Reforming Property Rights in Land and Tenancy

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REFORMING PROPERTY RIGHTS IN LAND AND TENANCY

Clive Bell

This article examines the nature and distribution of property rights in land and how they are changing under economic and demographic pressures. It also analyzes the practical chances of success of several alternative forms of policy intervention to redistribute property rights and regulate tenancy. This analysis begins with the political economy of land reform in the twentieth century. It draws a distinction between reforms precipitated by social upheaval (defeat in war, social revolution, or national liberation) and those that occur in "normal" times, when the social and political order is more secure. It is argued that the former have been much more important and, drawing on examples, that the latter face formidable obstacles. In this connection, it is proposed that a tax reform which does away with the highly selective subsidies and exemptions that benefit the rich and inflate the price of land should be undertaken first. Then, when land prices have fallen, compulsory purchase of land for redistribution, at close to fair market value to ensure its political acceptability, would not entail an intolerable fiscal burden. Where tenancy is concerned, it is argued that this institution is commonly a socially useful market response, which provides opportunities for the fuller employment of family resources and, over the long run, for individual mobility. Thus interventions designed to inhibit tenancy directly or to transfer ownership-like rights to existing tenants may result in heavy costs, especially for future cohorts of would-be tenants.

Land is the central factor of production in agrarian economies. The entire rural population makes its livelihood from it, both directly, as landlords, farmers, and laborers, and indirectly, as producers of the local nonfarm goods and services sold to the farming community. In poor countries, agriculture usually accounts for 40 to 70 percent of gross national product and 50 to

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80 percent of total employment. Moreover, actual and imputed land rents account for at least one third and sometimes over one half of value added in agriculture. Hence, the incomes of the rural poor depend heavily not only on the efficiency with which land is used, but also on the distribution of the rents generated by its use.

The distribution of rents depends on the nature and allocation of property rights in land, which specify who can make claims on each particular use and output. Thus, direct access to land can come about either through individual ownership or, at the other extreme, through membership in a community that holds land in common. When land is individually owned, usufructuary rights can be transferred to other parties under tenancy contracts; when it is collectively held, usufructuary rights may not be individual, and even if individual, they may not be transferable.

The arrangements under which land is used will normally affect the demand for and use of labor and other inputs, such as draft animals and managerial skills. This is especially important if those markets are imperfect, since larger opportunities to cultivate will then create opportunities for the fuller use of the resources owned by the families that undertake cultivation. Conversely, access to these opportunities should encourage the accumulation of complementary assets and skills. Of course, for any given set of opportunities to gain direct access to land through cultivation, there will be many households that make their living mainly by selling their labor, whether by choice or out of failure to gain such access. For them, the demand for labor is vital.

The objectives of this article are to examine first, the nature and distribution of property rights in land, and how they are changing under economic and demographic pressures; and second, what forms of policy intervention are desirable, and their practical chances of success. The article begins with a discussion of the nature of property rights in land. This is followed by a sketch of alternative forms of tenure and intervention aimed at redistributing property rights. The third section deals with the political economy of redistributive reforms, drawing on examples from contemporary history. The fourth section assesses the prospects for redistributive reforms in normal times, when the social and political order is fairly secure, and the fifth analyzes the potential roles for tenancy, both as a market response and as an avenue of opportunity for individual mobility. The principal themes and findings are summarized in the concluding section.

Property Rights in Land

Property rights involve issues of exclusivity (who can use the asset and how much of the output he or she can claim); transferability (whether such uses and claims can be transferred to another, temporarily or permanently); and alienability (if transfers are permitted in principle, whether there are restrictions on how or to whom they may be made). These rights are inherently complex. For example, an owner may enjoy an exclusive claim to the standing crops on the plots he or she cultivates, but everyone in the community may have the right to graze their cattle on the stubble that is left after harvest. Customary grazing rights of this sort are widespread in India, where individual property rights in land are normally thought of as being strong.

Clearly, therefore, purely individual and purely collective forms of property rights are simply polar cases. Where the rights are purely individual, the owner has complete and exclusive claims to all uses and outputs and may dispose of the land as and to whom he or she sees fit. Land is then a purely commercial commodity. Where the rights are purely collective, all members of a community have claims on the output of land held in common (usually to the exclusion of outsiders), but they have no rights of transfer, except (perhaps) to bequeath membership to their children. Many intermediate forms are found between these extremes, sometimes as a result of local initiatives in the face of changing circumstances and an indifferent central state, sometimes as a result of central initiatives over local opposition.

In Africa, for example, usufructuary rights to farmland were normally acquired by initial clearing and maintained by cultivation (with suitable fallowing practices). When it is not under crops, such land is open to secondary use by members of the owner's social group. Once cultivation is resumed, however, it ceases to be a common property resource (Blarel and others 1989). Where transferability and alienation are concerned, in certain regions of Ghana and Rwanda, for example, a recent survey revealed that 59 and 62 percent, respectively, of all parcels can be alienated outside the lineage of their holders (Blarel and others 1989). For all parcels that can be alienated in some form, the proportions that can be alienated outside the lineage are higher, at 75 and 83 percent, respectively. This evidence appears to support the hypothesis that commercialization and population pressure encourage the emergence of individual rights, Rwanda being much more densely settled. Be that as it may, this traditional form of tenure is evidently more open, to insiders at least, than that based on pure individual rights.

