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BACKGROUND PAPER 6

# The Family Farm: Problems in Foreign Policy

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# PROBLEMS IN FOREIGN POLICY

BY

ERVEN J. LONG

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# PROBLEMS IN FOREIGN POLICY[1]

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IN ASSIGNING me this topic, the President of the American Farm Economics Association admonished that the paper should deal with substantive issues rather than definitions—as we already know what the concept of a family farm denotes. This is welcome, as the substantive issue is adequate to absorb all the time available to us today. I assume, however, that this does not preclude my defining the focus of my discussion.

For, firstly, I wish to make clear that I shall focus not on the family farm as such, but on "the family-farm system" as a mode of organization of agriculture. No one would argue, I'm sure, for a totally monolithic mode of agricultural organization for any country. Certainly, the United States has never had—nor pursued as a policy objective—a completely homogeneous system of family farms. And yet I presume it is agreed that we *have* had—and *have* pursued as a policy objective—a "family-farm system" of agricultural organization. It is the family-farm *system* of socio-economic organization of agriculture, rather than the mere internal economics of individual farms, which is relevant to U. S. foreign, as well as domestic, policy. Under a system most completely devoted to family-farm organization, there may be a place for State farms (for experimental work or for seed stock production) for cooperative farms (for expression of particular religious motivations) for "factories in the field" or large plantations (for particular crops with unusual production characteristics) and for other deviations from the norm. Some of these forms may be indispensible to the viability of the family-farm system (e.g., the experimental farm) and others at least compatible with it. To be relevant to U. S. policy, analysis must, therefore, focus on the implications of alternative *systems* of economic and social organization of a country's agriculture, not merely on individual farms. Analysis must also differentiate the substance from the mere form of the issue; in Burma, for example, Government has felt it necessary technically to nationalize land ownership—giving the essentials of ownership rights to the occupants—in order to preserve the "family farm system"; as otherwise land ownership would all revert to the money lenders.

Secondly, analysis must be directed toward a broader spectrum of considerations than mere productivity or economic efficiency, important as these considerations must be in any analysis. Indeed, the interest of the

[1] Views expressed are those of the author and not necessarily those of the Agency for International Development.

United States is probably more directly involved in other aspects than in the efficiency or productivity implications of alternative modes of social and economic organization. I should like to elaborate this point because I feel it to be at the very heart of the topic under discussion.

### *Economic Development*

It is necessary to recognize first that economic development, per se, is indifferent as to outcome from the standpoint of social and political implications. Economic development is an objective of communistic governments, as well as of free world countries. And they use many of the same means as we to achieve it. Also, economic development can take forms which merely aggravate current causes of political tension; or it may prove to be the catalyst of explosion with results very inimical to the interests of the free world. Economic development is undoubtedly a necessary condition for realization of our fundamental values and objectives of policy; but it is by no means a sufficient condition. Our national objectives are served only to the extent that economic development brings about or strengthens proper institutional structures within countries—structures which constructively orient the countries toward peace and amicability in international relations rather than toward hostility and conflict.

Furthermore, economic underdevelopment is itself largely an institutional phenomenon. In underdeveloped economies, capital is not developed because institutions for capital development are inadequate; productivity capacities of human beings do not develop because adequate institutions for developing those capacities do not exist; efficiency of economic organization through specialization does not develop because adequate financing and marketing institutions do not exist. In short, economic underdevelopment is ordinarily the consequence of institutional underdevelopment rather than of lack of resources. We need to give serious consideration to the fact that many of the most underdeveloped countries are among the richest in resources per capita (e.g., the Congo); that most underdeveloped countries have historically been exporters of capital resources; that Cuba was among the better fed and higher income Latin American countries when the present government took over.

### *Two Dimensions*

There are two distinct dimensions to the question of the role of the "family farm system" as a mode of economic and social organization of the agricultural sector of an underdeveloped country. The first is the economic dimension—its implications for present productivity and for future economic development. The second is the social-political dimension—its implications for the type of social and political development the country may take.

