

Comment on Doreen Warriner's Paper

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December 8, 1971

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For a number of years I have followed with great interest Dr. Warriner's writings on the topics of rural poverty and land reform [20, 21, 22, 23, 24]. Her historical as well as multi-country perspective allow her an overview of these matters which few can match. She has consistently directed our attention toward the rural poor, shown compassion for their problems, and recognized their skills and willingness to change if profitable alternatives are available. She has stressed the need to pay serious attention to income distribution in developmental planning. And she has insisted that the term land reform be used in a narrow sense to mean a change in property ownership in favor of the poor. She has rightly pointed out that land reform is no cure-all, but that it may, in some cases, be the only alternative to make significant inroads on rural poverty. Few in the development profession have her sensitivity and dedication to these issues.

My comments will be largely supplemental to the points made in her paper. I will attempt to do two things: 1) state what I think is the state-of-the-arts regarding five major economic issues related to land reform, and 2) briefly review the role which economists and aid agencies have played, and the part they will likely play in land reform during the next couple of decades.

* "Results of Land Reform in Asian and Latin American Countries," paper prepared for the Conference on Strategies for Agricultural Development in the 1970's, Food Research Institute, Stanford University, Stanford, California December 13-16, 1971.

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Five Economic Issues

1. Production and Land Reform: The relationship between land reform and short term production has received a good deal of attention. Several approaches have been used by economists to address this question. Warriner and others have emphasized country reviews [e.g. 5, 6, 8, 10, 11, 17, 24]. A similar approach was used by the Agency for International Development in its 1970 Spring Review of Land Reform programs in approximately 30 countries [3]. Additional studies have been aimed at determining land reform's impact on production at the project level [e.g. 2, 14, 19]. Still other economists have mainly stressed economic logic plus some empirical information to deduce the production effects of land reform [7, 9].

Aside from the Iraq case, the country reviews support the conclusion that land reform has a neutral to positive, mainly positive, impact on production. Project level studies appear to verify the same conclusion. Exercising economic theory, Cheung, on the other hand, argues that land reform carried out among share tenants will have a neutral impact on production [7]. He concludes that highly competitive land-leasing markets, at least in Asia, have eliminated most inefficiencies in farm level input use. It is unclear if land-leasing markets in Africa, Latin America, and the Middle East meet the same standard. To the extent they do, his conclusions also would lead one to expect little increase in output among share-tenants who become owner-operators. Cline comes to a different conclusion in his analysis of Brazil [9]. He argues that land reform which includes breaking up of large land holdings will significantly increase output. He bases his argument mainly on the elimination of (1) labor-market dualisms, (2) the holding of land as a store-of-value, (3) land market imperfections, and (4) monopsony powers in the rural labor markets. Following Long's earlier conclusion, he also con-

cludes that the economies-of-scale argument against land reform has little merit [15].

I feel that the 1970 AID Spring Review of Land Reform gave the benediction to the land-reform-decreases-production issue. The consensus there agreed with Warriner's general conclusion: almost never does land reform decrease production, occasionally it has a neutral effect, most often it has a positive impact.

2. Capital Formation and Land Reform: Less conclusive evidence is available on how land reform relates to changes in rural productive capacity. Said another way, does land reform affect rural capital formation and the ability to increase long term output?

Some information on this point can be gleaned from the studies already mentioned. But, to the best of my knowledge, Raup's article is one of the few studies specifically aimed at this question [16]. Drawing upon some country studies and economic logic he concludes that land reform will have a positive impact on farm-level as well as non-farm rural capital formation. I have the same impression after visiting rural areas affected by land reform in Japan, Taiwan, Colombia, Venezuela, Ecuador, and Brazil. I have seen no evidence which indicates that incentives to create additional rural productive capacity were stifled by land reform; participants are willing to, and in fact are investing in capital if returns are attractive. Small farmers' investments in power tillers in Taiwan and Japan, low lift pumps in Viet Nam, tubewell in the Punjab of India, and land clearing in Southern Brazil are further evidence on this point.

