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AGRARIAN REFORMS AND INTERSECTORAL RELATIONS: A SUMMARY

by

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I.

There is ample evidence of rural poverty on a large scale and of increasing landlessness in many parts of the Third World, even in countries where economic growth has been quite impressive by historical standards. The present paper is addressed to the question to what extent and under what conditions this situation can be redressed by agrarian reforms, or more specifically by land reforms, i.e. by attempts to transform the agrarian structure through altering the distribution of land and the terms on which land is held and worked. History offers many examples of different types of such reforms, but it is not our intention to give a historical survey or empirical descriptions; nor shall we enter into a debate on the merits or otherwise of collectivisation, as practised in communist countries. We will try to build up and present a theoretical argument based on an interpretation of the experience of some Third World countries.

II.[1]

Our first point must be to say that there is no universally valid answer to the question we raised and that much depends on 'the initial conditions', which are very different in different parts of the world. We are thinking here in particular of the man-land ratios in agriculture, which as a result of history show wide variations in different regions. In many countries of Asia - for instance in the countries of the Indian subcontinent and on Java - there is so little land in relation to the number of people in agriculture that no redistribution could provide holdings of a viable size to the entire agricultural population, including the landless and the near-landless households (in India the landless are estimated to account for about a third of all agricultural families, and on Java the proportion is probably only slightly less). Under such conditions an equal distribution of all agricultural land would leave everyone with plots too

small to support a family. Thus whatever the merits of land reforms may be - see later - they will not by themselves resolve the critical problems of landlessness.

The situation is quite different in land-rich Latin America, where it is said that about 60% of the agricultural population, which are attached to the traditional latifundia-minifundia complex of agriculture, have problems of shortage of land, which are due solely to the very high concentration of ownership. Given the abundance of land, the worst of the rural poverty could be overcome by a redistribution, which would transfer a part of the properties of the very large landowners to the poorest sections in agriculture, moving everyone (including the landless) nearer to the average ratio of labour to land. To my knowledge, no such land reform has ever happened in Latin America, nor are we arguing that this would be the most sensible arrangement.

Although in those Asian countries where land has become scarce, it is not possible to convert landless labourers into owner-cultivators, small farmers now living near or below the poverty line could obtain some additional land and become more viable, if effective (and possibly draconian) ceilings could be imposed on the size of holdings. It is generally held that this would help to promote productive efficiency as well as equity. An inverse relation has been observed - particularly in rice cultivation, less certainly in wheat - between the size of plots and yield per acre, which is explained by the fact that small cultivators make more intensive use of land than large owners.[2] In Sri Lanka an average of two acres of irrigated rice land is held to be sufficient to support a family of five or six, and for India the average figure one finds quoted is only marginally higher. Even when it comes to introducing technical innovations the small cultivators are held not to be at a disadvantage, because the modern technologies of the 'Green Revolution' are said to be 'scale neutral', in the sense that the response of output to the divisible inputs of water, fertilisers and seeds does not depend on the size of plots.

The above statements, which assert the superiority of an agriculture consisting of smallholders where the dominant unit of production is the family farm, need to be qualified for two reasons. First, there are certain activities in agriculture which always involve a scale of operation much larger than that of individual holdings. Many land improvement projects such as water management, flood control or land levelling can be carried out effectively only by planning at a village level. Yet when land is privately owned and operated, communal activities are not easy to organise, because some private owners will always gain more from such activities than others. Difficulties of this kind tend to impede cooperative and group farming in the mixed economies of the Third World, though there are variations from case to case because of differences in traditions, and much depends on the role of the state.

Another set of qualifications relates to the 'scale neutrality' of the land-saving modern technologies. Even if this argument as applied to rice cultivation makes some technical sense, it is obvious that the new inputs of the 'Green Revolution' call for financial resources beyond the reach of the poorer peasants. Now considering that in a private enterprise economy no redistribution of land can be fully equalising, i.e. can ever eliminate all disparities in the size of holdings, land reformers invariably insist that credit facilities and other services be supplied in an equitable way to the (post-reform) small units so as to put them on par with the wealthier and stronger peasants. But that is demanding a lot. For reasons too well known to require elaboration, the supply of services to agriculture by governments or other organisations has tended to <u>increase</u> inequalities, because access to such non-land resources is almsot always biased in favour of the more prosperous farmers. This trend cannot easily be reversed - it really is 'in the nature of things' - unless the rural poor are themselves mobilised as a force of change.