Statistics on the average size of holding and the distribution of holdings by size and tenurial status for selected countries in Africa, Asia, and Latin America (tables 1 and 2) reveal great variations across countries and regions, which reflect profound differences in demographic, social, and economic history. Average holdings are small in Africa and Asia, with a somewhat more egalitarian pattern in Africa (notwithstanding a certain dualism in Kenya and Zambia, where there are a few very large holdings owned by Europeans). Average holdings are much larger in Latin America, with a decidedly inegalitarian pattern. Owner-operated holdings are the largest category in both number and area, except in Cameroon and Mexico, where tribal and communal forms are dominant. In all cases the average owner-operated holding is larger than the average pure tenancy. Holdings comprising more than one form of

Table 1. Distribution of Landholdings by Size, for Selected Countries, about 1970
(percent)

Region and country	Average size of holding (hectares)	Distribution of holdings by number of hectares								
		0–1	1–2	2–5	5–10	10–20	20–50	50–100	100–500	500+
Africa										
Cameroon	1.6	42.7	30.5	23.3	3.2	0.3	...	—	—	—
Ghana	3.2	37.7	24.2	24.0	8.8	3.5	1.8	...	—	—
Kenya	4.1	31.8	26.9	31.1	9.9	...	—	—	0.1	...
Malawi	1.5	39.1	34.6	26.3	...	—	—	—	—	—
Sierra Leone	1.8	37.8	26.9	29.7	5.6	—	—	—	—	—
Zambia	3.1	50.4	28.6	17.2	3.8	1.4	0.5	—	0.1	—
Asia										
India	2.3	50.6	19.1	19.0	7.4	3.0	0.8	0.1	...	—
Indonesia	1.1	70.4	18.1	9.4	1.5	0.6	—	—	—	—
Iraq	9.7	20.1	11.2	18.1	21.5	18.6	9.0	1.0	0.5	...
Korea, Rep. of	0.9	66.9	26.4	6.7	...	—	—	—	—	—
Pakistan	5.3	13.8	14.3	39.9	21.1	7.7	2.5	0.6	...	—
Philippines	3.6	13.6	27.4	43.8	10.4	3.6	1.0	0.2	...	—
Sri Lanka	1.2	71.2	16.9	9.9	1.3	0.4	0.2	...	—	—
Latin America										
Brazil	59.7	8.1	10.0	18.7	14.7	15.7	16.7	7.0	7.5	1.8
Colombia	26.3	22.9	15.1	21.6	13.6	10.0	8.5	4.1	3.6	0.7
Costa Rica	38.1	23.2	9.8	15.9	11.0	11.0	14.6	7.3	6.2	1.0
El Salvador	4.6	56.6	18.6	13.5	5.0	2.8	2.2	0.6	0.5	0.1
Mexico	137.1	33.5	11.1	15.1	10.0	7.8	8.1	4.8	6.0	3.6
Peru	16.9	34.8	18.8	24.4	11.0	5.7	3.3	0.9	0.8	0.2

— = not available.
... = less than 0.1 percent.
Source: FAO 1981.

Table 2. Distribution of Landholdings by Form of Tenure, for Selected Countries, about 1970
(percent)

Region and country	Holdings under one form of tenure: Owned		Rented		Squatter		Communal and other		Holdings under mixed tenure		Proportion of area rented	Proportion of rented area under share tenancy
	Number	Area	Number	Area	Number	Area	Number	Area	Number	Area		
Africa												
Cameroon	2.4	2.5	5.2	2.7	7.5	6.1	59.5	58.4	25.4	30.2	7.5	0
Ghana	—	—	—	—	—	—	—	—	—	—	—	—
Kenya	—	—	—	—	—	—	—	—	—	—	—	—
Malawi	—	—	—	—	—	—	—	—	—	—	—	—
Sierra Leone	—	85.6[a]	—	6.3[a]	—	0.5[a]	—	7.6[a]	(b)	(b)	6.3	0
Asia												
India	92.0	91.5	4.0	2.4	...	...	...	...	4.0	6.1	—	—
Indonesia	74.8	76.2	3.2	2.1	...	...	...	0.2	22.0	21.5	—	—
Iraq	—	52.4[a]	—	40.9[a]	—	4.8[a]	—	1.9[a]	(b)	(b)	40.9	—
Korea, Rep. of	65.9	66.1	9.5	6.7	...	...	...	...	23.8	27.2	17.2	—
Pakistan	41.7	39.5	34.5	29.6	...	...	...	...	23.8	30.9	46.1	83.4
Philippines	58.0	65.6	29.0	21.4	...	...	1.5	1.5	11.4	11.4	—	—
Sri Lanka	—	64.9[a]	—	22.4[a]	—	4.0[a]	—	8.7[a]	(b)	(b)	22.4	—
Latin America												
Brazil	60.4	82.6	20.4	6.1	16.5	7.2	0	0	2.7	4.1	7.1	24.6
Colombia	68.7	74.6	14.1	5.3	4.0	9.5	6.0	4.5	7.1	6.2	6.5	48.0
Costa Rica	85.4	90.8	4.7	1.2	...	...	0.2	0.2	9.7	7.8	3.0	—
El Salvador	35.3	77.1	24.0	7.2	...	...	12.0	5.8	13.9	9.9	11.3	1.5
Mexico	—	44.5[a]	—	2.6[a]	—	1.2[a]	—	51.7[a]	(b)	(b)	2.6	17.0
Peru	62.2	82.1	8.6	4.5	5.5	2.6	5.8	1.7	18.0	9.1	6.0	—

— = not available.
... = less than 0.1 percent.
a. Includes holdings under mixed tenure (not reported separately).
b. Included under communal and other tenure.
Source: FAO 1981.

tenure are relatively numerous, especially in Asia, where peasants frequently lease in land to augment their own holdings. In Asia, such holdings are at least as large, on average, as owner-operated holdings. The proportion of the entire area under tenancy is rather small, except in some countries of Asia, notably Iraq and Pakistan. But the extent of tenancy is surely underreported in most national censuses, because legislation prohibiting or regulating tenancy discourages truthful reporting. Evidence on the form of contract is available for only a few countries. The dominant form is sharecropping in most of South Asia and fixed rent (in cash or kind) elsewhere.

Forms of Tenure and Reform

Discussions of land reform usually begin—and often end—with proposals under which individual property rights in land, and associated rents, are transferred from the relatively affluent to the poor. The emphasis on individual rights is frequently implicit, but it is nevertheless limiting. First, it presumes that a particular form of social and economic organization is always and everywhere superior to others. Second, it fails to recognize the subtlety and complexity of property rights in land; so that the question of what, precisely, is being transferred is often obscured.

We begin by considering a classic setting in which property rights in land are individually held and concentrated in the hands of a few, as would be the case where economic organization takes the form of plantations, estates, or a strongly differentiated peasant system. A redistribution of existing property rights in favor of erstwhile workers, tenants, and marginal farmers will make them independent peasant landholders. The first-order economic effect of such a reallocation of rights will be to redistribute rents to the beneficiaries, provided they do not have to compensate the losers in full. Its effect on output and the welfare of those who do not receive any land is less clear. In a world in which output is produced under constant returns to scale (that is, conditions under which an equiproportional increase in all inputs will result in the same proportionate increase in output) by means of land and labor alone, Gersovitz (1976) has shown that these effects depend on the initial configuration of property rights and on the reasons why ratios of output and labor to land vary across farms of different types—if, indeed, they do vary.

