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INCREASING PRODUCTIVE CAPACITY OF

POOR FARMERS ON SMALL FARMS

by

Glenn L. Johnson

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INCREASING PRODUCTIVE CAPACITY OF  
POOR FARMERS ON SMALL FARMS

by

Glenn L. Johnson\*

Our central purpose for being in Lahore is to develop a strategy for increasing the productive capacity of small farms and farmers in developing countries. A specific objective is to enable the rural poor to meet their basic "human needs" on a sustainable basis. Obviously, a very high proportion of the rural poor are farmers or landless laborers who work on farms. Thus, meeting the basic human needs of the rural poor is almost tantamount to meeting the basic human needs of poor, small farmers. Basic human needs are met, of course, by both subsistence production and production for the market in order to acquire income to purchase basic human needs not producible on a farm. This introductory rhetoric, which is common throughout AID and other bilateral and multilateral assistance agencies, is more radical than it appears at first hearing and, perhaps, more radical than those who use it realize. In any event, I am going to assume, in what follows, that people mean what they say when they use such rhetoric.

Professor T. W. Schultz and many of his followers have demonstrated rather clearly that poor farmers on small farms typically use their resources about as effectively as they can; consequently we conclude small farmers are poor, not because they are inefficient, but because they do not own much with which to produce income.

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\*Professor, Department of Agricultural Economics, Michigan State University, East Lansing. For presentation at the Agricultural Seminar, CENTO, Lahore, Pakistan, December 17-21, 1978.

Further, if a people are so poor they cannot meet their basic needs, saving is difficult or impossible for many and, for others, dissaving (the consumption of capital) may be essential to maintain life. The rich can save -- the really poor must dissave and starve later -- or if they have no capital to consume, starve now. Saving does not redistribute capital ownership through time to the poor. Indeed, it does the opposite -- as the christian Bible says, "To he who has will be given -- and from he who has not will be taken away." Clearly, there is no alternative but to face up to redistribution of the ownership of the means of producing income.

Meeting basic human needs of the very poor generally does require "giving them something" with which to produce the real income necessary to satisfy their needs either from production or through purchases in the marketplace. Their poverty means that "giving them something" necessarily entails "taking something away from someone else" in order to give it to them.

The perspective which I want to provide today is one of facing up to the difficult task of increasing the ownership by the poor of the means of producing real income through subsistence production and/or through sales in markets. The remainder of my paper will deal with a number of issues, part of which I will discuss and the remainder of which I will leave for discussion by other persons responsible for covering these topics in their papers.

### Issue I

This issue has already been considered briefly above. It is:

||| HOW MUCH CAN THE POOREST OF THE POOR SAVE IN  
||| ORDER TO INCREASE THEIR EARNING POWER?

The answer is damned little if they are really so poor they cannot meet their basic needs. Before they can save they must be given the means of increasing

income above minimal levels required to meet their really "basic human needs." In addition to owning the means of producing more income than required to maintain life, saving requires that they have opportunities to put their savings to good use. This does not always require banking institutions. People do produce real income in the form of capital. Examples include breeding stock, draft bullocks, water control structures, fences, orchard trees, etc. Such capital is produced, saved and invested simultaneously without benefit of financial institutions. However, it is like a savings deposit in a crucial important respect -- neither will materialize unless there is an adequate return on them -- enough to induce the "saver" to refrain from current consumption in exchange for future income. The environment must be favorable which is, of course, dependent on favorable national pricing and tax policies as well as local infrastructure to "keep the peace," protect property, etc. and provide reliable credit institutions.

With respect to this issue, it should be noted that savings to increase income earning capacity can take place in a number of other ways: (1) money can be borrowed to invest in income producing assets and repaid, in turn, out of savings, and (2) poor farmers can invest in their own skills and capacities. Some subissues include:

- What can be done to establish reliable attitudes on the part of borrowers from subsidized credit schemes? How can control be shared with borrowers and local leaders to establish the integrity of subsidized credit systems?
- What can be done in the way of product price guarantees, loan rates on self-generated capital, and tenure arrangements to make it profitable for producers to generate such forms of capital as local water control structures,

breeding animals, bullocks, orchards, perennial forage stands, etc.?