As an economist, I have a natural bias toward the former; but as a citizen who has observed—and participated slightly in—the developmentary efforts of some of the countries, I must concede the definite and probably paramount importance of the latter. It is my contention that the family farm system of organization of agriculture does have very profound implications of both types, and that analysis of the assigned topic requires attention to both. The breadth of the topic, of course, implies that we can merely touch on the broad outlines of these two dimensions of the problem.

The economic dimension cannot be analyzed in terms of internal economics of individual farms, but only in terms of implications of the total system of organization. However, one general observation may be instructive. Contrary to popular belief—and to the interpretation often given to farm management research data—there is no strong indication that given amounts of land, labor, water, capital, managerial skills,and other resources are more efficient, under most conditions, when combined in larger than what are normally thought of as "family" units. Much confusion of this issue results from the obvious fact that owners of larger farms earn more money than owners of smaller farms. This is because they command more resources. A man with a million dollars invested at 2 percent earns more than another with a thousand dollars invested at 8 percent. But that doesn't mean that he uses his money as efficiently. As I have pointed out elsewhere, using Indian data, efficiency in the use of given resources is, if anything, inversely related to the size of farm. These same relationships are borne out in data I have observed from several other countries, including Germany, Chile, Formosa, and Japan. Obviously, the quantum of resources per man should be as high as possible; but this is not achieved by the mere aggregation of resources into larger conglomerates.[2]

When one lifts the level of analysis from the individual farm to that of the economic implications of a system of organization of agriculture, he must look to the question of alternatives. As I see it, there are about four alternative "systems"—and of course they may be combined in all manner of ways. One alternative is state farming—that is, the total administration of agriculture by government. Under this system, in its pure form, managerial and operational decisions are made by government supervisors for the people who work the land. The people who work the land are government employees. Distribution of returns is by administrative prerogative and according to political criteria. A second system is "collective farming"—in which the resources of individual families are pooled,

[2] Long, Erven J., "The Economic Basis of Land Reform in Underdeveloped Economies," *Land Econ.*, May 1961, pp. 113-123.

and managerial decision making is vested in selected members of the group. Distribution of returns is indicated by the prevailing ethical principles of the group, presumably based more on the criterion of need than of contribution, but not necessarily so. A third "system" would be that of "corporate farming" in which resources are pooled in some fashion, management is employed on behalf of the group, and distribution is in terms of owned capital resources and/or labor contribution as determined in the wage market. The fourth alternative is harder to name, but easier to find, because it is the form prevailing in most free underdeveloped countries now striving for "land reform." This system is often, though somewhat inaccurately, referred to as "feudalism." The system takes many forms, but is characterized by the fact that a relatively small number of people, through ownership either of the land itself or of rent-collecting rights, control the economic alternatives of the people who work the land. Through this control—which normally is fortified by their control of government also—economic power of the oligarchy is utilized to exact a distributive share from agriculture which has no necessary relationship to either contribution or need. We may perhaps best look at these systems in the reverse order from that in which they are listed above.

The "feudalistic" system of agricultural organization requires a closed economic system for its survival. Once economic opportunities develop outside the feudal structure for large numbers of the workers, and they become knowledgeable about these opportunities, the system crumbles. In our own history, opening the frontier for settlement, combined with the expanding maritime, commercial, and labor markets, rendered the maintenance of control over agricultural workers' alternatives impossible, almost from the beginning. So in those areas most suited to large-scale production units, recourse was made to slavery, built on direct control of people as property rather than indirect control through control of their alternatives, as a means of carrying forward basic feudalistic patterns in the "inhospitable" environment of an open economy. The awful difficulties our country experienced a century ago in resolving this issue should give us some insight into the difficulty with which other countries are confronted in resolving their present "land reform" problems, and should make us very respectful indeed of those countries which have resolved the problem swiftly and with a minimum of difficulty.

