A Rent Theory of Agrarian Exploitation

♦

Fred Harrison

AGRICULTURE IN Europe and North America is paradoxically characterised by extremes in the distribution of income, and an abusive treatment of the soil by farmers who claim an affinity with nature. How did this odd combination of facts come about? What are the roots of the extreme gap between rich and poor farmers? Why did farmers swap the original organic methods for the chemicalisation of the soil? These issues need to be re-examined, because policy-makers, in Europe at least, acknowledge the need to amend policies that find their expression in the transfer of huge sums from taxpayers to the most heavily subsidised sector of the economy.

Policy-making is curiously distorted by assumptions that are rarely challenged, but which allow the farm sector to take advantage of consumers in a way that is at odds with the ideology. Farmers champion the free market, but demand planning and protection. They claim to be the guardians of the environment, and yet they operate industrial-style methods that diminish the natural bio-diversity of nature.

Contradictions in both concepts and practices originated as a result of a profound distortion in the rules regulating the way in which people related to, and worked on, the land. Disentangling that history requires an enormous multi-disciplinary investigation. Another analytical approach would be to study the formative influences in an economic system that is in the early stages of its development. Such a case study is afforded by the coffee sector in Ethiopia.

COFFEE ORIGINATED in Ethiopia, and that crop accounts for about 65% of foreign earnings. About 25% of the population of 60 million people rely on coffee for at least part of their earnings, and there are 700,000 growers who operate on a family-sized scale. The conditions of these growers was the subject of a report by John Madeley in *The Financial Times* (March 30), on which I rely for the facts on the distribution of income and costs of production. I will discuss the facts in relation to two hypotheses.

- If coffee growers are prevented from retaining a share of the value of their crop to cover the costs of production, they will be encouraged to adopt desperate measures to make up the shortfall. *Those measures include intensive methods of exploiting the soil, in a desperate effort to make up for the revenue shortfall.*
- If the surplus value (rent) is not captured by government to cover the costs of providing public services, distortions will be visible that compromise the ability of people to live full lives. *These distortions include the application of negative taxes on producers, in a desperate effort to make up for the revenue shortfall.*

Coffee is traded on the international markets, so we have good estimates of both commercial prices and costs of production. According to the International Coffee Organisation production costs in Ethiopia are about US cents 44 a lb. Ethiopia's Coffee and Tea Authority claims that coffee growers receive about 75% of the world price, which was about 65 cents/lb. in late 2000. Madeley, however, interviewed growers who were ignorant of the world price, and who had just been paid under 7 Ethiopian birr a kilo, or about 32 cents/lb.

While the facts about prices are known to the government and the international trading organisations, this information does not percolate down to the grass roots. The information about prices is broadcast daily on Ethiopian radio, but only in the official Amharic language, which many coffee growers do not speak. But according to John Madeley, even growers who speak the language are unlikely to know the price. He found that, in one area he visited, only about 2% of coffee growers had radios.

From this, we see that educational and information-disseminating systems are in urgent need of public investment.

As a result of the imperfect access to information, coffee traders are able to take advantage of growers. One grower told Madeley: "The traders come and tell me the price is low, and what can I do? I think I'm being exploited by them but have no means of checking. I have to accept their price". He received half rather than 75% of the world price for his last crop.

IF FARMERS suffer a net loss – if income fails to cover the costs of producing the coffee – how do they survive?

One of Madeley's informants subsidises coffee growing by selling coffee seedlings to other farmers, which he was able to do with the help of a voluntary organisation called Action for Development, which is funded by Christian Aid.

But there is no irrigation on the farm, and for the seedlings to grow the water has to be carried on a donkey from the nearest source, a journey of 90 minutes.

From this we see that the infrastructure is sorely deficient and in need of substantial public investment.

But from the facts as presented by observers like John Madeley, who has substantial experience in the field of economic development, it appears that world prices are sufficient to give farmers a livelihood and to afford a net surplus that could be invested in the social infrastructure. This is not happening, and we can now begin to understand why.

If production costs are 44 cents/lb. and the world price was 65 cents/lb., that leaves 21 cents – a full third of the world price – as the rent of the coffee-growing acres. If the Ethiopian governments, federal and regional, captured that surplus 21 cents/lb., they would be able to provide the education and the irrigation networks through which the life blood – information and water – could coarse into the farthermost points of this large country.

Instead, however, under the constitution, farmers are not obliged to pay rent under the leases they hold from the state. The free provision of land for anyone who wishes to grow food is a principle of Ethiopian political philosophy which is championed with pride. But what are the practical consequences?

The growers are not better off because they do not have to pay 21 cents/lb. as rent to their communities. That rental income, instead, goes into the pockets of the coffee traders; who also levy an additional premium for possessing the information about world prices which farmers are not able to bring to bear when negotiating their deals in the local markets.

