PN-AAW-373

TRANSCRIPT OF PROCEEDINGS

LAND REFORM CONFERENCE:
"[to] focus on those questions related to...redistributive land reform that is carried out by government expropriation of property from one private owner and reallocation to another owner...."
[from the Introduction to the announcement of the conference agenda]

Sponsored by the United States Agency for International Development

Hosted by Sequoia Institute

Ramada Renaissance
1143 New Hampshire Avenue, N.W.
Renaissance Room 1
Washington, D.C.

Friday, March 29, 1985

Commencing at 8:00 A.M.

INTRODUCTION TO THE TRANSCRIPT OF PROCEEDINGS

Greetings to conference attendees--invited panelists and representatives of the sponsoring organization, A.I.D.--was provided by Jerry Jenkins of host organization, Sequoia Institute. Expert panelists introduced to the assemblage were:

Manuel F. Ayau
Francisco Marroquin University
Guatemala City

R. Albert Berry
Scarborough College
University of Toronto

John D. Montgomery
John F. Kennedy School of Government
Harvard University

John P. Powelson
University of Colorado

Roy Prosterman
University of Washington

Joseph W. Recinos
Expandes
Guatemala City

William C. Thiesenhusen
Land Tenure Center
University of Wisconsin

Rick Tropp
U.S. Agency for International Development

Arlo Woolery
Lincoln Institute of Land Policy

Having graciously accepted Mr. Jenkins' invitation to moderate the proceedings, Mr. Montgomery received additional recognition at the outset of the conference.

Attention then turned to the agenda for the conference. This agenda was received by each of the panelists in conjunction with their invitations to participate in the workshop. It is reprinted here, in the three pages which follow, as part of the introduction to the Transcript of Proceedings.

Discussion Points - AID
Conference on Land Reform

Introduction

The purpose of this conference is to assemble a number of noted experts on the subject of land reform, and request that they discuss a series of issues with which the Agency for International Development (AID) has been concerned in its policy formulation. The agenda for this conference will focus on those questions related to agricultural asset distribution on which more information is required before a consensus can be drawn and a policy position articulated. The questions all relate to redistributive land reform that is carried out by government expropriation of property from one private owner and reallocation to another owner. For purposes of this paper, it is assumed that redistribution of land can positively contribute to the achievement of objectives outlined below, and that it will always be embedded in the more holistic framework generally termed agrarian reform.

Background

Under the Foreign Assistance Act of 1961, as amended, AID is mandated to emphasize the following goals:

- the alleviation of the worst physical manifestation of poverty, which include starvation, hunger and malnutrition, among the world's poor majority;

- the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits, including creating productive farm and off-farm employment in rural areas to provide a more viable economic base and enhance opportunities for improved incomes, living standards and contributions by poor people to the economic and social development of their countries; and

- the encouragement of development process in which individual civil and economic rights are respected and enhanced.

The evidence from empirical economic research suggests that the first two goals are compatible. In order for the reduction of poverty and self sustaining economic growth to be achieved over

the long term, however, the first two goals must contribute to the third. Although other variables such as price policy, foreign exchange policy and access to credit affect land productivity, the relationship of farm size to productivity will be the focus of the discussion.

The literature indicates that land productivity is higher on small farms than on large, so that small, poorer farmers typically produce more food per unit of land than large, presumably wealthier farmers. There are several reasons cited for this fact. The first is that peasant families who cultivate smaller farms seek to maximize output (and profit) by applying family labor (the marginal cost of which is often zero because of a lack of alternative economic opportunities) up to the point at which its marginal product is zero, whereas large farm operators tend to seek the most effective use of their resources by using hired labor only up to the point where its marginal product equals the wage. Other reasons cited for the inverse relationship between farm size and output per acre include higher soil quality on small farms; higher rates of return for extensive uses such as grazing when factor prices are distorted; the prestige attached to land ownership per se, regardless of productivity; and the tendency to operate large land areas under certain leasehold arrangements that diminish incentives to maximize production and efficiency.

The idea has also been advanced that individuals who have secure tenure rights to land have a significantly increased "stake" in the success of a society, due to land's unique characteristics of permanence and immovability. At the level of the individual, it is thought that one with such a stake in a social and economic system will be more committed to its continuance than someone without it. In theory, then, improved opportunity to own or use land would address the third of AID's objectives cited above by improving an individual's economic rights.

Conference Questions

In view of the points raised above, AID must then examine the means available to achieve its mandated goals. Thus, the first point for discussion will be:

1. What are the means available to increase access to productive assets in the agriculture sector?

(This general discussion should be limited to one hour in length).

Assuming that one of the means identified in the discussion of the foregoing question was a redistributive land reform as part of a larger agrarian reform, three questions follow:

2. When is redistributive land reform to be the preferred approach over alternative means of improving access to agricultural assets?

3. What are the endogenous conditions for a successful redistributive reform? The discussion should include, but not be limited to considerations of the terms for:

- expropriation
- compensation
- vesting of ownership rights
- alienability
- eligibility
- economic viability
- mode of production
- administration.

4. What are the most important exogenous conditions (e.g., access to credit, markets, new technology, increased alternative persuits for the rural poor, etc.) that affect the success of the redistributive aspect of an agrarian reform?

It is expected that the discussion will be empirically based, and that examples of both successful and unsuccessful interventions will be cited frequently throughout. Other mechanisms for improving access to agricultural assets - though they may be more desirable and/or feasible than redistributive land reform - will be covered only in the discussion of the first question.

Due to technical difficulties, transcription of the proceedings began about ten minutes into a discussion of the first question on the agenda, i.e., "What are the means available to increase access to productive assets in the agriculture sector?"

In response to this question, Mr. Recinos introduced an alternative to redistribution of land which entails a redistribution of ownership, but avoids government expropriation of property. While failing to capture his remarks in the transcript, the following recollection contains only his words--supplied, quite fortunately, by a Washington Times interview with Mr. Recinos while he was in this country for the purpose of participating in the conference.

MR. RECINOS: [The means taken by the owners of the La Perla estate in the highlands of Guatemala is to broaden ownership of the estate by including its employees.]

On March 1 of this year, 120 insurgents attacked the La Perla estate and were able to take control of the center of the estate. Following this, 200 armed workers attacked the insurgents and forced them off the farm. A number of workers and insurgents were killed.

Why would workers arm themselves and defend an estate purportedly viewed in the United States as being owned by very few people, that is to say, a landed oligarchy exploiting the workers? Well, in this case, the workers own 40 percent of the estate stock. This is, I think, unheard of in Latin America. Owners of a large farming estate have taken the initiative to broaden their base of capital ownership....

La Perla is a 9,000-acre coffee and cardamom plantation in northern Guatemala. It has 500 full-time employees, about 1,500 family members and approximately 4,000 other individuals who depend upon the economy of the estate.

Last September, the farm's owners set up a trust in which they allocated 40 percent of the stock. The stock will be paid for out of the future profits of the farm, but upon the signing, full voting rights were passed through to an employee association, similar to a cooperative. So the stock is owned and voted in block by the association.

It was paid for with future dividends plus employer and employee contributions to the employee association, which will average about 3 percent of the payroll each year. In the employee association, you have the equivalent of one man, one vote, although the profits and dividends received by the association on the stock and on other investments is proportioned according to salary.

The owners' principle reason for setting up the program is that the farm is located in the Ixil region of Quiche Provence, one of the principal areas in which the insurgents have been

attacking over the past several years. La Perla is the area's only farm still in production. All other large estates in the region have for the most part been abandoned because of the dangers of insurgent activity.

Its owners feel that if they are to protect the estate and keep it, it's important to build loyalty into the hands of the employees....

As far as the employees are concerned, it gives them ownership of land without breaking the estate down into small parcels, which has been the end result of many agrarian reforms and has led to a lot of problems and failures in the past.

Q: Would you say the La Perla project has definite advantages over the sort of land reform in which the government expropriates property and redistributes it?

A: Yes, because usually when the government expropriates property and begins to distribute it into the hands of the peasants, it doesn't give them the full rights.

For example, in El Salvador, the government expropriated large estates from past owners and began to turn them over to cooperatives. But the government, three years after the reform, still maintains control over management and over the providing of technical services to the estate, with somewhat disastrous results--mismanagement, misuse of funds and the creation of second-class citizens.

If you are going to expropriate land and turn it over to new owners, then turn it over to them. Give them fjull property rights--the right to sell, the right to mortgage, the right to manage the estate as they see fit.

From a practical point of view, the government is right in the sense that you cannot expropriate land and expect that if you turn it over totally to the peasants, they are going to be able to manage it effectively. Being able to act as an owner requires a certain amount of preparation. So using this type of model as applied at La Perla would be a way of gradually transferring the ownership of an estate to peasants.

La Perla's owners are fully committed to the idea that eventually they will sell majority control of the estate to the workers. By selling 40 percent of the stock now and being paid out of future profits, the farm itself will become more productive so that later, when the owners sell the majority of the stock to the employees, they will be paid a fair value.

As far as the peasants are concerned, by forming this alliance between the previous owners and the workers and having this gradual transition of ownership, you will maintain the technical and management expertise of the present owners and, of equal importance, their contacts with importers around the world. These types of relationships would be protected as the transfer

of ownership occurs, and keep the costs, I think, much further down than if the government were providing the services....

Ideally, what AID ought to do would be to help lesser developed nations understand the kinds of tax incentives that have been introduced in the United States to promote ESOPs, and perhaps of greater significance, to give workers the ability to acquire ownership rights in productive capital assets....

Since we do not have the same tax and trust legislation in Guatemala as in the United States, La Perla has used existing mechanisms. One of these is the employee association. La Perla's owners took this concept and adapted it, combining it with some of the philosophy of ESOP financing, instead of trying to convince the government to pass the tax and trust legislation needed to set a more formal employee stock ownership trust.

The employee association has its founding in a movement in Costa Rica that started 35 years ago, a movement that now encompasses more than 700 companies and 120,000 workers, representing 42 percent of the urban labor force in Costa Rica. It's one of the strongest labor movements in Latin America....

In the last four or five years, more companies with employee associations are beginning to sell their own stock to the associations. Out of the 700 companies with employee associations, about 70 sell their own parent company stock to their employees through their associations....

[Thus, La Perla's uniqueness rests less with the technique it is employing for expanding capital ownership, than with its farm application.]

The various means for increasing access to productive assets in the agricultural sector which were discussed during the first hour of the conference, including Mr. Recinos presentation of the La Perla example, are very briefly summarized on pages 2-4 of the Transcript of Proceedings. The summary is that which Mr. Montgomery recorded during the first hour, and accounts for these several examples being attributed to him in the Transcript. This transcribing of another's transcript also accounts for the subsequent appearance, in pages 4-32 of the Transcript, of most of the discussion--in its original and expanded form--which is summarized in its first four pages.

ORIGINAL

TRANSCRIPT OF PROCEEDINGS

SEQUOIA INSTITUTE

MEETING

Washington, D. C.

Friday, March 29, 1985

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SEQUOIA INSTITUTE

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MEETING

Ramada Renaissance
1143 New Hampshire Avenue, N.W.
Renaissance Room 1
Washington, D. C.

Friday, March 29, 1985

8:00 a.m.

1 P R O C E E D I N G S

2 MR. MONTGOMERY: Practices to increase assets
3 include efforts by owners to share stock with tenants or
4 employees. In a case in the highlands of Guatemala where
5 500 employees were given 40 percent of the ownership, they
6 received dividends and accumulated severance pay, all
7 under a private corporation undertaken because the owners
8 were seeking to anticipate and prevent expropriation.
9 What they did was to transfer the stock to a new
10 corporation under the ownership of the campesinos and then
11 transfer the stock over time in the form of annual
12 payments. The loyalty of the new owners was demonstrated
13 when insurgents attacked the estate and they organized and
14 defended it and forced the insurgents to leave.
15 Other methods of increasing access include the
16 use of technology that can improve stability of tenure.
17 Examples in Chile and Panama show similar benefits, except
18 that they gave more decision-making power to the
19 campesinos. They were given in this case the right in
20 common to the land, which they were to farm jointly for
21 three years and then decide whether to divide it or keep
22 it as a collective.
23 Another device is to transfer land to groups who
24 are jointly made responsible for repaying the government
25 or the original owners. When the government offers credit

1 for these purposes, the incentives to productivity are
2 blurred. In practice, both countries tended to remain in
3 the cooperative mode rather than to move toward private
4 freeholding.

5 A third example comes from Argentina, which had
6 a law requiring that 20 percent of a landholding be sold
7 outside the family at time of transfer, so that in three
8 generations half of the land would have changed hands to
9 new families. A fourth model of improving access is to
10 provide for security of tenure and contract by legal means.

11 A fifth involves the use of tax policy which can
12 change the patterns of ownership as landlords seek tax
13 advantage. The tax as applied in Taiwan assessed values
14 as they increased during the reform, which provided up to
15 80 percent tax on large holdings as a result of land
16 increment values. These revenues were used for social
17 policies, but such action may have a detrimental effect on
18 land prices and thus reduce the availability of land.

19 Sixth, price policies also affect access to
20 resources, since government support to agricultural banks
21 increases the role of government and reduces the
22 opportunities in the private sector, and is used sometimes
23 as a substitute for land reform. Governments sometimes
24 use land reform as a device for displacing decaying rural
25 elites. In these cases land reform becomes a means of

1 transferring resources away from farmers toward the urban
2 population and the public sector.
3 Seventh, medium- and long-term financing for
4 land transactions, including subsidized credit. This
5 device also tends to favor clients who are in good
6 standing with the government. But such distortions occur
7 even when private banks decide which farmer to favor, a
8 special problem in bimodal agricultural settings like that
9 of Latin America.
10 Eighth, AID-sponsored rural development projects.
11 Ninth, projects to develop human resources that will
12 improve campesino access to productive assets.
13 DR. AYAU: Land tenure patterns, regardless of
14 who owns the land, are constantly changing in a free
15 market also. I'm fully aware that there's no free market
16 anywhere in the world and there's no perfection and
17 there's always intervention from this and that. There is
18 intervention through the tax system.
19 For instance, in our country we have a property
20 tax, not a land tax, and I think this makes a tremendous
21 difference in the pattern of land ownership. Just to make
22 an example, in my economics class I draw a picture of a
23 silhouette of a city, one high-rise, one low-rise, and the
24 question is which one has land tax and which one has a
25 property tax. To that effect, it changes the pattern of

1 ownership.

2 Price distortions in the market, subsidies or
3 expropriation of foreign exchange earnings, those are
4 imperfections or interferences, you might say,
5 interferences in a pattern that the market would not bring
6 about and therefore doesn't bring about. So I do not
7 claim for a minute that in the absence of government
8 intervention and redistributive efforts we're going to
9 have a just or the most economic land ownership pattern
10 that we can find.

11 I'm aware that we are not ever going to achieve
12 that kind of perfection, but I think that the market
13 distribution pattern is generally discarded because it is
14 not fully appreciated. It comes about in a distorted way
15 in an abeyance of the law of comparative costs; which is
16 true, which exists as an explanation of the phenomena of
17 distribution of all assets and explains why certain
18 patterns come about to optimize social well-being. And
19 that is the end that the land reformer is pursuing: He
20 wants to optimize social well-being.

21 Now we discard the distribution that's brought
22 about through comparative advantage, I think, mostly
23 because we weren't taught what that is. I wasn't. I have
24 papers accrediting me as an educated man. I got them at
25 the university. But I was not told, never explained this

1 is a very important phenomenon, and I have come to the
2 conclusion that we discard the distribution of ownership
3 of assets because we are not conscious and we're not
4 giving due importance to the division brought about by
5 comparative advantages. I think that that's generally
6 applied to international trade, but it is to me more
7 important to try to apply it to asset distribution if we
8 really want to optimize social well-being.
9 MR. MONTGOMERY: Thank you. I think you've
10 added three new models: One is to provide security of
11 tenure and contract without actually worrying about
12 redistribution of assets; one is through tax policy, which
13 affects the desire of people to hold assets; and the third
14 is through price policy, which affects the value of the
15 assets. So we've got, I think, six different modes of
16 affecting assets. Maybe you didn't finish?
17 MR. WOOLERY: I think the charge that we're
18 having in this part one is to look at the evidence. We're
19 supposed to be in the empirical arena in part one, and I
20 would like to expand on one of the previous facets the
21 previous speaker talked about, and that is the tax area,
22 and talk about a program that I regard as quite successful:
23 that's the one in Taiwan.
24 I think the fundamental principle that impresses
25 me in the Taiwan land reform is the basic intent of

1 government when the program was announced was not to
2 redistribute land, but to distribute the benefits of land
3 ownership over the entire population. And that
4 redistribution came through what I regard as the most
5 intelligent land tax program that I know of, and that was
6 to have an annual land value tax that was graduated based
7 upon the increasing value of the land; and secondly to
8 have a land value increment tax which was a realized
9 capital gain tax that went to 80 percent after a large
10 gain on the holding of land, and then those funds were in
11 turn earmarked for the kind of social programs that would
12 distribute the benefit of the land ownership and the
13 wealth that came through that ownership back to government
14 and then redistribute it with a minimum amount of 25
15 percent earmarked for education, certain amount for public
16 housing and a certain amount to various welfare programs.
17 But implicit in that program was an interesting facet in
18 the agrarian area, and that was to have a relatively high
19 tax on farm land, and to use that relatively high tax --
20 DR. AYAU: On land?
21 MR. WOOLERY: That's right. To use that tax on
22 land as a basis for building part of the industrial
23 complex, and that way creating job options for the people
24 coming off the land. And it seems to me if we were to
25 look at a model that has the announced intention to

1 distribute the benefits of land ownership, not land itself,
2 we might have one more dimension to examine.
3 MR. BERRY: Following on the same point, I think
4 while Taiwan sounds to me to be the case of the best
5 thought through and best applied, there's certainly a
6 general almost an economic theoretical strong argument for
7 land tax, or both taxes, but I was thinking of the first
8 type, because one of the results of the land tax on an
9 annual basis in a well-operating land market would be to
10 lower the land price because it constitutes an annual
11 drain on benefits.
12 MR. WOOLERY: That's one of the announced goals
13 which is an access goal.
14 MR. BERRY: That's right. Effective access as
15 well as redistributing the benefits of land to the whole
16 population. The access benefit which will result should
17 therefore have a strong effect against holding land, and
18 as a speculative venture should be very important.
19 MR. POWELSON: I have an immediate comment on
20 what Al just mentioned. The idea of a high tax leading to
21 a lower land price leading to greater access, I'm a little
22 skeptical about that, because greater access would depend
23 not only on the lower land price but also on the high tax
24 the people purchasing the land have to pay; and
25 consequently it seems to me that you've got a mixed bag

1 and you're just taking from one end or the other, and I'm
2 a little dubious about access.
3 MR. WOOLERY: May I say, John, you are correct.
4 The empirical evidence is that land prices have not gone
5 down. In fact land prices have gone up to encompass the
6 tax, because each of the land sellers wants to have an
7 after-tax profit that would be equal to the normal profit
8 for competing investment, so you're right.
9 MR. POWELSON: There must also be a buyer who is
10 willing to pay that.
11 DR. AYAU: I think there's a qualification to be
12 made there, because I think that when you say a higher
13 land tax, you mean for a given government revenue, not
14 just an increase in tax, because that will have the
15 detrimental effect you mentioned. But if you are trying
16 to get the same government revenue through a land or
17 property tax, the land tax can be much higher than the
18 property tax, but it's still taxes; the productive
19 enterprise may be even less than a property tax, so
20 doesn't have a detrimental effect.
21 MR. BERRY: What is the detrimental effect? I
22 don't see that.
23 DR. AYAU: The land tax would lower the price
24 and therefore create more access to the land. And I was
25 considering the detrimental effect contrary to that, that

1 when you put the land tax on, the price would go up and
2 therefore decrease the access to land. That's what I
3 meant by the detrimental effect if we were going to
4 increase the access.
5 MR. JENKINS: I would like to hear the remainder
6 of Jack's point.
7 MR. POWELSON: I didn't want to get diverted
8 from my point. When I raised my hand I had something else
9 in mind. That was a reaction to Al's question.
10 I want to point out that in general, peasant
11 societies, even if they are peasants living in villages on
12 large haciendas where there's a superior ownership,
13 virtually all of them already have their own systems of
14 credit, of inputs, outputs, markets, sales, and they have
15 all these already organized. But a large number of land
16 reform programs -- I can cite cases if necessary, but
17 we've just done a study of about 18 different countries on
18 this and find that this is almost universal, that
19 governments will try to emaciate these programs and
20 substitute their own agricultural bank or inputs supplied
21 by the government at government-controlled prices, and
22 then the government must buy the outputs from the farmers
23 also at government-controlled prices.
24 And the actual pricing that the governments have
25 applied in large numbers of cases have been responsible

1 for the serious deterioration in agricultural output in
2 many countries, including the problems of drought in
3 Africa -- that is, the impact of drought, not the drought
4 itself but the impact of drought -- because agriculture
5 has been so discouraged by policies, many of which follow
6 up on land reforms and are contingent upon the land
7 reforms, and they relate to two factors. One is that the
8 governments have often used land reforms in order to take
9 land or the proceeds of the land away from a decaying
10 landed aristocracy that is losing political power anyway,
11 and instead of turning it over to the peasants they turn
12 it over to themselves. And the other point is that
13 there's the urban bias that Michael Lipton and a large
14 number of other writers have spoken about, that land
15 reform is in fact used as a way of transferring resources
16 away from farmers and into the urban complex.
17 In short, land reform is used not to increase
18 the access of farmers to resources but to take it away
19 from them, to destroy their systems and to take it away
20 from them. And that's why, Arlo, I was a little skeptical
21 when you told me about the relatively high tax on farmland
22 used for the industrial complex to provide jobs, because
23 I'm wondering whether this is not another element of the
24 bias of the pro-urban, anti-agriculture bias.
25 MR. MONTGOMERY: Also pro-public sector. I

1 would just give Jack a little plug on this. He has a book
2 called "The Peasant Betrayed," which is in the process of
3 seeking a publisher at the moment. Maybe he's made his
4 deal already, but last time I talked to him -- the point
5 is there are a series of case studies. The prevailing
6 message, as I understood it, is that governments that
7 enter into land reform as a political process are sort of
8 in a sense concealing a hidden agenda, which is to
9 increase the dimensions and resources available to the
10 bureaucracy of the public sector politicians at the
11 suspense of a decaying rural elite. And I would say in
12 fact we could call this a seven kind of faults model, for
13 that is ostensibly intended to create improved access, and
14 in some isolated cases may in fact do so, but also at the
15 cost of a shift away from traditional rural needs.
16 MR. POWELSON: The original title was "Land
17 Reform Betrayed," but then we found it was very difficult
18 to distinguish agricultural policies that arose out of
19 land reform from other agricultural policies that were
20 occurring quite apart from land reforms, so we changed it
21 to "The Peasant Betrayed," and the subtitle is "Peasants
22 and Land Reform."
23 MR. MONTGOMERY: At last we have a voice from
24 the void.
25 MR. O'DONNELL: I wanted to throw in one

1 question. In my experience it seems to me that one of the
2 things that seems to be limiting access to land is the
3 lack of any sort of medium- or long-term financing for
4 land transactions. In the developed world you have a
5 pretty elaborate system for financing land transactions.
6 In the underdeveloped world, it seems that transactions
7 take place between the very wealthy or between the very
8 poor, and that it's very difficult for the poor or the
9 poorer or the people with more limited resources to get a
10 chance to get into the market because there is no long-term
11 financing. And I just wondered if people agreed with that
12 view or if there were any studies of this situation.
13 MR. POWELSON: May I speak to that?
14 MR. MONTGOMERY: We have two people that want to
15 speak. Jack and Arlo.
16 MR. POWELSON: Yes, I think that's a good point.
17 Credit on all levels is in short supply, and that means
18 more of it is needed. But I think we have to be very
19 careful of the kinds of means that are used in adding
20 credit, and I would suggest that these means should take
21 into account the traditional means that the farmers
22 already have. And the attempt should be to gear the
23 traditional means into the modern sector, find more of a
24 rapprochement between the sector and their ways of doing
25 things and the modern sector and a gradual increase in

1 credits in these channels, as opposed to settling up a
2 modern mortgage bank that looks like one in the United
3 States which can then give some kind of subsidized credit
4 and simply wipe out the peasant institutions.
5 MR. O'DONNELL: Are there cases where this has
6 happened?
7 MR. POWELSON: Yes.
8 MR. O'DONNELL: Where is that?
9 MR. POWELSON: Most everywhere. In Mexico, the
10 Ejidal Bank has subsidized credit to those that have been
11 favored by the government, and this in effect extends the
12 credit to other people. There's only a certain amount of
13 real credit at any given time and I know it's changeable
14 over time, but that's an example of the wrong way to do it.
15 The Shah of Iran also did a lot of things like that. In
16 Egypt it's been done. I could name country after country.
17 The question is in what country hasn't it been done.
18 MR. O'DONNELL: That's what I was asking, where
19 what you're advocating has been done. Where have you done
20 that kind of mixing of the traditional and modern?
21 MR. POWELSON: It's not been done. It's the
22 next thing to be tried.
23 MR. WOOLERY: I might address your question from
24 the very limited experience I've had in Taiwan, where the
25 government made the landowners into indemnified

1 capitalists. They issued land bonds redeemable in the
2 crop: so many tons of rice and so many kilos of sweet
3 potatoes for each acre of land taken by the government for
4 distribution to the farmers and the tenant farmers who had
5 been paying about 75 percent of the crop as rent to the
6 landlords. That was immediately cut to 37-1/2 percent, so
7 the tenant farmer had his rent halved. The land bonds
8 were then redeemable in crops, so there was no inflation
9 erosion of the value of those bonds. They also had a
10 unique circumstance in which government owned five major
11 corporations -- steel, sugar and others -- and they gave
12 the landlords about 20 percent of their compensation in
13 stock in these corporations so they made capitalists out
14 of them.
15 So effectively they had a win-win situation.
16 The government was able to handle the land bonds through
17 the 37-1/2 percent of the crop that they got from the new
18 owners of the land. As industry prospered, the former
19 landlords were now becoming rich capitalists and they were
20 guaranteed against any inflationary erosion of the money,
21 and in the studies that we've done in the follow-up of a
22 hundred landlord families we find out they have made out
23 like gangbusters. I'm suspicious of studies that quote --
24 the figure I saw was 228 percent gain in the crop
25 productivity of the land under the ownership of the tenant

1 farmers. So I throw that out as a model that worked in
2 one place. I would not suggest that it would work
3 anyplace else.
4 MR. MONTGOMERY: One of the great sorrows of my
5 life is when the Sandinistas came in they had an
6 opportunity to do a similar thing, because they had access
7 to corporations that they could have associated with the
8 land reform, and they didn't do it.
9 MR. THEISENHAUSEN: Let me just back up one
10 minute, and that is when you talk about access you have to
11 ask the question access on the part of whom? And I would
12 posit that answer is quite different depending on the
13 sorts of agricultural structure you have in the various
14 parts of the world. I'm thinking particularly of the
15 Latin American situation, where as Edelmann has shown we
16 have middle income countries and egalitarian distributions
17 of income, and that reflects an egalitarian distribution
18 of assets and what's called a bimodal structure of
19 agriculture. And this modal structure is substantially
20 different from the unimodal structure: Take the
21 difference between Latin American countries --
22 particularly Colombia and Mexico -- on one hand, and Japan
23 and South Korea on the other hand. And I would say that
24 improving the access is a different kind of an issue in
25 both of those kinds of situations.