● With respect to skills and personal capital, what can be done to:

- (a) lower the real cost of acquiring such skills?
- (b) increase the rewards going to those who incur the costs of acquiring such skills for themselves?

### Issue II

The question of redistribution within countries is discussed before redistribution among countries.

||| AS OWNERSHIP OF THE MEANS OF PRODUCING INCOME IS VERY  
||| UNEVENLY DISTRIBUTED IN MANY OF THE LESS DEVELOPED  
||| COUNTRIES, THE QUESTION MUST BE RAISED AS TO HOW AND  
||| WHETHER REDISTRIBUTIONS CAN BE CARRIED OUT WITHIN  
||| SUCH COUNTRIES.

Redistribution of the means of producing income within a given country can take place in a number of ways: (1) taxation schemes can be used to extract income from the rich (both urban and rural) to assist the poor (including poor, small farmers) as specified in 2, 3, and 4 below and in still other ways; (2) public capital investments can be made and private capital investments can be guided so as to produce jobs and generate income earning opportunities for poor farmers on small farms; (3) public investments can be made in the skills and capabilities of poor farmers and their families; (4) institutional structures can be changed to give poor, small farmers ownership of rights and privileges (voting power, governmental roles, medical care, disaster relief, improved technologies, police and fire protection, water and sanitation facilities, etc.); (5) land can be forcibly redistributed from large to small

farmers; and finally, (6) the disadvantaged poor farmers on small farms may redistribute through revolutionary action.

Some of the important subissues and questions are:

- The typical issue, vis-a-vis progressive income taxes in the LDCs, is whether such countries have enough administrative capacity to run effective income tax programs. Other tax schemes designed to be progressive, while progressive in their primary impact, may be retrogressive on their secondary and tertiary impacts. These more ultimate impacts are difficult to predict accurately in both LDC and DCs but particularly in the LDCs where administrative structures are often weak, corrupt and where the rich are typically much more powerful relative to the poor than in the DCs.
- What public and private investment projects (which will provide income earning opportunities for poor, small farmers) can be located and operated so as to create employment opportunities and access to income producing resources for farmers in the short and long runs?  
It is necessary that these two objectives be attained without waste and inefficiency which more than offset these two gains. Answering such questions often requires greater analytical capability than exists in many LDC governments.
- Among the assets which can be redistributed with the least turmoil (in the short-run at least) are education and new technologies. Gifts of equipment,

materials, and subsidized credit are typically controversial, particularly if substantial enough to be of consequence.

- Less obvious and less volatile ways of redistributing to the disadvantaged include rigging factor and product prices in their favor and the extension of generous loans accompanied by severe inflation. These procedures often disrupt the market mechanism of a country so much that their secondary and tertiary impacts are hardly foreseeable, particularly when the governmental regulations are manipulated by those with administrative, political, military, social and police as well as market power. Further, most LDC countries can ill afford to be deprived of the administrative services of the market by extensive (and generally poorly administered) market interventions.
- How can the educational systems (informal as well as formal) serving poor, small farmers be modified to produce more salable skills and capacities for the great majority who do not go on to advanced training without detracting from the more academic training of those who do? Such redistribution takes place largely in the process of creating more human capital. Education and training are productive processes and, by their very nature, tend to be redistributive. The government of a country which is increasing its human capital does it by educating and training more people as well as training and educating a given

number more intensively. It is probably this need to create human capital in more people -- the disadvantaged -- which has put so many governments in the educational business.