Where land is rented out to tenant-farmers or sharecroppers, agrarian reforms generally include measures for the improvement of the terms and conditions of the tenure contracts. More radical are the

reforms which confer property rights on all tenants and thus abolish the social organisation of agriculture based on absentee (rentier) landlordism. Such reforms were carried out in the Indian state of Kerala, for instance, in Taiwan and - with certain exemptions - in South Korea (where, however, tenancy seems to have reappeared on a certain scale). The effect of such reforms should be to stimulate food production, which tends to be rather undynamic in a system of agriculture dominated by a class of absentee landlords. Moreover, inequality is likely to be reduced, although the category of tenants who are the beneficiaries often includes a group of privileged agriculturists, who hold a part of the land under their control under lease arrangements (owner-cum-tenants). It is clear also that this reform does not directly affect the position of the class of landless labourers: it is a middle-group of 'progressive' farmers who are likely to gain most.

In sum, agrarian reforms of one type or another, if effectively implemented, have great merits, but cannot by themselves solve the central problem of many Asian countries, where too many people are trying to live on too little land and where populations are growing fast. These conditions are bound to set up strong polarising forces which continue to operate even in a reformed agriculture, where small farmers have obtained some additional land. For although these reforms can have the great advantage of increasing the intensity of cultivation and the degree of utilisation of family labour, their effect on the demand for hired labour is at best uncertain,[3] while landlessness is likely to grow under continuing demographic pressure. The conclusion is that a satisfactory solution of the problems that give rise to the demand for agrarian reforms cannot result from trying to tackle these problems within the agricultural sector alone but also depends on the development strategy adopted for the economy as a whole.

III.

To put it more concretely: in countries where agriculture is overcrowded, while the population continues to grow, the achievement of lasting improvements in the social conditions of the agricultural

labour force depends very much on the success of attempts to hasten the end of the labour surplus condition. Along with greater intensity of cultivation such attempts must include programmes of sustained industrial growth so that - taking one decade with the next - regular off-farm owrk is provided for a gradually rising proportion of the natural increase in the agricultural labour force.

However, the attempt to combine policies of industrialisation with the economic and social objectives of agrarian reforms can create a number of special problems and perhaps dilemmas, to which we must draw attention; they involve the interactions between the different sectors of the economy.

Industrial growth cannot go very far or continue for long, unless agriculture is producing growing marketable surpluses for sale to the non-farm population, which in this way obtains the food and agricultural materials needed for the industrial expansion. Now it has been argued that agrarian reforms in favour of smallholders leave little scope for growth of the marketed surplus of agriculture, because smallholders generally devote a higher proportion of output to their own consumption than the larger units. Consequently, the growth of industry might slow down or come to a halt for lack of essential supplies. This problem has a long history - it was in the centre of the Russian industrialisation debate in the 1920's - but this is not the place for a lengthy discussion or for historical reflections. Let me merely make two brief comments. First, some of the agrarian reforms in the market economies of the Third World - e.g. the reform in India - have led to the elimination of intermediaries rather than to a far-reaching redistribution and equalisation of holdings among the cultivators. Such reforms have not been an obstacle to the continued existence or emergence of a group of surplus- producing big farmers ('kulaks'). So although it is true that lack of progress in agriculture has often set limits to industrial growth, one can hardly say in these cases that the limits were set by the agrarian reforms.