1 Now in the Latin American situation therefore,
2 to get back to Al's point on the land tax, one of the
3 problems in a nonmodal kind of society of instituting a
4 land tax -- two of them. One is that the landlords resist
5 paying this kind of thing because of their political power.
6 Secondly, governments are not organized to really be able
7 to institute and to levy this tax. Those are the points
8 on Al's point. The other thing is then other ways of
9 improving access to peasants.
10 One additional point is certainly through the
11 government projects that AID has sponsored; but then the
12 question is if these peasant programs are to be fostered,
13 who among the peasantry has benefited from these programs?
14 And one thing I think some of the case studies show us is
15 when they involved subsidized credit, for example, it may
16 be only the very wealthy among the peasants -- and I use
17 that advisedly, because a rich peasant is still pretty
18 poor. I did a study of a credit program in Mexico this
19 summer and found out that the credit program did indeed
20 push the peasant to the average income in the sector, but
21 in order to get the average income in the sector you had
22 to be in the 99th percentile of receivers. So you still
23 are taking the very wealthy among the peasantry and
24 pushing them forward.
25 MR. MONTGOMERY: Are you thinking about say a

1 rural development project that would be externally funded?
2 MR. THIESENHAUSEN: I'm thinking of an
3 externally funded subsidized credit program, and I make
4 the hypothesis that in a lot of the rural development
5 efforts, those peasants already have a foot in the door.
6 And I would argue that our agrarian reforms over the last
7 20 years in Latin America have been the same thing, giving
8 access to peasants that have a foot in the door, and have
9 done little for the landless peasant.
10 MR. REINTSMA: I don't know Latin America and
11 basically have no experience with it, but one of the
12 things not talked about here seems one of the most
13 important assets is the person's ability to deal with his
14 environment. Give him capital, however you want to talk
15 about that, talking about physical redistribution of
16 physical assets. But I'm not sure how far that will get
17 you, because it seems to me you can't talk about keeping
18 the peasants in the rural areas. There's nothing magic
19 about that.
20 When we're talking about social optimization, it
21 seems to me we ought to be talking about people's ability
22 to earn a living for themselves, and in that context you
23 have to look at both rural and agronomic opportunities.
24 And it strikes me you've got to get beyond talking about
25 redistribution and land reform, and perhaps access the

1 people in rural areas to education and the other -- their
2 ability to cope with the world, not just physical
3 distribution. I would like to hear a conversation about
4 that larger transformation of society.
5 DR. AYAU: Regarding the lack of credit for poor
6 people, I think that in part that's due to another
7 intervention in the market: when they force the bank to
8 have limits on interest rates. Because after all, the
9 assets that the banks are lending out are not the banker's
10 assets, they are other people's assets; and sure they can
11 take some chances with them, provided that they can
12 compensate with higher interest rates. But in the efforts
13 to suppress interest rates, they deprive the poor people
14 from credit, and therefore again the pattern is started.
15 I do want to make mention, since we're talking
16 about access, that for a given government revenue, a land
17 tax will reduce land values and therefore make it more
18 accessible to the people. It necessarily has to reduce
19 the land value in comparison to the value of the land
20 under a property tax structure. In my country, Guatemala,
21 we have not a bad land ownership pattern, I don't think,
22 but we do have land held speculative in many places that
23 are using up the infrastructure and all that, and the only
24 reason why those can be kept forever as an inflation hedge
25 is because it doesn't cost anything to hold it, because

1 since there's no investment on it there's no tax on it.

2 Now a land tax would probably reduce the tax

3 burden to produce a given revenue; I'm talking about a

4 land tax to produce the same revenue we're getting from

5 land today would probably reduce the tax burden on those

6 people who are using their land profitably -- no doubt it

7 would have to -- and it would increase the cost of holding

8 down land speculatively. Land would have to be put on the

9 market if it was a burden to keep it for many years, and

10 that alone will bring the price down.

11 Now I think if different types of interventions

12 like the interest rate ceilings, like the property tax or

13 like the price intervening were done away with, I think

14 most of the problems that you see in the deficient land

15 ownership patterns would disappear. In other words,

16 normally in case of land reforms we're not attacking the

17 cause of the problem that we seek. We're trying to

18 substitute a new model to offset the effects of prior

19 interventions, and we get very much involved with that.

20 MR. MONTGOMERY: Al, were you going to respond

21 to the question about human resource development?

22 MR. BERRY: Yeah. I think that's clearly an

23 area that one has to be thinking about, because at least

24 if you look not just at the agricultural sector but the

25 whole economy, there's no question that human capital

1 becomes more and more important relative to physical
2 capital when it moves along. And one of the things you
3 first face when you say, well, shouldn't improved rural
4 education, let's say, be a major component of successful
5 agricultural policy or good agricultural policy in Latin
6 America, Latin countries, is that the agree of rural
7 education is almost a perfect reflection of the income
8 distribution in the country. The income distribution is
9 very unequal as it is.
10 In Brazil, education is phenomenally backward
11 relative to the country's economic level, so Taiwan has a
12 lower income on the average than Brazil, but its rural
13 education is three times as good, probably. So one can
14 say it, but there is something in societies with great
15 inequality which just the working through the political
16 economy says they are not going to get it according to the
17 way that system functions.
18 Then I guess the other point on supposing
19 something can be done and there are powerful political
20 barriers to it being done, if you look at the historical
21 record, then you do have to worry about the fact that in
22 the current agrarian structures of the Latin countries,
23 what it will do primarily is increase the earning
24 potential of an individual in the urban areas, but not
25 very much in the rural areas. If he doesn't have access

1 to land, his earning potential will not go up very much
2 there. So if you're worried about -- I'm not saying you
3 should be, but if you're worried about excessive migration
4 to the cities, this is probably one way to contribute to
5 it.
6 MR. MONTGOMERY: By educating people -- has that
7 ever happened?
8 MR. BERRY: Well, as I said, education is at a
9 very low level in many poor countries; but for example, in
10 African countries where it has increased very very rapidly
11 since independence, a lot of people do believe it has led
12 to excessive migration. It certainly has led to --
13 MR. MONTGOMERY: I know in Burma they were
14 consciously working on educational programs designed to
15 make farmers more capable of dealing with existing
16 constitutional opportunities. I don't know how that
17 worked out.
18 MR. BERRY: I think they do that, but the main
19 increase in capacity is to get them out of the city, to be
20 smart enough to leave. There's nothing wrong with that;
21 I'm just saying if you're worried about migration.
22 MR. MONTGOMERY: The question is increasing
23 access to --
24 MR. BERRY: At least in Latin countries which
25 are in the midst of depression, if ever they have had too

1 many people in the cities it's probably right now.

2 MR. THIESENHAUSEN: We have to remember if you

3 take a look at the data on education in Latin America,

4 it's quite remarkable to see the total educational

5 situation really improving over the last 20 years. The

6 primary school enrollment is up, the adult literacy is up,

7 and up rather substantially all over Latin America.

8 Somehow these educational benefits have come at a lower

9 cost, so that at the same time people at the lower end of

10 the income spectrum seem to be getting poorer, some of

11 them are also getting better educated. And nobody is

12 arguing that going to the city isn't the outlook for many

13 people, but in Latin America the population will be

14 growing slowly in the countryside until 1990 and maybe

15 even 2000. So the rural population, despite the enormous

16 amount of migration to urban areas, is still continuing.

17 If you study some of the peasants, it's

18 interesting to see some of the strategies they use to try

19 to get their children educated. One of their major goals

20 in life is not to increase consumption, but to send their

21 kids off to get them schooled; and it's not just primary

22 schooling, but some of them who have a base in land will

23 tend to pick out one they think is the smartest and send

24 him to secondary school. And the idea is to make the

25 mobility to urban areas easier, and once they have a job

1 there they will send back money to educate the younger
2 siblings and also the parents in their old age.
3 So there's kind of a strategy of improving human
4 resources that's involved, and it's not just a matter of
5 this access. The point has been sort of posed in a way,
6 how are we going to grant access? It's remarkable to see
7 how the peasants themselves are demanding and working for
8 access; and if the land market is closed to them, they try
9 to get money through the education system, however
10 mediocre it may be.
11 MR. MONTGOMERY: Let me remind you that we told
12 ourselves -- in fact, we were instructed firmly -- to
13 spend only an hour on the question of considering
14 alternate models of improving access. I want to make sure
15 in the next six minutes anyone who is thinking of a
16 different basic model for increasing access to rural
17 assets, that you get it said now, because we're then going
18 to move to a new question where Roy will have something to
19 say -- welcome, Roy Prosterman -- which is well, then,
20 among all these different options, when is land reform the
21 best one? And so let's be sure we get the alternatives
22 sketched out. I have noted, I think, eight or nine
23 different models providing access.
24 MR. RECINOS: I think that in order to determine
25 which is the best model we have to go back to the question

1 that Dr. Ayau raised whether people really want to own
2 land assets or not.
3 MR. MONTGOMERY: "Access" is the term, not
4 "ownership." You notice AID thought that right from the
5 start. It's not necessarily a question of shifting
6 ownership; the real purpose is to create, improve access.
7 MR. RECINOS: Does "access" mean actual physical
8 possession of the land or just --
9 MR. MONTGOMERY: I don't think so. That's a
10 good point; we didn't discuss that.
11 MR. RECINOS: Or just the benefits of land
12 ownership?
13 MR. MONTGOMERY: I assume it means access to
14 land benefits or opportunities.
15 MR. JENKINS: I think both of you are right.
16 There is a larger access question. Nonetheless, as the
17 introduction to the discussion points state, there is a
18 focus on redistribution of ownership. That is what was
19 found by AID personnel to be most conflictual in their own
20 deliberations regarding a new land reform policy paper
21 revolving around the redistributive question. And by
22 "redistributive" they were talking about taking of
23 ownership from some individuals and giving of ownership to
24 other individuals.
25 MR. MONTGOMERY: I interpreted that to mean AID

1 wants to know, okay, we have a law that tells us to
2 support redistributive policies, but we want to know when
3 that is the best procedure, and if there are other
4 policies short of that, because of the risks that
5 redistribution will offend certain human rights which are
6 also specified. So therefore the question we're now
7 considering is what are the alternatives, what are the
8 other options to land reform; and then we have to focus in
9 on when land reform is the most appropriate intervention,
10 and that's what we'll take up next.
11 MR. JENKINS: I hope my erroneous qualification
12 served a use for further focusing this.
13 MR. WOOLERY: Aren't we really being forced to
14 that conclusion? It's impossible to discuss without
15 coming to the conclusion that land redistribution is there,
16 so what we have is a premised conclusion which violates
17 all the laws of normal logic.
18 MR. MONTGOMERY: That's the way it always works.
19 MR. WOOLERY: I don't think we have any options,
20 because you have to come to that conclusion. It's forced
21 within the statement itself.
22 MR. MONTGOMERY: We are permitted to consider
23 nonredistributive policies and then instructed to look at
24 this particular redistributive policy in that context. I
25 personally think that's a very good way to structure this.

1 I'm not the author, but I think it's a very intelligent --
2 MR. WOOLERY: One thing would be to have a quick
3 background in your experience in postwar Japan where
4 American foreign policy and part of the occupation
5 strategy was imposing land reform. Can that be done
6 outside of a military occupation? To what extent can
7 American foreign policy impose the kinds of things we
8 imposed on Japan?
9 MR. MONTGOMERY: Since I was so kind for Jack
10 about his book, he's celebrating my book. Actually the
11 book is published on international commissions as we tried
12 to explore the situations in which the U.S. was in a
13 position to develop policies favoring land reform, and we
14 were in such a position in Japan, Korea and Taiwan -- not
15 in that order. And it was clear to me in retrospect,
16 although in the occupation and in Taiwan I had the
17 impression that the U.S. placed a very heavy hand upon the
18 political apparatus. The later evidence of the occupation
19 has shown that there were powerful domestic forces and
20 capabilities in Japan and certain special circumstances in
21 those three cases, so that the United States hand which
22 appeared to be heavy was made to seem heavier than it was
23 in order to exempt the political leadership of those
24 countries from full responsibility for actions that
25 weren't universally popular. So I think there are not

1 very many cases where we can replicate that agree of
2 influence.
3 I don't want to cut you off. You had a
4 last-minute comment.
5 MR. RECINOS: I was really going back to the
6 same question of whether a redistributive land reform
7 actually means actual physical possession of the land
8 itself or not.
9 MR. BERRY: I guess I would like to speak to
10 that with the question of whether peasants, if you want to
11 call them that, really want land, which you relate it to.
12 I think it's true there are quite a few people in third
13 world countries who don't want land, and some of them are
14 the ones that head off to the city. But I think in the
15 rural areas themselves, the fact that an awful lot of
16 people do is readily apparent when you look at things that
17 they do to try to get access to land. And I think it
18 might be true that if the sort of initiative that's
19 occurring in Guatemala were to be successful and were to
20 have some quantitative scope -- which it never has, in my
21 opinion, elsewhere in the world so one has to wait and see --
22 then that would change things. But I think the historical
23 record is to have access to the fruits of the land, you
24 have to have the land. That's 99.9 percent of the cases
25 for small farms.

1 And I guess I would disagree with your
2 observation that the risk associated with being an
3 entrepreneur is a problem. I agree it's a problem, but I
4 think the risks associated with being anything else are
5 much greater: The risk of being thrown off if you don't
6 have control of land if you're a share tenant or paid
7 worker are so much more serious that that explains to me
8 the fact situation, which is that people are dying to get
9 land.
10 MR. MONTGOMERY: Are we ready to make the
11 transition now?
12 DR. AYAU: Just a comment on that. I think that
13 there was a survey made in Guatemala recently -- I have it
14 upstairs -- asking the people what they thought of land
15 reform, and this was a survey done out in the hills in
16 four different Indian languages. I can tell you it's a
17 nonissue with them. One thing they remarked was, "This is
18 the first time that we're being asked what we think, not
19 told what we are to think."
20 MR. MONTGOMERY: Maybe nonreform is a nonissue.
21 MR. POWELSON: I was going to add to the
22 transition. I thought we already had moved into the next
23 question. I would like to emphasize that point. I was
24 about to comment there are no peasants around the table
25 here.

1 MR. MONTGOMERY: I resent that.

2 MR. POWELSON: I have more to say about the
3 approach to this question than about the question itself,
4 which is it seems to me that AID needs a lot more
5 anthropological and on-site information, and a lot more --
6 well, I hadn't heard of this query that Dr. Ayau had
7 gotten out, but this is precisely the kind of thing we
8 need more information on: What do the peasants think? We
9 sit here talking about what we think the peasants think --
10 and I don't think we have very many answers like this --
11 and in the process tend to believe, but again without
12 adequate justification, that what a peasant wants is some
13 kind of security of tenure and improved income. And I
14 believe this on the basis more of historical evidence,
15 what I've studied in histories of agrarian societies and
16 peasant movements that have taken place in earlier
17 centuries, than I do on the basis of what third world
18 peasants are thinking today.

19 MR. MONTGOMERY: So that is a transition indeed,
20 and I thank you; I hope Dr. Ayau will bring that down.
21 We're going to have a coffee break at 10:15. I think we
22 would be interested this that. Maybe we can get it
23 Xeroxed. We don't have much evidence about what peasants
24 want, and governments and other do-gooders tend to think
25 that they must want this, because if we were in their

1 place we would think, "Let's do it."

2 MR. RECINOS: One question for Dr. Ayau. What

3 actually did the study show, what did it indicate?

4 DR. AYAU: I think I'll save my comments for

5 later on.

6 MR. WOOLERY: In the transition phase I might

7 comment one rather superficial thing I observed in the

8 Philippines about what the peasants want. After the land

9 redistribution of about 40,000 titles that we saw go out

10 as part of our observation, what we found was that the

11 peasant wanted to be a landowner: that when they got

12 title to the land, what they really wanted to do was to

13 rent that land to other tenant farmers. Don't laugh,

14 because this is pretty important to what Dr. Ayau is going

15 to bring forth. This was a pattern that was developing,

16 that once they got title to the land then they wanted to

17 have their own tenant farmer.

18 MR. MONTGOMERY: I'm not against capitalism. I

19 want to be a capitalist.

20 MR. WOOLERY: There was a novel in which land

21 reform was discussed, and not every flea wants to have his

22 own dog. And it may well be what Dr. Ayau is saying gives

23 us psychological insight to an attitude we ought to be

24 aware of in approaching this problem of land distribution.

25 MR. SOLEN: Ray Solen, BBC evaluation. I looked

1 at a land resettlement project in Bolivia, the San Julian
2 project which has been going on for a long time. Fairly
3 famous. One of the things we learned from interviewing
4 the pioneers down there -- these were Aymara and Quechuan
5 Indians, primarily from the Bolivian highlands -- is that
6 they really didn't think of themselves as farmers; most of
7 them they thought of themselves as business people,
8 traders. Their real interest was in moving to a city and
9 owning some real estate, maybe some apartments or a small
10 store or a truck. And the whole business of going to all
11 the hassle that they go through for pioneering free land
12 in the jungle was just an opportunity to acquire some
13 wealth. They were working hard to build up the farms so
14 they could sell them and move to town.
15 MR. MONTGOMERY: Now we get to topic 2, when is
16 land reform a preferred option? Sounds as though it's not
17 very often a preferred option, and sounds as though it may
18 not very often be a possible option. But since we are
19 progressing on this logical line, we should review those
20 situations when redistributive land reform is preferred to
21 other means of increasing or improving access. We have
22 Bill and Al ready to speak to us.
23 MR. BERRY: Mine's a point of clarification. In
24 the "preferred" here, we have been talking about what the
25 individuals prefer, but I'm not sure whether this was

1 intended to be "preferred" in the sense of socially, or
2 policy preference that AID would have in mind. Whose
3 preference?
4 MR. MONTGOMERY: This also was defined for us in
5 Jerry's letter in which he stated, quoting from the law,
6 what the objectives of such programs are. And the
7 objectives seen at the macro level are, as I understand it,
8 the assignment we're given. In other words, we are not
9 supposed to tell host governments, "We will go out before
10 you do land reform and take a survey." We're supposed to
11 say to ourselves -- AID, the missions, the U.S. Government --
12 that's what AID is going to be saying: "When does land
13 reform bring about the objectives which are prescribed
14 under the law?" And there are three of them.
15 I think that's right. Correct me if I
16 misunderstand our mission, but I think that's what we're
17 supposed to do.
18 MR. THIESENHAUSEN: This depends on what you
19 mean by "agrarian reform." If you mean sort of founding
20 production cooperatives or --
21 MR. MONTGOMERY: Redistributive land reform is --
22 MR. THIESENHAUSEN: That's fine, but usually
23 these programs need to be done in concert one with the
24 other: You need certain subsidized credit, et cetera, et
25 cetera. So I don't think you can just say "preferred,"

1 because preferred over what?

2 MR. MONTGOMERY: Let me tell you what I

3 understand to be our mission and how I suggested to myself

4 that we divide our efforts. Jerry telephoned me a few

5 days ago and asked me to do this, and I thought how do you

6 mobilize this much talent and interest from AID? We were

7 told we had an hour to talk about what we just talked

8 about, which are the basic options for improving access,

9 and I thought from 9:15 to 10:15 we would talk about when

10 land reform is a preferred means of improving such access.

11 And from 11:00 to 12:00 we would talk about principles for

12 implementing land reform, taking a coffee break at 10:15,

13 then continue from 2:00 to 3:00 with principles for

14 implementing land reform, meaning expropriation,

15 compensation, vesting of ownership rights, alienability,

16 eligibility, economic viability, modes of production,

17 administrative style -- those issues. Then at 3:00, I

18 thought we would talk about follow-ups to land reform,

19 meaning in the larger context that you're referring to of

20 agrarian policies that are thought to be a necessary part

21 of even follow-up or the context in which land reform

22 takes place.

23 MR. THIESENHAUSEN: That's the difference in

24 definition, because I think that's part of land reform

25 itself.

1 MR. JENKINS: That's a legitimate conclusion
2 that could be arrived at in response to the second
3 question; in fact, it can be considered a second preferred.
4 MR. MONTGOMERY: Is everybody on board? Is that
5 a reasonable way to divide the thing up?
6 Now we are staying within this range of nine or
7 so different possible ways of improving access, ranging
8 from the ownership decision to create stock options for
9 the tenant farmers, through to the issue of educating
10 rural populations so it can take advantage of existing
11 institutions more effectively. We have eight different
12 options that are within that range that we've talked about,
13 nine different ones, so now we're going to say, okay,
14 within that is the possibility of redistributive land
15 reform. When does that look the best or look to be the
16 only or most desirable procedure?
17 DR. AYAU: To answer that question, I was
18 attempting to answer "never."
19 MR. MONTGOMERY: That moves us to the next
20 question.
21 DR. AYAU: But you know, I think that if
22 somebody were to ask me, "Do you like the pattern of
23 ownership in Soviet Russia," I would say "no." "Do you
24 think it ought to be reformed?" I would say "yes." "How
25 would you do it?" I would say, "How do you privatize land

1 ownership in Russia?" Because I do believe that there are
2 cases like that one where land reform would be appropriate.
3 I can't say "never," but what I think is important is to
4 know whether it's a good idea or bad idea to do land
5 reform is remember we're talking about a change in the
6 pattern of ownership or in effect the pattern of ownership,
7 no matter what we want to call it, in the real sense it's
8 ownership even if it's just temporary but in effect what
9 we're talking about is the change in the pattern of
10 ownership.
11 The first thing we should have in mind, then, is
12 what pattern of ownership do we think should exist? The
13 next thing is where are we, and the next, I think, is how
14 do we get from here to where we want to be? But if we
15 don't have a clear idea of where we want to be, what are
16 we talking about?
17 MR. MONTGOMERY: One condition you're suggesting
18 is if you have a situation where there's no small
19 freeholding, then land reform may be -- am I right, is
20 that what you're saying?
21 DR. AYAU: That was just to leave myself open so
22 I wouldn't shut the door completely. No, what I'm saying
23 is, this is the point I want to make: If we're going to
24 address this question of when is redistributive land
25 reform to be the preferred approach over alternative means

1 of improving access to agricultural assets, first, in
2 order to be preferred, the preferred approach, we have to
3 know where we want to go. If we're going to choose
4 adequate means to an end, we have to have a clear
5 understanding where the end is.
6 This, I think, is the question that should be
7 first addressed: Do we want a land ownership pattern
8 according to comparative advantage, or do we want a land
9 ownership pattern according to something else? Because
10 after we know where we want to go, then we can say these
11 means are adequate. This is what we're talking about now,
12 when is redistributive land reform to be the preferred
13 approach. We don't know if that's a good or bad approach
14 unless we know where it is we want to go. Where are we
15 now? Where do we want to go? Is this means adequate?
16 MR. MONTGOMERY: I'll say; I'm always being
17 vulgar and putting you down in suggesting models, and you
18 suggest two at a time. One is a post-elective situation
19 where state ownership or large-scale collectives are not
20 serving the purposes of equity of access and maximum
21 productivity, and the second is a condition where the
22 comparative advantage of a production system lies in some
23 form of redistribution. This is the sort of economic
24 criteria that would call for some kind of redistribution.
25 I thought that was what you were just saying. Roy is

1 about to make his --

2 DR. AYAU: I wasn't making any proposals, I was

3 talking about methodology.

4 MR. MONTGOMERY: I'm converting this into models

5 or general approaches --

6 MR. THIESENHAUSEN: What I'm tempted to say, in

7 order to make for the most interesting and dramatic sort

8 of debate, is that the answer is "always," but I would

9 perhaps modify that somewhat. I suggest that we were on

10 the right track a moment ago when we were asking what the

11 peasants want. Certainly my own interviewing experience

12 in both Latin America and Asia suggests that while there

13 may be the exceptional case and the special case and the

14 fellow who wants to move to the city and the fellow who is

15 not interested in becoming an entrepreneur who owns his

16 own land, that the great majority of campesinos in Latin

17 America or peasants in Asia who are non-landowners, that

18 is, who are either tenant farmers or agricultural laborers

19 as a primary source of income, very many do want to own a

20 piece of land of their own.

21 No one can have interviewed a group of peasants

22 in the Mekong Delta in 1968 and seen the electric current

23 which ran through the room when you asked whether they

24 wanted to own land, or seen the amusement on the face of

25 Philippine peasants when you suggested that maybe instead

1 of owning land, rural electricity would be better. They
2 made it very clear that land to the tiller, not lights to
3 the tiller, is what they wanted.
4 One of the problems is the way we've tended to
5 find out that's so, in the past, is not through
6 interviewing or research but through revolutionary
7 activity. Instead of the peasants want land when there
8 are 10,000 of them out there with guns trying to bring
9 down the government, then we get to the point of crisis
10 land reform which is personally not the most desirable way
11 to bring about land reform.
12 I agree with Dr. Ayau that the vast majority of
13 peasants if asked will prefer individual over collective
14 ownership. I think we're seeing in China a striking
15 evidence of that moving toward decollectivization, but I
16 think one important caveat is we have to be extremely
17 careful in terms of the way in which the interviewing is
18 done, who does it, is it a member of an elite group who
19 obviously expects an answer from the campesinos that no,
20 they don't want land, and "By gosh, if you know what's
21 good for you, you'll answer the way I want you to." Is it
22 also a setting in which it's realistic.
23 You have to face the problem: To ask the
24 campesino whether he wants to own land is to jump into
25 that, maybe like asking whether he wants to be a

1 millionaire or win the lottery. And it's so distant a
2 possibility for him that he may have difficulty relating
3 to it, but as soon as it becomes something in the realm of
4 realistic possibilities for him, which very often in this
5 century has come to pass through revolutionary activities
6 rather than through academic reform, it is an alternative.
7 Once it becomes something in the realm of the possibility,
8 I think you see in a very regular way the response: "Yes,
9 by gosh, I sure do want to own land and I want to own it
10 as an individual, not in the collective setting."
11 MR. MONTGOMERY: So there's a third condition
12 when there's a strong peasant desire, and China is an
13 example and you find it also in the peasants of southeast
14 Asia.
15 MR. RECINOS: There's another question also,
16 whether even if the campesinos want individual land
17 ownership, if it's not economically viable under market
18 conditions, then should AID still proceed to help
19 campesinos acquire individual land ownership or not?
20 MR. BERRY: I would like to partly pick up that
21 point and partly pick up the question of "where we should
22 want to go," I think is the right question to ask. And I
23 guess my one-word answer, although every country is
24 different, if you can get to Taiwan you would have really
25 done the job, because the experience of Taiwan after that

1 land reform has just about everything you could want:
2 extremely high agricultural productivity, very fast growth,
3 relative equality of distribution of income. You couldn't
4 really ask realistically for anything better to happen and
5 I think the reason is, at least getting back also to the
6 question of comparative advantage, by which I think you
7 mean economic efficiency --
8 DR. AYAU: Comparative efficiency, not
9 efficiency per se.
10 MR. BERRY: Comparative advantage means that in
11 total, if you exploit it you'll get the maximum output.
12 That's the way I would interpret it and I think there,
13 what goes on in Taiwan or any of those countries which
14 have moved to small family-operated farms, the reason the
15 productivity is so high is that they're taking advantage
16 of what we know about who has the comparative advantage in
17 production in general in agriculture. Small farms are
18 more productive than big ones in all cases where
19 cross-country studies have been done. So if you take
20 advantage properly of small farms and you can give it up --
21 but if you do it properly there's no question the record
22 shows that's the most productive form of arrangement.
23 And then finally, I think you get into an
24 interesting and tricky question when some of the farms
25 that are under consideration, let's say to be allocated,

1 are so small that they are, quote, "not viable," so that
2 you know you could realistically say, "What sense is there
3 to giving somebody half an acre?" Well, I think that that
4 concept of viability is really misapplied there. I think
5 for two reasons.
6 One is that what we see in many countries is a
7 lot of people in their cultural sector who work elsewhere
8 so they combine and those farms are the most productive of
9 all. The unviable farms are the most productive use of
10 land of all because you could say that in Russia, an
11 unviable farm is that vegetable plot that the guy has.
12 It's not enough for him to survive but boy is it extremely
13 productive. And I think the same principle occurs across
14 the board.
15 The other reason that I don't care for the
16 concept of unviable is that what it always boils down to
17 is we'll either give them half an acre or we'll give them
18 nothing. Half an acre may not be too viable but nothing
19 is worse, because that's the alternative we're always
20 thinking of. Should we have a farm that's very small or I
21 should say, should we have two farms that are very small
22 or one which is bigger? The one that's bigger is
23 obviously better for the guy that gets it, but the guy
24 who's not going to get anything, his situation is going to
25 be less viable. So I find that that concern, I think, is

1 misplaced from both a distributive and efficiency point of
2 view.
3 MR. ANTHOLT: Again we're constrained by the
4 question, but still the answer to Roy's peasant -- the
5 answer is "yes -- well, maybe." It seems to me that you
6 get that answer when you don't have access or the doors
7 aren't open to get out of agriculture, where you have
8 blocked access to nonagriculture jobs and employment
9 opportunities; and if that's the case, then you can come
10 back and say, well, maybe land reform is a solution in
11 rural welfare but I expect you end up you're dealing with
12 a symptom rather than the root cause. This is lack of
13 expansion in nonagriculture areas and the Philippines are
14 a good example.
15 MR. NILSESTUEN: I'm not clear if your point is
16 that you would like to hear what the opinion is as to
17 under what circumstances, what threshold do you reach,
18 what unnecessary conditions for helping you to determine
19 whether the other sort of rural development instruments
20 are not sufficient to bring about development objectives
21 and you undertake redistributive reform; or whether your
22 question is that sort of how to undertake redistributive
23 reform as part of a larger rural development strategy.
24 MR. ANTHOLT: The question is, when is it
25 preferred? All I'm saying is you may get to land reform

1 as a preferred alternative but you may get there for the
2 wrong reason. That is, your nonagricultural opportunities
3 may be closed.
4 MR. MONTGOMERY: Or other rural access
5 opportunities are closed.
6 MR. ANTHOLT: The question may be too small. On
7 agriculture access --
8 MR. NILSESTUEN: Clearly we're concerned as a
9 developmental agency with lots of interventions that
10 promote rural development, and that seems like much too
11 large of a question in terms of what I understand the end
12 product is, to inform the agency about reformulating its
13 policy.
14 MR. ANTHOLT: The bottom line is people, their
15 ability to earn their livelihood, and it's not necessarily
16 founded in the agricultural setting.
17 MR. NILSESTUEN: I agree. That's a pretty fair,
18 straightforward proposition, Chuck. I'm just saying --
19 and it's really a question rather than a challenge -- is
20 our task here today to ask the question of what are the
21 alternatives to sort of classical redistribution or to
22 know when redistribution needs to be undertaken if you're
23 going to meet certain development objectives? Because the
24 other rural development bag of tricks is not sufficient.
25 Which question are we answering?

