample evidence that rural land has more residential than agricultural value to many black families. This is the other side of the migrant income coin. Squatting - where land is hired out for short (possible successive) periods primarily for residence but also entailing some farming - is the worst form of tenure from a conservation perspective. Legislation would need to be firmly applied and might need strengthening. But, it should be easier to evict offending tenants than offending freeholders, if leases were suitably worded, although proving an offence might not be easy.

It is not only recent evidence about the sustainability of existing farming techniques that will make conservation issues more important in the future. Changing political circumstances will do likewise.

The risks to conservation of small farming emphasize the inherent riskiness and complexity of prescribing institutional change (Roumasset 1979:16). Almost all forms of institutional change will generate benefits at the cost of some new and some increased risks. But neither political events nor the market will allow the latter to delay institutional and other reforms indefinitely. The best that can be done is for society to inform itself as fully as possible of the risks attached to the respective reform options and to try then to design reform so as to maximize the expected nett social benefit.

4. Conclusion

It has been argued that it will become increasingly important to foster a class of black, "coloured" and Asian small commercial or semi-commercial farmers in South Africa in years to come. Though the reasons are as much political as they are economic, it is developments in the agricultural market economy, rather than political events, that are starting to generate a core of just such a group of farmers. Indications are that this core will continue to grow.

To realize the potential of these developments beneath the two overarching, opposing issues of historical dispossession, on the one hand, and food security, on the other, institutions will need to be evolved

- which guarantee security of tenure at least for extended period and at least to the relatively efficient large farmers who produce the bulk of agricultural output (Elliott 1984),
- but which provide routes of access to white- or state-owned land to black, "coloured" or Asian farmers who wish to climb onto a rung of the farming ladder,
- which help reduce or spread farming risks, particularly those attached to initial capital and minimum household income requirements,
- and which interpret the economic viability of farm sizes flexibly, but without increasing conservation risks unduly.

Though no rigorous assessment was possible and shortcomings were noted, tenancy in its various forms was found to offer a promising way of fulfilling these needs simultaneously. However, tenancy, as presently constituted, has negative associations for both black and white, tenant and landlord. Further research will be needed to identify the most favourable and realistic options, inter alia,

- for dismantling existing legislation which restricts land access,

- for reforming statutes governing tenancy to make it more attractive to both parties, and
- for adapting legislation controlling the subdivision of agricultural land.

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