Because the government does not collect that 21 cents/lb., it does not have the locally-generated revenue to pour back into the communities that lack running water and the information distributing systems that would empower the coffee growers.

Western societies are now at the crossroads of an historic triadic relationship between the individual, community and economy, the contours of which have been obscured by time and a historiography that is reluctant to compute the elementary numbers (especially about the deadweight losses inflicted by conventional taxation). But back in Africa, in the one country that has the best claim to be the cradle of the primates who preceded *homo sapiens* – the oldest skeletons are found in the area of the Rift Valley – we can see the way in which public policy disturbs the distribution of power. A defective collection of the public value (rent) impoverishes the public sector, weakens the individual producers, and delivers monopoly power to some entrepreneurs.

PUBLIC responses to this unsustainable equation yields important insights for European policy-makers. The first concerns taxation.

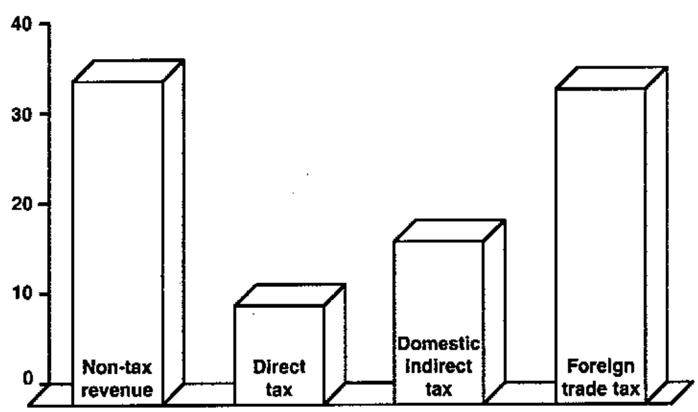
If government does not capture rent, it is driven to imposing taxes that actively damage the productive capacity of the economy. In Ethiopia, VAT and income taxes are employed to make up for the failure to collect the rent from the land which, under the constitution, belongs to the nation. But the public presentation of revenue statistics needs to be improved, if the data is to become meaningful to the voting citizens of (*see Figure 1*).

According to data supplied by the Ministry of Finance, business tax revenue constitutes the major share of direct tax revenue.

Revenue from export tax is levied exclusively on coffee. Ethiopia is heavily dependent on international trade, for domestic tax bases are narrow, and collection and administration is weak.

In non-tax revenue, miscellaneous receipts outweigh fees and charges and government investment income.

Figure 1 Ethiopia Sources of tax revenue (Q3, 1999-2000) %



The bias in the fiscal regime is against investment in capital formation, which is the reverse of what the economy needs.

The income tax on employees is a disincentive in the labour market, which makes no sense in a country where unemployment is high in Addis Ababa.

Public services are unable to cope with the inward migration from the countryside. The government needs to generate cash to expand social services and infrastructure, but it needs to do so in a way that does not penalise people who save or who employ others to work for them.

According to the *Ethiopian Herald* (April 11, 2001), "as the city is randomly carved out into pockets of ghettos with houses practically reclining on one another, living conditions are sure to get worse by the day. Basic services like drinking water, primary health care and the like will be stretched, failing to satisfy the needs of the population".

That newspaper fails to draw a connection between the potential offered by the constitutional rights to land, and the economic condition of the people. The plight of citizens is plainly described:

> One very visible factor of the scale of poverty in Addis Ababa is the high unemployment rate. Many people are out of work and had to rely on the support of families, close friends and the like for their livelihood. The most unfortunate ones turn to begging for the daily bread as we can witness in almost every part of the city. In addition, the tens of thousands of street children who roam the city's streets also look elsewhere to sustain their lives.

For decades, government was the major employer in what had been a command economy. The free market model was introduced after 1991, which means that the people of Ethiopia have not had sufficient time to engineer a take-off on to a new path of economic development. But the transition from state employment to private enterprise would be accelerated if the government's revenue-raising system sympathetically matched the constitutional rights to land.

At present the political leaders responsible for administering the capital are stressing the need for a programme to combat poverty, but they lack the advice that would enable them to take control of the fate of the population. Anodyne advice is offered about the need to involve the private sector, but entrepreneurs – facing the government's tax penalties – have their work cut out to survive themselves, let alone being concerned for the fate of others.

Ethiopia does need an open economy, but its government ought to avoid the temptation to believe that foreign investors will come to their rescue. This latter hope is distorting the approach to policy in both the Third World and the former socialist countries of Eastern Europe. But we know from the history of countries like Japan and Taiwan that economic development is most efficiently fostered when government pays attention to generating its capital base from internal sources. Those two countries succeeded in transforming from their agrarian status into leading industrial economies by financing government services out of the rent of land.