1 MR. MONTGOMERY: I thought the second one.

2 MR. ANTHOLT: I'm giving a caveat.

3 MR. MONTGOMERY: Absolutely. Just as land

4 reform is in a context, so is rural development in a

5 context.

6 MR. THIESENHAUSEN: I want to hark back to the

7 Latin America situation where I meant to say the

8 agriculture population is still going to grow, therefore

9 it seems to me that we have to find a way that the

10 peasantry can be more profitably employed in the

11 agricultural sector. Everything else or many other things

12 seem to have failed.

13 So I would submit that if we follow Dr. Ayau's

14 recommendation, we can only follow that if we are ready to

15 admit that we don't care how much underemployment is

16 growing in the agricultural sector, we don't care that the

17 lowest third of the population is receiving

18 proportionately less income every year, and certainly if

19 you take decades you see the income distribution is

20 becoming worse. If you say you don't care about

21 agricultural minorities or indigenous groups, I have no

22 grief for holding land over holding any other resource.

23 But we have to recognize that at least there's some

24 productive land that isn't being utilized. That land

25 might be pressed into service.

1 Two trends are important. One is the trend of
2 increasing landlessness in Latin America. Second trend is,
3 if you take all properties under one hectare and you take
4 the last three or four decades, you see the average number,
5 the average hectarage of farms under one hectare is
6 growing smaller with each decade; therefore, people's
7 claim on land is getting less. So I guess what I'm saying
8 is, land reform appears under these situations to be just
9 the only thing one could think of.
10 MR. MONTGOMERY: I'm going to list that as a
11 sixth condition, and there are certainly countries where
12 it doesn't prevail and countries where it does.
13 DR. AYAU: I have a personal clarification to
14 make at this point. The motivations don't enter into the
15 equation here because I'm also concerned about those
16 things that you said that to follow my recommendation one
17 must be unconcerned with the welfare of the poor and all
18 that. I don't think that's called for, frankly, because
19 what I'm talking about is also the welfare of these people,
20 and when I'm talking about division of land through
21 observing comparative advantage, that's the reason why I'm
22 suggesting it precisely.
23 I want to make some comments. When we want to
24 know what the people want, I agree that we have to ask
25 them within the realm of their possibilities. And I think

1 the question has to be well put, because I know if we ask
2 anybody, "Would you like to own some land or not," we all
3 know what the answer is. But when I say that people
4 prefer a contractual income, I'm talking about the
5 generality of people, not only as far as land is concerned.
6 Everybody that's not an entrepreneur but is employed is
7 preferring a contractual income over a speculative income
8 through entrepreneurship.
9 In our countries where we have severance pay,
10 job security is very secure. It's very hard to fire
11 anybody so there's no big risk of not having job security.
12 I certainly don't believe that revolutions are
13 made by peasants. I think that revolutionaries use
14 peasants to make revolution. But the real test of whether
15 the people want to keep their land is if they get
16 unrestricted title to the property. You will notice that
17 most of the time people do not get unrestricted title to
18 their property. Now, what they do with their title after
19 they get the land is going to show their true motivation,
20 what they really want. If they really want to keep the
21 land they won't sell it. If they want something else,
22 they are going to sell it. So that's the ultimate test
23 really and that's one of the reasons --
24 MR. MONTGOMERY: A little too late to apply it.
25 DR. AYAU: But many people are afraid to do that

1 because if they give people unrestricted title to the land,
2 naturally, and necessarily, land ownership patterns will
3 revert to a market pattern, which is precisely the one
4 which was attempted to be destroyed. So if you give it to
5 them and let them keep the title, it will revert to a
6 market pattern. So the whole thing would be self-defeating.
7 That's why land reformers don't give unrestricted title to
8 peasants. When I'm talking about comparative advantage
9 I'm talking about comparative costs, not talking about
10 compared efficiencies. I'm talking about comparative
11 costs.
12 MR. BERRY: I don't see why you would do that if
13 it's not a concern.
14 DR. AYAU: The efficiency of the whole based on
15 the theory of comparative costs. In that sense --
16 MR. BERRY: I think I understand what you're
17 saying, that specialization should -- the theory
18 essentially says if you're good in one thing, if you're
19 relatively good you do it, and if I'm good at something
20 else I do it. My interpretation comparing Taiwan and
21 Brazil is that small farms are both relatively and
22 absolutely good at agriculture, so if you break them up
23 you get more output.
24 DR. AYAU: This is the difference between
25 absolute and comparative advantages. I'm talking about

1 comparative advantage.

2 MR. BERRY: I'm talking about both. I would

3 make the same proposition with respect to both.

4 MR. NILSESTUEN: A question. The question that

5 we're asking ourselves is when is redistributive land

6 reform a preferred approach to improving access? My

7 question is to all of you: What do we know about

8 preferred -- the economics judged on efficiency grounds of

9 alternative constitutional arrangements that provide

10 access, particularly to land.

11 Redistributive reforms which transfer land

12 ownership is one such example but you can also have lots

13 of other kinds of tenure statuses that provide access and

14 you can regulate that. Jim Rummus, who I believe was

15 invited here but was not able to come, has written an

16 article entitled "Agency Costs and the Agriculture Reform,"

17 which argues that in fact inside actual reforms, there's

18 no single constitutional forum like the single

19 owner-operated farm, which is inherently more efficient

20 but it's rather sort of conditional. It's a function of

21 the environment in which it operates. I'm wondering what

22 the wisdom is around the table, what we know empirically

23 about that. He offered only one example from the

24 Philippines but I wonder what else the literature says or --

25 MR. MONTGOMERY: There's no particular

1 constitutional arrangement for tenurial holdings that is
2 inherently superior to any other as far as productivity is
3 concerned. That's the argument that you raise. This is
4 Berry's cup of tea, isn't it?
5 MR. BERRY: One would have to probably phrase
6 the question maybe in a more restricted way to deal with
7 it because I'm sure that he didn't mean to put it quite
8 that extremely. Certainly for some crops I'm sure the
9 proposition would not be true, that it would make a
10 difference whether you had, for example, owner operators
11 or tenant operators and so on, but I think maybe the first
12 cut at dealing with that proposition is to look at the
13 empirical evidence.
14 There have been a lot of countries in which
15 we've had a chance to compare small farms which are
16 owner-operated, various types of tenant/tenure
17 arrangements and so on, and obviously bigger and smaller
18 farms. My impression is that among those tenancy
19 arrangements, one cannot distinguish very important
20 differences. It's not generally true that if you simply
21 take a look at owner-operated farms of two hectares and
22 compare them with shared tenancy farms of two hectares
23 that one is more productive. Sometimes they are,
24 sometimes they aren't. Varies according to the country.
25 There are reasons for that. Sometimes the

1 sharecropper, because the landlord has good access to
2 credit and so on, he will be actually more productive than
3 a small owner operator because he's better hooked into the
4 system as a whole. And in those cases, if one wants to
5 talk about the different performance between ownership and
6 various types of tenure, one is probably going to wind up
7 concentrating not so much on the output performance but on
8 the security. The basic problem with tenure is that in
9 most parts of the world it doesn't give much security. If
10 it did -- and where it does then maybe it's better, maybe
11 it's safer. Likely it is, so it clearly depends on the
12 setting.
13 But I think the main thing that comes out of
14 empirical research comparing different kinds of farms is
15 this systematic difference between larger and smaller
16 farms on the average. There's always exceptions at the
17 farm level, but on the average one simply finds that large
18 farms are not as intensively operated and therefore don't
19 produce as much. They get higher output per worker, lower
20 output per acre. I'm not sure whether that's what he was
21 referring to or whether it was just the tenure, but I
22 think there is something one can say, and it's long been
23 said by American agricultural economists, that there are
24 diseconomies of scale above a certain size in the terms of
25 number of workers -- not acres but in terms of workers.

1 You change the organizational hierarchy and you wind up
2 with a system with employees who do not have the same
3 incentive that an entrepreneur has. That's one of the
4 reasons, one of several reasons I think, why one sees this
5 major difference between productivity of a 1000-hectare
6 farm on a per hectare basis to a small farm. That has a
7 basis in economics and the same problem has plagued rural
8 and agriculture, basically. They are inefficiently
9 structured, too big given the way agriculture has to run.
10 It has to be very flexibly run. You have decision-making
11 every day. You can't do it efficiently on a large scale.
12 MR. RECINOS: I would like to ask a question.
13 When you talk about large farms, are you referring to
14 large farms that are owned by very few people as opposed
15 to, for example, a cooperative?
16 MR. BERRY: One of the problems with the
17 statistics is that in most cases we have it at an
18 aggregated level so we're talking about the whole bunch
19 taken together. When one, then one can make fairly clear
20 quantitative statements. When you distinguish different
21 types of farms, our evidence is less complete by the
22 nature of its origin. I think these statements hold for
23 large-scale agriculture across the board, but still it's
24 very clear that -- for example, a large-scale capitalist
25 modern farm is going to be much more productive than a

1 traditional hacienda. So in Latin America you see a
2 tremendous range of productivities in the sector from an
3 extremely low -- an absentee owner who has not been there
4 for years -- to fairly high, but not as high as a small
5 farm. It would have fairly decent productivity relative
6 to a small farm.
7 One of the reasons that small farms have such
8 high productivity is that they focus on very high product
9 crops which are very labor-intensive and which an
10 agribusiness would not, at least frequently, focus on.
11 But the evidence is not complete on this.
12 MR. ATWOOD: I would like to ask a question of
13 the group preceding with a statement which is, it seems
14 many of the conditions discussed are conditions under
15 which it seems to make sense to talk about a change of
16 pattern of distribution of access or ownership to land,
17 but there are different ways of getting to that changed
18 pattern. Now in this paper, does redistributive land
19 reform encompass tax policy or increased long- and
20 medium-term credit as well as sort of classic land reforms?
21 And if it does not, under what conditions are those
22 classic redistributive land reform approaches a program?
23 MR. MONTGOMERY: Who should answer that?
24 MR. PROSTERMAN: Do you mean "encompass"? Are
25 we allowed to include that?

1 MR. ATWOOD: Sure.

2 MR. PROSTERMAN: Seemed to me if we didn't allow,
3 indeed urge that there be complimentary services -- but
4 still you have to give ownership to the land before you
5 compliment it with credit or extension or marketing and so
6 on.

7 MR. ATWOOD: Earlier the possibility of medium-
8 or long-term credit for the purchase of land as an
9 alternative to classic redistribution was mentioned. Also
10 I think the tax policies mentioned by Dr. Ayau concerned
11 tax policies which would be an alternative to classic
12 redistribution.

13 MR. PROSTERMAN: We have a couple variables that
14 should be included at this point. Are we talking about
15 voluntary or involuntary taking or sale of land? In other
16 words, are we talking about mandating that land will be
17 redistributed? That I would understand to be part of
18 classic redistributive land reform rather than voluntary
19 purchase and sale agreements, which don't work as far as I
20 can tell. And another question would be, will the taking
21 be confiscatory or will it be or more of an eminent domain
22 law?

23 MR. MONTGOMERY: We're going to discuss that in
24 our next question period.

25 MR. WOOLERY: I'm going to play any expert,

1 skeptic, or the student at the garden party. If I were
2 with the AID I would be terribly frustrated right now. I
3 think there have been two valuable statements: Dr. Ayau's
4 "never" and Dr. Roy Prosterman's "always." Dr. Ayau says
5 we have to find goals and if you don't know where you're
6 going, every road will get you there. I think we're
7 getting there very quickly.
8 I looked at the background statement on page 1,
9 the Foreign Assistance Act and the mandated goals. I read
10 those goals through. Is there anybody here who doesn't
11 support those goals whole-heartedly? Anybody who
12 disagrees with those goals?
13 I would submit to all of you, if you don't
14 disagree with some of the statements made, those are
15 meaningless statements. And if you're going to operate on
16 the basis of those goals, I think we can just shut up shop
17 and go home. We have to get to some of the questions that
18 are really thrown out there and number one, define what
19 are we talking about.
20 MR. MONTGOMERY: I think "improved" is an
21 important one. These are not absolutes.
22 MR. WOOLERY: Are we concerned with the general
23 level of prosperity of people? Are we concerned with
24 increasing our food supply or just exactly what are our
25 goals? What would you define as the goals of an agrarian

1 reform program? What goals are we trying to reach? I
2 don't think we have any.
3 DR. AYAU: One word. I would say general
4 prosperity and then I would say better diet, more
5 education, et cetera. Because what we want to do is use
6 the productivity of the land to better the standard of
7 living of the people. What pattern of ownership brings
8 that about is the first question because -- let me just
9 play with an idea. Suppose we agreed that if one person
10 owned all the land, everybody would have better food.
11 Would we be in favor of that?
12 MR. MONTGOMERY: Garden of Eden.
13 DR. AYAU: I think that's a silly question. It
14 brings the point home, though, that is land ownership a
15 means or an end? Which is what I was asking from the
16 beginning.
17 I want to take issue with a few things. I don't
18 believe that small is always more efficient. Depends on
19 the crop. And not only on the crop, it depends on where
20 that farm is. A cotton plantation might be most efficient
21 in a certain area at a given size, in another area a
22 different size. I think we have to analyze the problems
23 on the margin, not on the average.
24 But I want to say that if we -- I think that we
25 all instinctively recognize many things that we consider

1 bad with the land ownership pattern: this business of
2 holding land forever and speculation and things like that.
3 If we did away with some of the things that brought about
4 the things we don't like, like for instance the property
5 versus the land banks -- if we took care of a lot of those
6 things I think this problem with disappear.
7 MR. MONTGOMERY: I did hear about your interest
8 in this.
9 MR. GRAYZEL: I think one thing I find a little
10 upsetting, frustrating -- yeah, I'm one of those people
11 who may be frustrated to make you happy -- there seems to
12 be a constant slipping to the equation of land reform and
13 land redistribution with land ownership. And I question
14 that in the sense that -- as an example, my experience is
15 in Africa. First of all, the question of whether farmers
16 want to hold land, my experience is if a man wants to be a
17 producer, he's concerned with access and control. If he
18 wants ownership, he wants to be an entrepreneur, he
19 doesn't want to be an agricultural producer. So first of
20 all, ownership is not necessarily what you want to aim for.
21 The second thing is very often land reform can
22 take forms other than ownership that are much more
23 important. In Egypt you had both land redistribution in
24 terms of ownership and you had caps on land rent and I
25 think you can make the argument that it's the caps on land

1 rent that had far more extensive effect on production than
2 land ownership pattern. And when you get back to the
3 whole question of productivity and farm size, you see that
4 in countries the difference, again, is farm size.
5 You go to a country like Morocco, you see very
6 clear splits but you find farms of 200 acres that are
7 totally rented. It doesn't matter who owns it. The
8 question is, on what level of access do these people have?
9 Do they have various methods to allow access to 5, 10 or
10 200 hectares? And the converse is how much control do
11 they have. If they have land ownership but the government
12 still mandates crop production, it doesn't matter.
13 We have to be careful not equating land
14 ownership with land reform and land redistribution.
15 MR. MONTGOMERY: We're working within assigned
16 definitions and that's the reason we have used that. We
17 are certainly aware --
18 MR. GRAYZEL: Do we accept that land
19 redistribution means land ownership?
20 MR. MONTGOMERY: No, we work with something
21 worked out by AID and we talked about alternatives to
22 transfer of ownership as a means of increasing access and
23 I think that's where the Africa situation is.
24 MS. HERRICK: We're talking about access. It
25 seems to me this group -- in the first hour some very

1 strong points were made that ownership is very important.
2 But that's still a question.
3 MR. MONTGOMERY: We're now talking about the
4 question of under what conditions is this redistribution
5 of ownership the best way to improve the access.
6 MR. GRAYZEL: I think the conversation made
7 ownership the criteria. The definition is ownership. I
8 think we slipped into it. That's what I'm saying.
9 MR. ANTHOLT: The most productive farms are the
10 ones that are fixed rent. My god, those guys did a lot of
11 entreprenurialship with land and it's a very good point.
12 MR. MONTGOMERY: Jack?
13 MR. POWELSON: I was trying to think of the
14 criteria that are asked -- there's a question of what are
15 the criteria for redistributive land reform and so I was
16 just jotting down a few criteria, but they are not
17 necessarily criteria for redistribution of land. They are
18 simply criteria for any kind of action with respect to
19 land of which redistributive land reform might be one.
20 And I would say that whatever action we take should take
21 these four things into account.
22 One is the mobility of resources. Do resources
23 become more mobile as a result of the action? For example,
24 if you look at a hacienda in which farmers are bound by
25 obligation or -- I hope it's done in most places now, debt

1 servitude -- obligations that prevent them from moving
2 from one hacienda to another, the farmers, then if
3 redistributive land reform or any other mechanism would
4 increase the mobility of farmers to make their own choices
5 and do what they feel best, not just for ethical reasons
6 but for comparative advantage as well, I would say that's
7 an important criteria.
8 The next thing I would look at would be what
9 restrictions are placed upon the redistributive land
10 reform. I know of no circumstances under which there has
11 been any redistributive land reform in which the
12 government has simply given the peasant the land and said,
13 "Go, take it and do what you want." And yet I'm reminded
14 of an article that appeared about Turkey in one of the
15 Land Tenure Center newsletters in which the researcher had
16 questioned some of the peasants about the government
17 restrictions and the answer of one peasant was, "Why don't
18 they just give us the land and leave us alone?" And that
19 struck me that if redistributive land reform carries with
20 it prices and rent controls, I'm very dubious about it's
21 usefulness.
22 And then the next criterion would be the extent
23 to which power is disbursed, and there's in fact
24 accountability for the use of resource because it seems to
25 me the key factor here is how accountable are people for

1 the use of resources. When governments get control over
2 the resources as they do through price controls and rent
3 controls and certain kinds of taxations, very often those
4 very government personnel that make the decisions are not
5 accountable to anybody for the use of the resources and
6 therefore they can be very profligate with them.
7 Those three criteria seem to me to be important
8 ones in determining the situation, but then there's
9 another question that comes to mind, and this question was
10 emphatically answered by Dr. Ayau but I think left very
11 wide open by Roy Prosterman over here and that's the
12 question of when you say "always," do you mean that once
13 you've done it then you do it again and then you do it
14 again and again?
15 DR. AYAU: Every five years only.
16 MR. POWELSON: This is the question: Does land
17 redistribution then set up a precedent so in a few years
18 you have to do it again?
19 In one sense you can't do anything without
20 setting up a precedent because whatever you do becomes a
21 precedent, and we have -- there is empirical evidence that
22 when land is redistributed widely, there's some
23 consolidation afterwards. If you do allow alienability --
24 and I'm all for alienability, although many land reforms
25 don't have it -- that's one of the restrictions of it.

1 You get the land and you can't sell it because you have
2 fixed sizes and this restricts the mobility of resources.
3 But when you have that kind of restriction -- when you
4 don't have that kind of restriction, when land is freely
5 alienable, then it becomes -- many farmers decide they
6 don't want to be farmers and they sell the land and you
7 tend again toward a market determined size of farm. I'm
8 not quite in agreement with Dr. Ayau on this in the sense
9 that I think in many countries the size of farm now is not
10 market determined.
11 DR. AYAU: I agree.
12 MR. POWELSON: And therefore some changes would
13 be optimal and this to my mind does imply redistributive
14 land reform. But then I have the question for Roy
15 Prosterman, when you say "always," are you setting up a
16 precedent so you would do it again in a few years? I
17 haven't answered question number 2 but I've made it more
18 complex than it seems to be and I think that's an
19 improvement.
20 MR. MONTGOMERY: Roy and then Bill and then I
21 think we'll have coffee.
22 MR. PROSTERMAN: Let me briefly try to make the
23 case for "always," more perhaps than half seriously --
24 three-quarters seriously.
25 First of all, we should be clear that from a

1 historical point of view we're dealing with a very
2 fundamental sort of phenomenon of the 20th century. As
3 nearly as I can tell, you have currently on the planet
4 roughly speaking a hundred million families of tenant
5 farmers or agricultural laborers, about half a billion
6 people or so. If you had started at the year 1900 with
7 the then situation of tenancy in agricultural labor on the
8 planet and been able to predict growth of rural population
9 and land population but had not predicted land production,
10 you would have predicted a figure well over 200 million
11 landless families. In other words, more than half of the
12 landlessness that could otherwise have been expected in
13 the year 1985 has been eliminated by redistributive land
14 reforms on the planet. That includes both the Marxist
15 reforms which have come through revolution and ended with
16 collectivisation and it includes the non-Marxist reforms
17 such as those of Mexico or Japan or Taiwan or South Korea
18 and a number of others. So we're dealing with a very
19 powerful current of happenings in this century.
20 I might just parenthetically note that one
21 reason why we're talking about ownership or ownership-like
22 interests, whether individual or collective ownership,
23 rather than talking about rent control, is that with very
24 rare exceptions -- and I think this is one of the very
25 clearest things in the literature of land reform -- is

1 that rent control has not worked. It's worked in Egypt.
2 I was amazed to see it because there were so many places
3 that I had seen before that hadn't worked.
4 Take a look for example at Herring's book, "Land
5 of the Tiller," which details the failure of rent
6 regulation in all of south Asia. Same true in the
7 Philippines. Same true where it's been tried in Latin
8 America. You don't have the legal and regulatory ability
9 to keep the landlord from pressing and pressing and
10 pressing to undo whatever regulations you make. Even the
11 Taiwanese tried rent control from 1949 to 1952 and pretty
12 well gave up on it and shifted to full transfer ownership
13 because they couldn't handle the deluge of cases and
14 problems created by trying rent regulation. It
15 demonstrably doesn't work.
16 The presumption has to be very strongly that it
17 doesn't work and one has to have very clear reasons for
18 thinking that it will work in some exceptional situation
19 so you're talking about basically ownership or ownership
20 like interests being given.
21 Now one major set of cases among the hundred
22 million remaining landless families -- and it seems to me
23 this is a perfectly legitimate consideration for AID and
24 the State Department and the American government -- is the
25 question of what the geopolitical results may be of not

1 having land reform. I would argue in virtually any
2 setting where more than 20 percent of the total population
3 is non-landowning in agriculture -- and that includes
4 India and Bangladesh and Pakistan and the Philippines, and
5 most of the countries of Central America and a few others --
6 that the prospect of revolution and in all likelihood of
7 Marxist revolution occurring if land reform is not carried
8 out is very, very high. Of some 21 societies that have
9 had a quarter or more of their population landless in the
10 course of this century, about 14 have experienced massive
11 upheavals or are now in the process of experiencing
12 massive upheavals and it seems to me a perfectly
13 legitimate argument for redistribution.
14 Peasants are not the leaders of revolutions but
15 they are the cannon fodder, they are the rank and file.
16 They are the ones who are persuaded by their grievances,
17 by the graduate students or others who lead the
18 revolutions, to join the rank and file. And unless you
19 have that mass joining the leaders, all you end up with is
20 a Red Brigade or a Baader-Meinhoff Gang. You don't end up
21 with a real grass roots revolution threatening the
22 stability of the government.
23 So a large number of countries, including
24 countries where about 80 percent of the landless people
25 are 80 out of those 100 million families where you could

1 make the argument in terms of very legitimate political
2 stability considerations -- but more than that, I think
3 you can make the argument for the others and for the whole
4 100 million at least presumptively, by virtue of the
5 productivity contribution, the economic results that one
6 has in general had from land reform.
7 When we were talking about productivity before,
8 it's sort of interesting to note just in terms of macro,
9 macro data, that none of the 38 agricultures in the world
10 which are most productive in food grains in terms of
11 weighted per acre production of the basic grains produced
12 in those countries are agricultures in which either tenant
13 farming or plantation labor dominated. In terms of
14 potentials of the system, it's interesting that grain
15 production on the planet, the higher levels of grain
16 productivity on the planet have never been reached by
17 those systems which are tenant farming or plantation labor
18 systems.
19 I would argue that the tenant farming is
20 something prevalent and the Philippines is one reason why.
21 Despite all the sophistication of that country, you're
22 still talking about rice production of 2-1/2 tons per
23 hectare versus 5 in Taiwan and 6 in Japan and South Korea
24 and indeed 5 tons per hectare on the mainland, especially
25 under the responsibility system. I think you can make a

1 very strong productivity argument and I'm sorry that the
2 gentleman who asked the question before is not here to
3 answer but I would suggest that it's not only a question
4 of nonagriculture employment, it's very much a question of
5 what happens in agriculture often determining the
6 prospects for nonagricultural employment.
7 When the tenant farmers of Taiwan became owners
8 and began having a significant surplus and turning that
9 among other things into the building of brick houses, it
10 created jobs for people to work in brickyards and put the
11 bricks together into houses and build the furniture they
12 were going to put in the houses. There's a great deal of
13 linkage between what happens to agricultural productivity
14 as a result, I would argue, of land reform and --
15 MR. MONTGOMERY: I would like to suggest on that
16 note that we take our coffee break, resume with Bill. I
17 have some notes as to what I think we've said in answer to
18 question 2, which I will try to supply before we move on to
19 question 3. I think there are some announcements that
20 need to be made. Coffee is over in the corner.
21 (Recess.)
22 MR. MONTGOMERY: Ladies and gentlemen, we're now
23 to discuss the principles for implementation but I cut
24 Bill off before he had something to say, and I'm prepared
25 if requested to summarize what we have done in the last

1 hour. But I don't have to be requested because I have it
2 on my computer and that's where it's going to stay anyway.
3 Bill, go ahead.
4 MR. THIESENHAUSEN: I wanted to pick up on a
5 couple points. John Powelson made a point about mobility.
6 One of the important things in Latin America has been the
7 elimination in this last couple decades of the service
8 tenure categories, so the Indians no longer seem to appear
9 to exist in the same form as before. And what we have is
10 this landless labor group which has been removed from the
11 hacienda and now tends to be your landless or have a small
12 piece of land that it uses for part-time work and works
13 off the farm a good bit of the remainder of the time.
14 Another point I wanted to make is in response to
15 the point that there's no one institution. I think it's
16 terribly important. Al made a point, that is, the inverse
17 size between farm size and production per hectare.
18 Somehow the post-reform institution has to be made in some
19 way consistent with the prevailing institutions at the
20 time, particularly in the case of reform mongering, fairly
21 small reform programs. It's no use to establish a state
22 farm in Chile of 1985. It has to be a blending of
23 institutions.
24 This reference to Africa, which I thought was
25 important and on the same point, of course we think

1 because we talk about Latin America we have been talking
2 about freehold. But in Africa, the prevailing institution
3 is not freehold but sort of a communal ownership and so
4 that talking about, you know, everybody having their own
5 piece of land in fee simple doesn't make very much sense
6 when the prevailing tenure structure is one that calls for
7 a communal ownership of property. Just those few diverse
8 points.
9 MR. MONTGOMERY: "Blending of institutions" is
10 the way I read that.
11 MR. THIESENHAUSEN: Somehow consistent between
12 institutions. I don't know that blending --
13 MR. JENKINS: I have one question on the inverse
14 relationship between farm size and productivity, which is
15 that the literature by and large supports that association
16 in LDCs, with some exceptions. But it seems that when
17 that empirical evidence is linked to discussions of land
18 reform, it is transformed from an associative relationship
19 into a causative relationship and there is some problem
20 with that, particularly with cheap food policies in most
21 LDCs, et cetera.
22 For example, I imagine if I was a large tenant
23 farm owner in a given LDC with cheap food prices, I would
24 say it's not in my interest to produce more than I can
25 consume because it's going to be more costly than not.

1 And I wondered so that in turn, then, there could be other
2 possible variables.
3 MR. THIESENHAUSEN: Can I talk about one point?
4 There may be an income maintenance idea that's important
5 also. This is the association between this productivity
6 idea and the income maintenance idea and it just may be
7 that even in the face of dropping prices there's a
8 tendency for the peasant farmer to make up for those
9 dropping prices and some increased quantity produced to
10 maintain the same level of income because that level is
11 subsistence. So there may be some of that involved
12 together with what Al said.
13 MR. JENKINS: Which accounts for the high
14 productivity of the small owner. If I had a lot of land
15 to produce and couldn't get profit out of it, why produce?
16 MR. BERRY: I think it is very important to
17 distinguish association, but the last point, I think there
18 are a lot of reasons for this general pattern that we see
19 and certainly at some point there's a -- large farmers
20 have not been given appropriate incentive, that's one
21 reason. But equally frequently they're given too much
22 incentive, they get the subsidized credit, they have the
23 easy time. So it varies a lot across countries.
24 But what is striking about this negative
25 association is that it's -- you see it everywhere.