In one case analyzed by Gersovitz to illustrate his thesis, there are initially landowners (who do not work), landless agricultural laborers, and a very small group of peasant farmers (to serve as a benchmark). If there is perfect competition and the only source of differences in the technique of cultivation is differences in soil fertility, a complete and egalitarian reform in favor of the landless will result in a reduction in output if leisure is a normal good—that is, if at the same set of prices an increase in income will result in an increase in leisure. The same result will also hold if, instead, the reason for differences in cultivation technique on large and family farms is a segmented labor market for hired and family labor. If, however, large landowners are simply inefficient, in the sense that they fail to operate on the production possibility frontier, or they are monopsonists (each, presumably, in his own village), then such a redistribution may cause output to rise or fall.

Another case, in which all land is distributed to existing small farmers and tenants, with agricultural workers left to fend for themselves in the labor market, is perhaps more common in contemporary history. Here, the effect of the reform on output is unclear, except when differences in technique arise solely from differences in soil fertility, in which case output will fall. The wage rate (and hence the welfare of the landless) will, however, rise, except if there is initial labor market segmentation and the reform brings a reduction in output, when the wage rate may rise or fall. One limitation of Gersovitz's analysis is that it ignores the problem of motivating hired workers to work hard enough, a problem that pure family farms do not face. In addition, for other factors of production, such as draft animals, rental markets are thin or even absent. The allocation of land is crucial to the efficiency with which these specific factors are used. Thus, if a reallocation of property rights permits a more efficient use of such factors or improves the system of incentives, net output is more likely to rise following a reform, both in aggregate and on the plots now farmed by the beneficiaries, than Gersovitz's analysis suggests.

The empirical evidence in favor of this happy combination of effects on equity and efficiency is largely indirect. Most earlier studies of the status quo revealed an inverse relation between farm size and productivity, stemming largely from an inverse relation between farm size and inputs of labor per hectare (see, for example, Bhagwati and Chakravarty 1969, Berry and Cline 1979). This finding is consistent with an imperfect labor market, which would result in an intensification of labor inputs on small family farms. Or it might be that small farms have better soil, which produces higher yields both directly and indirectly, by rewarding inputs and efforts more handsomely. In a study of India, Bhalla (1988) provides evidence that this competing explanation must be taken very seriously. He estimates that although the bottom 40 percent of farms have only 7 percent of land without an adjustment for quality, that share rises to 15 percent or more when quality is taken into account. This is not quite the end of the story, however, for large farmers' superior access to credit and nonlabor inputs pulls in the other direction. Thus the earlier findings appear to remain broadly valid, although the inverse relationship is less sharp than most earlier studies would suggest.

Consider next the situation in which all individual rights are vested in the community. In a pure collective, all members have equal claims on the net revenue of the enterprise, which generates two potentially severe problems. First, sheer numbers blunt individual incentives. The classic remedies are to instil the "right" attitudes (creating the new socialist man and woman) and to reward individuals for observable effort. The second problem arises from the fact that, since only members can exercise such claims, there are strong disincentives to expanding employment in the enterprise. For if output is to be expanded, the existing membership will vote for capital-intensive methods. The behavior of agricultural cooperatives in Salvador Allende's Chile furnished a striking illustration of this well-known finding of the theoretical literature on labor-managed enterprises.

Intermediate cases—land allocated to households as private plots, whereas assets, such as machinery, storage facilities, and irrigation structures, remain collectively owned—are also possible. Any land reserved for collective use may be cultivated or left open as a common property resource. As common property, its use will normally have to be regulated in some way by the community. How much land is set aside for this purpose is an important question, which arises in communities with extensive individual rights as well as in those of a strongly collective character. Thus the protection or enlargement of common property resources in the face of collective abuse and private encroachment ought to be a matter of concern in any prospective land reform.

A consideration of individual tenancy, as opposed to individual ownership, as a form of access to land brings out some rather different issues. Here, it is essential to distinguish between the reallocation of land rents associated with ownership and the function played by tenancy in allocating resources. Any ceiling on market rents entails a redistribution of income in favor of incumbent tenants; if, however, it induces landlords to resume some of their tenancies for direct cultivation, the tenants affected will suffer (unless they were receiving the same utility as they would have received in alternative employment). Thus, to be fully effective in redistributing income, a ceiling on rents must be accompanied by the granting of security—tantamount to ownership rights—to existing tenants. If such rights are also inheritable, the landlord's original rights will be further eroded, and the regulation of contracts between landlords and tenants will more closely approach the ideal of an equitable redistribution of pure individual rights in land.

The problem with a great deal of tenancy legislation is precisely that it has sought to transfer ownership-like rights to tenants by the back door, without heed to its potentially harmful effects on the functioning of tenancy markets. Thus, since tenancy is a potentially useful institution, any discussion of its role should be kept quite separate from the question of redistributing individual rights to land.

The Political Economy of Land Reform

The preceding discussion savors of the deliberations of the Platonic "guardians of the state." In fact, land reform is an intensely political matter, involving substantial conflicts of interest. Indeed, the ownership of land reflects and underpins social power and structure in agrarian economies, so that changes in the pattern of ownership necessarily involve changes in society itself. The very notion of public intervention is deeply problematic.

Most important land reforms in the twentieth century occurred in rather special and often catastrophic circumstances. In the Soviet Union and China foreign invasion preceded and paved the way for social revolution and the destruction of the old agrarian order. For a short time the peasant mode of production intensified. The central authorities imposed wholesale collectivization only when power had been completely secured. In Eastern Europe social revolution and a remaking of the agrarian structure were imposed by an army of occupation. In most of these countries, however, wholesale collectivization was not imposed. Instead, a substantial sector of private holdings, distributed in an egalitarian pattern, emerged to create a dual structure of private and collective forms. Defeat in war or occupation also led to land reforms in some notable capitalist countries. In Japan, the Republic of Korea, and Taiwan a redistribution of individual rights was imposed on a landed class rendered impotent by the collapse of a state that had reflected its power and interests. In these societies, foreign armies created the initial conditions favorable to fast growth with equity.

