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Land Ownership and Tenure Reforms

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IT IS NECESSARY TO POINT OUT, from the outset, that the socio-economic role of landownership and of the various forms of tenure is always specific to a given society, at a given time or over a given period of development. Experience from one country is not necessarily in any manner applicable to another one, either now or within such time in the future as one may reasonably plan for.

The reason is not only in the striking differences between the socio-economic and cultural conditions of different countries. More than that, we want to emphasize the time factor in socio-economic development. It is not enough to assume that all countries are traveling along essentially the same path of development and will eventually arrive at similar results. Such a statement will have to be proved before it is accepted. But even though such an assumption is made, it remains true that existing differences in development represent time lags which will take considerable time to overcome. When someone is planning an institutional reform to serve development efforts better in the immediate future, it is not necessarily of any interest to him that the institutions he plans for will become obsolete in a remote future. So will also the institutions being planned or reformed in developed countries; yet the present and the near future must be given the institutions that will be of most service in their time and place.

As an opening statement we therefore submit that the recent experience of highly developed countries, where it may appear that the ownership and tenure ideals of the past are becoming obsolete, does not immediately apply to underde-

veloped countries. It would do so only if it could be demonstrated or made likely that these latter countries would soon reach a level of socio-economic development similar to that on which the advanced countries are now experiencing these problems of institutional obsolescence, if such they may be termed.

As a further consequence, we submit that any evaluation of existing institutions, and any plan for institutional reform, must be oriented in the time dimension. What is the present level of economic development? How soon may some other level be reached with the expected rate of population growth and existing conditions for economic progress?

The theory of differential sector growth is highly relevant here. Experience and logic concur in showing that when the agricultural sector employs a large majority of a population it cannot display any very rapid rate of economic growth. Even though the other sectors were expanding at high rates, considerable time would elapse before they were a large enough part of the whole system to dominate the picture and render possible a very rapid overall growth. Above all, in these early phases of development, the prospect of a reduction in the absolute numbers of people engaged in or living from agriculture is usually remote. The possibility of reducing the absolute size of the agricultural population, with the attendant possibilities (and problems) of adjustment, usually comes up in an advanced phase of development and the reduction can continue as the country becomes more highly industrialized.

With these general remarks in mind, we will discuss some of the current pros

and cons about land reform, and the research necessary to settle some of these controversies.

Distributive Equity vs. Productivity

The argument in favor of breaking up large operational holdings, and creating small ones, usually turns around a supposed dichotomy of social justice *versus* economic efficiency. Several elements in this line of argument must be kept apart and discussed separately.

The productivity issue — “returns to scale.” The most common argument in favor of maintaining (or even creating) large operational holdings refers to scale advantages. Sometimes a curious resemblance comes to light between the reasoning of “agrarian industrialists” in the western world and those in communist countries. When “returns to scale” are not blankly assumed to obtain *a priori*, they are often brought out as a finding from analyses of bookkeeping results from individual farms.

A critical point for research in this area is the discrepancy between individual and social accounting. Operators of large estates have to economize with inputs in order to achieve the best possible rate of output to input. Hired labor always has a price, and paying for more of it, in cash or kind, increases the financial risk of the farm. Economizing with labor reduces the risk, and substitution of capital for labor may often raise the rate of return to the farm, even in underdeveloped countries.

If the labor which is replaced finds no other employment, then the substitution has not increased the rate of return in social accounting. On the contrary, it may have lowered it. To the extent that this is true, the productivity argument in favor of large farms is valid only in the private accounts of the operators of such

farms. In social accounting, for the economy of the country, intensive use of surplus farm labor may make more sense.

The research task here is to find out the real merits or demerits of peasant farms and large-scale operation. The above-indicated frame of theory may yield an answer in one direction or the other, depending upon what magnitudes are involved. For instance, it may be found that peasant farms measure up well in comparison with the alternative of establishing new, large, centrally operated estates that would entail heavy investment; at the same time, “plantations” actually in existence as going concerns may be found to represent the best use of the resources already invested in them (as “sunk costs”).

As a sideline, there should also be an investigation of the extent to which “returns to scale” on large farms result from applying a very low wage scale to hired labor. The test here, which again might go one way or the other, would be in a comparison of the incomes (per year, not per hour) of wage laborers and of independent small farmers.