The federal structure of government in Ethiopia dictates the need to review fiscal policy. The Federal government controls the most buoyant sources of revenue, particularly taxes on international trade. This means that some rent generated by the coffee industry is acquired by the Federal government through the tax on exports. Regional governments can redress the balance by initiating their own rent-charging policies and reducing the tax-take that deters capital formation and employment. In doing so, they would inject more dynamism into the Ethiopian economy and display the virtues of the most effective mechanism for orchestrating the creative partnership between the private and public sectors.

THE FATE of the struggling farmers illuminates what happens when the rational system of public finance is not instituted.

Ethiopia's Ministry of Agriculture is encouraging farmers to use chemical fertilisers. According to Madeley, the Ministry's agents are given a quota of farmers whom they have to try to persuade each month. The rationale for this policy is that higher yields would help farmers to cover their living costs. In fact, as we know from Europe and North America, the higher yields are converted into an increase in rent, which is captured by landholders and traders.

The chemicalisation of Ethiopian coffee land is a tragedy, not just for the consequential impact on the soil but also for the commercial implications. Ethiopia has about 2.3% of the global coffee market, exporting two million 60 kgs. bags last year. Western consumers are increasingly demanding organically grown foods. At present, 95% of Ethiopia's coffee growers do not use either chemical fertilisers or pesticides. Pests and disease are controlled by traditional practices, including inter cropping – growing two or more crops in the same area and the use of green mulches.

At present, reports Madeley, Ethiopian coffee is not certified as organic, and growers do not benefit from the higher prices that organic coffee commands. But just as the country could exploit its strength in the field of organic food production, the income-poor farmers are being persuaded by the Ministry of Agriculture to adopt practices that will prejudice their commercial prospects in consumer markets.

THE MORAL of this analysis is that the primary problem resides with the flaw in political philosophy.

Uniquely, and to its credit, Ethiopia enshrines people's right to land in the constitution. But the efficiency of that protection of people's rights falls short, for the rental income of land is being privatised for the benefit of the commercial and financial sectors. The traders who buy the coffee crops at the farm gates and local markets do not need to possess land in order to capture the rent of land. They rely on the failure of government to insist that the people who derive the benefit of using land should pay the rent to the community, which can then be re-invested in the provision of waterworks and the information network. If the coffee growers were obliged to pay 21 cents/lb. to government as rent, they would insist that they were paid the full world price for their output. That would cut out the abnormal profits currently being pocketed by the traders. The local communities would be enriched by the investment in infrastructure, and farmers would not be driven to desperate measures such as chemicalisation.

The lesson out of Africa for Europe and North America, is that reform of price guarantee policies and public support services that cost the taxpayers dearly should begin with a review of the tenure-and-tax nexus. The Ethiopian constitution provides a template for land tenure rights which gives practical expression to the statements by many liberal philosophers going back to John Locke. The people of Ethiopia had the courage to insist on putting into practice the right not just to life and liberty, but also to "estate" (= land).

But the flip side of the equal right to land is the obligation to share the rent with everyone else in the community. By building this provision into new reforms, it would become possible to disengage people from their state of dependency on private charity or state hand-outs; and to wean the soil off the dependency on chemicals. The recent tragedies in Britain illustrate how nature can wreak revenge if she is abused.

THE FOOT AND MOUTH disease – following the BSE mad cow disease that killed people – exposed the vulnerability of the industrialised system of growing food. The huge subsidies had been capitalised into the value of land, mainly to the advantage of relatively few very large holdings. And so the Ministry of Agriculture, Fisheries and Food (MAFF) – as it then was – instead of visualising an approach to quality food production that was labour intensive, in which the proportions between land, labour and capital were rearranged to deliver products that were a pleasure to grow and satisfying to eat, championed the displacement of yet more people from the land and the aggregation of units into ever larger holdings.

In Ireland, the negative impact on the environment of the farming methods was the subject of a critical report. The Paris-based OECD, reporting at the end of last year, drew attention to the fact that agriculture's methods were heavily subsidised from the European Union's Common Agricultural Policy.

Intensive livestock rearing was identified as one of the major contributors to environmental pollution. Attempts to protect the marine environment from land sources of pollution had had little effect, and subsidised exploitation of peat bogs had seriously disrupted peat habitats and generated large emissions of greenhouse gases.

The OECD noted the economic growth enjoyed by Ireland, but this move towards "a new economy" had led to higher land prices, greater waste generation, more car and truck use and greater land consumption. These problems were aggravated by government subsidies and regulations which can be traced back to distortions in the land market and the burdens of conventional taxes.

The people of Ethiopia, who are now reconstructing their communities after decades of civil war, have the opportunity to adopt a unique path of social development that need not be marred by the social and ecological failures that mar life in the West.