The remaining instances of social revolution in smaller countries—Cuba, Egypt, Ethiopia, Nicaragua, and Viet Nam—are interesting in that revolution was brought about by indigenous forces. Except for Viet Nam, the regimes overthrown were also indigenous and reflected societies marked by great inequality in the holdings of land and wealth. With the exception of Egypt, all followed the initial example of the Soviet Union and China in collectivizing land substantially or completely, sometimes in the form of state farms, whose workers received a regulated wage. The revolution that overthrew the Egyptian monarchy in 1952 was more nationalist than socialist; more than half of the land expropriated was formerly in the possession of the monarchy (Warriner 1969, p. 413), all of it in the form of large estates. Although individual rights were assigned to the beneficiaries, some collective features were retained in the interest of efficiency.

Elsewhere, nationalist movements began their successful struggles to throw off colonial rule in much of Asia and Africa in the aftermath of World War II. These successes created opportunities to remake the agrarian order, particularly in countries in which there were significant European settlements (Kenya and Zimbabwe) or foreign plantations (Indonesia, Malaysia, and Sri Lanka) or in which some domestic landed classes were perceived to be allied with colonial rulers (India). Sometimes these opportunities were transient—the products of turmoil and a temporary loss of confidence and power on the part of landed interests—and were not always fully seized. In India, for example, the abolition of *zamindari* (tax intermediary) interests worked to the advantage of the upper and middle sections of the peasantry, which had provided the base of support for the nationalist movement. One result was a strongly differentiated peasantry, the upper strata of which have been able to block most subsequent efforts at more radical reform.

More recently, the overthrow of Ferdinand Marcos's regime in the Philippines created precisely the conditions of fluidity and turmoil that would have made a bold stroke politically possible. In the event, the opportunity was squandered, and landed interests soon began to reassert themselves in the new government. In any case, whether these opportunities to redistribute property rights in land were seized or not, they arose from social upheavals that are not normally thought of as policy interventions by an autonomous and stable central authority.

What sort of thing happens in normal times, when the social and political order is fairly secure? The following experiences illustrate some important aspects of the political economy of agrarian reformism,[1] the diverse forms intervention may take, and the responses to such intervention of those directly affected.

Colombia

The history of the failure of such reform in Colombia over the past half century is described and analyzed by de Janvry and Sadoulet (1989). Law 200, under which potentially productive but poorly cultivated or abandoned land on large holdings was to be expropriated after a grace period of ten to fifteen years, was passed in 1936. Under the goad of this threat, land productivity rose for a time, to the satisfaction of the urban interests that had pressed for the law, and little land was expropriated. Shortly after World War II, there began a period of strife and virtual civil war known as "La Violencia." This hastened the destruction of traditional social relations on the haciendas and greatly weakened the old agrarian oligarchy.

La Violencia came to an end with the signing of a pact under which the liberals and conservatives agreed to share power under alternating administrations. The pact ushered in a new phase of land reform, marked by the passage of Law 135 of 1961, which envisaged the creation of a family farm sector, with payment of full compensation to existing landholders in the event of expropriation. Implementation of Law 135 turned out to be very limited. Political pressure from landed interests—and from urban groups who profited from this kind of modernization of agriculture—diverted inputs to large-scale farms, often with big subsidies. As a result, land values on favored farms increased so much that large-scale expropriation with full compensation became impossible. Whether landed interests anticipated this consequence of selective subsidies is unclear. In any event, by 1972, only 1.5 percent of all land in large farms had been redistributed.

The third phase, from 1973 to the present, began with a substantial shift in development strategy away from agriculture toward urban activities. In particular, Law 4 of 1973 declared the end of universal redistributive reform and returned to the principles of Law 200 of 1936. The complementary, and perhaps more important, policy was an ambitious rural development program, which was intended to serve family farms (whose numbers had grown somewhat) as well as the large-scale sector. Thus rural development had become the basis for a coalition of urban, landlord, and family farming interests. Meanwhile, the landless and marginal farmers remained excluded, both politically and economically. Continued guerrilla warfare and land invasions by these groups was a predictable outcome.

This shifting pattern of class conflict and alliance suggests that in Colombia the political economy leaves very little room for policy intervention. De Janvry and Sadoulet (1989) do, however, identify a crisis of another sort that may create a favorable opportunity. The condition of the economy as a whole demands fiscal austerity. Ending the massive, distortionary subsidies to large farms would be a good place to start and would also surely please international agencies. Its further incidental effect of lowering land values might ease the passage of redistributive reforms with compensation of the kind envisaged under Law 135 of 1961 and so satisfy some of the land hunger of the rural poor. The vital and unanswered question, however, is whether an alliance of urban interests, family farms, and even sections of the rural poor will form with such a goal in mind. I shall return to this question later.

The Philippines

The second case involves a transfer of property rights through tenancy legislation. Under the proclamation (and partial enforcement) of Presidential Decree 27 in the Philippines in 1972, share tenants were converted into leaseholders or owners. The land rent or amortization payment was fixed at 25 percent of annual rice yields, averaged over three normal years preceding the year in which the program went into effect. In itself, the limitation of rents below market level transferred ownership-like rights and economic rents to those tenants who managed to get their claims registered. As it turned out, the redistributive force of the decree was greatly increased by a more or less simultaneous development. Public investment in irrigation in central Luzon had induced a shift from single-cropping to double-cropping in the 1970s. The shift was accompanied by the diffusion of new varieties and a more intensive use of farm chemicals, both promoted by public policies. As a result paddy yields more than doubled, from less than two tons per hectare in the early 1970s to about four tons in the mid-1980s (Hayami and Otsuka 1989). Such an improvement in land productivity would almost certainly have led to a considerable increase in market rents. For registered tenants, therefore, public investment and the particular timing of decree 27 coincided to produce a large extra windfall, though it seems doubtful that this was part of the government's design.