Aggregate yield measurement. In an underdeveloped country, inputs in agriculture usually consist almost entirely of land, labor, and farm-produced factors such as draft animals, hand tools, etc. Externally generated factors are of small importance in absolute quantity and are often concentrated on certain specialty crops (often intended for export), which are not necessarily in the center of attention in debate about land reform. In many situations, it is therefore of interest simply to measure gross output per unit of land area, as an expression coming close to net resource productivity, on the usual assumption that local farm labor is surplus to such extent that its opportunity cost can be treated as zero.

In this type of measurement, it is necessary to distinguish aggregate yield (price-weighted aggregates) from the physical yield of individual crops. High acre yields of individual crops are not necessarily a symptom of high technical standards of farming. They may result from extensive cropping practices, where crops with high fertility requirements are kept to a minimum and much good land is planted to crops which, in a more intensive system, would occupy only lower grade land. Conversely, intensification of the cropping pattern may well lead to a lowering of the acre-yield of individual crops, at the same time as the aggregate (price-weighted) outturn of all products per area unit goes up.

The result of such an analysis is seldom clearly evident of itself, except in areas where soil and climate are homogeneous to a high degree. In most cases it will be necessary to investigate the variations in soil fertility, climate, and water supply to insure that the areas on which yields are measured are comparable on the different farm sizes.

Empirically, densely settled areas of peasant farming often do produce larger quantities of farm products per unit (unweighted or unclassified) of physical area than the larger farms. The research task here is to find out whether and to what extent this is so in the given case, and whether and to what extent the same finding holds when soil productivity is taken into account in the comparison.

The livelihood issue. One of the dilemmas of land reform in very densely settled countries is in the large number of people who are potential beneficiaries. If they are each to receive a holding, these holdings will be very small. The argument is often heard that such holdings are uneconomic. They would be unable to own, or even to use rationally, many of those modern means of produc-

tion which are conducive to higher levels of productivity.

The validity of such objections may be questioned. In the underdeveloped situation, many of the heavier types of equipment are unavailable in any appreciable quantity, and cooperative use and mutual aid between neighbors might take care of other items not economical for individual ownership. But the question of how many people should be accommodated in agriculture remains valid and is a researchable problem of the first order when land reform is under debate.

As an extreme solution it is sometimes advocated that a reform of the farm size structure should aim at making farms as large as they need to be for optimum factor productivity, and that all the surplus labor should be employed elsewhere, such as on public works. If the reasoning in the above sections on returns to scale and aggregate yield measurement is applied to the actual level of factor supplies — and their potential levels are anticipated over the period of a plan perspective — then, of course, this “optimal” farm size may still be quite small. The problem then is: Will the accommodation of the entire agricultural population on individual holdings lead to a lower than optimum level of resource productivity in the aggregate — to a net loss for the national economy? The counterpart is, of course, that, if some of the present agricultural families are left without any holdings, they must be given another source of livelihood; when all or most of the land is in family-size holdings, there would no longer be any use for hired workers.

Creating sources of livelihood for the landless will not be without cost to the community. If their number is very large, the task may not be at all feasible in an underdeveloped country. Most important, many of the activities or arrange-

Farm Management Research and Agricultural Development in Latin America

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IN MY ASSIGNMENT THE FOCUS is to be on economic problems at the farm level as these relate to agricultural development in Latin America.

The major aspects of this subject are so broad that they are clearly beyond the range of completely comprehensive treatment in a single paper, and of my first hand knowledge and experience. The discussion that follows is not offered as an all-encompassing and final judgment relative to the relationship between farm management research and agricultural development in Latin America. Rather, it is offered as a first attempt to identify sets of economic problems that (a) are common to major segments of Latin American agriculture (b) are both relevant and important to the more general problem of agricultural development and (c) are of such nature that farm management research might contribute in an important way to their solutions.

Given these limitations, I shall seek to satisfy the following specific objectives:

1. Point out a few important characteristics of the Latin American population of farm businesses and of the Latin American branch of the farm management profession.
2. Identify a few common, important problem areas that empirical research by the farm management profession could help resolve by providing relevant information.
3. Suggest an appropriate role that the U.S. farm management profession might play in the eventual solution of these and other relevant problems of farm firms in Latin American countries.