Secondly, several studies have shown that the land reforms carried out after world war II in countries such as Egypt or Taiwan and South Korea were accompanied by a strengthening of state control over various aspects of agriculture. The purpose of these controls and of the activities of state-controlled institutions (supervised cooperatives, procurement agencies) has been to try to make sure that the reformed agriculture consisting mainly of smallholders would function in a way that would fit the overall government strategy. In fact it has been said - the reference here is to Taiwan - that 'after land reform the State took the place of the landlords' in extracting surpluses from agriculture.[4]

In this context the surplus said to be 'extracted' from agriculture is conceptually and in magnitude not identical with the marketable surplus. There references at the end of the preceding section was to a financial or investable surplus of agriculture which is available for transfer to other sectors of the economy, where it can be used to finance the growth of non-agricultural activities. For such a net transfer of financial resources out of agriculture to occur, the proceeds from the sale of agricultural produce to the non-farm population (and foreign countries) must be in excess of the 'imports' of goods and services <u>into</u> agriculture. There are three transfer mechanisms. The transferable surplus may arise on private accounts, if the monetary savings of agriculturalists are larger than private investment in agriculture (some of which may come from non-agricultural sources); or it may arise on public account, if governments <u>via</u> direct and indirect taxation withdraw more income from agriculture than they spend on agricultural projects and subsidies. Moreover, quite apart from the budget governments through their trade policies and price regulations for form outputs and inputs can affect the terms of trade of agriculture, and if these terms deteriorate, there is an invisible resource outflow from agriculture, even if the quantities traded do not change. Governments have often used these powers to bring about an outflow of founds from agriculture that would not have occurred otherwise.

It can be argued that at low levels of industrial development such capital transfers from agriculture may have a certain rationality, particularly in the absence of foreign capital inflows, or when no funds for industrial development are available from profits generated in other primary activities (mining, oil; see later). For when the starting base of industry and other surplus-producing non-agricultural activities is still very small, an industrial expansion based solely on the internal savings of the 'modern' sectors is bound to be very weak in relation to the supply of labour to industry: this supply is practically 'unlimited', when there is high and growing pressure of labour on land. A capital contribution from agriculture can make a difference then, although not necessarily a major or decisive one. Even then there are times when a combination of circumstances leads to a temporary inflow of funds into agriculture - for instance, when major irrigation works are undertaken - but in general it seems that during early industrialisation the flow of financial resources is in the reverse direction.[5]

It is necessary to add that enforced resource transfers from agriculture have often been economically counter-productive and socially regressive or even parasitical; indeed it seems obvious that to make the peasants foot the bill for industrialisation must be in conflect with the objectives of agrarian reforms and with the aim to alleviate rural poverty. Thus the situation is full of contradictions and dilemmas, which in one way or the other will have to be resolved.

Historical experience shows that these conflicts are reduced and are less sharp, if the resource outflows from agriculture occur along with rising agricultural productivity; the two processes can go together, provided that the productivity gains in agriculture do not themselves neccesitate large-scale capital investment within agriculture - and we know that quite often they do not require that.[6] The economic and social implications of financial outflows from an expanding agriculture, where productivity and incomes are rising, are clearly very different from a squeeze on a stagnating agriculture.

Much also depends on the pattern of industrial growth and hence on the use that is made of the investable funds (some of which may come from agriculture). Suppose that a relatively high proportion of these funds goes into the establishment of agricultural (or rural) industries. These are industries which through backward or forward linkages are geared to the needs of a developing agriculture so that their establishment will stimulate agricultural progress. Moreover, many of these industries can be set up in rural areas or small towns. Such rural industrialisation involves in intersectoral transfer of labour - a shift of labour from agriculture to industry (or from agricultural side-occupations to industry proper) - <u>without migration to the cities</u>, and as the labour force of these industries largely consists of people who remain members of agricultural households, the income of farm families is increased and the gap between urban and rural earnings is narrowed. To achieve this usually calls for a degree of state involvement in the economy, and one of the purposes or effects of such involvement may be to secure a capital contribution from agriculture. However, regardless of whether or not there is such surplus 'extraction' from agriculture, some of the conflicts of interest between and within urban and rural groups will tend to lose force, if industrialisation takes the course we described (and if in a reformed agriculture a more egalitarian pattern of landholding has been established).

IV.

Outflows of funds from agriculture are not by any means a universal requirement for 'development'. We all know that Indonesia is in the fortunate position of having large oil revenues (and much foreign aid) which can be used as contributions to the finance of industry or agriculture; moreover, there are the plantations which would demand separate treatment. There is therefore no need in Indonesia for trying to obtain funds for industrial growth from the peasantry. All the same, we have taken up this particular issue because it has often arisen in the history of development, and where it did arise, it formed part of a wider set of problems of a more

general nature. In listing some of these problems we started with the demand for agrarian reforms and with the possible effects of such reforms on agricultural production and the distribution of income. But as agriculture does not exist in isolation, we had to give some attention to intersectoral relations.