The landlords' failure to get the terms of the decree changed as these additional and, for them, adverse consequences became clear is puzzling: the difference between 25 percent of two tons per hectare and 12.5 percent of four tons per hectare seems too large for the outcome to be assigned to inertia. Whatever the reason, the sharp redistribution did prompt landlords to take defensive action. Specifically, they began to substitute permanent laborers for share tenants to protect their ownership rights in the lands that remained to them (Hayami and Otsuka 1989). Thus an important repercussion of this particular legislation and technical change in property rights was to inhibit tenancy, which, as will be argued later, was probably damaging to the rest of the poor.

Peru

The third case is notable for a sequence of reforms that first collectivized individual property rights, which had been concentrated in very few hands, and then, a decade later, distributed all collective land to members in the form of individual properties. This happened in Peru between 1969 and the present (see Carter 1989).

The first reform was initiated by a revolutionary government, which came to power through a coup. In coastal Peru, which is well developed and productive, nearly every private holding of more than 150 hectares was eliminated and replaced by labor-managed agricultural production cooperatives. The typical cooperative had 200 members and close to 1,000 hectares.

There were reasons besides mere ideology for maintaining the original scale of the enterprises. The beneficiaries of the reform were workers, whose managerial and husbandry skills were probably too limited at the outset for them to farm individual holdings well. Carter also hints at, but does not decisively establish, the existence of technical economies of scale. As it turned out, however, most of the enterprises found it too hard to provide sufficient incentives to stimulate effort by their own members, and they resorted so heavily to hiring permanent workers that by 1981 the ratio of land to (permanent) labor had fallen by a quarter. Carter argues that the problem of securing sufficient effort was not so much the difficulty of monitoring the length and intensity of individuals' efforts, as that there was insufficient authority to enforce the rules of payment. In any event, although some enterprises did elicit adequate real effort from their members, most did not, with dismal effects on productivity. *Parcelación,* or the breaking up of larger holdings into smaller parcels, was apparently their members' collective response to this problem of collective organization, and the move went unchallenged by the central state.

This rapid disintegration of a collective form of organization is not without parallels. Putterman (1985), like Carter, argues that the best form of organization will usually involve a mix of individual and collective property rights. His analysis of the troubles that beset Tanzania's Ujamaa villages and China's communes leads him to the conclusion that cooperative farms are often the victims of those who dogmatically maintain that an ideological commitment to cooperation can wholly substitute for material incentives over the long haul.

Carter and Putterman may be right in their assertion that "corner" solutions are not optimal forms of organization; but the current tide seems to be running strongly in favor of the polar case of individual rights. In China peasants are becoming individual leaseholders from the state on terms close to outright ownership, and subleasing is also beginning to appear. In Tanzania, following the failure of Ujamaa villages, and in Viet Nam, the governments are making efforts to grant long-term leases to individual farmers. Similar proposals are now openly debated in the Soviet Union, and limited steps have been taken to implement them. But three generations have passed since Stalin's collectivization; so whether the specific human capital and skills exist that are needed to make individual family farming an initial success is very much an open question. The security offered by the old system may be preferred to the risky prospect of earning a higher expected income as a tenant of the state.

Arguably, the path from concentrated individual property rights to collective farms and thence to a fairly egalitarian distribution of individual rights may have entailed an unnecessary, or unnecessarily protracted, detour into collectivism. But even so, the fact remains that many of those who had little or no land at the outset are now actual or virtual owners, with an exclusive claim on the economic rents yielded by their new holdings.

The Prospects for Reformism

If reform—or the failure to reform—is an endogenous outcome within a political economy, what scope is left for reformism? This question arises in connection with reformist programs of any sort but appears to be especially nettlesome in the case of land reform. That some kind of social upheaval preceded a remaking of the agrarian order in virtually all of the examples just discussed is scarcely encouraging for the chances of reformism being successful in normal times. We begin, therefore, by examining the political economy of the status quo and what sustains it and then turn to how it might be undone to the advantage of the poor.

The market for land, where one exists, provides a mechanism for redistributing property rights in land. It can therefore be argued that those who want more land can buy it at the going rate from those who want to sell. The poor, in particular, with their advantage of cheap family labor, should be eager bidders, especially where the distribution of per capita ownership holdings is very unequal.

This facile argument runs into two strong objections. First, the poor will not be able to finance the purchase of land unless capital markets function fairly well, which they do not. Second, if such means of financing were available, so that all who desired to hold land as an asset could acquire it, the notional demand for land as an asset would be fully realized and the price of land would almost certainly rise, to the advantage of those who held it at the outset. Any benefits that the ensuing general equilibrium realignment[2] of wages, rents, and commodity prices might bring to the poor as a group would almost certainly be small. If the prime objective is to secure significant gains for the poor, they must be able to acquire land on favorable terms, which implies that some other group must lose thereby.

As usually conceived, redistributive land reforms do not provide for payment of full compensation at current market value to the original owners, who therefore understandably oppose them. If this group is numerically small, its power to resist must derive from its control over the apparatus of the state, including the legislature, the army, the police, and the judiciary. Such cases are not unknown. Some claim, however, that it is more common for the dominant landed class to form an uneasy alliance with certain urban interests (Lipton 1977). Urban capitalists and organized workers have a common interest in cheap and assured supplies of food and raw materials. So does the government, to whom the urban populace can present an immediate threat. Since the marketed surplus (in the form of food and commercial crops) per hectare is usually higher on large farms than on small ones, these groups benefit in some measure from an unequal distribution of landholdings. Thus the basis for a coalition of the rural well-to-do with a fairly wide sector of urban society is there. The practical details usually involve relatively low agricultural prices coupled with highly selective subsidies to large farms, the main fiscal burden of which falls on the groups outside the coalition. In this situation, the opposition to redistributive reform is much broader than a rural oligarchy, although it has several potential lines of fissure. Colombia, as de Janvry and Sadoulet (1989) describe it, is a good exemplar.

In Asia and parts of Africa the problem appears even less tractable because the dominant landed class is not a rural oligarchy but a large group of relatively rich peasants who are politically active and who "secure" the countryside for the parties they support. They, too, would appear to have considerable power to resist expropriation without full compensation. For Binswanger and Elgin (1988), this constitutes by itself an almost insuperable obstacle to any reform that has an element of confiscation. As a final nail in the coffin of reformism, they point to the effects selective subsidies to large farms (and other factors) have on the price of land, which allegedly exceeds the capitalized value of the services the land would produce in the hands of the poor. This, they argue, makes its purchase at current values either unattractive to the poor or, if the purchase is sufficiently subsidized, intolerably burdensome to the exchequer. Taken together, these considerations make a strong case for the view that little will happen to disturb the status quo.