Characteristics of Latin American Agriculture

The single feature that best characterizes Latin American farm businesses is variability. This exists in the extreme in virtually every aspect of farm organization, operation, and management with which the farm management profession is or might be concerned. It is not difficult to find farm businesses organized and operated on an economically rational basis. It is easier, unfortunately, to find farms that occupy the other extreme of the economic rationality spectrum. The range is great and there are farm units scattered over this range. It is probably true that the bulk of the population is situated more in the direction of the latter rather than the former extreme.

This variability is evident in such important characteristics as level of technology, management, economic efficiency, technical efficiency, size of operation, combination of enterprises, returns to factors of production, and income. One finds farm units employing the best known farm technologies and high-level management with resources combined in a way that tends toward maximization of economic returns to the resources employed. Other farm units employ the most primitive of technologies with little or no real management input, and operate in a frame of reference foreign to the notion of the profit motive — at least in the commercial agriculture sense. Farm units realizing high-level technical efficiency bounded by rational guides of economic efficiency are interspersed with those of extremely low technical efficiency bearing little or no relationship to

smaller ones, but the latter produced so much more output (aggregate, price-weighted) per unit of area that their lower percentage of market deliveries amounted to larger absolute quantities, per acre in farms, than were marketed by the larger farms. The criterion of land productivity is, of course, subject to the tests suggested under the above section dealing with aggregate yield measurement. Another approach to this general problem would be to compare the trend in market deliveries from areas of different farm-size systems. The extent to which each area supports a growing population, and the welfare conditions of that population, are, of course, other tests, in addition to the level and trend in market deliveries.

Tenure Conditions and Their Effects

Changes in tenure conditions, in many cases, have a larger impact than subdivision of large holdings. In most underdeveloped countries of the present and the recent past, most of the large estates are or have been cultivated in small tenant holdings, to a great extent by sharecroppers. Current statistics are sometimes deceptive on this point. For instance, the farm censuses in Brazil (1940, 1950) and Iraq (1953) represent as large, owner-operated holdings what are, in fact, complexes of cropper holdings.

Also, in the recent past, tenure reforms have had more impact than farm-size reforms. Protection of tenant farmers in Italy and Spain has touched larger segments of the farm industry than did the establishment of new small farms. The land reform in Egypt redistributed one-tenth of the land but protected the position of tenant farmers occupying one-third of the farmland of the country. In Japan, the postwar land reform was principally a shift from tenant farming to owner farming, with very little change in

the size structure of farms. Also in India, recent and current reform measures have touched upon conditions of tenure more than they have affected the size of operational units.

Research tasks in this area include the economic effects of the tenure forms as they exist and the possible effects of a specified change. The formulation of a problem in this area is complicated by the degree to which the solution reflects socio-psychological instincts and attitudes and the possibility of changes in these patterns.

The doctrine of the superiority of *ownership by the cultivators* was handed down to us from the socio-economic reform movements of the 18th century. In many instances, it has come to be identified as the ultimate goal of a land reform, whether by changing farm size or tenure or both. As such, it has brought the land reform idea under fire by two rather distinct lines of argument.

One argument points to recent experience in the highly industrialized countries when agriculture has become increasingly capital-intensive. The ideal of ownership may no longer be rational. This argument can be disposed of rather quickly in most underdeveloped countries by reference to the time dimension. If the day is remote when the country's agriculture may become highly capital-intensive, then the argument is not valid for practical planning.

More important are the objections arising out of conditions in the underdeveloped countries themselves. In the extreme case it is pointed out that many people, for example, in Africa, are not property-minded enough for the typical ownership incentive to work satisfactorily. The 18th-century economists wrote on the basis of European experience, in a society where the individual family rather than the tribe or village community was

the identifiable nucleus of economic activity and economic obligations. In a different socio-psychological setting, institutional arrangements might have to be different.

The risk is in jumping from one generalization to another one. The fact that traditional peasant societies in Africa or Asia are different from those of 18th or early 19th century Europe does not mean that they are different altogether or that they will prove immune to the evolutionary tendencies which force economic responsibility upon individuals.

Apart from study of the peculiar structure of land law and the social function or property as they exist, it is equally essential to note any ongoing changes and to interpret the possibilities they open up for an institutional setting which may unfetter individual response to incentive without clashing too destructively with the prevalent instincts and habits of the people concerned. The *paysannat* in the Congo is (or at least was) an interesting experiment, and its parallels on the spontaneous level (such as individualizing of cocoa groves in West Africa) ought to be studied attentively before any judgment is passed either for or against ownership by cultivators as a social form for agricultural development.