- What changes in the institutional structures of LDC countries both have net advantages and extend additional power, income earning opportunities, and other rights and privileges to small, poor farmers? Institutional changes affect productivity and earning power both directly and indirectly. Educational, credit, land, and price policy reforms are examples of institutional changes with direct effects. However, institutional changes which redistribute voting power and which decentralize decision making to local governments and institutions and agencies have important long-run indirect effects. Such changes in power are used indirectly to increase productive capacity and earnings. This is done by bringing about institutional changes which have direct influence.
- When is it appropriate for an existing government to forcibly redistribute the ownership of land and other property in favor of small, poor farmers? In less developed countries, land is relatively more important than other productive assets; thus, attention is often focused on land when redistributive actions are being considered. At low levels of development, land reform and inheritance often fragments holdings so badly that per capita earnings and production are restricted to levels which

do not permit saving. This fragmentation, in turn, tends to be restrictive when countries become successful in their development efforts (Japan, Germany, Taiwan, Sweden, Korea and Norway). Also, success typically reveals that other forms of property are more important than land -- namely skills and education (human capital), access to public services, publicly created new technology, the right and freedom to migrate and change employment, and machinery and equipment.

- Revolutionary redistribution of ownership of property (rights and privileges in the broad meaning of the word property) involves a whole set of related issues. Questions must always be asked about the other intents of revolutionaries. Gains in more equal distribution of land and real property may be more than offset by concentration of political, military and police power even for societies with very unequal pre-revolutionary distributions. Leftist revolutions may lead to extreme concentrations of property ownership in the hands of the state, controlled, in turn, by small party elites. Then, too, the costs of war and conflict must also be weighed against possible revolutionary gains, one such cost being the possibility of losing completely. Even when a revolution is not lost, costs in terms of lost lives, property destruction and foregone income may be such that equality only means equality in terms of misery.

Issue III

While redistribution within countries was discussed first, the question of redistribution among countries must also be squarely faced.

AS OWNERSHIP OF THE MEANS OF PRODUCING INCOME IS VERY UNEVENLY DISTRIBUTED AMONG THE COUNTRIES OF THE WORLD, THE QUESTION MUST BE RAISED AS TO HOW AND WHETHER INTERNATIONAL REDISTRIBUTIONS CAN BE CARRIED OUT.

With respect to this issue, redistribution of the ownership of the means of producing income from rich to poor nations involves several subissues.

- On what basis do we conclude that a nation which does not redistribute from its own rich to its own poor will distribute external aid to the advantage of its poor? What assurances and demands can an external donor make in this connection? What do we do about secondary and tertiary consequences? Will an equal initial distribution lead mainly to the concentration of internal aid in the hands of the wealthy during secondary and tertiary impacts?
- How do we relate demands for more equitable international access to income producing resources to equality and ability to attain equality in population growth rates? Do countries which do not control population have as much per capita claim on developmental assistance as those which do? More particularly how do we deal with population growth on small, poor farms? Little can be gained on a widespread per capital basis from conceivable levels of international aid, if population growth is not constrained.

- How do wealthy nations justify use of progressive taxes on their rich to aid the poor of other countries when their own poor, though much better off than the poor of the LDCs, also need help? The political situation in DC countries is not helped by wider discrepancies between the rich and the poor of the LDCs than between those taxed very progressively in the DCs and their own poor.
- What are the best assets to transfer between nations to help poor, small farmers -- technology, capacity to develop technology, seeds, livestock, assistance in organizing farmers, local governmental assistance, roads, market facilities, agricultural credit, access to international markets, input subsidies, etc.?
- When the poor of a LDC revolt in an attempt to redistribute, what role should external donors play -- neutrality, promotion, suppression? The answer depends in part on the nature of the revolution -- internal, promoted from outside and, if so, by whom and with what objectives? Closely related is the question of whether or not the revolutionaries, leftist or rightist, are establishing a new or different dictatorship which will concentrate instead of dispersing ownership of political, social and economic rights and privileges. There is also the very important political problem of when interference in the internal affairs of another country is justified -- but then the rendering of discriminatory international aid to help the poorest of the poor is, by its very nature, interference in the internal affairs of another state.