The contrary view points to the overwhelming pressures on land arising from population growth, particularly in those densely settled regions where technical change in agriculture is sluggish and not especially labor intensive.

Within the next decade, Michael Lipton (private communication) argues, this will generate acute political pressures and reinstate redistributive reform to a prominent place in discussions of how to augment the incomes and assets of the poor.

Both positions are persuasive but neither is unassailable. Binswanger and Elgin (1988) argue, correctly, that the price of land will include a premium that reflects both the expectation of capital gains and the usefulness of land as a form of collateral when access to capital markets would otherwise be extremely limited. Now although discount rates certainly vary across households, it is unclear why these returns to land are not valued by the poor, as Binswanger and Elgin seem to imply. They are on much firmer ground, however, in pointing to the influence of selective subsidies and other provisions of tax codes, including tax shelters, in making land an especially attractive asset for the rich. In this, they are in close company with de Janvry and Sadoulet (1989), although they do not join them in calling for an end to such subsidies. The obvious conclusion is that this entire system of provisions should be dismantled before any program of redistributive land reform is attempted, for the price of land would be much reduced thereby.

The argument that population pressure on the land will restore land reform to its former prominence in debates about policy is also open to dispute. First, there is no conclusive evidence that population growth concentrates the ownership of land in fewer hands even as the size of the average holding contracts. In India, for example, the distribution of ownership holdings became somewhat more equal over the period 1955–72, and absolute landlessness fell strikingly, from 23 to 10 percent, while the proportion of households owning less than one acre increased from 24 to 35 percent (Sanyal 1988, p. 150). And if inequality is unchanged, it is not clear why political and social unrest should intensify. Second, population growth may be fully offset by technical progress, as has happened in many countries. Indeed, if technical progress in agriculture has a sufficiently land-augmenting character and urbanization proceeds fairly rapidly, the effective supply of land may increase more rapidly than the rural population. Although it is certainly true that technical progress may be labor-saving, which would be damaging to the poor, such a bias is not inevitable and may be influenced by public policy. These objections are supported by the fact that population has been swarming for at least forty years, in densely and sparsely settled regions alike. Yet the agrarian structures and economies of most countries have managed to accommodate the pressures thus generated.

If, therefore, land reform is not inevitable, are any reformist policies feasible? To the extent that the price of land is influenced by tax policy, there is a parallel between the political economy of so-called structural adjustment programs and that of land reform. For both, the trick is to find a way of distributing the burden in a manner acceptable to the contending parties.

It has been argued in the foregoing that dismantling systems of selective subsidies to the rural rich is an essential first step, which would make land less attractive to the rich but not to the poor. This tax reform could be advocated on the grounds that the loss of general welfare resulting from these distortionary policies is large and the need for additional (net) public revenue is pressing. A program of land reform would be announced and launched only after the effects of the tax reform were largely realized.

A rather conservative program might stipulate the following. All land in excess of a certain ceiling, adjusted for quality, would be subject to compulsory purchase at fair market value, that is, at the relatively depressed prices prevailing after the tax reform. To finance the purchase, the beneficiaries of the land reform would make annual payments to the government, which would, in turn, issue bonds to those whose land was subject to compulsory purchase. To mollify the landowners further, the bonds could also be indexed. At the same time, the payments by the beneficiaries need not equal the payments to the former landholders; for the tax reform will have generated additional net public revenues. Unfortunately, however, this is not quite the end of the story; for removal of subsidies on inputs may increase the price of food and so arouse the opposition of many sections of the urban population. In view of the losses sustained by the rural rich, this outcome may be barely acceptable politically. If it is not acceptable, some or all of the savings from dismantling the system of selective subsidies to the rural rich will have to be used to placate the urban interests in question. To that extent, the transfer of land to the beneficiaries of the land reform would be on somewhat less favorable terms.

In the program described, with compensation paid in the form of indexed bonds, the real losses sustained by the rural rich would be limited to the capital losses on landholdings induced by the tax reform. Again, this is not quite the end of the story; for any changes in taxes and subsidies will have an effect on the real net earnings of factors whose supply will increase only if there is an increase in their prices (that is, the supply is less than perfectly elastic). Hence, although the first-round effects of the sequence of tax–cum–land reform are fairly clear, it is not so clear who will bear the ultimate burden of the tax.

Similar considerations would arise if the sequence were supported by a structural adjustment loan from an international agency. In the case in question, part of the loan could be used to cover certain hidden costs of the land reform, for example, those arising from the need to carry out surveys, register new titles, and build new infrastructure. If the beneficiaries were not charged for these services, they would receive a covert subsidy. On the other side, payments of debt service would be made out of general tax revenues, again with a pattern of economic incidence which is unclear a priori. Indeed, the fact that it is unclear and that it may depart strongly from the statutory incidence of the tax system is something of a virtue. For it may be possible to find an outcome that is acceptable as presented to the contending parties, yet in reality favors those who are comparatively poor.

To close this section, we address the old question of how much reconcentration of individual property rights will occur when the system is released from the comparatively egalitarian configuration that is established by the reform, and how quickly it will reach a stochastic steady state. Carter (1989) addresses this question and concludes that extensive and fairly rapid differentiation is rather likely. Given that individuals differ in abilities, aptitudes, and tastes for the hard work of farming, this is hardly a startling conclusion. It is worth adding, however, that such heterogeneity lies at the root of most of the difficulties confronting attempts to combine efficiency with distributive justice.

In this connection, the circumstances under which land changes hands matter a great deal to the welfare of less able farmers. If the land market works well and sales do not occur under distress conditions, those who sell off the individual rights they acquired through reform will not do so on unfavorable terms. With sufficiently rapid growth in the nonfarm sectors of the economy, the more able individuals will remain behind to farm, while the rest will get nonfarm jobs and so avoid the fate of winding up as rural landless laborers who have exchanged their rights in land for a mess of pottage. If, on the other hand, sales do occur under distress conditions, as happens frequently in South Asia, the outcome will be painful for the individuals who are forced to sell up and socially distressing inasmuch as landlessness will emerge anew.