In their papers for this conference, Cline and Lewis both raise an important collateral question. Do participants in land reform have lower

marginal propensities to save than the original landowners, and would parcelization therefore decrease aggregate savings? Research which we at Ohio State have underway in Southern Brazil, in the Indian Punjab and in Taiwan, the latter in conjunction with T. H. Lee's staff in JCRR, is leading us to a different conclusion. Where some growth in real income is occurring, and where profitable alternatives to consumption are present, we are impressed with the willingness of small farm operators to defer consumption. They must, however, have profitable on-farm investment opportunities, have access to credit to finance part of these investments, and be provided with positive real interest rates on institutional savings. In many cases there simply are no profitable investments open to the small farmer, he is denied access to bank credit, and is offered zero or negative real rates of interest on financial savings. Most of us would choose to consume additional output if faced with similar alternatives.

My conclusion is that land reform will not transform the rural capital base overnight. Some evidence is available to suggest, nevertheless, that it along with other appropriate policies can help accelerate this accretionary process.

3. Income Redistribution, Effective Demand, and Land Reform:

Warriner and Cline both stress the role of land reform in creating a broadly based demand for the product of society. Thiesenhusen has also argued this point [18]. He suggests that most of the industrial base in Latin America is underutilized because of the lack of internal effective demand. In Colombia only about 40 to 50 percent of the industrial productive capacity is currently utilized. Unless peasants and landless workers have access to additional income they cannot buy tooth brushes, aspirin, shoes, and shovels. I am always impressed after periodically visiting rural areas of Taiwan and Japan how rapidly mass consumer markets have extended into

societies where land reform has been carried out. The presence in rural Taiwan of radios, sewing machines, television sets, bicycles, power tillers, and motor bikes have mushroomed over the 13 years I have known the country. Peasant consumer purchases in Northeast Brazil, Guatemala and Colombia, on the other hand, are static. How much of this difference is due to the status of land ownership distribution has not been quantified. Further research on this issue might provide some additional arguments for adjusting the way society's income is distributed.

4. Employment and Land Reform

Surprisingly few studies have been done on the employment effects of land reform. Warriner, T. H. Lee, and a few other authors have hinted that employment increases somewhat with land reform [13]. Aside from some secondary employment effects due to more income being spent in rural areas, there is probably little employment impact, as Cheung points out, from switching tenants to landowners. Settling landless workers on underutilized land in places like Northeast Brazil, the north coast of Colombia and the highlands of Guatemala will, however, likely have a strong positive impact on rural employment.

One parcelization project which I studied in the tobacco region of Colombia suggests that employment can be substantially increased through land reform [2]. The project only included 1,500 acres, but over 850 people were making a very satisfactory living from the land six years after parcelization. This was up sharply from about 70 people who lived there prior to division. A traditional hacienda with some cattle and tobacco share-croppers located nearby, but with much better land provided a living for only 230 people.

We clearly need more research on the employment coefficients of land reform expenditures. How do they compare with those for additional credit, expenditures on new technology, irrigation investments, etc.? Can land reform be useful in helping to retard and modify the rural-to-urban flood? Will it create an environment within which individuals can be more highly capitalized before moving into the cities?

5. Structure, Technology and Land Reform: Ruttan and Hayami have made a frontal attack on the structuralists, institutionalists and land reformists. They argue that new technology creates a new economic environment which in turn induces almost automatic adjustments in the structure of the economy. A Gotsch, Carroll, Flores, Thiesenhusen, Dorner or Barroclough, on the other hand would argue that in many cases structure must be changed before satisfactory development can occur. Warriner appears to take an intermediate position. She sees a mutual relationship between technology, development and structure.