In large parts of the underdeveloped world, individual ownership is at any rate a conscious goal capable of attracting massive popular support. It is interesting to note how the tradition-inspired institution of the *ejido* in Mexico has generated little practical collectivism. Legally the land is held in common by the village, but in most cases cultivation is individual, usually under stable tenure of the same land parcels.

In some cases, it is also suggested that owner-farmers in underdeveloped countries are actually less productive than tenant farmers or even sharecroppers.

For instance, it was stated recently that owner-operating peasant farmers in the Philippines had lower crop yields than sharecroppers. To be valid, this argument would have to show that the two categories had essentially the same qualities of land and applied essentially the same level of intensity in their cropping patterns. Experience from Europe and elsewhere indicates that landlord ownership became established and maintained principally in the most fertile areas, while peasant ownership could more easily maintain itself on marginal land. As regards sharecroppers, it is of course also possible that the cropping plans laid down by landlords imply a less intensive pattern of land use, and thus higher yields of individual crops but not necessarily higher aggregate yields (in the same way as discussed above for farm-size differences). It is the productivity of comparable resources that should be established before judgment can be passed.

The wider question of incentives and how to overcome the limiting effects of a "target demand" is one that transcends the discussion of tenure forms. Some aspects of it will be discussed later in connection with agriculture's contribution to economic growth.

The economic pros and cons of alternative terms of renting must be judged in similar terms when the country is short of capital and needs vigorous expansion in production at minimum investment cost. The production results under alternative tenure forms must be assessed on the basis of social rather than private accounting.

The drawback of sharecropping may thus not be confined solely to the lack of incentive for the cultivators to raise unit yields. As long as it is done exclusively by means of investing more manual labor, it can have a certain attraction also for cultivators who get only their share of

the added output. The element of risk-minimizing seems at any rate to be the reason why not only landlords but also peasants, in situations of capital shortage, often prefer sharecropping to other rental arrangements.

There is a possibility of crop diversification as a means of raising aggregate output. Most inquiries show that sharecropping in underdeveloped countries tends to favor monoculture, with its obviously depressing effect on aggregate output and on welfare in a crowded country. It is characteristic that the classical cash rentals in England were associated with an obligation for tenants to apply certain diversified patterns of cropping. Similar arrangements were applied in recent land reform measures for intensive farming (for example, in Italy and Spain) and also, for instance, in the "paysannats" in the Congo. It seems unlikely that such schemes for intensive farming could be carried out under sharecropping contracts in the conditions of underdeveloped countries. Any evidence on this point should be analyzed to clarify the issue. The answer is not necessarily the same, or even analogous, in all countries.

Effects of Land Reform on Economic Growth

The problem formulations set forth above centered around the productiveness of alternative tenure arrangements. Tacitly, it was assumed that the highest rate of return — in underdeveloped countries, in most cases, the highest rate of physical output — would be in the best interest of the country. In the following we will discuss some attendant problems concerning the effect on economic growth which may be expected from the change in volume of output that should come in the wake of a land reform.

It has been charged many times that

the increased distributive equity achieved by a land reform would blunt economic growth by allocating more of the output to direct consumption on farms and making less of it available as a basis for capital formation in other sectors of the economy. As a case in point we may refer to Turkey. The country had a radical land reform several decades ago. The peasants became full owners and from then on they not only paid no rent to landlords, but paid no taxes either. Their contribution to economic growth was limited to the quantities of farm products they had to sell to cover their modest cash needs. In a static economy, with a peasantry rather disinclined to achieve more of the good things an industrial economy can produce, the land reform led principally to an accelerated population increase, with little or no movement toward a diversified economy or rising levels of living.

In contrast, it is easy to point to contributions to economic growth made elsewhere by an agricultural sector with less-idealized institutions. Land rents and land taxes built up much of the industrial capital in Europe and Japan, and the U.S.S.R. financed its industrial buildup from a system of disguised land rent — the forced deliveries at fixed low prices. North America and Oceania needed none of this, but they were dynamic enough, on an unusually generous resource basis, to produce savings out of their agriculture merely through the price mechanism.