1 Doesn't matter what the pattern of polemics is, you just
2 see it everywhere in the third world where a study has
3 been done and especially in Asia and Latin America, less
4 true in Africa where land doesn't seem so scarce. So
5 although understanding the causation is obviously harder
6 than getting the association straight, when you see it
7 across a tremendous range of circumstances you have a
8 pretty strong hypothesis that there's causation of worth.
9 And I would say that some elements of the causation have
10 been well demonstrated, although not all.
11 But following along with the association of
12 causation, and why this farm size and productivity
13 question is related to land reform, I think it is very
14 important to not simply assume or take for granted that
15 because existing small farms in a given country are pretty
16 efficient you can just do a redistribution and bang, all
17 the new farms will be as efficient as the discontinuing
18 ones if you put normally landless tenants as entrepreneurs.
19 It's foolhardy to think that they will perform as small
20 farmers that have been farming for generations, and that's
21 why the surrounding institutions and appropriations to
22 affect the transition become important.
23 So I would agree that the existence of the
24 negative association doesn't prove that land reform will
25 raise output. I think the government can block that, if

1 it won't do anything for them. It may not be raised but
2 it creates the potential. None of the small farms that
3 exist have high productivity. We know they do. If we
4 create a similar situation for the new ones then we have
5 it working. The relationship between the negative
6 association and the productivity against in land reform, I
7 agree, has to be looked at carefully.
8 MR. JENKINS: For you, might there be other
9 things besides redistribution of land or redistribution of
10 access to land which would have equal or greater effect on
11 that dependent variable, productivity?
12 MR. BERRY: That's a very general question.
13 MR. JENKINS: It's really related to number
14 because we're talking about preferred: When is
15 redistributive land reform to be preferred? If it is
16 going to have that kind of effect on productivity, what
17 other things might have that same effect?
18 MR. BERRY: It's clear that technological
19 improvements are a major impact and a variety of other
20 things can. What many of the other things can't have is
21 the affect of cutting revolution off at the pass, which to
22 the extent that our objectives are not only output
23 increase but distribution and employment. A lot of the
24 technological improvements can raise output but they will
25 sometimes diminish employment, and so the output benefits

1 will go to a narrower and narrower group of people.
2 That's what we see in some places.
3 Now in Taiwan, which is the success story of
4 them all, we have it all. Technological improvements have
5 come along, yield increases have been impressive, cheap
6 and very high and absolute levels, so the technological
7 change and the impact of rural education -- everything has
8 worked. And I guess a lot of people who look at land
9 reform view it in many respects as the precondition which
10 facilitates all the other things having their main
11 positive impact. Rural education would be more beneficial
12 in general if you get a land reform. The benefits of
13 technological improvements would be better distributed and
14 perhaps greater in size if we had a land reform.
15 So what you see in Taiwan is that the change in
16 structure of not only the agricultural sector but the
17 whole economy is changed by the distribution of assets.
18 Not only agricultural but nonagricultural and human
19 capital were all relatively equal from then on. So you
20 have Taiwan is perhaps the only developing country in the
21 world where there's been a systematic decrease in income
22 equality over the last 30 years. By that time you're
23 developed and I don't think it matters what happens in
24 agriculture. Agriculture is now the tail of the dog and I
25 would guess it will stay. Hasn't shown any signs --

1 MR. THIESENHAUSEN: That brings to mind another
2 point. Land reform is a dynamic process. What's called
3 for at one stage of the development is inappropriate at
4 another. It's not a matter of doing land reform and
5 forgetting about it. All these policies in agriculture,
6 once they change, bring about other problems which need to
7 be solved in turn.
8 MR. GRAYZEL: I wonder if you would give me a
9 technological example.
10 MR. MONTGOMERY: I can give you my notes
11 produced by technology but unfortunately are limited by
12 intellectual capacity -- the human factor, pilot error.
13 I thought that we identified six situations in
14 which one could make the argument that land reform was the
15 chosen instrument for improving access, that is the
16 preferred instrument in terms of our macro statement of
17 goals.
18 First, in a post-collective situation, where you
19 have an opportunity to break up state farms or large
20 collectives, where land reform in the redistributive sense
21 has to take place which will require the same kinds of
22 steps that would be required if it were redistribution of
23 private large farms.
24 Second, when there is a comparative institutional
25 strength to the kinds of landholding arrangements which

1 are envisaged in the land reform. This is hard to
2 determine, extremely site specific, but can be analyzed as
3 a basis for making this choice.
4 Third, where there is a strong peasant demand
5 which requires some sort of political response.
6 Fourth, where it appears that even minimum
7 difficulty-scale operations can succeed because of the
8 presence of off-farm employment opportunities. These are
9 not necessarily autogenal situations, as you can readily
10 see.
11 Five, when all other forms of access seem to be
12 cut off -- and we had a number of examples of situations
13 in which farmers would be cut off from technology, so
14 forth -- and land reform might be the last alternative.
15 Sixth, where there is a squeeze on the bottom
16 tier of the population which can be relieved by land
17 reform. That's not the same exactly as peasant demand but
18 one which was cited with some data during the discussion.
19 Jack offered us some criteria for justification
20 of land reform which are slightly different but have to be
21 considered, I think, as alternative formulation of the
22 answer, that there's no mobility among peasants except
23 through land reform. A second is when there are
24 restrictions on land transfer which are not caused by laws
25 against it but simply by policy such as price and rent

1 controls, and third, where it seems to be the only case in
2 which you can account social accountability for the use of
3 this resource.
4 MR. POWELSON: I meant to apply those criteria
5 to any source, not just land or peasants.
6 MR. MONTGOMERY: Very good point. Then just
7 before the coffee break, in fact it's been reiterated now,
8 the thought that no policy should be conceived as being a
9 static condition, all policies are a response to previous
10 policies and our present problems are the results of
11 previous policies.
12 Therefore, when one thinks about land reform
13 they should think about it in a dynamic situation where
14 you have to say to yourself, are you creating expectations
15 of continuing review of the tenurial arrangements if you
16 have a land reform every five years, or should you think
17 about a sequence of styles of land reform which might take
18 place in countries where you have had what appears to be
19 successful land reform but the social goals have changed
20 or the advantages have disappeared or for some other
21 reason it's necessary to intervene once again.
22 Everybody remembers things about the Japanese
23 land reform dichotomy in the 19th century where they had
24 the most tremendous land reform up to the Japanese
25 occupation, but every generation they had to have another

1 land reform. It should be thought of in a dynamic context
2 and I don't believe we know very much about successive
3 phases of land reform. How does the second differ from
4 the first, and I think that's a question we ought to think
5 about and do some research about.
6 MS. SARLES: I wanted to ask for clarification
7 on the first point. The first criterion was large
8 collective farms in a post-collective situation?
9 MR. MONTGOMERY: If we decide to occupy the
10 Soviet Union, for example.
11 MS. SARLES: Seems that's a substitute for low
12 productivity and in some cases low rural incomes. It's
13 those two conditions rather than the existence of a large
14 farm --
15 MR. MONTGOMERY: Absolutely. I think you're
16 absolutely right. Thank you. In fact, I suspect that was
17 a tongue-in-cheek illustration that our friend Dr. Ayau
18 gave but I put it down because it's a serious possibility.
19 There are countries who have state farms that are
20 considering how to get out of that business.
21 MS. SARLES: The key, for example, to state
22 sugar farms is not because --
23 MR. MONTGOMERY: Eric was calling my bluff.
24 MR. GRAYZEL: Excepting this may be a somewhat
25 marginal case and I apologize for coming in late. Was

1 there any discussion that perhaps there are certain
2 technologies which have terms to scale? What little I
3 know about coffee is that general speaking no one has
4 suggested that small holding collectives are more
5 productive than larger estates. I might think of things
6 uniquely suited to plantations and excepting this may be
7 the marginal case, we ought to say something about that.
8 There are certain technologies which have returns to scale
9 that need to be considered.
10 MR. BERRY: I don't think coffee is definitely
11 one of them. Definitely not one of them. Bananas under
12 certain circumstances. But your point in general is right.
13 MR. GRAYZEL: All the numbers say the estates do
14 not produce the quality but produce more.
15 MR. BERRY: They usually have more resources
16 under comparable settings. The coffee in Columbia, for
17 example, that wouldn't be true, but there are crops.
18 MR. MONTGOMERY: We did talk about the interface
19 between technology and farm size. That certainly is --
20 sort of a corollary to the general proposition about the
21 inverse relationship we were discussing.
22 Are we ready to move into the question of
23 implementation? Because we have been asked to consider
24 whether there are principles that should be applied to the
25 various functions or stages of land reform and the first

1 mentioned is expropriation. Are there certain principles
2 that should be injected into any policy statement that
3 might flow out of this discussion regarding the
4 appropriate methods of implementing an appropriation
5 policy?
6 MR. PROSTERMAN: One basic one is the principle
7 of compensation, not necessarily U.S. constitutional
8 standards of full, fair, prompt cash compensation but
9 something reasonable under the circumstances.
10 Land reform need not be a zero sum gain in which
11 the landless ex-tenants only gain as the landlords lose.
12 It can be a situation in which both gain. As the
13 landowners receive compensation, especially in forms where
14 they are encouraged to redeploy it into productive
15 enterprises other than land ownership in the society, so
16 that at the very time that the ex-tenants or laborers are
17 producing more on their new holdings, there are a variety
18 of opportunities for nonagricultural and agricultural
19 related enterprises growing up in the society in which the
20 former owners can invest.
21 I think politically this is terribly important
22 if land reform is to take place without drastic violence.
23 It may well be an area where foreign aid has a significant
24 role to play.
25 MR. POWELSON: Under most circumstances, however,

1 I don't think it's feasible for a government or even an
2 outsider to pay anything close to the full market value of
3 the property that is expropriated. In some cases such as
4 Japan and Taiwan and Korea and Chile, this is taken care
5 of by inflation. You give bonds that may have a current
6 value equal to the value of the farm but they are not
7 redeemable for a number of years and meanwhile inflation
8 takes its toll on that. I don't think that full
9 compensation is feasible in terms of the availability of
10 resources. It may be a reasonable concept.
11 MR. PROSTERMAN: Maybe 30, 40, 50 percent of
12 what may be regarded as market value which may be deferred
13 in the form of bonds or cash. I think as a kind of rough
14 assessment of the sense I've had in interviewing landlords
15 in countries where land reform was in prospect, that if
16 generally one thought in terms of compensation, that might
17 in total be around 50 percent or thereabouts of what the
18 going market value of land was, and with a fair amount of
19 that monetizable either in cash or in some form.
20 For example, bonds that could be used as
21 preferred collateral with the banking system to get credit
22 for productive investments so they could redeploy part of
23 their assets or resources into other areas but that turned
24 out to be generally the point at which they would grumble
25 but wouldn't oppose the reform to the point of violence.

1 MR. WOOLERY: I think we have to have a minority
2 opinion here. If market value is represented as the
3 capitalized amount of net income produced by the crop on
4 the land and you're suggesting you pay less than that to
5 divide this into smaller more productive units, which if
6 you capitalize the productive capacity should have higher
7 value -- I find this to be a terrible contradiction in
8 everything we're talking about, the suggestion that you
9 pay at less than the fair market value if you're going to
10 produce a more valuable asset by producing it.
11 MR. BERRY: The fair value is the market value.
12 MR. WOOLERY: I'm an appraiser and I think we
13 better define our valuation terms and valuation process.
14 MR. MONTGOMERY: You're suggesting that land
15 reform is possible only if there's some confiscation
16 possible involved.
17 MR. POWELSON: I think that historically is the
18 case.
19 DR. AYAU: I think that one of the reasons of
20 the poverty among the underdeveloped countries is the
21 insecurity that we have from the law. We don't have the
22 rule of law. People will confiscate; you do not have a
23 right to legally acquire property. When you acquire
24 something respecting all the law, you expect society to
25 protect your right of ownership otherwise you will not

1 invest or do anything. And we should differentiate here
2 between expropriation and compensation. This partial
3 compensation of course I'm against, but I'm also against
4 the payment in bonds and things. Because then it turns
5 out that the dispossessed of what was legitimately
6 acquired is financing the beneficiary of this confiscation.
7 Now if society wants to use that land for any
8 purpose, they should not obligate the persons who are
9 going to be dispossessed to finance the rest of society.
10 I think that's completely unfair and I think that that
11 kind of unfair treatment produces poverty.
12 MR. MONTGOMERY: Mr. Powelson?
13 MR. POWELSON: At what point do you suddenly
14 introduce the rule of law? I think there's a great deal
15 of property that's not legitimately possessed.
16 DR. AYAU: I'm not talking about that.
17 MR. POWELSON: Property that has been
18 confiscated in the past. Do you suddenly declare on March
19 28, 1985, that all these people are legitimate owners to
20 be compensated?
21 DR. AYAU: When do we start to stop redressing
22 past wrongs? When do we start saying from here on those
23 who have legal title, it is their own? Do you want to
24 start 10 years ago, 10 years from now?
25 MR. POWELSON: We do it gradually. We don't

1 suddenly start.

2 MR. MONTGOMERY: That's the way it becomes

3 politically feasible. Is that what you mean, Jack?

4 MR. POWELSON: We defer to the professors of

5 political science for that.

6 MR. THIESENHAUSEN: I would agree with Roy and

7 Jack on their point on compensation. I think the point,

8 Arlo, you're getting into here, it is true there's this

9 inverse relationship production on the small farms finding

10 its way into income and that income does imply that

11 there's going to be more consumption on the farm of what's

12 produced under an agrarian form. You can't expect the

13 campesinos to give back that full amount. I think it's

14 important that some compensation be made because this is

15 equivalent to a tax in physical terms, it seems to me, and

16 it's a tax that the campesinos are making on the basis of

17 the production which they have which does not exist

18 elsewhere in the sector.

19 Everybody in the agricultural sector who's a

20 peasant is not going to receive a piece of land. There's

21 not enough land to go around. So you can look at this

22 compensation as being sort of tax which the beneficiaries

23 must pay and because they were among the privileged to get

24 land. Perhaps that also can be looked at from a physical

25 spending standpoint. I guess you might spend some of that

1 money to redress the situation of the peasantry that was
2 excluded.
3 MR. MONTGOMERY: I think Arlo's moral dilemma is
4 one we all felt. It's the hardest question. One sort of
5 salve that I rubbed across my conscience is to suggest
6 that the value paid for land when expropriated for reform
7 be based on the assessed value of the land on which taxes
8 have been paid, and this suggests that those who have been
9 cheating the public the most are the ones most injured by
10 the incorporation. But that salve doesn't do any
11 conscience very good for long but it's one primitive way
12 go ahead.
13 MR. RECINOS: I think we agree that some type of
14 compensation ought to be given for expropriated land but I
15 would suggest just by the very fact of announcing an
16 agrarian reform is going to have affect on the market
17 value. So the question is how are you going to determine
18 what is the true market value? Because I know landowners
19 in Salvador, when the agrarian reform was announced asking
20 them if they would buy farms in the second phase, weren't
21 affected, but possibly could be affected. They weren't
22 very interested in buying farms at all, so I think that
23 type of problem has to be looked at very carefully.
24 MR. NILSESTUEN: I have a question. Much of the
25 discussion in the last few minutes has been on the

1 economic case for compensation, but in fact I suspect that
2 frequently the decisions we were talking about,
3 redistributive reforms, are made on political grounds.
4 The argument that Roy makes intuitively is a political one
5 in which essentially you buy off the vested interests. My
6 question is what is the empirical evidence? What do we
7 know in fact has happened in practice, the effectiveness
8 of compensation serving as an ameliorating political force
9 to make it possible to go forward with the reform?
10 MR. MONTGOMERY: That's a good one. Norm, did
11 you want to speak to that? Roy?
12 MR. PROSTERMAN: One problem has been that
13 resources have generally not been made available, for
14 example, through foreign aid mechanisms for support of
15 compensation for land reforms. I think this is a variable
16 that has been neglected in most post-W.W.II land reforms.
17 The amendment that prohibits direct use in terms, although
18 legislative history suggests it wasn't intended to but
19 prohibits direct U.S. aid resources for --
20 The administration has passed a foreign aid bill
21 that moves that and gives the President the power to
22 determine that payment of compensation in a land reform
23 program is in the national interests of the U.S., which
24 would be a very important, from our point of view, an
25 important change in the law. This came out of the

1 Kissenger recommendations but reads not only for Latin
2 America but locally.
3 But I think in terms of the experience we had,
4 probably the best compensation that's been paid in a major
5 post-war land reform program has been in Taiwan where they
6 made it inflation-adjusting. It was tied to the value of
7 rice and sweet potatoes and based on a fairly high
8 evaluation of land and was repaid by the beneficiaries.
9 The net/cost subsidy was very small.
10 MR. MONTGOMERY: They did use the tax base
11 didn't they, in Taiwan?
12 MR. PROSTERMAN: And productivity, and there are
13 a number of different formulas to use. You can use some
14 multiple of productivity, either actual or some sort of
15 constructive productivity based on land quality and what
16 it should produce. You can use tax returns. Some of the
17 big estate portions of El Salvador is based on 1976-77 tax
18 returns in theory, and it's crept up from '45 in practice.
19 It's interesting to interview, let's say X
20 landlords in Japan or Taiwan a generation later and find
21 that they say we all opposed the land reform initially but
22 if we had it to do again we would accept it. Because even
23 the Japanese case where the compensation was very
24 inadequate, they said we now recognize that we're
25 participating in so much bigger a pie, that we have a

1 smaller share but the whole economy has grown so much, in
2 large part due to the land reform and the productivity
3 results of the land reform, that we would now do it all
4 over again.
5 But looking at it from the beginning, I think
6 it's very important that some significant compensation
7 support be made available so that in part that landlords
8 can accommodate themselves, can reconcile themselves to
9 the happening of the reform. But I see AID resources as
10 potentially playing a very important role in that.
11 MR. MONTGOMERY: Norm? Did you want to open a
12 new question?
13 MR. NICHOLSON: Maybe to come back to the
14 original question, the question of what about the market
15 value. I had a couple of technical questions that reflect
16 my own ingorance here, but I just wanted to ask, how is it
17 in country X, Y or Z to determine the market value of land?
18 Sometimes it's extremely impersonal, some places
19 extremely informal and you would be -- I came back from
20 Haiti. You would be hard pressed to find the fair market
21 value of land in Haiti, although the land does change
22 hands. But the insecurity is so high I'm wondering if
23 that's even feasible.
24 The second question I would ask is some rather
25 simple-minded economics, and that is although I think

1 we're in agreement that small holders, that productivity
2 is inverse to scale in the proper circumstances -- at
3 least the salvation data suggests that's true, yes, but
4 that productivity is in relation to scale but the
5 profitability is directly related to scale. Which means
6 instead you may be increasing the social value of the land
7 by breaking it up, but you are decreasing its economic
8 value to the ilk.
9 MR. BERRY: This is profitability per acre? I
10 think that's very often the case. The reason is that --
11 MR. NICHOLSON: If these don't affect one's
12 calculation here --
13 MR. BERRY: The profitability is basically an
14 incorrect measure of economic efficiency. If in this case
15 the labor used on the small farm is free in the sense that
16 we have little or no other alternative productive use, and
17 that depends on the country, but to carry it to its
18 extreme, the profitability figure which doesn't feed that
19 in would be a biased figure. So I would say the basic
20 criterion of economic efficiency is very likely to be very
21 close to productivity per acre allowing also for capital
22 and so on and then --
23 MR. NICHOLSON: One could imagine an
24 agricultural income tax that would not be based on that
25 but on some measure of profitability.

1 MR. BERRY: That generates almost no income.
2 The other thing, I would focus not so much on
3 profitability but on savings, because in a dynamic sense
4 you obviously want to get savings. So one of the second
5 generation or second round things you have to think about
6 with land reform is will savings go down, because either
7 in some sense the agriculture is generating less liquid
8 profits or the income is much more evenly distributed,
9 which it will be, and that's something which hasn't been
10 analyzed as much as it might be empirically.
11 But one thing you can say, one of the things you
12 need if land is to be redistributed is some change in the
13 savings-inducing mechanism, I mean investment in general,
14 so maybe you have rural banks where before all you had was
15 the stock market.
16 MR. MONTGOMERY: Is it possible to take this
17 savings or reinvestment probabilities or expectations as a
18 basis for fixing land values on a net corporation
19 proceedings?
20 MR. BERRY: Something along those lines. Not so
21 much savings of the productivity -- I would say that would
22 be pretty tricky. If it's difficult on the basis of
23 productivity, in other words feasible but not easy --
24 MR. MONTGOMERY: Probably this issue will not
25 affect the style of implementation with respect to the --

1 we should stick to that since that's what we're talking
2 about.
3 MS. SARLES: We were talking about the Taiwan
4 case when some of the money that was given was given
5 essentially to the industrial sector. And I wonder,
6 considering the underinvestment in the agricultural sector
7 in general, that when one looks at the compensation
8 mechanisms to be developed, that there should be an effort
9 to keep that money in the rural sector, in agriculture.
10 Or if that strikes you as inherently unjust but looks like
11 they are giving a lot of money to people who put it in the
12 banks in Miami or --
13 MR. PROSTERMAN: It seems to me there are two
14 very important sources. Let's say in the reform where
15 tenants are becoming owners. There are two very important
16 sources of additional investment in the rural sector.
17 One is -- this is sometimes a little hard for
18 economic theory to capture or quantify, but there's a sort
19 of sweat equity investment of the ex-tenant who knows he
20 won't be kicked off because he's made the land better or
21 more attractive, who can now, for example, do the land
22 leveling and put down the tube well or bring in water from
23 some nearby source that allows him to get a second or even
24 a third annual crop, and can do a variety of other multiyear
25 improvements, much of which are done with the labor of his

1 own family, that he would not do as a tenant farmer. So
2 you get that additional source of investment in the
3 agricultural sector.
4 Secondly, what I would suggest is -- and there
5 were provisions in both the Philippine agrarian reform law
6 and there are in the Salvadoran reform law for this, but
7 they have not been implemented in either case -- but the
8 notion of having apportionment bonds that the landlord
9 receives useable as preferred collateral in the banking
10 system for loans for certain specified kinds of productive
11 investments. And the specification, I would agree, should
12 very much take into account the needs of the rural sector.
13 You may need new rice mills, new processing plants, new
14 agricultural products, new transportation facilities, new
15 storage facilities, and you can channel that investment into
16 those associated areas by that money.
17 MR. MONTGOMERY: The other point is sometimes
18 you want to use the process of land reform and
19 appropriation and compensation to create a new class and
20 that's what happened in Taiwan. So sometimes there are
21 cases when you might want to move the capital out of the
22 rural sector, but primarily I think in most cases --
23 MR. POWELSON: I'm skeptical of methods that
24 interfere with the market by declaring certain bonds or
25 certain portions of bonds eligible for this kind of loan

1 or that kind of loan. There are several reasons I'm
2 skeptical of it. One is that it puts great power in the
3 hands of the people who make these decisions. But the
4 main reason is that I prefer the other method, which is to
5 release all restrictions which make investment in the
6 rural sectors less profitable than investment in Miami
7 banks.

8 Some of them are questions of security. Others
9 are simply questions of government policy, anti-agriculture
10 policies that have turned the terms of trade against
11 farmers. Let's get rid of those things and then I see no
12 reason for putting on some restrictions saying you've got
13 to invest certain things in the agriculture sector, or you
14 have additional nonmarket incentives to invest in the
15 agricultural sector because the agricultural sector will
16 turn out sufficiently profitable to attract investment of
17 its own right.

18 MR. THIESENHAUSEN: Couple things. First of all,
19 in response to Norm's question I would like to put in a
20 pitch for simplicity of administration. It seems to me if
21 we come up with terribly complex formulas for figuring out
22 market values, we're going to get the whole process bogged
23 down in never-ending court battles and that's one way that
24 agrarian reform has been prevented in many -- or impeded
25 in many Latin American countries. Either you get bogged

1 down with how much to compensate for other criteria for
2 expropriation. So administrative simplicity I think has
3 something to recommend it.
4 MR. POWELSON: Even though you can't determine
5 the market value, if you figure a general ball park
6 estimate, the market value is somewhere between 5 and 10
7 but the compensation is between 2 and 3, then you don't
8 need to worry about market value.
9 MR. THIESENHAUSEN: The effect that
10 expropriation has on former landlords, I think some of the
11 data we have from Latin America in the '70s at least shows
12 that agriculture became more profitable and there was a
13 fairly strong tendency for ex-landlords to be more
14 entreprenurial. In some cases they sold off some of their
15 land and in some cases we no longer have all these idle
16 estates that seemed to be around in the middle of the
17 1960s, for example.
18 There has been some tendency on the part of
19 landlords to intensify their operations somewhat, to
20 invest in the agricultural sector, and that's certainly
21 occurred at the end of the 1970s. When the value of the
22 dollar got too strong in the '80s, that began to change
23 again, but certainly at the end of the '70s in terms of
24 trade it turned in favor of the agricultural sector for
25 awhile.

1 MR. NILSESTUEN: Are you talking about landlords
2 affected by the reform becoming more entrepreneurial on
3 the lands they're contained or --
4 MR. THIESENHAUSEN: I don't know about the case
5 you're talking about. I don't have the data for it, but
6 the second point I think is more important. They felt
7 that they would be more likely to be expropriated if they
8 continued the habits of leaving a lot of their land idle
9 and using land as a hedge against inflation.
10 MR. NILSESTUEN: You're talking about --
11 MR. THIESENHAUSEN: They felt some danger in
12 expropriation unless they made farming into a business.
13 MR. SHERPER: I would like to underscore what
14 Bill said, it's an important factor, but in addition to on
15 the expropriation side, a point about compensation being
16 reasonable: I think it's important to point out part of
17 the simplicity is the promptness of compensation.
18 Many land reforms have just wallowed because
19 there hasn't been enough emphasis on the compensation side.
20 Governments tend to to let it go and this has really
21 decreased the effectiveness of the land reform. With
22 respect to the simplicity, the question of
23 decentralization in order to do it and involvement to the
24 local level where conditions are known by local people I
25 think becomes an important element of successful

1 implementation.

2 MR. MONTGOMERY: I think that first point is
3 extremely important. If one of the things you're trying
4 to do is release entrepreneur energies at the same time
5 that you're redistributing land, you don't give the
6 capital to the people who are supposed to be entrepreneurs.
7 You're not going to have a private sector engaged in
8 post-land reform investments. That's a very important
9 issue.

10 MR. PROSTERMAN: I would also like to second the
11 notion of administrative simplicity and to do so in
12 relation to specifically the issue of expropriation. This
13 is not so important perhaps in Latin American settings
14 where you may have a relatively small number of,
15 identifiably big holdings that are taken. It's terribly
16 important in all of the land reforms I'm familiar with in
17 which tenanted land has been taken that is in particular
18 the question of reserve area or retention land.

19 If you tell the landlords that they can keep a
20 hundred hectares or 50 or any number of hectares, you run
21 into terribly difficult administrative problems in
22 determining how many hectares they have and you have to
23 expect that the landlords are going to lie. So unless you
24 have a fairly good land registration system and are
25 willing to hook a retention limit to what was on the land

1 records as of a time before the land reform came under
2 discussion, you're likely to -- the Philippines is a very
3 good example of a situation where they had horrendous
4 problems because of their 7 hectare retention, among other
5 things, that complicated an already difficult situation.
6 Rather, I think to take a tax of the Japanese
7 land reform, for example, had zero retention for all
8 absentee-owned land that had tenants on it and a very low
9 limit above zero for those who were in the village. In
10 South Korea they had essentially a zero limit and it was
11 universal. In South Vietnam they had a zero limit and
12 they finally got around to it in '70, '73 and it was in
13 South Vietnam they have a zero limit although there are
14 some producers that would like to produce a zero limit.
15 But I think simplicity in the expropriation
16 process calls for at least a presumption in favor of
17 universality when you're dealing with landlord and tenant
18 situations, a zero retention limit, and that in turn means
19 that compensation is very important. You're affecting all
20 of the landlords.
21 MR. MONTGOMERY: Let me -- am I allowed to speak
22 also? This is one of the cases where Roy and I differ
23 publicly and privately. I'm not sure that it's really a
24 difference in our beliefs but I think it's a difference in
25 the way we express them.