Tenancy

Most legislation affecting the terms and conditions of tenancy contracts has sought to transfer a measure of ownership-like rights to tenants. Occasionally, as in the Philippines, or more recently in West Bengal (Subbarao forthcoming), there has been some success. More often than not, however, such legislation has been honored mainly in the breach, for reasons that should now be clear. Unfortunately, evasion and avoidance of these provisions of the law have also affected the market for tenancies, usually for the worse.

To establish how, if at all, tenancy should be regulated, it is necessary to understand what function tenancy performs and how well it does so in the various circumstances in which it is found. My contention is that tenancy is a response to particular economic conditions and that its existence may provide important opportunities for the poor to improve their lot, not only statically (in a situation in which the endowments and skills are given) but also dynamically (over time, as opportunities to enhance those endowments and skills arise), in the form of the "agricultural ladder" (Spillman 1919).

The Static Argument

Consider, as a benchmark case, a competitive economy with a complete set of contingent markets. Then, loosely speaking, it does not matter whether land hires labor (wage employment) or labor hires land (fixed rent tenancy). In each realized state of nature, there will be a particular distribution of income, which is independent of the arrangements under which production is organized. In practice, of course, many markets are incomplete or absent—notably those for insurance, but also sometimes the markets for husbandry and managerial skills and even the services of draft animals, for reasons arising from moral hazard. If the market for land as an asset were well developed, which would surely require that capital markets function well, sales and purchases would move land to the complementary factors that are very imperfectly, if at all, tradable. In reality, however, the market for land as an asset is usually thin (Binswanger and Rosenzweig 1986), to which the emergence of tenancy is a natural response.

The absence of insurance and other markets encourages tenancy (in various forms). By itself, an active spot market in the sale of land will not be fully equivalent to a system of fixed rent tenancies if there is risk. For such an equivalence to hold, there must also be a set of futures markets in the sale of land. In that case, renting a hectare of land will be effectively the same as purchasing a hectare of land for cultivation in the spot market and selling it forward for delivery after the harvest at a known price. Furthermore, given the absence of insurance markets, fixed rent tenancies will not always permit the exploitation of all opportunities for spreading the risks arising from production. If, for example, wages are risky (Newbery 1977), or the markets for farming skills or the services of draft animals are absent (Bell 1989), sharecropping will emerge alongside fixed rent tenancy. Thus contractual diversity is a response to risk aversion when arrangements for the direct provision of insurance are not available.

This line of reasoning implicitly emphasizes the possibility that tenancy may promote (constrained) efficiency in second-best environments—that is, the efficiency with which resources are allocated even when one or more markets do not exist. Note, however, that there is no direct redistribution of economic rents in this story. Nor can there be any general presumption that the poor, who usually have little land, will rent land from the rich, who usually have a lot. In particular, tastes for risk bearing may be distributed in such a way as to induce small farmers to rent out their land to large farmers. Thus if poorer households benefit from the existence of tenancy in such settings, they will do so because there are more extensive and remunerative opportunities for risk spreading and a fuller utilization of family resources than under wage employment alone.

A notable empirical study is that of Palanpur village in northwest India by Bliss and Stern (1981) in 1974–75, with a follow-up by Dreze and Mukherjee (1989) in 1983–84. First, the studies found no significant differences in yields and input intensities between land under owner-cultivation and land under tenancy, a result consistent with resource allocation being constrained efficient. Moreover, the form of tenancy was sharecropping (with cost sharing on some inputs), which is inherently susceptible to incentive problems where the use of variable inputs is concerned. The choice of sharecropping suggests that tenancy in Palanpur is a response to the lack of both insurance and other markets, since fixed rent tenancy would avoid incentive problems altogether. Second, tenancy had an equalizing effect on the distribution of operational landholdings in 1974–75 but a concentrating effect in 1983–84, since some smaller owners rented out their land to more efficient and often larger landholders (Lanjouw and Stern 1989). In the face of changing conditions, fifty-fifty sharecropping (with provisions for cost sharing) was flexible enough for mutually profitable trade.

The evidence from South Asia as a whole concerning the efficiency of resource allocation under share tenancy is mixed. Many studies have found no significant differences between yields and input intensities on share tenancies and owner-operated farms (Singh 1988), but some formulations and methods of testing this hypothesis are unsatisfactory. The best way of controlling for other factors affecting farming technique and performance, such as access to credit, willingness to bear risk, and farming and husbandry skills, is to compare input intensities and yields on owned and leased plots farmed by the same individual. Among such studies, Bell (1977) for Bihar, Hossain (1977) for Bangladesh, and Shaban (1987) for the Deccan plateau found significant differences, whereas Chakravarty and Rudra (1973) found none in the case of West Bengal. Another survey of more recent studies of Asian economies (Otsuka and Hayami 1988) also reveals rather mixed findings. It seems fair to conclude, therefore, that the performance of share tenancy is often quite (constrained) efficient, but occasionally a bit dismal, when landlords cannot find a cheap solution to the incentive problem. Whether there is constrained efficiency or not, however, the role of share tenancy in a static system of incomplete markets appears to be useful, because it provides an inducement to risk-averse individuals to supply family resources and skills to cultivation, as opposed to unskilled wage employment, in which some skills and resources are of no account, and which is usually less remunerative.

The Dynamic Argument

The dynamic role that tenancy can play is to serve as a vehicle for the accumulation of assets and skills by those who start out with little of either. In principle, therefore, tenancy provides opportunities for individual mobility. Tenancy contracts are sometimes between the aged (as landlords) and mature, successful owner-cultivators, who wish to take on additional land. Earlier in their careers, the latter may have worked on the family's farm as unpaid laborers and taken on small tenancies from relatives. These patterns point, therefore, not only to a potential concentration of operational holdings, but also to a life-cycle process of a Chayanovian sort (Chayanov 1966).

The life-cycle process, in turn, brings to mind the "agricultural ladder" hypothesis suggested by studies of U.S. agriculture in the nineteenth century

(Spillman 1919, Reid 1974). Young, relatively poor individuals begin as laborers and acquire sufficient skills and capital through experience, work, and saving to progress through the succeeding stages of share tenancy, fixed rent tenancy, and, with good fortune, outright ownership. Although it cannot be claimed that full mobility on this scale is open to all individuals in all agrarian systems, this dynamic theory points up the opportunities created by tenancy not only for the employment of existing family factors but also for the accumulation of human and physical capital by those individuals who begin with little but labor power and some promise as farmers.