Because non-farm economic development does proceed at some pace in most underdeveloped countries, their economies are not entirely closed. But many techniques are available—other than recourse to slavery—for keeping control over alternatives of workers on the land. The secret is to keep the economy essentially "divided" into two sectors, the farm and the non-farm. As I see it, this is done through three principal

mechanisms. First, educational activities, both formal and informal, are kept at a low level among the farm people, so that they remain ignorant of, and unqualified for, participation in opportunities outside agriculture. Second, communication between rural and urban sectors is kept ineffective. This is not only a matter of lack of roads and telephones, but also of poverty and of cultural gaps. Third, such economic development as does take place outside agriculture is kept below that necessary to drain off increments to agricultural population, so that even though some or even many may leave farming, enough remain with no other alternatives to permit the system to prevail. To these must be added the fact that, since opportunities do exist in agriculture also, the preservation of this system of agricultural organization requires that these opportunities also be disciplined. This is done through the rather simple, and obviously attractive, device of arranging for the benefits of any undue enterprise or creativity by the individual tenant or worker to go in main part to the landowner or rent collector. As an old Eastern proverb has it: "A smile on the face of a peasant speaks of the stupidity of his landlord."

In highly developed economies the "corporate farming" organization of agriculture may have little or no correspondence with the "feudalistic" system just outlined. But in an underdeveloped country, the corporate land-and-capital owners often fit the same pattern as, and in fact become an integral part of, the feudal system. The employer-employee relationship characterizing industrial enterprise in advanced economies rarely comes into being in agrarian sectors of underdeveloped economies, and in its place is to be found the master-servant relationship of the feudal system.[3] This is probably the reason why tenants and farm laborers in underdevelopeed countries desire so strongly to "own their own land." They instinctively fear that any arrangement short of that will give them only the old structure under a new name, and perhaps under different and not necessarily better masters.

No deep analysis is needed to show that systems such as outlined above are apt to work against economic development. For one thing, perpetuation of the system itself requires that economic development be kept at manageable rates. Also, managerial functions are concentrated heavily in the hands of relatively few persons, and directed toward maintaining stable relationships, rather than maximum efficiency. This very fact creates one of the more important problems when such a system does give way. The type of agriculture followed under the system is not that which

[3] As Dr. Raymond Penn points out: "To put it bluntly, U.S. industry cannot operate in a feudal country without accepting the rules of feudalism and thus sharing the villain's role for those who want to strengthen the economic and legal position of the landless and jobbers." "Public Interest in Private Property (Land)," *Land Econ.*, May 1962, p. 101.)

will enable the farmers who newly acquire the land to make efficient use of resources. Therefore, new agricultural enterprises have to be developed for which neither the new landowners nor their former masters are prepared by experience. This problem is not as characteristic under the rent-collection systems of Asia as under the large land ownership systems of Latin America, which explains in part the relative ease of the transition to owner operatorship "family-farming" in such countries as Japan, Taiwan, and India.

It is my judgment that, by and large, it is this necessity of shifting to new types of agriculture, plus the disruption of some social overhead services, rather than the loss of management skills formerly supplied by landlords, which creates most of the problems of a production nature when land reform is introduced. For it is extremely easy to overestimate the amount and quality of management provided by large-scale landowners (or rent-collectors) when judged against production effiicency criteria.

Collective farming, or "cooperative farming," as a system of organization of a country's agriculture, is of quite a different character from the forms discussed earlier. Often it roots in deep ethical or religious concepts concerning the natural equality of man. The fact that it has frequently been subverted in communistic societies into a disguised form of state farming does not in itself condemn it for use under free societies. In the United States it was introduced by the Pilgrims. But it failed, for economic rather than ideological reasons. Within 3 years, the individual farm families were allocated certain portions of land for their own exclusive use, and within a few more years arrangements were made for individual farmers to buy their land from the merchant owners in London—so that within a decade the colony had shifted from cooperative farming to owner-operatorship, family farming. Many similar cooperative schemes were followed by other groups, largely under religious stimulus.