1 The most important single aspect of
2 implementation of planned reform in my opinion is the
3 simplicity question, and also speed. You can't get speed
4 if you insist on having a perfect system in place before
5 you start. So my strategy, my preferred approach has
6 always been to figure out some way of making use of
7 existing social institutions preferably among the local
8 tenants, tenant beneficiaries or some local organization,
9 to make the original redistributions and clean up the laws
10 later.
11 You've certainly got to have land registration,
12 title properly defensable in law and so forth, but if you
13 do that first I think you're lost. If you do only the
14 community action without the laws, you have a situation of
15 anarchy. You have to have both, but the real question for
16 implementation is which to do first.
17 MR. THIESENHAUSEN: I would like to just make
18 one point on the retention limit that Roy made. I agree
19 with you and Roy on this point. The retention limit is
20 kind of important to think about, it seems to me, simply
21 because if you allow the landlords to retain a fairly
22 large unit there will be a very quick reappearance of
23 these social relationships present before. And
24 furthermore, there will be a tendency on the part of a
25 landlord to be buying up that land again or somehow

1 getting hold of it again.

2 MR. MONTGOMERY: I don't think we're disagreeing

3 on that. It's a question of how you do it.

4 MR. JENKINS: Are you saying that those from

5 whom land will be expropriated, should you need criteria

6 for how much land they would be left with?

7 MR. THIESENHAUSEN: They say you can keep 200

8 hectares, give up between 200 and 500. If that X number

9 is charged, then there may be a tendency for those old

10 patron-client relationships to be maintained. And

11 furthermore down the line, as some of the peasants who got

12 land fail, and some are bound to, there will be a tendency

13 for the landlord to begin accumulating land once again.

14 MR. JENKINS: What I thought you were adding,

15 though, were some criteria for making that determination.

16 What is too much? Do we need to do that? Does AID need

17 to do that?

18 MR. MONTGOMERY: Whatever the law is, the

19 question is the procedure by which the maximum is retained

20 and chosen for retention, and the speed with which the

21 rest of it is redistributed. So I think that's an

22 implementation question. I guess I think that that again

23 is a tradeoff between the bureaucrats and the on-the-ground

24 farmer organization.

25 MS. SARLES: Two questions. I thought before

1 there was a sort of consensus that there should be zero
2 retention rights. That was the simplest administrative
3 way, clear procedure and --
4 MR. THIESENHAUSEN: That would be my preference.
5 MS. SARLES: That seems to be a widespread
6 consensus. The second question --
7 MR. POWELSON: I don't think it is. Go ahead.
8 MS. SARLES: The second was the land
9 registration, the land title, because in Latin America
10 we're starting land titling projects even before really
11 pressing forward in some countries with an extensive land
12 reform program. That's sort of the step one. It seems to
13 me you're arguing that that should be afterwards or maybe
14 concomitant, but not necessarily trying to title all the
15 land before you start.
16 MR. MONTGOMERY: The question is what you mean
17 by titling. My general feeling about that -- Keith knows
18 a lot about this, I think -- that the titling should be
19 provisional in the first instance, managed through the
20 local people. There should be appeal processes available
21 to the courts and the bureaucracy and then there should be
22 an official title which confirms and records the
23 transaction and I think I would do it in that sequence.
24 Other people have other views about that. Keith has had
25 some hands-on experience with that problem.

1 MR. SHERPER: I would add that in most cases
2 where there's a land redistribution program, you very
3 seldom have an existing land registration system that's up
4 to date or useful in most cases, and also you seldom have
5 the basic instruments or situation where you can measure
6 land, agree on debt I can control or land surveys, tend
7 not to be there or tend to be so dated that they are not
8 useful. So I think in most cases one would assume that
9 you would start from those kinds of positions and the only
10 way to carry out the effective land reform quickly -- and
11 I think "reform" implies a certain amount of speed --
12 would be to do with a provisional system that's in effect
13 what has happened in most cases.
14 MR. MONTGOMERY: I think that when we were at
15 Annapolis and had a conference last year, I guess there
16 was a discussion about this and somebody got up and said
17 no, that won't work, you got to have it all straightened
18 out in the law or you're going to have absolutely eternal
19 fights in the court, litigation. And he was citing a case
20 from Latin America -- Bill, you were there. I forgot who
21 made that observation. It might have been --
22 MR. THIESENHAUSEN: It's been made a lot in
23 Latin America. Chile got involved in that, certainly.
24 MR. MONTGOMERY: I think you have to be -- Keith
25 and I agree on the strategy but the question is, if you

1 place yourself in the situation where litigation becomes
2 eternally possible to rob the tenant beneficiaries of any
3 sense of security of holding, then you have to deal with
4 that in the beginning. You have to have a limit to the
5 extent or nature of litigation or establish an agrarian
6 course of procedures.
7 MR. THIESENHAUSEN: Or use size instead of
8 productivity, or efficiency.
9 MR. SHERPER: Within the existing legal system,
10 in many of these countries the court system has to be
11 developed in such a way for these cases to be heard in an
12 unbiased manner. And it may be in many cases where you
13 take a landless person and put them into that system,
14 may not work and that has to be --
15 MR. RECINOS: The reverse is true. During the
16 expropriations, the Arbenz government in Guatemala, there
17 was a bias against landowners for the same things we have
18 been talking about. You have to be very careful who
19 administered the courts.
20 MR. MONTGOMERY: I believe if you pursue this
21 particular strategy it's necessary to change the attitude
22 of the bureaucrats associated with the enforcement or
23 implementation of land reform, because their natural
24 instinct may not be to be in a posture of helping local
25 organizations make these decisions. They may not be in

1 the direction of hearing appeals, and therefore they
2 probably need to be reoriented, retrained, possibly their
3 whole career structure for this particular assignment has
4 to be adjusted so they understand that their role is not
5 that of law and order enforcer, their role is to
6 strengthen the capacity of the local communities, to
7 resolve these issues and to introduce mechanisms for
8 bringing about justice once the action is started.
9 MR. NICHOLSON: What I don't understand just
10 technically is, accepting that the situation were as you
11 described, how do you give somebody title to a piece of
12 land if you don't know where it is? Without a survey,
13 just physically, what are you recording?
14 MR. SHERPER: There are ways of doing that.
15 MR. MONTGOMERY: Everybody in the community
16 knows where that land is. The only people that don't are
17 the people in Capitol City.
18 MR. NICHOLSON: They may all have different
19 versions.
20 MR. MONTGOMERY: I don't think so.
21 MR. THIESENHAUSEN: One thing you can do is
22 joint tenure. Assign that group that hacienda. They can
23 divide it up later on.
24 MR. PROSTERMAN: Especially in tenancy
25 situations, this is an important reason for zero retention

1 limit. If you're going to have fairly quick local
2 measures of determination, it's useful in effect to know
3 that all land is by virtue of its status tenanted land
4 included. Instead of having a threshold question of
5 determining who owns more or less hectares, it is a
6 precondition of whether the land goes into that system or
7 not.
8 I think it's true we sometimes say it a little
9 differently because we come from different disciplinary
10 backgrounds, but I think we probably don't disagree
11 fundamentally on this. I think the kind of approach which
12 was first used under MacArthur in Japan, then in Taiwan
13 and in the South Vietnamese reform where you have village
14 level administration in which most of the important
15 questions are determined by the people on the spot in a
16 very public way, disputes are resolved at that local level
17 in a very public way, is absolutely crucial.
18 I think that this has been one of the big
19 problems in terms of the completion of the process in El
20 Salvador. There was tremendous resistance to having sort
21 of local level campesino-dominated groups do this and a
22 fallback was at least they are democratic-dominated groups
23 letting them handle it. They didn't want the campesino
24 groups to get credit for it so you ended up with the
25 central bureaucracy doing it and that's a less

1 satisfactory way of handling it.

2 You can help in terms -- the way the law originally
3 describes their rights not only in terms of zero retention
4 but you can also, for example in terms of the de jure
5 situation, declare that by virtue of its status as
6 tenanted land, all tenanted land is on the effective date
7 of the law owned by the tenant who is its cultivator and
8 proceed to regularize that situation both through the
9 local village administrative operation and through the
10 more formal titling processes.

11 MR. NILSESTUEN: Before we run out of time, I
12 would like to hear some discussion of the issue of mode of
13 production. Given we have been -- the general focus here
14 has been redistributive reforms in which at least in Latin
15 America the principal land tenure problem still is
16 concentration of holdings and overwhelmingly reform
17 experience has been in expropriation or acquisition of
18 large estates, a major policy issue becomes sort of
19 constitutionally organizational how you organize the
20 effected lands, and frequently these lands at least in
21 part are in high-cost plantation agriculture: cotton, or
22 sugar cane, et cetera.

23 I guess I'm wondering, a debate about the issues
24 surrounding: Does it make sense to divide these up into
25 small owner-operated units or some kind of group farming?

1 And if so, under what constitutional rules to deal with
2 management and risk, et cetera? What in fact do we know
3 about both the important issues and what does the
4 empirical evidence suggest about how to go about making
5 those choices?
6 MR. POWELSON: They should be made on the local
7 level by the people there. Whether they have individual
8 ownership or cooperatives, let them decide. Let them
9 decide on the terms. I don't think that s a question. We
10 may have an intellectual interest in it but I don't think
11 it's a question that AID or the government concerned ought
12 to have an opinion on.
13 MR. MONTGOMERY: We have only a minute or two
14 before lunch break and we haven't heard from Jean yet.
15 She is the author of the first draft.
16 MS. ATHERTON: I wanted to raise the question of
17 a situation in which time that those haciendas were
18 expropriated it was said, whoever was in fact on them
19 effectively became part of the cooperative. However,
20 because it was not harvest time, it was an interim period
21 there weren't many people on a number of the co-ops.
22 I think your solution raises a question of who
23 in fact is included in this group of people that is to
24 make the decision. Because we're not necessarily talking
25 about a land to the tiller situation where there are

1 tenants on small parcels and you're sort of converting
2 them to a more assured form of tenure, but rather we're
3 talking about moving large groups of people or changing
4 the size with respect to the number of people you're
5 talking about and these kinds of things, making some
6 administrative decisions in there which doesn't leave it
7 as simple as a village-level distribution.
8 MR. MONTGOMERY: I wonder if we shouldn't start
9 on that after lunch. That's a very difficult question.
10 (Whereupon, at 12:00 noon, the hearing was
11 recessed, to reconvene at 1:30 p.m., this same day.)
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1 AFTERNOON SESSION (1:30 p.m.)

2 MR. MONTGOMERY: How do you identify and
3 strengthen local capabilities to implement land reform?
4 MS. ATHERTON: We were talking specifically --
5 MR. MONTGOMERY: I broadened it because I wanted
6 to get our local expert here.
7 MS. ATHERTON: I don't want to get into the
8 issues surrounding the compensation and expropriation
9 issues we talked about. I would like to move beyond those.
10 MR. MONTGOMERY: I think the question of who the
11 local actors are, how you choose and strengthen them, may
12 be a question that would be applicable to any of the
13 activities that you think could be improved by the
14 introduction of local actors or the delution scheme, and
15 Norm Nicholson told me he had to go to the office and he
16 would be my favorite person to ask that question anywhere.
17 Just happens that he's here, and before he disappears maybe
18 you can give us an approach to that question of
19 identification and strengthening.
20 MR. NICHOLSON: That's a pretty tough question.
21 Let me kick it off by saying that what has been capturing
22 some of our attention of late is what options we have in
23 circumstances where your village situation is either
24 highly conflictual or where, quote unqote "traditional
25 conflict resolution mechanisms" have been so atrophied or

1 been tried by various mechanisms that the assertion that
2 we can get the participants to sit down and agree on
3 what's compensation and who owns what strikes me as a
4 trifle romantic, frankly. And I don't doubt that there
5 are situations in which what I consider to be a doctrine
6 in-house solution, you sit the village people down and get
7 them to solve the problem with you, will work.
8 But it seems to me that there are a lot of
9 situations in which we're dealing currently in which I
10 think the presumption that the problem-solving mechanisms
11 exist within the village that are adequate to do the job
12 may be a little heroic. I would like to add to Jean's
13 question by stating that, and I would merely quote Sam
14 Popkin's book, "The Irrational Poet." Anthropologists
15 have done a great disservice by pretending that these
16 gemeinschaft actually existed and that they don't, in fact,
17 in many cases. QED, how do we get this resolution under
18 those circumstances?
19 MS. ATHERTON: Let me pose a question back to
20 Norm. Would you argue that there are no conflict
21 resolution mechanisms extant or that they have been sort
22 of changed or caused to become dysfunctional by various
23 hybridizations of national and international society onto
24 the village level or local level scene?
25 MR. NICHOLSON: I would suggest that we have to

1 consider both circumstances. Clearly we have plenty of
2 village-level evidence of changing economic structure
3 changing political structure, simply destroying or causing
4 to atrophy local conflict resolution mechanisms.
5 I think it may also be true, and let me state
6 the hope this is, it may also be true that -- let's say
7 we're looking at marginal land situations which are
8 increasingly problematic to us people being pushed off the
9 hillsides. My sense is in many cases these are fairly
10 atomistic groups of people. I don't even use the word
11 "community." They come from diverse backgrounds.
12 "Community" in the traditional sense of the term does not
13 exist, which is not to say they don't stay off each others
14 backs, et cetera, but going to the village council as we
15 would have recommended in India and gotten a solution,
16 that isn't going to happen in that kind of situation. So
17 I would say in that case functionally they don't exist.
18 MR. MONTGOMERY: Would you say it was possible
19 to -- let's say that we're not now dealing with a
20 situation where there's no local organization. We all
21 know that in spite of our hopes that there are situations
22 where there's so much that there's no local community, if
23 one thinks of Ethiopia and so forth, because people never
24 have anything in common they do together. There are
25 countries like that.

1 Some people told me there are no villages in
2 Latin America. I don't know what that means but the point
3 is, let's assume that there is some kind of local
4 community organization which is either a government
5 structure or some kind of traditional structure. Would
6 you say it would be possible to define the characteristics
7 of an organization that would be viable for purposes of
8 implementation of land reform? Could one describe what
9 these organizations must have as a minimum requirement for
10 MR. NICHOLSON: Assuming a certain level of
11 community organization.
12 MR. POWELSON: I would think the old Bicos
13 experiment of the '50s would be a model for that.
14 MR. MONTGOMERY: Of course they had the patron
15 still. It was Cornell University.
16 MR. POWELSON: It changed to become Cornell
17 University and incidentally that reform is now all washed
18 up and --
19 MR. MONTGOMERY: Yes, disappeared without a
20 trace.
21 MR. POWELSON: Disappeared into the current
22 administration of farms in Peru, and this is a very
23 telling statement about what was initially a very hopeful
24 reform, but the peasants didn't get any leverage out of it
25 because they didn't negotiate it from their strength. It

1 was worked out by them in their interests by Cornell
2 anthropologists who had no personal stake in it at all,
3 except professionally I guess they wanted it to be
4 successful.
5 MR. MONTGOMERY: I don't think I would be quite
6 that hard on these guys. They wanted to -- they were
7 reformers.
8 MR. POWELSON: They were, but I meant there was
9 -- they were gracious reformers in the sense of a reform
10 by grace. There was not any quid pro quo for them the way
11 there is for governments that implement land reforms.
12 Governments never implement land reforms without a quid
13 pro quo. The Cornell anthropologists did this and worked
14 with a local organization. There was a peasant structure
15 in Bicos -- local leaders, they carried it out. But as
16 soon as the heavy-handed government came in with its own
17 kind of agrarian reform, they simply swallowed this up.
18 The Bicosinos tried to reject the government when the
19 agents first came and were successful for a time but
20 finally couldn't do it.
21 MR. PROSTERMAN: Just two brief comments. One,
22 I always thought one of the basic problems in the Bicos
23 experiment was that they were not really getting hold of
24 land in the sense of the equivalent of a fee simple
25 interest, they were just renting for 10 years. And I

1 don't really think that's sufficient for a land reform.
2 You have to be talking about a permanent interest in land.
3 MR. POWELSON: Excuse me, I think that's not
4 quite right. That's the way it began but ultimately they
5 were able to borrow money and actually it took Teddy
6 Kennedy's intervention with the Peruvian government to get
7 the loan for the farmers' cooperative so the campesinos
8 themselves ended up owning the farm somewhere down the
9 pike.
10 MR. MONTGOMERY: Anyway, this one example is
11 very well documented in literature during its period of
12 success. Not so well documented in its disappearance.
13 MR. POWELSON: Paul Doty has just written an
14 article about it. I don't think it's published yet, on
15 the disappearance of Bicos.
16 MR. PROSTERMAN: The more general comment is, I
17 think a lot depends on what you're trying to accomplish in
18 a particular land reform program. If for example you're
19 giving land ownership to tenants in place who are already
20 on particular parcels of land, the kinds of decisions that
21 have to be made of course relate to who owns the land has
22 to be paid for it, and what the valuation is, and possible
23 conflicts between different people who may lay claim
24 simultaneously to be the tenant on that land. Those are
25 relatively easier, I would say in general, to resolve on

1 the local level than the question which you initially
2 asked, which was how do we insure if we're taking over
3 large plantations that it doesn't end up as a co-op of the
4 permanent workers on those plantations but expands to take
5 in the temporary laborers as well, and that I think can be
6 a much more difficult problem.
7 It has the potential at least of pitting the
8 interests of the permanent workers against the interests
9 of the temporary workers. And I guess this is an area,
10 Jack, where I would -- I don't know that we differ on this,
11 but where I would emphasize that it is important to have a
12 legal framework, that you have to have some standards set,
13 for example, in which you're saying at the beginning that
14 we take the carrying capacity of land to be determined by
15 particular elements and we'll set some standards for how
16 many people we think should be on these plantations so
17 that there are some standards that are being implemented
18 by people down at the local level.
19 And then you have to have in that sort of
20 situation a fair measure of central government oversight
21 and administration from a regime committed to the agrarian
22 reform, in which you are making sure that the mechanism at
23 the local level is appropriate to achieve that goal. That
24 might be, for example in a typical setting, that the
25 number of people to be settled will be around three times

1 the number of permanent laborers on the plantations. You
2 really have to have a fairly activist role.
3 MR. MONTGOMERY: I think another approach would
4 be to have in the law at the beginning standards not with
5 respect to the actual end disposition of the land among
6 the peasants but standards for the procedures by which
7 these decisions were made. And if you did that, then you
8 would in fact make the devolution part of the legal
9 process and create conditions where there could be reviews
10 of injustice or distortions or errors.
11 MS. ATHERTON: The first has to do -- it seems
12 to me in the instance where your sort of titling tenants
13 and doing land to the tiller sort of thing, one thing
14 you're doing is disrupting that patron-client relationship
15 that has existed and been the primary means of access by
16 the tenants to inputs and markets and so forth. So that
17 it is not, it doesn't seem to me -- and I am posing the
18 question -- simpler than the second situation that we have
19 been talking about where you have a large parcel and
20 you're trying to figure out what to do with it.
21 But I want to ask a further question. Even if
22 you put in the law things that allow the questions of
23 access to devolve, what does that do to the questions of
24 use? That is, should these plantations still be operated
25 to produce those same commodities that they have produced

1 in the same manner, that is, you know, with larger-scale
2 where necessary, or do you also devolve the questions on
3 decisions of basically responsiveness to the market?
4 MR. MONTGOMERY: I think you would leave it to
5 the market, personally. I don't see how you can prescribe
6 that in the law.
7 MS. ATHERTON: That gets back to Wayne's
8 question of motive production and choice. As I understand
9 the sum of the choice made was precisely not to disrupt
10 the larger economy, but how do you decide that and what
11 are the tradeoffs?
12 MR. THIESENHAUSEN: This is really difficult
13 because certainly all the reforms in Latin America I'm
14 familiar with up to the Salvadoran reform, the land went
15 pretty much to the resident farm laborers on that estate
16 and there just wasn't enough porosity in the system to
17 allow the people that were outside of the system to get into
18 the system.
19 One of the things, and I hate to be political,
20 but one of the problems is that there's a certain
21 organization that develops among those resident farm
22 laborers, and they have worked together for a long time
23 and developed a kind of political organization and they
24 are rather successfully able to resist the incurrences of
25 the outside workers for admission onto the farm. The

1 reason they are resisting them is because they want to
2 reserve whatever land rights there are for their own kids
3 so they are thinking generationally, and they want to
4 reserve that right whatever it may be to their own
5 children once they come of age.
6 MR. MONTGOMERY: I think we ought to, Roy, next
7 time we get a chance to work something like this out, we
8 should try to collect our points of view and experience on
9 this issue. Because I think there must be ways to create
10 these conditions in the law which would enable the
11 political process that Bill is talking about to take place
12 and still deal with the questions of land use, carrying
13 capacity, and so forth in a way that you don't make all
14 those decisions up there with a small bureaucracy sitting
15 up there knowing everything and sending orders out.
16 MR. NICHOLSON: But it strikes me that there are
17 two discrete issues here. A lot of what we have been
18 saying around the table is really a need for information.
19 That is the reason you can't have a small bureaucracy
20 making the decisions at the top is they simply don't know.
21 They don't know where the land is or who has been sitting
22 on it. So it seems to me, yes, a certain amount of quote
23 unqote "participation" is essential simply because you
24 can't make rational decisions.
25 MR. MONTGOMERY: For the cases that Jean

1 mentioned, first where you have an existing structure of
2 ownership and tenancy and you have to find out who they
3 are; but if you have a situation that's not the case, then
4 it's not a question of information, it's a question of
5 judgment, politics, the possibility that Jerry was worried
6 about in his first statement --
7 MR. NICHOLSON: The second question becomes one
8 of under what circumstances and to whom does one transfer
9 the authority of the state. To a subordinate group? But
10 it seems to me it's important to distinguish those two
11 situations because a lot of our requirement for
12 participation is simply a requirement for information. As
13 a matter of fact I would guess that -- take a figure, 80
14 percent is simply an information requirement and a priori
15 there's no reason why anyone should transfer the authority
16 of the state to make that decision.
17 One of the most successful land reforms was
18 simply land consolidation in Punjab after petition. The
19 state never transferred any authority to anyone. It made
20 those decisions. What it did was to get information and
21 advice about the quality of the lands that it was moving
22 around among people but the state, i.e., the revenue
23 department made that final decision, and yet it held
24 because they had very good information about what they
25 were doing.

1 MR. MONTGOMERY: Roy?

2 MR. PROSTERMAN: Just a couple brief comments.
3 One, on this question of patron-client relations, this may
4 be something in terms of information that's worth getting.
5 I must say myself in terms of getting the Asian tenant
6 farming settings that I've looked at in detail, and I
7 would say the same in El Salvador of the tenant farming,
8 there had not found there to still be frequent situations
9 in which the tenants are dependent on the landlord for
10 inputs and support. For example it was said in South
11 Vietnam, and the Stanford research group did a thousand
12 person survey in 1967 on it and it wasn't so.

13 MS. ATHERTON: Maybe not the landlord per se,
14 but those conventional institutions -- for example,
15 banking institutions, they don't have those relationships
16 established that require collateral, you know. In other
17 words, I would agree with Jack there's probably a whole
18 other traditional set of institutions but not the
19 formalized ones.

20 MR. PROSTERMAN: You're not, by taking land from
21 a landlord, not simultaneously disrupting credit. Those
22 are separate relations and those can continue until they
23 are displaced by private or public banking institutions or
24 whatever other institutions you may bring in to complement
25 the land reform.

1 Just to illustrate some of the possibilities for
2 solutions to questions you raise, not to say these are
3 different I know at this time or the only approaches, but
4 for example, what's the scale of operation? I think that
5 the basic principle is summarized in one word: Ask. That
6 beneficiaries should have land reform done for them and to
7 the extent possible by them and not have it done to them,
8 and that means that they should be given the opportunity
9 to decide. The Mexican land reform when there was a good
10 deal of leeway given for the beneficiaries to decide
11 whether they wanted collective or individual ejidos, it's
12 worth pointing out about 90 percent of them ended up
13 individual instead of collective holdings and I think that
14 reflects a fairly general response.
15 You could provide in the law, for example, for
16 the conduct of an almost labor certification type of
17 election with secret ballots where people say do they want
18 to be on a collective or on family farms or do they want
19 some other combined or hybrid option, and try to give as
20 many people as you can their druthers. Those who want
21 individual plots can go on estates that are to be broken
22 into individual plots and others can work collectively.
23 You can be fairly flexible on that if you focus on the
24 problem and try to solve it.
25 Or the question of how you accommodate the

1 part-time or temporary laborers: Well, one possibility
2 might be under some circumstances to reserve in the law at
3 least a certain portion, perhaps uncultivated portions of
4 the land, if you're in an estate setting where you know in
5 general 30 to 40 percent of the useable land is not
6 cultivated. Maybe say we'll take some proportion of that,
7 depending on the size of the holding and the amount of
8 uncultivated land, and reserve at least that for small
9 plots or microplots for landless laborers outside of the
10 permanent labor force so they will end up with their
11 hectare or half hectare of land that they own. There are
12 not perfect solutions but I think one can go fairly far
13 towards solving them.
14 MR. THIESENHAUSEN: One of the problems at the
15 root of this discussion is that at the time of
16 expropriation you somehow need to have a concentration of
17 power on the part of the state. Right after expropriation
18 you want to allow Montgomery's book of 1976, devolve that
19 power into the system so some of these decisions can be
20 made at a local level. This is kind of a fundamental
21 contradiction and very often the state finds it difficult
22 to let loose of that power that it has at the time of
23 expropriation. This is another paradox built into it
24 because the spending power that's required to do a certain
25 amount of infrastructural improvement which is necessary

1 at the local level, if you're going to opt for small-scale
2 parcels, for example, still exists at the central
3 government. So you have a central government which has to
4 be powerful enough to execute the agrarian reform, devolve
5 that power somehow, but still have the funds to make the
6 reform ride.
7 MR. MONTGOMERY: I would say that's the most
8 important lesson we've learned. I think it's hard to put
9 that into a policy but it seems to me that it's an issue
10 that has to go in a statement like that because there's a
11 political tension between the need for central power and
12 the need to decentralize, to devolve. And I think the
13 main problem in my opinion is a cognitive problem. People
14 don't realize the difference between these two styles of
15 intervention. Once we could get ourselves clear as to
16 what that means, that may be a chance to have a greater
17 influence on the successful outcome.
18 MR. NICHOLSON: Jack, I still would like to
19 challenge the generic assumption that you've got to
20 devolve power. It strikes me that ultimately it does
21 depend on two variables and that is the political
22 structure of the community -- you're looking at the degree
23 of conflict, the constitutional situation, et cetera, for
24 starters -- and the characteristics of the reform. In
25 other words, what I hear mostly being suppressed is a

1 Latin American type reform: you have a large estate,
2 you're breaking it up and giving it to tenants or laborers
3 or something like this.
4 My image of a land reform is different. It's
5 Punjab. The untouchables never got any land at all in
6 Punjab. What happened was that the landlord got families
7 who were agriculturalists, who had very large holdings,
8 broke up those holdings essentially among their relatives.
9 Now, there was, in that "class" sense, no redistribution.
10 In an economic sense there was a very important change.
11 That is, holdings were broken up into smaller units and in
12 spite of the familial ties, the land laws would no longer
13 permit the reaggregation of that land and therefore over
14 several generations those in fact did become autonomous
15 and smaller units. That's a very different land reform in
16 terms of the politics and the institutions of it than in
17 the Latin American case.
18 MR. MONTGOMERY: What you have to do is find
19 some way of creating a legislative policy preference that
20 enables you to deal with that range of activities, and I
21 believe that's intellectually possible to do. I don't
22 think we've thought enough about that question. I think
23 that's the big policy void we should devote some major
24 attention to, but I think -- I sense we share a feeling
25 that this is an area where policy preferences could now be

1 stated.

2 MS. ATHERTON: Let me throw one other possible
3 level into the hopper. Franz Afaleu at the Bank has
4 written an article about regional authorities in effect
5 which talks about a French case, and also one that's
6 operating in Brazil under the Bank's funding, has been
7 operating for about five years now in Brazil, which
8 combines the sort of devolved authority of the state, of
9 the capitalists, and a fair knowledge of that local -- you
10 know, the local level, because it's dealing with a
11 circumscribed geographic region and I think in France
12 there are a half dozen or more of these regional
13 authorities. In these cases their purpose is to acquire
14 by purchase sort of a renovation in terms of putting in
15 the necessary infrastructure and making decisions about
16 size of holding and so forth and resell. But it seems to
17 me that even in an expropriated reform, one need not
18 discard the idea of a regional level, something middling
19 between that big state and the local level.

20 MR. RECINOS: I think once you allow the state
21 into a position where it has political economic power of
22 the mind, it's going to be very difficult for the
23 government to let go of that power. And you need a
24 counterweight to the power the government exercises and
25 it's not going to come from the campesinos living on the

1 land, whether they be owners of the estate or not.