We confined ourselves to the kind of situation that exists where there is heavy pressure of labour on land, but ignored the possibilities of collectivisation, as practised in most of the communist countires. On this basis our main argument was that the extent to which the economic and social objectives of agrarian reforms can be attained (within the framework of private ownership of land) depends largely on the success of policies which can hasten the end of the labour surplus condition. These policies call for a variety of measures across the economy; many of these measures are country-specific, but they will always have to include both an increase in the intensity of cultivation and a sustained expansion of regular non-agricultural employment opportunities, particularly in rural areas. Dilemmas of policy and conflicts over priorities are bound to arise, and the way they are resolved will depend on the nature of the political system and of the coalition of the social forces which dominate decision-making.

Footnotes

1. This section contains in passing some brief references to land reforms in India, in the Indian state of Kerala, in South Korea and Taiwan. We found the following studies particularly useful for a general overview:

   Ashok Rudra, Organisation of agriculture for rural development: the Indian case. Cambridge Journal of Economics, 1978, 2.
   Ronald J. Herring, Abolition of landlordism in Kerala, Economic and Political Weekly (Bombay), Review of Agriculture, June 1980.
   Gustav Ranis, Equity with Growth in Taiwan: how special is the special case? World Development, 1978, Vol.6, No.3.
   Eddy Lee, Egalitarian peasant farming and rural development: the case of South Korea, World Development, 1979, Vol.7.

2. Two other factors, which have nothing to do with 'efficiency' are operating in favour of the small family farm. In monetary terms the small unit enjoys the cost advantage of being able to employ unpaid (or cheap) family labour, (although in rice cultivation even small farmers often employ some hired labour for transplantation and harvesting). And secondly, there is the unique ability of the family labour force to combine agricultural work with all manner of side-occupations.

3. On this point see C.L.G. Bell and J.H. Duloy, Rural Target Groups, in H.B. Chenery et.al., Redistribution with Growth, 1974, Chapter VI.

4. For Egypt see Mahmond Abdel-Fadil, Development, Income Distribution and Social Change in Rural Egypt 1952-70. Cambridge 1975, and Samir Radwan and Eddy Lee, The State and agricultural change: a case study of Egypt 1952-1977, in Dharam Gai et.al., Agrarian Systems and Development, London 1979.

5. On this topic there are a number of interesting studies which are comparable, although there are a few differences between them in definitions and coverage. I would like to mention the following:

   T.H. Lee, Intersectoral Capital Flows in the Economic Development of Taiwan 1895-1960, Cornell University Press 1971 (which is discussed, with references to other cases in John W. Mellor, Accelerated growth in agricultural production and the intersectoral transfer of resources, in Economic Development and Cultural Change, Vol.22, No.1, 1973).

S. Mundle and K. Ohkawa, Agricultural Surplus Flow in Japan, 1888-1937, in The Developing Economies, September 1979.

Jennifer Sharpley, Intersectoral Capital Flows, Evidence from Kenya, in Journal of Development Economics, 6 (1979).

M. Lipton, Transfer of Resources from Agriculture to Non-Agricultural Activities: the case of India, in J.F.J. Toye (ed.), Taxation and Economic Development, 1978.

Of interest also is the study by M. Ellman, Did the agricultural surplus provide the resources for the increase in investment in the U.S.S.R. during the first five year plan? in Economic Journal, December 1975.

6. In technical jargon, what our text implies is that financial resource outflows from agriculture and agricultural productivity gains can go together provided that the marginal capital-to-output ratio in agriculture is less than one. This is often found to be so in the LDC's. What is relatively costly (apart from major irrigation works such as the Aswan Dam) is the provision of rural infra-structure, i.e. rural electricity, transportation, marketing facilities, etc., but <u>these are non-agricultural activities and investments</u>, which serve agriculture from outside it: they bring 'external economies' to the farmers (as well as to non-farmers in rural areas).