Such efforts as have been made to establish collective-farming systems of organization of agriculture do not testify to the effectiveness of this approach. An instructive case in our country is the Amana settlement in Iowa.[4] China's present agony and the frustration regarding agricultural production being experienced in the Soviet Union and other Bloc countries indicate the handicap such countries suffer as a result of their ideological commitment to collectivization. As Dr. Kenneth Parsons says: "It is fortunate for us that owner-operatorship of farms is incompatible with communist ideology."

The experience of Yugoslavia is most instructive. The rapid socialization of agriculture was a fundamental tenet of Yugoslav ideology. To this

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[4] Yambura and Bodine, *A Change and a Parting, My Story of Amana*, Iowa State Univ. Press, 1960.

end, great efforts were expanded to reorganize the traditional "family farm" agriculture of Yugoslavia into collective farms, known as "Peasant Workers' Cooperatives," up until about 1951 and 1952. By this time, these collective farms covered 2.29 million hectares, about 15 percent of the total agricultural area of the country. But troubles were setting in. As stated in a report by an Indian study group: "The creation of larger units did not, by itself, improve efficiency. The system of uniform rates of wages for all workers was a great disincentive. Working discipline was low; most of the members were more concerned with production on their small homestead plots. . . . There were repeated desertions. The attachment of the Yugoslav farmers to land was great and this was not recognized in the ideological fervour. . . . As a consequence of all these, production actually fell in most societies."[5]

To quote a most eminent Yugoslavian agricultural economist, Dr. Rudolph Bicanic, University of Zagreb, in commenting upon the "Soviet System" of agriculture in Eastern Europe generally, and in Yugoslavia in particular: "The result was that the anticipated economies of scale were offset by other factors such as lack of personal initiative and efficiency in work, lack of flexibility on the part of the centralized management to adjust means of production to their full use. As this administrative change lacked material economic basis, collectivization was carried by coercion and arbitrary measures, and the whole system became degressive and inefficient and had to be changed."[6] In the words of still another prominent Yugoslav: "Nobody thinks any longer of collectivization in Yugoslavia."[7]

After 1952, a new policy was evolved, establishing essentially a system of family farms, producing for free markets and supported by marketing supply, and service cooperatives. Labor performed on land remaining under "cooperative" management was hired, largely on a piece-work basis. As a consequence, the number of Peasant Workers' Cooperatives dropped to 370 in 1959 from 7,000 in 1952, and the area under cooperative farming decreased to 207,000 hectares in 1955 from 2.29 million hectares in 1952.

All three major systems of agricultural organization listed above as alternatives to family farming suffer from three major handicaps to productive efficiency.

One handicap is the difficulty of providing incentives, under systems

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[5] *Report of the Study Team on the Working of the Cooperative Movement in Yugoslavia and Israel*, Government of India, Ministry of Community Development and Cooperation, April 9, 1960, p. 25.

[6] "Lack of Institutional Flexibility in Agriculture," *Proceedings of the 10th International Conference of Agricultural Economists*, Oxford Univ. Press, 1960, p. 157-178.

[7] Komar, S. *The State of Agriculture and Cooperation and the Perspective for Their Development*, Federated Peoples' Assembly, Belgrade, 1957.

where rewards for special efforts go to other than those who make the efforts. This applies to capital development as well as to direct production. Farm people will not ordinarily forego consumption expenditures to make capital improvements if someone else can either take over the farm or raise the rent to use up all the increased returns. The principal source of capital development in agriculture in underdeveloped economies is the use of labor to make such production-increasing improvements on the land as land clearing, irrigation facilities, or soil conservation structures. The play of incentives in stimulating such "do-it-yourself" capital-developing activities under a system of individually owned family farms is one of the most difficult factors to duplicate under alternative systems of farm organization.[8] Other forms of persuasions are used under other systems, to be sure—using both the carrot and the stick—but they are usually costly and difficult to administer and tend to become more ineffective with the passage of time. It is cheaper and much more effective, in the end, to build incentives into the system of agricultural organization than to enforce compliance.