2 And I think that another option ought to be

3 considered. We're talking about expropriation. If in

4 fact the government, a local government arrives at the

5 point where it's advocating expropriation, that it ought

6 to give the owner a choice, a choice in which he as an

7 owner would maintain some equity position in the estate,

8 spinning off stock to the employees, or it could be people

9 from the outside. You could bring in outside landless

10 campesinos. It may not function in all cases but I think

11 some landowners might consider it to be much more

12 advantageous to them in that over the period of time. as

13 they sold more and more of the stock to to the campesinos,

14 they would get a much fairer price for their assets

15 Perhaps more important, you have a countervailing

16 force in the process, again to government. Again, and

17 I'll say it, I don't think the campesinos have the

18 political wisdom or the power to press the government.

19 MR. POWELSON: Who's the "you" doing this? You

20 say "you" have to have a counterweight against the state

21 and "you" have to have this and that. Who is the "you"

22 that you said? You say it's not the campesinos. Who is

23 it?

24 MR. RECINOS: The campesinos need a

25 counterweight. They can't provide it themselves. I don't

1 think it's going to happen.

2 MR. POWELSON: It's not going to right away but --

3 MR. RECINOS: They need an ally. They need an

4 alliance and I don't think that we have to assume that --

5 MR. POWELSON: Who is the alliance?

6 MR. RECINOS: I don't think we have to assume

7 the private sector is the total end.

8 MR. MONTGOMERY: His example first thing this

9 morning --

10 MR. RECINOS: If the government has the

11 political economic power to force an expropriation, in

12 fact it's a threat, so the private sector or the present

13 landowners are going to have to come up with some solution.

14 I think that there would be some enlightened people in the

15 private sector for their own vested interests

16 MR. MONTGOMERY: Rick, are you feeling strong

17 enough to get into the act?

18 MR. TROPP: I think we need to apply the

19 paradigm in some circumstances and not in others, and that

20 Norm is more right than he is wrong.

21 MR. MONTGOMERY: That's usually the case.

22 MR. TROPP: If you look at Taiwan and Japan as

23 examples where autonomous organizations did work well, you

24 have one important condition present and that was that you

25 had the power of the landowners broken politically. In

1 Japan that was so because they had been the people who
2 backed the government during the war and were politically
3 broken by us. In Taiwan it was because the people who did
4 the land reform were the mainland Chinese who used the
5 local landowners as an alternative political source of
6 power.
7 If you take a society, somebody has land to the
8 tiller over there. If you take the society described in
9 that book, which is where Norm has had his experience, the
10 basic message is: It don't work it, just don't work.
11 What happens when you devolve authority to the local level
12 is that people who always had the power have more and
13 people who are the most exploited ones still are. A,
14 there has to have been some force that destroyed the
15 previous local authority and B, some local authority buildup.
16 MR. MONTGOMERY: There also has to be
17 affirmative support through the bureaucratic or legal
18 instruments for the local action in the government.
19 MR. TROPP: It follows from that, I agree. What
20 follows from that is where you haven't had A, and where
21 the local people remain in control, it's detrimental to
22 both the economics of what you want to get done.
23 This administration came in with the idea that
24 we should be doing local enforcement wherever you can. In
25 the case of civil rights that's fine where the local city

1 government is committed to doing civil rights enforcement.
2 I'm surprised we now have federal registration in Alabama
3 and places like that because the local authorities aren't
4 committed.
5 MR. NICHOLSON: And it seems to me the clear
6 implication then is that perhaps the problem is not that
7 the state is too strong but that the state is too weak.
8 MR. MONTGOMERY: Not confident enough of its
9 policy directions.
10 MR. NICHOLSON: And not having the autonomous
11 and disciplined administrative structure at the district
12 level capable of enforcing it. I would not quite agree
13 that land reform didn't "work," quote unqote, in much of
14 south Asia. It did not accomplish the redistribution of
15 land to the poorest. I think it did accomplish a
16 substantial reduction in the size of the average holding
17 within the same class.
18 MR. MONTGOMERY: Better productivity.
19 MR. NICHOLSON: That's acceptable economic
20 outcome, although it's not the social outcome we were
21 looking for. But the ability to accomplish that was the
22 revenue of the administration who was able to enforce land
23 size holding if it was not able to enforce the class
24 redistribution of the benefits.
25 MR. TROPP: I would like to turn the discussion

1 into a different question. From a politician's view, one
2 of the things that has been stopping or inhibited
3 throughout the world or in the Philippines now is the
4 failure of the government to build a constituency for it.
5 One, the central government hasn't succeeded in El
6 Salvador, who are more numerous than the people who got
7 the land, and in a number of other countries in Latin
8 America the central government hasn't succeeded.
9 This is the case in the Philippines. It has
10 succeeded in creating a coalition against it out of the
11 smaller landowners that have had land taken away. The
12 State Department commented in its report on El Salvador
13 that the people who are against it tend not to be the
14 richest landowner, who are relatively few, but the
15 relatively slower ones have had their land taken away that
16 is the source of their security.
17 How does one take the local administrator
18 arrangements that we're talking about and so organize them
19 that you diminish the negative constituents and build the
20 positive? How do you make the land reform stick in the
21 next administration and the next and the next and that you
22 don't have fights or that you minimize it?
23 MR. PROSTERMAN: The most important variable is
24 one we talked about earlier, that is compensation. I
25 think that's one that made a tremendous difference in

1 terms of landlord or plantation owner perception of
2 whether this is a zero sum game in which they are the
3 loser or a zero sum game in which it's recognized that
4 everyone can be winners.
5 Land reform is not a judgment on landowners as a
6 class that they are bad guys. We do it rather in the
7 spirit of an eminent domain proceeding in which there's a
8 higher and better use for a particular resource. But that
9 also implies that you pay compensation for the resource.
10 That changes, I think, the alignment of forces quite
11 significantly. But unfortunately it's only very rare that
12 resources have been made available, and again the need I
13 think for -- a very great need for foreign aid, not only
14 from the U.S. but from other donors to be made available
15 for that specific purpose.
16 I worked very closely at the beginning with the
17 Philippine land reform effort and gave up hope on it in '75
18 and became publicly very critical of it. I think there
19 was a late moment in late '72, early '73, in which if
20 something like $200- or $300 million, perhaps even less in
21 outside resources, had been made available to make the
22 promises of compensation to the landlords credible, that
23 their opposition to the Philippine land reform would have
24 climbed to where a major land reform would have happened.
25 What we're seeing is the aggrieved peasants

1 seeing the New People's Army in greater numbers as the
2 only way of resolving a grievance, and what I foresee is
3 is an explosion in which ultimately the landowners get
4 paid nothing and maybe get shot in the process, and it's
5 worth our while to think through compensation as a highway
6 of resolving conflict.
7 MR. MONTGOMERY: Expropriation, compensation,
8 creation of ownership rights, alienability, eligibility,
9 economic viability, mode of production and administrative
10 style. I think we've talked about administrative style.
11 We have talked about compensation. We've talked about
12 expropriation. We have not talked about the creation of
13 ownership rights and we probably should do that. And the
14 question of alienability which is closely associated with
15 it, possibly we should move in that direction in order to
16 meet our agenda, unless somebody has something else to say
17 about this general question of local competence.
18 I'm sure that the creation of ownership rights
19 as an aspect of land reform is one that many of us think
20 is central to the successful commitment of the intended
21 beneficiaries, and yet it's a very difficult task to do
22 quickly. Maybe the question is how to define the nature
23 of the ownership rights over some succession of stages or
24 maybe there's some other approach you would like to
25 explore.

1 Lead balloon? How did they get owner rights in
2 the 40 percent, for example?
3 MR. RECINOS: It was taken up at the initiative
4 of the landowners to provide what they perceived as an
5 alternative. When they set up the program, they placed 40
6 percent of the stock in a trust with the employees as
7 beneficiaries. In this instance the employees are members
8 of what's called an employee association, simply a
9 cooperative-like entity and the stock is held in block by
10 the association in the name of the employees.
11 In terms of ownership rights, they perceived it
12 as very important from the outset to pass through the
13 right to vote on that stock so even though the stock
14 hasn't been paid for, the investing schedule is for over a
15 10-year period at its maximum. But from the outset the
16 voting rights were passed through so the employees through
17 their association have the right to vote the stock and
18 have members on the board.
19 MR. POWELSON: Vote on any issue whatsoever?
20 Could they dissolve the corporation if they wanted to?
21 MR. RECINOS: No, they only have 40 percent.
22 Now again, the question of why 40 percent?
23 The owners of the estate are not opposed to
24 selling out majority control eventually but they want to
25 be paid fair market value for it. And they consider that

1 the value of the stock now as depressed and by shifting
2 the 40 percent initially in the hands of the employees, it
3 will help solidify the estate, guarantee its security and
4 increased productivity, so in the future when the present
5 owners sell other blocks of stock, they will be paid a
6 higher price. In effect what the market value of the
7 stock is would go up.
8 Two, the owners are also interested in
9 replicating the model among other landowners and you're
10 just not going to get landowners to cede stock into the
11 hands of the board nor do I think it advisable. It's
12 extremely important to have an alliance between the owners
13 and the future beneficiaries.
14 Again, I think it's very important in terms of
15 the vesting of ownership rights to pass voting control of
16 those rights, whether they be stock or whatever, as
17 quickly as possible to the employees so they can begin to
18 participate in the ownership of the estate.
19 MS. ATHERTON: What about alienability of the
20 stock ownership. Does it have -- has it been valued at
21 this point? Could someone sell out and secondly, can
22 someone -- what about carryability? If a current member
23 dies, can the stock be passed to his heirs?
24 MR. RECINOS: The stock is held by the
25 association, not by the individual employee.

1 MS. ATHERTON: Then it would be members of the
2 association.
3 MR. RECINOS: When an employee leaves, he's paid
4 out in cash equivalent of the stock. If he dies, his
5 immediate heirs receive the cash equivalent.
6 MS. ATHERTON: They can't take the stock.
7 MR. RECINOS: No, they decided it would be best
8 to leave the stock in the hands of the association.
9 MS. ATHERTON: What if the heirs choose to
10 remain in the association, can they do so?
11 MR. RECINOS: No. They are no longer employed.
12 The association is limited to employees right now because
13 the employee association was set up as a way to resolve
14 severance pay obligations in Guatemala. Severance pay in
15 Latin America in most countries is not a full right. An
16 employee only receives severance if he's fired. If he
17 leaves voluntarily, the company is not obligated to pay to
18 him so what they have done is set up an association in
19 which the employee contributes 5 percent of his salary and
20 the company matches that and the company's match
21 represents the severance pay obligation. So as long as
22 the employ works for the estate, both his funds and the
23 company's funds are invested.
24 Most companies that have employ associations --
25 about 700 of them in Costa Rica, 50 in Guatemala -- invest

1 in outside securities. Some are beginning to invest in
2 corporate stock so the employee association fulfills
3 various roles. Since the association is open to all
4 employees, not just rank and file workers, white collar
5 workers as well, the association acts as a device to try
6 to eliminate or lessen the class conflict, tension within
7 the company.
8 MS. ATHERTON: How is the stock valued? When
9 you cash out for an employee that's leaving or has died,
10 how is the stock valued?
11 MR. RECINOS: In a company in an agricultural
12 state, usually it would be book value plus projected
13 dividend value. What you want to try to do is establish a
14 price that's reasonably equivalent to a market value. The
15 problem that was mentioned before is that it's very
16 difficult to determine what is the market value for stock
17 in agricultural states in Latin America. Extremely
18 difficult. In commercial and industrial firms it's a lot
19 easier.
20 MR. MONTGOMERY: Is this a unique case or are
21 there other countries and other farms that have done this?
22 MS. ATHERTON: This is one of the questions in
23 Salvador. What are the rights? What if someone wants to
24 leave? Those remain unresolved and they were glitches in
25 the law in effect because nobody thought them through. If

1 you are thinking about some sort of at-the-outset
2 cooperative organization rather than a fee simple transfer,
3 then we have questions about, you know, how do you arrange
4 these things, the vesting of ownership, the alienation,
5 the descentability and so forth.
6 MR. RECINOS: It depends on the -- depends a lot
7 on the educational level of the people you're dealing with,
8 the beneficiaries. You can transfer stock to employees,
9 for example, to a trust and not go through an employee
10 association, so that the individual employee owns the
11 stock and in that instance the share would be nominative
12 shares and if the employ left the firm he could take the
13 stock with him. But there's always a right of first
14 refusal by the company. If you want to sell the stock to
15 a third party, the company or the trust would have first
16 right to repurchase that stock. You have to be careful
17 not to have the stock disbursed because what usually will
18 happen is it will reconcentrate in the hands of a few
19 people.
20 MR. MONTGOMERY: You were going to say whether
21 there were others like that and --
22 MR. RECINOS: There are some others in Guatemala,
23 they are in the process of doing this, and in Costa Rico.
24 Some of the largest cattle and coffee plantations do this
25 and transfer stock to employee associations.

1 MR. PROSTERMAN: I don't want to offer a
2 universal judgment on that kind of approach. I know there
3 had been talk from time to time both in terms of what some
4 people in the government have wanted to do with phase 1
5 and somehow you would set something up which would be a
6 stock company and maybe 50 or 51 percent would be owned by
7 the patron or former patron.
8 I know all the campesino reactions have been
9 extremely negative on that. They very much prefer to get
10 ownership of the land themselves, and I'm inclined at
11 least in terms of presumptions to be as concerned about a
12 resolution or attempted resolution that keeps the old
13 patron-worker relationship basically intact, as I'm
14 concerned about efforts to regulate land/landlord/tenant
15 relations and keep that relationship basically intact.
16 The latter with very rare exceptions like Egypt or three
17 years in Taiwan have not worked and the regulatory
18 problems one can perceive in this situation are extreme.
19 Assume for example an enterprise which has a
20 profit otherwise equivalent to $200,000. How do you
21 insure that the patron doesn't set his salary 180,000 and
22 leave just the remaining 20,000 to be distributed to the
23 stockholders? Or how do you set up accounting procedures
24 to make sure profits are adequately measured and accounted
25 for? How do you prevent overpayment to suppliers?

1 MR. MONTGOMERY: You're going to tell us how to
2 do that in the United States with the --
3 MR. PROSTERMAN: I would hope this would not be
4 a substitute for basic measures of transfer.
5 MR. MONTGOMERY: Bill?
6 MR. THIESENHAUSEN: I have a question and it
7 does fit in here. It seems to me to be theoretic, like
8 this plan is very similar to a land form with a very high
9 contingent rate, and I was wondering what it is that
10 protects the campesino from arbitrary action by the
11 majority stockholder, the landlord.
12 MR. MONTGOMERY: Is there an answer to that
13 question or do we move on?
14 MR. RECINOS: If we're talking about a voluntary
15 program in the case of Guatemala, where the owners have
16 taken the initiative to do it, for their own vested
17 interest, it's to their interest to make sure the program
18 works. The whole idea is to build a political
19 constituency among the workers or other agricultural
20 workers. If a government is going to enforce the idea,
21 giving landowners an alternative, either an expropriation
22 or this type of technique, then the government acts as
23 watchdog for it.
24 MR. THIESENHAUSEN: It's really not enlightened
25 self-interest that leads these landlords to do this kind

1 of thing, it's rather fear.

2 MR. MONTGOMERY: He said they did it to

3 anticipate expropriation, which is an interesting

4 circumstance.

5 MR. THIESENHAUSEN: It's fear.

6 MR. JENKINS: At least in part. Got to be.

7 MR. MONTGOMERY: Isn't that what you said? To

8 preempt an action of expropriation which otherwise might

9 have taken place. I thought you said that.

10 MR. RECINOS: In the case of Guatemala, they

11 don't have threat of expropriation. I call that

12 enlightened self-interest form. The owners are saying to

13 themselves, there's a great possibility that some day it

14 will happen in Guatemala.

15 MR. MONTGOMERY: So this is a long term --

16 MS. SARLES: Not to make more money at it?

17 MR. THIESENHAUSEN: They don't rise up and say

18 we'll gladly distribute our profits.

19 MR. RECINOS: I think any type of social

20 contract is one in which both parties have bended. I

21 don't think anyone is going to do a good deed out of any

22 type of self-interest. If they say that, I wouldn't trust

23 them to.

24 In a case of a government that's bent upon

25 expropriating an estate, I myself am not in favor of

1 government expropriation, but if a government made that
2 decision I think it ought to offer another alternative.
3 We're assuming the government, if in fact it's in the
4 position to enforce an agrarian reform, has sufficient
5 power to police a program at which the employees are going
6 to acquire stock and prevent abuses and I think that can
7 be done. I think there are ways. For example, in this
8 country, there are programs involving stock employee/stock
9 ownership plans and there's very concise regulations. For
10 example, how a company goes about doing a stock evaluation
11 in order to have the plan qualify. This same type of
12 thing could be done in Salvador.
13 MR. MONTGOMERY: I think Albert had his hand up.
14 John?
15 MR. POWELSON: I'm troubled by this because it
16 implies that the employers and the government are doing
17 things paternalistically for the peasants and I even sense
18 a feeling of incompetence on the part of the peasants and
19 the peasants have no power. They do not negotiate for
20 this. This is being done for them and I think
21 historically things like land reform is by grace as
22 opposed to land reforms by leverage don't work.
23 MR. RECINOS: Unless a government invests total
24 ownership rights into the hands of the employees
25 immediately after expropriation, the government is doing

1 the same kind of controlling and filling the same role as
2 the previous owners.
3 MR. POWELSON: I know of no government that has
4 given things to the peasants without taking its own share
5 in return. Looks to me as if we're talking about a
6 situation where -- like most land reforms where control
7 over the peasants is passed from the old owners to the
8 government and not really to the advantage of the peasants.
9 MR. JENKINS: Sounds like the case is more your
10 reform by leverage and by granting, because as I
11 understood it there's a concern at La Perla with respect
12 to employees either exiting for a guerilla participation
13 or attack by guerillas with no defense.
14 MR. POWELSON: This is not my concept of reform
15 by leverage. Maybe leverage isn't a good term for it.
16 It's where the peasants negotiate for it. They don't
17 exert their leverage by fighting or exiting, they exert it
18 by negotiating for it and saying what their interests are
19 and how they perceive their interests.
20 MR. JENKINS: This isn't quite by grace either.
21 Maybe a third category is needed.
22 MR. RECINOS: I think there's a closer alignment
23 in the vested interests in the landowners and the
24 campesinos and the government. The present landowners,
25 for example, in the case of La Perla, by selling a portion

1 of the stock now to their employees, not majority control
2 but minority interest, their hope is that in various
3 education programs, working with the campesinos -- for
4 example one of their ideas is to set up several
5 agricultural projects, aparent company and the employees
6 are joint owners, as a teaching device. The idea is that
7 over a period of years, the farms and the financial
8 structure would be strengthened because of the employees'
9 involvement.
10 MR. MONTGOMERY: We have to bear in mind that
11 we're talking about a policy statement, and it seems to me
12 if we take a look at the La Perla example that we could go
13 back through the experience that Mr. Recinos has been
14 describing and figure out policy actions on the part of
15 the government that would encourage owners to move in this
16 direction. I could imagine a perfectly acceptable policy
17 action in the form of taxation, in the form of tenurial
18 legislation and so forth that would in fact encourage this
19 type of thing. So it wouldn't be just a matter of
20 noblesse oblige or even a matter of preempting guerilla
21 activity or insurgency or peasant disloyalty, but might be
22 a good extension of market rationality. Does that make
23 sense?
24 MR. JENKINS: It does in the U.S. --
25 MR. NICHOLSON: Damn right.

1 MR. MONTGOMERY: Okay?

2 MR. BERRY: I think the La Perla experience is
3 certainly an interesting one and obviously it has to
4 applaud the foresight and so on of the owners.

5 One of the things that one would worry about in
6 at least -- that one would try to affect perhaps in the
7 process of that sort of change in the distribution of
8 rights to land would be like the following problem which I
9 would sort of predict to come up. I think very frequently
10 the large farms which would opt for that sort of
11 arrangement would be ones which do not have a lot of
12 workers, and at least I would see it as rationale for that
13 set which would typically be pretty well capitalized,
14 pretty modern, pretty mechanized farmers to say, well, we
15 only have a certain number of workers. It's easy to work
16 out a successful arrangement with a limited number of
17 workers. There's a lot in it for them. So just pursuit
18 of mutual interests would tend to probably produce the
19 results that this would go on in that sort of large farm,
20 less likely on a large farm with 10 times as many workers.

21 Then that raises a problem because that gets us
22 back to the question of who is going to wind up with
23 access. If that process goes on on a large scale, will
24 the three-quarters of the farmers without access -- in
25 fact I can sort of foresee in the process the number of

1 employees would go down because it would be to the mutual
2 interest of the original owners and the remaining
3 employees to do it that way. Profits get built up, they
4 can build a machine, they don't need that last employee so
5 they will behave the way the farms in Yugoslavia did:
6 they hired too few workers.
7 It's a general phenomenon. Worker-managed
8 operations leave you with a continuing problem of access,
9 so I think that has to be weighed against the fact that
10 this outcome is clearly an improvement on existing reality.
11 But I wouldn't predict that it would resolve a great deal
12 of the employment problems at sort of the aggregate level
13 and therefore I wouldn't predict that it would resolve a
14 lot of the income distribution problems. I think to get
15 that you probably got to wind up distributing the land
16 widely and guaranteeing access to a pretty wide group
17 right at the start.
18 One final point, I'm not sure whether we're coming back
19 to alienability --
20 MR. MONTGOMERY: We are. This is still on the
21 same subject?
22 MR. THIESENHAUSEN: Yes, and this does remind me
23 of something done in 1963, '64. It was called profit-sharing
24 in Chile and it was one of the programs in the National
25 Society of Agriculture. An article was written, but two

1 of the problems they found was the decisionmaker still
2 could decide what kind of technology could be used on the
3 farm and what kind of technology was capital intensive
4 technology. It was still the landlord that kept the books
5 and when that happened he was able to really pull the wool
6 over the eyes of some of these campesinos who didn't have
7 that kind of acumen.
8 MS. ATHERTON: Could I encourage us to sort of
9 shift focus back to alienability and ownership rights?
10 Let me pose a different sort of a question.
11 The next situation we're looking at is basically
12 one of improving tenure security in Africa, which is
13 somewhat different than the Latin situation or even the
14 Asian situation which is largely being characterized by a
15 high rate of tenancy.
16 One of the ways of looking at any interventions
17 in the African land situation has been to move toward fee
18 simple type of ownership or, you know, an individual
19 identified with a parcel-type of access, on the premise
20 that once that occurs you will have market functioning
21 which will distribute land in an economically optimum
22 fashion. This is the premise worldwide but in Africa we
23 have a different starting point. We don't have a starting
24 point of a lot of haciendas and some fairly inequitable
25 arrangements to start with. I would like to pose to the

1 group: Is this a reasonable foreseeable outcome? That is
2 that the ultimate end point is one of individual ownership
3 or tenure rights of some kind, full alienability and in
4 other words disposition in whatever form you wish, leading
5 to an economically optimal distribution of land, or are we
6 thinking along wrong lines in thinking that way?
7 MR. MONTGOMERY: That's the tough question.
8 Jack has his hand up.
9 MR. POWELSON: I think in many cases this may be
10 the outcome way down the road but I don't think we should
11 say that it's by any means inevitable. For example, in
12 certain marginal precarious lands, nomadic and communal
13 tenures are probably the most efficient. In one of the
14 chapters of our book we have somebody writing on Somalia
15 who is arguing that the nomads have and continue to
16 progress very much away from the traditional idea of
17 nomads, that they are simply people that move around
18 wherever the feed is best. They are converting themselves
19 into private entrepreneurs, some of them sedentary, some
20 nomads. In the early '70s Somalia was the second largest
21 exporter of cattle after Australia, I believe, exporting
22 largely to Saudi Arabia, and the entreprenurial capacity
23 of these nomads and their capacity to husband the land,
24 she makes out as being extremely efficient. And the
25 attempts on the part of the Somali government to settle

1 them or to take the land away from them and give it to
2 other people who will be settled are among the aspects
3 that are deteriorating the agricultural capacity of this
4 particular land.
5 Now I say this as a sort of exception because I
6 think for the most part the situation you described is
7 probably the one that we're leading to, free alienability
8 of land promotes a greater mobility of resources,
9 including both land and the labor and the capital upon it.
10 But I wouldn't want to press this for everywhere. In fact
11 as Bill pointed out, even in non-nomadic African societies
12 where there's communal tenuring, this ought to be left to
13 evolve for itself on the basis of tribal traditions. Some
14 of the studies that the Land Tenure Center has done at
15 Botswana have shown what devastation central government
16 policy in land reform can do to tribal communities and to
17 the prestige of tribal leaders as well as to the
18 deterioration of agriculture.
19 MR. MONTGOMERY: I lost track of your argument
20 there. I think we were trying to address the question of
21 alienability after a land reform and then we talked about
22 whether that's possible in Africa and you gave the example
23 of a nomadic people. I didn't follow that because I
24 wasn't aware there had been any land reforms of transhuman
25 land use areas.