These arguments support the conclusion that tenancy, as a market response, is neither inherently nor inevitably damaging to the interests of the poor. Indeed, for some, it may offer the best avenue out of poverty. That avenue can, however, be blocked if, as in the Philippines and West Bengal, one cohort of tenants is granted ownership-like rights; for owners will then resume land to cultivate themselves, thereby excluding later cohorts of would-be tenants. In West Bengal, the reform has further exacerbated this problem by specifically prohibiting subleasing of registered tenancies. Tenancy legislation in some other countries has arguably had similar effects for similar reasons.

In India the proportion of all holdings under pure tenancy fell from 17 percent in 1954 to 4 percent in 1972, though much of this decline is surely attributable to the abolition of *zamindari* interests. The proportion of mixed (owner-tenant) holdings stayed constant, however, at about 22 percent. In Pakistan holdings under pure tenancy also declined over the period 1960–72, while mixed holdings increased. Overall, the incidence of tenancy declined somewhat, perhaps in response to tenancy legislation (Singh 1988, p. 22). The data for Bangladesh are less reliable, but tenancy appears to have increased between 1960 and 1978, with pure tenancies a very small proportion of all holdings. Thus the general thrust of public policy in South Asia has been to restrict tenancy in various ways. The arguments just advanced suggest that this policy has been misguided and would be misguided even if there were redistributive reform of individual rights in land that brought a fairly egalitarian pattern of owned holdings.

What scope does this conclusion leave for public intervention in tenancy markets? The impulse to regulate stems in part from the perception that individual landlords possess market power, which they use to exploit their tenants. This raises a second question: What can and should be done to improve the bargain struck by tenants? Taking these questions in turn, it should now be clear that attempts to redistribute property rights through the back door by regulating the terms of tenancy are often doomed to failure. They are also harmful to the extent that they impede tenancy in the performance of its proper functions.

That much said, it should be noted that in the nature of things, the market for tenancies is local, in the sense that the actual and potential participants are drawn from a limited area, usually the village in which the land is located and perhaps its neighbors. If, as in Palanpur, the ownership of land is not very heavily concentrated, the market for tenancies may work rather well, and no intervention seems called for. If, however, village life is dominated by one or a few rural tyrants, who ruthlessly exploit both their market power and the opportunities for extraeconomic coercion, something should be done to curb their powers, to the extent feasible.

The earlier discussion suggests that getting rid of rural tyrants by an assault on their property rights is usually possible only in rather special circumstances. But an indirect approach may favor tenants at their expense, and perhaps improve efficiency into the bargain. Suppose tenants (and laborers) are pushed down to their reservation levels of utility by landlords who make astute use of the instruments available to them. These reservation levels may be set by employment opportunities outside the village or the needs of mere subsistence. In either case, guaranteed public employment at remunerative wages in, say, rural works programs would improve tenants' bargaining power and hence the terms of their tenancy contracts. Landlords might respond by resuming some of their land for self-cultivation, although since wage rates will rise, this is not certain. At any rate, they would have no particular incentive to refuse to offer tenancy contracts at all, as they would in the case in which threatening but incompletely enforceable legislation promising "rights to the tiller" is enacted. They might also attempt to subvert rural works programs to their own advantage by capturing the mechanisms of job recruitment and using recruitment as a source of patronage. That possibility cannot be dismissed, but neither is it a certainty, as the example of the Maharashtra scheme demonstrates. Under the right circumstances, therefore, intervention in the labor market may weaken the power of rural tyrants while leaving substantially intact the improvements in resource allocation and individual mobility that the existence of a market in tenancies makes possible.

Concluding Remarks

What conclusions can be drawn about public policy? First, history suggests that a substantial redistribution of individual property rights is most likely to occur in the wake of a social upheaval. Such opportunities should, therefore, be seized at once, or the chance will be lost. In normal times the prospects for redistributive reform look far less promising, and bringing them off will require luck as well as skill in finding an acceptable distribution of burdens among the contending parties. A specific proposal is to link land reform to an appropriate tax reform that dismantles certain distortionary features of current tax systems—provided the tax reform is announced and implemented first to bring about a fall in the price of land.

Second, tenancy is socially useful even if no such redistribution occurs. The widespread attempts to use tenancy legislation as a camouflaged means of redistributing individual ownership rights have generally failed for the very reasons that direct redistribution has generally failed. Moreover, these attempts have been positively harmful, in discouraging tenancy and otherwise distorting the way in which tenancy markets function. If landlords possess market power, other forms of intervention to curb it, such as the provision of improved employment opportunities, are probably superior to most current tenancy legislation.

Two other aspects of property rights in land are very important but have been touched on only in passing in this article: the welfare of landless agricultural laborers and the appropriate boundaries between individual and collective rights. There is no space to go into these matters in any detail, but some brief comments are in order.

In densely settled regions, even a radical redistributive reform of individual rights and a permissive attitude toward tenancy will not ensure that all rural families will have viable holdings. Thus many of them will continue to depend mostly on wage employment for their livelihood. Some theory suggests that the wage rate may fall following a land reform if the labor market was segmented beforehand. This conclusion is disturbing and lends further force to the familiar conclusion that policies designed to promote labor-intensive agricultural growth are strongly desirable, whatever the distribution of individual property rights or the efficacy with which tenancy markets work. Here, there is an important role for public spending, by central authorities and local communities alike, on infrastructure, new technologies and extension services, and certain local public goods. Employment in rural works should be an integral part of such schemes.

Finally, there is the problem of achieving a satisfactory balance between individual and collective rights in land. This involves protection of customary collective rights when these benefit the poor and, especially in Africa, acceptance of indigenous forms of tenure when these have proved to be flexible in the face of changing circumstance. It also requires a careful balancing of individual rights to common property resources against the threat of environmental degradation stemming from free entry when there is little or no cooperation among individuals or local communities.

Notes

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1. Reformism is the doctrine advocating social change that stops short of revolution (defined by Hirschman 1963).

2. The realignment of wages, rents, and commodity prices that are mutually and simultaneously determined.

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