Another economic handicap of alternative systems is the high cost and ineffectiveness of centralized decision-making. Successful farming requires a constant process of judgment-making, in which sound scientific and economic principles must be blended with particular facts of time and place. Weather is so capricious, soil and water resources so unevenly distributed, and plant and animal diseases so unpredictable, that decisions must be made close to the ground and promptly. Thus, to be effective, centralized management requires a tremendous overhead of decision-makers working at the elbows, as it were, of the farm workers. It is much cheaper, in the end, to build the decision-making competence into the worker and thereby eliminate this overhead.

The third, and in the long run the most important economic limitation of systems of farm organization other than a "family farm" system, is their poor adaptability to development of managerial and other competencies broadly throughout rural society. As intimated earlier, feudalistic, and closely related, systems of farm organization virtually depend for their survival upon repression of development of competencies among the masses of rural people. This is not necessarily true, however, of state farming and collective farming systems. But the family farm system specifically adapts itself to the development of managerial capacities on a broad base. Development of managerial skills on the part of a few central managers under alternative systems may be easier of rapid achievement;

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[8] This point is elaborated in my paper, "Land Policies and Programs in Relation to Economic Development," in *Latin American USOM's Seminar on Agrarian Reform, Feb. 21-24, Santiago, Chile* (processed), pp. 28-32.

but it does not provide occasion for development of the capacities for intelligent action inherent in people of all levels of rural society. Family-farming will not, in itself, assure this development—as attested by our own "tobacco roads." But, by forcing small operators to make management decisions and to live with the consequences of these decisions, it does provide a more suitable setting for the development of such human capacities throughout rural society than can be expected under those alternative systems, where only a few are expected to join their intelligence to their physical energies in the common purpose of earning a living. In the long run, this is probably the most important handicap of other farming systems, and is probably the key to the backwardness of feudalistic agricultural societies—and to the difficulties encountered in modern attempts at national collectivization.

Conversely, in the short run, the very fact of centralization of management often makes possible more rapid introduction of technological improvements. This creates a most serious obstacle to objective "experimentation" with alternative systems. But built-in rigidities, plus the handicaps listed previously, seem in experience to wipe out these short-run advantages more rapidly than I, at least, should have judged from purely *a priori* considerations.

I must conclude on a brief comment on what I earlier stated to be the most important aspect of the role of the family farm system in underdeveloped economies—its implications for social and political development. The building of institutional structures within underdeveloped countres which will work for, rather than against, evolution of free societies oriented toward peace and democracy is, of course, at the heart of our national policy. Some alternative systems serve to perpetuate disparities and incomes, thus keeping fertile the ground for hostile political development. Other systems play into the purposes and processes of totalitarian government—and are instituted by such governments, even at great costs in productivity, for that very purpose.

At perhaps its most fundamental level, from the political standpoint, the issue of alternative modes of agricultural organization turns on the nature of the relationship between the masses of rural people and government. For a family-farm system is not just a national landscape broken up into relatively small units. It is a system of relationships between rural people and government, a system of institutions dedicated to strengthening the family farm as a mode of organization. It is fundamentally predicated upon a *service* relationship between government and people—research service, educational (extension) service, credit service, marketing service, conservation service, price-supporting service, etc. It is a system—and represents an entire structure of concepts—in which the farm families are

the generators of agricultural policy—not the end—or bottom—point of an administrative system. The greatest political danger in an agrarian economy derives from a lack of sense of identification of rural people with government—a "lack of integration," to use Myrdal's[9] term. When the majority of rural people think of government as simply a tax or rent collecting machine, they can easily be led to overthrow it. This is especially true if they have no property—and little else—to lose in the process.

The establishment of a family-farm system of organization of agriculture inverts traditional relationships between farmers and government. It is not easy to achieve. Transition from the "three R's" of Colonial Administration—Rule, Revenue, and Reprimand—to Service requires tremendous adjustments in machinery of government and attitudes of personnel—much more difficult than the transition from one type of agricultural system to another which, though vastly different in superficial appearance, is built on the same relationship between the governing and the governed. But it is the heart of the process by which free societies are achieved, and hence of U. S. policy interest.

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[9] Myrdal, Gunnar, *An International Economy, Problems and Prospects*, N.Y., 1956.