1 MR. POWELSON: Depends on how you define "land
2 reform," but the attempt to settle nomads or take land away
3 from them and give them to other people who will settle
4 them, these I would define as land reforms. And I would
5 extend the argument beyond nomadic communities and say
6 that in tribal situations, tribes which are not
7 necessarily nomadic tribes but do have communal ownership
8 should not, I believe, have fee simple alienability
9 ownership forced on them.
10 MR. MONTGOMERY: That's what our friend John
11 Bruce is working on, I think.
12 MS. ATHERTON: But the other side of that is how
13 do you sustain those rights? In fact what Bruce is
14 largely working on is the flip side of that. That is,
15 there's encroachment on the basis of both technology and
16 too many people for too small areas on these traditional
17 rights. And to the extent those are breaking down, how do
18 you -- for instance in Lesotho there's summer and winter
19 pasture. How do you preserve those rights in the face of
20 increasing crop production on some of the land that's been
21 traditionally grazing land.
22 MR. POWELSON: I think by not interfering with
23 them.
24 MS. ATHERTON: But that's not a possible
25 solution. There's one group of agriculturalists who are

1 moving in on somebody else's pastural rights. It's not a
2 non-intervention situation.
3 MR. POWELSON: Well, intervene to preserve them
4 or set up some means. I don't know, I'm just thinking out
5 loud, but set up a means by which they they can defend
6 their rights. Introduce some kind of market situation in
7 there but the market situation is between the tribe and
8 those who wish to purchase the lands away from the tribe.
9 MR. MONTGOMERY: Are these lands thought of as
10 commons?
11 MR. GRAYZEL: I think there's a lot of confusion
12 in the case of these lands. The land reform that's taken
13 place that's been most destructive is that governments
14 have refused to convert traditional rights into legally
15 enforced prevent rights so that a concept as simple as
16 easement, which we would understand in any urban setting
17 in America, is not recognized. So what has happened is
18 you have cases where you have very well-structured rights
19 in Mali, you had structured rights of grazing, access
20 where government has sent in troops to open access. Land
21 reform has been a destruction of established rights. If
22 you had just the opposite, legal recognition enforcement,
23 they were collective rights of a nature that weren't
24 recognized by the government.
25 But in terms of the alienability question, I

1 would like to pose a hypothesis and that's that one of the
2 greatest mistakes we're making is this relentless march
3 toward fee simple. I think we're logically inconsistent.
4 The minute you talk about land reform you're recognizing
5 there's no such thing as a fee simple, that government has
6 overriding policies that it's going to enforce over the
7 ownership rights of the individual. Once you accept that,
8 shouldn't we say: Let's do it right once around. Let's
9 really accept what are those rights.
10 I think of two cases where serious things are
11 happening. You're having land reform in areas of the Near
12 East where you distribute farm land if you have
13 compensation -- and the more we talk about public
14 compensation, the more it becomes serious -- the farmer
15 sells off the land as urban property and makes a
16 speculative killing. First of all, do you want to give
17 compensations to somebody else down the line who makes a
18 speculative killing in urban land, totally ignoring the
19 productive needs of that land for much longer term
20 purposes? Then you even have that same problem of whether
21 the land doesn't have to be retained for productive
22 purposes in the case of allowing sale and reassumption of
23 ownership by rich people.
24 In other areas what you find is that land that
25 is redistributed slowly becomes the property again of a

1 few wealthy people who then turn it into a production
2 management title that's not the most productive for the
3 society, just happens to be the most productive for
4 absentee rich landlords. So you take it out of wheat
5 production and put it into tree crop because that's easier
6 to manage as an absentee landlord. And yet those are the
7 real policies that face us: How to feed these populations
8 in the long term. And inherent in any government
9 performance that involves compensation is inevitably what
10 are the legal restrictions you want to put on that land in
11 the future. We just do not introduce zone into these
12 countries.
13 MR. MONTGOMERY: You might put your legal
14 restrictions on the inalienability of collective or
15 communal lands.
16 MR. GRAYZEL: I think the whole concept of fee
17 simple should be thrown out and what we should consider in
18 any land reform redistribution is what are the limited
19 vested interests you want to give.
20 MR. MONTGOMERY: Okay?
21 MR. PROSTERMAN: One has to draw from the
22 language on concept of fee simple and a concept which goes
23 about in common law systems. You can use a fructure right,
24 which involves having full control and management of the
25 land, ability to pass it down to one's heirs or

1 descendants, freedom from any landlord or landlord-like
2 figure, but it does not involve in many cases the right to
3 sell it or to rent it.
4 On the other hand, you've got in many settings
5 the argument that you want at some point perhaps more of a
6 market to emerge from a generation. At least after the
7 Japanese land reform was carried out it was appropriate
8 that the guy who wanted to take a city job and not farm
9 part time could sell his one or two acres to his neighbor
10 who would then end up with three or four acres. And the
11 same in Taiwan and the same in South Korea. And you also,
12 as you pointed out, want to avoid the problem of immediate
13 improvident disposition where somebody who's not a part of
14 the cash economy suddenly lands the title in his name. If
15 it is freely transferable, what happens when the city
16 slicker comes out with his equivalent of a thousand
17 dollars or $500 and it's sold without thinking about the
18 consequences and it's lost?
19 In practice, a kind of balance has been struck
20 in many of the major land reforms which have given what
21 amounts to use of fructuary rights for 10 or 15 years and
22 then transform them into fee simple rights so you couldn't
23 rent or sell, for example, until some period of time such
24 as 10 or 15 years or such as the time it took to pay for
25 the land was completed. Thereafter it was thought the new

1 owner would have had enough experience and gotten
2 sufficiently used to the cash economy that -- and also
3 would have made enough improvements so that it was less
4 likely that he would make any ill-considered or
5 improvident disposition.
6 In Salvador they picked a 30-year period because
7 essentially the Christian Democrats didn't trust the
8 campesinos. They thought they didn't know what they were
9 doing. I think that's an excessive period. I think it
10 should be more like 10 years or something like that. It's
11 a tough balance.
12 MR. POWELSON: How about 30 days?
13 MR. MONTGOMERY: Okay.
14 MR. BERRY: I think the question of alienability,
15 I agree one should think of it in a more subtle and
16 certainly complex way than right to do everything or right
17 to do very little. But I think also the implications of
18 alienability depend a great deal on the setting and it
19 seems to me that alienability has its obvious advantages
20 in terms of mobility of resources and that's why we like
21 it. So that within certain productive senses it can be
22 moved around properly, and the reason we're afraid of it
23 is that it can lead to concentration. I think it's
24 virtually a contradiction of terms to say that that
25 concentration ultimately is going to reflect efficient use

1 of resources, because that's the process which led to the
2 concentration in Latin America which most people agree has
3 generated extremely unproductive large farms.
4 So I think alienability is highly complimentary
5 with the post reform setting in Asian countries that we're
6 talking about and really I think de facto is complimentary
7 with a land ceiling, because the basic reason you don't
8 want to, at least a basic reason that one should be afraid
9 of alienability apart from concern with the person selling
10 the land is that ultimately you generate large inefficient
11 farms which will not employ very many people so you wind
12 up with an access problem. So I see alienability, that
13 that question is just as important in the macro sense and
14 perhaps moreso than in any other sense. So I think it
15 works perfectly in a situation where you have some other
16 guard against concentration of land.
17 Then you move resources around efficiently among,
18 in this case, the relatively small farms who on average
19 seem to be productive. In the African context I would
20 guess that fee simple will lead Africa down the same road
21 as Latin America has historically progressed along and I
22 think for very much the same reasons. You can see it
23 clearly in many countries like Kenya. Land is one of the
24 very few resources in which a rich person can confidently
25 hold a lot of wealth. Too much inflation, so financial

1 assets are no good. The urban sector is not big enough,
2 and so on. So I think the demand for land as a store of
3 value by rich people is going to be very dominant in
4 Africa over the coming years and will, if allowed, put
5 that resource into the hands of people who, one of whose
6 major concerns is not productivity, and that will be the
7 Latin American mold all over again. Land ceiling is what
8 I would do.
9 MR. NILSESTUEN: But you don't have -- in many
10 cases you have, I believe, fairly traditional tenure
11 systems where cultivation is by slash and burn and land
12 use rights are allocated by some kind of chieftain system.
13 But it's that kind of system, because of pressure on
14 changing technology, is now being increasingly put under
15 pressure. What is the prescription to contend with those
16 increasing forces?
17 MR. BERRY: I don't feel the expert here but I
18 guess my immediate reaction would be to agree with Jack,
19 for example, that to the extent possible sort of a natural
20 evolution of those traditional systems would occur and
21 then to diminish the conflict, I think the conflict --
22 where the conflict is coming from minister X who has a big
23 chunk of land, that is increasingly the way land is being
24 obtained, I think you have to control that.
25 MR. MONTGOMERY: Let's take a short recess at

1 this time.

2 (Recess.)

3 MR. MONTGOMERY: Are there other comments on

4 this question of alienability and so forth? If not --

5 fine.

6 MR. PROSTERMAN: Just one note on the African

7 issue. I wonder if we may be thinking about some of these

8 African problems in the sense -- in the wrong context,

9 where these are not so much problems of tenure reform as

10 much as they are problems of productivity support. For

11 example, that in some settings at least your slash-and-burn

12 farmer was using 20 or 30 or 40 acres and covering it over

13 an extended period of time. If given appropriate credit

14 and approved seed and technical support, he might be able

15 to engage in fixed farming on 10 of those acres and free

16 the other 20 or 30 for marginal lands needing to be

17 reforested or improved in some way, or freeing them for a

18 possible distribution to other families of 10 acres each.

19 One possible tradeoff would be the resources to improve

20 and fix productivity on 10 acres in return for the

21 customary rights that he has of the other 20 or 30 that he

22 is presently using. But I don't think it can be solved as

23 a tenure problem alone.

24 MS. HERRICK: In Africa the more extensive land

25 parcels, let's say, are those in the lands that lack water

1 and have to be used for extensive animal husbandry. I
2 don't think that we're worrying today about slash-and-burn
3 using amounts of acreage, but as you started out I was
4 interested because there is the question of how a farmer
5 can obtain credit. When you have a situation that has
6 formerly been fructural or had a communal domain basis,
7 then the modern sector doesn't know how to look at the
8 question of collateral. If he doesn't have a title he
9 can't go ahead with credit so we -- there have to be ways
10 of dealing with that.
11 MR. PROSTERMAN: Change the regulations in that
12 area is perhaps more important than changing tenure as
13 such.
14 MS. HERRICK: But a change in regulation isn't
15 going to get a banker to give credit. Some of us have
16 been kind of down on this today, the artificial creation
17 of governmental agricultural role in the banks --
18 MR. PROSTERMAN: How many of those banks are
19 owned or controlled by the government?
20 MS. HERRICK: Another approach is for there to
21 be some way of there being a recognition for the local
22 organization as the responsible party. Again, if you're
23 going to have private sector solutions, definitions and
24 regulations aren't going to do it. So you get back to the
25 type which may not be -- it's a piece of reform. It's a

1 reform in structure maybe, not necessarily an
2 expropriation and redistribution.
3 MR. PROSTERMAN: One might have questions as to
4 whether you could have private sector solutions with
5 credit. Maybe one of the problems is that you need hybrid
6 or publicly-controlled or guided institutions for credit
7 in many of those sectors to do that job and to be told by
8 the regulations or the state management, look, you don't
9 need a formal title or a western fee simple style title to
10 give credit.
11 MR. MONTGOMERY: Joseph?
12 MR. RECINOS: I wanted to comment on a point Roy
13 mentioned earlier. I don't know if it was in favor or
14 against it. He was talking about --
15 MR. MONTGOMERY: He'll interpret it as being
16 favorable. He's a lawyer.
17 MR. RECINOS: He was talking about limitation of
18 property rights. For example, allowing campesinos to have
19 the use of land but not being able to sell it. And there
20 were some comments made after in Salvador they were
21 limited in property rights to a 30-year period. Whichever
22 way you cut the cake you're creating second-class citizens.
23 I think that the question of whether it's just or not has
24 to be very carefully considered.
25 Secondly, you're opening up a Pandora's box to

1 abuse. The case that comes to mind first is abuse that's
2 happened continuously in Mexico with the Ejidal banks.
3 The ejidatarios cannot sell or buy the land, sell the land
4 really, so they can't mortgage it so the only recourse
5 they have is to go to the Ejidal banks. I know of cases
6 where a loan officer for the state Ejidal banks will
7 almost force a campesino to take credit so that the loan
8 officer can show that he's fulfilled his amount of credit
9 for the month. I think that can lead to a lot of abuses
10 and the question of creating second-class citizens has to
11 be carefully considered, and I would agree that instead of
12 30 years it ought to be 30 days, frankly.
13 MR. POWELSON: I second this simply because I
14 believe that every kind of restrictive measure that's put
15 upon peasants has a way of getting around it, and a way of
16 getting around it generally involves paying somebody off
17 to do it. But even more than that, I think in all land
18 reform schemes there is somehow a general feeling that the
19 peasant is unintelligent, unentreprenurial, not very
20 quickly perceptive of what's going on around him --
21 MR. MONTGOMERY: John, I've come to the
22 conclusion that sometime in your life you were really
23 bested by a rational peasant and you've never forgiven him.
24 MR. POWELSON: To the contrary, for most of my
25 life I have been a rational peasant. But I think the

1 recent research by both anthropologists and economists as
2 well as historians has brought out that the peasant is
3 extremely perceptive. I'm not thinking just of Popkin,
4 I'm thinking of many others as well, that the peasant is
5 extremely adaptable and if he sells his property he has a
6 good reason for doing so.
7 MR. MONTGOMERY: How many people in this room
8 think that peasants are stupid, inflexible, unadaptable
9 and incapable of managing their own affairs?
10 MR. RECINOS: Let me make a comment that
11 happened at La Perla. When the campesinos, the workers
12 were assigning the transfer of stock through trust, most
13 of them -- 99.5 percent are illiterate, neither read nor
14 write. One of the owners mentioned they were all signing
15 with their thumbprint and one of the owners asked the
16 worker, did he understand what was going on, since he
17 couldn't read or write. And the campesino looked at him
18 and said, "I may not be able to read or write but I can
19 think."
20 MR. GRAYZEL: I don't think that's at all what
21 has been said because what I certainly believe is just the
22 opposite. The peasant today is the smart owner tomorrow.
23 He will do what is in his own economic interests. He'll
24 put himself in an advantageous position and exploit the
25 situation just as he was exploited and it was exploited

1 before him. And it's the same situation that gave rise to
2 the need for land reform now will give rise ad infinitum
3 unless you kill the vicious cycle, and we're being asked
4 to pay for it.
5 The fact of life is the best agricultural land
6 in the world, when it's nice and flat and near water, is
7 also the best land for urban settlement. So throughout a
8 large part of the undeveloped world we're being asked to
9 increasingly invest large sums of money in marginal lands
10 for agricultural production because smart farmers are
11 converting their land into high priced urban real estate.
12 That's going to happen over and over unless you put zoning
13 regulations in. You say this time around, if you get the
14 land you can't do it. Doesn't have anything to do with
15 the intelligence of the peasant.
16 MR. MONTGOMERY: I would like to suggest that we
17 move to another topic that is on the agenda that we
18 haven't talked about: the question of eligibility.
19 Sometimes we think that it's very obvious who the people
20 are who should be eligible. Sometimes we try to create
21 conditions of eligibility, put them in the law and leave
22 somebody to define them. Is there anything on that
23 subject that we need to introduce into this discussion?
24 MR. WOOLERY: Probably should look at priorities,
25 and the sense that I have in the limited exposure I've had

1 is that the existing tenant on a piece of land was the
2 priority recipient as far as the land title was concerned.
3 MR. BERRY: For political reasons in part?
4 MR. WOOLERY: I'm not sure just for political
5 reasons. He knew the land, he had been doing it, had
6 established a track record and he was the logical person
7 to continue as the new owner of that land parcel. But I
8 think you probably have to rank, and in the little bit
9 I've seen in the Asian context the priority was given to
10 the existing tenant.
11 MR. BERRY: I like the idea that Roy was
12 mentioning earlier that -- and perhaps it sort of is
13 consistent with both the political and the economic
14 factors that might be at work -- where you have quite a
15 few tenants or sharecroppers and also quite a few landless
16 families there would be a pattern for both to give
17 priorities to the tenants, and that seems reasonable. But
18 I think with the trends we're seeing towards landlessness
19 in some countries, were one not to make some imprint upon
20 that landless share, which is where the revolution is
21 liable to come from, then one will be in big trouble. So
22 perhaps one gives priorities but tries very firmly to
23 guarantee some access probably to a smaller amount of land,
24 to the landless, and with the expectation that the failure
25 rate will be higher. What we're doing in a sense is

1 letting the market work and the landless chaps who can
2 adapt more quickly, who already had been more observant,
3 who had more entreprenurial skills, will move up from
4 there. But when we get them onto the bottom step and sort
5 of let the market take over, if one doesn't get them to
6 the bottom of the step I think one is going to have a lot
7 of pressure down the road with population trends the way
8 they are going.
9 MS. SARLES: I don't see how that solves the
10 problem. In five years they will be about where they are
11 now. Why use land as a mechanism for giving those people
12 a stake in the system? That's where I go back to the
13 first question in terms of education as a possible
14 mobility system or better transportation for easing into
15 the city, whatever those mechanisms are. There's not
16 enough land.
17 MR. BERRY: There's not enough land but my
18 feeling is, at least for what it's worth, is that the
19 urban areas have -- they are as impacted as anybody else.
20 It's easier to work people in on the land than anywhere
21 else.
22 MR. WOOLERY: If you're going to make this land
23 available on what we now take as a given, we're going to
24 increase the productivity, is it possible to share that
25 increased productivity to go through the landless and at

1 least make their lot in life better?

2 MR. BERRY: As an economic theory on the black

3 board it's possible, but has it ever happened?

4 MR. WOOLERY: Good practice follows good theory.

5 MR. BERRY: There are some tremendously strong

6 political and social aspects which tend to prevent it.

7 First of all, there would be a failure rate but I would

8 predict that the very small units you give these people,

9 even though some would fail, would have very high

10 productivity.

11 MR. MONTGOMERY: They might be organized too.

12 MR. BERRY: Might be, but the smallest farms are

13 the highest productivity. Some fail but others get one

14 foot there, one foot somewhere else. I don't think it

15 would be a waste of resources to give a fair number of

16 previously landless people a part.

17 MR. ZUVEKAS: It might be useful to look at the

18 El Salvador situation. I can speak about the

19 macroeconomic strengths and this is relative to what are

20 the alternatives. Right now the budget is constrained by

21 the war effort and by the declining economic activity,

22 although it is starting to come up a bit. But how can you

23 finance, for example, increased education and things of

24 this sort under such circumstances? The problem now is to

25 keep the education structure from deteriorating even more.

1 So investment in human capital, while it's a very
2 worthwhile thing, is very long run in a place like El
3 Salvador. In terms of industrial activities and
4 associated services activities, I think the willingness of
5 both the domestic private sector and foreign interests to
6 invest in the economy now is a little restricted, so there
7 are not many opportunities here.
8 Now in the reform that has taken place with the
9 phase 1 and phase 3 situation, you have two very different
10 classes of beneficiaries, with the phase 1 cooperatives
11 providing rather large amounts of land by Salvadoran
12 standards to what is it now -- 30,000 some-odd
13 beneficiaries, and the average side is between 5 and 10
14 hectares, isn't it?
15 MR. PROSTERMAN: If you take cultivated land
16 it's about 3 hectares. If it's uncultivated it's about 7.
17 MR. ZUVEKAS: There's a great resistance on the
18 part of the cooperative beneficiaries with the larger
19 amount of land to let anybody else in, and I gather
20 there's a good deal of resistance or perhaps inability on
21 the part of the government to force the cooperatives to
22 let anybody else in. But this is tending to create an
23 inequitable situation even within the lower income groups
24 so there's potential for some conflict here.
25 MR. WILKINSON: There's about half a million

1 displaced persons in El Salvador now that the government
2 is trying to put back into phase 1 cooperatives and they
3 don't know how to do that.
4 MR. NILSESTUEN: Here you have two reforms
5 fundamentally different: One, a traditional Latin
6 American reform expropriation based on size of holding,
7 and the other land to the tiller, benefiting two different
8 classes of the peasantry. No one case -- in the first
9 case, those are fairly long-standing permanent
10 relationships with the hacienda; in the other case, those
11 who were tenants. But Salvador was like many Asian
12 countries in terms of the percentage of landless, close to
13 40 percent, and that class did not benefit appreciably for
14 either one of those classes, from either one of those
15 reforms.
16 So I guess my question is to you all -- you're
17 going to have a very sweeping reform, in fact two, yet it
18 failed to make a significant dent in franchising the
19 landless. Do we have any meaningful examples where land
20 reforms really make a significant contribution?
21 MR. MONTGOMERY: To the problems of landlessness?
22 MR. NILSESTUEN: Without talking about the
23 special cases of Taiwan and --
24 MR. MONTGOMERY: Are you asking the question
25 about landless peasants as a special group?

1 MR. NILSESTUEN: Which specifically enfranchise
2 the landless.
3 MR. MONTGOMERY: Landless floating workers, how
4 has experience with that been? We have three examples.
5 MR. ZUVEKAS: I'm not sure what you mean by
6 "enfranchising the landless."
7 MR. NILSESTUEN: Providing them secure access to
8 land.
9 MR. ZUVEKAS: If every rural family is to become
10 a landowner and every rural family during certain times of
11 the year needs hired labor, a large proportion, where is
12 the labor coming from? I'm not sure it's feasible to
13 think of converting everybody into --
14 MR. NILSESTUEN: Give me an example where
15 there's been significant participation by the landless.
16 MR. ZUVEKAS: My question is: Should there be
17 or to what extent?
18 MR. MONTGOMERY: Don't fight the problem.
19 MR. POWELSON: I would suggest -- not as a
20 complete example, it may not satisfy you -- but Bolivia as
21 an instance where not only the tenant farmers have gained
22 but also the landless in a number of different ways, not
23 by becoming landowners but by participating in the
24 marketing structure, in setting up markets, carrying goods
25 into town, setting up stalls in town and doing a number of

1 ancillary activities that did not necessarily require
2 ownership of land.
3 The farmers have also benefited -- that is, the
4 small farmers, peasant farmers have benefited greatly from
5 the Bolivian agrarian reform in increasing their output
6 and increasing their ability to make decisions over the
7 use of land. And I've wondered why this was the case and
8 the only answer that I can come up with is that the
9 Bolivian's government was so disorganized that it was
10 simply unable to co-opt the farmers in ways that other
11 governments did, and the result was that agricultural output
12 in Bolivia increased enormously during the '60s but during
13 the '70s the government was so disorganized that the
14 disorganization of society has actually interfered with
15 agricultural output and output has gone down. There's a
16 golden means of disorganization.
17 MR. RECINOS: I think we have to take a hard
18 look at the question that in spite of land under
19 utilization, there's some sound economic reasons why you
20 have landless peasants. Land is a limited resource.
21 There just isn't going to be enough to go around. Any
22 kind of reform that's proposed has to create rural
23 industries to absorb landless peasants, either that or
24 have them migrate to urban centers.
25 MR. MONTGOMERY: Bill?

1 MR. THIESENHAUSEN: This is what the People's
2 Republic of China is trying to do now and the trouble is
3 in Latin America, at least it's been really remarkably
4 unsuccessful, and I would put Wayne's question as terribly
5 important for the '80s to answer. I think John's example
6 is a good one. In Bolivia you did this in the '50s,
7 population growth wasn't nearly as rapid, landlessness
8 wasn't as predominant a problem and there was a safety
9 valve in Bolivia. People could migrate, which they
10 frequently did. John is right but I don't think we can
11 use it as a model.
12 MR. POWELSON: Surely we can't. Paraguay is
13 another one but that's a case of land abundance.
14 MR. PROSTERMAN: There probably are -- first let
15 me just remind us of some things that Bill said before,
16 that by and large the absolute number of families in the
17 rural sector is going to grow in most of these countries,
18 at least for the next generation, even with the highest
19 plausible figures for urbanization, industrialization. So
20 we're going to have to accommodate not only the existing
21 numbers of agricultural families, including landless
22 families, but somewhat more of them even under the best of
23 circumstances.
24 The land reform obviously neither creates nor
25 destroys land but it can bring those families into a

1 relationship with that productive resource which will
2 increase both the productivity of the resource and the
3 equity with which the results of that production are
4 distributed. So you can in fact have a larger pie for
5 that agricultural population and for the subclass who are
6 presently landless, and you can do it in certain ways that
7 involve land redistribution as a major element. It's not
8 that somehow people who are temporary agricultural
9 laborers can be fobbed off on some nonagricultural sector.
10 They have to be supported by the land and the question is
11 how can they best and most equitably be supported by the
12 land.
13 Nearly as I can tell, going back to a figure I
14 cited before for about a hundred million landless in the
15 sense of tenant farmers, sharecroppers, permanent and
16 temporary laborers, of those 100 million families all
17 total, about half of them are tenant farmers mostly found
18 in the Indian subcontinent, and about half of them are
19 agricultural laborers. For those who are agricultural
20 laborers you may have significantly different problems not
21 only as between permanent and temporary but of the
22 temporary laborers. A quite significant number are not
23 temporary laborers who work on plantations but who work as
24 -- let's say in Indonesia or parts of India during peak
25 seasons in the smallholder sector. The policy in

1 administrative issues in finding land for that group of
2 temporary laborers may differ as between a program that's
3 taken big plantations and a program that's transferring
4 ownership to tenant farmers. I think you can probably
5 administratively and legally work it out more easily to
6 find a substantial amount of land for temporary laborers
7 when you're taking plantations, although few if any
8 programs have done so successfully up to now, than --
9 MR. MONTGOMERY: I wonder if Wayne is aware of
10 the Cornell studies of landlessness as a policy issue.
11 They tried to look at alternatives and have documented it.
12 The author told me that he had written it nobody asked him
13 for a copy and nobody paid any attention to it.
14 MS. ATHERTON: I know a number of people who
15 read it.
16 MR. PROSTERMAN: We should not underestimate --
17 especially with the off-the-shelf agronomic improvements
18 coming down the road, to mix metaphors -- what can be done
19 for a family even on a fraction of an acre. I've looked,
20 for example, on garden plots, home plots in Java in the
21 last couple years and many families get 20 or 25 percent
22 of their income and nutrition from a plot that may be a
23 20th or a 30th of a hectare. I've seen garden plots of
24 300 square meters, three percent of a hectare, that
25 produced for a Javanese family crops worth a total of $300

1 a year, equivalent to the full-time wage of one fully
2 employed adult in Java, so with appropriate support,
3 technical and other support for these folks, even a very
4 small holding can provide not the whole of their income
5 but a significant supplement to their income and certainly
6 a sense of having a stake in society. They will continue
7 to work partly as loborers or in the agricultural or
8 nonagricultural sector but they will have much more than
9 they presently have even with a surprisingly small stake
10 in the land.
11 MR. WOOLERY: It strikes me that the concept of
12 land for everybody is so unrealistic. I'm not sure that a
13 group like this should be --
14 MR. BERRY: Why is it unrealistic?
15 MR. NILSESTUEN: That was not the intention of
16 my question. We're looking at land reform as a device for
17 pursuing major developmental goals and I was identifying
18 as one distinct class the rural landless, which I would
19 define as those who have no access to land whatsoever.
20 And I'm simply posing a question: What is the experience
21 and what is the empirical evidence that any land reform
22 had made a significant contribution to that class of
23 people's access to land, which is an important development
24 problem. You know, the responses I heard is that there
25 haven't been very many or the landless have benefited in

1 other sorts of ways or we need, as Esmond suggests, to
2 sort of be concerned about other sort of rural development
3 strategies.
4 MR. WOOLERY: The perfect example: I can
5 remember in the late '20s and '30s virtually every farm
6 that I lived near I what had a hired man, a landless hired
7 man who was engaged in agriculture but with no equity
8 stake, and I don't think that group of hired men aspired
9 to ownership generally. They had a job, a living, and it
10 seems to me if you were now to say we'll divide up the
11 farmland in Iowa so each hired man has a farm, it would be
12 unrealistic. And I'm not sure you're going to create land
13 to take care of the population growth that Bill is talking
14 about.
15 MR. BERRY: Doesn't basically every family has
16 access to land there?
17 MR. WOOLERY: The children go to town and work
18 in factories until you have a recession, then they live
19 off the farm.
20 MR. MONTGOMERY: Or take the bicycle to a
21 factory down the road.
22 MS. ATHERTON: Let me throw in a point of
23 clarification and get back to the access question. What
24 we have been talking about is access to the opportunity to
25 own or use land. The problem with landlessness in LDCs is

1 that largely those people also lack the access to
2 opportunity; and that is, if your hired man in Iowa wanted
3 to, he probably could have saved the necessary income to
4 become part of the landowning class in this country and
5 that seems to be the difference. What we need to talk
6 about here when we're talking about issues of eligibility
7 is not so much the land per se as it is how do we widen
8 access to get into the market in the first place if you so
9 desire?
10 MR. MONTGOMERY: Looks to me in terms of a
11 policy statement on land reform we're going to have to
12 concede that it's not going to make a big dent in the
13 problems of the landless but that the next question which
14 has been assigned to us, which is what are the policies
15 that make land reform a success, what he calls here -- I
16 believe he used the terms "exogenous" variables -- but
17 other policies we sometimes think of as agrarian reforms,
18 what kinds of things have to be done besides
19 redistributive actions. I would suggest we move to that
20 but I don't want to cut off discussion of the landlessness
21 if there's more discussion.
22 MR. BERRY: I think one of the reasons that one
23 cannot cite many, if any, probably no cases where you've
24 simply taken a big chunk of landless workers and given
25 them land is that this is an accentuating phenomenon of

1 recent decades. Many of the experiences which are on the
2 record which we're now drawing on occurred at a time when
3 this was a relatively minor problem. But the proportions
4 have been changed, according to recent studies, so the
5 recent period overlooks this aspect. The accentuated
6 problem doesn't seem to have formed. That's one aspect.
7 Secondly, I would say that even though certain
8 reforms have not taken enough benefit of this class
9 directly, I think one would have to say that the famous --
10 you say we shouldn't go back to the Taiwans and Koreas but
11 clearly one of the things that happened was that those
12 reforms were part of a process which raised total rural
13 incomes, raised the demand for labor and pulled up
14 agricultural wages. You look at the agricultural wage
15 pattern for Korea and it was rising 4, 5 percent a year.
16 So to the extent the reform -- whoever the initial
17 beneficiaries are is successful in the output side and in
18 the sorts of technologies that are employed, you can
19 certainly predict that you will help the landlessness
20 through that method.
21 MR. THIESENHAUSEN: There's a reason Wayne is so
22 worried about the landlessness. One thing is that the
23 clientele for land reform were people who already lived on
24 these farms. As soon as it became clear to the landlords
25 that these were going to be the primary beneficiaries,

1 there was a concerted effort on the part of the landlords
2 to get rid of these folks and to bring in mechanization to
3 substitute for them. What this has done then is to create
4 a new -- not a new but an augmented group of people in the
5 Latin American context so we don't have that resident
6 labor force existing on haciendas any more, and so any
7 future agrarian reform is going to have to depend on a
8 different kind of clientele group. Indeed the pressure
9 will come from a different clientele group and that's the
10 growing class of landless.
11 MR. BERRY: I would certainly dispute the
12 proposition that we should concede that the landless group
13 should not be a major focus for future land reforms. And
14 indeed, I wouldn't concede that there's any economic
15 reason why they can't be taken care of in the sense of
16 everybody giving land.
17 If you cut the farm size down enough, you raise
18 the output that much higher, you would have maximum output
19 per unit of land. Everybody would starve but they -- I
20 think it's important to recognize, when someone says they
21 are not going to take care of the landless by giving them
22 land and if one admits, as I think one has to, that one is
23 not going to take care of them in the city or in rural
24 industry unless one has an agrarian reform, one is
25 basically saying they are not going to take care of them

1 and they are going to die. That's an outcome which will
2 resolve the land problem in a certain degree but one has
3 to face that fact: that is the tradeoff.
4 MR. THIESENHAUSEN: I wonder, if we made that
5 assumption that we were going to benefit each campesino
6 family with land, could we also assume in the next
7 generation there would be some cutting of the birth rate
8 and cutting down on family size. Because people would
9 have some stake in the system and they wouldn't be so
10 worried about having a large family, so therefore there
11 would be a labor force growing at a decreasing rate.
12 MR. BERRY: That's the big question, frankly.
13 The land reform is probably a mistake if it keeps so many
14 people alive that -- and if they don't reduce their
15 population growth then it's going to be --
16 MR. THIESENHAUSEN: From what we know about
17 demography, once they get a foot in the system they will
18 have fewer offspring?
19 MR. MONTGOMERY: Are we ready to move to
20 supporting policies? I will not cut off any additional
21 new helpful remarks, however -- I've just suddenly
22 established a new criterion for interventions. Shall we
23 turn to the question of what an essential support policy
24 is to land reform? Everybody agrees that it can't stand
25 alone or shouldn't stand alone, but what are the minimum

1 additional policies?