Underlying all such questions is the basic conflict between the values of maintaining order and of freedom to exercise market, political, and social rights and privileges. Too much freedom results in disorder -- too much order destroys freedom!

#### Issue IV

Mounting food and feed grain surpluses in North America, Europe and in parts of Asia are now depressing the real world prices for food and feed grains.

||| HOW DO WE PREVENT THESE SURPLUSES FROM DEPRESSING  
||| PRICES AND INCOME RECEIVED BY THE POOR, SMALL PRO-  
||| DUCERS OF FOOD AND FEED GRAINS IN LESS DEVELOPED  
||| COUNTRIES?

It must be stressed that agricultural surpluses are being (have been) re-established. We are "back to normality" -- the food shortages of the early seventies were abnormal. The normal situation is for food and feed grain supplies to be so large relative to effective demand for food (which is not the same as nutritional needs) that prices fail to cover producer costs. While this hurts the commercial farmers of the DC's, its impact on poor food and feed grain producers on small LDC farms is disastrous. Helping the latter is to help a high proportion of the world's "poorest of the poor." If an LDC government isolates its markets from world trade in grains so as to protect its domestic producers, it will be criticized by (1) its urban elites, urban poor and budding industrialists for increasing food prices, and (2) the international community of grain exporters. It will also run the danger of upsetting the market mechanism which it does not have the administrative capacity to replace with controls.

This dilemma has not been adequately researched in either the LDCs or DCs. In the U.S., the President's Food and Nutrition Study largely ignored it apparently because it was assumed that the food grain shortage of the early seventies was permanent and that, hence, 99.7 percent of the proposed budget should go to output increasing or preserving research, mainly physical and biological. It must be faced squarely by both LDC and DC decision makers. International "do gooders" must look at the adverse impacts of low cost imports and, especially of concessional food aid (subsidized dumping) on LDC poor farmers on small farms. LDC decision makers must weigh the disadvantages of higher food prices against the advantages of (1) increasing the incomes of their rural poor, (2) higher levels of food self-sufficiency and food security, and (3) better rural markets for new domestic manufactured products to mention only a few.

#### Issue V

Even poor farmers who increase their "real" income by producing more food do not want to eat all of the increased output -- instead, they want to sell or exchange some of their extra food for cloth, utensils, education of children, health care, etc.

||| HOW DO WE ORGANIZE MARKETS FOR POOR FARMERS TO  
||| EXCHANGE THEIR FOOD AND FEED GRAINS FOR NON-  
||| AGRICULTURAL GOODS AND SERVICES?

This issue should be addressed when Roger Fox leads the discussion on agricultural markets.

#### Issue VI

Closely related to Issue V is the issue which arises when we note that if a community has a surplus to sell, transportation and transaction costs typically depress prices before export to other communities can take place.

This reduces both money and real incomes of the farmers who produced the marketable surpluses. Conversely, when such communities experience short-falls in production, prices must rise sharply in order to cover the transportation and transaction costs involved in buying commodities from other communities. These differences in prices are often incorrectly blamed on "exploitive middlemen."

HOW DO WE REDUCE THE REAL TRANSPORTATION AND TRANSACTION COSTS INVOLVED IN BUYING AND SELLING COMMODITIES BETWEEN COMMUNITIES SO AS TO REDUCE THESE WIDE FLUCTUATIONS IN PRICES AND INCOMES?

#### Issue VII

Local initiative and leadership are important to the success of local governments and associations of small, poor farmers. On the other hand, good central planning and national policies are also important. Both are essential -- neither is sufficient in and of itself. Bilateral and multi-lateral agencies have vacillated faddishly in their emphases on central versus local planning and administration.