I would hypothesize that all three positions are correct. Ruttan and Hayami have mainly focused on countries which have had a reasonably equitable distribution of access to land (e.g. Japan, Taiwan, and the U.S.). Their time frame of analysis is quite extended. The structuralists, on the other hand, base their arguments on experience in countries which have had highly concentrated landownership patterns (e.g. Peru, West Pakistan, Chile, Mexico, Brazil, Colombia and Guatemala). Their analysis has a much shorter time frame. Warriner has mainly focused on countries going through structural transformation and her time frame is intermediate in length.

I suggest, therefore, that the conclusions of Ruttan and Hayami are probably not valid for countries where structure is a serious problem. Introducing highly profitable new technology into areas like the Northwest of Brazil where 120 families own almost all of the high quality land will

do relatively little to ease the poverty and employment problems which exist among the millions of landless. The best of all worlds would be to couple technological change to land reform. We need a good deal more research on the linkages between technology and structure, especially in countries where landownership concentration is severe.

The Role of Economists and Aid Agencies
in Land Reform

In a number of her works Dr. Warriner has argued that traditional economic considerations are not of primary importance in land reform decisions. I heartily concur. It really does not matter much if the production-effects are shown to be neutral or slightly positive, whether or not land reform stimulates capital formation, if effective demand and employment are increased or decreased by parcelization, or whether we can show that tenure systems decay over the decades when submerged in a changing economic environment. Flores is correct, land reform is principally social and political surgery. It is a value-laden policy issue, the likes of which only political economists of Ricardo and Marx's breadth of interest in economic development were prepared to wrestle with. Marshallian economists are poorly equipped to treat questions of who ought to own land, and who ought to be allowed to claim the economic rent from land. Our professional impotency on these topics, at best, forces us into a largely defensive role in the wings of the land reform stage. I see no reason why this role will change during the 1970's unless at least some of us are reincarnated as political economists.

I am almost as pessimistic with regard to what aid establishments such as FAO, IBRD, IDB and U.S. agencies such as AID will do in land reform in the next couple of decades. A few observations which lead me to this conclusion are:

--Aside from FAO, employees of aid agencies who have a commitment to land reform are almost as scarce as hens' teeth.

--During the 1960's AID committed about as much to land reform in Latin America as it cost the U.S. Navy to re-wire an atomic submarine accidentally flooded in Virginia in 1969 (20 to 30 million dollars) [1].

--In 1954 there were almost as many beneficiaries of land reform thrown off their parcels in Guatemala by a U.S. supported counter-revolution as have been settled under the entire Alliance For Progress in Latin America 1961-1970 [12].

--Significant land reform in Latin America has occurred in Haiti, Mexico, Bolivia, Venezuela, Cuba, and currently looks promising in Peru and Chile. Aside from some slight participation in Venezuela, U.S. agencies have not been positively involved in any of these cases.

--U.S. congressional opposition to very modest land reform efforts in the South during the 1930's and 1940's by the Farm Security Administration was a key element in the final death of the agency [4]. Congressional reactions to expropriation of U.S. owned lands in Latin America have been clear cut: if land reform, no aid.^{1/}

--Land reforms typically have a very low import or foreign exchange component. Also, they are seldom bankable projects.

I feel certain that land reform will be carried out in countries like South Vietnam, in portions of the Philippines, in Nepal, in West Pakistan, in Northeast Brazil, in Colombia, in the Dominican Republic and in Guatemala

^{1/} U.S. support of land reform in Japan and Taiwan appear to have been unique cases. In neither case was U.S. owned land involved.

independent of what economists say or do, and largely without the assistance of aid agencies. They will not be part of development strategy. The forces of nationalism, population growth, rising expectations, socialist thought, and widespread education are setting an irreversible course in these countries. There is no other alternative open to these societies which could have a similar impact on rural poverty.

Those of us like Warriner and Cline who have interests in easing rural poverty will continue to be reporters of the economic effects of land reform, and we will make some after-the-fact input of economics into land reform programs. We will not be in the first string of players. We might find more professional satisfaction by helping to adjust traditional economic tools like exchange rates, pricing policy, credit, taxes, and technology to get more equitable results from these techniques.

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