2 MR. THIESENHAUSEN: It seems to me that many
3 agrarian reforms have floundered because the primary
4 reforms in terms of land distribution have occurred but
5 somehow the secondary level institutions have not been
6 reformed. So that the secondary level institutions, like
7 extension of credit, et cetera, continue to serve the
8 large-scale farmer who remains in the sector and that
9 appears to be a real bottleneck for agrarian reform in
10 Latin America. This is partially due to the fact that
11 none of the agrarian reforms has been widespread enough
12 throughout the peasant sector. If it were, I imagine the
13 credit sector would adjust to loaning to small-scale
14 farmers. But as long as there are enough large farms left,
15 they continue to serve the large-scale farmers and exclude
16 the small-scale farmer.

17 MR. ZUVEKAS: A question relating to Bill's
18 comments on credit. It seems to me what I read on the
19 Asians' situation, which is not very much, that some of
20 the Asian countries have had more success in serving the
21 small farmer than the Latin American countries, and
22 private banks profitably serving small farmers so the
23 coverage of small farmers in the credit system seems to be
24 higher. Why is this so? The comment is that in addition
25 to looking at the institutional side, I think we ought to

1 look at the macro policy side, what kind of policies might
2 be inhibiting production of food grains and other crops.
3 And I don't mean just food price policies but I think we
4 ought to get into PL-480 and things like this as well.
5 MR. MONTGOMERY: What do you want to say about
6 that?
7 MR. ZUVEKAS: I'm suspicious of it, certainly,
8 and I think quantifying this is trying to catch the
9 willow-the-wisp. But I'm concerned about what we're doing
10 in Central America now. It's being used as balance of
11 payments assistance and called something else, but the
12 quality of assistance is such that it seems to me that it
13 can't but have some sort of depressing effect on the price
14 level and incentives to produce locally. Certainly a lot
15 of trade within the region that had been going on before
16 1980 has been cut back.
17 MR. MILLER: It's generally agreed that land
18 reform, to be successful, has to be embedded in a good
19 agrarian reform context. But does agrarian form to be
20 successful have to be in a good agrarian context?
21 MR. MONTGOMERY: Right.
22 MR. BERRY: Just a brief comment by way of
23 example. I think the Bolivian reform is probably a good
24 example in a bad context in the sense that not much was
25 subsequently done in support of the reform sector.

1 MR. POWELSON: That's its beauty.

2 MR. BERRY: Certainly, but I want to point out,
3 as John or Bill said before, I think while one wants to
4 emphasize these desirable concomitants of the original
5 step, a lot can happen without those. Under certain
6 circumstances. Obviously it will depend on the
7 circumstances.

8 MR. MILLER: Even successful reforms like in
9 Taiwan, that was part and parcel of a larger package that
10 included monetary reforms and --

11 MR. BERRY: I'm just sort of putting a base
12 there that some things happen even when the government is,
13 at the very best, indifferent.

14 MR. ZUVEKAS: On the Bolivian situation, first
15 of all, I'm not quite sure how rapidly I would describe
16 the increase in Bolivian production. I'm rusty on the
17 figuring. The '50s are sort of controversial but there's
18 enough -- if one looks at differentials they are something
19 like 1 to 8 or something like that, maybe 1 to 3, but
20 compared to maybe 1 to 1.25 in Korea where they are much
21 closer together -- I'm not sure what we have in Bolivia.
22 Also a lot of the increased production was down in the
23 lowlands where there was a tremendous rate of migration,
24 which I don't think was fully realized until the 1976
25 census. That was basically large and medium-sized farmers,

1 heavily favored by distorted price policies and policies
2 that encouraged mechanization and all sorts of things.
3 The other strange thing in the Bolivian situation is that
4 crop which we can't mention which seems to be rather
5 widely produced.
6 MR. MONTGOMERY: We can mention it; we can't use
7 it.
8 MR. ZUVEKAS: We were talking before about a
9 possible decline in the '70s. Maybe this didn't happen,
10 maybe there was a shift out of recorded production into
11 much more profitable unrecorded production. I haven't
12 seen any studies of Bolivian rural income in recent years,
13 probably because I haven't looked for them, but I suspect --
14 I'm wondering what they would show. Has there been a
15 general increase in rural incomes and an increase in
16 demand for rural services to absorb some of the landless?
17 I don't think we really know what happened.
18 MR. POWELSON: I don't think we have any
19 aggregate data for the Yungas and the Altiplano separately,
20 but we do have a lot of individual studies and indications
21 that show that output has been increasing and especially
22 around Lake Titicaca, and there's a lot more marketing. I
23 was in Bolivia with AID in 1960, and AID then had people
24 out simply counting the trucks that were bringing produce
25 into La Paz, and they had increased enormously since then.

1 This was 1960 and the reform was in '53 and they had
2 increased enormously since then and it was obvious also
3 that the peasants were opening up shops and participating
4 much more in the markets. There have been some studies
5 since then -- I can't remember the authors but I have them
6 in my computer at home -- that have shown that that has
7 been the case.
8 MR. ZUVEKAS: I'm wondering how much this was
9 really sustained. When I was looking at the Bolivian
10 situation almost 10 years ago, I had the feeling that it
11 had reached a certain level by the '60s and that that
12 leveled off and --
13 MR. BERRY: I think that's the difference
14 between the Bolivian's case and the Taiwanese case,
15 because Bolivia got the one-shot affect of a change of
16 crop composition. Some of the studies looked at the
17 regional haciendas and looked at what was happening in
18 reform. The government of Bolivia did not support the
19 small farm sectors, technological change, et cetera, and
20 it may be we will have hit a plateau in the arrival of --
21 MR. NILSESTUEN: I would like to step back from
22 the specific case examples to the more general question
23 and I sort of heard, on the one hand, Bill's point that
24 land reform without dealing with sort of the second level
25 institutions that provide beneficiaries with access to

1 markets, input, credit, et cetera, may be no reform at all.
2 In fact they are very important and those functions are
3 performed and that's one point.
4 Then John, I heard you referring to your recent
5 work much earlier in the day in which you were saying that
6 if I understood sort of the thrust of your research, it is
7 that typically land reforms involve sort of a transfer of
8 power, you know, sort of from landlords, from the landed
9 aristocracy to the government, to the state, and in fact
10 the way they enforced this power was through retaining
11 control over the institutions that allocate credit, access
12 to markets, et cetera.
13 It seems to me we have here sort of a dilemma, a
14 major issue: on one hand the importance of these services
15 being performed and on the other hand --
16 MR. POWELSON: Exactly. It is a major dilemma
17 but I think there's a way out of it. Nobody seems very
18 much interested in trying. There is a group of people
19 that have been characterized as avaricious moneylenders
20 but who are actually, I think, simply retailers of credit
21 and supplies and private enterprisers. Most moneylenders
22 are not monopolists, they are not rich. They do things in
23 traditional ways. They can provide fertilizer by the
24 teaspoon if that's what is needed, or credit without a lot
25 of papers, and I think that these people need to be

1 encouraged and need to be linked in with the modern credit
2 system so that credit going out into the countryside can
3 be channeled, can be increased but channeled through the
4 traditional sources. Instead, most countries will set up,
5 say, an agrarian bank like the Ejidal bank in Mexico, and
6 make all these other things illegal by giving that
7 agrarian bank a monopoly. Consequently all the old
8 sources of credit are wiped out unless they take place
9 clandestinely, and the new one turns out to give its
10 credit only to the middle-sized and large farmers.
11 MS. ATHERTON: I want to pose you a problem. It
12 seems to me that there's been a recurrent -- you and
13 others have recurrently suggested this afternoon that we
14 either consult beneficiaries or reach out to these
15 traditional, largely informal organizations. I would pose
16 to you the problem of a large institution, be it a state
17 or even commercial bank or a donor agency, in fact, being
18 able to do that. It turns out to be very difficult. I've
19 spent a lot of my time in AID thinking about this issue of
20 local or participation in development. For a formal
21 banking institution to make an arrangement with a
22 moneylender whereby that institution's risk is covered, as
23 it would conventionally be with a more formalized borrower,
24 it turns out to be to involve a whole other set of
25 considerations that make it, especially in an overall

1 economic environment, as risky as LDCs tend to be. It
2 makes this simple statement that these guys are out there,
3 very nice but not necessarily operational.
4 MR. JENKINS: You're just saying the state
5 should make it illegal?
6 MS. ATHERTON: Deregulation is not enough. If
7 you're talking about passing larger amounts of resources,
8 making additional credit available through those
9 traditional channels to the newly reformed sector, I think
10 you have different problems.
11 MR. POWELSON: It's a problem and I don't think
12 a large organization like AID would be able to do it
13 except through smaller, possibly private organizations.
14 I'm thinking for example of partnership for productivity
15 where some of us know -- I'm a bit disillusioned with some
16 of the things they are doing, but in their original thrust,
17 I think they were very effective in Kenya. In the western
18 province in Kenya, for example, they set up ways in which
19 small rural enterprises -- and the same could be done with
20 farmers -- were making contact with banks.
21 MS. ATHERTON: Let me suggest that we've put in,
22 what, a hundred million dollars, something like that, into
23 agrarian reform in El Salvador? It's something like on
24 that order.
25 MR. POWELSON: You're only going to do it on a

1 small scale.

2 MS. ATHERTON: But the need is that great.

3 MR. POWELSON: By their nature they have to be,

4 or they are not going to work. They are going to take a

5 century or they are not going to work at all. That's the

6 dilemma that Jean is posing.

7 MR. MONTGOMERY: Okay. We have a friend back

8 there.

9 MR. SOLEN: I think Jack is right. I think you

10 can move money through the indigenous system. I know it's

11 complicated. I have been doing some work on this. I have

12 sort of a generic proposal that to do that sort of thing

13 through an AID project, I don't think that we're limited

14 to partnership for productivity type organizations. It's

15 very complicated. I don't think we want to get into it

16 here but if anybody would like to see a proposal for doing

17 this, and a few of the academic people have seen it -- I

18 received a letter from Dale Adams last week giving it a

19 very strong endorsement -- I would be happy to share that

20 proposal with you.

21 MR. MONTGOMERY: Could you give us the title of

22 it? A proposal to do what?

23 MR. SOLEN: I'm calling it "A generic proposal

24 for small farmer credit working through indigenous systems."

25 Sounds to me very much like what Jack is talking about.

1 My name is Ray Solen. If you give me a card or your
2 address, I'll send you a copy.
3 MR. MONTGOMERY: All right. We have a project
4 proposed to respond to Jack's small-scale operation.
5 MS. HERRICK: It seems to me there's two aspects
6 to this problem. Jean has been posing a dilemma of how
7 interested organizations, governments, donors, can channel
8 resources to the traditional credit systems. But I think
9 when Jack originally mentioned it he used the term
10 "encourage," and I think it might be useful to think about
11 how we can encourage and whether in encouraging, I mean
12 after the encouragement has taken place that has to do
13 with certain kind of deregulation -- perhaps it has to do
14 with other kinds of positive acts, incentives of some sort
15 -- then you come to the question whether there's a
16 limitation on resources that the traditional systems that
17 know how to work have insufficient access to the capital
18 that they will be cycling. And perhaps if you go at it
19 that way you figure out where somebody with resources can
20 come in, because it's only when there's a lack of
21 resources, as long as the encouragement is working, that
22 you are stuck. If by simply encouraging you can do --
23 enough has been done, then you don't have to face the
24 second part of the problem.
25 MR. RECINOS: I would like to address myself to

1 two or three points. The question of channeling resources
2 through the traditional credit system, we talk about
3 access to credit, what we're really talking about is the
4 ability of whatever campesino organizations we have to
5 repay loans. And I think it's important to look at a
6 model that was developed in Mexico a number of years ago
7 in which the then private banking system conditioned loans
8 to campesino organizations. They hired private consulting
9 firms to provide technical and management expertise.
10 Something happened in El Salvador a number of years ago in
11 which Wayne was involved, trying to look at ways to
12 involve the private sector, provide technical and
13 management assistance to the cooperatives, phase 1 of the
14 reform. But I want to leave that thought for the group,
15 that I think ways ought to be found for linking up private
16 consulting groups in terms of management and technical
17 input and as quickly as possible get the government out of
18 management. Technical assistance you may be able to make
19 an argument for, get them out of management. I don't know
20 what's happened in El Salvador recently but it's a
21 disaster.
22 MR. THIESENHAUSEN: When I said reforming the
23 secondary institutions I didn't mean the government to
24 step in with an enormous role, but that this function of
25 credit and inputs be channeled to the private sector as

1 soon as possible and perhaps AID could provide bridge
2 loans for a certain period. There's a necessity for this
3 kind of help to the new beneficiary of agrarian reform,
4 but one of the counterreform or counterrevolutionary
5 measures that's made all the time is, "Let's consolidate
6 the reform," which means, "Let's dump all the resources we
7 can think of on these beneficiaries and forget about the
8 distributional phase of the reform," and that's a terrible
9 problem too.
10 MR. RECINOS: I would like to make one other
11 point. The question of markets. I think that
12 redistribution of land does not necessarily mean that the
13 government should control markets. Referring specifically
14 to El Salvador, perhaps initially an argument could have
15 been made that by having the public sector involved in
16 controlling the markets it was helping campesino
17 enterprises, contacts that had been broken in transfer of
18 ownership. But now where a large number of your larger
19 farms have been transferred to cooperatives, I can't see
20 the reason why the governments continue to interfere in
21 controlling the markets.
22 MR. MONTGOMERY: I have a feeling that this
23 particular set of advice which we all seem to be agreed on
24 could not have been uttered 10 years ago, perhaps even
25 five years ago. I think that my impression is while we

1 were talking about agrarian reform and the necessary
2 follow-ups and the necessary land reform, we always talked
3 about agriculture extension services and credit programs
4 and so forth, and am I wrong about that, that this is
5 something of a new thing? May have more to do --
6 MR. THIESENHAUSEN: Credit coming from the
7 private sector inputs?
8 MR. MONTGOMERY: The notion that it's not only
9 deregulation and nongovernmental organizations but also
10 providing technical assistance to the private sector,
11 getting the government out of the management of these
12 things with a notion that if resources are available, the
13 private sector will respond to them and turn them to
14 productive use?
15 MR. THIESENHAUSEN: We've learned that it gets
16 to be a tremendous subsidy if we dump all these services
17 on the few beneficiaries of agrarian reform.
18 MR. TROPP: I want to throw a question out. I
19 wonder whether the discussion is going to get around to
20 the issue of how you engage in a policy dealing with a
21 government on land reform issues. It seems to me there's
22 probably some good experience sitting around the table and
23 that this is, after all, a discussion to lead to an agency
24 policy, the first leg of which has to be getting into a
25 policy dealing with the host countries and it's a highly

1 politicized subject. How do you do it?

2 MR. MONTGOMERY: I'm going to ask Jerry whether

3 we are permitted to go into that. It was excluded from

4 our agenda. It was decided this was not one to go into

5 here. I don't know how to respond to you, Eric.

6 MS. ATHERTON: Could we put that in abeyance?

7 It's not on the agenda and in a way I'm not sure, Eric,

8 that it's an appropriate question.

9 MR. MONTGOMERY: I suspect you guys know more

10 about it than we do.

11 MS. ATHERTON: Could I get us back to this other

12 subject, because I think we're sort of skimming the

13 surface and saying very nice things about these things

14 being necessary but I would like to question whether

15 there's a priority order, to go back to the question that

16 John O'Donnell raised about medium- and long-term credit

17 vis-a-vis short-term production credit. How important is

18 new technology and how quickly is the development of new

19 technology important? How far do these tentacles spread?

20 Are we just talking about extension short-term or are we

21 talking about credit short-term or things that have to be

22 phased and a lot of longer-term things? How quickly do we

23 move from a modality of support for specifically reform

24 beneficiaries into a more broadened agricultural

25 development or rural development program? I think we've

1 all sat and said this is great, we ought to get the
2 private sector involved, and obviously we're confronted
3 with some resource constraints.
4 MR. ZUVEKAS: I just wanted to say that what
5 we're all doing, we're groping toward the subject of
6 savings mobilization and the Ohio State Mafia has been
7 invoked and I think we're getting into it a little too
8 slowly. How can we distribute more resources unless we
9 mobilize the resources? If we do it through foreign aid,
10 that's a short-term solution. We really ought to be
11 thinking long-term. I'm worried about, you know, leave it
12 open to the markets, free interest rates and let the
13 credit be allocated where it will. I'm not convinced it
14 will reach agrarian reform beneficiaries and other lower
15 income groups better than it does now, but at least it
16 mobilizes more money.
17 We have to focus on the mobilization of the
18 resources but then once mobilized, how can we devise a
19 system or set of incentives that will get more money out
20 to the small farmers? Again, I'm asking a question for
21 those with Asian experience. Why is it that Asian
22 countries seem to have been more successful in
23 mobilization than Latin America? Are there institutional
24 factors here?
25 MR. BERRY: I think there's a couple of

1 hypotheses. It's hard when you have to have a big cross
2 continental study. The institutions are different in the
3 sense that the rural coverage of the financial sector is
4 much better in those successful Asian countries than it is
5 in Latin America. I think that reflects the recognition
6 of the government and the private sector that this is the
7 sort of agrarian sector we're dealing with, it's small
8 farms if we want it to work and it produces our food, we
9 better collaborate with it. That feeling is not shared in
10 Latin America because there's the alternative of the
11 larger farm, so I think it's partly government attitude
12 and partly the economic logic of the situation.
13 Then I think the other thing that immediately
14 helps to explain higher savings by small farmers in Asia
15 is that they have gone through a process of tremendously
16 rapid income growth and we know from a savings theory in
17 general, there's nothing like fast-growing income to give
18 you that sort of bit of surplus which you tend to save.
19 So without having seen a study to demonstrate that, I
20 would strongly hypothesize.
21 MR. ZUVEKAS: How did that get started?
22 MR. BERRY: Combination of land reform,
23 technological changes, et cetera. Once you get the engine
24 going, it has shown a lot of momentum.
25 MR. MONTGOMERY: People seem to suggest that's a

1 first step, savings, and there are constitutional ways of
2 bringing that about and technological ways and land reform
3 ways of bringing it about.
4 MR. PROSTERMAN: Just one point seems to be
5 worth underlining and that is that government support, at
6 least in the usual stages for credit to beneficiaries, it
7 seems to me is very important, and it has to be recognized
8 that that credit has to be given in a way which is
9 replicable over the whole universe of beneficiaries. They
10 don't need $5000 or even a thousand dollars for
11 beneficiary families. Often they need about a hundred
12 dollars for a beneficiary family in production credit.
13 Maybe if you add mid-term credit they might need another
14 3- or 400, but it's not a really large amount.
15 An associated point is that there are some very
16 interesting developments some of them being supported by
17 AID in terms of credit programs, which are informed
18 government programs but have many of the characteristics
19 of private credit programs in the sense that interest is
20 at market rates, that collection is at virtually 100
21 percent. I would suggest looking very closely, for
22 example, at AID's own recent experience with the small
23 farmer production project in Egypt, which has been
24 extraordinarily successful. And also, this is
25 nonagricultural but it's for very small borrowers in rural

1 Java. The credit project carried out, both very much are
2 charging at essentially market rates and are having close
3 to 100 percent repayment.
4 MR. RECINOS: I think that if we want to
5 mobilize financial resources from the private sector, we
6 have to look at ways of tying the invested interests of
7 the private sector with those of the campesino enterprise.
8 Let's say the cooperative. Whether interest rates are
9 high or not, or market rates, I think one of the ways of
10 doing it would be to push arrangements in which financial
11 institutions, perhaps moreso than consulting firms and
12 administrators, have a percentage of the profits, of the
13 agricultural estates, so they have a vested interest in
14 making sure the loans are repaid and productivity is high.
15 MR. BERRY: Going back a couple, what sort of
16 credit -- long, medium, short -- may be relevant. I think
17 that's definitely something which one could not generalize,
18 but in thinking about a credit program in a particular
19 country, what we really want to focus on is what are the
20 particular types of investment or technological change
21 which you feel would be economically efficient and
22 beneficial. And I would think that when one is talking
23 about revolution or good technology, one is talking about
24 short term and that's probably where 80 percent of the
25 benefits we're talking about around the world come from.

1 So I think one is therefore largely talking
2 about small amounts to get started and short term, but
3 there would be other situations where you're talking about
4 pumps which are relatively devisable, used on small to
5 middle farms or used collectively, and there you would
6 need longer running credit. I guess I would look
7 carefully at credit used for land purchase and my initial
8 feeling would be that's probably not a good idea. Land is
9 in fixed supply. I would suspect that unless it were
10 constrained more than one might want it to, then the
11 government should be relied upon to constrain it. It
12 would lead to speculation in land and have the effect of
13 increasing the price of land, which is not clear that you
14 want to do.
15 MR. MONTGOMERY: Several of you have asked me to
16 bring these proceedings to a close at 4:30. We have 15
17 minutes. I want to make sure that anyone who has been
18 suppressing a bright idea is encouraged to desuppress it
19 and deregulate it. Go ahead.
20 MR. O'DONNELL: I was asking whether he was
21 saying that, whether it would be wise to make long term
22 credit available to developing countries for purchase of
23 land because it would result in speculation and increase
24 in the price of land. My question was, should we apply
25 the same standards to a country like the United States? I

1 wonder why you apply it in the case of developing
2 countries.
3 MR. BERRY: This is one of the policy areas
4 where there are different results according to the
5 socioeconomic structure. If you start with relative
6 quality and distribution of land, fine, it will help to
7 smooth the efficient mobility of resources. But if you
8 start with a system where there's a lot of inequality in
9 it from the first and where it sounds to me highly
10 implausible to assume that much of that would ever get to
11 really small guys, because I can't imagine any banker
12 doing that unless he's being told to, then I would worry
13 about the thing becoming too mechanistic. So I would
14 expect the funds to be used by farmers who already have
15 nice collateral, which means some are going to move up the
16 scale. If it meant more people moving onto the bottom
17 step, fine, but I won't -- or if one could constrain it in
18 that direction and if not, you can't raise the amount of
19 land, and my feeling would be that the movement of land
20 can occur pretty well on the basis of one's own say. One
21 is a good farmer, he will build up his own nest egg and
22 then expand and the effect of credit there strikes me as
23 mainly, probably more to permit more speculative sorts of
24 operations. Obviously it depends on the case. I don't
25 think it was a mistake in this case.

1 MR. O'DONELL: I think it's something that's
2 lacking in developing countries and there could be ways to
3 direct the solution so you could get people who don't have
4 any land to have a shot at buying it.
5 MR. BERRY: I think that would be fantastic.
6 MR. O'DONNELL: A chance for a lot of the young
7 graduates. You have the very poorest people who would
8 have a better chance to purchase land. You also have
9 people coming out that have no way to purchase land unless
10 they are the son of a large landowner, but they are forced
11 to be working for the government, forced to work for a
12 large farmer simply because they don't have a way to
13 purchase land.
14 Where would the small farm in the United States
15 be if there weren't a way to borrow money to buy land and
16 why don't we have this kind of a situation in a number of
17 developing countries? Even post-reform countries like
18 Bolivia or Peru that's gone through a land reform still
19 doesn't have a financial system that allows for some
20 rationalization of the post-reform situation. People that
21 want to get out of farming, or expand their holdings, I
22 think they are restricted.
23 MR. BERRY: The reason we don't is that the
24 government -- neither the government nor the private
25 sector has viewed this as sufficiently important. Given

1 the priorities, I'm afraid if it were set up it would
2 malfunction because if they did it -- we know that they
3 haven't done it for people on the first ladder so far, so
4 if you set up the institution they would probably use the
5 institution for what the whole system tends to do now,
6 which is to buy more than he already has.
7 MR. GRAYZEL: There's been an attempt to use
8 credit.
9 MR. BERRY: To help people get a start in the
10 third world.
11 MR. MONTGOMERY: Sounds like a damn good idea
12 for a foundation though.
13 MR. O'DONNELL: There's one in Guatemala that's
14 trying this, the Penney Foundation.
15 MR. MONTGOMERY: That's the sort of thing you
16 could create a local foundation.
17 MS. ATHERTON: That's different. They are
18 purchasing the haciendas. It's not providing credit to
19 individuals. It's for repurchase but not for initial
20 entry into the market.
21 MR. O'DONNELL: They are lending to campesinos
22 who are striking deals with landowners and are getting it
23 accomplished. Something like 25 or 30 of these actions
24 under the repayment record has really been remarkable.
25 They have set like a term of eight years and they have

1 been repaying in four to five years simply because they
2 want to get that debt off their back. But I think it's
3 instructive in that if you have a facilitating mechanism,
4 that there are a number of willing buyers and sellers that
5 want to get into the market. I think it's an appropriate
6 role for government to figure out how you can facilitate
7 these transactions. Now there's no way. At least I'm not
8 aware of it.
9 MR. GRAYZEL: Wasn't that done in Scandinavia in
10 the '40s where they had a program where they tried -- they
11 set a limit of the minimal family farm and they gave loans
12 specifically to allow people to construct --
13 MR. MONTGOMERY: Isn't it pleasant to have a new
14 idea come out at the end?
15 MR. THIESENHAUSEN: There's a very famous paper
16 by Blankstein and Zuvekas.
17 MR. ZUVEKAS: This was to set up a land
18 guarantee scheme which ultimately did not work. But again,
19 we found the conditions were there for it to work. There
20 were willing sellers and willing buyers and --
21 MR. MONTGOMERY: But failed?
22 MR. ZUVEKAS: I don't remember what I finally
23 attributed it to in the paper but --
24 MR. BERRY: Was it a public sector scheme?
25 MR. ZUVEKAS: It was devised because the

1 traditional program was faltering and wasn't very
2 effective in distributing land. There were also political
3 pressures to do something because there was a rising
4 instance of land invasion, coastal invasions in Ecuador,
5 and at the time the program began to be implemented, the
6 traditional government agrarian reform program revived
7 itself and essentially offered to the campesinos what
8 seemed to be a better deal than buying the land at
9 essentially a market type of price, and I think this may
10 have complicated the picture somewhat. So actually, even
11 before the land sale guarantee mechanism was devised,
12 there had been some private transactions on the coast
13 between cooperatives and large landowners. But when the
14 agrarian reform program revived there, this type of
15 arrangement became, I think, maybe even illegal because
16 when land was designated for the distribution the owner
17 was not permitted to sell it, so he had to go through the
18 normal agrarian reform process. I frankly can't remember
19 all of the details for the failure but --
20 MR. MONTGOMERY: We'll all have to write to Bill
21 for a copy of your paper.
22 MR. ZUVEKAS: The bottom line was the actual
23 guarantee mechanism was not ever used. Not one
24 transaction went through the scheme but a lot of land did
25 get redistributed through this revived traditional

1 agrarian reform program and the small farmers were
2 receiving credit from the national bank. They also had a
3 very favorable rice price policy from about 1973 or '74
4 until about --
5 MR. MONTGOMERY: When such a favorable plan
6 breaks down we should study it closely.
7 MR. ZUVEKAS: The whole thing broke down to some
8 extent. My last acquaintance with the project was about
9 '74, but in talking to people after that, the whole thing
10 started collapsing: support for rice prices fell, there
11 was a crisis in the credit institution, there was a crisis
12 in the Credit Cooperatives Federation that was strongly
13 supported by AID and the money disappeared and --
14 MR. NILSESTUEN: Bill could probably provide you
15 with a few more details but the paper reviewed the
16 experience in El Salvador, the experiment in Central
17 America and a couple other cases. Essentially the
18 experience was the same, that there have been some rather
19 innovative experiments with sort of intervening to provide
20 financing to facilitate and make it work. Essentially
21 they ended in failure. Didn't have much impact.
22 MR. MONTGOMERY: Sad. I didn't want to close on
23 a sad note but the time has come. I think we all owe
24 Jerry and the Sequoia Foundation a vote of thanks for
25 having so nicely delineated the questions. I don't know

1 how they feel about us in terms of answering them. I
2 think that the facilities have been admirable. The hotel
3 has been most cooperative. Everything has gone well. For
4 most of us, and some of us are probably not satisfied with
5 the answers and some may not feel that we had our day in
6 court, but days are short except for this one and Jerry, I
7 thank you and congratulate you.
8 (Whereupon, at 4:30 p.m., the meeting was
9 adjourned.)
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