WHAT IS THE PROPER BALANCE BETWEEN LOCAL AND CENTRAL PLANNING AND ADMINISTRATION IN ASSISTING POOR, SMALL FARMERS? A RELATED QUESTION IS, HOW DO WE ATTAIN SUCH A BALANCE?

As Lane Holdcroft, USAID/Philippines, recounts, there has been a "rise and fall" of interest in community development in AID/Washington. He attributes CD's fall to lack of attention to the means of producing real income to support CD projects. Yet CD succumbed in AID to the demands of "central planners" for attention to national policies, programs and projects. After

1965, CD was neglected. And, because development and attempts to help the poorest of the poor meet their basic needs requires local effort, planning and administration, the central planners did poorly. Their neglect of the local, in turn, set the stage for the second reincarnation of CD in the form of rural development. This counter attack is now so strong in that part of AID concerned with agriculture that central planning and analysis of agriculture is grossly neglected. Other donor and grantor agencies are making the same mistake. This will lead to the "second fall." Old testament biblical writers would be inclined to write, "How long? How long, O Lord, do we have to wait" for recognition of the need for balance between local and central planning, analysis and administration?

#### Issue VIII

It is generally agreed, now, that small, poor farmers do a reasonably good job of maximizing use of their resources given the technology and institutional environment in which they operate. Different sections above have considered how to increase their resources (including their skills and personal capacities) and how to modify their institutional environment.

||| WHAT NEW TECHNOLOGY SHOULD BE GENERATED AND TRANS-  
||| FERRED TO HELP SMALL, POOR FARMERS? AND, HOW  
||| SHOULD SUCH TECHNOLOGY BE GENERATED?

This question is asked repeatedly and is better answered than formerly but still poorly answered. The answers are not general; instead, they are quite specific to each country's labor, skill, institutional and resource endowment. And if these endowments are changeable, as they often are, answers to questions about technology depend on how other questions about planned and prospective human, institutional and resource changes are answered. And the answers to this latter group of questions also depend on how the technology questions are answered.

Questions about needed technological advances are not answerable by technologists and biological and physical scientists alone. Will Rochine will discuss information diffusion and the adoption of new technology. Neither social scientists nor humanists alone can answer questions about needed institutional and human changes. As David Norman will indicate, such questions require a systems prospective. We are only now beginning to have the skill to model and analyze such broad systems -- but that takes us to the next issue.

### Issue IX

Quantitative economic models specialized on such techniques as econometrics, L.P., and I.O. production functions have fallen into disrepute, particularly if they are large. Meanwhile much progress has been made in overcoming the shortcomings of models specialized on economic phenomena using only the techniques of economists. The new models are eclectic, vis-a-vis technique, discipline (subject matter) and as to whether maximization components are or are not used. They are also capable of being used interactively and iteratively in the process of defining and solving problems. As such, they meet many of the criticisms of more specialized models while possessing the characteristics which have made informal projection attractive to and used by decision makers dealing with problems involving technological, human and institutional (including redistributions to help the poor) changes. AID and the CENTO countries are relatively short on capacity to build such models and are behind the state of the arts in this respect.

HOW CAN AID AND CENTO COUNTRIES OPERATIONALIZE THESE  
ADVANCES IN THE STATE OF THE MODELING ARTS TO HELP  
ANALYZE THE INTERDEPENDENCE AMONG ANSWERS TO QUESTIONS  
ABOUT WHICH TECHNOLOGICAL, INSTITUTIONAL AND HUMAN  
CHANGES SHOULD BE BROUGHT ABOUT?

### Conclusions

In conclusion, I partially apologize for having covered so much ground in what had to be a shallow manner. I do not apologize in full because this is the opening paper of a seminar. We have the opportunity to go deeper into any of these issues in the hours and days ahead. As you indicate your interests and preferences, I stand prepared to be more specific, vis-a-vis literature, examples and more detailed analysis.

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