The extreme case does not, however, correspond to the conditions we are discussing here. The problem area is land reform *in* economic development, not outside of it. The assumption is that several types of dynamic change promoting economic growth are under way or planned. In such a situation, the contribution of agriculture could be provided in one of several alternative ways.

The frequent charge of increased consumption on farms is only in part an objection. In part it is one of the objectives of economic progress to improve the nutrition of the entire population, including the agricultural population. The argument could be valid only to the extent that it meant less sales available to supply the nonagricultural population or the export markets. Such cases may have existed, but it is questionable whether they were due to the land reform, as such, or would have occurred anyway as a consequence of population increase.

The capitalistic landlord no doubt fulfilled a useful function in the past of many countries when he collected rent or surplus output and used the proceeds for investment toward higher productivity, maybe in agriculture but more often, and more significantly, in other industries. The trouble with many landlords in underdeveloped countries is not that they charge rents, but rather that they use too much of the rents for luxury living, land buying, and hoarding, and too little for purposes that will promote economic growth. Even as regards the cotton plantations in the antebellum South, the charge has been made that they operated an essentially static system that was at best capable of expanding horizontally but did not generate progressive capital formation. The country benefited, of course, from the profits taken by commercial middlemen, but they did not necessarily reside in the cotton areas.

Eliminating parasitic landlords therefore does not shatter a productive institutional arrangement; it can be a definite improvement if combined with rising productivity and some suitable arrangement for siphoning off some part of agriculture's value product to capital formation. An interesting side effect can be noted in countries where the landlord class has been dispossessed (entirely or

in part) and compensated in cash. When rich people can no longer invest in land for effortless income, they have to make their money work elsewhere, and the propensity to invest in other industries should be enhanced. Mexico is probably a good case in point, possibly Egypt too (at least for a short period), and effects of this kind can also be seen in several other countries. More attention should be given to this aspect of mobilizing the potential energy of the wealthy classes.

The same procedure would naturally lead to sustained market sales of agricultural produce. When the beneficiaries of the land reform have to make periodic payments as installments on the value of their land, this guarantees that they will not roll back into low-productive self-sufficiency. Even where the peasantry was initially characterized by a low-level "target demand," the installment payments on the land would become part of the target and fulfill the same function as was previously fulfilled by rent payments. When the period of installment payments is over, these peasants should have become sufficiently money minded to continue effective market supply.

Apart from this, and beyond the time when all installments were paid in full, increased market deliveries could be secured either by taxation or price policy or both. How these devices have functioned in the past deserves to be further explored as an adjunct to research on land reform itself. Especially in situations of "target demand," a low price might lead to larger sales rather than the other way around. The role of "target demand" is complex, however, and must be explored in the case at hand before any policy is based on the assumed character of the demand function.

The other question of how a whole population reacts to a far-reaching social change is one that partly escapes conven-

tional analysis. The amount of energy that is released in a people when age-old class barriers are broken down cannot be computed by any known device. What we should be able to anticipate is whether this psychological reaction to an institutional reform will be strong or negligible, immediate or delayed. Study of the history of other peoples is not the main answer, since much depends on the specific experience of a given people, its frustrations in the recent past and its expectations for the future. Some land reforms have fallen flat because of lack of psychological preparation; others have had enormous impact on the life of a people — sometimes more as a general catalyst than through any specific and traceable economic effect.

No economist who contemplates institutional reform can therefore neglect the state of mind of the people concerned, or how it may be modified by propaganda or persuasive publicity. Conventional economic analysis usually takes the institutions for granted and then also overlooks their basis in public opinion and the factors that shape it. Even if the economist does not intend to advise on the

propaganda process, let alone engage in it himself, he cannot afford to neglect the realities of this process or the impact it must have on the viability of alternative solutions to the problem of reforming economic institutions.

Perhaps we should add a word about the state of mind of the ruling classes. In several underdeveloped countries, a traditional, rather narrow-minded class of wealthy landlords stands in the way of economic progress. These people can be forced to make reforms by the threat of revolution, or the revolution may come and sweep them aside. A much more creative approach would be to make them see the economic advantages to the country (including themselves) that could come from a more productive land system. "Reform from above" was a positive European experience in the age of enlightenment. To spread this kind of insight in the leading classes of a backward country is definitely one form of propaganda in which economists should engage. For this to have effect, the issues must be clearly thought out and analyzed and their application to the country in question should be made convincing.